INTERIM CONSOLIDATED FINANCIAL REPORT AS AT 30 SEPTEMBER 2019

BANCA SISTEMA
CONTEMPORARY BANK

Banca SISTEMA Group

INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 SEPTEMBER 2019

BANCA SISTEMA

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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 SEPTEMBER 2019

Statement of financial position data (€,000)

	30 Sep 2019	31 Dec 2018	
Total Assets	3,504,511	3,144,903	11.4%
Securities Portfolio	809,407	739,880	9.4%
Loans - Factoring	1,738,242	1,566,613	11.0%
Loans - Salary-backed loans and SME	782,900	679,589	15.2%
Funding - Banks and REPOs	692,206	875,016	-20.9%
Funding - Term Deposits	1,345,450	958,193	40.4%
Funding - Current Accounts	622,649	657,082	-5.2%

Income statement data (€,000)

	30 Sep 2019	30 Sep 2018	
Net interest income	58,386	53,038	10.1%
Net fee and commission income	12,539	10,624	18.0%
Total Income	73,063	64,530	13.2%
Personnel Expenses	(15,701)	(14,448)	8.7%
Other administrative expenses	(17,396)	(16,247)	7.1%
Profit	21,431	19,136	12.0%

Performance indicators

	30 Sep 2019	Comparative	
Cost/income	48.2%	47.8% (30 Sep 2018)	1.0%
ROAE	17.3%	17.9% (31 Dec 2018)	-3.3%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 30 SEPTEMBER 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 engage in the activities referred to in art. 106 of the Consolidated Law on Banking. The company was thus authorised to grant collateralised loans to the public. Subsequently on 23 July 2019, the deed of transfer of Banca Sistema's "Collateralised Lending" business unit to the subsidiary ProntoPegno S.p.A. was signed. The transfer became effective beginning on 1 August 2019, the date the company was entered in the register pursuant to Article 106 of the Consolidated Law on Banking and began operating. The transferred business unit, with total assets of approximately € 8 million, is almost entirely made up of collateral-backed loans and includes 11 employees and 6 branches. The business unit, which was appraised by an expert commissioned to prepare the report pursuant to art. 2343 ter, paragraph 2, letter b) of the Italian Civil Code, was valued at € 4.66 million. The transfer of the collateralised lending business to a separate company will make it possible to capitalise on the growth opportunities that have already been identified in the two years since the business was launched.

On 30 August 2019, in accordance with the authorisation required by the Bank of Italy, Banca Sistema introduced a treasury share purchasing programme with the aim of creating a "stock of treasury shares" to be used to pay for part of the variable remuneration assigned to "key personnel" on the basis of the remuneration and incentives policies approved by the Shareholders' Meeting. The programme ended on 12 September 2019 when it reached the maximum limit of € 300,000 in shares authorised by the Bank of Italy.

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

As such, the Bank will have access to up to € 295 million under the new TLTRO III programme. The availability period has been set at 3 years from the date the company took part in the auction (the last auction was in March 2021), while the rate is set at 0%.

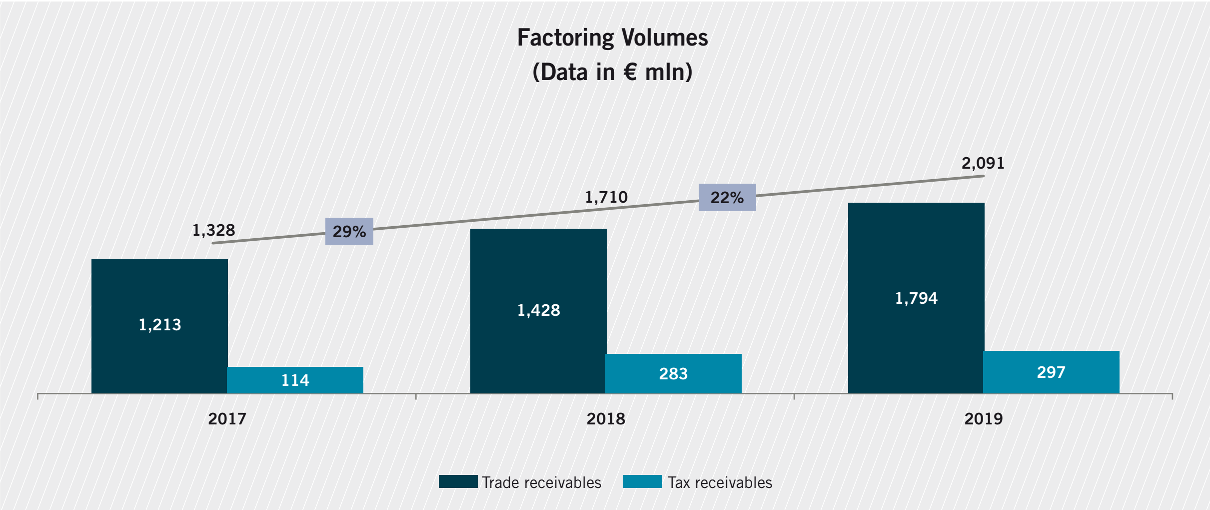
On 27 September, placement of the subordinated Tier II bond issue (2019-2029) for an additional € 12 million was completed with the simultaneous early redemption of the subordinated lower tier 2 loan (2012-2022), in accordance with the authorisation issued by the Bank of Italy on 16 August 2019.

The new bond was completely subscribed by an institutional investor (private placement), the same investor that subscribed to the issue that had been redeemed.

