INTERIM CONSOLIDATED FINANCIAL REPORT AS AT 31 MARCH 2019

BANCA SISTEMA
CONTEMPORARY BANK

Banca SISTEMA Group

INTERIM CONSOLIDATED FINANCIAL REPORT AT 31 MARCH 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[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.[3]

Manager in charge of financial reporting

Mr. Alexander Muz

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

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

[3] Independent Auditors appointed by the Shareholders' Meeting on 18 April 2019. This Interim consolidated financial report was subject to voluntary review by KPMG S.p.A..

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

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

Appointments Committee

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

Remuneration Committee

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

Ethics Committee

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

Supervisory Body

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

FINANCIAL HIGHLIGHTS AT 31 MARCH 2019

Statement of financial position data (€,000)

	31 Mar 2019	31 Dec 2018	
Total Assets	3,860,229	3,144,903	22.7%
Securities Portfolio	1,238,478	739,880	67.4%
Loans - Factoring	1,703,823	1,566,613	8.8%
Loans - Salary-backed loans and SME	731,658	679,589	7.7%
Funding - Banks and REPOs	1,443,710	875,016	65.0%
Funding - Term Deposits	1,155,872	958,193	20.6%
Funding - Current Accounts	563,431	657,082	-14.3%

Income statement data (€,000)

	31 Mar 2019	31 Mar 2018	
Net interest income	14,673	13,688	7.2%
Net fee and commission income	4,001	3,558	12.5%
Total Income	19,304	18,103	6.6%
Personnel Expenses	(4,897)	(4,764)	2.8%
Other administrative expenses	(5,265)	(5,071)	3.8%
Pre-tax profit	5,926	7,068	-16.2%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 MARCH 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.

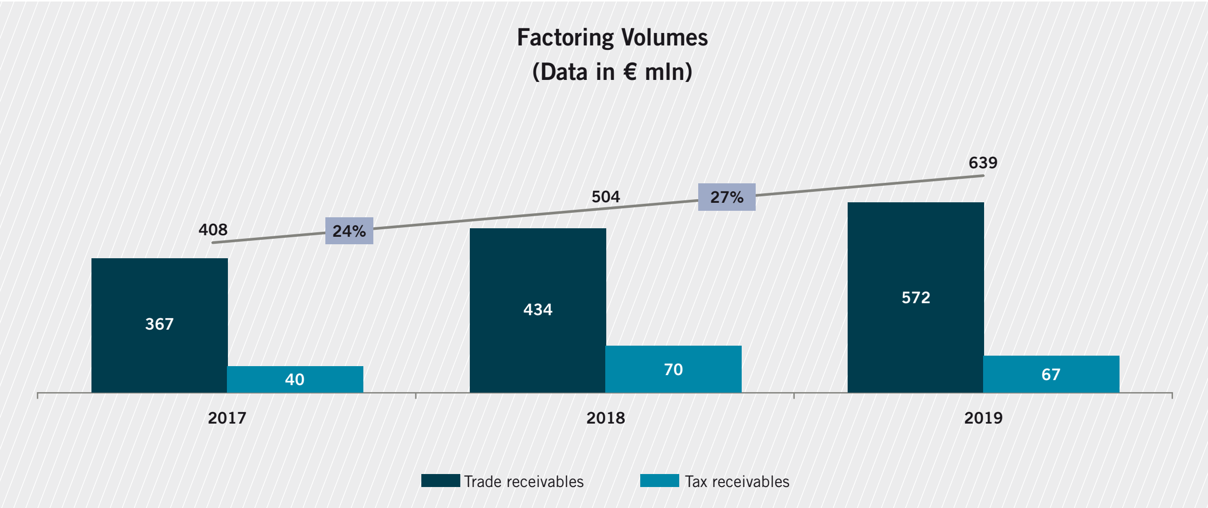
On 22 February 2019, the shareholders of Banca Sistema, Società di Gestione delle Partecipazioni in Banca Sistema S.r.l., Fondazione Sicilia and Fondazione Cassa di Risparmio di Alessandria (jointly, the “Foundations” and, together with SGBS, the “Parties”) agreed to amend the shareholders' agreement they signed on 29 June 2018, which became effective on 2 July 2018 and will expire on 1 July 2020 (the "Agreement"). In particular, the Parties have agreed to eliminate Article 3 (relating to the appointment of the Board of Directors, the Chief Executive Officer and the Executive Committee) and Article 5 (relating to consultation at the Shareholders' Meeting) of the Agreement, which must therefore be considered ineffective. The other provisions of the Agreement remain valid. These decisions do not affect the current composition of the Board of Directors, which will remain in office until it approves the financial statements for the year ending 31 December 2020.

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.

