FINANCIAL STATEMENTS AND REPORTS FOR **2020**

BANCA SISTEMA

Banca SISTEMA Group

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2020

CONTENTS

DIRECTORS' REPORT AT 31 DECEMBER 2020

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

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

Board of Statutory Auditors

Chairperson	Mr.	Massimo Conigliaro
Standing Auditors	Ms.	Lucia Abati
	Mr.	Marziano Viozzi[2]
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] The Shareholders' Meeting of 23 April 2020 has renewed the entire Board of Statutory Auditors for three financial years, reappointing Mr. Massimo Conigliaro, Chairperson, Ms. Lucia Abati, Standing Auditor, Mr. Marco Armarolli, Alternate Auditor and Ms. Daniela D'Ignazio, Alternate Auditor, and Mr. Marziano Viozzi as third Standing Auditor.

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

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

Appointments Committee

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

Remuneration Committee

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

Ethics Committee

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

Supervisory Body

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

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2020

31 Dec 2020 | 31 Dec 2019

Statement of financial position data (€,000)

	31 Dec 2020	31 Dec 2019	Change
Total Assets	3,671,371	3,730,081	-1.6%
Securities Portfolio	878,830	991,560	-11.4%
Loans - Factoring	1,474,532	1,714,661	-14.0%
Loans - Salary-backed loans and SME	1,008,282	829,227	21.6%
Funding - Banks and REPOs	1,104,878	845,429	30.7%
Funding - Term Deposits	1,216,523	1,325,794	-8.2%
Funding - Current Accounts	633,548	681,577	-7.0%

Income statement data (€,000)

	31 Dec 2020	31 Dec 2019	Change
Net interest income	74,271	80,694	-8.0%
Net fee and commission income	17,428	16,068	8.5%
Total Income	101,494	100,913	0.6%
Personnel Expenses	(25,532)	(23,166)	10.2%
Other administrative expenses	(25,534)	(22,939)	11.3%
Group profit for the year	25,777	29,719	-13.3%

Performance Indicators

	31 Dec 2020	31 Dec 2019	Change
Cost/income	54.5%	50.0%	8.8%
ROTE	15.6%	17.2%	-8.9%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 DECEMBER 2020

The dramatic spread of the coronavirus in Italy and the rest of the world is an unprecedented emergency with systemic implications in terms of health, as well as social, political, economic and geopolitical consequences. The spread of Covid-19 and the ensuing lockdown of many economic activities led to a downward revision in the estimates of economic growth rates worldwide compared to what was expected in pre-Covid times. In Italy, the measures restricting movement, which included different types of lockdowns based on the trend in infection rates, significantly changed national GDP growth estimates. Restrictions and strict safety and precautionary protocols such as the prohibition of gatherings, maintaining safe social distances and the use of masks even outdoors remain in force.

In Italy, several law decrees were enacted to support the non-financial companies most affected by the lockdown and by the pandemic in general. These decrees aim to provide companies with support to meet temporary liquidity needs through ad hoc fiscal measures and direct support from the banking system through moratoriums and/or guaranteed loans. Among the various forms of support provided for under the decrees, banks may grant loans to businesses, subject to certain conditions, with a duration of no more than 6 years (including the possibility of deferring the repayment of the principal for up to 24 months). These loans are guaranteed by either the National Guarantee Fund for SMEs or by SACE, depending on the size of the beneficiary business.

In this respect, the Bank has launched the loan product guaranteed by SACE and/or the National Guarantee Fund for SMEs starting from the third quarter. The product is a guaranteed unsecured loan, or rather an instalment loan in which the initial instalments for up to a maximum of 24 months consist solely of interest (deferred payment or "pre-ammortamento", which includes deferral of the amount needed to align the due date of the instalments with the first calendar quarter following the date of disbursement). This product is exclusively for the Bank's existing factoring customers or new customers who also enter into a factoring agreement with the Bank. At 31 December the Bank granted 28 state-guaranteed loans for a total of € 68.7 million. As at the same date, other loans of the same type were being evaluated.

With reference to the moratoriums on existing loans, the Bank has carefully considered measures for suspending payment terms. As at 31 December 2020, 50 requests for a moratorium had been received, 47 of which have been accepted for a total amount of € 14.5 million. All moratoriums granted, except two for which the customers have given a formal waiver, have been extended, as required by law, to 30 June 2021.

This is however a rather minor matter for the Bank, given the sector in which it operates.

The initiatives launched by the ECB relating to the banking sector are set out below:

- an additional longer-term refinancing operation auction (additional LTROs) to guarantee fixed-rate liquidity. The rate in these operations will be fixed at the average of the deposit facility rate. The operations, which were conducted on a weekly basis, all matured on the spot settlement date of the fourth TLTRO-III operation (24 June 2020). Government bonds are once again eligible to be pledged as collateral in LTRO operations;
- more favourable conditions for TLTRO-III between June 2020 and June 2021. The initial interest rate of 25 bps lower than the average rate on the main refinancing operations (therefore, -25 bps) was then further reduced to 50 basis points below the average interest rate on the Eurosystem's main refinancing operations prevailing over the same period. In fact, banks are being remunerated for receiving liquidity from the ECB and investing it in the real economy. Furthermore, the maximum amount that banks can borrow (borrowing allowance) has been increased to 50% of their stock of eligible loans as at 28 February 2019. The bid limit per operation (10% of outstanding loans as at 28 February 2019) has been eliminated, which will match the overall limit of the TLTRO III loan less the loans already obtained;

- the launch of a new asset purchase programme (PEPP - Pandemic Emergency Purchase Programme) worth at least € 750 billion. The programme will terminate when the pandemic crisis is deemed to be over, but in any case not before the end of June 2021. The PEPP, compared to the current APP, also allows the purchase of Greek government bonds and provides greater flexibility allowing for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions. Purchases of government bonds must continue to be in line with the national central banks' subscriptions to the ECB capital key;
- net asset purchase programme (APP) of € 120 billion by the end of the year. This programme involves the direct purchase by the ECB of corporate securities, government bonds, asset-backed securities, and third covered bonds;
- expansion of the scope of Additional Credit Claims (ACC) to include claims related to the financing of the corporate sector;
- expansion of the Corporate Sector Purchase Programme (CSPP) to include non-financial commercial papers of sufficient quality;
- introduction of PELTROs (Pandemic Emergency Longer-Term Refinancing Operations) to provide liquidity support to the Euro Area financial system and contribute to preserving the smooth functioning of money markets by providing effective liquidity support. The PELTROs consist of seven additional refinancing operations commencing in May 2020 and maturing in a staggered sequence between July and September 2021 in line with the duration of the collateral easing measures. They will be carried out as fixed-rate tender procedures with full allotment, with an interest rate that is 25 basis points below the average rate on the main refinancing operations prevailing over the life of each PELTRO.

Other measures were adopted by the Governing Council of the ECB on 10 December 2020:

- For TLTRO - III, the total amount that counterparties will be able to borrow in OMRLT-III was increased from 50% to 55% of the respective stock of eligible loans and the period during which considerably favourable rate conditions will apply was extended by 12 months to June 2022. Three additional operations will be completed between June and December 2021 in addition to the seventh TLTRO-III scheduled for 18 March 2021;
- Regarding PELTRO, the Governing Council also decided to offer four additional one-year fixed-rate refinancing operations between March and December 2021. The interest rate will be 25 basis points below the average rate applied in the main Eurosystem refinancing operations for the entire duration of the respective PELTRO.

The new measures adopted by the Governing Council of the ECB on 10 December 2020 will take effect over the course of 2021.

The Bank participated in the fourth TLTRO III operation for an amount of € 382.99 million, benefiting from the reduced rate of -50 bps between June 2020 and June 2021.

Existing TLTRO III operations at 31 December 2020 totalled € 491.24 million.

The Bank currently has € 200 million of the PELTRO loan at a refinancing rate equal to the interest rate that is 25 basis points below the average rate on the main refinancing operations prevailing over the life of each PELTRO.

The Bank participated in the additional LTRO auction for a total amount of € 650 million at the average rate of -50 bps which was repaid on 24 June 2020 (the spot settlement date of the fourth TLTRO III operation).

From a regulatory perspective, the Bank of Italy, capitalising on the flexibility of the regulation and in line with the ECB's decision regarding significant banks, decided that even less significant banks and non-bank intermediaries may also operate temporarily below the level of the Target Component, assigned following the SREP (Pillar 2 Guidance - P2G) process, as well as the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR).

Moreover, in its communication published on 27 March 2020, the Bank of Italy had recommended, among other things, that banks "not pay dividends, including the distribution of reserves, and make no irrevocable commitments to pay dividends for the financial years

2019 and 2020" at least until 1 October 2020, in order to maximise their capital reserves. This recommendation was later reaffirmed by the Bank of Italy in a subsequent communication dated 28 July 2020 in which the Supervisory Authority also made it clear that "the limitations on dividend payments refer to cash pay-outs which have the effect of reducing the quantity and quality of Common Equity Tier 1 capital".

In view of the above, upon the proposal of the Bank's Board of Directors, the Ordinary Shareholders' Meeting of 27 November 2020 resolved (i) to confirm the resolution previously adopted by the Ordinary Shareholders' Meeting on 23 April 2020 regarding the allocation of the profit for the year 2019, namely to allocate the profit for 2019, amounting to € 29,955,723.45, to dividends for € 7,479,157.84 and to retained earnings, for the remaining amount of € 22,476,565.61, and (ii) to defer the decision on the payment of the dividend for the year ended 31 December 2019 of € 7,479,157.84, and the resulting commitment to pay the dividend to be resolved in a new Shareholders' Meeting to be convened by the Board of Directors as soon as possible - no earlier than 1 January 2021, and before 31 March 2021 - in accordance with the supervisory provisions.

On 16 December 2020, the Bank of Italy then issued a new recommendation on dividend distributions and variable remuneration policies of banks in which it reiterated to less significant banks: i) to refrain from recognising or paying dividends or limit their amount to no more than 15% of the cumulative profits of 2019-2020 or 20 basis points of the CET1 ratio (in any case the lesser of the two); ii) to refrain from recognising or paying interim dividends out of 2021 profits; and iii) to exercise extreme prudence in recognising variable remuneration. This recommendation also points out that "the term 'dividend' used in the recommendation refers only to cash pay-outs which have the effect of reducing the quantity and quality of Common Equity Tier 1 capital".

In its meeting of 10 February 2021, the Board of Directors resolved to initiate discussions with the Bank of Italy on this issue.

Considering the state of emergency, the European Commission has proposed the following amendments to the European prudential framework to maximise the ability of banks to lend and absorb losses. These amendments have also been approved by the European Parliament and the European Council:

- IFRS 9 transitional arrangements, i.e. changes to the method of calculating the adjustment in order to capture the impacts of the health emergency, extending the transitional period and increasing the applicable factors, possibility of opting in also for banks that had not initially adopted the transitional measures. Given the specific business sector in which it operates, the Bank will not need to use these temporary arrangements;
- calendar provisioning: favourable treatment of government guarantees and counter-guarantees, which are treated similar to guarantees granted by an official export credit agency (e.g. SACE) for the purposes of Calendar Provisioning, and extension of this favourable treatment to unsecured exposures to which a zero risk weight would be associated under the standardised approach;
- Leverage ratio: postponement of the date of application of the leverage ratio capital buffer for G-SII banks to 1 January 2023, modification of the methods for calculating the adjusted leverage ratio, introduction of an ad hoc framework to exclude exposures to central banks from the leverage ratio until 27 June 2021 and finally, the possibility of temporarily considering the benefit of netting between standardised cash flows, pending settlement;
- early introduction of some CRR II measures, i.e. the possibility of not deducting software assets from CET1, reduction of the weighting of salary- and pension-backed loan (CQS/CQP) products from 75% to 35%, changes to the scope and calculation of the SME supporting factor and introduction of the infrastructure supporting factor;
- other additional measures, such as the temporary treatment of government debt issued in the currency of another Member State, the temporary reduction of Market Risk add-ons and the restoration of the temporary treatment of unrealised gains and losses measured at fair value through OCI.

The Bank, in order to counter the effects of COVID-19 and to comply with the regulations issued by the Government, has adopted the measures described in the Memorandums of Understanding on workplace safety detailed below ("Shared Memorandum regulating measures to counter and contain the spread of the Covid-19 virus in the workplace", signed on 14 March between the social partners, and the "Shared Memorandum for measures to prevent, counter and contain the spread of the Covid-19 virus in the banking sector" signed on 16 March 2020 between ABI and the trade unions of the sector, as amended).

The Crisis Committee has met 9 times since 23 February 2020 to review the situation and the relevant legislation, to apply precautionary and protective measures and to ensure business continuity. Also, starting on 19 March, special update meetings were held on an almost weekly basis between the Chairperson of the Board of Directors, the Chief Executive Officer, the Chairperson of the Internal Control and Risk Management Committee, the Chairperson of the Board of Statutory Auditors, the Head of the Risk Department and the Head of ICT/Organisation.

With regard to labour law, the steps taken by the Bank to comply with the measures issued by the government and the indications from the various authorities are summarised below:

- adequate and proportionate introduction of remote working within the framework of a specific ad hoc Regulation communicated to all employees pursuant to the provisions on remote working (Law no. 81/2017) set out in the Prime Minister's Decree of 4 March 2020, as amended;
- Facilitating the use of holidays (unused or not) and leaves from the bank of hours as a support measure for employees;
- Implementation of the procedures for extraordinary leave set out in the Prime Minister's Decree of 4 March 2020 and those that followed;
- The procedures for taking paid leave once the unused holidays and the 2020 holiday leave entitlement have been taken have been defined.

In terms of safety, the Bank has implemented the following:

- emergency sanitisation of all locations throughout the country;
- scheduled maintenance to sanitise the air conditioning systems and working environments throughout the country has been increased from every six months to every three months;
- supply of dispensers for hand sanitiser;
- supply of PPE for employees of the Banking, ProntoPegno and Management branches and offices (surgical masks, disposable gloves, sanitiser, protective plexiglass partitions);
- renovation of offices to ensure a minimum distance of 1 metre;
- preparation of suitable communications on the use of lifts, break areas and rules on hygiene;
- placement of waste bins specifically for the disposal of masks and gloves;
- provision of digital body temperature sensors at the entrance to the buildings;
- update of the Risk Assessment Document (DVR) - Assessment of Biological Risk annex (Coronavirus Emergency);
- an air ionisation system and an air purification system for lifts have been installed at the Milan office;
- epidemiological tests for all employees, members of the Board of Directors and the Board of Statutory Auditors after the summer leave period and in any case after being absent for more than a week;
- periodic epidemiological tests for shift employees;
- efforts to procure flu vaccines for employees;
- a safety package that requires both employees and customers/suppliers with access to the Bank's premises for extended periods of time to install and activate the Immuni app.

With regard to business continuity, the Bank's Business Continuity Plan was revised in mid-2019 and in November 2020. Since the start of the emergency and the period during which the employees began working remotely, the Bank and Divisions have been continuously implementing communication initiatives with employees to ensure continuity in the flow of information, the level of listening, and the sharing of corporate objectives and strategies.

A special section of the Bank's website has been created to provide customers with operational guidelines and useful information on the support measures made available by the Government, as well as a special “Questions and Answers” section. The telephone support service has also been enhanced.

The impacts on the three lines of business in which the Bank operates that can currently be estimated and the actions taken are set out below:

Factoring

The Factoring Division closed 2020 with € 3.1 billion in acquired receivables (+2% yoy): receivables acquired from suppliers to the healthcare system and the football sector grew sharply, while receivables from the public administration remained relatively stable while tax receivables decreased.

Given the ongoing emergency situation and its impact on Italy's GDP and economic system, in 2020 Factoring performed well, further demonstrating its resilience and addressing the unexpected situation with remarkable teamwork both internally and in terms of customer relations, providing a specialised and timely service throughout the country.

Factoring has proven to be the ideal tool both for small and medium-sized enterprises to finance their working capital and thus trade receivables, and for large companies, to improve their net financial position and receive solid support in servicing and collection activities.

Salary- and Pension-Backed Loans

The market for salary- and pension-backed loans ended 2020 at € 5.3 billion, down 8.7% over last year despite a significant acceleration in November and December (+19% vs 2019). The Bank reported higher total volumes for the year which came in at € 934 million in terms of outstanding capital at the end of the year (+14% vs 2019). This amount, which is roughly in line with the previous quarter despite stable volumes compared to that period, reflects the impact of increasing portfolio attrition owing to the loan maturities and their exposure to early repayment typical of the market, and the sale of a loans and receivables portfolio to another intermediary in December. The latter forms part of the Bank's positioning strategy which aims to represent all possible assets in the salary- and pension-backed loan market as well as managing an important tool for rebalancing the Division's portfolio and net profit. Covid has therefore not had a negative impact on the CQ Division either.

Collateralised lending

With the Coronavirus pandemic, the search for alternative channels to find liquidity has increased and an increasing number of Italians have turned to collateralised lending. ProntoPegno branches have seen their outstanding loans grow by 32% and their customer base by 16% (to which the contribution of the collateralised lending business unit acquired from Intesa Sanpaolo should be added). With the spread of the health emergency, ProntoPegno, with the support of the Parent, established and implemented measures in line with the provisions of the competent authorities and focused on ensuring the utmost prudence in safeguarding the health of everyone without ever suspending its operations (branches have always remained open to the public).

Against this backdrop, on 10 July 2020, the Company completed the important acquisition of Intesa Sanpaolo's (or “ISP”) collateralised lending business unit. As at the transaction date, the business unit reported the following:

- outstanding loans of € 53.2 million;
- 58 employees;
- 6 branches located throughout Italy.

The acquisition involved a reorganisation of the Company's structure, which will, among other things, be disclosed to the Supervisory Authority in 2021.

The ISP business unit saw an increase in outstanding loans to € 59 million, while the existing ProntoPegno branches saw their outstanding loans increase from € 11.2 million at the end of 2019 to € 14.9 million (€ 74 million in total at 31 December 2020).

There were 26 auctions in 2020 (compared to 9 in the previous year) with the value of the loans whose items were auctioned amounting to € 1.4 million (+357% over 2019).

At their extraordinary meeting held on 23 April 2020, the shareholders of Banca Sistema resolved on the amendments to the Articles of Association proposed by the Board of Directors, namely:

- the amendment to article 5 of Banca Sistema's Articles of Association to introduce increased voting rights pursuant to article 127-quinquies of the Consolidated Law on Finance, which grants increased voting rights "up to a maximum of two votes for each share held by the same shareholder for a continuous period of no less than twenty-four months from the date of entry" in a specific list which must be held by the issuer;
- the amendment to articles 8, 9, 10, 11, 12, 14 (13 with new numbering), 18 (17 with new numbering), and 20 (19 with new numbering) of the Articles of Association; repeal of article 13 of the Articles of Association and consequent new numbering of articles 14 to 24 of the Articles of Association; introduction of new article 25 to the Articles of Association. These regulatory interventions concern: (i) the elimination of clauses that are attributable to the changed shareholding structure of the Bank following its listing; (ii) the amendments to the composition of the Board of Directors and to the slate voting procedure governing the election of the members of the Bank's Board of Directors and the Board of Statutory Auditors; (iii) the alignment to the new provisions governing "gender balance"; (iv) the removal of clauses that constitute a mere literal repetition of the Supervisory Provisions for Banks; (v) the introduction of amendments made purely for coordination purposes, to rectify errors and/or incorrect references/cross-references and to streamline the text; (vi) the introduction of a transitional provision in the Articles of Association for the composition of the Board of Directors.

As described previously, on 24 June 2020, the Banca Sistema Group received authorisation from the Bank of Italy to acquire the collateralised lending business unit of the Intesa Sanpaolo Group.

The acquisition was carried out by ProntoPegno, a subsidiary 75% owned by Banca Sistema and 25% by Fondazione Cassa di Risparmio di Cuneo, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria which acquired different amounts of the above-mentioned share capital from the Parent, Banca Sistema, on 26 June 2020. The transaction generated a net profit for the Parent of € 1.1 million at 30 June 2020. The aforementioned foundations subsequently subscribed, together with Banca Sistema, to the ProntoPegno capital increase on a pro-rata basis, which was used to acquire the business unit, for a total of € 34 million. The acquisition price, initially amounting to € 34 million, was subject to an adjustment in favour of the Bank of € 1 million to reflect the difference in the business unit's imbalance between the closing date, as verified by the Bank, and the signing date of the transaction. The allocation as at 31 December 2020, made on the basis of the provisional consideration paid in July, led to the recognition of goodwill of € 28.4 million.

On 22 June 2020, the European Parliament approved the amendments to Regulation (EU) 876/2019 ("CRR 2") which include bringing forward the entry into force of the provisions relating to the reduction of the risk capital weighting for salary- and pension-backed loans (CQS and CQP) from the current 75% to 35%.

The reduction in weighting, which enables the Group to further strengthen its capital structure, came into effect on 27 June 2020.

