INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2019

BANCA SISTEMA
CONTEMPORARY BANK

Banca SISTEMA Group

INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2019

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DIRECTORS' REPORT

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

Chairperson	Ms.	Luitgard Spögler[1]
Deputy Chairperson	Mr.	Giovanni Puglisi *(Independent)*[2]
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.

[2] On 10 May 2019, the Board of Directors ascertained that Mr. Puglisi also meets the independence requirements pursuant to art. 3 of the Code of Conduct promoted by Borsa Italiana, as the period of time indicated therein had elapsed from the end of his term of office with an executive position within the shareholder Fondazione Sicilia.

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 30 JUNE 2019

Statement of financial position data (€,000)

	30 Jun 19	31 Dec 18	
Total Assets	3,523,275	3,144,903	12.0%
Securities Portfolio	795,814	739,880	7.6%
Loans - Factoring	1,790,727	1,566,613	14.3%
Loans - Salary-backed loans	751,426	652,040	15.2%
Funding - Banks and REPOs	1,028,137	875,016	17.5%
Funding - Term Deposits	1,226,289	958,193	28.0%
Funding - Current Accounts	586,634	657,082	-10.7%

Income statement data (€,000)

	30 Jun 19	30 Jun 18	
Net interest income	34,469	32,608	5.7%
Net fee and commission income	8,174	7,359	11.1%
Total Income	44,088	40,858	7.9%
Personnel Expenses	(10,475)	(9,560)	9.6%
Other administrative expenses	(11,351)	(11,005)	3.1%
Pre-tax profit	15,768	16,985	-7.2%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 30 JUNE 2019

On 5 February 2019, following the exercise of the put option by Banca Sistema, the shares 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 of Axactor Italy S.p.A., 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").

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 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 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, 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. to enter the company in the register pursuant to art. 106 of the Consolidated Law on Banking. The company was therefore authorised to grant collateralised loans to the public. The company will start operating in August when the Bank transfers the collateralised lending business unit to ProntoPegno. The 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.

The Italian factoring market

According to estimates provided by the International Monetary Fund, global economic growth will fall to 3.3% this year, the lowest figure since the 2009 downturn. The weakness is widespread and concerns areas that represent more than 70% of the world economy. Forecasts point to a recovery in the second half of the year driven by expansionary economic policies in the major economies and the consequent improvement in financial market conditions. However, there are still significant risks, including geopolitical risks. The slowdown primarily concerns the Euro Area economy, which is more open to international trade than the United States and Japan. Dependence on foreign demand is particularly high in Germany, the most vulnerable country in this respect, but also in France, Italy and Spain, which are highly integrated into global value chains, including intra-European ones. The sharp decline in business confidence is holding back investment. The downturn in the automotive industry contributed to the weakening of the macroeconomic scenario in the second half of 2018. Growth projections for the Euro Area have been progressively revised downwards. According to the main international institutions, GDP growth is expected to be just over 1% this year and around 1.5% in 2020. The risk of a less favourable market performance is not insignificant. The weakness in productive activity had an impact on actual inflation and the inflation that was expected in the markets. These trends are reflected in the European Central Bank's forecast of a slower convergence of price growth towards the target of around 2%. Last March, the ECB's Governing Council announced that monetary policy will remain expansionary for longer than was previously indicated. In the Council's forecasts, official rates will remain at their current low levels at least until the end of 2019 and, in any case, for as long as necessary for achieving price stability. The Eurosystem will continue to reinvest, for an extended period, all the proceeds from maturing securities that it had acquired under its asset purchase programme. Starting in September, a new series of targeted long-term refinancing operations will be carried out to ensure favourable lending terms and the orderly transmission of monetary policy stimuli. The Council reiterated its readiness to adapt all instruments available to ensure that inflation continues to converge towards the target.

In its interim forecasts, the European Commission also confirmed that European GDP will grow by just over 1% in 2019, with a moderate recovery in 2020. The countries with the lowest growth rates are Germany (+0.5%) and Italy (+0.1%).

Despite macroeconomic weakness, the factoring market in Italy continues to post robust rates of growth. According to preliminary estimates from Assifact, the Italian association of the leading factoring providers, at 30 June 2019 the total turnover topped € 122 billion, an increase of 11.38% compared to the same month of the previous year. With regard to the types of factoring contracts, 77% of the transactions are "without recourse" versus 23% being "with recourse" due to assignor customers' specific interest in hedging credit risk.

At the end of the first half of the year, outstanding receivables (i.e. total receivables still to be collected) amounted to € 62.6 billion (an increase of 2.12% over the same period in 2018), 72% of which related to without recourse transactions and 28% to recourse transactions.

Advances and fees reached an impressive € 50.3 billion (an increase of 2.64% over the same period in 2018). Over the last 10 years, loans from the sector to businesses have doubled (counter to the trend for traditional bank loans which have remained largely unchanged since 2009), demonstrating the consistent and effective support provided to the real economy and particularly to SMEs, which are the backbone of the Italian economy, even when the economy is in a downturn.

This positive growth trend was also seen by our Bank, which at the end of June posted turnover of over

€ 1.4 billion, an increase of 25% over the same period last year, which, based on the most recent available data, allowed it to become Italy's leading operator, in terms of volumes, specialised in factoring to the Public Administration.

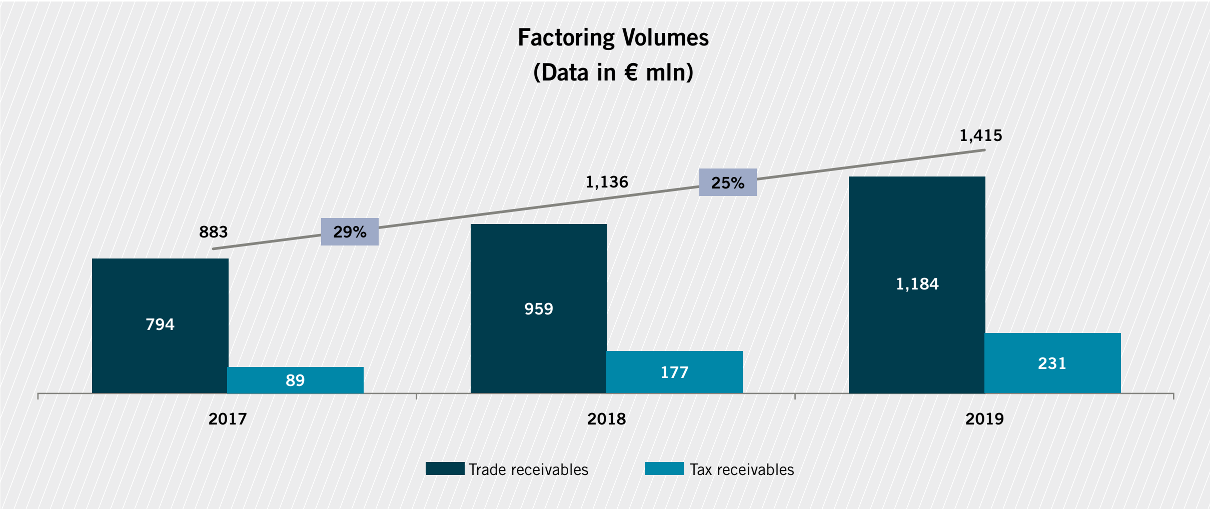
The factoring industry continues to show high credit quality: at 31 March 2019 (the most recent available data from Assifact) gross non-performing exposures in factoring amounted to 5.56% of overall gross exposures, while the ratio of bad exposures was 2.54%, levels that are considerably lower than those reported by traditional banks.

With regard to trade payables owed by the Public Administrations, the ratio to GDP has fallen to 3% as a result of improved collection times in a few specific sectors of the Public Administration. Half of total trade liabilities still involve late payments with respect to contractually agreed payment terms. Average payment times for trade receivables, while slightly improved compared with previous years, continue to differ significantly from the EU average in both B2B and B2PA and are far from the legal terms set to transpose the European Late Payment Directive.

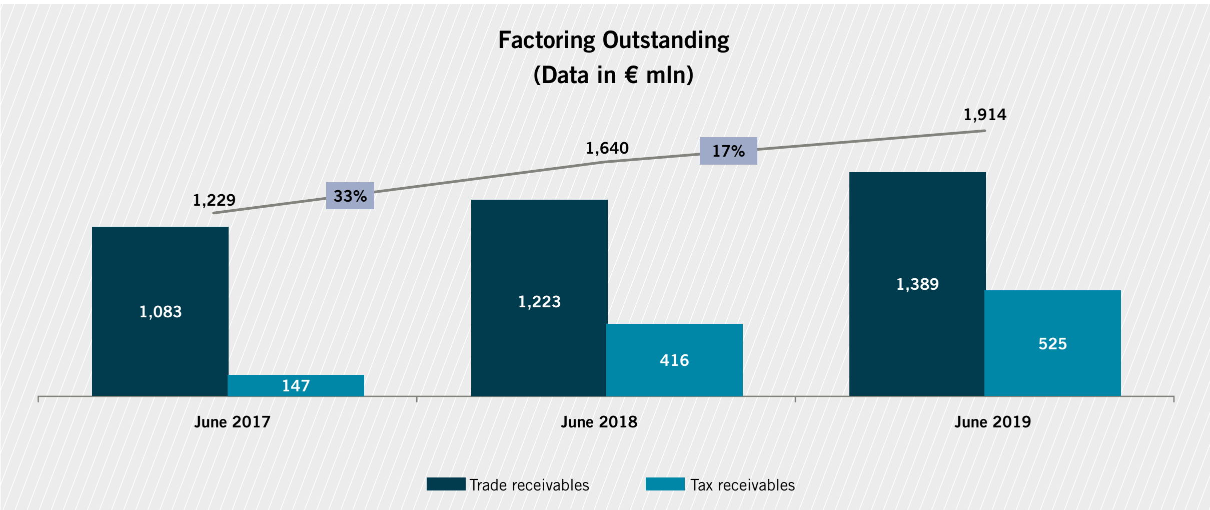
Following the monitoring carried out in recent months by the competent EU structure which highlighted both the failure to comply with the payment terms set by the Directive in many EU countries, and the abuse in some EU countries, particularly by the Public Administration, of refusing the assignment of receivables, which is creating serious financial problems for SMEs, the European Union has opened an infringement procedure against Italy, whereas on the issue of refusing the assignment of receivables, in February the European Parliament adopted a measure calling on all Member States to refrain from taking actions, such as refusing assignment, that would inhibit the transfer of the receivables.