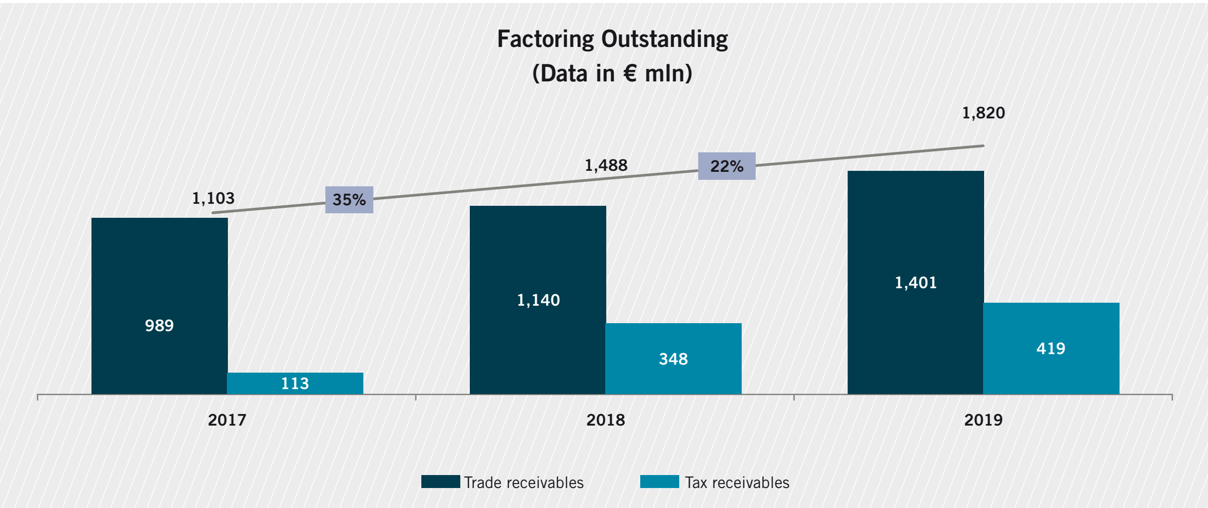
FACTORING

Banca Sistema and factoring activities

The Banca Sistema Group's total turnover as at 31 March 2019 was € 639 million, up 27% on 31 March 2018, confirming its ability to continue growing year-on-year.

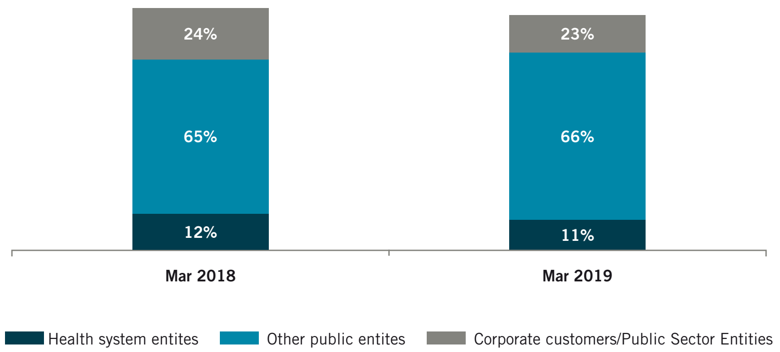


Outstanding factoring loans as at 31 March 2019 amounted to € 1,820 million, up 22% on € 1,488 million at 31 March 2018, mainly due to increased volumes acquired in 2019 compared to collections during the same period.



The chart to the right shows the ratio of debtors to the total exposure in the outstanding loans and receivables portfolio at 31 March 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 March 2019, the external networks accounted for 35% of total turnover.

The following table shows the factoring turnover by product type:

PRODUCT (amounts in millions of Euro)	31.03.2019	31.03.2018	€ Change	% Change
Trade receivables	572	434	138	32%
of which, without recourse	*493*	*327*	*166*	*51%*
of which, with recourse	*79*	*107*	*(28)*	*(26%)*
Tax receivables	67	70	(3)	(4%)
of which, without recourse	*67*	*70*	*(3)*	*(4%)*
of which, with recourse	*0*	*0*	*0*	*0%*
TOTAL	**639**	**504**	**135**	**27%**

In absolute terms, the growth in turnover derives mainly from the purchase of receivables from public or similar type debtors, in particular without recourse purchases.

SALARY- AND PENSION-BACKED LOANS

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

As at 31 March 2019, the Bank has a number of ongoing agreements with specialist distributors in the sector.

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

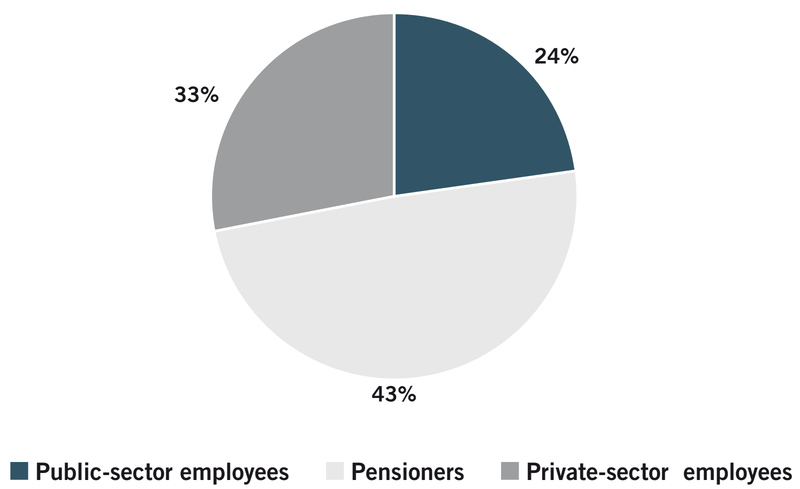
The volumes acquired from the beginning of the year until 31 March 2019 amounted to € 67 million, including private-sector employees (33%), pensioners (43%) and public-sector employees (24%). Therefore, over 67% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

	31.03.2019	31.03.2018	€ Change	% Change
No. of applications	3,713	1,962	1,751	89%
Volumes disbursed (millions of Euro)	67	40	27	68%

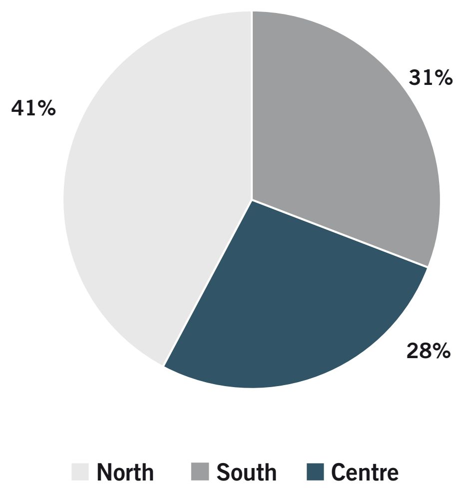
As inferred from the table, the amounts disbursed in March 2019 are up 68% from what was disbursed in March 2018.