On 29 June 2020 Banca Sistema announced that the shareholders Società di Gestione delle Partecipazioni in Banca Sistema S.r.l. (SGBS), Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia renewed the Shareholders' Agreement signed on 29 June 2018, amended on 22 February 2019, and expiring on 1 July 2020. The Shareholders' Agreement reflects a shareholding of 38.41% in Banca Sistema's share capital. The new Shareholders' Agreement came into effect on 2 July 2020 and expires on 1 July 2022. An abstract of the new Shareholders' Agreement, which was drafted pursuant to article 129 of the Issuers' Regulation, and essential information pursuant to article 130 of the Issuers' Regulation have been made available on the Parent's website www.bancasistema.it and on the website of the storage mechanism authorised by Consob www.1info.it. A full version of the abovementioned agreement has also been deposited at the Milan Companies' Register.

At their extraordinary meeting held on 27 November 2020, the shareholders of Banca Sistema approved the additional amendments to the Articles of Association proposed by the Board of Directors, namely:

– amendment to article 5.7, eliminating the part where acquisition of the shareholder's increased voting right is subject to the issuance of a second communication, by the intermediary with which the shares are deposited, certifying the uninterrupted holding of the shares in question for a period of 24 months;

– amendment to article 10.2, amending the part that imposes quantitative and qualitative conditions with regard to the composition of the lists of candidates for the position of Director, with the introduction of the possibility, in certain circumstances, of electing two directors instead of one from the minority list;

– amendment to article 10.3, introducing an additional method for resolving on the appointment of independent Directors, should those already in place fail to provide the number envisaged by the regulations;

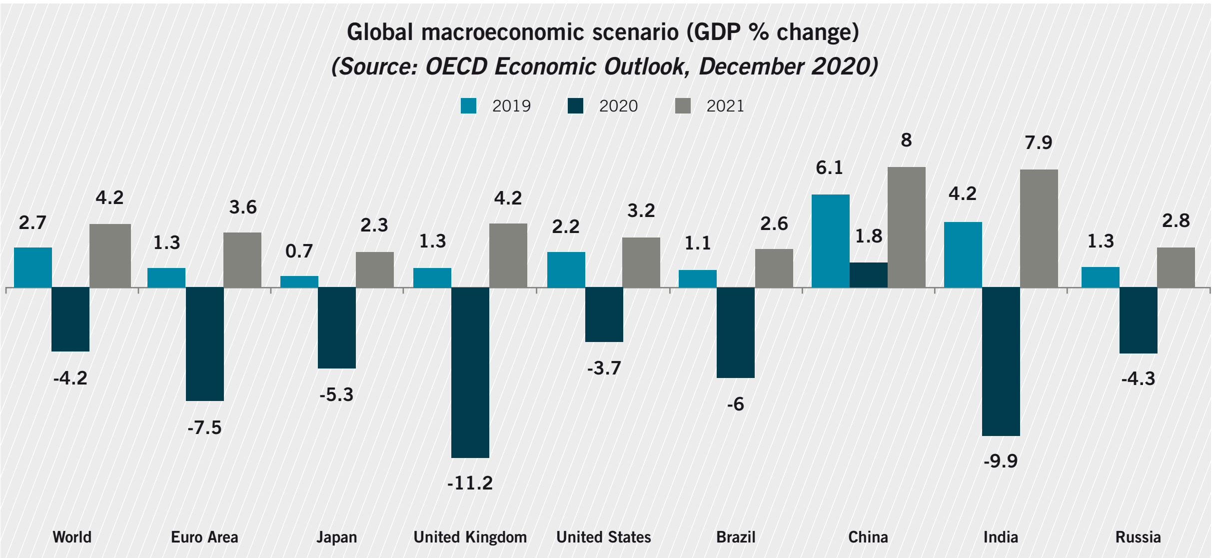
– introduction of the new article 12.3 that indicates, pursuant to article 150, paragraph 1, of the Consolidated Law on Finance, the procedures whereby the Directors and more particularly, the delegated bodies report to the Board of Statutory Auditors on the activities carried out, and the consequent changes to the numbering of current articles 12.3 and 12.4 as 12.4 and 12.5.

On 29 December 2020, Banca Sistema subscribed to 50% of the capital of the Spanish company EBNSISTEMA Finance S.L. for € 1 million, in a transaction to increase the capital of the Spanish investee. The other shareholder, holding an equal 50% stake, is the Spanish bank EBN Banco de Negocios S.A. The aim of the joint venture is to develop the Public Administration factoring business on the Iberian peninsula, specialising in the purchase of healthcare receivables.

THE MACROECONOMIC SCENARIO

2020 was dominated by the Coronavirus outbreak, the effects of which weighed on productive activity and aggregate demand in all economies. After unexpectedly recovering during the summer months, activity slowed as the new wave of the pandemic hit, especially in developed countries. In the third quarter, GDP was still below previous levels in the US, Japan, and the UK, while it exceeded pre-pandemic levels in China, where growth strengthened. In December, the situation worsened due to new infections. In the manufacturing sector, purchasing managers' indices remained above the expansion threshold in the US, the Euro Area, and the UK. The services sector was the most affected, especially leisure services and tourism. The only country seeing an expansion in all sectors is China, which has seen a reduction in the number of infections since last spring. Overall, global trade contracted by 9%. With large-scale vaccination and continued support for expansionary economic policies around the world, global GDP is expected to increase by 4.2% in 2021 according to the Bank of Italy's Bulletin no. 1/2021.

Economic activity in the Euro Area also weakened as the pandemic unfolded and containment measures were tightened. In the third quarter of 2020, GDP rose to 12.5% and grew in all major economies, but in no area did it reach pre-pandemic levels. As services weakened due to increasing numbers of infections, GDP fell again in the fourth quarter. The €-coin indicator prepared by the Bank of Italy, which estimates the underlying performance of the area's GDP, increased, highlighting the solidity in manufacturing activity and the positive outlook for households and businesses. In December 2020, the Governing Council of the ECB met to adopt new measures aimed at preserving favourable lending conditions, supporting bank lending, and countering the impact of the pandemic on the economy and inflation.



ITALY

In Italy, growth in the summer months of 2020 was higher than expected, indicating considerable resilience of the Italian economy. In the third quarter, GDP increased by 15.9% (Source: Bank of Italy's Economic Bulletin 1/2021), driven by an increase in both domestic demand and exports, with the hotel and restaurant sectors experiencing a partial recovery. At the end of 2020, like in the rest of Europe, the increase in the number of infections led to a decline in economic activity, with GDP falling by 3.5% from the previous quarter. Investment is expected to pick up because of the stimulus packages introduced by the government and a recovery in exports is also expected.

Household spending mirrored the trend in other economies: after a sharp contraction in the first half of the year, it began to rise in the third quarter by 12.4%, especially in the durable goods market, with disposable income also recovering by 6.6% over the previous quarter. By contrast, the propensity to save fell significantly, although it remained fairly high at 14.6%, due to both precautionary economic factors and the decision not to spend to avoid infection. Consumption weakened in the last quarter of 2020.

Banks continued to meet the demand for funds from businesses in 2020. Lending to the non-financial private sector increased by 6.1%. Annualised Return on Equity (ROE) declined by more than two-thirds due to the effect of impairment losses on loans and receivables. The level of capitalisation (ratio of the highest quality capital to risk-weighted assets - common equity tier 1 ratio, CET1 ratio), increased to 15.1%, driven by the repositioning of some banking books towards less risky assets and the effect of government guarantees. Conditions in the Italian financial market were buoyed by optimism triggered by the effectiveness of vaccines and monetary and fiscal support.

As highlighted in the Bank of Italy's Economic Bulletin 1/2021, the outlook for the Italian economy is closely correlated to the development of the epidemic and the measures adopted, both to contain the infections and to mitigate the impact on the economy.

The Italian factoring market

According to data released by Assifact, the Italian association of factoring providers, in 2020, the factoring market declined for the first time since 2009. The long lockdown caused by the health emergency meant that Italian businesses (especially small and medium-sized ones which are the backbone of the country) experienced a loss in turnover of over € 420 billion (source: CGIA - Italian association of artisans and small-sized businesses of Mestre), equal to 13.5% of total turnover recorded in 2019. The Bank of Italy estimated that GDP declined by 9.2% in 2020.

These trends inevitably led to a drop in turnover, which fell to € 227.8 billion (-10.83%) from € 255 billion in 2019, a year that had seen growth of 6.44%. In the first quarter of the year, before the start of the pandemic, turnover was on a par with 2019. The downturn began in April (coinciding with the closure of many businesses due to lockdown rules) and continued in the following months, albeit at lower levels. In the second quarter, the reduction in turnover was rather significant (-24.5%), while in the third and the fourth quarters (which closed down by 13.53% and 4.34%, respectively) flows gradually recovered.

Without recourse factoring is by far the most common form of factoring used by the market, accounting for over 79% of total turnover versus 21% for recourse factoring transactions. In terms of amounts outstanding, these percentages do not vary much (75% versus 25%), thereby confirming that the assigning customers prefer completing assignments by hedging the risk associated with the assigned debtors.

The receivables turnover rate is lower than last year because of an increase in average collection times, attributable to the difficulties companies are experiencing in dealing with the significant impact the Covid-19 pandemic is having on businesses. The outstanding amounts (loans and receivables to be collected as at 31 December 2020) totalling € 62 billion were down 5.67% compared to 2019. Advance payments/consideration on assignments dropped by 7.69%. The proportion of advances to outstanding receivables (80.93% compared to 82.44% in 2019) allows banks/intermediaries to maintain a conservative margin for any possible credit dilution risks.

Unlike traditional bank loans, the sector has not been able to benefit (if only marginally) from the extraordinary measures taken by the government (mentioned elsewhere in this report) to support businesses in this difficult moment for the economy. Nevertheless, Factors have continued to support businesses, taking on the relative risks, without any state guarantees. The particular attention paid to the management of purchased or financed receivables and the constant monitoring of collections have, in any case, made it possible to keep risk at much lower levels than those of bank loans.

The sector's low level of risk is also confirmed by the figures provided by Assifact: at the end of December2020, gross non-performing loans of financial intermediaries amounted to 4.06% of outstanding receivables of which 0.67% related to past due exposures, 1.60% were unlikely to pay, and 1.79% were bad exposures, percentages that are considerably lower than those recorded in traditional bank lending.

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

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

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

Through servicing, they also receive full support in managing relations with debtors, including the Public Administration, thanks to the specific expertise and thorough monitoring the specialised operators can provide.

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

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

According to data provided by Assifact, in 2020, factors acquired over € 27 billion in receivables from suppliers to the Public Administration, equal to 12.2% of total turnover. At 31 December 2020, € 9.2 billion of outstanding receivables are due from Public Administration debtors, which represents 15% of all outstanding receivables. A total of 32% of receivables are due from entities of the National Health Service, 43% are due from the Central Authorities, and 22% are due from Territorial Entities, with the remainder due from other Public Sector Entities.

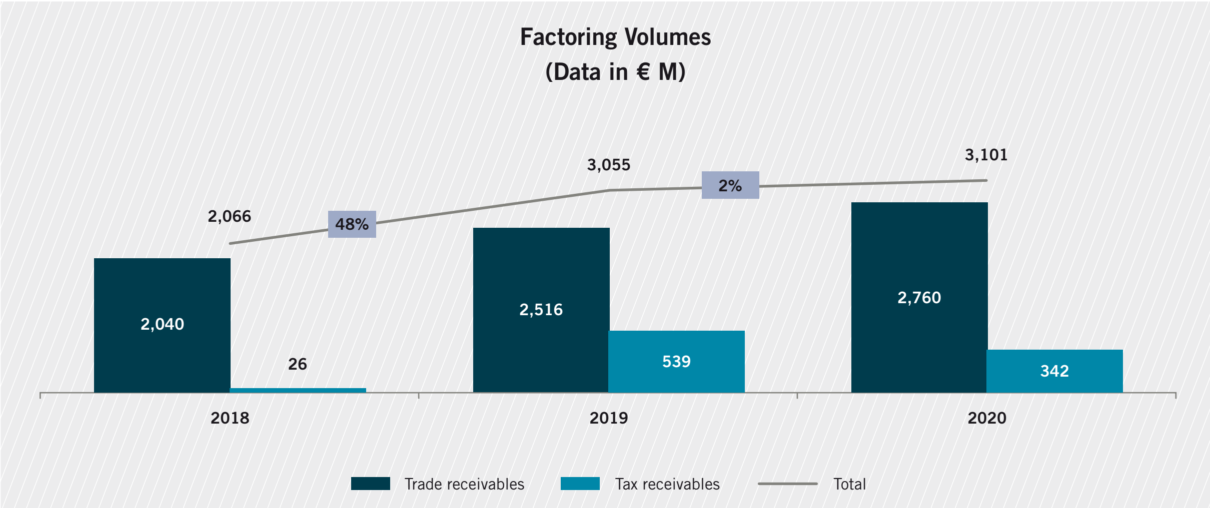
The efforts made by the Government in recent years through the establishment of ad hoc funds aimed at rectifying the payment of certain, liquid and collectable pre-existing Public Administration debt, and the transposition of the EU regulation on late payments which exacerbated the amount of default interest for late payments beyond 60 days, have led to only a slight reduction in payment times by the Public Administration. In fact, on 28 January 2020, the European Court of Justice delivered a judgement against Italy for violating the directive. At the end of December 2020 about 36% of the receivables due from the Public Administration were past due more than 90 days (in 2019, the past due amount was 32%), of which 82% past due more than one year.

To support businesses hit hard by the pandemic and forced to slow down or suspend operations, the Government issued three separate decrees last year ("Cura Italia", "Liquidity" and "Relaunch") so that businesses could benefit from moratoriums and government-backed loans through the National Guarantee Fund and SACE. Factoring, however, was excluded from the measures and it was not until July when the "Relaunch" Decree was converted into law that the SACE guarantee was expanded to include factoring with recourse. The impact of the measure on the sector was marginal both in terms of the relative proportion of factoring with recourse compared to total transactions (25%) and in terms of the form and structure of the transactions (more similar to instalment loans than to advances with repayments linked to invoice collections).

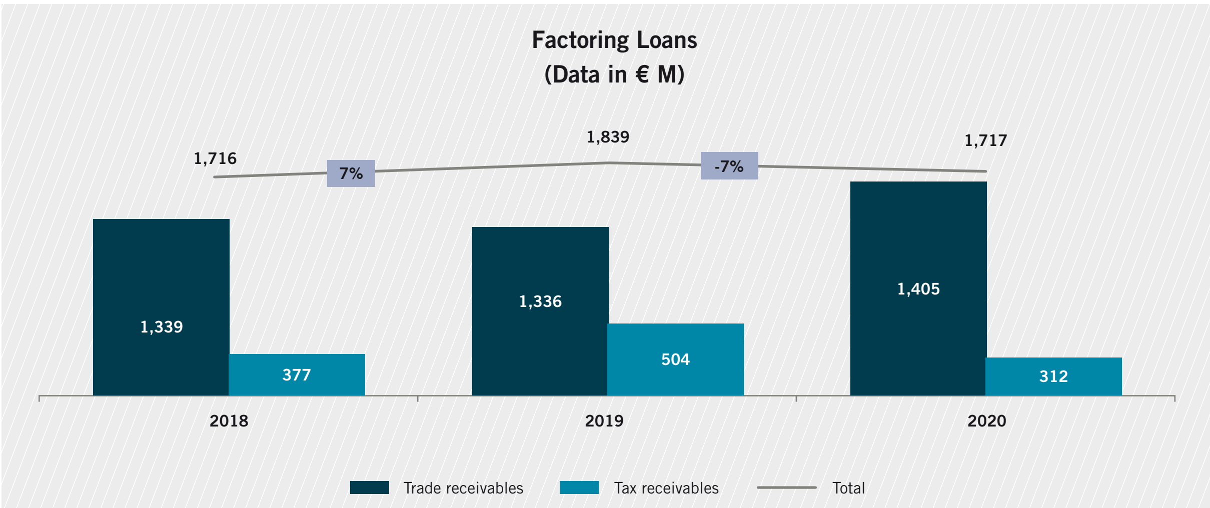
In the 2021 Budget Law, the SACE guarantee was eventually extended to include without recourse factoring, with considerable benefit for the businesses that will use it, although the measure is valid only until 30 June 2021.

Banca Sistema and factoring activities

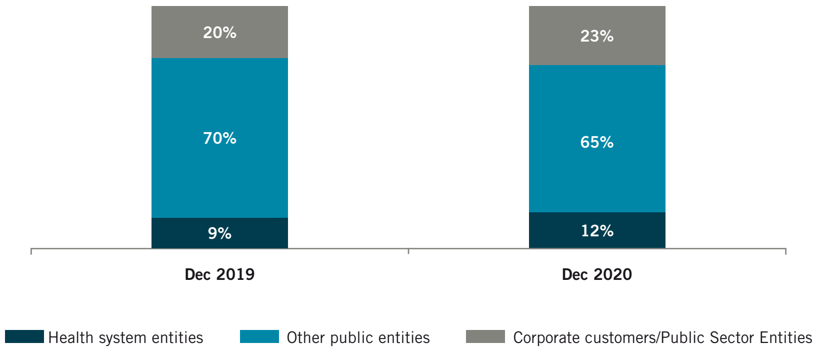
Total volumes at 31 December 2020 of the Banca Sistema Group were € 3,101 million, up 2% on 2019 despite the difficult market conditions in Italy.



Loans at 31 December 2020 amounted to € 1,717 million, down 7% from € 1,839 million at 31 December 2019. This decrease was mainly due to higher collections in the last quarter, particularly in December, deriving from a combination of two factors: more incisive collection activities (also due to the system's adaptation to the new operating conditions introduced by the government measures adopted to manage the Covid-19 pandemic) and the injection of liquidity from the State to local and regional entities to reduce debt positions.



The chart below shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 31 December 2020 and 2019. The Group's core factoring business remains the Public Administration entities segment.



Volumes were generated through both its own internal commercial network and through banks with which the Group has entered into distribution agreements. In December 2020, existing distribution agreements accounted for 26% of total volumes. The following table shows the factoring volumes by product type:

PRODUCT (amounts in millions of Euro)	31.12.2020	31.12.2019	€ Change	% Change
Trade receivables	2,760	2,516	243	10%
of which, without recourse	*2,175*	*2,163*	*12*	*1%*
of which, with recourse	*584*	*353*	*231*	*65%*
Tax receivables	342	539	(197)	-37%
of which, without recourse	*333*	*535*	*(202)*	*-38%*
of which, with recourse	*9*	*4*	*5*	*>100%*
TOTAL	**3,101**	**3,055**	**46**	**2%**

In absolute terms, the growth in volumes derives mainly from the purchase of trade receivables.

Volumes in December 2020 were € 3,101 million, an increase of 2% over December 2019. Excluding football and tax receivables, at December 2020 factoring volumes had grown by 9% yoy. Excluding only tax receivables, volume growth was 10%.

Volumes related to the management of third-party portfolios amounted to € 438 million (in line with the previous year).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

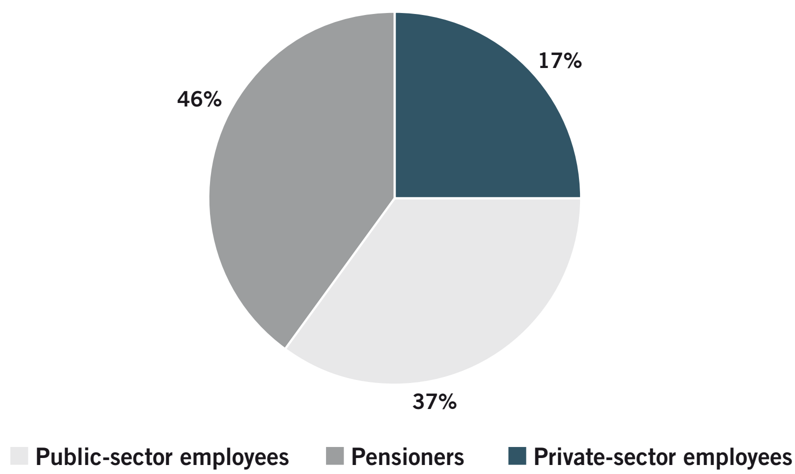
At 31 December 2020, the Group continues to operate in the salary- and pension-backed loans segment mainly through the purchase of receivables generated by other specialist operators. Starting from the second quarter of 2019 following the acquisition of Atlantide, the Banca Sistema Group has expanded 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 41 single-company agents and 14 specialised brokers located throughout Italy and is supported by a dedicated structure within the Bank.