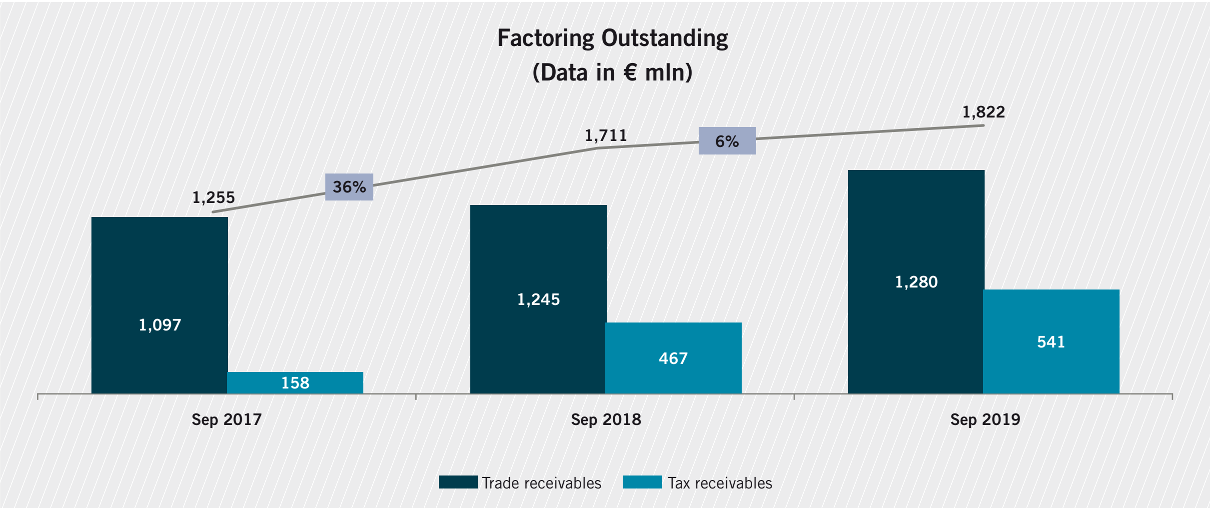
FACTORING

Banca Sistema and factoring activities

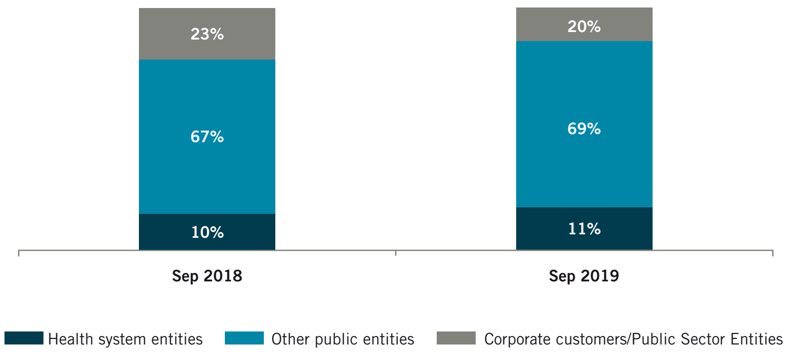
Total turnover for the period ended 30 September 2019 of the Banca Sistema Group was € 2,091 million, up 22% on the same period of 2018, thus confirming its ability to post solid year over year growth.



Loans and receivables as at 30 September 2019 amounted to € 1,822 million, up 6% on the € 1,711 million at 30 September 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 loans and receivables portfolio at 30 September 2019 and 2018. The Group's core factoring business remains the Public Administration entities segment.



Volumes were generated through both its own internal commercial network, or through banks with which the Group has entered into distribution agreements. In September 2019, existing distribution agreements accounted for 27% of total volume.

The following table shows the factoring volumes by product type:

PRODUCT (amounts in millions of euro)	30.09.2019	30.09.2018	€ Change	% Change
Trade receivables	1,794	1,428	366	26%
of which, without recourse	*1,518*	*1,195*	*323*	*27%*
of which, with recourse	*276*	*233*	*43*	*18%*
Tax receivables	297	282	15	5%
of which, without recourse	*293*	*270*	*23*	*9%*
of which, with recourse	*4*	*12*	*(9)*	*-71%*
TOTAL	**2,091**	**1,710**	**381**	**22%**

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

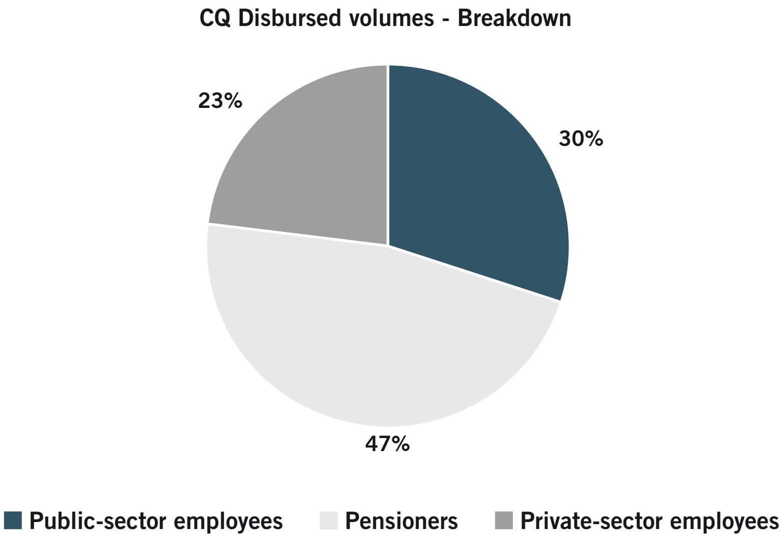
SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

At 30 September 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.

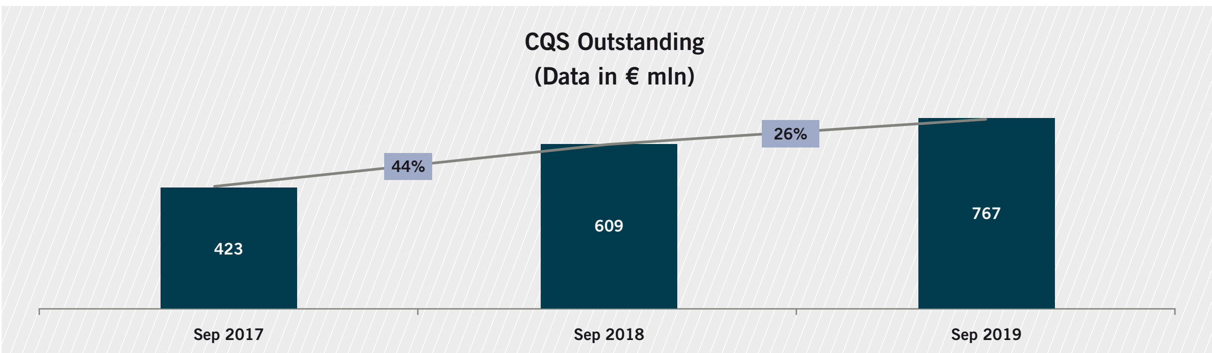
The volumes acquired from the beginning of the year until September 2019 amounted to € 186 million, including private-sector employees (23%), pensioners (47%) and public-sector employees (30%). Therefore, over 77% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

	30.09.2019	30.09.2018	€ Change	% Change
No. of applications	9,723	7,667	2,056	27%
Volumes disbursed (millions of Euro)	186	152	34	22%

As shown in the table, the amount disbursed in September 2019 is up compared to the amount disbursed in the same period of 2018.