The breakdown by customer and geographical area of the pension- and salary-backed loan portfolios acquired in 2019 is shown below:

CQ disbursed volumes - Breakdown



CQ disbursed volumes - Breakdown by geographical area



FUNDING ACTIVITIES

Treasury portfolio

The treasury portfolio has been established in order to support liquidity commitments mainly through short-term investment in Italian government bonds.
The balance at 31 March 2019 was € 1,232.5 million, increasing from € 800 million at 31 December 2018. The increase in the treasury portfolio allowed for optimal management of the Treasury commitments which are increasingly characterised by a concentration of transactions in specific periods.
During the quarter, the fair value trend of the treasury portfolio was marked by significant price stability given the extremely limited duration of the investment.
The average duration of the Bank's portfolio decreased significantly compared to December, going from 1 year and 8 months at 31 December 2018 to 1 year and 2 months at 31 March 2019.

Wholesale funding

As at 31 March 2019, wholesale funding was about 49% of the total, mainly comprising bonds, inter-bank deposits and refinancing transactions with the ECB or with market counterparties.
The securitisation transaction of Quinto Sistema Sec. 2017, completed with a partly-paid securities structure and "progressive growth of the securitised portfolio" (a "warehouse" structure), permitted an efficient source of funding dedicated to the CQS portfolio. On 25 June, the Quinto Sistema Sec. 2017 Senior securities (Class A) and Mezzanine securities (Class B1) of the salary- and pension-backed loan (CQ) securitisation transaction were given a rating by Moody's and by DBRS and were admitted to trading on the Luxembourg Stock Exchange. At the end of the first quarter of 2019, in addition to using the Senior security as an eligible asset in Eurosystem refinancing transactions, the Bank also signed a Repo agreement, under a GMRA scheme, with a market counterparty involving the Class B1 mezzanine security for the transaction, expanding the funding base resulting from the transaction. Therefore, the transaction will allow Banca Sistema to efficiently refinance its CQS/CQP portfolio and continue to grow the salary-/pension-backed loan business, whose funding structure is thus optimised.
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 31 March 2019 totalled € 82 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

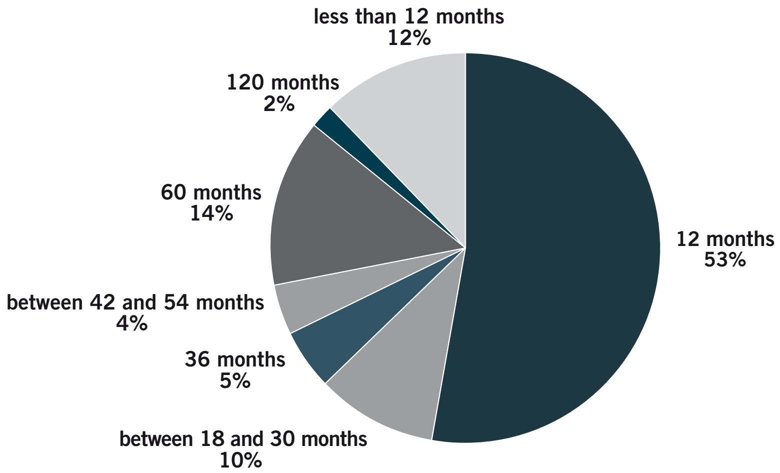
The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.

Retail funding accounts for 51% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 31 March 2019 amounted to € 1,156 million, an increase of 21% compared to 31 December 2018. The above-mentioned amount also includes total term deposits of € 657 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 58% of total deposit funding), an increase of € +529 million over the same period of the previous year.

The breakdown of funding by term is shown below. The average remaining lifetime of the portfolio is 14 months.

Breakdown of deposit accounts as at 31 March



Current accounts increased from 4,981 (as at 31 March 2018) to 6,160 as at 31 March 2019, while the current account balance at 31 March 2019 decreased -14% on 2018 to € 563 million.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	FIRST QUARTER OF 2019	FIRST QUARTER OF 2018	€ Change	% Change
Net interest income	14,673	13,688	985	7.2%
Net fee and commission income	4,001	3,558	443	12.5%
Net trading income (expense)	256	(4)	260	<100%
Gain from sales or repurchases of financial assets/liabilities	374	861	(487)	-56.6%
Total income	**19,304**	**18,103**	**1,201**	**6.6%**
Net impairment losses on loans and receivables	(2,625)	(1,087)	(1,538)	>100%
Net financial income	**16,679**	**17,016**	**(337)**	**-2.0%**
Personnel expense	(4,897)	(4,764)	(133)	2.8%
Other administrative expenses	(5,265)	(5,071)	(194)	3.8%
Net accruals to provisions for risks and charges	(337)	-	(337)	n.a.
Net impairment losses on property and equipment/intangible assets	(374)	(74)	(300)	>100%
Other operating income	120	4	116	>100%
Operating costs	**(10,753)**	**(9,905)**	**(848)**	**8.6%**
Gains (losses) on equity investments	-	(43)	43	-100.0%
Pre-tax profit from continuing operations	**5,926**	**7,068**	**(1,142)**	**-16.2%**
Income taxes for the period	(1,976)	(2,351)	375	-16.0%
Post-tax profit for the period	**3,950**	**4,717**	**(767)**	**-16.3%**
Post-tax profit from discontinued operations	565	-	565	n.a.
Profit for the period attributable to the owners of the parent	**4,515**	**4,717**	**(202)**	**-4.3%**

The first quarter of 2019 closed with a profit for the period of € 4.5 million, of which € 565 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 6.6% compared to the first quarter of 2018, thanks to the higher contribution from the CQS portfolio, while the profit for the period was negatively impacted by the increase in impairment losses on loans and receivables.