The volumes of acquired portfolios and directly originated receivables from the beginning of the year until December 2020 amounted to € 308 million (€ 37 million of which directly originated), including private-sector employees (17%), pensioners (46%) and public-sector employees (37%). Therefore, over 83% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

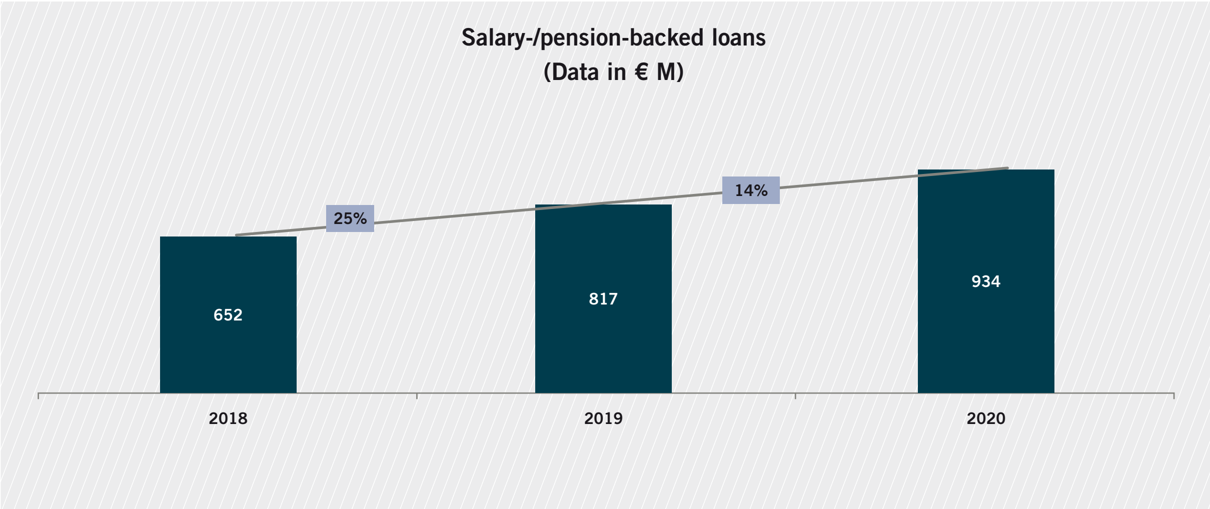
	31.12.2020	31.12.2019	€ Change	% Change
No. of applications (#)	15,727	14,087	1,640	12%
of which originated	*1,723*	*1,047*	*676*	*65%*
Volumes disbursed (millions of Euro)	308	266	43	16%
of which originated	*37*	*22*	*15*	*71%*

As shown in the table, the amount disbursed at December 2020 is up significantly compared to the amount disbursed at December 2019.

CQ disbursed volumes - Breakdown



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

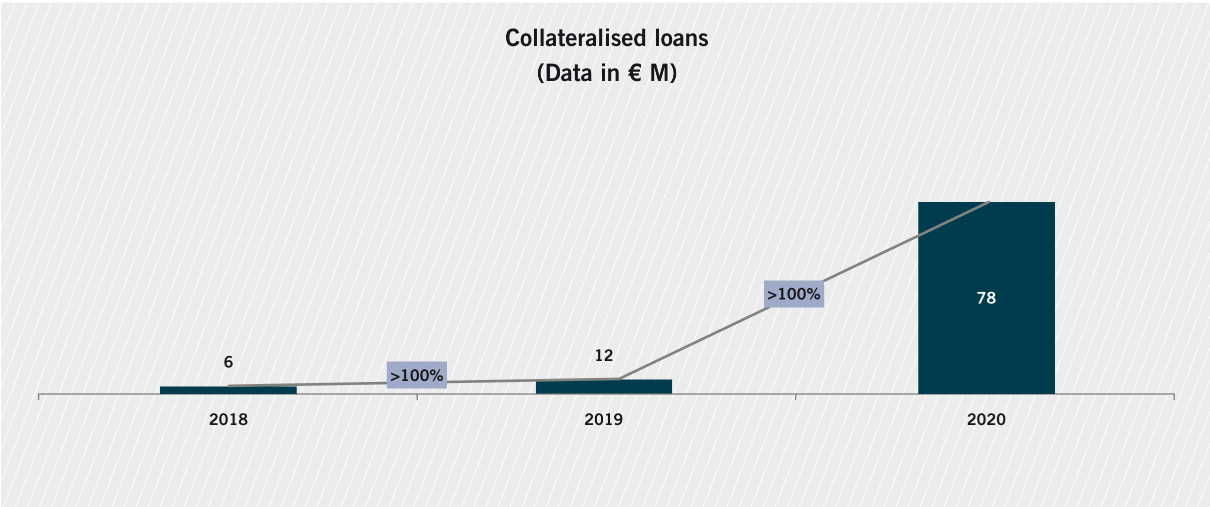


COLLATERALISED LENDING AND PRONTOPEGNO

The Banca Sistema Group began working in the collateralised lending business at the beginning of 2017, combining the credentials of a solid bank with the advantages of a specialist that is continuously willing to innovate and grow to offer greater value to customers, in terms of professionalism and timeliness. To take advantage of the growth prospects that have emerged since starting this business, the Bank has decided to transfer its collateralised lending business to a dedicated company. As described above, ProntoPegno, in line with its growth strategy within this business, acquired the collateralised lending business unit of the Intesa Sanpaolo Group. The assets of the business unit, which was transferred with effect from 13 July 2020, consisted mainly of loans and receivables amounting to € 55.3 million.

Following the acquisition, the Pawnbroker of the Banca Sistema Group now has 12 branches located across the country.

The following chart shows the performance of outstanding loans:



As mentioned previously, the growth in volumes was impacted in March by the Covid-19 crisis because of the restrictions put in place that prevented people from going to the branches, whereas the significant increase in the third quarter is attributed to the acquisition of the collateralised lending business unit.

The statement of financial position of the consolidated company ProntoPegno as at 31 December 2020 is provided below.

ASSETS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Cash and cash equivalents	1,822	499	1,323	>100%
Financial assets measured at amortised cost	81,988	12,869	69,119	>100%
a) loans and receivables with banks	4,304	1,112	3,192	>100%
b1) loans and receivables with customers - loans	77,684	11,757	65,927	>100%
Property and equipment	2,869	489	2,380	>100%
Intangible assets	28,793	-	28,793	n.a.
of which: goodwill	*28,436*	-	*28,436*	*n.a.*
Tax assets	1,200	176	1,024	>100%
Other assets	97	36	61	>100%
Total assets	**116,769**	**14,069**	**102,700**	**>100%**

LIABILITIES AND EQUITY (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Financial liabilities measured at amortised cost	74,305	8,502	65,803	>100%
a) due to banks	70,394	8,243	62,151	>100%
b) due to customers	3,911	259	3,652	>100%
Tax liabilities	258	-	258	n.a.
Other liabilities	3,877	690	3,187	>100%
Post-employment benefits	1,054	95	959	>100%
Provisions for risks and charges	738	222	516	>100%
Valuation reserves	(99)	(12)	(87)	>100%
Reserves	15,410	-	15,410	n.a.
Share capital	23,162	5,000	18,162	>100%
Loss for the year	(1,936)	(428)	(1,508)	>100%
Total liabilities and equity	**116,769**	**14,069**	**102,700**	**>100%**

On 24 June 2020, ProntoPegno received authorisation from the Bank of Italy to acquire the collateralised lending business unit of the Intesa Sanpaolo Group. The acquisition was completed on 10 July with effect from 13 July 2020, consequently increasing assets with the entry of the collateralised lending business unit.

To prepare for the transaction, in June, the Parent allowed new institutional shareholders to join ProntoPegno by selling 25% of the ordinary shares to Fondazione Cassa di Risparmio di Cuneo, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria, each of which acquired different amounts of the above-mentioned share capital of ProntoPegno. Later in June, in order to provide the Company with sufficient funds to acquire the former Banca Intesa Sanpaolo collateralised lending business unit, Banca Sistema, together with the above-mentioned foundations, subscribed to the ProntoPegno capital increase on a pro-rata basis for a total of € 34 million, € 18.2 million of which to share capital and € 15.8 million to the share premium reserve.

The assets consist mainly of loans to customers for the collateralised lending business and goodwill of € 28.4 million.

Liabilities, on the other hand, in addition to the capital and reserves, at 31 December 2020 consisted of the loan of € 48.7 million requested and granted by Intesa Sanpaolo with the transfer of the collateralised lending business unit, along with the loan of € 18.7 million from the Parent.

The other "financial liabilities measured at amortised cost" include the auction buyer's premium of € 3.9 million of which € 2.6 million resulting from the acquisition of the collateralised lending business unit. For 5 years, this amount is recognised in the financial statements as due to customers.

The provision for risks includes the estimated liability for bonuses and non-compete agreements.

The income statement of the consolidated company ProntoPegno as at 31 December 2020 is provided below. In order to provide a better representation of the company's performance, an income statement has been prepared that has been normalised for acquisition-related costs and non-recurring items of € 1.6 million related to the acquisition of the collateralised lending business unit. Since the company commenced operations on 1 August 2019, the comparative figures are not meaningful.

INCOME STATEMENT (€,000)	2020	NORMALISATION	2020 NORMALISED	PERIOD FROM 01.08 TO 31.12.2019
Net interest income	2,836	333	3,169	301
Net fee and commission income	2,691		2,691	228
Total income	**5,527**	**333**	**5,860**	**529**
Net impairment losses on loans and receivables	(1)		(1)	(2)
Net financial income	**5,526**	**333**	**5,859**	**527**
Personnel expense	(3,779)	450	(3,329)	(680)
Other administrative expenses	(4,089)	1,561	(2,528)	(468)
Net impairment losses on property and equipment/intangible assets	(574)		(574)	(44)
Other operating income	252		252	65
Operating costs	**(8,190)**	**2,011**	**(6,179)**	**(1,127)**
Pre-tax loss from continuing operations	**(2,664)**	**2,344**	**(320)**	**(599)**
Income taxes for the year	728	(641)	87	171
Loss for the year	**(1,936)**	**1,703**	**(233)**	**(428)**

The company closed the 2020 financial year with a normalised loss for the year of € 233 thousand, reporting a significant increase in total income as a result of the contribution, starting from the second half of the year, of the acquired collateralised lending business unit. With the positive contribution of the acquired collateralised lending business unit for an entire financial year and without the initial charge represented by acquisition-related costs, the company is expected to be profitable from 2021 onwards. When excluding non-recurring costs, the company already closed the fourth quarter with a pre-tax profit of € 138 thousand.

Personnel expenses mostly include the cost of the 71 employees (of which 17 transferred from the Bank and 58 from the business unit), as well as the pro-rata allocation of the estimated variable incentive for the year.

Other administrative expenses mainly consist of advertising costs, rent of space paid to the Group and costs for support activities carried out by the Parent.

The income statement was normalised by excluding the lower interest recognised as a result of allocating part of the acquisition price to the higher value of loans and receivables, acquisition-related operating costs, which comprise the registration tax of € 1 million paid for the acquisition of the business unit and other non-recurring costs incurred for IT and logistics integration and variable remuneration related to the acquisition, for a total of approximately € 2 million.

FUNDING AND TREASURY ACTIVITIES

Treasury portfolio

A treasury portfolio has been established in order to support the Bank's liquidity commitments solely through short-term investment in Italian government bonds.

The balance at 31 December 2020 was equal to a nominal € 873 million compared to € 985 million at 31 December 2019.

The treasury portfolio allowed for optimal management of the Treasury commitments which are increasingly characterised by a concentration of transactions in very specific periods, but not predictable.

At 31 December, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounted to € 423 million (compared to € 550 million as at 31 December 2019) with a duration of 14.8 months (20.1 months at 31 December 2019). At 31 December, the HTC portfolio amounted to € 450 million with a duration of 11.2 months.

Wholesale funding

At 31 December, wholesale funding was about 41% of the total, mainly comprising refinancing transactions with the ECB, as well as bonds and interbank deposits (39% at 31 December 2019).

The € 175 million bond maturing in October was intentionally not refinanced with a similar instrument, as it was deemed less advantageous than other forms of funding. As a result, the total amount of securities issued in December 2020 is significantly lower than in the same period in 2019.

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. The Bank also adhered to the ABACO procedure introduced by the Bank of Italy which was expanded to include consumer credit during the Covid-19 emergency.

For its short-term liquidity needs, the Group used the interbank deposit market. Existing bank deposits at 31 December 2020 totalled € 125 million, an increase over the € 30 million reported a year earlier.

Retail funding

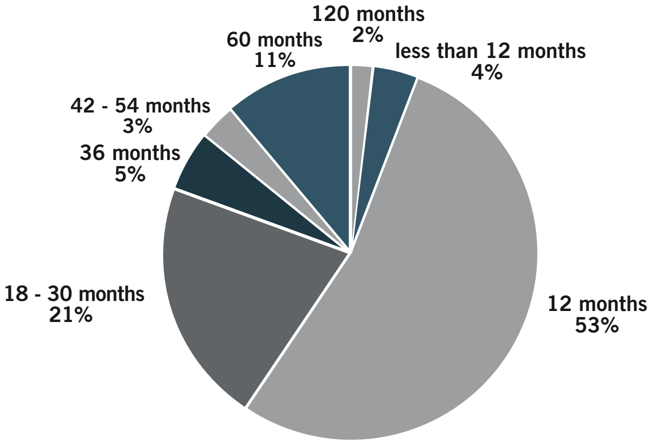
The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.

Retail funding accounts for 59% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 31 December 2020 amounted to € 1,217 million, a decrease of 8% compared to 31 December 2019. The above-mentioned amount also includes total term deposits of € 612 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 50% of total deposit funding), a decrease of € 186 million over the same period of the previous year as a result of the policy to reduce interest rates being implemented by the Bank.

The breakdown of funding by term is shown below. The a*verage residual* life of the portfolio is 11 months.

Breakdown of deposit accounts as at 31 December



Current accounts increased from 6,902 (as at 31 December 2019) to 7,342 as at 31 December 2020, while the current account balance at 31 December 2020 decreased by 7% on 2019 to € 634 million.

COMPOSITION AND ORGANISATIONAL STRUCTURE OF THE GROUP

Scope of the banking group

At 31 December 2020, the Banca Sistema Group comprised the Parent, Banca Sistema S.p.A., the subsidiaries ProntoPegno S.p.A., Largo Augusto Servizi e Sviluppo S.r.l., and Specialty Finance Trust Holdings Limited, a company incorporated under UK Law, and the Spanish joint venture EBNSistema Finance S.l.

The scope of consolidation also includes the following special purpose securitisation vehicles whose receivables are not subject to derecognition: Quinto Sistema Sec. 2019 S.r.l., Quinto Sistema Sec. 2017 S.r.l. and BS IVA SPV S.r.l.

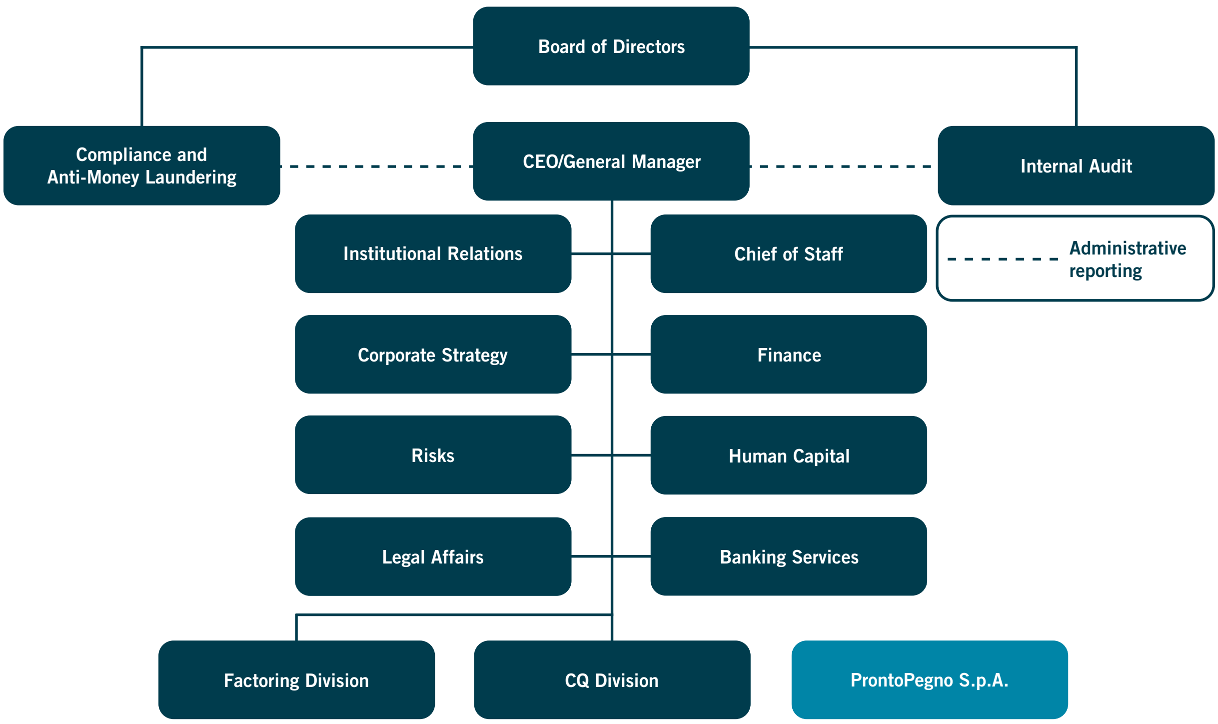
Organisational chart

The organisational structure has undergone significant changes, moving from a functional organisational model to a divisional organisational model. During the second half of the year, this organisational structure was refined and consolidated, allowing for continuity of operations and results even during the months in which the Bank was operating remotely.

This reorganisation is the result of a comprehensive project, carried out with the support of qualified external consultants, intended to update and focus the Group's organisational structure, responsibilities and mandates, human capital and information system on the increasing diversification and specialisation of its business.

As of 1 February 2020, two business divisions, one of which is responsible for supervising and developing the Factoring business and the other for developing salary- and pension-backed loans (CQ), became operational and separate from the other "central" departments (besides the control departments of Internal Audit, Risks, and Compliance & AML, also Finance, Banking Services, Legal Affairs, Corporate Strategy, Chief of Staff, Institutional Relations, Human Capital, which together form the "Corporate Centre"). Each of these two Divisions is equipped with structures in charge of managing commercial, credit and operational activities, as well as a direct staff responsible for managing the main business processes (planning and monitoring, pricing, operational marketing, human resource management and recruiting). By operating within the guidelines, processes and tools developed by the "Corporate Centre" departments, the Business Divisions were able to concentrate, with even greater speed and focus, on growing their respective customer segments and innovating products and processes.

The organisational chart in force since 1 February 2020 is as follows:



HUMAN RESOURCES

As at 31 December 2020, the Group had a staff of 269, broken down by category as follows:

FTES	31.12.2020	30.06.2020	31.12.2019
Senior managers	27	26	24
Middle managers (QD3 and QD4)	52	50	45
Other personnel	190	140	146
Total	**269**	**216**	**215**

Over the course of the year the Bank realigned the organisational structure based on market changes and performance in order to support the achievement of its strategic objectives, as more fully detailed below. In summary, the Bank, in keeping with the operational objectives set out in the 2018 - 2020 business plan, has implemented a new organisational model focused on the Factoring, CQ and Collateralised Lending businesses. Each of these businesses, consisting of a divisional structure and point of convergence for their respective operating margins, is divided into Operations, Credit and Commercial departments, and has specific Planning & Monitoring, Pricing, Operational Marketing, and HR Management, Recruiting and Training functions. The objective is to enable those responsible for managing the businesses to achieve results, streamline and speed up decision-making processes and bring the entire organisational structure closer to customers.

In July, the Bank, as part of its strategy of increasing business specialisation, completed the acquisition and merger of the collateralised lending business unit of the Intesa Sanpaolo Group. This merger resulted in 58 new operating employees in Turin, Parma, Mestre, Florence, Civitavecchia and Naples, thus increasing the Group's geographical presence in Italy.

During the year, a total of eleven new resources were recruited in the Chief of Staff, ICT, Corporate Strategy, CQ Commercial, Human Capital, and Credit departments and in the Collateralised lending branches.

Starting from the end of February, the Group, in response to the health emergency, promptly adapted its operational model to ensure business continuity by allowing employees to work remotely. Excluded from this new operational model were employees of the Banking and Collateralised lending branches and those working in the departments having the greatest impact on managing the emergency, namely ICT and Logistics. Along with all safety and precautionary measures, all activities were reorganised and managed remotely with a total of over 77% of workdays performed outside the Bank's premises. Even during the second half of the year, depending on the evolution of the health emergency and the resulting measures to counter the spread of the virus, including by restricting movement, operations continued to be carried out remotely for an average of around 75% of workdays. Several internal communication initiatives were carried out on the health emergency and its management by the Group's Crisis Committee, and on business performance and strategies between management and all employees. In addition, frequent exchanges between teams and between employees have been encouraged and the right to disconnect has been guaranteed based on the hours the central access tools are available. In April, a workplace climate survey was conducted specifically to verify the overall effectiveness of the actions taken. Survey participation was high, and the results revealed a high degree of satisfaction with the initiatives in place and with the feeling of safety and closeness ensured by the Group. During the emergency, an agreement was signed to guarantee qualified and immediate health and medical advice remotely through digital channels to employees and their families, even for matters unrelated to the coronavirus.

Starting in July with the acquisition of the collateralised lending business unit by the ProntoPegno S.p.A. subsidiary, communication and onboarding activities were defined and implemented for the 58 newly hired employees. During the last quarter of the year, additional steps to integrate the welfare systems of the new staff were defined.

During the first half of the year, various professional training courses were organised covering regulatory topics affecting the Bank, both with internal and external instructors. Some of these courses were rescheduled for the second half of the year because of the health emergency. Specific training courses and coaching programmes were also developed and launched focusing on managerial and professional topics mainly for the Commercial Department and new managers. With the implementation of the new divisional structure and the ensuing appointments of the top-level managers of the new structures, targeted coaching programmes were developed and implemented to accelerate the onboarding of the new heads of division. During 2020, there was a shift from in-person classroom training in the early months of the year to distance learning as a way of continuing training programmes despite the continuing pandemic and the associated restrictions on movements and social contact. In the second half of the year, individual coaching, training on the regulatory and legal framework, as well as technical and language training for all Group staff also continued. In 2020, 325 training days were provided to Group employees, an increase of about 4.5% over 2019.