Banca Sistema and factoring activities

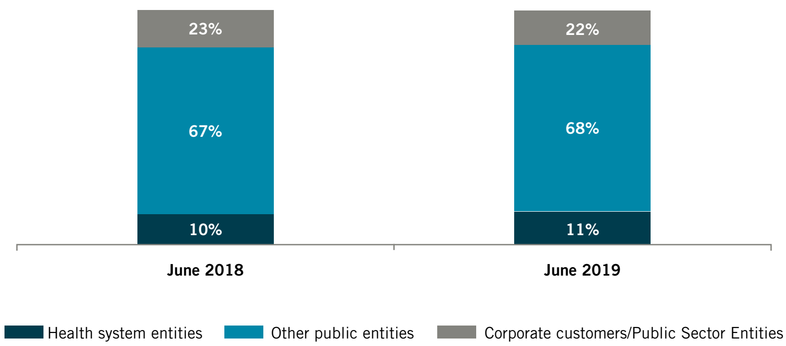
Total turnover for the period ended 30 June 2019 of the Banca Sistema Group was € 1,415 million, up 25% versus the first half of 2018, thus confirming its ability to post solid year over year growth.



Outstanding loans as at 30 June 2019 amounted to € 1,914 million, up 17% on € 1,640 million at 30 June 2018, mainly due to increased volumes acquired in the second half of 2019 compared to collections during the same period.



The chart below shows the ratio of debtors to the total exposure in the outstanding loans and receivables portfolio at 30 June 2019 and 2018. The Group's core factoring business remains the Public Administration entities segment.



Turnover was generated through both its own internal commercial network, or through banks with which the Group has entered into distribution agreements. In June 2019, existing distribution agreements accounted for 30% of total turnover.

The following table shows the factoring turnover by product type:

PRODUCT (amounts in millions of Euro)	30.06.2019	30.06.2018	€ Change	% Change
Trade receivables	1,184	959	225	23%
of which, without recourse	*992*	*778*	*214*	*28%*
of which, with recourse	*192*	*181*	*11*	*6%*
Tax receivables	231	177	54	31%
of which, without recourse	*227*	*173*	*54*	*31%*
of which, with recourse	*4*	*4*	*0*	*0%*
TOTAL	**1,415**	**1,136**	**279**	**25%**

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

SALARY- AND PENSION-BACKED LOANS

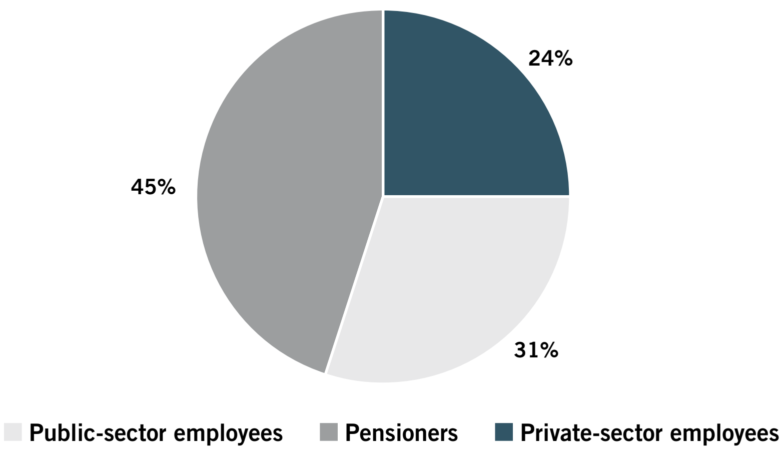
At 30 June 2019, the Group had operated in the salary- and pension-backed loans segment mainly through the purchase of receivables generated by other specialist operators. Starting from the second quarter of 2019 following the acquisition of Atlantide, the Banca Sistema Group has expanded its retail offering with the direct origination of salary- and pension-backed loans through a new product, QuintoPuoi. QuintoPuoi is distributed through a network of single-company agents and specialised brokers located throughout Italy and is supported by a dedicated structure within the Bank.

The volumes acquired from the beginning of the year until June 2019 amounted to € 138 million, including private-sector employees (24%), pensioners (45%) and public-sector employees (31%). Therefore, over 76% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

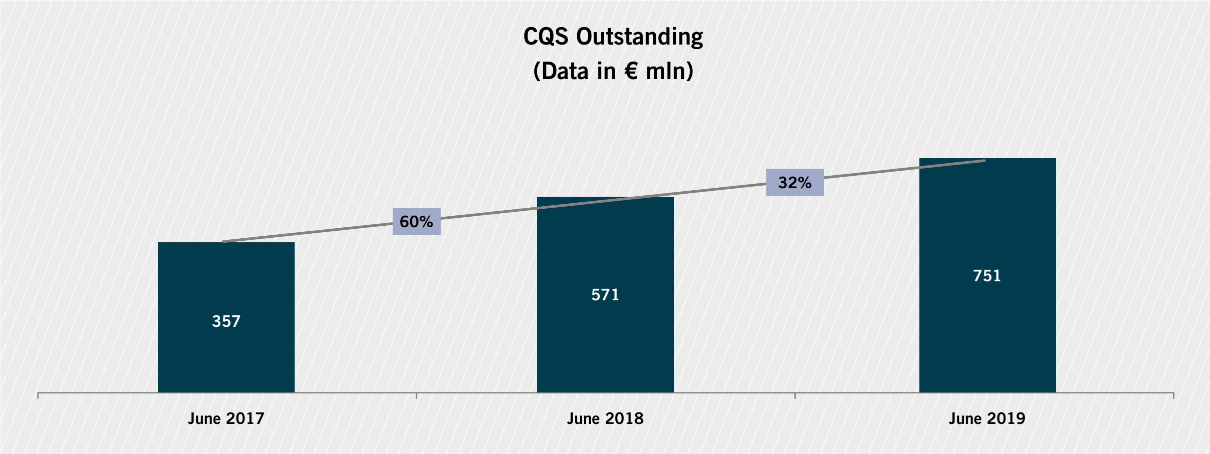
	30.06.2019	30.06.2018	€ Change	% Change
No. of applications	7,297	4,897	2,400	49%
Volumes disbursed (millions of Euro)	138	97	41	42%

As inferred from the table, the amounts disbursed in the first half of 2019 are up from what was disbursed in the first half of 2018.

CQ Disbursed volumes - Breakdown



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



FUNDING 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 30 June 2019 was equal to a nominal € 790.0 million and is in line with the balance of € 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 30 June, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounts to € 355 million (compared to € 300 million as at 31 December 2018) with a duration of 15.4 months (13.5 months at 31 December 2018).

At 30 June, the HTC portfolio amounted to € 435 million with an average residual duration of 20.5 months.

Wholesale funding

As at 30 June 2019, wholesale funding was about 41% 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 their duration.

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 both through the e-MID platform and through bilateral agreements with other banks. Existing bank deposits at 30 June 2019 totalled € 109.5 million (€ 282 million at 31 December 2018). Interbank funding was significantly reduced as a result of a decrease in short-term liquidity needs.

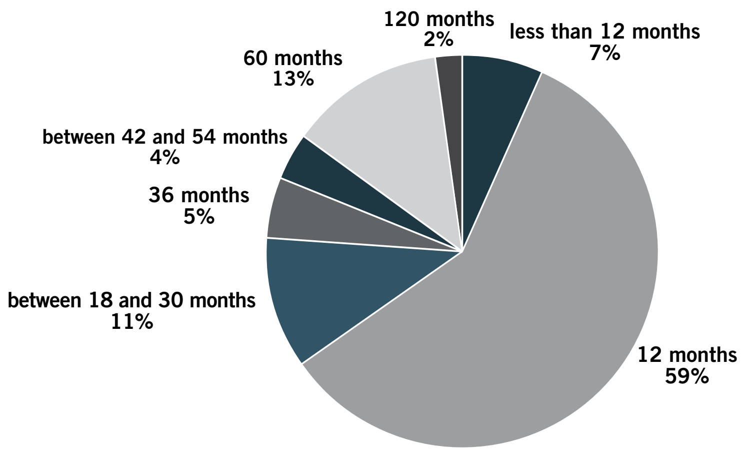
Retail funding

The funding policy of the banking division is strictly linked to changes in trade loans and market conditions. Retail funding accounts for 59% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 30 June 2019 amounted to € 1,226 million, an increase of 28% compared to 31 December 2018. The above-mentioned amount also includes total term deposits of € 735 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 61% of total deposit funding), an increase of € +618 million over the same period of the previous year.

The breakdown of funding by term is shown below. The average residual life of the portfolio is 17 months.

Breakdown of deposit accounts as at 30 June



Current accounts increased from 5,225 (as at 30 June 2018) to 6,366 as at 30 June 2019, while the current account balance at 30 June 2019 decreased by 11% on 2018 to € 587 million.

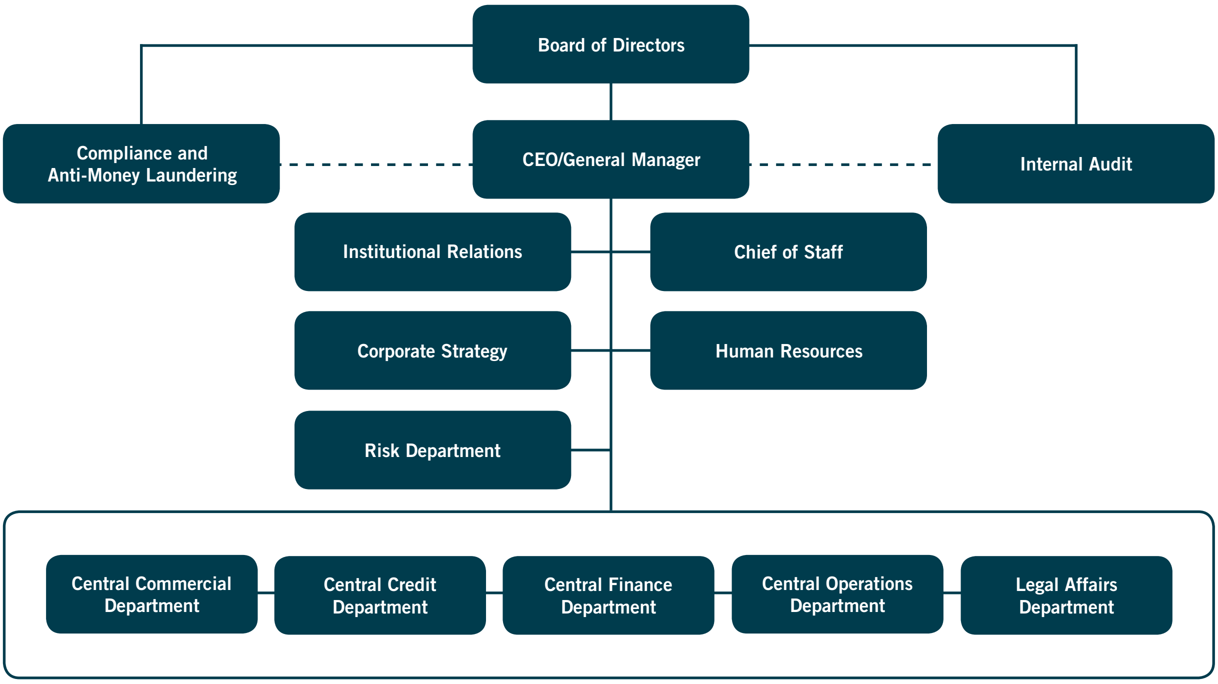
COMPOSITION AND STRUCTURE OF THE GROUP

Scope of the banking group

At 30 June 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 updated organisational chart of the Parent, Banca Sistema, is shown below:



REGISTERED OFFICES AND BRANCHES OF THE BANCA SISTEMA GROUP

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

- Milan - Largo Augusto 1/A, at the corner of Via Verziere 13 (registered office and branch)
- Milan - Piazza Napoli, at the corner of Via Vespri Siciliani, 1 (collateralised loan branch)
- Rome - Via Romagna, 25 (bank and collateralised loan branch)
- Rome - Via Campania, 59 (administrative office)
- Pisa - Galleria Chiti, 1 (bank and collateralised loan branch)
- Palermo - Largo Gae Aulenti 2 (administrative office)
- Palermo - Via Marco Polo 5/7 (collateralised loan branch)
- Naples - Via Verdi 35 (administrative office)
- Naples - Via Verdi 36/37 (collateralised loan branch)
- Rimini - Corso d'Augusto 68 (collateralised loan branch)
- Bologna - Via de Carracci 93 (administrative office)
- Watford - (UK) CP House, Otterspool Way (Representative office)

HUMAN RESOURCES

As at 30 June 2019, the Group had a staff of 209, including 24 employees from Atlantide S.p.A. which was merged into the Bank with effectiveness on 30 June 2019. The staff broken down by category are as follows:

FTES	30.06.2019	31.12.2018	30.06.2018
Senior managers	23	21	21
Middle managers (QD3 and QD4)	42	41	42
Other personnel	144	121	113
Total	**209**	**183**	**176**

During the first half of the year, 13 new employees joined the Group, mainly in the commercial structures, in the departments that oversee the credit and collection process, in Compliance and Anti-Money Laundering, Corporate Affairs, Legal Affairs and Operations (7 replaced the same number of people who had left and 6 to improve professional and managerial expertise). Of the 24 Atlantide employees, 18 will oversee the new salary- and pension-backed loan origination business, while the other employees will strengthen the Underwriting, Organisation and IT areas.

During the same period 11 employees left the Bank, of which 1 was a senior manager and 3 were managers.

In the first half of 2019, various professional training courses were held on issues relating to the Bank's regulatory scope, both with internal and external instructors. More specifically, training was provided on Anti-Money Laundering, MiFID 2 and the New Bankruptcy Law, as well as other technical training and business English courses, with a total of 84 people participating. These programmes will continue during the year 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 shows women accounting for 47% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	FIRST HALF OF 2019	FIRST HALF OF 2018	€ Change	% Change
Net interest income	34,469	32,608	1,861	5.7%
Net fee and commission income	8,174	7,359	815	11.1%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	211	(268)	479	<100%
Gain from sales or repurchases of financial assets/liabilities	1,007	932	75	8.0%
Total income	**44,088**	**40,858**	**3,230**	**7.9%**
Net impairment losses on loans and receivables	(4,760)	(2,939)	(1,821)	62.0%
Net financial income	**39,328**	**37,919**	**1,409**	**3.7%**
Personnel expense	(10,475)	(9,560)	(915)	9.6%
Other administrative expenses	(11,351)	(11,005)	(346)	3.1%
Net accruals to provisions for risks and charges	(1,285)	(51)	(1,234)	>100%
Net impairment losses on property and equipment/intangible assets	(877)	(141)	(736)	>100%
Other operating income	436	52	384	>100%
Operating costs	**(23,552)**	**(20,705)**	**(2,847)**	**13.8%**
Gains (losses) on equity investments	-	(229)	229	-100.0%
Gains (losses) on sales of investments	(8)	-	(8)	n.a.
Pre-tax profit from continuing operations	**15,768**	**16,985**	**(1,217)**	**-7.2%**
Income taxes for the period	(5,160)	(5,764)	604	-10.5%
Post-tax profit for the period	**10,608**	**11,221**	**(613)**	**-5.5%**
Post-tax profit from discontinued operations	562	-	562	n.a.
Profit for the period attributable to the owners of the parent	**11,170**	**11,221**	**(51)**	**-0.5%**

The results for the first half of 2019 include the portion of Atlantide's revenue and costs for the second quarter of 2019 only due to the acquisition of the company which was completed on 3 April 2019. In order to provide a better understanding of the figures compared with the first half of 2018, the economic impact of Atlantide will be provided, if it is material, in the comments on the financial statements items.

The first half of 2019 closed with a profit for the period of € 11.2 million, of which € 562 thousand related to the consolidated profit from the sale of the remaining 10% of Axactor Italia to the parent Axactor AB.

Total income increased by 7.9% compared to the first half of 2018, thanks mainly to the increased contribution of the CQS portfolio, while the profit for the period was negatively impacted by the increases in impairment losses on loans and receivables and in operating costs which include € 1.2 million in operating costs attributable to Atlantide. The total cost of merging Atlantide until the end of the first half of the year was € 450 thousand.

NET INTEREST INCOME (€,000)	FIRST HALF OF 2019	FIRST HALF OF 2018	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	45,791	43,588	2,203	5.1%
Securities portfolio	399	76	323	>100%
Other	847	512	335	65.4%
Financial liabilities	1,538	538	1,000	>100%
Total interest income	**48,575**	**44,714**	**3,861**	**8.6%**
Interest and similar expense				
Due to banks	(331)	(1,678)	1,347	-80.3%
Due to customers	(9,946)	(6,449)	(3,497)	54.2%
Securities issued	(3,808)	(3,225)	(583)	18.1%
Financial assets	(21)	(754)	733	-97.2%
Total interest expense	**(14,106)**	**(12,106)**	**(2,000)**	**16.5%**
Net interest income	**34,469**	**32,608**	**1,861**	**5.7%**

Net interest income increased by 5.7% 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 € 34 million (equal to 74% of the entire loans and receivables portfolio), which was in line with the same period of the previous year despite the lower contribution of the default interest component; when considering the commission component associated with the factoring business, the contribution increased by 5.9% over 30 June 2018. Just the component linked to default interest from legal action at 30 June 2019 was € 11.9 million (€ 10.7 million in the first half of 2018):

- of which € 5.4 million resulting from the current recovery estimates (€ 7.3 million in the first half of 2018);
- of which € 6.4 million (€ 3.4 million in the first half of 2018) coming from net collections during the period, i.e. the difference between the amount collected during the period, equal to € 11.6 million (€ 7.6 million in the first half of 2018) and that recognised on an accruals basis in previous periods. This item includes gross collections of € 5.2 million from a transfer to third parties.

The amount of the stock of default interest from legal actions accrued at 30 June 2019, relevant for the allocation model, was € 98 million (€ 100 million at the end of the first half of 2018) while the loans and receivables recognised in the financial statements amounted to € 42.3 million.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 8.9 million to € 11.4 million (an increase of 27% over the same period of the previous year), whereas interest declined on the SME portfolios, which contributed € 0.5 million to the total, following the strategic decision to discontinue this area of the business.

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

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

Funding from banks for 2018 included the cost of € 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)	FIRST HALF OF 2019	FIRST HALF OF 2018	€ Change	% Change
Fee and commission income				
Collection activities	595	543	52	9.6%
Factoring activities	9,339	7,478	1,861	24.9%
Other	1,079	410	669	>100%
Total fee and commission income	**11,013**	**8,431**	**2,582**	**30.6%**
Fee and commission expense				
Placement	(1,766)	(827)	(939)	>100%
Fees - off-premises	(763)	-	(763)	n.a.
Other	(310)	(245)	(65)	26.5%
Total fee and commission expense	**(2,839)**	**(1,072)**	**(1,767)**	**>100%**
Net fee and commission income	**8,174**	**7,359**	**815**	**11.1%**

Net fee and commission income of € 11 million increased by 30.6% 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 € 188 thousand.

This item also includes fees related to the new salary- and pension-backed loan origination business, and the preliminary credit assessment fees for the new loans for a total of € 672 thousand.

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.

Fees are composed of the commissions paid to the financial advisers for the off-premises placement of the salary- and pension-backed loan product, as well as an estimate of the year-end bonuses payable to them.

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

PROFIT FROM THE SECURITIES PORTFOLIO (€,000)	FIRST HALF OF 2019	FIRST HALF OF 2018	€ Change	% Change
Net trading income (expense)				
Realised gains	211	14	197	>100%
Valuation (loss)/gain	-	(282)	282	-100.0%
Total	**211**	**(268)**	**479**	**<100%**
Gain from sales or repurchases				
Gains from HTCS portfolio debt instruments	1,007	932	75	8.0%
Total	**1,007**	**932**	**75**	**8.0%**
Total profit from the securities portfolio	**1,218**	**664**	**554**	**83.4%**

Net trading income (expense) is mainly generated by the market value of the Italian government bonds included in the trading portfolio. The gains generated by the proprietary HTCS portfolio made a greater contribution than in same period of the previous year, with an increase of 8%.

Impairment losses on loans and receivables at 30 June 2019 amounted to € 4.8 million and are essentially in line with the previous quarters. Impairment losses for the first half of the year are attributable to the impairment of factoring loans, bringing the loss rate to 0.38% (0.29% at 30 June 2018).