NET INTEREST INCOME (€,000)	FIRST QUARTER OF 2019	FIRST QUARTER OF 2018	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	20,454	19,763	691	3.5%
Securities portfolio	72	-	72	n.a.
Other	487	203	284	>100%
Financial liabilities	625	76	549	>100%
Total interest income	**21,638**	**20,042**	**1,596**	**8.0%**
Interest and similar expense				
Due to banks	(282)	(1,233)	951	-77.1%
Due to customers	(4,782)	(3,231)	(1,551)	48.0%
Securities issued	(1,893)	(1,592)	(301)	18.9%
Financial assets	(8)	(298)	290	-97.3%
Total interest expense	**(6,965)**	**(6,354)**	**(611)**	**9.6%**
Net interest income	**14,673**	**13,688**	**985**	**7.2%**

Net interest income was 7.2% higher than 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 € 15 million (equal to 68% of the entire loans and receivables portfolio), slightly decreasing compared to the same period of the previous year due to the lower contribution from default interest; when considering the commission component associated with the factoring business, the factoring contribution increased by 3.7% over 31 March 2018. The component linked to default interest from legal action at 31 March 2019 was € 4.0 million (€ 4.8 million in the first quarter of 2018):

- of which € 3.0 million resulting from the current recovery estimates (€ 2.9 million in the first quarter of 2018);
- of which € 1.0 million (€ 1.9 million in the first quarter of 2018) coming from net collections during the period, i.e. the difference between the amount collected during the period, equal to € 2.7 million (€ 3.0 million in the first quarter of 2018) and that recognised on an accruals basis in previous periods.

The amount of the stock of default interest from legal actions accrued at 31 March 2019, relevant for the allocation model, was € 100 million (€ 98 million at the end of the first quarter of 2018) while the loans and receivables recognised in the interim consolidated financial report amounted to € 44 million.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 4.1 million to € 5.4 million (an increase of 33% over the same period of the previous year), whereas interest declined on the SME portfolios, which contributed € 0.3 million to the total, following the strategic decision to discontinue this area of the business.

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

The “other" interest income mainly includes income generated from hot money transactions and interest generated by collateral-backed loan activities which contributed € 0.1 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 increases 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, from which the Bank was unable to benefit.

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

NET FEE AND COMMISSION INCOME (€,000)	FIRST QUARTER OF 2019	FIRST QUARTER OF 2018	€ Change	% Change
Fee and commission income				
Collection activities	268	251	17	6.8%
Factoring activities	4,657	3,679	978	26.6%
Other	190	254	(64)	-25.2%
Total fee and commission income	**5,115**	**4,184**	**931**	**22.3%**
Fee and commission expense				
Placement	(972)	(491)	(481)	98.0%
Other	(142)	(135)	(7)	5.2%
Total fee and commission expense	**(1,114)**	**(626)**	**(488)**	**78.0%**
Net fee and commission income	**4,001**	**3,558**	**443**	**12.5%**

Net fee and commission income of € 4 million increased by 12.5% due to the greater commissions from factoring. These should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the previous year, while other fee and commission income, which primarily includes commissions and fees from collection and payment services, the keeping and management of current accounts, and fees related to the collateral-backed loan business, amounting to € 85 thousand, has decreased.

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 of € 441 thousand (€ 352 thousand in the first quarter of 2018).

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

PROFIT FROM THE SECURITIES PORTFOLIO (€,000)	FIRST QUARTER OF 2019	FIRST QUARTER OF 2018	€ Change	% Change
Net trading income (expense)				
Realised gains (losses)	61	(4)	65	<100%
Valuation loss/gain	195	-	195	n.a.
Total	**256**	**(4)**	**260**	**<100%**
Gain from sales or repurchases				**n.a.**
Gains from HTCS portfolio debt instruments	374	861	(487)	-56.6%
Total	**374**	**861**	**(487)**	**-56.6%**
Total profit from the securities portfolio	**630**	**857**	**(227)**	**-26.5%**

Net trading income (expense) is mainly generated by the market value of the Italian government bonds included in the trading portfolio. The remaining duration of the securities in the trading portfolio at 31 March 2019 was 4.2 months. The gains generated by the proprietary HTCS portfolio made a lower contribution than in same period of the previous year.

Impairment losses on loans and receivables at 31 March 2019 amounted to € 2.6 million and were up on the same period of the previous year due to changes in factoring lending (which contributed € 2.2 million), bringing the loss rate to 0.42% (0.22% at 31 March 2018).

PERSONNEL EXPENSE (€,000)	FIRST QUARTER OF 2019	FIRST QUARTER OF 2018	€ Change	% Change
Wages and salaries	(4,542)	(4,477)	(65)	1.5%
Social security contributions and other costs	(75)	(74)	(1)	1.4%
Directors' and statutory auditors' remuneration	(280)	(213)	(67)	31.5%
Total	**(4,897)**	**(4,764)**	**(133)**	**2.8%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 174 to 184. The first quarter of 2018 was characterised by an additional cost component related to some non-compete agreements.

The number of employees is provided in the following table:

FTES	31.03.2019	31.12.2018	31.03.2018
Senior managers	20	21	19
Middle managers (QD3 and QD4)	43	41	40
Other personnel	119	121	110
Total	**182**	**183**	**169**

OTHER ADMINISTRATIVE EXPENSES (€,000)	FIRST QUARTER OF 2019	FIRST QUARTER OF 2018	€ Change	% Change
IT expenses	(1,297)	(1,171)	(126)	10.8%
Consultancy	(953)	(530)	(423)	79.8%
Resolution Fund	(839)	(685)	(154)	22.5%
Servicing and collection activities	(587)	(640)	53	-8.3%
Indirect taxes and duties	(465)	(446)	(19)	4.3%
Rent and related fees	(187)	(581)	394	-67.8%
Expense reimbursement and entertainment	(139)	(169)	30	-17.8%
Car hire and related fees	(137)	(203)	66	-32.5%
Insurance	(112)	(91)	(21)	23.1%
Advertising	(109)	(96)	(13)	13.5%
Membership fees	(89)	(54)	(35)	64.8%
Expenses related to management of the SPVs	(79)	(105)	26	-24.8%
Audit fees	(74)	(78)	4	-5.1%
Infoprovider expenses	(67)	(65)	(2)	3.1%
Other	(52)	(69)	17	-24.6%
Telephone and postage expenses	(43)	(50)	7	-14.0%
Maintenance of movables and real properties	(27)	(27)	-	0.0%
Stationery and printing	(9)	(11)	2	-18.2%
Total	**(5,265)**	**(5,071)**	**(194)**	**3.9%**

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 quarter of 2019 was impacted by the application of the new IFRS 16. In 2019, this item includes 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 amount of required ex-ante contributions for 2019.