The average age of Group employees is 47 for men and 44 for women. The breakdown by gender is essentially balanced with men accounting for 56% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	2020	2019	€ Change	% Change
Net interest income	74,271	80,694	(6,423)	-8.0%
Net fee and commission income	17,428	16,068	1,360	8.5%
Dividends and similar income	227	227	-	0.0%
Net trading income	37	208	(171)	-82.2%
Gain from sales or repurchases of financial assets/liabilities	9,531	3,716	5,815	>100%
Total income	**101,494**	**100,913**	**581**	**0.6%**
Net impairment losses on loans and receivables	(11,000)	(9,055)	(1,945)	21.5%
Net financial income	**90,494**	**91,858**	**(1,364)**	**-1.5%**
Personnel expense	(25,532)	(23,166)	(2,366)	10.2%
Other administrative expenses	(25,534)	(22,939)	(2,595)	11.3%
Net accruals to provisions for risks and charges	(2,520)	(1,996)	(524)	26.3%
Net impairment losses on property and equipment/intangible assets	(1,956)	(1,632)	(324)	19.9%
Other operating income (expense)	260	(768)	1,028	<100%
Operating costs	**(55,282)**	**(50,501)**	**(4,781)**	**9.5%**
Gains (losses) on sales of investments	1,090	(8)	1,098	<100%
Pre-tax profit from continuing operations	**36,302**	**41,349**	**(5,047)**	**-12.2%**
Income taxes for the year	(11,009)	(12,192)	1,183	-9.7%
Post-tax profit for the year	**25,293**	**29,157**	**(3,864)**	**-13.3%**
Post-tax profit (loss) from discontinued operations	-	562	(562)	-100.0%
Profit for the year	**25,293**	**29,719**	**(4,426)**	**-14.9%**
Profit (loss) attributable to non-controlling interests	484	-	484	n.a.
Profit for the year attributable to the owners of the parent	**25,777**	**29,719**	**(3,942)**	**-13.3%**

Profit for 2020 amounted to € 25.8 million, down on the previous year mainly due to higher costs in connection with the acquisition of the collateralised lending business unit, which were not offset by an equal increase in net interest income as a result of the lower contribution from the loans and receivables factoring portfolio.

In the third quarter of 2020, the expected rates of recovery of default interest on factoring and the related collection times used for the estimate as at 30 September 2020 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 € 1.0 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 € 5.1 million.

Unlike the 2020 financial year, the figures for 2019 did not include the full year's operating costs of Atlantide, which entered the scope of consolidation in the second quarter of 2019 following the acquisition of the company which was completed on 3 April 2019. Furthermore, to correctly interpret the operating costs, one must bear in mind that the amount due to the Resolution Fund is € 0.9 million higher than the first half of 2019 (the unexpected increase in the contribution was 75%) and that non-recurring operating costs of € 2.1 million were incurred during the second half attributable to the collateralised lending business unit.

NET INTEREST INCOME (€,000)	2020	2019	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	90,674	105,005	(14,331)	-13.6%
Factoring	*64,528*	*81,335*	*(16,807)*	*-20.7%*
CQ	*22,415*	*23,006*	*(591)*	*-2.6%*
Collateralised lending (interest income)	*3,054*	*664*	*2,390*	*>100%*
Government-backed loans to SMEs	*677*	*-*	*677*	*n.a.*
Securities portfolio	1,867	750	1,117	>100%
Other	1,304	1,899	(595)	-30.9%
Financial liabilities	4,223	2,682	1,541	57.5%
Total interest income	**98,068**	**110,336**	**(12,268)**	**-11.1%**
Interest and similar expense				
Due to banks	(529)	(576)	47	-8.2%
Due to customers	(15,434)	(21,010)	5,576	-26.5%
Securities issued	(7,646)	(7,930)	284	-3.6%
Financial assets	(188)	(126)	(62)	48.0%
Total interest expense	**(23,797)**	**(29,642)**	**5,845**	**-19.7%**
Net interest income	**74,271**	**80,694**	**(6,410)**	**-7.9%**

Net interest income decreased compared to the previous year. This was due to the lower contribution of the Factoring Division as a result of the reduction in default interest from both legal and out-of-court actions, and tax receivables. On the other hand, the current funding policies had a positive impact on net interest income.

The total contribution of the Factoring Division to interest income was € 65.2 million, equal to 71% of the entire loans and receivables portfolio (compared to 77% at 31 December 2019), to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The component linked to default interest from legal action at 31 December 2020 was € 21.6 million (€ 29 million at 31 December 2019):

- of which € 1 million resulting from the updated recovery estimates and expected collection times (€ 5.1 million in 2019);
- of which € 9.0 million resulting from the current recovery estimates (€ 12.0 million in 2019);
- of which € 11.6 million (€ 11.9 million in 2019) coming from net collections during the year, i.e. the difference between the amount collected during the period, equal to € 21.5 million (€ 21.6 million in 2019) and that recognised on an accruals basis in previous years. This item includes gross collections of € 6.5 million from transfers to third parties (equal to € 7.0 million in 2019).

The decrease in the effect resulting from the updated recovery estimates is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly.

The amount of the stock of default interest from legal actions accrued at 31 December 2020, relevant for the allocation model, was € 98 million (€ 107 million at the end of 2019), which would become € 155 million including troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements amount to € 50.1 million. The amount of default interest accrued but not recognised in the income statement is € 105 million.

During the year, factoring portfolios were sold that generated a total net profit of € 2.4 million recognised in the item Gain from sales or repurchases of financial assets/ liabilities.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios which is down slightly on the previous year at € 16.9 million as a result of the early redemption of several positions.

The contribution of the Collateralised Lending Division grew significantly to € 3.1 million, compared to € 0.7 million in the previous year. The increase is mostly due to the recent acquisition of the collateralised lending business unit starting from 13 July 2020.

The item "financial liabilities" mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans at negative rates, which account for € 4.2 million.

Despite the increase in average lending, interest expense decreased compared to the previous year thanks to the funding strategies put in place which aimed to carefully contain the cost of funding. In particular, interest on term deposits from customers decreased as a result of the reduction in the interest rate applied to deposit accounts. This has led to a decrease in funding from this channel, while the various forms of funding from the ECB, at negative rates, have increased significantly.

NET FEE AND COMMISSION INCOME (€,000)	2020	2019	€ Change	% Change
Fee and commission income				
Factoring activities	17,726	18,420	(694)	-3.8%
Fee and commission income - off-premises CQ	2,388	1,859	529	28.5%
Collateralised loans (fee and commission income)	2,721	456	2,265	>100%
Collection activities	1,138	1,247	(109)	-8.7%
Other	355	508	(153)	-30.1%
Total fee and commission income	**24,328**	**22,490**	**1,838**	**8.2%**
Fee and commission expense				
Factoring portfolio placement	(1,279)	(1,204)	(75)	6.2%
Placement of other financial products	(1,767)	(2,721)	954	-35.1%
Fees - off-premises CQ	(3,013)	(1,936)	(1,077)	55.6%
Other	(841)	(561)	(280)	49.9%
Total fee and commission expense	**(6,900)**	**(6,422)**	**(478)**	**7.4%**
Net fee and commission income	**17,428**	**16,068**	**1,360**	**8.5%**

Net fee and commission income of € 17.5 million increased by 8.5% thanks to the contribution of commissions from the Collateralised Lending Division.

Fee and commission income from factoring 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.

Fee and commission income from the collateral-backed loans business grew by € 2.3 million compared to the previous year thanks to the acquisition of the business unit in the third quarter.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are down slightly on the previous year.

Other fee and commission income includes commissions and fees from collection and payment services, and the keeping and management of current accounts.

Fee and commission income - off-premises CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 2.4 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 3.0 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the estimated year-end bonuses payable to them. Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios are linked to the origination costs of factoring receivables, which remained in line with those reported the previous year.

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

GAIN FROM SALES OR REPURCHASES (€,000)	2020	2019	€ Change	% Change
Gains from HTCS portfolio debt instruments	5,301	2,610	2,691	>100%
Gains from HTC portfolio debt instruments	340	-	340	n.a.
Gains from financial liabilities	16	-	16	n.a.
Gains from receivables (Factoring portfolio)	2,425	1,106	1,319	>100%
Gains from receivables (CQ portfolio)	1,449	-	1,449	n.a.
Total	**9,531**	**3,716**	**5,815**	**>100%**

The item Gain (loss) from sales or repurchases includes gains generated by the proprietary HTCS and HTC securities portfolio of € 5.6 million, and net realised gains from factoring receivables of € 2.4 million, the revenue from which derives mainly from the sale of factoring portfolios to private-sector assignors. During the second half of the year, loans and receivables from the internally originated CQ portfolio were sold, generating a gain of € 1.4 million.

Impairment losses on loans and receivables at 31 December 2020 amounted to € 11 million and include a model update of the collective provision due to the deterioration of the macroeconomic scenario caused by the ongoing health emergency. Impairment losses are mainly attributable to exposures to businesses and some factoring loans. The loss rate increased from 0.36% at 31 December 2019 to 0.42%.

PERSONNEL EXPENSE (€,000)	2020	2019	€ Change	% Change
Wages and salaries	(23,889)	(21,682)	(2,209)	10.2%
Social security contributions and other costs	(394)	(339)	(55)	16.2%
Directors' and statutory auditors' remuneration	(1,249)	(1,145)	(104)	9.1%
Total	**(25,532)**	**(23,166)**	**(2,368)**	**10.2%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 202 to 241. Contributing to this increase was the addition of 58 employees from the business unit incorporated into ProntoPegno who joined the company's personnel in the second half of the year.

The item includes redundancy charges of € 0.5 million (€ 0.6 million at 31 December 2019).

OTHER ADMINISTRATIVE EXPENSES (€,000)	2020	2019	€ Change	% Change
Consultancy	(4,872)	(4,200)	(672)	16.0%
IT expenses	(5,382)	(5,765)	383	-6.6%
Servicing and collection activities	(2,951)	(2,992)	41	-1.4%
Indirect taxes and duties	(2,174)	(2,355)	181	-7.7%
Insurance	(707)	(487)	(220)	45.2%
Other	(576)	(463)	(113)	24.4%
Expenses related to management of the SPVs	(669)	(530)	(139)	26.2%
Car hire and related fees	(633)	(651)	18	-2.8%
Advertising	(594)	(586)	(8)	1.4%
Rent and related fees	(948)	(627)	(321)	51.2%
Expense reimbursement and entertainment	(387)	(838)	451	-53.8%
Infoprovider expenses	(514)	(638)	124	-19.4%
Membership fees	(299)	(310)	11	-3.5%
Property management expenses	(453)	(343)	(110)	32.1%
Audit fees	(294)	(368)	74	-20.1%
Telephone and postage expenses	(158)	(139)	(19)	13.7%
Logistics expenses	(143)	(75)	(68)	90.7%
Stationery and printing	(74)	(61)	(13)	21.3%
Total operating expenses	**(21,828)**	**(21,428)**	**(400)**	**1.9%**
Resolution Fund	(2,007)	(1,146)	(861)	75.1%
Merger-related costs	(1,699)	(365)	(1,334)	365.5%
Total	**(25,534)**	**(22,939)**	**(2,595)**	**11.3%**

Administrative expenses increased mainly due to the contribution to the Resolution Fund which accounts for € 0.9 million of the increase in costs and the non-recurring acquisition-related costs from the acquisition of the business unit. These costs primarily comprise the registration tax of € 1 million, and IT and logistics costs. Excluding these items, costs increased by 5.6% over the previous year. Excluding these items, the increase in other administrative expenses is immaterial.

The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

The 2020 merger-related costs refer to costs incurred in connection with the acquisition of the collateralised lending business unit completed in July. The 2019 merger-related costs include the costs for the integration and merger of Atlantide into the Bank.

The impairment losses on property and equipment/ intangible assets are 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 item accruals to provisions for risks is mainly attributable to the measurement and review of contingent liabilities for ongoing lawsuits, and the assessment and quantification of possible future risks.

The item Gains (losses) on sales of investments includes the € 1.1 million gain on the sale of 25% of the share capital of the ProntoPegno subsidiary by the Parent to its current minority shareholders.

The Group's tax rate improved as it benefited from the reintroduction by the legislator of "ACE" (Aid to Economic

Growth), which is aimed at strengthening the capital structure of companies, a measure that was introduced in 2011, abolished by the previous 2019 Budget Law and then reintroduced with the 2020 Budget Law. The gain on the sale of 25% of the equity investment in ProntoPegno held by the Parent benefits from the participation exemption (PEX), which means that 95% of it is exempt from taxation.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Cash and cash equivalents	1,930	652	1,278	>100%
Financial assets measured at fair value through other comprehensive income	430,966	556,383	(125,417)	-22.5%
Financial assets measured at amortised cost	3,142,791	3,112,387	30,404	1.0%
a) loans and receivables with banks	92,481	81,510	10,971	13.5%
b1) loans and receivables with customers - loans	2,602,446	2,595,700	6,746	0.3%
b2) loans and receivables with customers - debt instruments	447,864	435,177	12,687	2.9%
Equity investments	1,000	-	1,000	n.a.
Property and equipment	32,607	29,002	3,605	12.4%
Intangible assets	32,725	3,921	28,804	>100%
Tax assets	10,313	8,476	1,837	21.7%
Other assets	19,039	19,260	(221)	-1.1%
Total assets	**3,671,371**	**3,730,081**	**(58,710)**	**-1.6%**

The year ended 31 December 2020 closed with total assets down by 1.6% on the end of 2019 and equal to € 3.7 billion.

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 down slightly compared to 31 December 2019 and continues to be mainly comprised of Italian government bonds with an average duration of about 14.8 months (the average remaining duration at the end of 2019 was 20.1 months). This is consistent with the Group investment policy. The HTCS portfolio amounted to € 425 million at 31 December 2020 (€ 550 million at 31 December 2019). The associated valuation reserve was positive at the end of the year, amounting to € 2.6 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 the Axactor Norway shares, which at 31 December 2020 had a negative fair value reserve of € 0.5 million, resulting in a year-end amount of € 0.6 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Factoring	1,474,532	1,714,661	(240,129)	-14.0%
Salary-/pension-backed loans (CQS/CQP)	933,873	817,229	116,644	14.3%
Collateralised loans	77,694	11,757	65,937	>100%
Loans to SMEs	74,399	11,998	62,401	>100%
Current accounts	16,855	18,213	(1,358)	-7.5%
Compensation and Guarantee Fund	12,639	20,676	(8,037)	-38.9%
Other loans and receivables	12,454	1,166	11,288	>100%
Total loans	**2,602,446**	**2,595,700**	**6,746**	**0.3%**
Securities	447,864	435,177	12,687	2.9%
Total loans and receivables with customers	**3,050,310**	**3,030,877**	**19,433**	**0.6%**

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 the "held-to-maturity securities" portfolio.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 57% (66% at the end of 2019). The volumes generated during the year amounted to € 3,101 million (€ 3,055 million at 31 December 2019).

Salary- and pension-backed loans grew thanks to new loans from acquired portfolios and originated receivables, which increased by 14% compared to the previous year (the new volumes acquired in 2020 amounted to € 308 million), while government-backed loans to SMEs increased following new disbursements made under SACE and SME Fund guarantees.

The collateralised loan business, carried out through the ProntoPegno subsidiary, grew significantly to € 78 million at 31 December 2020, which are the result of loans granted during the first half of the year and renewals with existing customers despite the limitations caused by the lockdown, but especially of the acquisition of the Collateralised Lending Business Unit.

HTC Securities are composed entirely of Italian government securities with an average duration of 11.2 months for an amount of € 447 million. The mark-to-market valuation of the securities at 31 December 2020 was a positive fair value of € 4.9 million.

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

STATUS (€,000)	31.12.2019	31.03.2020	30.06.2020	30.09.2020	31.12.2020
Bad exposures	50,622	48,564	48,714	49,759	52,354
Unlikely to pay	139,349	141,127	140,422	144,848	148,433
Past due	55,647	68,747	84,134	60,966	50,377
Non-performing	**245,618**	**258,438**	**273,270**	**255,573**	**251,164**
Performing	**2,392,985**	**2,352,389**	**2,380,051**	**2,477,606**	**2,404,623**
Stage 2	124,252	155,374	165,148	169,719	134,194
Stage 1	2,268,733	2,197,015	2,214,903	2,307,887	2,270,429
Total loans and receivables with customers	**2,638,603**	**2,610,827**	**2,653,321**	**2,733,179**	**2,655,787**
Individual impairment losses	**37,217**	**38,194**	**38,495**	**39,997**	**46,027**
Bad exposures	20,078	19,819	19,920	21,212	25,240
Unlikely to pay	16,042	17,106	17,707	18,265	20,352
Past due	1,097	1,269	868	520	435
Collective impairment losses	**5,686**	**6,335**	**8,284**	**9,781**	**7,315**
Stage 2	667	865	943	982	781
Stage 1	5,019	5,470	7,341	8,799	6,534
Total impairment losses	**42,903**	**44,529**	**46,779**	**49,778**	**53,342**
Net exposure	**2,595,700**	**2,566,298**	**2,606,542**	**2,683,401**	**2,602,445**

The ratio of gross non-performing loans to the total portfolio increased slightly to 9.5% from 9.3% at 31 December 2019. Non-performing loans increased slightly compared to 31 December 2019. 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 1.0% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 18.3%.

Property and equipment includes the property located in Milan which is also being used as Banca Sistema's new offices. Its carrying amount, including capitalised items, is € 27.5 million after the accumulated depreciation of the building. It should be noted that at the end of the year the property was appraised and revalued by € 1.3 million. As a result of the revaluation of the property, undistributable equity reserves increased, net of the substitute tax. 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 refer to goodwill of € 32.3 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020.

The allocation of the purchase price for the former Intesa Sanpaolo collateralised lending business unit is provided below:

PURCHASE PRICE ALLOCATION
In thousands of Euro

Purchase price	34,000
Price adjustment	(991)
Final price (A)	**33,009**
Adjusted Business Unit "Equity" (B)	3,209
Residual value to be allocated (A+B)	**29,800**
Loans and receivables with customers	(1,224)
Post-employment benefits	(166)
Property and equipment	25
Allocation to goodwill	**28,435**

The final price amounted to € 33 million following the change in the business unit's imbalance (excess value) between the closing date and the signing date of the transaction, and an adjustment recognised by the counterparty in relation to the valuation of the loans and receivables. As required by IFRS 3, this excess value was allocated to the financial statements items that had a difference in fair value with respect to their carrying amount and, in particular, to the item "Loans and receivables with customers", leaving the unallocated balance under goodwill, which is subject to an annual impairment test.

At the end of 2020, Banca Sistema entered into an equal partnership with EBN Banco de Negocios S.A., taking a stake in the capital of EBNSISTEMA Finance S.L., and thereby entering the Spanish factoring market. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave Banca Sistema a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business on the Iberian peninsula, specialising in the purchase of healthcare receivables.

Other assets mainly include amounts being processed after the end of the year and advance tax payments.

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

LIABILITIES AND EQUITY (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Financial liabilities measured at amortised cost	3,282,230	3,416,486	(134,256)	-3.9%
a) due to banks	869,648	388,359	481,289	>100%
b) due to customers	2,164,244	2,551,600	(387,356)	-15.2%
c) securities issued	248,338	476,527	(228,189)	-47.9%
Tax liabilities	16,903	16,433	470	2.9%
Other liabilities	136,894	94,662	42,232	44.6%
Post-employment benefits	4,428	3,051	1,377	45.1%
Provisions for risks and charges	23,430	22,297	1,133	5.1%
Valuation reserves	1,287	267	1,020	>100%
Reserves	161,708	137,717	23,991	17.4%
Equity attributable to non-controlling interests	9,297	32	9,265	>100%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(234)	(234)	-	0.0%
Profit for the year	25,777	29,719	(3,942)	-13.3%
Total liabilities and equity	**3,671,371**	**3,730,113**	**(58,742)**	**-1.6%**

Wholesale funding, which represents about 41% of the total (39% at 31 December 2019), increased in both relative and absolute terms from the end of 2019 following the increase in funding from the ECB and the decrease in funding through deposit accounts. The contribution of bond funding to total wholesale funding was 23% (56% at the end of 2019).

DUE TO BANKS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Due to Central banks	689,686	358,250	331,436	92.50%
Due to banks	179,962	30,109	149,853	>100%
Current accounts and demand deposits	*127,088*	*20*	*127,068*	*>100%*
Term deposits with banks	-	*30,089*	*30,089*	*-100,00%*
Financing from banks	*48,737*	-	*48,737*	*n.a.*
Other amounts due to banks	*4,137*	-	*4,137*	*n.a.*
Total	**869,648**	**388,359**	**481,289**	**>100%**

The item "Due to banks" increased compared to 31 December 2019 due to the increase in interbank funding and especially refinancing with the ECB backed by ABS from the salary- and pension-backed loans (CQS/CQP) securitisation, government bonds, CQS/CQP receivables and some factoring receivables. As a result of the decisions taken by the ECB in response to the effects of the COVID-19 pandemic, the amount available to the Bank under TLTRO III (starting in June 2020) increased to a maximum of € 491 million from the previous amount of € 295 million. From March to June, the Bank could benefit from the LTRO bridge loan for a total amount of 650 million at an average rate of -0.50% that was repaid on 24 June 2020. From May, the Bank could also benefit from PELTROs, Pandemic Emergency Longer-Term Refinancing Operations (200 million as at 31 December 2020) at a fixed rate of -0.25%.