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



COLLATERALISED LENDING AND PRONTOPEGNO

On 1 August, ProntoPegno S.p.A., a company wholly owned by the Banca Sistema Group focused on collateralised lending, began operating.

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

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

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

The statement of financial position as at 30th September 2019 is provided below.

Assets	30.09.2019
Cash and cash equivalents	362
Financial assets measured at fair value through other comprehensive income	-
Financial assets measured at amortised cost	14,382
a) loans and receivables with banks	4,330
- loans and receivables with customers	10,052
Property and equipment	364
Tax assets	61
b) deferred	61
Other assets	35
Total assets	**15,204**

Liabilities and equity	30.09.2019
Financial liabilities measured at amortised cost	9,766
a) liabilities	9,766
Liabilities associated with disposal groups	-
Other liabilities	356
Post-employment benefits	145
Provisions for risks and charges:	122
c) other provisions for risks and charges	122
Share capital	5,000
Reserves	(24)
Profit for the period/year (+/-)	(161)
Total liabilities and equity	**15,204**

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

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

The other "financial liabilities measured at amortised cost" include the premium (€ 149) resulting from the 10 auctions carried out between January 2018 and September 2019. For 5 years, this amount is recorded in the financial statements as due to customers; if customers do not collect the amount, it is recognised as revenue.

The income statement for the period from 1 August to 30 September 2019 is provided below.

Income statement	01.08 - 30.09 2019
Interest and similar income	116
Interest and similar expense	(2)
Net interest income	**114**
Fee and commission income	83
Fee and commission expense	(1)
Net fee and commission income	**82**
Total income	**196**
Net financial income	**196**
Administrative expenses:	(423)
a) personnel expense	(256)
b) other administrative expenses	(167)
Net impairment losses on property and equipment	(18)
Other operating income	23
Operating costs	**(418)**
Pre-tax loss from continuing operations	**(222)**
Income taxes	61
Loss for the period	**(161)**

The profit for the first two months of operation was impacted by non-recurring IT and start-up costs totalling € 40 thousand. The profit was also impacted by the variable portion of performance-based remuneration from the start of the year to 31 July which amounted to € 58 thousand. The company is expected to break even next year when it has sufficient critical mass to be profitable.

Personnel expenses mostly include the cost of the 16 employees transferred from the Bank to the Company.

The pro-forma total income for the period since the beginning of the year is provided below.

It includes the results of the collateralised lending business unit for the first 7 months of the year which are included in the Bank's income statement.

Income statement	01.01 - 30.09 2019
Interest and similar income	466
Interest and similar expense	(2)
Net interest income	**464**
Fee and commission income	308
Fee and commission expense	(1)
Net fee and commission income	**307**
Total income	**771**

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 September 2019 was equal to a nominal € 802 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 September, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounts to € 367 million (compared to € 300 million as at 31 December 2018) with a duration of 15.5 months (13.5 months at 31 December 2018).

At 30 September, the HTC portfolio amounted to € 435 million with an average residual duration of 17.5 months.

Wholesale funding

As at 30 September 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 September 2019 totalled € 70 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

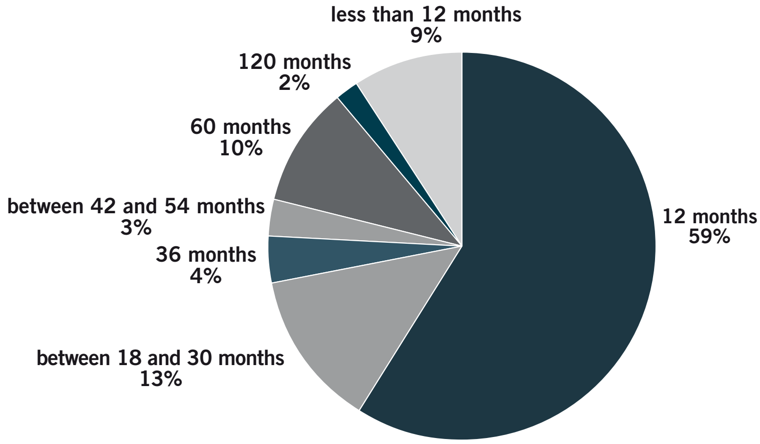
The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.

Retail funding accounts for 65% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 30 September 2019 amounted to € 1,345 million, an increase of 40% compared to 31 December 2018. The above-mentioned amount also includes total term deposits of € 864 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 65% of total deposit funding), an increase of + € 612 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 14 months.