PERSONNEL EXPENSE (€,000)	FIRST HALF OF 2019	FIRST HALF OF 2018	€ Change	% Change
Wages and salaries	(9,731)	(8,927)	(804)	9.0%
Social security contributions and other costs	(156)	(156)	-	0.0%
Directors' and statutory auditors' remuneration	(588)	(477)	(111)	23.3%
Total	**(10,475)**	**(9,560)**	**(915)**	**9.6%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 169 to 194 attributed primarily to the 24 new employees of the recently acquired company Atlantide, the cost of which accounted for € 371 thousand of the total.

This item also includes an additional cost component of € 500 thousand for estimated redundancy charges and the cost of non-compete agreements which is approximately € 390 thousand lower compared to the first half of 2018.

OTHER ADMINISTRATIVE EXPENSES (€,000)	FIRST HALF OF 2019	FIRST HALF OF 2018	€ Change	% Change
IT expenses	(2,678)	(2,304)	(374)	16.2%
Consultancy	(1,979)	(1,737)	(242)	13.9%
Resolution Fund	(1,146)	(942)	(204)	21.7%
Servicing and collection activities	(1,300)	(1,539)	239	-15.5%
Indirect taxes and duties	(939)	(1,158)	219	-18.9%
Rent and related fees	(414)	(1,034)	620	-60.0%
Expense reimbursement and entertainment	(352)	(352)	-	0.0%
Car hire and related fees	(282)	(425)	143	-33.6%
Insurance	(219)	(194)	(25)	12.9%
Advertising	(282)	(199)	(83)	41.7%
Membership fees	(178)	(210)	32	-15.2%
Expenses related to management of the SPVs	(162)	(241)	79	-32.8%
Audit fees	(138)	(160)	22	-13.8%
Infoprovider expenses	(145)	(135)	(10)	7.4%
Other	(149)	(179)	30	-16.8%
Telephone and postage expenses	(82)	(101)	19	-18.8%
Maintenance of movables and real properties	(41)	(56)	15	-26.8%
Stationery and printing	(19)	(29)	10	-34.5%
Discretionary payments	(4)	(10)	6	-60.0%
Administrative expenses - Atlantide	(477)	-	(477)	n.a.
Merger-related costs	(365)	-	(365)	n.a.
Total	**(11,351)**	**(11,005)**	**(346)**	**3.1%**

Administrative expenses include additional costs of Atlantide for the second half of the year totalling € 477 thousand, as well as costs related to the merger of the company into the Bank amounting to € 365 thousand (total merger-related costs amounted to € 446 thousand, including the cost recognised under reduction in value due to amortisation). Costs originating from Atlantide as well as merger-related costs have been kept separate to allow for a better comparison of the figures.

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.

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 MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€,000)	30.06.2019	31.12.2018	€ Change	% Change
Cash and cash equivalents	342	289	53	18.3%
Financial assets measured at fair value through other comprehensive income	360,530	304,469	56,061	18.4%
Financial assets measured at amortised cost	3,106,544	2,786,692	319,852	11.5%
a) loans and receivables with banks	47,292	56,861	(9,569)	-16.8%
b1) loans and receivables with customers - loans	2,623,968	2,294,420	329,548	14.4%
b2) loans and receivables with customers - debt instruments	435,284	435,411	(127)	0.0%
Equity investments	-	786	(786)	-100.0%
Property and equipment	29,531	27,910	1,621	5.8%
Intangible assets	3,922	1,788	2,134	>100%
Tax assets	6,613	7,817	(1,204)	-15.4%
Non-current assets held for sale and disposal groups	-	1,835	(1,835)	-100.0%
Other assets	15,793	13,317	2,477	18.6%
Total assets	**3,523,275**	**3,144,903**	**378,373**	**12.0%**

The period ended 30 June 2019 closed with total assets up 12% (at € 3.5 billion) on the end of 2018, due to the effect of the increase in the portfolios of loans and receivables with customers and in part due to the increase in 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 remaining duration of about 15.4 months (the average remaining duration at the end of 2018 was 13.5 months). This is consistent with the Group investment policy. The government securities portfolio amounted to € 355 million at 30 June 2019 (€ 300 million at 31 December 2018). The associated valuation reserve was positive at the end of the period, amounting to € 0.1 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million and purchased in July 2015, and the Axactor Norway shares, which at 30 June 2019 had a break-even net fair value reserve, resulting in a period-end amount of € 1.2 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	30.06.2019	31.12.2018	€ Change	% Change
Factoring	1,790,727	1,566,613	224,114	14.3%
Salary-/pension-backed loans (CQS/CQP)	751,426	652,040	99,386	15.2%
Loans to SMEs	19,530	27,549	(8,019)	-29.1%
Current accounts	21,297	23,186	(1,889)	-8.1%
Pledge on receivables	8,636	6,428	2,208	34.3%
Compensation and Guarantee Fund	31,142	17,413	13,729	78.8%
Other loans and receivables	1,210	1,191	19	1.6%
Total loans	**2,623,968**	**2,294,420**	**329,548**	**14.4%**
Securities	435,284	435,411	(127)	0.0%
Total loans and receivables with customers	**3,059,252**	**2,729,831**	**329,421**	**12.1%**

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 the total in the item, excluding the amounts of the securities portfolio, were unchanged from the end of 2018 at 68%. Their absolute value grew as a result of turnover generated during the first half of the year which was up by 25% on the same period of the previous year to € 1,415 million (€ 1,136 million at 30 June 2018).

Salary- and pension-backed loans grew in terms of their outstanding amount thanks to new loans, which increased by 42% compared to the same period of the previous year (the new volumes acquired during the first half of the year amounted to € 138 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 outstanding loans and receivables of € 8.6 million at 30 June 2019, which are the result of loans granted during the first half of the year and renewals with existing customers. Starting from the next quarter, these loans and receivables will be transferred, along with the business unit dedicated to this business, from the Bank to ProntoPegno, the company set up for this business.

Securities are composed entirely of Italian government securities with an average duration of 20.5 months for an amount of € 435 million.

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

STATUS	30.06.2018	30.09.2018	31.12.2018	31.03.2019	30.06.2019
Bad exposures	53,412	60,566	57,467	55,877	54,124
Unlikely to pay	30,765	31,305	87,189	98,206	113,462
Past due	89,355	97,263	80,507	76,183	68,733
Non-performing	**173,532**	**189,134**	**225,163**	**230,266**	**236,319**
Performing	**2,016,559**	**2,122,685**	**2,104,711**	**2,305,247**	**2,428,103**
Stage 2	67,260	101,813	106,473	119,559	114,250
Stage 1	1,949,299	2,020,872	1,998,238	2,185,688	2,313,853
Total loans and receivables with customers	**2,190,091**	**2,311,819**	**2,329,874**	**2,535,513**	**2,664,422**
Individual impairment losses	**26,629**	**27,662**	**29,169**	**32,220**	**33,662**
Bad exposures	18,751	19,805	18,451	18,944	19,602
Unlikely to pay	7,304	6,989	9,277	11,672	12,665
Past due	574	868	1,441	1,604	1,395
Collective impairment losses	**5,496**	**5,856**	**6,284**	**6,299**	**6,792**
Stage 2	437	569	579	680	585
Stage 1	5,059	5,287	5,705	5,619	6,207
Total impairment losses	**32,125**	**33,518**	**35,453**	**38,519**	**40,454**
Net exposure	**2,157,966**	**2,278,301**	**2,294,421**	**2,496,994**	**2,623,968**

The ratio of gross non-performing loans to the total portfolio went from 9.7% at 31 December 2018 to 8.9% at the end of March 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 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 1.3% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 14.2%.

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 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 € 26.9 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, amounting to € 1.8 million.

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 a preliminary 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 annual production volumes.

Other assets, amounting to € 15.8 million, mainly include amounts being processed after the end of the period 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)	30.06.2019	31.12.2018	€ Change	% Change
Financial liabilities measured at amortised cost	3,257,899	2,898,740	359,159	12.4%
a) due to banks	527,390	695,197	(167,807)	-24.1%
b) due to customers	2,417,616	1,898,556	519,060	27.3%
c) securities issued	312,893	304,987	7,906	2.6%
Tax liabilities	13,944	15,676	(1,732)	-11.0%
Other liabilities	77,813	65,638	12,175	18.5%
Post-employment benefits	2,974	2,402	572	23.8%
Provisions for risks and charges	12,190	9,293	2,897	31.2%
Valuation reserves	(211)	(1,131)	920	-81.3%
Reserves	138,044	117,666	20,378	17.3%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(199)	(199)	-	0.0%
Profit for the period/year	11,170	27,167	(15,997)	-58.9%
Total liabilities and equity	**3,523,275**	**3,144,903**	**378,372**	**12.0%**

Wholesale funding, which represents about 41% (41% at 31 December 2018) of the total, rose in absolute terms from the end of 2018 following the increase through reverse purchase agreements. The contribution of bond funding to total wholesale funding was 30.4% (34.2% at the end of 2018).

DUE TO BANKS (€,000)	30.06.2019	31.12.2018	€ Change	% Change
Due to Central banks	417,850	412,850	5,000	1.2%
Due to banks	109,540	282,347	(172,807)	-61.2%
Current accounts and demand deposits	*25*	*53*	*(28)*	*-52.8%*
Term deposits	*109,515*	*282,294*	*(172,779)*	*-61.2%*
Total	**527,390**	**695,197**	**(167,807)**	**-24.1%**

The total of the sub-item "Due to banks" decreased by 61.2% compared to 31 December 2018 due to the decrease in interbank funding; refinancing with the ECB, whose underlying assets are primarily ABS from the salary- and pension-backed loans (CQS/CQP) securitisation, remained in line with the end of the financial year.

DUE TO CUSTOMERS (€,000)	30.06.2019	31.12.2018	€ Change	% Change
Term deposits	1,226,289	958,193	268,096	28.0%
Financing (repurchase agreements)	500,747	179,819	320,928	>100%
Current accounts	586,634	657,082	(70,448)	-10.7%
Due to assignors	93,094	87,397	5,697	6.5%
Other payables	10,852	16,065	(5,213)	-32.4%
Total	**2,417,616**	**1,898,556**	**519,060**	**27.3%**

The item Due to customers increased compared to the end of the year, mainly due to an increase in funding from repurchase agreements and partly from term deposits. The period-end amount of term deposits increased by 28% compared to the end of 2018, reflecting net positive deposits (net of interest accrued) of € 72 million; gross deposits from the beginning of the year were € 277 million, against withdrawals totalling € 205 million.