DUE TO CUSTOMERS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Term deposits	1,216,523	1,325,794	(109,271)	-8.2%
Financing (repurchase agreements)	235,230	457,070	(221,840)	-48.5%
Current accounts	633,548	681,577	(48,029)	-7.0%
Due to assignors	71,654	83,783	(12,129)	-14.5%
Other payables	7,289	3,376	3,913	>100%
Total	**2,164,244**	**2,551,600**	**(387,356)**	**-15.2%**

The item "Due to customers" decreased compared to the end of the previous year, mainly due to a decrease in funding from term deposits and from repurchase agreements. The year-end amount of term deposits decreased by 8.2% compared to the end of 2019, reflecting net negative deposits (net of accrued interest) of € -108 million due to the reduction in interest rates in the international channel; gross deposits from the beginning of the year were € 1,091 million, against withdrawals totalling € 1,199 million.

Due to assignors includes payables related to the unfunded portion of acquired receivables.

SECURITIES ISSUED (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Bond - AT1	8,018	8,016	2	0.0%
Bond - Tier II	37,570	37,547	23	0.1%
Bonds - other	202,750	430,964	(228,214)	-53.0%
Total	**248,338**	**476,527**	**(228,189)**	**-47.9%**

The item Securities issued (248 million) decreased compared to 31 December 2019 and 30 September 2020 mainly due to the repayment of the senior bond maturing in October amounting to 175 million.

The nominal amount of securities issued at 31 December 2020 is broken down as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 December 2022 at 7% issued on 18 December 2012;
- Tier 2 subordinated loan of € 19.5 million, 2017-2027 with a variable coupon equal to 6-month Euribor + 4.5%;
- Tier 2 subordinated loan of € 18 million, 2019-2029 with a fixed coupon of 7%;
- Senior bonds (private placement) of € 91.9 million, 2018-2021 with a fixed coupon of 2%.

Other bonds include the senior shares of the ABS in the Quinto Sistema Sec. 2019 and BS IVA securitisation subscribed by third-party institutional investors.

The provision for risks and charges of € 23.4 million includes the provision for possible liabilities attributable to past acquisitions of € 3.1 million, the estimated amount of personnel-related charges such as the portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, the estimate related to the non-compete agreement and ongoing labour-related lawsuits, totalling € 8.7 million. The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled of € 4.7 million and other estimated charges for ongoing lawsuits and legal disputes amounting to € 1.2 million. 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 (the liability is currently estimated to be € 1.3 million and is offset against goodwill), and the provision for supplementary customer allowances. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolio, for an amount of € 3.4 million.

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

The item also includes the 2019 dividend of € 7.5 million, which has been approved but not distributed. This amount is excluded from the calculation of CET1 insofar as it is excluded from the Bank’s equity.

The reconciliation between the profit for the year 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	**25,746**	**199,448**
Assumption of value of investments	-	(42,731)
Consolidated loss/equity	(1,953)	50,770
Adjustment to impairment losses on intra-group loans and receivables	1,500	-
Equity attributable to the owners of the parent	**25,293**	**207,487**
Equity attributable to non-controlling interests	484	(9,297)
Group equity	**25,777**	**198,189**

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.12.2020	31.12.2019
Common Equity Tier 1 (CET1)	**163,797**	**165,119**
TIER1	8,000	8,000
Tier 1 capital (AT1)	**171,797**	**173,119**
TIER2	37,655	37,500
Total Own Funds (TC)	**209,452**	**210,619**
Total risk-weighted assets	**1,297,255**	**1,405,890**
of which, credit risk	1,120,412	1,236,603
of which, operational risk	176,843	169,252
of which, CVA (credit value adj. on derivatives)	-	35
Ratio - CET1	12.6%	11.7%
Ratio - AT1	13.2%	12.3%
Ratio - TCR	**16.1%**	**15.0%**

Total own funds were € 209 million at 31 December 2020 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit.

Total own funds decreased compared to 31 December 2019 following the recognition of goodwill arising from the acquisition of the collateralised lending business unit from Intesa Sanpaolo. As previously reported, on 30 June 2020 the Group began benefitting from the reduction in the weighting of the CQS/CQP assets set out in Regulation 876/2019 that came into effect on 27 June 2020.

The Group's consolidated capitalisation requirements, according to the transitory criteria, are as follows:

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

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

CAPITAL AND SHARES

Capital and ownership structure

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.
Based on evidence from the Shareholders' Register and more recent information available, as at 18 February 2021 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.54%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Chandler SARL	7.48%
Fondazione Sicilia	7.40%
Moneta Micro Entreprises	5.12%
Market*	48.45%

(*) Includes treasury shares held by the Bank.

Treasury shares

At 31 December 2020, the bank held 168,669 treasury shares (equal to 0.21% of the share capital) as a stock of securities to be used for the incentive plan for the Group’s key personnel.

Stock performance

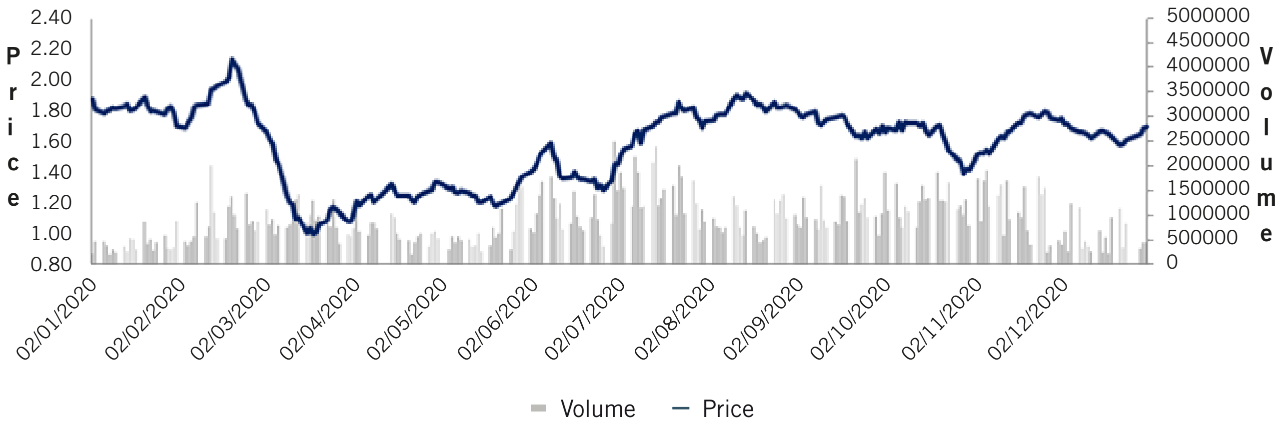
The shares of Banca Sistema are traded on the Mercato Telematico Azionario - Italian Equities Market (MTA) of the Italian Stock Exchange, STAR segment. The Banca Sistema stock is included in the following Italian Stock Exchange indices:

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

In 2020, a year marked by high volatility in the markets not least because of extraordinary events such as the pandemic (Covid-19), the share price of the stock fluctuated in a range between a minimum closing price of € 1.00 and a maximum closing price of € 2.14.

The share price on 31 December 2020 was down 8.2% compared to the same day a year earlier. This was still better than the performance of most other Italian bank stocks or the indices that the bank is part of, such as the FTSE Italia Finanza and the FTSE Italia Banche, which were down 19.5% and 21.1% respectively.

Average daily volumes exceeded 900,000 shares during 2020, an increase over 2019. For much of the year, the stock was among the most liquid in the STAR segment.



Investor Relations

Over the course of 2020, the bank, in addition to the information communicated via press releases and conference calls regarding quarterly results, updated the market (investment companies, financial analysis firms and individual investors/shareholders) on business performance almost exclusively via conference calls or video calls due to the restrictions imposed by the Covid-19 pandemic. In an effort to further diversify the shareholder base, over 150 investors were met “virtually” in 2020, including through the bank’s involvement in 18 events, 16 of which were “virtual”.

RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

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

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

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

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

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

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

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

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

The ICAAP (the Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) allow the Group to conduct ongoing tests of its structure for determining risks and to update the related safeguards included in its RAF.

With regard to protecting against credit risk, along with the well-established second level controls and the periodic monitoring put in place by the Risk Department, functional requirements were implemented to allow the Group to be compliant with the new definition of default that is being introduced starting on 1 January 2021, after which no significant impact is being estimated.

Regarding the monitoring of credit risk, in February 2020 the Group, with the goal of attaining greater operating synergies, moved from a functional organisational structure to a divisional structure which aims to maximise the value of each individual line of business, making it easily comparable with its respective specialist peers.

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

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

During the Covid-19 pandemic and in line with the indications provided by the EBA, ECB, Consob and ESMA, the Banca Sistema Group decided not to apply automated classifications for moratoriums introduced in connection with the related support programmes provided for by law, agreements with trade associations or similar voluntary initiatives adopted by individual companies.

The Group has developed and quickly planned suitable procedures, within the specific sector of activity and the related product portfolio, to respond to the provisions set forth in the decrees to support households and businesses by implementing the provisions of the "Cura Italia" and "Liquidity" decrees. The Group has also revised its risk objectives within the RAF, which was prepared in a manner consistent with the annual budgeting process for the 2020 financial year and includes the economic impacts of the Covid-19 pandemic crisis.

Regarding the factoring business, a cap was set for the granting of medium-term loans guaranteed by SACE and the National Guarantee Fund to support business customers during this period.

Other interventions concerned credit strategies and policies that considered the change in the macroeconomic environment and the results of sector analyses for identifying the most vulnerable sectors which were then grouped into clusters. For those sectors deemed to be most impacted by the pandemic, a more stringent underwriting process for factoring was introduced. For salary- and pension-backed loans (CQ), monitoring of employers (ATCs) within the cluster most affected by Covid-19 was strengthened.

OTHER INFORMATION

Report on corporate governance and ownership structure

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a "Report on corporate governance and ownership structure" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2020 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Remuneration Report

Pursuant to section 84-quater, paragraph 1 of the Issuers' Regulation implementing Legislative Decree No. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2020 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Research and Development Activities

No research and development activities were carried out in 2020.

Future activities and new initiatives

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

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.
Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

ATYPICAL OR UNUSUAL TRANSACTIONS

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

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

With regard to the recent epidemic emergency caused by Covid-19, the Banca Sistema Group took immediate action to monitor the situation and adopt appropriate measures to protect the health of its employees, customers and contacts. In this context, the Group ensured that all its offices and branches, including those of ProntoPegno, are fully operational. The increase in operating costs to ensure that employees can work remotely is not significant.
On 29 March 2021, the Board of Directors of Banca Sistema resolved on a technical-formal reclassification of the draft financial statements as at 31 December 2020 already approved in the meeting held on 11 March, that has no effect on the profit for the year and on the capital ratios reported to the market on 10 February.
The reclassification is aimed exclusively at accounting for loans under disposal – totalling € 5.6 million out of total assets of € 3.7 billion – that cannot be derecognised from an accounting point of view. This leads to an increase by an equal amount in the line-item "Financial assets measured at amortised cost" and in the line-item "Financial liabilities measured at amortised cost". The above disposals had been recognised for the same amounts as off-statement of financial position commitments.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The 2020 financial year ended with continuing growth in volumes in all three lines of business.

In 2021, the Group will continue to evaluate options for non-organic growth in its core business areas.

The Group's new business plan is also expected to be presented during 2021.

The Group experienced a slight decline in profitability that was mainly attributable to lower default interest income in the factoring segment, a trend that could continue throughout 2021.

The situation is being continuously monitored and any impacts not yet evident will be reflected, if necessary, in the estimated recoverable value of the financial assets.

Milan, 29 March 2021

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31.12.2020	31.12.2019
10.	Cash and cash equivalents	1,930	652
30.	Financial assets measured at fair value through other comprehensive income	430,966	556,383
40.	Financial assets measured at amortised cost	3,142,791	3,112,387
	a) loans and receivables with banks	92,481	81,510
	b) loans and receivables with customers	3,050,310	3,030,877
70.	Equity investments	1,000	-
90.	Property and equipment	32,607	29,002
100.	Intangible assets	32,725	3,921
	of which:	-	-
	goodwill	32,355	3,920
110.	Tax assets	10,313	8,476
	a) current	62	1
	b) deferred	10,251	8,475
130.	Other assets	19,039	19,260
	Total Assets	**3,671,371**	**3,730,081**

	Liabilities and equity	31.12.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	3,282,230	3,416,486
	a) due to banks	869,648	388,359
	b) due to customers	2,164,244	2,551,600
	c) securities issued	248,338	476,527
60.	Tax liabilities	16,903	16,433
	a) current	1,995	2,213
	b) deferred	14,908	14,220
80.	Other liabilities	136,894	94,662
90.	Post-employment benefits	4,428	3,051
100.	Provisions for risks and charges:	23,430	22,297
	a) commitments and guarantees issued	26	44
	c) other provisions for risks and charges	23,404	22,253
120.	Valuation reserves	1,287	267
150.	Reserves	122,608	98,617
160.	Share premium	39,100	39,100
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(234)	(234)
190.	Equity attributable to non-controlling interests (+/-)	9,297	32
200.	Profit for the year	25,777	29,719
	Total liabilities and equity	**3,671,371**	**3,730,081**

INCOME STATEMENT

(Amounts in thousands of Euro)

		2020	2019
10.	Interest and similar income	98,067	110,336
	of which: interest income calculated with the effective interest method	93,208	107,644
20.	Interest and similar expense	(23,796)	(29,642)
30.	**Net interest income**	**74,271**	**80,694**
40.	Fee and commission income	24,328	22,490
50.	Fee and commission expense	(6,900)	(6,422)
60.	**Net fee and commission income**	**17,428**	**16,068**
70.	Dividends and similar income	227	227
80.	Net trading income	37	208
100.	Gain from sales or repurchases of:	9,531	3,716
	a) financial assets measured at amortised cost	*4,214*	*1,106*
	b) financial assets measured at fair value through other comprehensive income	*5,301*	*2,610*
	c) financial liabilities	*16*	-
120.	**Total income**	**101,494**	**100,913**
130.	Net impairment losses on:	(11,000)	(9,055)
	a) financial assets measured at amortised cost	*(10,948)*	*(8,950)*
	b) financial assets measured at fair value through other comprehensive income	*(52)*	*(105)*
150.	**Net financial income**	**90,494**	**91,858**
190.	Administrative expenses	(51,066)	(46,105)
	a) personnel expense	*(25,532)*	*(23,166)*
	b) other administrative expenses	*(25,534)*	*(22,939)*
200.	Net accruals to provisions for risks and charges	(2,520)	(1,996)
	a) commitments and guarantees issued	*18*	*(36)*
	b) other net accruals	*(2,538)*	*(1,960)*
210.	Net impairment losses on property and equipment	(1,875)	(1,499)
220.	Net impairment losses on intangible assets	(81)	(133)
230.	Other operating income (expense)	260	(768)
240.	**Operating costs**	**(55,282)**	**(50,501)**
280.	Gains (losses) on sales of investments	1,090	(8)
290.	**Pre-tax profit from continuing operations**	**36,302**	**41,349**
300.	Income taxes	(11,009)	(12,192)
310.	**Post-tax profit from continuing operations**	**25,293**	**29,157**
320.	Post-tax profit (loss) from discontinued operations	-	562
330.	**Profit for the year**	**25,293**	**29,719**
340.	**Loss for the year attributable to non-controlling interests**	**484**	**-**
350.	**Profit for the year attributable to the owners of the parent**	**25,777**	**29,719**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		2020	2019
10.	**Profit for the year**	**25,777**	**29,719**
	Items, net of tax, that will not be reclassified subsequently to profit or loss		**-**
70.	Defined benefit plans	(124)	(32)
	Items, net of tax, that will be reclassified subsequently to profit or loss		**-**
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,144	1,430
170.	**Total other comprehensive income, net of income tax**	**1,020**	**1,398**
180.	**Comprehensive income (Items 10+170)**	**26,797**	**31,117**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**26,797**	**31,117**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2020

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the year										
							Transactions on equity									
	Balance at 31.12.2019	Change in opening balances	Balance at 1.1.2020	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 2020	Equity at 31.12.2020	**Equity attributable to non-controlling interests at 31.12.2020**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**39,100**	-	39,100	-	-	-	-	-	-	-	-	-	-	-	**39,100**	-
Reserves	**98,617**	-	98,617	22,240	-	1,751	-	-	-	-	-	-	-	-	**122,608**	-
a) income-related	**98,942**	-	98,942	22,240	-	(9)	-	-	-	-	-	-	-	-	**121,173**	-
b) other	**(325)**	-	(325)	-	-	1,760	-	-	-	-	-	-	-	-	**1,435**	-
Valuation reserves	**267**	-	267	-	-	-	-	-	-	-	-	-	-	1,020	**1,287**	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(234)**	-	(234)	-	-	-	-	-	-	-	-	-	-	-	**(234)**	-
Profit for the year	**29,719**	-	29,719	(22,240)	(7,479)	-	-	-	-	-	-	-	-	25,777	**25,777**	-
Equity attributable to the owners of the parent	177,120	**-**	**177,120**	**-**	**(7,479)**	**1,751**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26,797**	**198,189**	**-**
Equity attributable to non-controlling interests	**32**	**-**	**32**	**-**	**-**	**-**	**-**	**-**	**-**	-	**-**	**-**	**9,265**	**-**	**-**	**9,297**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2019

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 for 2019	Equity attributable to the owners of the parent at 31.12.2019	**Equity attributable to non-controlling interests at 31.12.2019**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,184**	-	39,184	-	-	(84)	-	-	-	-	-	-	-	-	**39,100**	-
Reserves	**78,452**	-	78,452	20,170	-	(5)	-	-	-	-	-	-	-	-	**98,617**	-
a) income-related	**78,792**	-	78,792	20,170	-	(20)	-	-	-	-	-	-	-	-	**98,942**	-
b) other	**(340)**	-	(340)	-	-	15	-	-	-	-	-	-	-	-	**(325)**	-
Valuation reserves	**(1,131)**	-	(1,131)	-	-	-	-	-	-	-	-	-	-	1,398	**267**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(199)**	-	(199)	-	-	(35)	-	-	-	-	-	-	-	-	**(234)**	-
Profit for the year	**27,167**	-	27,167	(20,170)	(6,997)	-	-	-	-	-	-	-	-	29,719	**29,719**	-
Equity attributable to the owners of the parent	**153,124**	**-**	153,124	**-**	**(6,997)**	**(124)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31,117**	**177,120**	**-**
Equity attributable to non-controlling interests	**30**	**-**	**30**	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32**

STATEMENT OF CASH FLOWS (indirect method)

Amounts in thousands of Euro

	2020	2019
A. OPERATING ACTIVITIES		
1. Operations	**50,839**	**49,577**
▪ Profit for the year (+/-)	25,777	29,719
▪ Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	-	-
▪ Gains/losses on hedging activities (-/+)	-	-
▪ Net impairment losses due to credit risk (+/-)	10,948	8,950
▪ Net impairment losses on property and equipment and intangible assets (+/-)	1,956	1,632
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	2,520	1,996
▪ Taxes, duties and tax assets not yet paid (+/-)	(1,018)	1,868
▪ Other adjustments (+/-)	10,656	5,412
2. Cash flows generated by (used for) financial assets	**97,837**	**(566,474)**
▪ Financial assets held for trading	-	-
▪ Financial assets designated at fair value through profit or loss	-	-
▪ Other assets mandatorily measured at fair value through profit or loss	-	-
▪ Financial assets measured at fair value through other comprehensive income	126,815	(250,516)
▪ Financial assets measured at amortised cost	(30,625)	(313,636)
▪ Other assets	1,647	(2,322)
3. Cash flows generated by (used for) financial liabilities	**(112,033)**	**527,062**
▪ Financial liabilities measured at amortised cost	(149,921)	501,242
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	37,888	25,820
Net cash flows generated by operating activities	**36,643**	**10,165**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**0**	**786**
▪ Sales of equity investments	-	786
▪ Dividends from equity investments	-	-
▪ Sales of property and equipment	-	-
▪ Sales of intangible assets	-	-
▪ Sales of business units	-	-
2. Cash flows used in	**(35,365)**	**(3,556)**
▪ Purchases of equity investments	(1,000)	-
▪ Purchases of property and equipment	(5,480)	(2,591)
▪ Purchases of intangible assets	(28,885)	(965)
▪ Purchases of business units	-	-
Net cash flows used in investing activities	**(35,365)**	**(2,770)**
C. FINANCING ACTIVITIES		
▪ Issues/repurchases of treasury shares	-	(35)
▪ Issues/repurchases of equity instruments	-	-
▪ Dividend and other distributions	-	(6,997)
Net cash flows generated by (used in) financing activities	**-**	**(7,032)**
NET CASH FLOWS FOR THE YEAR	**1,278**	**363**

KEY:
(+) generated
(–) used

Reconciliation

Cash and cash equivalents at the beginning of the year	**652**	**289**
Total net cash flows for the year	1,278	363
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	**1,930**	**652**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the Banca Sistema Group at 31 December 2020 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

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

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

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

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

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

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

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

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

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

SECTION 2 - General basis of preparation

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

The financial statements are accompanied by the

Directors' Report on the Bank's performance.