Breakdown of deposit accounts as at 30 September



Current accounts increased from 5,440 (as at 30 September 2018) to 6,620 as at 30 September 2019, while the current account balance at 30 September 2019 increased +12% over the same period in 2018 to € 623 million.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	FIRST THREE QUARTERS 2019	FIRST THREE QUARTERS 2018	€ Change	% Change
Net interest income	58,386	53,038	5,348	10.1%
Net fee and commission income	12,539	10,624	1,915	18.0%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	209	(461)	670	<100%
Gain from sales or repurchases of financial assets/liabilities	1,702	1,102	600	54.4%
Total income	**73,063**	**64,530**	**8,533**	**13.2%**
Net impairment losses on loans and receivables	(6,425)	(4,334)	(2,091)	48.2%
Net financial income	**66,638**	**60,196**	**6,442**	**10.7%**
Personnel expense	(15,701)	(14,448)	(1,253)	8.7%
Other administrative expenses	(17,396)	(16,247)	(1,149)	7.1%
Net accruals to provisions for risks and charges	(1,346)	(51)	(1,295)	>100%
Net impairment losses on property and equipment/intangible assets	(1,259)	(213)	(1,046)	>100%
Other operating income	463	133	330	>100%
Operating costs	**(35,239)**	**(30,826)**	**(4,413)**	**14.3%**
Gains (losses) on equity investments	-	(355)	355	-100.0%
Gains (losses) on sales of investments	(8)	-	(8)	n.a.
Pre-tax profit from continuing operations	**31,391**	**29,015**	**2,376**	**8.2%**
Income taxes for the year	(10,522)	(9,879)	(643)	6.5%
Post-tax profit for the period/year	**20,869**	**19,136**	**1,733**	**9.1%**
Post-tax profit (loss) from discontinued operations	562	-	562	n.a.
Profit for the period/year attributable to the owners of the parent	**21,431**	**19,136**	**2,295**	**12.0%**

The result of the third quarter of 2019 was a profit for the period of € 21.4 million, an increase of 12% on the same period a year earlier.

The results for the first nine months of 2019 include the portion of Atlantide's revenue and costs starting from 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 as at 30 September 2018, the economic impact of Atlantide will be provided, if it is material, in the comments on the financial statements items.

In the third quarter of 2019, the expected rates of recovery of default interest on factoring and the related collection times used for the estimate as at 30 September 2019 were updated in the light of the progressive consolidation of the historical data series; the adjustment of these estimates led to the recognition of higher total interest income of € 4.8 million. The results for the same period in the previous year also benefited from the change in the estimate for the probability of collection of default interest which led to the recognition of higher interest income of € 6.6 million.

Earnings for 2019 include the consolidated profit generated by the sale of the remaining 10% of Axactor Italia to the parent Axactor AB.

Total income increased by 13.2% compared to the same period in the previous year, thanks mainly to the increased contribution of the factoring 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 was € 571 thousand.

NET INTEREST INCOME (€,000)	FIRST THREE QUARTERS 2019	FIRST THREE QUARTERS 2018	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	76,257	69,407	6,850	9.9%
Securities portfolio	621	166	455	>100%
Other	3,438	2,011	1,427	71.0%
Financial liabilities	-	-	-	n.a.
Total interest income	**80,316**	**71,584**	**8,732**	**12.2%**
Interest and similar expense				
Due to banks	(436)	(2,138)	1,702	-79.6%
Due to customers	(15,607)	(10,279)	(5,328)	51.8%
Securities issued	(5,809)	(5,114)	(695)	13.6%
Financial assets	(78)	(1,015)	937	-92.3%
Total interest expense	**(21,930)**	**(18,546)**	**(3,384)**	**18.2%**
Net interest income	**58,386**	**53,038**	**5,348**	**10.1%**

Net interest income increased by 10.1% from the same period of 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 € 58 million (equal to 73% of the entire loans and receivables portfolio), which is up 8.7% on same period of the previous year thanks to the total contribution of the default interest component; when considering the commission component associated with the factoring business, the contribution increased by 11.2% over 30 September 2018. The only component linked to default interest from legal action at 30 September 2019 was € 24.3 million compared to € 20.1 million in the first nine months of 2018:

- of which € 4.8 million resulting from the updated recovery estimates (€ 6.6 million at 30 September 2018);
- of which € 11.0 million that results from maintaining the updated recovery estimates (€ 9.3 million at 30 September 2018) which is in line with the same period of the previous year considering the activation of loans and receivables portfolio for a significant amount;
- of which € 6.9 million (€ 4.2 million in the first nine months of 2018) coming from net collections during the period (difference between the amount collected during the period, equal to € 15.1 million, of which € 8.8 million in the first nine months of 2018 compared to that recognised on an accruals basis in previous periods). This item includes gross collections of € 5.2 million from a transfer to third parties at the end of the first half of the year, and default interest of € 1.6 million from portfolios of the former Pubblica Funding special purpose vehicle.

The amount of the stock of default interest from legal actions accrued at 30 September 2019, relevant for the allocation model, was € 104 million (€ 100 million at the end of the third quarter of 2018) while the loans and receivables recorded in the financial statements amounted to € 50.1 million.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 14.1 million to € 17.3 million, an increase of 22.4% over the same period of the previous year.

The "other" interest income mainly includes income generated from hot money transactions and interest generated by collateral-backed loan activities which contributed € 0.5 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 THREE QUARTERS 2019	FIRST THREE QUARTERS 2018	€ Change	% Change
Fee and commission income				
Collection activities	891	826	65	7.9%
Factoring activities	14,134	11,502	2,632	22.9%
Other	1,969	537	1,432	>100%
Total fee and commission income	**16,994**	**12,865**	**4,129**	**32.1%**
Fee and commission expense				
Placement	(2,743)	(1,866)	(877)	47.0%
Fees - off-premises	(747)	-	(747)	n.a.
Other	(965)	(375)	(590)	>100%
Total fee and commission expense	**(4,455)**	**(2,241)**	**(2,214)**	**98.8%**
Net fee and commission income	**12,539**	**10,624**	**1,915**	**18.0%**

Net fee and commission income of € 12.5 million increased by 18% 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 € 308 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 € 1.3 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 - off-premises 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 THREE QUARTERS 2019	FIRST THREE QUARTERS 2018	€ Change	% Change
Net trading income (expense)				
Realised gains	209	14	195	>100%
Valuation loss/gain	-	(475)	475	-100.0%
Total	**209**	**(461)**	**670**	**<100%**
Gain (loss) from sales or repurchases				**n.a.**
Gains from HTCS portfolio debt instruments	1,702	1,102	600	54.4%
Total	**1,702**	**1,102**	**600**	**54.4%**
Total profit from the securities portfolio	**1,911**	**641**	**1,270**	**>100%**

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 54.4%.