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.

The provision for risks refers to a tax credit position.

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)	31.03.2019	31.12.2018	€ Change	% Change
Cash and cash equivalents	366	289	77	26.6%
Financial assets measured at fair value through profit or loss	262,192	-	262,192	n.a.
Financial assets measured at fair value through other comprehensive income	540,820	304,469	236,351	77.6%
Financial assets measured at amortised cost	3,004,344	2,786,692	217,652	7.8%
a) loans and receivables with banks	71,884	56,861	15,023	26.4%
b1) loans and receivables with customers - loans	2,496,994	2,294,420	202,574	8.8%
b2) loans and receivables with customers - debt instruments	435,466	435,411	55	0.0%
Equity investments	786	786	-	0.0%
Property and equipment	29,438	27,910	1,528	5.5%
Intangible assets	1,788	1,788	-	0.0%
Tax assets	7,605	7,817	(212)	-2.7%
Non-current assets held for sale and disposal groups	-	1,835	(1,835)	n.a.
Other assets	12,890	13,317	(427)	-3.2%
Total assets	**3,860,229**	**3,144,903**	**715,326**	**22.7%**

The period ended 31 March 2019 closed with total assets up 22.7% (at € 3.9 billion) on the end of 2018, due to the effect of the increase in the portfolios of receivables with customers and the securities portfolio.

During the first quarter, the government securities portfolio classified as Financial assets measured at fair value through profit or loss ("HTS") was re-established and its duration is equal to 4.2 months.

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 11.6 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 € 535.5 million at 31 March 2019 (€ 300 million at 31 December 2018). The associated valuation reserve was negative at the end of the period, amounting to € 0.6 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million and purchased in July 2015, and the Axactor Norway shares, which at 31 March 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)	31.03.2019	31.12.2018	€ Change	% Change
Factoring	1,703,823	1,566,613	137,210	8.8%
Salary-/pension-backed loans (CQS/CQP)	708,476	652,239	56,237	8.6%
Loans to SMEs	23,379	27,549	(4,170)	-15.1%
Current accounts	23,746	24,178	(432)	-1.8%
Pledge on receivables	7,515	6,428	1,087	16.9%
Compensation and Guarantee Fund	30,055	17,413	12,642	72.6%
Total loans	**2,496,994**	**2,294,420**	**202,574**	**8.8%**
Securities	435,466	435,411	55	0.0%
Total loans and receivables with customers	**2,932,460**	**2,729,831**	**202,629**	**7.4%**

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 quarter which was up by 27% on the same period of the previous year to € 639 million (€ 504 million at 31 March 2018). Salary- and pension-backed loans grew in terms of their outstanding amount thanks to new loans, which increased by 68% compared to the same period of the previous year (the new volumes acquired during the quarter amounted to € 67 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 € 7.5 million at 31 March 2019, which are the result of loans granted during the quarter and renewals with existing customers.

Securities are composed entirely of Italian government securities with an average duration of 23.4 months for an amount of € 435 million.

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

STATUS	31.03.2018	30.06.2018	30.09.2018	31.12.2018	31.03.2019
Bad exposures	44,867	53,412	60,566	57,467	55,877
Unlikely to pay	37,621	30,765	31,305	87,189	98,206
Past due	76,626	89,355	97,263	80,507	76,183
Non-performing	**159,114**	**173,532**	**189,134**	**225,163**	**230,266**
Performing	**1,788,833**	**2,016,559**	**2,122,685**	**2,104,711**	**2,305,247**
Stage 2	73,131	67,260	101,813	106,473	119,559
Stage 1	1,715,702	1,949,299	2,020,872	1,998,238	2,185,688
Total loans and receivables with customers	**1,947,947**	**2,190,091**	**2,311,819**	**2,329,874**	**2,535,513**
Individual impairment losses	**23,413**	**26,629**	**27,662**	**29,169**	**32,220**
Bad exposures	13,002	18,751	19,805	18,451	18,944
Unlikely to pay	9,988	7,304	6,989	9,277	11,672
Past due	423	574	868	1,441	1,604
Collective impairment losses	**5,324**	**5,496**	**5,856**	**6,284**	**6,299**
Stage 2	454	437	569	579	680
Stage 1	4,870	5,059	5,287	5,705	5,619
Total impairment losses	**28,737**	**32,125**	**33,518**	**35,453**	**38,519**
Net exposure	**1,919,210**	**2,157,966**	**2,278,301**	**2,294,421**	**2,496,994**

The ratio of gross non-performing loans to the total portfolio went from 9.7% at 31 December 2018 to 9.1% 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. 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 1.5% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 14.0%.

Equity investments include the carrying amount of the 19.90% stake in ADV Finance S.p.A. and its subsidiary Procredit S.r.l.

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 € 26.8 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 € 2 million.

Intangible assets refer essentially to the goodwill generated by the acquisition of the former subsidiary Solvi S.r.l. that was subsequently merged into the Parent.

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

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

LIABILITIES AND EQUITY (€,000)	31.03.2019	31.12.2018	€ Change	% Change
Financial liabilities measured at amortised cost	3,595,682	2,898,740	696,942	24.0%
a) due to banks	515,050	695,197	(180,147)	-25.9%
b) due to customers	2,773,752	1,898,556	875,196	46.1%
c) securities issued	306,880	304,987	1,893	0.6%
Tax liabilities	17,737	15,676	2,061	13.1%
Other liabilities	75,876	65,638	10,238	15.6%
Post-employment benefits	2,571	2,402	169	7.0%
Provisions for risks and charges	10,104	9,293	811	8.7%
Valuation reserves	(515)	(1,131)	616	-54.5%
Reserves	144,807	117,666	27,141	23.1%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(199)	(199)	-	0.0%
Profit for the period	4,515	27,167	(22,652)	-83.4%
Total liabilities and equity	**3,860,229**	**3,144,903**	**715,326**	**22.7%**

Wholesale funding, which represents about 49% (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 20.9% (34.2% at the end of 2018).