If the information required by the IFRS and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and fair view that is relevant, reliable, comparable and understandable, the notes to the financial statements provide the additional information required. For the sake of completeness, please note that this financial report also considers the interpretation and supporting documents regarding the application of accounting standards, including those issued in connection with the Covid-19 pandemic, as well as those issued by European regulatory and supervisory bodies and standard setters.

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

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

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

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

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank's main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate;
- the valuation of default interest pursuant to

Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;

- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

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

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

The following should be noted regarding the regulatory developments in the IAS/IFRS:

REGULATION (EU)	TITLE
2020/34 of 15 January 2020	Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform
2020/1434 of 9 October 2020	Amendment to IFRS 16 - Covid-19-related rent concessions
2020/551 of 21 April 2020	Amendments to IFRS 3 - Definition of a Business

The introduction of the amendments to the Regulations listed above had no significant impact.

The following table summarises the new international financial reporting standards that will be effective from 1 January 2021.

REGULATION (EU)	TITLE
2020/2097 of 15 December 2020	Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9
2021/25 of 13 January 2021	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2

SECTION 3 - Scope and methods of consolidation

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

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

	Registered office	Type of Relationship (1)	Investment		
			Investing company	% held	% of votes available (2)
Companies					
Subject to full consolidation					
S.F. Trust Holdings Ltd	**UK**	**1**	**Banca Sistema**	**100%**	**100%**
Largo Augusto Servizi e Sviluppo S.r.l.	**Italy**	**1**	**Banca Sistema**	**100%**	**100%**
ProntoPegno S.p.A.	**Italy**	**1**	**Banca Sistema**	**75%**	**75%**
EBNSISTEMA Finance S.L.	**Spain**	**7**	**Banca Sistema**	**50%**	**50%**

Key:
(1) Type of relationship.
1. = majority of voting rights at the ordinary Shareholders' Meeting
2. = a dominant influence in the ordinary Shareholders' Meeting
3. = agreements with other shareholders
4. = other forms of control
5. = unitary management as defined in Art. 26, paragraph 1 of 'Legislative Decree 87/92'
6. = unitary management as defined in Art. 26, paragraph 2 of 'Legislative Decree 87/92'
7. = joint control (2) Available voting rights at the ordinary Shareholders' Meeting, with separate indication of effective and potential rights

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

- Quinto Sistema Sec. 2019 S.r.l.
- Quinto Sistema Sec. 2017 S.r.l.
- BS IVA SPV S.r.l.

Changes in the scope of consolidation

Compared to the situation as at 31 December 2019, the scope of consolidation changed as a result of EBNSISTEMA Finance S.L., a joint venture, entering the scope of consolidation.

Full consolidation method

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

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

- the carrying amount of the investments held by the Parent and the corresponding part of the equity are eliminated;
- the portion of equity and profit or loss for the year is shown in a specific caption.

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item "100 Intangible Assets" on the date of initial consolidation. The resulting differences, if negative, are recognised in the income statement. Intra-group balances and transactions, including income, costs and dividends, are entirely eliminated. The financial results of a subsidiary acquired during the financial year are included in the consolidated financial statements from the date of acquisition. At the same time, the financial results of a transferred subsidiary are included in the consolidated financial statements up to the date on which the subsidiary is transferred. The accounts used in the preparation of the consolidated financial statements are drafted on the same date. The consolidated financial statements were drafted using consistent accounting standards for similar transactions and events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for similar transactions and events in similar circumstances, adjustments are made to the financial position for consolidation purposes. Detailed information with reference to art. 89 of Directive 2013/36/EU of the European Parliament and Council (CRD IV) is published at the link www.bancasistema.it/pillar3.

Consolidation at equity

Associates and joint ventures are consolidated at equity.

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

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

In the valuation of the relevant share, any potential voting rights are not taken into consideration.

The relevant share of the annual results of the investee is shown in a specific item of the consolidated income statement.

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment. Should the recoverable value prove lower than the carrying amount, the difference is recognised in the income statement.

SECTION 4 - Subsequent events

With regard to IAS 10, after 31 December 2020, the reporting date of the financial statements, and up to 29 March 2021, no events occurred that would require any adjustments to the figures in the financial statements.

On 29 March 2021, the Board of Directors of Banca Sistema resolved on a technical-formal reclassification of the draft financial statements as at 31 December 2020 already approved in the meeting held on 11 March, that has no effect on the profit for the year and on the capital ratios reported to the market on 10 February.

The reclassification is aimed exclusively at accounting for loans under disposal – totalling € 5.6 million out of total assets of € 3.7 billion – that cannot be derecognised from an accounting point of view. This leads to an increase by an equal amount in the line-item "Financial assets measured at amortised cost" and in the line-item "Financial liabilities measured at amortised cost". The above disposals had been recognised for the same amounts as off-statement of financial position commitments.

SECTION 5 - Other aspects

With reference to the risks, uncertainties and effects of the COVID-19 pandemic, given the type of activities carried out by the Group, for the moment no significant impacts have been identified, particularly with regard to the valuations and items subject to estimates, where consideration has been given, insofar as can currently be estimated, to the impact of the pandemic on future forward-looking scenarios. However, the situation is being continuously monitored and any impacts not yet evident will be reflected, if necessary, in the estimated recoverable value of the financial assets.

There are no other significant aspects to note.

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

Financial assets measured at fair value through profit or loss

Classification criteria

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

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

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

Recognition criteria

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

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

Measurement and recognition criteria for income components

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

In particular, this item includes:

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

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

Derecognition criteria

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

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

Classification criteria

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

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

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

In particular, this item includes:

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

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

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

Recognition criteria

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial assets measured at amortised cost

Classification criteria

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

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

In particular, this item includes:

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

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

Recognition criteria

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

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

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

Measurement and recognition criteria for income components

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

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

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

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

Derecognition criteria

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

Hedging transactions

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

Equity investments

Classification criteria

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

Recognition criteria

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

Measurement criteria

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

Derecognition criteria

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

Property and equipment

Classification criteria

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

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

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

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

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

Recognition criteria

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

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

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

Measurement criteria

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

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

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

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

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

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

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

Derecognition criteria

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

Intangible assets

Classification criteria

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

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

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

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

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

Measurement criteria

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

Derecognition criteria

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

Non-current assets held for sale and disposal groups

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

Financial liabilities measured at amortised cost

Classification criteria

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

Recognition criteria

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial liabilities held for trading

Classification and recognition criteria

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

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial liabilities designated at fair value through profit or loss

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

Current and deferred taxes

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

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

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

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

Provisions for risks and charges

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

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

Other information

Post-employment benefits

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

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

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

Repurchase agreements

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

Criteria for determining the fair value of financial instruments

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants", at a specific measurement date, excluding forced transactions. Underlying the definition of fair value is a presumption that a company is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.
In the case of financial instruments quoted in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
In the absence of an active market, the fair value is determined using measurement techniques generally accepted in financial practice, aimed at establishing what price the financial instrument would have had, on the valuation date, in a free exchange between knowledgeable and willing parties. Such measurement techniques require, in the hierarchical order in which they are presented, the use:

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

on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;

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

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

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

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

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

Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. A business combination may give rise to an investment relationship between the parent (acquirer) and the subsidiary (acquiree). A business combination may also involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the equity of the other entity (mergers and contributions). Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method, which comprises the following phases:

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

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

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

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

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

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

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

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

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

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

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

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

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

No financial instruments were transferred between portfolios.

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

No financial assets were reclassified.

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

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURE

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

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

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

A.4.3 Fair value hierarchy

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

- Level 1- Effective market quotes

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

A.4.4 Other Information

The item is not applicable for the Group.

A.4.5 Fair value hierarchy

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

	31.12.2020			31.12.2019		
Financial assets/liabilities measured at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value through profit or loss	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	425,966	-	5,000	551,383	-	5,000
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
TOTAL	**425,966**	**-**	**5,000**	**551,383**	**-**	**5,000**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

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

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2020				31.12.2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	3,142,790	452,969	-	2,664,963	3,112,388	435,177	-	2,677,211
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
TOTAL	**3,142,790**	**452,969**	**-**	**2,664,963**	**3,112,388**	**435,177**	**-**	**2,677,211**
1. Financial liabilities measured at amortised cost	3,282,229	-	-	3,210,491	3,416,485	-	-	3,416,485
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**3,282,229**	**-**	**-**	**3,210,491**	**3,416,485**	**-**	**-**	**3,416,485**

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

A.5 DISCLOSURE CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

PART B - INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31.12.2020	31.12.2019
a. Cash	1,930	652
b. Demand deposits with Central Banks	-	-
TOTAL	**1,930**	**652**

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

	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**425,348**	**-**	**-**	**550,219**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	425,348	-	-	550,219	-	-
2. Equity instruments	**618**	**-**	**5,000**	**1,164**	**-**	**5,000**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
Total	**425,966**	**-**	**5,000**	**551,383**	**-**	**5,000**

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

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

	31.12.2020	31.12.2019
1. Debt instruments	**425,348**	**550,219**
a. Central Banks	-	-
b. Public administrations	425,348	550,219
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
2. Equity instruments	**5,618**	**6,164**
a. Banks	5,000	5,000
b. Other issuers:	618	1,164
- other financial companies	618	1,164
of which: insurance companies	-	-
- non-financial companies	-	-
- other	-	-
4. Financing	**-**	-
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
Total	**430,966**	**556,383**

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

	Gross amount				Total impairment losses			Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt instruments	425,554	425,554	-	-	206	-	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31.12.2020	**425,554**	**425,554**	-	-	**206**	-	-	-
Total at 31.12.2019	**550,373**	**550,373**	-	-	**154**	-	-	-
of which: purchased ororiginated credit-impaired financial assets	X	X	-	-	X	-	-	-

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

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

	31.12.2020						31.12.2019					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**40,275**	**-**	**-**			**40,275**	**19,966**	**-**	**-**			**19,966**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	40,269	-	-	X	X	X	19,912	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	6	-	-	X	X	X	54	-	-	X	X	X
B. Loans and receivables with banks	**52,206**	**-**	**-**			**52,206**	**61,544**	**-**	**-**			**61,544**
1. Financing	52,206	-	-			52,206	61,544	-	-			61,544
1.1 Current accounts and demand deposits	41,957	-	-	X	X	X	53,011	-	-	X	X	X
1.2. Term deposits	3,129	-	-	X	X	3,129	-	-	-	X	X	X
1.3. Other financing:	7,120	-	-	X	X	X	8,533	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	7,120	-	-	X	X	X	8,533	-	-	X	X	X
2. Debt instruments	**-**	**-**	**-**	**X**	**X**	**X**	**-**	**-**	**-**			**-**
2.1 Structured instruments	-	-	-	X	X	X	-	-	-			-
2.2 Other debt instruments	-	-	-	X	X	X	-	-	-			-
Total	**92,481**	**-**	**-**			**92,481**	**81,510**	**-**	**-**			**81,510**

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

__4.2 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with customers__

	31.12.2020						31.12.2019					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchsed or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchsed or originated credit-impaired	L1	L2	L3
1. Financing	**2,397,310**	**205,136**	**31,699**	-	**-**	**2,646,322**	**2,387,301**	**208,399**	**27,527**	**-**	**-**	**2,595,700**
1.1 Current accounts	15,296	239	-	X	X	X	30,106	56	-	X	X	X
1.2 Reverse repurchase agreements	5,546	-	-	X	X	X	-	-	-	X	X	X
1.3 Loans	70,553	1,290	-	X	X	X	6,753	1,970	-	X	X	X
1.4 Credit cards, personal loans and salary- and pension-backed loans	913,311	7,880	-	X	X	X	796,368	6,012	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	949,547	179,445	31,699	X	X	X	963,352	188,869	27,527	X	X	X
1.7 Other financing	443,057	16,282	-	X	X	X	590,722	11,492	-	X	X	X
2. Debt instruments	**447,864**	**-**	**-**	**452,969**	**X**	**X**	**435,177**	**-**	**-**	**436,634**	**-**	-
2.1 Structured instruments	-	-	-	-	X	X	-	-	-	-	-	-
2.2 Other debt instruments	447,864	-	-	452,969	X	X	435,177	-	-	436,634	-	-
Total	**2,845,174**	**205,136**	**31,699**	**452,969**	**X**	**2,646,322**	**2,822,478**	**208,399**	**27,527**	**436,634**	**-**	**2,595,700**

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

Financing mainly includes the loans and receivables of companies that supply goods and services mainly to the Public Administration (ASL – local health authorities – and Territorial Entities) and receivables related to the pension and salary-backed loans segment.

Factoring receivables include default interest recognised on an accruals basis for € 50.1 million.

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

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

Subsequent to their recognition, factoring receivables are measured at amortised cost, based on the present value of the estimated cash flows of the principal, or for all receivables whose recovery strategy involves legal action, based on the present value of the cash flows, in addition to the principal, of the default interest component that will accrue up to the expected date of collection on amounts considered recoverable.

As a matter of prudence, given the limited amount of historical data available, the recovery percentages used for territorial entities and the public sector (statistical series starting from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (statistical series starting from 2005) a confidence interval of the fifth percentile is used. The estimated recovery percentages and expected collection dates are updated based on annual analyses in light of the progressive consolidation of the historical data series, which provide increasingly solid and robust estimates. In the fourth quarter of 2020, the expected rates of recovery of default interest on factoring, in light of the statistical evidence that benefits from the progressive consolidation of the historical data series, have increased, as have the related collection times used. The update of these estimates led to the recognition of higher total interest income of € 1.0 million (€ 4.8 million at 31 December 2019). The decrease in the effect resulting from the updated recovery estimates is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly. The amount of the stock of default interest from legal actions accrued at 31 December 2020, relevant for the allocation model, was € 101 million (€ 104 million at the end of the fourth quarter of 2020), € 155 million when including troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements amount to € 50.1 million. Therefore, the amount of default interest accrued but not yet recognised in the income statement is € 105 million.

Securities are composed primarily of Italian government securities with an average duration of approximately 14.8 months. The HTCS portfolio amounted to € 425 million at 31 December 2020 (€ 550 million at 31 December 2019). The associated valuation reserve was positive at the end of the year, amounting to € 2.6 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 the Axactor Norway shares, which at 31 December 2020 had a negative fair value reserve of € 0.5 million, resulting in a year-end amount of € 0.6 million.

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

	31.12.2020			31.12.2019		
	First and second stage	Third stage	of which: purchased or originated credit-impaired assets	First and second stage	Third stage	of which: purchased or originated credit-impaired assets
1. Debt instruments	**447,864**	**-**	**-**	**435,177**	**-**	**-**
a) Public administrations	447,864	-	-	435,177	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,397,310**	**205,136**	**31,699**	**2,387,301**	**208,399**	**27,527**
a) Public administrations	1,031,084	142,283	31,699	1,281,129	142,646	27,527
b) Other financial companies	52,316	7	-	60,481	4	-
of which: insurance companies	9	5	-	9	3	-
c) Non-financial companies	285,716	52,334	-	210,459	56,872	-
d) Households	1,028,194	10,512	-	835,232	8,877	-
Total	**2,845,174**	**205,136**	**31,699**	**2,822,478**	**208,399**	**27,527**

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

	Gross amount				Total impairment losses			
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs (*)
Debt instruments	448,083	448,083	-	-	219	-	-	-
Financing	2,362,910	976,673	134,194	251,164	6,534	781	46,027	-
Total at 31.12.2020	**2,810,993**	**1,424,756**	**134,194**	**251,164**	**6,752**	**781**	**46,027**	**-**
Total at 31.12.2019	**2,785,568**	**1,248,699**	**124,252**	**245,618**	**5,167**	**667**	**37,217**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	20,294	12,109	X	171	533	-

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total impairment losses

	Gross amount				Total impairment losses			
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs (*)
1. Forborne loans in compliance with the EBA Guidelines	3,797	-	2,507	5,896	99	9	851	-
2. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-
3. New loans	65,492	-	-	-	216	-	-	-
Total at 31.12.2020	**69,289**	**-**	**2,507**	**5,896**	**315**	**9**	**851**	**-**
Total at 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

SECTION 7 - EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	**London**	100%	100%
2. Largo Augusto Servizi e Sviluppo S.r.l.	**Milan**	100%	100%
3. ProntoPegno S.p.A.	**Milan**	75%	75%

	Registered office	Interest %	% of votes available
A. Joint ventures			
1. EBNSISTEMA FINANCE S.L.	**Madrid**	50%	50%

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income (expense)	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd	-	44	536	1,926	65	-	(78)	-	(118)	(117)	-	(117)	-	(117)
2. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	28,631	12,718	305	1,455	(130)	(611)	69	98	-	98	-	98
3. ProntoPegno S.p.A.	1,822	81,988	32,959	74,305	5,927	6,027	2,836	(520)	(2,664)	(1,936)	-	(1,936)	-	(2,023)

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Post-tax profit (loss) from discontinued operations	Profit for the year	Other comprehensive income (expense), net of income tax	Comprehensive income
B. Joint ventures														
1. EBNSISTEMA FINANCE S.L.	-	2,175	-	-	49	-	132	-	126	126	-	126	-	126

7.5 Equity investments: changes

	31.12.2020	31.12.2019
A. Opening balance	**-**	**786**
B. Increases	**1,000**	**-**
B.1 Purchases	1,000	-
B.2 Impairment gains	-	-
B.3 Revaluations	-	-
B.4 Other increases	-	-
C. Decreases	**-**	**786**
C.1 Sales	-	786
C.2 Impairment losses	-	-
C.3 Write-offs	-	-
C.4 Other decreases	-	-
D. Closing balance	**1,000**	**-**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

At the end of 2020, Banca Sistema entered into an equal partnership with EBN Banco de Negocios S.A., taking a stake in the capital of EBNSISTEMA Finance S.L., allowing it to enter the Spanish factoring market. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave Banca Sistema a 50% stake in the Madrid-based company.

SECTION 9 - PROPERTY AND EQUIPMENT - ITEM 90

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

	31.12.2020	31.12.2019
1. Owned	**28,673**	**27,373**
a) land	8,529	8,416
b) buildings	18,966	18,211
c) furniture	345	329
d) electronic equipment	833	417
e) other	-	-
2. Under finance lease	**3,934**	**1,629**
a) land	-	-
b) buildings	3,136	905
c) furniture	-	-
d) electronic equipment	-	-
e) other	798	724
TOTAL	**32,607**	**29,002**
of which: obtained from the enforcement of guarantees received	-	-

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

Depreciation rates:

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

9.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**8,416**	**20,542**	**1,384**	**2,215**	**1,194**	**33,751**
A.1 Total net impairment losses	-	1,426	1,055	1,798	470	4,749
A.2 Net opening balances	**8,416**	**19,116**	**329**	**417**	**724**	**29,002**
B. Increases	**113**	**4,281**	**72**	**573**	**450**	**5,489**
B.1 Purchases	-	2,963	37	533	424	3,957
B.2 Capitalised improvement costs	-	91	-	-	-	91
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	113	1,227	-	3	26	1,369
B.8 Business combination transactions	-	-	35	37	-	72
B.9 First-time adoption of IFRS 16	-	-	-	-	-	-
C. Decreases	**-**	**1,295**	**68**	**145**	**376**	**1,884**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,295	66	145	371	1,877
C.3 Impairment losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss						
C.4 Fair value losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a. investment property	-	-	-	-	-	-
b. non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	2	-	5	7
C.8 Business combination transactions	-	-	-	-	-	-
D. Net closing balance	**8,529**	**22,102**	**333**	**845**	**798**	**32,607**
D.1 Total net impairment losses	-	2,721	1,123	1,943	846	6,633
D.2 Gross closing balance	**8,529**	**24,823**	**1,456**	**2,788**	**1,644**	**39,240**
E. Measurement at cost	**8,529**	**22,102**	**333**	**845**	**798**	**32,607**

SECTION 10 - INTANGIBLE ASSETS - ITEM 100

10.1 Intangible assets: breakdown by type of asset

	31.12.2020		31.12.2019	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**32,355**	**X**	**3,920**
A.1.1 attributable to the owners of the Parent	X	32,355	X	3,920
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**370**	**-**	**1**	-
A.2.1 Assets measured at cost:	370	-	1	-
a. Internally developed assets	-	-	-	-
b. Other	370	-	1	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
TOTAL	**370**	**32,355**	**1**	**3,920**

The other intangible assets are recognised at purchase cost including related costs, and are systematically amortised over a period of 5 years. The item mainly refers to software. Intangible assets refer to goodwill of € 32.4 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020.

Goodwill impairment tests were conducted using the "Value in use" method which is based on an estimate of expected cash flows for the period 2021-2024. The CGU identified for the goodwill of the former Solvi and Atlantide is the Bank, while ProntoPegno as a whole has been identified for the goodwill of the former Intesa Sanpaolo business unit.