Impairment losses on loans and receivables at 30 September 2019 amounted to € 6.4 million and are essentially in line with the previous quarters. Impairment losses are attributable to slight impairment of factoring loans, bringing the loss rate to 0.35% (0.28% at 30 September 2018).

PERSONNEL EXPENSE (€,000)	FIRST THREE QUARTERS 2019	FIRST THREE QUARTERS 2018	€ Change	% Change
Wages and salaries	(14,580)	(13,463)	(1,117)	8.3%
Social security contributions and other costs	(247)	(231)	(16)	6.9%
Directors' and statutory auditors' remuneration	(874)	(754)	(120)	15.9%
Total	**(15,701)**	**(14,448)**	**(1,253)**	**8.7%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 183 to 210 attributed primarily to new employees of the recently acquired company Atlantide, who at the end of the quarter were 21. This item also includes an additional cost component of € 550 thousand for estimated redundancy charges and the cost of non-compete agreements.
The staff broken down by category are as follows:

FTEs	30.09.2019	31.12.2018	30.09.2018
Senior managers	25	21	20
Middle managers (QD3 and QD4)	44	41	41
Other personnel	141	121	118
Total	**210**	**183**	**179**

OTHER ADMINISTRATIVE EXPENSES (€,000)	FIRST THREE QUARTERS 2019	FIRST THREE QUARTERS 2018	€ Change	% Change
IT expenses	(4,176)	(3,482)	(694)	19.9%
Consultancy	(3,785)	(3,362)	(423)	12.6%
Resolution Fund	(1,146)	(942)	(204)	21.7%
Servicing and collection activities	(2,016)	(2,047)	31	-1.5%
Indirect taxes and duties	(1,714)	(1,459)	(255)	17.5%
Rent and related fees	(615)	(1,579)	964	-61.1%
Expense reimbursement and entertainment	(574)	(530)	(44)	8.3%
Car hire and related fees	(455)	(637)	182	-28.6%
Insurance	(364)	(297)	(67)	22.6%
Advertising	(407)	(280)	(127)	45.4%
Membership fees	(253)	(271)	18	-6.6%
Expenses related to management of the SPVs	(260)	(417)	157	-37.6%
Audit fees	(269)	(237)	(32)	13.5%
Infoprovider expenses	(255)	(197)	(58)	29.4%
Other	(297)	(234)	(63)	26.9%
Telephone and postage expenses	(143)	(130)	(13)	10.0%
Maintenance of movables and real properties	(132)	(109)	(23)	21.1%
Stationery and printing	(47)	(37)	(10)	27.0%
Merger-related costs	(488)	-	(488)	n.a.
Total	**(17,396)**	**(16,247)**	**(1,149)**	**7.1%**

Administrative expenses include additional costs of Atlantide for the second quarter only totalling € 477 thousand, as well as costs related to the merger of the company into the Bank amounting to € 488 thousand (total merger-related costs amounted to € 571 thousand, including the cost recognised under reduction in value due to amortisation). 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)	30.09.2019	31.12.2018	€ Change	% Change
Cash and cash equivalents	501	289	212	73.4%
Financial assets measured at fair value through other comprehensive income	374,048	304,469	69,579	22.9%
Financial assets measured at amortised cost	3,074,537	2,786,692	287,845	10.3%
a) loans and receivables with banks	69,045	56,861	12,184	21.4%
b1) loans and receivables with customers - loans	2,570,133	2,294,420	275,713	12.0%
b2) loans and receivables with customers - debt instruments	435,359	435,411	(52)	0.0%
Equity investments	-	786	(786)	-100.0%
Property and equipment	29,241	27,910	1,331	4.8%
Intangible assets	3,921	1,788	2,133	>100%
Tax assets	6,731	7,817	(1,086)	-13.9%
Non-current assets held for sale and disposal groups	-	1,835	(1,835)	-100.0%
Other assets	15,532	13,317	2,215	16.6%
Total assets	**3,504,511**	**3,144,903**	**359,608**	**11.4%**

The first nine months ending 30 September 2019 closed with total assets up 11.4% (at € 3.5 billion) on the end of 2018, due to the effect of the increase in the portfolios of receivables with customers and partially 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 15.5 months (the average remaining duration at the end of 2018 was 13.5 months). This is consistent with the Group investment policy. The HTCS portfolio amounted to € 367 million at 30 September 2019 (€ 300 million at 31 December 2018). The associated valuation reserve was positive at the end of the period, amounting to € 1.7 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 September 2019 had a break-even net fair value reserve, resulting in a period-end amount of € 1.1 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	30.09.2019	31.12.2018	€ Change	% Change
Factoring	1,738,242	1,566,613	171,629	11.0%
Salary-/pension-backed loans (CQS/CQP)	766,776	652,040	114,736	17.6%
Collateralised loans	10,052	6,428	3,624	56.4%
Loans to SMEs	16,124	27,549	(11,425)	-41.5%
Current accounts	18,346	23,186	(4,840)	-20.9%
Compensation and Guarantee Fund	19,484	17,413	2,071	11.9%
Other loans and receivables	1,109	1,191	(82)	-6.9%
Total loans	**2,570,133**	**2,294,420**	**275,713**	**12.0%**
Securities	435,359	435,411	(52)	0.0%
Total loans and receivables with customers	**3,005,492**	**2,729,831**	**275,661**	**10.1%**

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 volumes generated over the period which was up by 22% on the same period of the previous year to € 2,091 million (€ 1,710 million at 30 September 2018).

Salary- and pension-backed loans grew thanks to new loans, which increased by 26% compared to the same period of the previous year (the new volumes acquired in 2019 amounted to € 186 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 € 10.1 million at 30 September 2019, which are the result of loans granted during the first half of the year and renewals with existing customers. Since August, following the sale of a business unit, this business is being managed through the newly formed company ProntoPegno.

Securities are composed entirely of Italian government securities with an average duration of 17.5 months for an amount of € 435 million. The mark-to-market valuation of the securities at 30 September 2019 was a positive fair value of € 2 million.