DUE TO BANKS (€,000)	31.03.2019	31.12.2018	€ Change	% Change
Due to Central banks	432,850	412,850	20,000	4.8%
Due to banks	82,200	282,347	(200,147)	-70.9%
Current accounts and demand deposits	*26*	*53*	*(27)*	*-50.6%*
Term deposits	*82,174*	*282,294*	*(200,120)*	*-70.9%*
Total	**515,050**	**695,197**	**(180,147)**	**-25.9%**

The total of the sub-item "Due to banks" decreased by 25.9% 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)	31.03.2019	31.12.2018	€ Change	% Change
Term deposits	1,155,872	958,193	197,679	20.6%
Financing (repurchase agreements)	928,660	179,819	748,841	>100%
Current accounts	563,431	657,082	(93,651)	-14.3%
Due to assignors	109,678	87,397	22,281	25.5%
Other payables	16,111	16,065	46	0.3%
Total	**2,773,752**	**1,898,556**	**875,196**	**46.1%**

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 20.6% compared to the end of 2018, reflecting net positive deposits (net of interest accrued) of € 198 million; gross deposits from the beginning of the year were € 433 million, against withdrawals totalling € 235 million.

The item Other payables includes collections of € 16 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)	31.03.2019	31.12.2018	€ Change	% Change
Bond - AT1	8,154	8,017	137	1.7%
Bond - Tier II	31,932	31,570	362	1.1%
Bonds - other	266,794	265,400	1,394	0.5%
Total	**306,880**	**304,987**	**1,893**	**0.6%**

The nominal amount of securities issued at 31 March 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.

The provision for risks and charges of € 10.1 million includes the provision for possible liabilities attributable to the Beta acquisition, the estimated portion of the bonus for the previous year that has not yet been paid, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to legal actions within the framework of a lending transaction in which the end borrower is bankrupt, and the estimated charges for labour-related lawsuits and legal disputes.

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.

Group equity at 31 March 2019 includes the undistributed dividend of € 7 million.

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

(€ ,000)	PROFIT (LOSS)	EQUITY
Profit/equity of the parent	**4,230**	**160,199**
Assumption of value of investments	-	(14,992)
Consolidated profit/equity	285	13,052
Equity attributable to the owners of the parent	**4,515**	**158,259**
Equity attributable to non-controlling interests	-	(30)
Group equity	**4,515**	**158,229**

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.03.2019	31.12.2018
Common Equity Tier 1 (CET1)	**148,341**	**144,293**
ADDITIONAL TIER 1	8,000	8,000
Additional Tier 1 capital (T1)	**156,341**	**152,293**
TIER2	28,208	28,799
Total Own Funds (TC)	**184,549**	**181,092**
Total risk weighted assets	**1,400,733**	**1,317,043**
of which, credit risk	1,230,402	1,160,521
of which, operational risk	156,522	156,522
of which, market risk	13,809	-
Ratio - CET1	10.6%	11.0%
Ratio - T1	11.2%	11.6%
Ratio - TCR	13.2%	13.7%
Pro-forma CET1 (ECOFIN amendment) (*)	*12.2%*	*12.5%*
Pro-forma T1 (ECOFIN amendment) (*)	*12.8%*	*13.2%*
Pro-forma TCR (ECOFIN amendment) (*)	*15.2%*	*15.7%*

(*) estimate of the pro-forma capital ratios resulting from the application of the expected reduction in the weighting of the CQS/CQP assets

Total own funds were € 184.6 million at 31 March 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.

The increase in RWAs compared to 31 December 2018 was primarily due to the increase in loans, particularly salary- and pension-backed loans.

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

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

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 3 April 2019, Banca Sistema completed the acquisition of 100% of Atlantide S.p.A., a registered financial intermediary active in the granting of salary- and pension-backed personal loans (CQS/CQP). Refer to the press release issued on 28 September 2018. Atlantide is expected to be merged into Banca Sistema by the end of the third quarter.

Atlantide, headquartered in Bologna, has 24 employees and provides CQS/CQP services throughout the country through a network of about 45 agents and brokers.

The transaction is in line with the Bank's strategic and growth objectives for the salary- and pension-backed loans (CQS/CQP) business. The contribution from the salary- and pension-backed loans direct channel is expected to be at least € 100 million in loans per year.

The consideration paid at that date, in accordance with the Agreement amending and supplementing the preliminary sales agreement signed in the first quarter of 2019, was € 3,022 thousand, € 600 thousand higher than the amount announced in September 2018 as a result of the Bank's coverage of the losses recognised by Atlantide in the first quarter of 2019. The acquisition also provides for 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.

As required under IFRS 3, the earn-out was initially estimated at € 1,301 thousand and was based on the production volumes set out in the business plan prepared by Atlantide's management which represented the best possible estimate for measuring it at that time.

A hypothetical allocation of the purchase price 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)**

The ordinary Shareholders' Meeting of Banca Sistema S.p.A. held on single call on 18 April 2019, resolved to approve the separate financial statements at 31 December 2018 and payment of a dividend of € 0.087 per ordinary share for 2018 from 8 May 2019, with ex-dividend date of 6 May 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.

The transfer of ADV Finance and Procredit at their purchase cost is expected to be finalised in the coming days.

The overall impact of the Atlantide acquisition and the transfer of the above-mentioned equity investments on the Group's CET1 ratio was approximately 14 bps at 31 March 2019.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

First-quarter growth in lending was in line with 2018 and the same growth trend is expected to continue over the year. Business profitability, decreasing in the first quarter of 2019 mainly due to lower default interest collected, could remain at the first-quarter levels for the rest of the year. Work on the merger of Atlantide will commence in the second quarter. Following the consolidation of the company, the Group is expected to generate direct origination volumes through the Atlantide network during the year, and 25 new resources will be added.