The item Other payables includes collections of € 11 million from Cassa Depositi e Prestiti, against a guarantee comprising solely loans to SMEs by the Bank. Due to assignors includes payables related to receivables acquired but not financed.

SECURITIES ISSUED (€,000)	30.06.2019	31.12.2018	€ Change	% Change
Bond - AT1	8,014	8,017	(3)	0.0%
Bond - Tier II	37,624	31,570	6,054	19.2%
Bonds - other	267,255	265,400	1,855	0.7%
Total	**312,893**	**304,987**	**7,906**	**2.6%**

The nominal amount of securities issued at 30 June 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 € 12 million, set to mature on 15 November 2022 and with a variable coupon equal to 6-month Euribor + 5.5% issued on 15 November 2012;
- Tier 2 subordinated loan of € 19.5 million, set to mature on 30 March 2027 and with a variable coupon equal to 6-month Euribor + 4.5% issued on 30 March 2017;
- Senior bonds (market placement) of € 175 million, set to mature on 13 October 2020 and with a fixed coupon of 1.75% issued on 13 October 2017;
- Senior bonds (private placement) of € 90 million, set to mature on 31 May 2021 and with a fixed coupon of 2% issued on 31 May 2018;
- Tier 2 subordinated loan of € 6 million, set to mature on 23 May 2029 and a fixed coupon of 7% issued on 23 May 2019.

The provision for risks and charges of € 12.2 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 labour-related 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.

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

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

(€ ,000)	PROFIT	EQUITY
Profit/equity of the parent	**10,900**	**160,410**
Assumption of value of investments	-	(15,000)
Consolidated profit/equity	270	13,045
Equity attributable to the owners of the parent	**11,170**	**158,455**
Equity attributable to non-controlling interests	-	(30)
Group equity	**11,170**	**158,425**

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	30.06.2019	31.12.2018
Common Equity Tier 1 (CET1)	**151,729**	**144,293**
ADDITIONAL TIER 1	8,000	8,000
Additional Tier 1 capital (T1)	**159,729**	**152,293**
TIER2	33,609	28,799
Total Own Funds (TC)	**193,338**	**181,092**
Total risk weighted assets	**1,410,259**	**1,317,043**
of which, credit risk	**1,253,689**	**1,160,521**
of which, operational risk	**156,522**	**156,522**
of which, market risk	**0**	**0**
of which, CVA	**48**	**0**
Ratio - CET1	10.8%	11.0%
Ratio - T1	11.3%	11.6%
Ratio - TCR	13.7%	13.7%
Pro-forma CET1 (CRR II amendment) (*)	*12.4%*	*12.5%*
Pro-forma T1 (CRR II amendment) (*)	*13.1%*	*13.2%*
Pro-forma TCR (CRR II amendment) (*)	*15.8%*	*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 € 193.3 million at 30 June 2019 and included the profit for the period, net of dividends estimated on the profit for the period which were equal to a pay-out of 25% of the Parent's profit. Starting from 1 January 2019, as a result of the increase in the capital conservation buffer from 1.875% to 2.500%, the OCR (Overall Capital Requirement) for the Banca Sistema Group is as follows:

- CET1 ratio of 7.750%;
- TIER1 ratio of 9.500%;
- Total Capital Ratio of 11.850%.

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

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 30 June 2019 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 30 June 2019, after the launch in 2018 of a plan for the repurchase of treasury shares designed to create a stock of securities to be used for the incentive plan for the Group's key personnel, the Bank held 104,661 shares (equal to 0.13% of the share capital).

Stock performance

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

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

Price
2.00
1.80
1.60
1.40
1.20
1.00
Volume
2,000,000
1,500,000
1,000,000
500,000
0
02/01/2019
02/02/2019
02/03/2019
02/04/2019
02/05/2019
02/06/2019
Volume
Price - €

RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

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

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

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

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

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

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

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

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

With reference to ICAAP (Internal Capital Adequacy Assessment Process), the model used for determining capital adequacy, and ILAAP (Internal Liquidity Adequacy Assessment Process), the model used for determining adequacy in terms of liquidity, this framework allows the Bank to conduct ongoing tests of its structure for determining risks and to update the related safeguards included in its RAF.

Regarding the monitoring of credit risk, the Bank, with the goal of attaining greater operating synergies, has established the Central Credit Department, which oversees the Underwriting Department and the Legal Collection and Out-of-Court Collection Departments. This Department reports directly to the CEO.

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

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

OTHER INFORMATION

Research and Development Activities

No research and development activities were carried out in 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 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 2019, 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

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 will be effective on 1 August 2019.

After the reporting date of this interim financial report, there were no events worthy of mention which would have had an impact on the financial position, results of operations and cash flows of the Bank and Group.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

First-half growth in lending was in line with 2018 and the same growth trend is expected to continue over the year. The contraction in business profitability since the first quarter of 2019, mainly due to lower default interest collected, could continue for the rest of the year.

Milan, 31 July 2019

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AT 30 JUNE 2019

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	30.06.2019	31.12.2018
10.	Cash and cash equivalents	342	289
30.	Financial assets measured at fair value through other comprehensive income	360,530	304,469
40.	Financial assets measured at amortised cost	3,106,544	2,786,692
	a) loans and receivables with banks	*47,292*	*56,861*
	b) loans and receivables with customers	*3,059,252*	*2,729,831*
70.	Equity investments	-	786
90.	Property and equipment	29,531	27,910
100.	Intangible assets	3,922	1,788
	of which:		
	goodwill	3,920	1,786
110.	Tax assets	6,613	7,817
	a) current	-	-
	b) deferred	*6,613*	*7,817*
120.	Non-current assets held for sale and disposal groups	-	1,835
130.	Other assets	15,793	13,317
	Total Assets	**3,523,275**	**3,144,903**

	Liabilities and equity	30.06.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	3,257,899	2,898,740
	a) due to banks	*527,390*	*695,197*
	b) due to customers	*2,417,616*	*1,898,556*
	c) securities issued	*312,893*	*304,987*
60.	Tax liabilities	13,944	15,676
	a) current	*1,924*	*3,445*
	b) deferred	*12,020*	*12,231*
80.	Other liabilities	77,813	65,638
90.	Post-employment benefits	2,974	2,402
100.	Provisions for risks and charges:	12,190	9,293
	a) commitments and guarantees issued	*12*	*7*
	c) other provisions for risks and charges	*12,178*	*9,286*
120.	Valuation reserves	(211)	(1,131)
150.	Reserves	98,872	78,452
160.	Share premium	39,142	39,184
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(199)	(199)
190.	Equity attributable to non-controlling interests (+/-)	30	30
200.	Profit for the period/year	11,170	27,167
	Total Liabilities and Equity	**3,523,275**	**3,144,903**

INCOME STATEMENT

(Amounts in thousands of Euro)

		FIRST HALF OF 2019	FIRST HALF OF 2018
10.	Interest and similar income	48,575	44,714
	of which: interest income calculated with the effective interest method	46,500	44,177
20.	Interest and similar expense	(14,106)	(12,106)
30.	**Net interest income**	**34,469**	**32,608**
40.	Fee and commission income	11,013	8,431
50.	Fee and commission expense	(2,839)	(1,072)
60.	**Net fee and commission income**	**8,174**	**7,359**
70.	Dividends and similar income	227	227
80.	Net trading income (expense)	211	(268)
100.	Gain from sales or repurchases of:	1,007	932
	b) financial assets measured at fair value through other comprehensive income	1,007	932
120.	**Total income**	**44,088**	**40,858**
130.	Net impairment losses on:	(4,760)	(2,939)
	a) financial assets measured at amortised cost	*(4,723)*	*(2,939)*
	b) financial assets measured at fair value through other comprehensive income	*(37)*	-
150.	**Net financial income**	**39,328**	**37,919**
190.	Administrative expenses	(21,826)	(20,565)
	a) personnel expense	*(10,475)*	*(9,560)*
	b) other administrative expenses	*(11,351)*	*(11,005)*
200.	Net accruals to provisions for risks and charges	(1,285)	(51)
	a) commitments and guarantees issued	*(5)*	-
	b) other net accruals	*(1,280)*	*(51)*
210.	Net impairment losses on property and equipment	(758)	(138)
220.	Net impairment losses on intangible assets	(119)	(3)
230.	Other operating income	436	52
240.	**Operating costs**	**(23,552)**	**(20,705)**
250.	Gains (losses) on equity investments	-	(229)
280.	Gains (losses) on sales of investments	(8)	-
290.	**Pre-tax profit from continuing operations**	**15,768**	**16,985**
300.	Income taxes	(5,160)	(5,764)
320.	**Post-tax profit from continuing operations**	**10,608**	**11,221**
310.	Post-tax profit (loss) from discontinued operations	562	-
330.	**Profit for the period**	**11,170**	**11,221**
340.	Profit (loss) attributable to non-controlling interests	-	-
350.	**Profit for the period attributable to the owners of the parent**	**11,170**	**11,221**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		First half of 2019	2018
10.	**Profit for the period/year**	**11,170**	**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	(184)	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	1,104	(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**	**920**	**(2,025)**
180.	**Comprehensive income (Items 10+170)**	**12,090**	**25,142**

STATEMENTS OF CHANGES IN EQUITY AS AT 30.06.2019

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the period										
							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	Changes in equity investments	Comprehensive income for the first half of 2019	**Equity attributable to the owners of the parent at 30.06.2019**	**Equity attributable to non-controlling interests at 30.06.2019**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,184**	-	39,184	-	-	(42)	-	-	-	-	-	-	-	-	**39,142**	-
Reserves	**78,452**	-	78,452	20,170	-	250	-	-	-	-	-	-	-	-	**98,872**	-
a) income-related	**78,792**	-	78,792	20,170	-	(25)	-	-	-	-	-	-	-	-	**98,937**	-
b) other	**(340)**	-	(340)	-	-	275	-	-	-	-	-	-	-	-	**(65)**	-
Valuation reserves	**(1,131)**	-	(1,131)	-	-	-	-	-	-	-	-	-	-	920	**(211)**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(199)**	-	(199)	-	-	-	-	-	-	-	-	-	-	-	**(199)**	-
Profit for the period	**27,167**	-	27,167	(20,170)	(6,997)	-	-	-	-	-	-	-	-	11,170	**11,170**	-
Equity attributable to the owners of the parent	**153,124**	-	**153,124**	**-**	**(6,997)**	**208**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,090**	**158,425**	**-**
Equity attributable to non-controlling interests	**30**	-	**30**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30**