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

STATUS	30.09.2018	31.12.2018	31.03.2019	30.06.2019	30.09.2019
Bad exposures	60,566	57,467	55,877	54,124	57,319
Unlikely to pay	31,305	87,189	98,206	113,462	122,738
Past due	97,263	80,507	76,183	68,733	59,674
Non-performing	**189,134**	**225,163**	**230,266**	**236,319**	**239,731**
Performing	**2,122,685**	**2,104,711**	**2,305,247**	**2,428,103**	**2,372,450**
Stage 2	101,813	106,473	119,559	114,250	124,252
Stage 1	2,020,872	1,998,238	2,185,688	2,313,853	2,248,198
Total loans and receivables with customers	**2,311,819**	**2,329,874**	**2,535,513**	**2,664,422**	**2,612,181**
Individual impairment losses	**27,662**	**29,169**	**32,220**	**33,662**	**34,746**
Bad exposures	19,805	18,451	18,944	19,602	20,394
Unlikely to pay	6,989	9,277	11,672	12,665	13,588
Past due	868	1,441	1,604	1,395	764
Collective impairment losses	**5,856**	**6,284**	**6,299**	**6,792**	**7,302**
Stage 2	569	579	680	585	807
Stage 1	5,287	5,705	5,619	6,207	6,495
Total impairment losses	**33,518**	**35,453**	**38,519**	**40,454**	**42,048**
Net exposure	**2,278,301**	**2,294,421**	**2,496,994**	**2,623,968**	**2,570,133**

The ratio of gross non-performing loans to the total portfolio went from 9.7% at 31 December 2018 to 9.2% at the end of September 2019. The increase in the absolute value of non-performing loans compared to 31 December 2018 is mainly due to new factoring positions with local authorities in financial difficulty and private-sector assignors. The amount of past due loans and local authorities in financial difficulty is attributed to factoring receivables without recourse from Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.

Net bad exposures remained at moderate levels and amounted to 1.4% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 14.5%.

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

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

Property and equipment includes the property located in Milan which is also being used as Banca Sistema's new offices. The property purchased in 2017 was renovated and completed in October 2018; its carrying amount, including capitalised items, is € 26.8 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.

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, which will be subject to a final review at the end of the year, 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 totalling € 15.5 million mainly include amounts being processed after the end of the year and advance tax payments.

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

LIABILITIES AND EQUITY (€,000)	30.09.2019	31.12.2018	€ Change	% Change
Financial liabilities measured at amortised cost	3,190,257	2,898,740	291,517	10.1%
a) due to banks	212,964	695,197	(482,233)	-69.4%
b) due to customers	2,550,959	1,898,556	652,403	34.4%
c) securities issued	426,334	304,987	121,347	39.8%
Tax liabilities	19,960	15,676	4,284	27.3%
Other liabilities	108,664	65,638	43,026	65.6%
Post-employment benefits	3,194	2,402	792	33.0%
Provisions for risks and charges	13,087	9,293	3,794	40.8%
Valuation reserves	749	(1,131)	1,880	<100%
Reserves	138,017	117,666	20,351	17.3%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(499)	(199)	(300)	>100%
Profit for the year	21,431	27,167	(5,736)	-21.1%
Total liabilities and equity	**3,504,511**	**3,144,903**	**359,608**	**11.4%**

Wholesale funding, which represents about 35% (41% at 31 December 2018) of the total, decreased in absolute terms from the end of 2018 following the increase in funding through deposit accounts. The contribution of bond funding to total wholesale funding was 61.4% (34.2% at the end of 2018).

DUE TO BANKS (€,000)	30.09.2019	31.12.2018	€ Change	% Change
Due to Central banks	142,850	412,850	(270,000)	-65.4%
Due to banks	70,114	282,347	(212,233)	-75.2%
Current accounts and demand deposits	*70,114*	*53*	*70,061*	*>100%*
Term deposits	-	*282,294*	*(282,294)*	*-100.0%*
Total	**212,964**	**695,197**	**(482,233)**	**-69.4%**

The total of the sub-item "Due to banks" decreased by 69% compared to 31 December 2018; 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. The Bank has been granted access to up to € 295 million under the new TLTRO III programme. The availability period has been set at 3 years from the date the company took part in the auction (the last auction was in March 2021), while the rate is set at 0%.

DUE TO CUSTOMERS (€,000)	30.09.2019	31.12.2018	€ Change	% Change
Term deposits	1,345,450	958,193	387,257	40.4%
Financing (repurchase agreements)	479,242	179,819	299,423	>100%
Current accounts	622,649	657,082	(34,433)	-5.2%
Due to assignors	92,707	87,397	5,310	6.1%
Other payables	10,911	16,065	(5,154)	-32.1%
Total	**2,550,959**	**1,898,556**	**652,403**	**34.4%**

The item Due to customers increased compared to the end of the year, mainly due to an increase in funding from repurchase agreements and from term deposits.

The period-end amount of term deposits increased by 40.4% compared to the end of 2018, reflecting net positive deposits (net of interest accrued) of € 390 million; gross deposits from the beginning of the year were € 1,068 million, against withdrawals totalling € 678 million.

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

SECURITIES ISSUED (€,000)	30.09.2019	31.12.2018	€ Change	% Change
Bond - AT1	8,154	8,017	137	1.7%
Bond - Tier II	37,748	31,570	6,178	19.6%
Bonds - other	380,432	265,400	115,032	43.3%
Total	**426,334**	**304,987**	**121,347**	**39.8%**

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, 2012-2022 with a variable coupon equal to 6-month Euribor + 5.5%;
- Tier 2 subordinated loan of € 19.5 million, 2017-2027 with a variable coupon equal to 6-month Euribor + 4.5%;
- Senior bonds (market placement) of € 175 million, 2017-2020 with a fixed coupon of 1.75%;
- Senior bonds (private placement) of € 90 million, 2018-2021 with a fixed coupon of 2%;
- Tier 2 subordinated loan of € 6 million, 2019-2029 with a fixed coupon of 7%.