Milan, 10 May 2019

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31.03.2019	31.12.2018
10.	Cash and cash equivalents	366	289
20.	Financial assets measured at fair value through profit or loss	262,192	-
	a) financial assets held for trading	262,192	-
30.	Financial assets measured at fair value through other comprehensive income	540,820	304,469
40.	Financial assets measured at amortised cost	3,004,344	2,786,692
	a) loans and receivables with banks	71,884	56,861
	b) loans and receivables with customers	2,932,460	2,729,831
70.	Equity investments	786	786
90.	Property and equipment	29,438	27,910
100.	Intangible assets	1,788	1,788
	of which:		
	goodwill	*1,786*	*1,786*
110.	Tax assets	7,605	7,817
	a) current	-	-
	b) deferred	7,605	7,817
120.	Non-current assets held for sale and disposal groups	-	1,835
130.	Other assets	12,890	13,317
	Total Assets	**3,860,229**	**3,144,903**

(Amounts in thousands of Euro)

	Liabilities and equity	31.03.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	3,595,682	2,898,740
	a) due to banks	515,050	695,197
	b) due to customers	2,773,752	1,898,556
	c) securities issued	306,880	304,987
60.	Tax liabilities	17,737	15,676
	a) current	5,155	3,445
	b) deferred	12,582	12,231
80.	Other liabilities	75,876	65,638
90.	Post-employment benefits	2,571	2,402
100.	Provisions for risks and charges:	10,104	9,293
	a) commitments and guarantees issued	37	7
	c) other provisions for risks and charges	10,067	9,286
120.	Valuation reserves	(515)	(1,131)
150.	Reserves	105,614	78,452
160.	Share premium	39,163	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	4,515	27,167
	Total liabilities and equity	**3,860,229**	**3,144,903**

INCOME STATEMENT

(Amounts in thousands of Euro)

		First quarter of 2019	First quarter of 2018
10.	Interest and similar income	21,638	20,042
	of which: interest income calculated with the effective interest method	21,012	19,966
20.	Interest and similar expense	(6,965)	(6,354)
30.	**Net interest income**	**14,673**	**13,688**
40.	Fee and commission income	5,115	4,184
50.	Fee and commission expense	(1,114)	(626)
60.	**Net fee and commission income**	**4,001**	**3,558**
80.	Net trading income (expense)	256	(4)
100.	Gain from sales or repurchases of:	374	861
	b) financial assets measured at fair value through other comprehensive income	374	861
120.	**Total income**	**19,304**	**18,103**
130.	Net impairment losses due to credit risk related to:	(2,625)	(1,087)
	a) financial assets measured at amortised cost	(2,544)	(1,087)
	b) financial assets measured at fair value through other comprehensive income	(81)	-
150.	**Net financial income**	**16,679**	**17,016**
190.	Administrative expenses	(10,162)	(9,835)
	a) personnel expense	(4,897)	(4,764)
	b) other administrative expenses	(5,265)	(5,071)
200.	Net accruals to provisions for risks and charges	(337)	-
	a) commitments and guarantees issued	(30)	-
	b) other net accruals	(307)	-
210.	Net impairment losses on property and equipment	(367)	(72)
220.	Net impairment losses on intangible assets	(7)	(2)
230.	Other operating income	120	4
240.	**Operating costs**	**(10,753)**	**(9,905)**
250.	Gains (losses) on equity investments	-	(43)
290.	**Pre-tax profit from continuing operations**	**5,926**	**7,068**
300.	Income taxes	(1,976)	(2,351)
310.	**Post-tax profit from continuing operations**	**3,950**	**4,717**
320.	Post-tax profit (loss) from discontinued operations	565	-
330.	**Profit for the period**	**4,515**	**4,717**
350.	**Profit for the period attributable to the owners of the parent**	**4,515**	**4,717**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		First quarter of 2019	2018
10.	**Profit for the period/year**	**4,515**	**26,793**
	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	(47)	37
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	**-**	**-**
100.	Hedges of foreign investments	-	-
110.	Exchange rate gains (losses)	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated elements)		
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	663	(95)
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**	**616**	**(58)**
180.	**Comprehensive income (Items 10+170)**	**5,131**	**26,735**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**5,131**	**26,735**

STATEMENTS OF CHANGES IN EQUITY AS AT 31/03/2019

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 quarter of 2019	**Equity attributable to the owners of the parent at 31.03.2019**	**Equity attributable to non-controlling interests at 31.03.2019**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,184**	-	39,184	-	-	(21)	-	-	-	-	-	-	-	-	**39,163**	-
Reserves	**78,452**	-	78,452	20,170	6,997	(5)	-	-	-	-	-	-	-	-	**105,614**	-
a) income-related	**78,792**	-	78,792	20,170	6,997	-	-	-	-	-	-	-	-	-	**105,959**	-
b) other	**(340)**	-	(340)	-	-	(5)	-	-	-	-	-	-	-	-	**(345)**	-
Valuation reserves	**(1,131)**	-	(1,131)	-	-	-	-	-	-	-	-	-	-	616	**(515)**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(199)**	-	(199)	-	-	-	-	-	-	-	-	-	-	-	**(199)**	-
Profit for the period	**27,167**	-	27,167	(20,170)	(6,997)	-	-	-	-	-	-	-	-	4,515	**4,515**	-
Equity attributable to the owners of the parent	**153,124**	-	**153,124**	**-**	-	**(26)**	-	-	-	-	-	-	-	**5,131**	**158,229**	**-**
Equity attributable to non-controlling interests	**30**	-	**30**	**-**	-	-	-	-	-	-	-	-	-	**-**	**-**	**30**

Group equity still includes the dividend of € 6,997 thousand, which was distributed in May 2019.