STATEMENT OF CHANGES IN EQUITY AS AT 30.06.2018

Amounts in thousands of Euro

	Balance at 31.12.2017	Change in opening balances	Balance at 1.1.2018	Allocation of prior year profit		Changes during the period									Equity attributable to the owners of the parent at 30.06.2018	Equity attributable to non-controlling interests at 30.06.2018
							Transactions on equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the first half of 2018		
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,268**	-	39,268	-	-	(42)	-	-	-	-	-	-	-	-	**39,226**	-
Reserves	**58,807**	(224)	58,583	19,877	-	149	-	-	-	-	-	-	-	-	**78,609**	-
a) income-related	**59,133**	(224)	58,909	19,877	-	6	-	-	-	-	-	-	-	-	**78,792**	-
b) other	**(326)**	-	(326)	-	-	143	-	-	-	-	-	-	-	-	**(183)**	-
Valuation reserves	**367**	527	894	-	-	-	-	-	-	-	-	-	-	(2,747)	**(1,853)**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(149)**	-	(149)	-	-	3	-	-	-	-	-	-	-	-	**(146)**	-
Profit for the period	**26,793**	-	26,793	(19,877)	(6,916)	-	-	-	-	-	-	-	-	11,221	**11,221**	-
Equity attributable to the owners of the parent	**134,737**	**303**	**135,040**	**-**	**(6,916)**	**110**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,474**	**136,708**	**-**
Equity attributable to non-controlling interests	**30**	**-**	**30**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30**

STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	First half of 2019	First half of 2018
A. OPERATING ACTIVITIES		
1. Operations	**22,108**	**18,609**
▪ interest income collected	48,575	44,714
▪ interest expense paid	(14,106)	(12,106)
▪ dividends and similar income	227	227
▪ net fees and commissions	8,174	7,359
▪ personnel expense	(4,533)	(4,585)
▪ other expenses	(10,915)	(10,953)
▪ other income	-	-
▪ taxes and duties	(5,876)	(6,047)
▪ cost/revenue on assets held for sale and disposal groups, net of tax	562	-
2. Cash flows used for financial assets	**(378,891)**	**(725,217)**
▪ financial assets held for trading	211	(99,094)
▪ financial assets designated at fair value through profit or loss	-	-
▪ financial assets mandatorily measured at fair value through profit or loss	-	-
▪ financial assets measured at fair value through other comprehensive income	(54,171)	17,041
▪ financial assets measured at amortised cost	(324,575)	(648,028)
▪ other assets	(356)	4,864
3. Cash flows generated by financial liabilities	**365,844**	**716,836**
▪ financial liabilities measured at amortised cost	359,159	709,986
▪ financial liabilities held for trading	-	-
▪ financial liabilities designated at fair value through profit or loss	-	-
▪ other liabilities	6,685	6,850
Net cash flows generated by operating activities	**9,061**	**10,228**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**2,621**	**-**
▪ sales of equity investments	2,621	-
▪ dividends from equity investments	-	-
▪ sales of property and equipment	-	-
▪ sales of intangible assets	-	-
▪ sales of subsidiaries and business units	-	-
2. Cash flows used in	**(4,632)**	**(3,185)**
▪ purchases of equity investments	-	(1,244)
▪ purchases of property and equipment	(2,379)	(1,941)
▪ purchases of intangible assets	(2,253)	-
▪ purchases of subsidiaries and business units	-	-
Net cash flows used in investing activities	**(2,011)**	**(3,185)**
C. FINANCING ACTIVITIES		
▪ issues/repurchases of treasury shares	-	-
▪ issues/repurchases of equity instruments	-	-
▪ dividend and other distributions	(6,997)	(6,916)
▪ acquisitions and disposals of subsidiaries and other business units	-	-
Net cash flows used in financing activities	**(6,997)**	**(6,916)**
NET CASH FLOWS FOR THE PERIOD	**53**	**127**

RECONCILIATION

Cash and cash equivalents at the beginning of the period	289	161
Total net cash flows for the period	53	127
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	342	288

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Statement of compliance with International Financial Reporting Standards

These condensed interim consolidated financial statements were drafted in accordance with Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) as endorsed and in force on 30 June 2019, including the interpretation documents (SIC) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by EU Regulation no. 1606 of 19 July 2002.

In preparing the condensed interim consolidated financial statements, the Bank followed the instructions concerning financial statements issued by the Bank of Italy in its Regulation of 22 December 2005, the simultaneous Circular no. 262/05, the amendments and clarification notes, supplemented by the general provisions of the Italian Civil Code and other relevant legislative and regulatory provisions.

The condensed interim consolidated financial statements were drafted in summary form in accordance with IAS 34, with specific reference to the arrangements for disclosing financial information, supplemented by the other relevant legislative and regulatory standards.

The specific accounting standards adopted have been amended compared to the financial statements at 31 December 2018 following the introduction as of 1 January 2019 of the new financial reporting standard IFRS 16.

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

General basis of preparation

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

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

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

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

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

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 period end or for the period or for the previous period 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 period are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous period, 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 bank'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 period.

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.

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.

Compared to 31 December 2018, changes to the scope of consolidation were introduced following the sale of ADV Finance S.p.A. and ProCredit S.r.l.

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

COMPANY NAMES	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. 2019 S.r.l.[3]
- Quinto Sistema Sec. 2017 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 following the transfer of the shares held in ADV Finance S.p.A. and ProCredit S.r.l.

[3] The company name was changed to **Quinto Sistema Sec. 2019 S.r.l.** with effect from **29.03.2019**.

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:

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

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

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item “130 Intangible Assets” on the date of initial consolidation. The resulting differences, if negative, are recognised in the income statement. Intra-group balances and transactions, including income, costs and dividends, are entirely eliminated. The financial results of a subsidiary acquired during the period 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.

Events after the reporting date

After the reporting date, there were no events worthy of mention in the notes to the condensed interim consolidated financial statements which would have had an impact on the financial position, results of operations and cash flows of the Bank and Group.

Information on the main items of the consolidated financial statements

The interim consolidated financial report was prepared by applying IFRS and valuation criteria on a going concern basis, and in accordance with the principles of accruals and materiality of information, as well as the general principle of the precedence of economic substance over legal form.

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

The use of estimates is essential to preparing the financial statements. The most significant use of estimates and assumptions in the financial statements can be attributed to:

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

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.

Other aspects

The interim consolidated financial report was approved on 31 July 2019 by the Board of Directors, which authorised its disclosure to the public in accordance with IAS 10.

Financial assets measured at fair value through profit or loss

Classification criteria

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

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

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

Recognition criteria

Initial recognition of financial assets occurs at the settlement date for debt instruments and equity instruments, at the disbursement date for loans and at the subscription date for derivative contracts.

On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument.

Measurement and recognition criteria for income components

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

In particular, this item includes:

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

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

Derecognition criteria

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

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

Classification criteria

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

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

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

In particular, this item includes:

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

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

Recognition criteria

Initial recognition of the financial assets is at the date of disbursement, based on their fair value including the transaction costs/income directly attributable to the acquisition of the financial instrument. Costs/income having the previously mentioned characteristics that will

be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial assets measured at amortised cost

Classification criteria

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

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

In particular, this item includes:

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

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

Recognition criteria

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

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

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

Measurement and recognition criteria for income components

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

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

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

The impairment losses recognised in profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss). The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historic series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad exposures, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

Derecognition criteria

Loans and receivables are derecognised from the 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 consolidated 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 restructuring of assets not yet part of the production process and therefore not yet subject to depreciation.

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

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 period, 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 period, depreciation is calculated on a daily basis until the date of transfer and/or disposal.

At the end of each period, 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 period, 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 at equity level with open balances and without offsetting entries, recognising the former under *"Tax assets"* and the latter under *"Tax liabilities"*.
With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under *"current tax assets"* or *"current tax liabilities"* depending on whether it is positive or negative.

Provisions for risks and charges

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

Other information

Post-employment benefits

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

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

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

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

Repurchase agreements

“Repurchase agreements” that oblige the party selling the relevant assets (for example securities) to repurchase them in the future and the “securities lending” transactions where the guarantee is represented by cash, are considered equivalent to swap transactions and, therefore, the amounts received and disbursed appear in the 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 (acquired). A combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of another entity's capital (mergers and contributions). Based on the provisions of IFRS 3, business combinations must be accounted for by applying the acquisition method, which comprises the following phases:

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

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

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

If the business combination is carried out through several transfers:

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

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

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

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

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

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

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

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

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

No financial instruments were transferred between portfolios.

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

No financial assets were reclassified.

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

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

Qualitative disclosure

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

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

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

A.4.3 Fair value hierarchy

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

- **Level 1** - Effective market quotes

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

A.4.4 Other Information

The item is not applicable for the Group.

ASSETS

Cash and cash equivalents - Item 10

Cash and cash equivalents: breakdown

	30.06.2019	31.12.2018
a. Cash	342	289
b. Demand deposits with Central Banks	-	-
Total	**342**	**289**

Financial assets measured at fair value through other comprehensive income - Item 30

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

	30.06.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**354,364**	-	-	**298,292**	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	354,364	-	-	298,292	-	-
2. Equity instruments	**1,166**	-	**5,000**	**1,177**	-	**5,000**
3. Financing	**-**	-	**-**	**-**	-	**-**
Total	**355,530**	-	**5,000**	**299,469**	-	**5,000**

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

Financial assets measured at amortised cost - Item 40

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

	30.06.2019						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	**5,090**	**-**	**-**	**-**	**-**	**5,090**	**12,460**	**-**	**-**			**12,460**
1. Term deposits	-	-	-	x	x	X	-	-	-	x	x	X
2. Minimum reserve	5,027	-	-	x	x	X	12,437	-	-	x	x	X
3. Reverse repurchase agreements	-	-	-	x	x	X	-	-	-	x	x	X
4. Other	63	-	-	x	x	X	23	-	-	x	x	X
B. Loans and receivables with banks	**42,202**	**-**	**-**	**-**	**-**	**41,972**	**44,401**	**-**	**-**	**-**	**-**	**44,401**
1. Financing	**42,202**	**-**	**-**	**-**	**-**	**41,972**	**44,401**	**-**	**-**	**-**	**-**	**44,401**
1.1 Current accounts and demand deposits	32,153	-	-	x	x	X	24,213	-	-	x	x	X
1.2. Term deposits	10,003	-	-	x	x	X	19,996	-	-	x	x	X
1.3. Other financing:	46	-	-	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	46	-	-	x	x	X	192	-	-	x	x	X
2. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Total	**47,292**	**-**	**-**	**-**	**-**	**47,062**	**56,861**	**-**	**-**	**-**	**-**	**56,861**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