The main parameters used for estimation purposes were as follows:

Risk Free Rate	1.1%
Equity Risk Premium	5.5%
Beta	1.4
Cost of equity	8.7%
Growth rate "g"	1.4%

The estimated value in use obtained based on the parameters used and the growth assumptions is, for all goodwill amounts, higher than the respective equity amounts at 31 December 2020. Furthermore, considering that the value in use was determined via estimates and assumptions that may introduce elements of uncertainty, sensitivity analyses - as required by IFRS - were performed with the purpose of verifying the variations of the results previously obtained as a function of the basic assumptions and parameters.
In particular, the quantitative exercise was completed by a stress test of the parameters related to the growth rate and the discount rate of the expected cash flows (quantified in an isolated or simultaneous movement of 50 bps), that confirmed the absence of impairment indicators, confirming a value in use once again significantly greater than the carrying amount of goodwill in the financial statements.
Considering all the above, with no qualitative trigger events that suggest a need for impairment having been identified, the conditions necessary to recognise an impairment loss on the goodwill carrying amounts in the financial statements at 31 December 2020 do not exist.

The allocation of the purchase price for the former Intesa Sanpaolo collateralised lending business unit is provided below:

PURCHASE PRICE ALLOCATION *In thousands of Euro*

Purchase price	34,000
Price adjustment	(991)
Final price (A)	**33,009**
Adjusted Business Unit “Equity” (B)	3,209
Residual value to be allocated (A+B)	**29,800**
Loans and receivables with customers	(1,224)
Post-employment benefits	(166)
Property and equipment	25
Allocation to goodwill	**28,435**

The final price amounted to € 33 million following the change in the business unit’s imbalance (excess value) between the closing date and the signing date of the transaction, and an adjustment recognised by the counterparty in relation to the valuation of the loans and receivables. As required by IFRS 3, this excess value was allocated to the financial statements items that had a difference in fair value with respect to their carrying amount and, in particular, to the item “Loans and receivables with customers”, leaving the unallocated balance under goodwill, which is subject to an annual impairment test.

10.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally developed		Other intangible assets: Other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**3,920**	**-**	**-**	**3,104**	**-**	**7,024**
A.1 Total net impairment losses	-	-	-	3,103	-	3,103
A.2 Net opening balances	**3,920**	**-**	**-**	**1**	**-**	**3,921**
B. Increases	**28,435**	**-**	**-**	**424**	**-**	**28,859**
B.1 Purchases	-	-	-	22	-	22
B.2 Increases in internally developed assets	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
B.7 Business combination transactions	28,435	-	-	402	-	28,837
C. Decreases	**-**	-	-	**55**	-	**55**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	55	-	55
- Amortisation	-	-	-	55	-	55
- Impairment losses	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
C.3 Fair value losses recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-			-		-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**32,355**	-	-	**370**	-	**32,725**
D.1 Total net impairment losses	-	-	-	3,158	-	3,158
E. Gross closing balance	**32,355**	-	-	**3,528**	-	**35,883**
F. Measurement at cost	**32,355**	-	-	**370**	-	**32,725**

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

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

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

	31.12.2020	31.12.2019
Current tax assets	**12,124**	**10,995**
IRES prepayments	8,863	8,249
IRAP prepayments	3,149	2,609
Other	112	137
Current tax liabilities	**(14,057)**	**(13,208)**
Provision for IRES	(10,827)	(9,658)
Provision for IRAP	(2,970)	(3,523)
Provision for substitute tax	(260)	(27)
Total	**(1,933)**	**(2,213)**

11.1 Deferred tax assets: breakdown

	31.12.2020	31.12.2019
Deferred tax assets through profit or loss:	**9,712**	**8,143**
Impairment losses on loans	2,376	2,756
Non-recurring transactions	414	427
Other	6,922	4,960
Deferred tax assets through equity:	**539**	**333**
Non-recurring transactions	239	247
HTCS securities	176	-
Other	124	86
Total	**10,251**	**8,476**

11.2 Deferred tax liabilities: breakdown

	31.12.2020	31.12.2019
Deferred tax liabilities through profit or loss:	**14,033**	**14,060**
Uncollected default interest income	13,775	14,000
Other	258	60
Deferred tax liabilities through equity:	**875**	**160**
HTCS securities	875	160
Total	**14,908**	**14,220**

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

	31.12.2020	31.12.2019
1. Opening balance	**8,143**	**6,907**
2. Increases	**4,615**	**2,068**
2.1 Deferred tax assets recognised in the year	-	2,068
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. impairment gains	-	-
d. other	4,615	2,068
e. business combination transactions	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**3,046**	**832**
3.1 Deferred tax assets derecognised in the year	-	195
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. changes in accounting policies	-	-
d. other	3,046	195
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	637
a. conversion into tax assets pursuant to Law 214/2011	-	-
b. other	-	637
4. Closing balance	**9,712**	**8,143**

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

	31.12.2020	31.12.2019
1. Opening balance	**3,429**	**3,376**
2. Increases	**-**	**53**
3. Decreases	**400**	**-**
3.1 Reversals	-	-
3.2 Conversions into tax assets	-	-
a) arising on loss for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	400	-
4. Closing balance	**3,029**	**3,429**

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

	31.12.2020	31.12.2019
1. Opening balance	**14,060**	**12,222**
2. Increases	**299**	**2,049**
2.1 Deferred tax liabilities recognised in the year	299	2,049
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	299	2,049
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**326**	**211**
3.1 Deferred tax liabilities derecognised in the year	54	68
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	54	68
3.2 Tax rate reductions	-	-
3.3 Other decreases	272	143
4. Closing balance	**14,033**	**14,060**

11.6 Change in deferred tax assets (through equity)

	31.12.2020	31.12.2019
1. Opening balance	**333**	**910**
2. Increases	**222**	**21**
2.1 Deferred tax assets recognised in the year	222	21
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	222	21
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**16**	**598**
3.1 Deferred tax assets derecognised in the year	16	598
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. due to changes in accounting policies	-	-
d. other	16	588
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	10
4. Closing balance	**539**	**333**

11.7 Change in deferred tax liabilities (through equity)

	31.12.2020	31.12.2019
1. Opening balance	**160**	**9**
2. Increases	**875**	**160**
2.1 Deferred tax liabilities recognised in the year	875	160
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	875	160
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**160**	**9**
3.1 Deferred tax liabilities derecognised in the year	160	9
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	160	9
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**875**	**160**

SECTION 13 - OTHER ASSETS - ITEM 130

13.1 Other assets: breakdown

	31.12.2020	31.12.2019
Tax advances	9,447	7,584
Other	3,380	4,172
Prepayments not related to a specific item	2,225	1,962
Work in progress	2,144	2,944
Trade receivables	1,491	2,335
Security deposits	181	76
Leasehold improvements	141	187
Total	**19,039**	**19,260**

Tax advances, which account for almost half of this item, are mainly composed of advances relative to virtual stamp duties and withholding taxes on interest expense, and substitute tax on gains from securities trading.

LIABILITIES

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

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

	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**689,686**	X	X	X	**358,250**	X	X	X
2. Due to banks	**179,962**	X	X	X	**30,109**	X	X	X
2.1 Current accounts and demand deposits	-	X	X	X	20	X	X	X
2.2 Term deposits	125,178	X	X	X	30,089	X	X	X
2.3 Financing	52,510	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	52,510	X	X	X	-	X	X	X
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-				-			
2.6 Other payables	2,274	X	X	X	-	X	X	X
TOTAL	**869,648**			**869,648**	**388,359**			**388,359**

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

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

	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	633,461	X	X	X	681,500	X	X	X
2. Term deposits	1,216,417	X	X	X	1,325,741	X	X	X
3. Financing	306,884	X	X	X	544,200	X	X	X
3.1 Repurchase agreements	235,230	X	X	X	457,070	X	X	X
3.2 Other	71,654	X	X	X	87,130	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	-				-			
6. Other payables	7,482	X	X	X	159	X	X	X
TOTAL	**2,164,244**			**2,164,244**	**2,551,600**			**2,551,600**

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

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

	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**-**	**X**	**X**	**-**	**-**	**-**	**X**	**-**
1. bonds	**248,338**	**X**	**X**	**248,338**	**476,527**	**176,657**	**X**	**300,642**
1.1 structured	-	X	X	-	-	-	X	-
1.2 other	248,338	X	X	248,338	476,527	176,657	X	300,642
2. other securities	**-**	**X**	**X**	**-**	**-**	**-**	**X**	**-**
1.1 structured	-	X	X	-	-	-	X	-
1.2 other	-	X	X	-	-	-	X	-
TOTAL	**248,338**	**X**	**X**	**248,338**	**476,527**	**176,657**	**X**	**300,642**

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

This item includes the subordinated securities detailed below, the senior bond 2018-2021 (private placement) of € 91.9 million and the senior shares of the ABS in the Quinto Sistema Sec. 2019 and BS IVA securitisations subscribed by third-party institutional investors.

1.4 Breakdown of subordinated loans/securities

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

SECTION 6 - TAX LIABILITIES - ITEM 60

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

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31.12.2020	31.12.2020
Payments received in the reconciliation phase	73,626	54,893
Accrued expenses	11,440	10,820
Tax liabilities with the Tax Authority and other tax authorities	5,243	9,471
Work in progress	26,993	9,365
Trade payables	6,203	6,660
2019 dividends due to shareholders	7,479	-
Finance lease liabilities	3,976	1,710
Due to employees	943	903
Pension repayments	908	699
Other	83	141
TOTAL	**136,894**	**94,662**

SECTION 9 - POST-EMPLOYMENT BENEFITS - ITEM 90

9.1 Post-employment benefits: changes

	31.12.2020	31.12.2019
A. Opening balance	**3,051**	**2,402**
B. Increases	**1,786**	**1,057**
B.1 Accruals	610	537
B.2 Other increases	236	302
B.3 Business combination transactions	940	218
C. Decreases	**409**	**408**
C.1 Payments	343	273
C.2 Other decreases	66	135
D. Closing balance	**4,428**	**3,051**
TOTAL	**4,428**	**3,051**

9.2 Other Information

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

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

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

Annual discount rate	0.34%
Annual inflation rate	0.80%
Annual post-employment benefits increase rate	2.100%
Annual salary increase rate	1.00%

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

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

	31.12.2020	31.12.2019
1. Provisions for credit risk related to commitments and financial guarantees issued	26	44
2. Provisions for other commitments and other guarantees issued	-	
3. Internal pension funds	-	
4. Other provisions for risks and charges	23,404	22,253
4.1 legal and tax disputes	4,264	4,481
4.2 personnel expense	8,726	7,726
4.3 other	10,414	10,046
TOTAL	**23,430**	**22,297**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	**Total**
A. Opening balance	**44**	**-**	**22,253**	**22,297**
B. Increases	**-**	**-**	**12,719**	**12,719**
B.1 Accruals	-	-	11,270	11,270
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	1,424	1,424
B.5 Business combination transactions	-	-	25	25
C. Decreases	**18**	**-**	**11,568**	**11,586**
C.1 Utilisations	-	-	3,252	3,252
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	18	-	8,316	8,334
D. Closing balance	**26**	**-**	**23,404**	**23,430**

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

	Provisions for credit risk related to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	**Total**
Commitments to disburse funds	-	-	-	-
Financial guarantees issued	26	-	-	26
Total	**26**	**-**	**-**	**26**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2020	31.12.2019
Legal and tax disputes	4,264	4,481
Personnel expense	8,726	7,726
Other	10,414	10,046
TOTAL	**23,404**	**22,253**

Legal and tax disputes include a provision for possible liabilities arising from past acquisitions and therefore recognised in accordance with IFRS 3 for an amount of € 3.1 million and, for the remainder, provisions for lawsuits where the risk of losing the case is considered probable.

“Personnel expense” includes:

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

The calculation method can be summarised in the following steps:

- projection for each employee in service at the valuation date of the NCA that has already been accrued, and the future obligations up to an uncertain payment date;
- determination for each employee of the NCA payments that the Group will have to make in the event of employment termination due to dismissal and retirement in case of fulfilment of the NCA commitments;
- discounting, at the valuation date, of each probable payment.

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

The item “Other” includes an estimate of charges related to possible liabilities to assignors that have yet to be settled for € 4.7 million, the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years (the liability is currently estimated to be € 1.3 million and is offset against goodwill), and an estimate for amounts due to agents of € 1 million. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolio, for an amount of € 3.4 million.

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

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

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares with a nominal amount of € 0.12 for a total paid-in share capital of € 9,651 thousand. All outstanding shares have regular dividend entitlement from 1 January. Based on evidence from the Shareholders' Register and more recent information available, as at 18 February 2021 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.54%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Chandler SARL	7.48%
Fondazione Sicilia	7.40%
Moneta Micro Entreprises	5.12%
*Market**	*48.45%*

(*) Includes treasury shares held by the Bank.

At 31 December 2020, after the launch in 2019 of a plan for the repurchase of treasury shares designed to create a stock of securities to be used for the incentive plan for the Group's key personnel, the Bank held 168,669 shares (equal to 0.21% of the share capital).

	31.12.2020	31.12.2019
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	122,608	98,617
4. (Treasury shares)	(234)	(234)
5. Valuation reserves	1,287	267
6. Equity attributable to non-controlling interests	9,297	32
7. Profit for the year	25,777	29,719
TOTAL	**207,486**	**177,152**

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

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

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

13.4 Income-related reserves: other information

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

	Amount as at 31.12.2020	Possible use	Available portion
A. Share capital	9,651	-	-
B. Equity-related reserves:	-	-	-
Share premium reserve	39,100	A,B,C	-
Reserve to provide for losses	-	-	-
C. Income-related reserves:	-	-	-
Legal reserve	1,930	B	-
Valuation reserve	1,287	-	-
Revaluation reserve under art. 110 Law Decree 104/20	1,300	A	
Negative goodwill	1,774	A,B,C	-
Retained earnings	117,996	A,B,C	-
Reserve for treasury shares	200	-	-
Reserve for future capital increase		-	-
D. Other reserves	(592)	-	-
E. Treasury shares	(234)	-	-
TOTAL	**172,412**	-	-
Profit for the year	25,777	-	-
TOTAL EQUITY	**198,189**	-	-
Undistributable portion	-	-	-
Distributable portion	-	-	-

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

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

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

	31.12.2020	31.12.2019
Equity investments in consolidated companies with significant non-controlling interests	9,297	32
TOTAL	**9,297**	**32**

1. Commitments and financial guarantees issued

	Nominal amount of commitments and financial guarantees issued				
	First stage	Second stage	Third stage	31.12.2020	31.12.2019
Commitments to disburse funds	**421,159**	**24,765**	**10,389**	**456,313**	**246,489**
a) Central Banks	-	-	-	-	-
b) Public administrations	220,610	-	3,250	223,860	-
c) Banks	-	-	-	-	-
d) Other financial companies	109,919	-	-	109,919	121,035
e) Non-financial companies	88,342	24,536	7,139	120,017	120,372
f) Households	2,288	229	-	2,517	5,082
Financial guarantees issued	**6,724**	**-**	**-**	**6,724**	**3,119**
a) Central Banks	-	-	-	-	-
b) Public administrations	20	-	-	20	-
c) Banks	2,446	-	-	2,446	2,446
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	4,161	-	-	4,161	627
f) Households	97	-	-	97	45

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

3. Assets pledged as collateral for liabilities and commitments

	31.12.2020	31.12.2019
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	71,350	192,101
3. Financial assets measured at amortised cost	285,987	469,875
4. Property and equipment	-	-
of which: Property and equipment included among inventories	-	-

6. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**-**
3. Securities custody and administration	**1,262,864**
a) third-party securities held as part of depositary bank services (excluding asset management)	
1. securities issued by the reporting entity	-
2. other securities	-
b) third-party securities on deposit (excluding asset management): other	32,207
1. securities issued by the reporting entity	4,063
2. other securities	28,144
c) third-party securities deposited with third parties	32,207
d) securities owned by the bank deposited with third parties	1,230,658
4. Other transactions	**-**

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1. Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	2020	2019
1. Financial assets measured at fair value through profit or loss:	-	-		-	-
1.1 Financial assets held for trading	-	-		-	-
1.2 Financial assets designated at fair value through profit or loss	-	-		-	-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-	-		-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets measured at amortised cost:	1,868	91,977		93,845	107,646
3.1 Loans and receivables with banks	-	167	X	167	146
3.2 Loans and receivables with customers	1,868	91,810	X	93,678	107,500
4. Hedging derivatives	X	-		-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	4,222	2,690
TOTAL	**1,868**	**91,977**		**98,067**	**110,336**
of which: interest income on impaired assets	-	-		-	-
of which: interest income on finance leases	-	-		-	-

The total contribution of the Factoring Division to interest income was € 65.2 million, equal to 71% of the entire loans and receivables portfolio (compared to 77% at 31 December 2019), to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added.

Subsequent to their recognition, factoring receivables are measured at amortised cost, based on the present value of the estimated cash flows of the principal, or for all receivables whose recovery strategy involves legal action, based on the present value of the cash flows, in addition to the principal, of the default interest component that will accrue up to the expected date of collection on amounts considered recoverable. As a matter of prudence, given the limited amount of historical data available, the recovery percentages used for territorial entities and the public sector (statistical series starting from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (statistical series starting from 2005) a confidence interval of the fifth percentile is used. The estimated recovery percentages and expected collection dates are updated based on annual analyses in light of the progressive consolidation of the historical data series, which provide increasingly solid and robust estimates. In the third quarter of 2020, the expected rates of recovery of default interest on factoring, in light of the statistical evidence that benefits from the progressive consolidation of the historical data series, have increased, as have the related collection times used. The update of these estimates led to the recognition of higher total interest income of € 1.0 million (€ 4.8 million in December 2019). The decrease in the effect resulting from the updated recovery estimates is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly. The amount of the stock of default interest from legal actions accrued at 31 December 2020, relevant for the allocation model, was € 98 million (€ 107 million at the end of the previous year), € 155 million when including troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements amount to € 50.1 million. Therefore, the amount of default interest accrued but not yet recognised in the income statement is € 105 million.

1.3 Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	2020	2019
1. Financial liabilities measured at amortised cost	15,962	7,646	-	23,608	29,516
1.1 Due to Central banks	-	X	X	-	-
1.2 Due to banks	528	X	X	528	579
1.3 Due to customers	15,434	X	X	15,434	21,007
1.4 Securities issued	X	7,646	X	7,646	7,930
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	188	126
TOTAL	**15,962**	**7,646**	**-**	**23,796**	**29,642**
of which: interest expense related to lease liabilities	35	-	-	-	21

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

2.1 Fee and commission income: breakdown

	2020	2019
a. guarantees issued	36	13
b. credit derivatives	-	-
c. management, brokerage and consultancy services:	152	124
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. individual asset management	10	10
4. securities custody and administration	1	2
5. depositary services	-	-
6. placement of securities	100	72
7. order collection and transmission	41	40
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d. collection and payment services	54	63
e. services for securitisations	-	-
f. services for factoring	17,715	18,409
g. tax collection services	-	-
h. management of multilateral trading facilities	-	-
i. keeping and management of current accounts	96	91
j. other services	6,275	3,790
TOTAL	**24,328**	**22,490**

Fee and commission income of € 24.3 million increased by 8.2% thanks to the contribution of commissions from the Collateralised Lending Division. Fee and commission income from factoring 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 down slightly on the previous year.

Item j) Other services is detailed in the following table, and consists mainly of the fees and commissions of the Collateralised Lending Division mentioned above, fees and commissions arising from the origination of salary- and pension-backed loan (CQS/CQP) products, as well as servicing for third-party factoring transactions.

	2020	2019
Fees and commissions from servicing of third-party factoring transactions	1,138	1,247
CQ origination fees and commissions	2,353	1,797
Collateralised lending fees and commissions	2,719	-
Other fees and commissions (residual)	65	746
TOTAL	**6,275**	**3,790**

2.2 Fee and commission expense: breakdown

	2020	2019
a) guarantees received	41	-
b) credit derivatives	-	-
c) management and brokerage services:	6,122	4,719
1. trading in financial instruments	52	70
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	-	-
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	6,070	4,649
d) collection and payment services	199	222
e) other services	538	1,481
TOTAL	**6,900**	**6,422**

Fees and commissions from "off-premises distribution of securities, products and services" consist mainly of fees paid to agents who place salary- and pension-backed loan (CQ) products.