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

The provision for risks and charges of € 13.1 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 (LOSS)	EQUITY
Profit/equity of the parent	**21,500**	**171,667**
Assumption of value of investments	-	(20,000)
Consolidated loss/equity	(69)	17,682
Equity attributable to the owners of the parent	**21,431**	**169,349**
Equity attributable to non-controlling interests	-	(30)
Group equity	**21,431**	**169,319**

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	30.09.2019	31.12.2018
Common Equity Tier 1 (CET1)	**159,978**	**144,293**
ADDITIONAL TIER1	8,000	8,000
Tier 1 capital (T1)	**167,978**	**152,293**
TIER2	37,500	28,799
Total Own Funds (TC)	**205,478**	**181,092**
Total risk weighted assets	**1,406,108**	**1,317,043**
of which, credit risk	1,249,545	1,160,521
of which, operational risk	156,522	156,522
of which, CVA	41	0
Ratio - CET1	11.4%	11.0%
Ratio - T1	11.9%	11.6%
Ratio - TCR	14.6%	13.7%
Pro-forma CET1 (CRR II amendment) (*)	*13.4%*	*12.5%*
Pro-forma T1 (CRR II amendment) (*)	*14.1%*	*13.2%*
Pro-forma TCR (CRR II amendment) (*)	*17.2%*	*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 € 205.5 million at 30 September 2019 and included the profit for the period, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit. The increase was due to the combined effect of the operating result for the first nine months of 2019, the merger of Atlantide (which generated goodwill of € 2.1 million, classified on the Statement of financial position under intangible assets) and the issue, in the second quarter and third quarter of 2019, of a TIER 2 subordinated loan for a total of € 18 million (in conjunction with the repayment of another Lower TIER 2 subordinated loan of € 12 million, which can no longer be fully included as a capital). At 30 September 2019, capital ratios were up compared to 30 June 2019 due to a capital increase that was more than proportional to the growth in risk-weighted loans (RWAs).

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.

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

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

The growth in lending in the first nine months of the year was in line with 2018 and the same growth rate is expected to continue into the last quarter of 2019.

The business profitability, when factoring and CQ are combined, remains in line with the first part of the year.

Milan, 30 October 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	30.09.2019	31.12.2018
10.	Cash and cash equivalents	501	289
30.	Financial assets measured at fair value through other comprehensive income	374,048	304,469
40.	Financial assets measured at amortised cost	3,074,537	2,786,692
	a) loans and receivables with banks	*69,045*	*56,861*
	b) loans and receivables with customers	*3,005,492*	*2,729,831*
70.	Equity investments	-	786
90.	Property and equipment	29,241	27,910
100.	Intangible assets	3,921	1,788
	of which:		
	Goodwill	3,920	1,786
110.	Tax assets	6,731	7,817
	a) current	-	-
	b) deferred	*6,731*	*7,817*
120.	Non-current assets held for sale and disposal groups	-	1,835
130.	Other assets	15,532	13,317
	Total Assets	**3,504,511**	**3,144,903**

	Liabilities and equity	30.09.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	3,190,257	2,898,740
	a) due to banks	*212,964*	*695,197*
	b) due to customers	*2,550,959*	*1,898,556*
	c) securities issued	*426,334*	*304,987*
60.	Tax liabilities	19,960	15,676
	a) current	*5,266*	*3,445*
	b) deferred	*14,694*	*12,231*
80.	Other liabilities	108,664	65,638
90.	Post-employment benefits	3,194	2,402
100.	Provisions for risks and charges:	13,087	9,293
	a) commitments and guarantees issued	*44*	*7*
	c) other provisions for risks and charges	*13,043*	*9,286*
120.	Valuation reserves	749	(1,131)
150.	Reserves	98,866	78,452
160.	Share premium	39,121	39,184
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(499)	(199)
190.	Equity attributable to non-controlling interests (+/-)	30	30
200.	Profit for the period	21,431	27,167
	Total liabilities and equity	**3,504,511**	**3,144,903**

INCOME STATEMENT

(Amounts in thousands of Euro)

		FIRST THREE QUARTERS 2019	FIRST THREE QUARTERS 2018
10.	Interest and similar income	80,316	71,584
	of which: interest income calculated with the effective interest method	78,226	70,430
20.	Interest and similar expense	(21,930)	(18,546)
30.	**Net interest income**	**58,386**	**53,038**
40.	Fee and commission income	16,994	12,865
50.	Fee and commission expense	(4,455)	(2,241)
60.	**Net fee and commission income**	**12,539**	**10,624**
70.	Dividends and similar income	227	227
80.	Net trading income	209	(461)
100.	Gain from sales or repurchases of:	1,702	1,102
	b) financial assets measured at fair value through other comprehensive income	*1,702*	*1,102*
120.	**Total income**	**73,063**	**64,530**
130.	Net impairment losses/gains on:	(6,425)	(4,334)
	a) financial assets measured at amortised cost	*(6,371)*	*(4,334)*
	b) financial assets measured at fair value through other comprehensive income	*(54)*	-
150.	**Net financial income**	**66,638**	**60,196**
190.	Administrative expenses	(33,097)	(30,695)
	a) personnel expense	*(15,701)*	*(14,448)*
	b) other administrative expenses	*(17,396)*	*(16,247)*
200.	Net accruals to provisions for risks and charges	(1,346)	(51)
	a) commitments and guarantees issued	*(36)*	-
	b) other net accruals	*(1,310)*	*(51)*
210.	Net impairment losses on property and equipment	(1,133)	(210)
220.	Net impairment losses on intangible assets	(126)	(3)
230.	Other operating income	463	133
240.	**Operating costs**	**(35,239)**	**(30,826)**
250.	Gains (losses) on equity investments	-	(355)
280.	Gains (losses) on sales of investments	(8)	-
290.	**Pre-tax profit from continuing operations**	**31,391**	**29,015**
300.	Income taxes	(10,522)	(9,879)
310.	**Post-tax profit from continuing operations**	**20,869**	**19,136**
320.	Post-tax profit (loss) from discontinued operations	562	-
330.	**Profit for the period**	**21,431**	**19,136**
340.	Profit (loss) for the period attributable to non-controlling interests	-	-
350.	**Profit for the period attributable to the owners of the parent**	**21,431**	**19,136**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		FIRST THREE QUARTERS 2019	2018
10.	**Profit for the period**	**21,431**	**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	(255)	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	2,135	(2,064)
150.	Non-current assets held for sale	-	-
160.	Share of valuation reserves of equity-accounted investments:	-	-
170.	**Total other comprehensive income (expense), net of income tax**	**1,880**	**(2,025)**
180.	**Comprehensive income (Items 10+170)**	**23,311**	**25,142**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**23,311**	**25,142**