	30.06.2019						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
Financing	**2,421,311**	**202,657**	**22,675**	**-**	**-**	**2,666,813**	**2,098,425**	**195,995**	**25,776**	**-**	**-**	**2,294,420**
1.1. Current accounts	21,426	52	-	X	X	X	23,248	70	-	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Loans	12,021	2,944	-	X	X	X	27,602	8,470	-	X	X	X
1.4. Credit cards, personal loans and salary- and pension-backed loans	735,349	269	-	X	X	X	636,134	291	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	1,022,765	185,732	22,675	X	X	X	974,942	176,942	25,776	X	X	X
1.7. Other financing	629,750	13,660	-	X	X	X	436,499	10,222	-	X	X	X
Debt instruments	**435,284**	**-**	**-**	**434.558**	-	**-**	**435,411**	**-**	**-**	**435,411**	**-**	-
1.1. Structured instruments	-	-	-	-	-	**-**	-	-	-	-	-	-
1.2. Other debt instruments	435,284	-	-	434.558	-	**-**	435,411	-	-	435,411	-	**-**
Total	**2,856,595**	**202,657**	**22,675**	**434.558**	**-**	**2,666,813**	**2,533,836**	**195,995**	**25,776**	**435,411**	**0**	**2,294,420**

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

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

	30.06.2019			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	**435,284**	**-**	**-**	**435,411**	**-**	**-**
a) Public administrations	435,284	-	-	435,411	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,421,311**	**202,657**	**22,675**	**2,098,425**	**195,995**	**25,776**
a) Public administrations	1,301,412	137,732	22,675	1,068,192	139,952	25,776
b) Other financial companies	75,904	2	-	43,429	1	-
of which: insurance companies	10	2	-	4	1	-
c) Non-financial companies	273,297	61,654	-	306,520	52,484	-
d) Households	770,698	3,269	-	680,284	3,558	-
Total	**2,856,595**	**202,657**	**22,675**	**2,533,836**	**195,995**	**25,776**

Financial assets measured at amortised cost: 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	435,389	-	-	-	106	-	-	-
Financing	2,361,146	-	114,250	236,319	6,207	585	33,662	-
Total	**2,796,535**	**-**	**114,250**	**236,319**	**6,313**	**585**	**33,662**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	16,817	6,038	X	50	130	-

Equity investments - Item 70

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%

Equity investments: changes

	30.06.2019	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	**-**	**-**

Property and equipment - Item 90

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

	30.06.2019	31.12.2018
1. Owned	**27,759**	**27,910**
a) land	8,416	8,416
b) buildings	18,571	18,660
c) furniture	337	369
d) electronic equipment	391	436
e) other	44	29
2. Right-of-use assets acquired under a lease	**1,772**	**-**
a) land	-	-
b) buildings	1,132	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	640	-
Total	**29,531**	**27,910**
of which: obtained from the enforcement of guarantees received		

Intangible assets - Item 100

Intangible assets: breakdown by type of asset

Attività / Valori	TOTAL AT 30.06.2019		TOTAL AT 31.12.2018	
	FINITE USEFUL LIFE	INDEFINITE USEFUL LIFE	FINITE USEFUL LIFE	INDEFINITE USEFUL LIFE
A.1 Goodwill	**-**	**3,920**	**X**	**1,786**
A.2 Other intangible assets	**2**	**-**	**2**	**-**
A.2.1 Assets measured at cost:	2	-	2	-
a) Internally developed assets	-	-	-	-
b) Other	2	-	2	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally developed assets	-	-	-	-
b) Other	-	-	-	-
Total	**2**	**3,920**	**2**	**1,786**

Other assets - Item 130

	30.06.2019	31.12.2018
Tax advances	5,733	7,523
Other	2,859	2,235
Prepayments not related to a specific item	4,691	1,711
Work in progress	1,150	896
Trade receivables	1,059	616
Leasehold improvements	214	256
Security deposits	87	80
Total	**15,793**	**13,317**

LIABILITIES

Financial liabilities measured at amortised cost - Item 10

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

	30.06.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**417,850**	**X**	**X**	**X**	**412,850**	**X**	**X**	**X**
2. Due to banks	**109,540**	**X**	**X**	**X**	**282,347**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	25	X	X	X	53	X	X	X
2.2 Term deposits	109,515	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	**527,390**			**527,390**	**695,197**			**695,197**

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

	30.06.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	586,490	**X**	**X**	**X**	657,251	**X**	**X**	**X**
2. Term deposits	1,226,374	**X**	**X**	**X**	957,862	**X**	**X**	**X**
3. Financing	604,592	X	X	X	283,244	X	X	X
3.1 Repurchase agreements	500,747	X	X	X	179,819	X	X	X
3.2 Other	103,845	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	160	X	X	X	199	X	X	X
Total	**2,417,616**			**2,417,616**	**1,898,556**			**1,898,556**

Key:

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

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

	30.06.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	**312,893**	**-**	**-**	**312,893**	**304,987**	**-**	**-**	**304,987**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	312,893	-	-	312,893	304,987	-	-	304,987
2. Other securities								
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**312,893**	**-**	**-**	**312,893**	**304,987**	**-**	**-**	**304,987**

Breakdown of subordinated 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	8,014
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	6-month Euribor + 5.5%	15.11.2022	12,000	12,079
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	6-month Euribor + 4.5%	30.03.2027	19,500	19,501
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	Fixed rate at 7%	20.06.2029	6,000	6,043
Total					**39,500**	**45,638**

Key:

CA = carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Other liabilities - Item 80

Other liabilities: breakdown

	30.06.2019	31.12.2018
Payments received in the reconciliation phase	47,430	37,777
Trade payables	7,277	6,163
Work in progress	7,019	4,761
Tax liabilities with the Tax Authority and other tax authorities	6,415	9,267
Accrued expenses	4,427	5,993
Other	3,141	226
Due to employees	1,583	797
Pension repayments	521	654
Total	**77,813**	**65,638**

Post-employment benefits - Item 90

Post-employment benefits: changes

	30.06.2019	31.12.2018
A. Opening balance	**2,402**	**2,172**
B. Increases	**732**	**460**
B.1 Accruals	278	460
B.2 Other increases	236	-
B.3 Business combination transactions	218	-
C. Decreases	**160**	**230**
C.1 Payments	160	196
C.2 Other decreases	-	34
D. Closing balance	**2,974**	**2,402**
Total	**2,974**	**2,402**

Annual discount rate	0.77%
Annual inflation rate	1.50% for 2019
Annual post-employment benefits increase rate	2.625% for 2019
Annual real salary increase rate	1.00%

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

Provisions for risks and charges - Item 100

Provisions for risks and charges: breakdown

	30.06.2019	31.12.2018
1. Provisions for credit risk related to commitments and financial guarantees issued	**12**	**7**
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	**12,178**	**9,286**
4.1 legal and tax disputes	4,364	3,029
4.2 personnel expense	5,046	6,211
4.3 other	2,768	46
Total	**12,190**	**9,293**

Provisions for risks and charges: changes

	PROVISIONS FOR OTHER COMMITMENTS AND OTHER GUARANTEES ISSUED	PENSION FUNDS	OTHER PROVISIONS	TOTAL
A. Opening balance	**7**	-	**9,286**	**9,293**
B. Increases	**5**	-	**5,074**	-
B.1 Accruals	5	-	2,893	-
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases		-	-	-
B.5 Business combination transactions	-	-	2,181	-
C. Decreases	**-**	-	**2,182**	-
C.1 Utilisations	-	-	1,693	-
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	489	-
D. Closing balance	**12**	-	**12,178**	**12,190**

Equity attributable to the owners of the parent - Items 120, 130, 140, 150, 160, 170 and 180

“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 30 June 2019 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%

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

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

	AMOUNT 30.06.2019	AMOUNT 31.12.2018
1. Share capital	9,651	9,651
2. Share premium	39,142	39,184
3. Reserves	98,872	78,452
4. (Treasury shares)	(199)	(199)
5. Valuation reserves	(211)	(1,131)
6. Equity attributable to non-controlling interests	30	30
7. Profit for the period/year	11,170	27,167
Total	**158,455**	**153,154**

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

Equity attributable to non-controlling interests - Item 190

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

Quinto Sistema 2019 S.r.l.	30.06.2019
Equity investments in consolidated companies with significant non-controlling interests	
1. Share capital	10
Total	**10**

Quinto Sistema 2017 S.r.l.	30.06.2019
Equity investments in consolidated companies with significant non-controlling interests	
1. Share capital	10
Total	**10**

Atlantis Spv S.r.l.	30.06.2019
Equity investments in consolidated companies with significant non-controlling interests	
1. Share capital	10
Total	**10**

INCOME STATEMENT

Interest - Items 10 and 20

Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	First half of 2019	First half of 2018
1. Financial assets measured at fair value through profit or loss:	-	-	-	-	76
1.1 Financial assets held for trading	-	-	-	-	76
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:	399	46,638	-	47,037	44,100
3.1 Loans and receivables with banks	-	88	X	88	18
3.2 Loans and receivables with customers	399	46,550	X	46,949	44,082
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	1,538	538
Total	**399**	**46,638**	**-**	**48,575**	**44,714**
of which: interest income on impaired assets	-	-	-	-	-
of which: interest income on finance leases	-	-	-	-	-

Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	First half of 2019	First half of 2018
1. Financial liabilities measured at amortised cost	10,289	3,808	-	14,097	11,353
1.1 Due to Central banks	-	X	-	-	-
1.2 Due to banks	330	X	-	330	1,678
1.3 Due to customers	9,959	X	-	9,959	6,450
1.4 Securities issued	X	3,808	-	3,808	3,225
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	9	753
Total	**10,289**	**3,808**	**-**	**14,106**	**12,106**
of which: interest expense related to lease liabilities	11	-	-	-	-

Net fee and commission income - Items 40 and 50

Fee and commission income: breakdown

	FIRST HALF OF 2019	FIRST HALF OF 2018
a) guarantees issued	13	17
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	58	96
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. individual asset management	4	-
4. securities custody and administration	-	-
5. depositary services	-	-
6. placement of securities	33	53
7. order collection and transmission	21	43
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	51	153
e) services for securitisations	-	-
f) services for factoring	9,332	7,478
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) keeping and management of current accounts	33	55
j) other services	1,526	632
Total	**11,013**	**8,431**