STATEMENT OF CHANGES IN EQUITY AS AT 31/03/2018

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the period	Transactions on equity									
	Balance at 31.12.2017	Change in opening balances	Balance at 1.1.2018	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the first quarter of 2018	**Equity attributable to the owners of the parent at 31.03.2018**	**Equity attributable to non-controlling interests at 31.03.2018**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	**-**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,268**	-	39,268	-	-	(21)	-	-	-	-	-	-	-	-	**39,247**	-
Reserves	**58,807**	-	58,807	19,877	6,916	(222)	-	-	-	-	-	-	-	-	**85,378**	-
a) income-related	**59,133**	-	59,133	19,877	6,916	(213)	-	-	-	-	-	-	-	-	**85,713**	-
b) other	**(326)**	-	(326)	-	-	(9)	-	-	-	-	-	-	-	-	**(335)**	-
Valuation reserves	**367**	-	367	-	-	75	-	-	-	-	-	-	-	(228)	**214**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(149)**	-	(149)	-	-	3	-	-	-	-	-	-	-	-	**(146)**	-
Profit for the period	**26,793**	-	26,793	(19,877)	(6,916)	-	-	-	-	-	-	-	-	4,717	**4,717**	-
Equity attributable to the owners of the parent	**134,737**	-	**134,737**	**-**	-	**(165)**	-	**-**	-	-	-	-	-	**4,489**	**139,061**	-
Equity attributable to non-controlling interests	**30**	-	**-**	**-**	-	**-**	-	**-**	-	-	-	-	-	**-**	**-**	**30**

STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	First quarter of 2019	First quarter of 2018
A. OPERATING ACTIVITIES		
1. Operations	**7,503**	**(3,564)**
▪ interest income collected	21,638	20,042
▪ interest expense paid	(6,965)	(6,354)
▪ dividends and similar income	-	-
▪ net fees and commissions	4,001	3,558
▪ personnel expense	2,468	468
▪ other expenses	(5,145)	(5,068)
▪ other income	-	-
▪ taxes and duties	(9,059)	(16,210)
▪ cost/revenue on assets held for sale and disposal groups	565	-
2. Cash flows used for financial assets	**(709,878)**	**(248,567)**
▪ financial assets held for trading	(261,936)	353
▪ 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	(235,442)	(167,182)
▪ financial assets measured at amortised cost	(220,196)	(94,996)
▪ other assets	7,696	13,258
3. Cash flows generated by financial liabilities	**702,519**	**252,891**
▪ financial liabilities measured at amortised cost	696,942	242,844
▪ financial liabilities held for trading	-	-
▪ financial liabilities designated at fair value through profit or loss	-	10,219
▪ other liabilities	5,577	(172)
Net cash flows generated by operating activities	**144**	**760**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**1,835**	**-**
▪ sales of equity investments	1,835	-
▪ dividends from equity investments	-	-
▪ sales of property and equipment	-	-
▪ sales of intangible assets	-	-
▪ sales of subsidiaries and business units	-	-
2. Cash flows used in	**(1,902)**	**(722)**
▪ purchases of equity investments	-	(150)
▪ purchases of property and equipment	(1,895)	(572)
▪ purchases of intangible assets	(7)	-
▪ purchases of subsidiaries and business units	-	-
Net cash flows used in investing activities	**(67)**	**(722)**
C. FINANCING ACTIVITIES		
▪ issues/repurchases of treasury shares	-	-
▪ issues/repurchases of equity instruments	-	-
▪ dividend and other distributions	-	-
▪ acquisitions and disposals of subsidiaries and other business units	-	-
Net cash flows generated by (used in) financing activities	**-**	**-**
NET CASH FLOWS FOR THE PERIOD	**77**	**38**

RECONCILIATION

Cash and cash equivalents at the beginning of the period	289	161
Total net cash flows for the period	77	38
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	366	199

ACCOUNTING POLICIES

GENERAL BASIS OF PREPARATION

This interim consolidated financial report at 31 March 2019 was drawn up in accordance with art. 154-ter of Legislative Decree no. 58 of 24 February 1998 and Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission, as established by Regulation (EC) no. 1606 of 19 July 2002, from which there were no derogations.

The specific accounting standards adopted have been amended compared to the financial statements at 31 December 2017 following the introduction as of 1 January 2018 of the new accounting standards IFRS 9 and IFRS 15.

The interim consolidated financial report at 31 March 2019 comprises the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the interim consolidated financial report and are accompanied by a Directors' Report on the performance, the financial results achieved and the financial position of the Banca Sistema Group.

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

The interim consolidated financial report was 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.

This interim consolidated financial report includes Banca Sistema S.p.A. and the companies directly or indirectly controlled by or connected with it. No changes to the scope of consolidation have been made compared to 31 December 2018.

This interim consolidated financial report at 31 March 2019 is accompanied by a statement by the manager in charge of financial reporting, pursuant to art. 154-bis of the Consolidated Law on Finance. The interim consolidated financial statements are subject to review by KPMG S.p.A..

Events after the reporting date

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

Information on the main items of the interim consolidated financial report

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 interim consolidated financial report 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 interim consolidated financial report. The most significant use of estimates and assumptions in the interim consolidated financial report 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 interim consolidated financial report;
- 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.

The accounting policies adopted for the drafting of this interim consolidated financial report, with reference to the classification, recognition, valuation and derecognition criteria for the various assets and liabilities, like the guidelines for recognising costs and revenue, except for the application of IFRS 16, have remained unchanged compared with those adopted in the separate and consolidated financial statements at 31 December 2018, to which reference is made.

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 (€ 1.8 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.

Main items of the interim consolidated financial report: changes resulting from the introduction of IFRS 16

As stated above, the accounting standards applied to prepare this Interim consolidated financial report are essentially the same as those applied for the Group financial statements as at 31 December 2018, which should be referred to for further details. The only changes made are those deriving from the adoption of the new IFRS 16, which entailed the update of the following items.

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

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

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

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

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

Derecognition criteria

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

Other aspects

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

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The undersigned, Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby states, having taken into account the provisions of art. 154-bis, paragraph 2, of Legislative decree no. 58 of 24 February 1998, that the accounting information in this interim consolidated financial report at 31 March 2019 is consistent with the company documents, books and accounting records.

Milan, 10 May 2019

Alexander Muz

Manager in charge of financial reporting

INTERIM CONSOLIDATED FINANCIAL REPORT AS AT 31 MARCH 2019

BANCA SISTEMA
CONTEMPORARY BANK