STATEMENTS OF CHANGES IN EQUITY AS AT 30.09.2019

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the year										
							Transactions on equity									
	Balance at 31.12.2018	Change in opening balances	Balance at 1.1.2019	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income the first three quarters of 2019	**Equity attributable to the owners of the parent at 30.09.2019**	**Equity attributable to non-controlling interests at 30.09.2019**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,184**	-	39,184	-	-	(63)	-	-	-	-	-	-	-	-	**39,121**	-
Reserves	**78,452**	-	78,452	20,170	-	244	-	-	-	-	-	-	-	-	**98,866**	-
a) income-related	**78,792**	-	78,792	20,170	-	(27)	-	-	-	-	-	-	-	-	**98,935**	-
b) other	**(340)**	-	(340)	-	-	271	-	-	-	-	-	-	-	-	**(69)**	-
Valuation reserves	**(1,131)**	-	(1,131)	-	-	-	-	-	-	-	-	-	-	1,880	**749**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(199)**	-	(199)	-	-	(300)	-	-	-	-	-	-	-	-	**(499)**	-
Profit for the period	**27,167**	-	27,167	(20,170)	(6,997)	-	-	-	-	-	-	-	-	21,431	**21,431**	-
Equity attributable to the owners of the parent	**153,124**	-	**153,124**	**-**	**(6,997)**	**(119)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**23,311**	**169,319**	**-**
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 30.09.2018

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the year										
							Transactions on equity									
	Balance at 31.12.2017	Change in opening balances	Balance at 1.1.2018	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income for the first three quarters of 2018	**Equity attributable to the owners of the parent at 30.09.2018**	**Equity attributable to non-controlling interests at 30.09.2018**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	**-**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,268**	-	39,268	-	-	(63)	-	-	-	-	-	-	-	-	**39,205**	-
Reserves	**58,807**	(224)	58,583	19,877	-	145	-	-	-	-	-	-	-	-	**78,605**	-
a) income-related	**59,133**	(224)	58,909	19,877	-	6	-	-	-	-	-	-	-	-	**78,792**	-
b) other	**(326)**	-	(326)	-	-	139	-	-	-	-	-	-	-	-	**(187)**	-
Valuation reserves	**367**	527	894	-	-	-	-	-	-	-	-	-	-	(3,737)	**(2,843)**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(149)**	-	(149)	-	-	4	-	-	-	-	-	-	-	-	**(145)**	-
Profit for the period	**26,793**	-	26,793	(19,877)	(6,916)	-	-	-	-	-	-	-	-	19,136	**19,136**	-
Equity attributable to the owners of the parent	**134,737**	**303**	**135,040**	**-**	**(6,916)**	**86**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,399**	**143,609**	-
Equity attributable to non-controlling interests	**30**	**-**	**30**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30**

STATEMENT OF CASH FLOWS (DIRECT METHOD)

Amounts in thousands of Euro

	FIRST THREE QUARTERS 2019	FIRST THREE QUARTERS 2018
A. OPERATING ACTIVITIES		
1. Operations	**39,151**	**33,091**
▪ interest income collected	80,316	71,584
▪ interest expense paid	(21,930)	(18,546)
▪ dividends and similar income	227	227
▪ net fees and commissions	12,539	10,624
▪ personnel expense	(9,754)	(8,833)
▪ other expenses	(16,933)	(16,114)
▪ other income	-	-
▪ taxes and duties	(5,876)	(5,851)
▪ cost/revenue on assets held for sale and disposal groups, net of tax	562	-
2. Cash flows generated by (used for) financial assets	**(365,960)**	**(850,522)**
▪ financial assets held for trading	209	(98,992)
▪ 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	(66,051)	41,797
▪ financial assets measured at amortised cost	(294,216)	(790,831)
▪ other assets	(5,902)	(2,496)
3. Cash flows generated by (used for) financial liabilities	**336,120**	**828,959**
▪ financial liabilities measured at amortised cost	291,517	819,392
▪ financial liabilities held for trading	-	-
▪ financial liabilities designated at fair value through profit or loss	-	-
▪ other liabilities	44,603	9,567
Net cash flows generated by (used for) operating activities	**9,311**	**11,528**
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	**(4,723)**	**(4,446)**
▪ purchases of equity investments	-	(1,344)
▪ purchases of property and equipment	(2,464)	(3,102)
▪ purchases of intangible assets	(2,259)	-
▪ purchases of subsidiaries and business units	-	-
Net cash flows generated by (used in) investing activities	**(2,102)**	**(4,446)**
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 generated by (used in) financing activities	**(6,997)**	**(6,916)**
NET CASH FLOWS FOR THE YEAR	**212**	**166**

RECONCILIATION

Cash and cash equivalents at the beginning of the year	289	161
Total net cash flows for the year	212	166
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	501	327

ACCOUNTING POLICIES

GENERAL BASIS OF PREPARATION

This interim consolidated financial report at 30 September 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 2018 following the introduction as of 1 January 2019 of the new financial reporting standard IFRS 16.

The interim consolidated financial report at 30 September 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 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.

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 30 September 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 consolidated financial statements have been subject to review by BDO Italia 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 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.

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 (€ 1.9 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.

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 30 October 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 30 September 2019 is consistent with the company documents, books and accounting records.

Milan, 30 October 2019

Alexander Muz

Manager in charge of financial reporting

INTERIM CONSOLIDATED FINANCIAL REPORT AS AT 30 SEPTEMBER 2019

BANCA SISTEMA
CONTEMPORARY BANK