Fee and commission expense: breakdown

	FIRST HALF OF 2019	FIRST HALF OF 2018
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	1,187	282
1. trading in financial instruments	40	37
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	1,147	245
d) collection and payment services	101	73
e) other services	1,551	717
Total	**2,839**	**1,072**

Dividends and similar income - Item 70

Dividends and similar income: breakdown

	FIRST HALF OF 2019		FIRST HALF OF 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**	**-**

Net trading income - Item 80

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. Other financial assets and liabilities: exchange rate gains (losses)	**X**	**X**	**X**	**X**	**(4)**
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)**	**211**

Gain from sales or repurchases - Item 100

Gain from sales or repurchases: breakdown

	FIRST HALF OF 2019			FIRST HALF OF 2018		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	-	-	-	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	1,074	(67)	1,007	1,252	(320)	932
2.1 Debt instruments	1,074	(67)	1,007	1,252	(320)	932
2.4 Financing	-	-	-	-	-	-
Total assets	**1,074**	**(67)**	**1,007**	**1,252**	**(320)**	**932**

Net impairment losses/gains due to credit risk - Item 130

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

	Impairment losses (1)			Impairment gains (2)		First half of 2019	First half of 2018
		Third stage					
	First and second stage	Write-offs	Other	First and second stage	Third stage		
A. Loans and receivables with banks	**-**	**-**	**-**	**8**	**-**	**(8)**	**-**
- financing	-	-	-	8	-	(8)	-
- debt instruments	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**592**	**-**	**4,534**	**310**	**48**	**4,768**	**2,939**
- financing	521	-	4,534	310	48	4,697	2,880
- debt instruments	71	-	-	-	-	71	59
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
C. Total	**592**	**-**	**4,534**	**318**	**48**	**4,760**	**2,939**

Administrative expenses - Item 190

Personnel expense: breakdown

	FIRST HALF OF 2019	FIRST HALF OF 2018
1) Employees	9,641	8,910
a) wages and salaries	5,992	5,479
b) social security charges	1,481	1,317
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	360	323
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	156	156
- defined contribution plans	156	156
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	1,652	1,635
2) Other personnel	246	173
3) Directors and statutory auditors	588	477
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	-	-
Total	**10,475**	**9,560**

Other administrative expenses: breakdown

	FIRST HALF OF 2019	FIRST HALF OF 2018
IT expenses	2,678	2,304
Consultancy	1,979	1,737
Resolution Fund	1,146	942
Servicing and collection activities	1,300	1,539
Indirect taxes and duties	939	1,158
Rent and related fees	414	1,034
Expense reimbursement and entertainment	352	352
Car hire and related fees	282	425
Insurance	219	194
Advertising	282	199
Membership fees	178	210
Expenses related to management of the SPVs	162	241
Audit fees	138	160
Infoprovider expenses	145	135
Other	149	179
Telephone and postage expenses	82	101
Maintenance of movables and real properties	41	56
Stationery and printing	19	29
Discretionary payments	4	10
Administrative expenses - Atlantide	477	-
Merger-related costs	365	-
Total	**11,351**	**11,005**

Income taxes - Item 300

Income taxes: breakdown

		FIRST HALF OF 2019	FIRST HALF OF 2018
1.	Current taxes (-)	(5,541)	(4,453)
2.	Changes in current taxes of previous periods (+/-)	852	(26)
3.	Decrease in current taxes for the period (+)	-	-
3.bis	Decrease in current taxes for the period due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	(563)	(468)
5.	Changes in deferred tax liabilities (+/-)	92	(817)
6.	Tax expense for the period (-) (-1+/-2+3+/-4+/-5)	(5,160)	(5,764)

Earnings per share

Earnings per share (EPS)	FIRST HALF OF 2019	FIRST HALF OF 2018
Profit for the period (thousands of Euro)	10,900	11,777
Average number of outstanding shares	80,316,391	80,352,313
Basic earnings per share (basic EPS) (in Euro)	0.136	0.147
Diluted earnings per share (diluted EPS) (in Euro)	0.136	0.147

Other dividend information

After approval at the Shareholders' Meeting held on 18 April 2019, a dividend was distributed equal to € 0.087 per share, from 8 May 2019, with ex coupon date on 6 May 2019.

INFORMATION CONCERNING THE PARENT'S EQUITY

Own funds and capital ratios

Own funds
Quantitative disclosure

	30.06.2019
A. Common Equity Tier 1 (CET1) before application of prudential filters	**155,651**
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)	**155,651**
D. Items to be deducted from CET1	**3,922**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**151,729**
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	**33,609**
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)	**33,609**
Q. Total Own Funds (F+L+P)	**193,338**

Quantitative disclosure

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/REQUIREMENTS	
	30.06.2019	**31.12.2018**	**30.06.2019**	**31.12.2018**
A. EXPOSURES				
A.1 Credit and counterparty risk	**4,218,994**	**3,577,376**	**1,253,689**	**1,160,521**
1. Standardised approach	4,218,994	3,577,376	1,253,689	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			100,295	92,842
B.2 Credit assessment adjustment risk			4	0
B.3 Settlement risk			-	-
B.4 Market risk			0	-
1. Standard approach			0	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			12,522	12,522
1. Basic indicator approach			12,522	12,522
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			112,821	105,363
C. EXPOSURES AND CAPITAL RATIOS			**1,410,259**	**1,317,043**
C.1 Risk-weighted assets			1,410,259	1,317,043
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			10.8%	11.0%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			11.3%	11.6%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			13.7%	13.7%

INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

Large exposures

As at 30 June 2019, the Group’s large exposures are as follows:

a) Carrying amount € 2,247,357 (in thousands)

b) Weighted amount € 216,317 (in thousands)

c) No. of positions 18.

RELATED PARTY TRANSACTIONS

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

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

With respect to transactions with parties who exercise management and control functions in accordance with art. 136 of the Consolidated Law on Banking, they are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

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

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

Disclosure on the remuneration of key management personnel

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

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	FIRST HALF OF 2019
Remuneration to Board of Directors and Board of Statutory Auditors	1,057	64	-	**1,121**
Short-term benefits for employees	-	-	793	**793**
Post-employment benefits	42	-	52	**94**
Other long-term benefits	300	-	37	**337**
Termination benefits	-	-	-	**0**
Share-based payments	164	-	35	**199**
Total	**1,563**	**64**	**917**	**2,544**

Disclosure on related party transactions

The following table shows the assets, liabilities, guarantees and commitments as at 30 June 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	15,300	11	-	0.5%
Due to customers	-	1,186	6,021	0.3%
Other liabilities	211	-	-	0.3%

The following table indicates the costs and income for the first half of 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	313	0	0	0.6%
Interest expense	-	8	9	0.1%

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

	AMOUNT (THOUSANDS OF EURO)	PERCENTAGE (%)
LIABILITIES	**3,506**	**0.15%**
Due to customers		
Shareholders - SGBS	1,868	0.08%
Shareholders - Fondazione CR Alessandria	520	0.02%
Shareholders - Fondazione Sicilia	1,118	0.05%

	AMOUNT (THOUSANDS OF EURO)	PERCENTAGE (%)
COSTS	**3**	**0.03%**
Interest expense		
Shareholders - SGBS	1	0.01%
Shareholders - Fondazione Sicilia	1	0.01%
Shareholders - Fondazione CR Alessandria	1	0.01%

SEGMENT REPORTING

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

Breakdown by segment: income statement data for the first half of 2019

	First half of 2019			
Amounts in thousands of Euro	FACTORING	BANKING	CORPORATE	CONSOLIDATED TOTAL
Net interest income	24,475	8,482	1,512	**34,469**
Net fee and commission income (expense)	9,315	260	(1,401)	**8,174**
Other costs/income	-	-	1,445	**1,445**
Total income	**33,790**	**8,742**	**1,556**	**44,088**
Net impairment losses on loans and receivables	(4,324)	(436)	-	**(4,760)**
Net financial income	**29,466**	**8,306**	**1,556**	**39,328**

Breakdown by segment: statement of financial position data as at 30 June 2019

	30.06.2019			
Amounts in thousands of Euro	FACTORING	BANKING	CORPORATE	CONSOLIDATED TOTAL
Financial assets (HTS and HTCS)	-	-	360,530	**360,530**
Loans and receivables with banks	-	-	47,292	**47,292**
Loans and receivables with customers	1,790,727	780,802	487,723	**3,059,252**
Due to banks	-	-	527,390	**527,390**
Due to customers	10,852	-	2,406,764	**2,417,616**

The Factoring segment 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 guaranteed loans to small and medium-sized enterprises, purchases of pension- and salary-backed loan portfolios and costs/income from assets under administration and the placement of third-party products.

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

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

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

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 group and
   - the effective application of the administrative and accounting procedures for the drafting of the condensed interim consolidated financial statements, during the first half of 2019.
2. The suitability and effective application of the administrative and accounting process for the drafting of the condensed interim consolidated financial statements at 30 June 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 condensed interim consolidated financial statements

   a) were drafted in accordance with the applicable International Financial Reporting Standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) match the accounting books and records;

   c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer and all the companies included in the scope of consolidation.

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

Milan, 31 July 2019

Gianluca Garbi
Chief Executive Officer

Alexander Muz
Manager in charge of financial reporting

BANCA SISTEMA S.p.A.

Auditor's review report on interim condensed consolidated financial statements

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Auditor's review report on interim condensed consolidated financial statements
(Translation from the original Italian text)

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes, of Banca Sistema Group as of June 30, 2019. Directors are responsible for the preparation of the interim condensed consolidated financial statements in compliance with International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution No. 10867 of July 31, 1997. A review of an interim condensed consolidated financial statements consists of making enquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Sistema Group as of June 30, 2019 are not prepared, in all material respects, in accordance with International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Other matters

The statutory consolidated financial statements for the period ended as of December 31, 2018 and the interim condensed consolidated financial statements for the period ended as of June 30, 2018 have been respectively audited and reviewed by another auditor that on March 27, 2019 expressed its opinion on the financial statements, and on August 2, 2018, expressed its conclusion on the interim condensed consolidated financial statements.

Milan, August 6, 2019

BDO Italia S.p.A.

Signed by Rosanna Vicari
Partner

This report has been translated into English language solely for the convenience of international readers

INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2019

BANCA SISTEMA
CONTEMPORARY BANK