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

		2020		2019	
		dividends	similar income	dividends	similar income
A.	Financial assets held for trading	-	-	-	-
B.	Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-
C.	Financial assets measured at fair value through other comprehensive income	227	-	227	-
D.	Equity investments	-	-	-	-
	TOTAL	**227**	**-**	**227**	**-**

SECTION 4 - NET TRADING INCOME - ITEM 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**57**	**-**	**(1)**	**56**
1.1 Debt instruments	-	57	-	-	57
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	(1)	(1)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-		-
Financial assets and liabilities: exchange rate losses	**X**	**X**	**X**	**X**	**(19)**
3. Derivatives	**-**	**-**	**-**	**-**	**-**
3.1 Financial derivatives:	-	-	-	-	-
On debt instruments and interest rates	-	-	-	-	-
On equity instruments and equity indexes	-	-	-	-	-
On currencies and gold	X	X	X	X	-
Other	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
TOTAL	**-**	**57**	**-**	**(1)**	**37**

SECTION 6 - GAIN FROM SALES OR REPURCHASES - ITEM 100

6.1 Gain from sales or repurchases: breakdown

	2020			2019		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	5,351	(1,137)	4,214	1,106	-	1,106
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	5,351	(1,137)	4,214	1,106	-	1,106
2. Financial assets measured at fair value through other comprehensive income	5,327	(26)	5,301	4,140	(1,530)	2,610
2.1 Debt instruments	5,327	(26)	5,301	4,140	(1,530)	2,610
2.2 Financing	-	-	-	-	-	-
TOTAL ASSETS (A)	**10,678**	**(1,163)**	**9,515**	**5,246**	**(1,530)**	**3,716**
B. Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	16	-	16	-	-	-
TOTAL LIABILITIES (B)	**16**	**-**	**16**	**-**	**-**	**-**

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

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

	Impairment losses (1)			Impairment gains (2)		2020	2019
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Loans and receivables with banks	**2**	**-**	**-**	**(8)**	**-**	**(6)**	**17**
- financing	2	-	-	(8)	-	(6)	17
- debt instruments	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**1,959**	**-**	**9,034**	**(34)**	**(5)**	**10,954**	**8,933**
- financing	1,862	-	9,034	(34)	(5)	10,857	8,882
- debt instruments	97	-	-	-	-	97	51
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
Total	**1,961**	**-**	**9,034**	**(42)**	**(5)**	**10,948**	**8,950**

8.1a Net impairment losses due to credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Net impairment losses			Total at 31.12.2020	Total at 31.12.2019
	First and second stage	Third stage			
		write-offs	Other		
1. Forborne loans in compliance with the EBA Guidelines	(27)	-	483	456	-
2. Loans subject to other forbearance measures	-	-	-	-	-
3. New loans	216	-	-	216	-
Total	**189**	**-**	**483**	**672**	**-**

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

	Impairment losses (1)			Impairment gains (2)		2020	2019
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Debt instruments	**52**	**-**	**-**	**-**	**-**	**52**	**105**
B. Financing	**-**	-	-	-	-	**-**	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
Of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**52**	-	-	-	-	**52**	**105**

SECTION 12 - ADMINISTRATIVE EXPENSES - ITEM 190

12.1 Personnel expense: breakdown

	2020	2019
1) Employees	23,837	21,563
a) wages and salaries	13,764	11,926
b) social security charges	3,791	3,142
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	903	884
f) accrual for pension and similar provisions:	-	884
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	394	339
- defined contribution plans	394	339
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	4,985	5,272
2) Other personnel	444	458
3) Directors and statutory auditors	1,249	1,145
4) Retired personnel	-	-
5) Recovery of costs for employees of the Bank seconded to other entities	-	-
6) Reimbursement of costs for employees of other entities seconded to the Bank	2	-
TOTAL	**25,532**	**23,166**

12.2 Average number of employees by category

Employees

a) Senior managers	24
b) Managers	43
c) Remaining employees	135

12.5 Other administrative expenses: breakdown

Other administrative expenses (€,000)	2020	2019
Consultancy	(4,872)	(4,200)
IT expenses	(5,382)	(5,765)
Servicing and collection activities	(2,951)	(2,992)
Indirect taxes and duties	(2,174)	(2,355)
Insurance	(707)	(487)
Other	(576)	(463)
Expenses related to management of the SPVs	(669)	(530)
Car hire and related fees	(633)	(651)
Advertising	(594)	(586)
Rent and related fees	(948)	(627)
Expense reimbursement and entertainment	(387)	(838)
Infoprovider expenses	(514)	(638)
Membership fees	(299)	(310)
Property management expenses	(453)	(343)
Audit fees	(294)	(368)
Telephone and postage expenses	(158)	(139)
Logistics expenses	(143)	(75)
Stationery and printing	(74)	(61)
Total operating expenses	**(21,828)**	**(21,428)**
Resolution Fund	(2,007)	(1,146)
Merger-related costs	(1,699)	(365)
TOTAL	**(25,534)**	**(22,939)**

Administrative expenses of € 25.5 million increased mainly due to the contribution to the Resolution Fund which accounts for € 0.9 million of the increase in costs and the non-recurring acquisition-related costs from the acquisition of the business unit. These costs primarily comprise the registration tax of € 1 million, and IT and logistics costs.

The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

The 2020 merger-related costs refer to costs incurred in connection with the acquisition of the collateralised lending business unit completed in July. The 2019 merger-related costs include the costs for the integration and merger of Atlantide into the Bank.

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

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

	2020	2019
Net accruals for other commitments and other guarantees	18	(36)
TOTAL	**18**	**(36)**

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

	2020	2019
Provisions for risks and charges - other provisions and risks	(2,538)	(1,960)
Release of provisions for risks and charges	-	-
TOTAL	**(2,538)**	**(1,960)**

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

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

14.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Property and equipment				
1. Operating assets	**1,875**	-	-	**1,875**
▪ Owned	823	-	-	823
▪ Right-of-use assets acquired under a lease	1,052	-	-	1,052
2. Investment property	**-**	**-**	**-**	**-**
▪ Owned	-	-	-	-
▪ Right-of-use assets acquired under a lease	-	-	-	-
3. Inventories	-	**-**	**-**	**-**
TOTAL	**1,875**	**-**	**-**	**1,875**

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

15.1 Net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Intangible assets				
A.1 Owned	**81**	-	-	**81**
▪ Developed internally	-	-	-	-
▪ Other	81	-	-	81
A.2 Right-of-use assets acquired under a lease	-	-	-	-
TOTAL	**81**	-	-	**81**

SECTION 16 - OTHER OPERATING INCOME AND EXPENSE - ITEM 230

16.1 Other operating expense: breakdown

	2020	2019
Amortisation of leasehold improvements	27	42
Other operating expense	1,729	2,071
TOTAL	**1,756**	**2,113**

16.2 Other operating income: breakdown

	2020	2019
Recoveries of expenses on current accounts and deposits for sundry taxes	518	333
Recoveries of sundry expenses	157	106
Other income	1,341	906
TOTAL	**2,016**	**1,345**

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

SECTION 20 - GAINS ON SALES OF INVESTMENTS - ITEM 280

20.1 Gains on sales of investments: breakdown

	2020	2019
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	1,090	(8)
- Gains on sale	1,090	(13)
- Losses on sale	-	5
Net gain	**1,090**	**(8)**

SECTION 21 - INCOME TAXES - ITEM 300

21.1 Income taxes: breakdown

		2020	2019
1.	Current taxes (-)	(12,745)	(12,442)
2.	Changes in current taxes of previous years (+/-)	139	852
3.	Decrease in current taxes for the year (+)	-	-
3.bis	Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	1,569	1,236
5.	Changes in deferred tax liabilities (+/-)	28	(1,838)
6.	Tax expense for the year (-) (-1+/-2+3+3.bis+/-4+/-5)	(11,009)	(12,192)

21.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (Corporate income tax)	%
Theoretical IRES expense	**37,511**	**(10,316)**	**27.50%**
Permanent increases	1,788	(492)	1.31%
Temporary increases	10,923	(3,004)	8.01%
Permanent decreases	(13,178)	3,625	-9.66%
Temporary decreases	(149)	41	-0.11%
Effective IRES expense	**36,895**	**(10,146)**	**27.05%**
IRAP (REGIONAL BUSINESS TAX)	Taxable income	IRAP (Regional business tax)	%
Theoretical IRAP expense	**37,511**	**(2,089)**	**5.57%**
Permanent increases	61,180	(3,408)	9.08%
Temporary increases	7,164	(399)	1.06%
Permanent decreases	(59,305)	3,303	-8.81%
Temporary decreases	-	-	-0.00%
Effective IRAP expense	**46,550**	**(2,593)**	**6.91%**
▪ Other tax expense	-	-	-
Total effective IRES and IRAP expense	**83,445**	**(12,739)**	**33.96%**

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

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

	2020	2019
Gains (losses) on sales	-	565
Taxes and duties	-	(3)
Profit (loss)	**-**	**562**

22.2 Breakdown of income taxes from discontinued operations

	2020	2019
1. Current taxes (-)	-	(3)
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Income taxes for the year (-1+/-2+/-3)	**-**	**(3)**

SECTION 24 - OTHER INFORMATION

Nothing to report.

SECTION 25 - EARNINGS PER SHARE

Earnings per share (EPS)	2020	2019
Profit for the year (thousands of Euro)	25,746	29,956
Average number of outstanding shares	80,421,052	80,279,993
Basic earnings per share (basic EPS) (in Euro)	0.321	0.373
Diluted earnings per share (diluted EPS) (in Euro)	0.321	0.373

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

PART D - OTHER COMPREHENSIVE INCOME

Breakdown of comprehensive income

		2020	2019
10.	**Profit for the year**	**25,777**	**29,719**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
20.	Equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses) - hedged item	-	-
	b) fair value gains (losses) - hedging instrument	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(124)	(32)
80.	Non-current assets held for sale	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	-
100.	Income taxes on items that will not be reclassified subsequently to profit or loss	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net position gains (losses)	-	-
140.	Hedging instruments (non-designated elements):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-

		2020	2019
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	1,144	1,430
	a) fair value gains	1,092	325
	b) reclassification to profit or loss	-	-
	- impairment losses due to credit risk	52	104
	- gains/losses on sales	-	1,001
	c) other changes	-	-
160.	Non-current assets held for sale and disposal groups:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss		
	- impairment losses	-	-
	- gains/losses on sales	-	-
	c) other changes	-	-
180.	Income taxes on items that will be reclassified subsequently to profit or loss	-	-
190.	**Total other comprehensive income**	**1,020**	**1,398**
200.	**Comprehensive income (10+190)**	**26,797**	**31,117**
210.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
220.	**Comprehensive income attributable to the owners of the parent**	**26,797**	**31,117**

SECTION 1 - CONSOLIDATION RISKS

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

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

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

	Bad exposures	Unlikely to pay	Impaired past due exposures	Other impaired exposures	Unimpaired exposures	Total
1. Financial assets measured at amortised cost	27,114	128,080	49,942	546,227	2,391,428	3,142,791
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	425,348	425,348
3. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total at 31.12.2020	**27,114**	**128,080**	**49,942**	**546,227**	**2,816,776**	**3,568,139**
Total at 31.12.2019	**30,544**	**123,306**	**54,549**	**709,093**	**2,745,115**	**3,662,607**

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

	Impaired				Unimpaired			
	Gross amount	Total impairment losses	Carrying amount	Overall partial write-offs	Gross amount	Total impairment losses	Carrying amount	Total (carrying amount)
1. Financial assets measured at amortised cost	251,165	46,028	205,137	-	2,946,707	9,016	2,937,655	3,142,791
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	425,554	206	425,348	425,348
3. Financial assets designated at fair value through profit or loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-			-	-
Total at 31.12.2020	**251,165**	**46,028**	**205,137**	**-**	**3,372,261**	**9,222**	**3,363,003**	**3,568,139**
Total at 31.12.2019	**245,616**	**37,217**	**208,399**	**-**	**3,460,195**	**5,988**	**3,454,208**	**3,662,607**

B. Disclosure of structured entities (other than securitisation companies)

B.1 Consolidated structured entities

At 31 December 2020 there were no such cases.

B.2. Unconsolidated structured entities

At 31 December 2020 there were no such cases.

B.2.1. Prudentially consolidated structured entities

At 31 December 2020 there were no such cases.

B.2.2. Other structured entities

At 31 December 2020 there were no such cases.

SECTION 2 - PRUDENTIAL CONSOLIDATION RISKS

1.1 Credit risk

QUALITATIVE DISCLOSURE

1. General aspects

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

In particular, this system hinges on four core principles:

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

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

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

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

The Risk Department of the Parent is responsible for the guidance, coordination and management of the Group's risks.

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

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

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

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

- Share capital;
- Liquidity;
- Quality of the loans and receivables portfolio;

- Profitability;
- Other specific risks the Group is exposed to.

Target levels, which are adjusted according to the expected development of the business in the Plan and/or the Budget reviews, the level I thresholds, defined as "warning" thresholds, that trigger discussion at Risk Committee level and subsequent communication to the Board of Directors and the level II thresholds, that require direct discussion in the Board of Directors' meeting to determine the actions to be taken are associated with the various key indicators. The level I and II thresholds are defined with scenarios of potential stress with respect to the plan's objectives and on dimensions having a clear impact for the Group.

Starting from 1 January 2014, the Group used an integrated reference framework both to identify its own risk appetite and for the internal process entailing the determination of the capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP). Starting in 2017, it also implemented the Internal Liquidity Adequacy Assessment Process (ILAAP).

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

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

As at 31 December 2020, the Group uses the appraisal issued by the ECAI "DBRS", for the exposures to Central Authorities, Territorial Entities and Public Sector Institutions, whereas, as concerns the valuations related to the regulatory business segment, it uses the agency "Fitch Ratings Ltd".

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

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

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

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

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

- Factoring activities (with and without recourse);
- Medium-term corporate loans (with guarantee from SACE or the National Guarantee Fund - FNG);
- Acquisition without recourse of salary-/pension-backed loans;
- Collateralised Lending (mainly secured by gold).

2. Credit Risk Management Policies

2.1 Organisational aspects

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

In order to maintain the high credit quality of its loans and receivables portfolio, the Bank, following the divisionalisation process, has set up separate Credit Committees for the two Factoring and CQ Divisions, within which decisions may be taken up to pre-defined credit mandates, while a CEO Credit Committee has been set up for transactions that exceed the powers of the individual Divisions. At the same time, the Credit Coordination Committee was introduced, which makes it possible to ensure consistency in the granting of credit and close monitoring of individual positions. Level II activities relating to risk control are centralised in the Parent's Risk Department which also coordinates with the Compliance, Anti-Money Laundering and Risk Department of the ProntoPegno subsidiary for risk-related activities.

In light of the above, the analyses conducted for the granting of credit are carried out by the Bank's Underwriting Departments, which report to their respective Divisions. For the Factoring Division, the Department performs assessments focused on the separate analysis and extension of credit to counterparties (assignor and debtor) and on managing the related financial transactions. This takes place in all normal phases of the credit process, summarised as follows:

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

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

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

Specifically, the structure endeavours:

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

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

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

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

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

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

As regards the CQ Division, this activity is carried out through the direct origination of loans mainly through agents/brokers or through the acquisition of salary-/pension-backed loan portfolios. The credit risk is associated with the inability of the three counterparties involved in the loan process to honour their financial commitments, i.e.:

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

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

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

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

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

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

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

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

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

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

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

Effects of the Covid-19 pandemic

Regarding credit risk, Banca Sistema responded positively to all initiatives aimed at supporting the real economy implemented by the EU Government. All forbearance measures are established to respond as quickly as possible to the adverse impact caused by the temporary slowdown in the economic cycle and the related potential impact on liquidity. The potential impact on the Bank's risk profile is mitigated:

- by obtaining government guarantees that are consistent with the mechanisms put in place by the various governments;
- through an ex-ante and ongoing assessment of the customer's risk profile.

2.2 Management, measurement and control systems

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

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

With specific reference to the monitoring of credit activities, the Bank, via the collection meetings, assesses and inspects the loans and receivables portfolio based upon the guidelines defined within the "collection policy". The framework related to the above credit risk ex-post monitoring sets the objective of promptly identifying any anomalies and/or discontinuities and evaluating the persistence of risk profiles, in line with the strategic indications provided.

The purchase activities of government securities classified among HTCS financial assets (formerly classified as available-for-sale) continued during 2020 in relation to the credit risk associated with the bond securities portfolios. Said financial assets, which in virtue of their classification fall within the perimeter of the "banking book" although outside of the bank's traditional investment activity, are sources of credit risk. This risk consists in the issuer's inability to redeem, upon maturity, all or part of the bonds subscribed.

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

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

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

Effects of the Covid-19 pandemic

Regarding credit risk, Banca Sistema responded positively to all initiatives aimed at supporting the real economy implemented by the EU Government. All forbearance measures are established to respond as quickly as possible to the adverse impact caused by the temporary slowdown in the economic cycle and the related potential impact on liquidity. The potential impact on the Bank's risk profile is mitigated:

- by obtaining government guarantees that are consistent with the mechanisms put in place by the various governments;
- through an ex-ante and ongoing assessment of the customer's risk profile.

2.3 Methods of measuring expected losses

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

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

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

2.4 Credit Risk mitigation techniques

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

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

3. Impaired loans

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

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

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

In particular, the following definitions apply:

Bad exposures

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

This class also includes:

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

Unlikely to pay

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

Past due and/or overdrawn exposures

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

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

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

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

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

On 1 January 2021, the new definition of default came into force. As a result, the above Circular has been updated to reflect the EBA Guidelines; the Group has adopted all the necessary amendments to ensure that it complies with the new rules from the outset.

Forborne exposures

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

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

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

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

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

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

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

3.1 Management strategies and policies

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

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

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

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

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

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

3.2 Write-offs

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

3.3 Purchased or originated credit-impaired financial assets

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

4. Financial assets subject to commercial renegotiation and forborne exposures

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

QUANTITATIVE DISCLOSURE

A. Credit quality

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

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

	First stage			Second stage			Third stage		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	13,514	18,292	504,135	948	1,063	8,676	405	1,137	175,108
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
TOTAL AT 31.12.2020	**13,514**	**18,292**	**504,135**	**948**	**1,063**	**8,676**	**405**	**1,137**	**175,108**
TOTAL AT 31.12.2019	**29,272**	**24,744**	**647,530**	**999**	**463**	**6,753**	**1,218**	**3,652**	**155,153**

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

	Total impairment losses																Overall accruals to provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets included in the first stage					Assets included in the second stage					Assets included in the third stage									
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Of which: purchased or originated credit-impaired financial assets	First stage	Second stage	Third stage	**Total**
Opening total impairment losses	**5,167**	**154**	**-**	**-**	**5,321**	**667**	**-**	**-**	**-**	**667**	**37,217**	**-**	**-**	**37,217**	**-**	**212**	**44**	**-**	**-**	**43,248**
Increases in purchased or originated financial assets	-	-	-	-	-	87	-	-	-	87	332	-	-	332	-	420	-	-	-	420
Derecognition other than write-offs	710	-	-	-	710	220	-	-	-	220	715	-	-	715	-	42	-	-	-	1,645
Net impairment losses/gains due to credit risk (+/-)	3,779	52	-	-	3,831	247	-	-	-	247	9,194	-	-	9,194	-	115	(18)	-	-	13,254
Contract amendments without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing total impairment losses	**8,235**	**206**	**-**	**-**	**8,441**	**781**	**-**	**-**	**-**	**781**	**46,028**	**-**	**-**	**46,028**	**-**	**704**	**26**	**-**	**-**	**55,277**
Recoveries from collection on financial assets that have been written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-	-

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

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
1. Financial assets measured at amortised cost	44,364	31,710	4,371	3,525	38,969	38,148
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	10,590	3,786	-	11,931	4,387	11,159
TOTAL AT 31.12.2020	**54,954**	**35,496**	**4,371**	**15,456**	**43,355**	**49,307**
TOTAL AT 31.12.2019	**48,967**	**10,557**	**31,604**	**4,056**	**73,083**	**43,174**

A.1.3a Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
A. Loans measured at amortised cost	**-**	**-**	**-**	**2,507**	**135**	**-**
A.1 forborne in compliance with the EBA Guidelines	-	-	-	2,507	135	-
A.2 subject to other forbearance measures	-	-	-	-	-	-
A.3 new loans	-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 forborne in compliance with the EBA Guidelines	-	-	-	-	-	-
B.2 subject to other forbearance measures	-	-	-	-	-	-
B.3 new loans	-	-	-	-	-	-
TOTAL AT 31.12.2020	**-**	**-**	**-**	**2,507**	**135**	**-**
TOTAL AT 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**

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

	Gross amount: Impaired	Gross amount: Unimpaired	Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES			-	-	-
a) Bad exposures		X	-	-	-
of which: forborne exposures		X	-	-	-
b) Unlikely to pay		X	-	-	-
of which: forborne exposures		X	-	-	-
c) Impaired past due exposures		X	-	-	-
of which: forborne exposures		X	-	-	-
d) Unimpaired past due exposures	X		-		-
of which: forborne exposures	X				
e) Other unimpaired exposures	X	92,500	20	92,480	-
of which: forborne exposures	X				
TOTAL A		**92,500**	**20**	**92,480**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES			**-**	**-**	**-**
a) Impaired		X	-	-	-
b) Unimpaired	X	2,446	-	2,446	-
TOTAL B		**2,446**	**-**	**2,446**	**-**
TOTAL (A+B)		**94,946**	**20**	**94,926**	**-**

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

	Gross amount: Impaired	Gross amount: Unimpaired	Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					-
a) Bad exposures	52,354	X	25,241	27,113	-
of which: forborne exposures	369	X	369		-
b) Unlikely to pay	148,433	X	20,352	128,080	-
of which: forborne exposures	296	X	118	177	-
c) Impaired past due exposures	50,377	X	435	49,942	-
of which: forborne exposures		X			-
d) Unimpaired past due exposures	X	548,786	2,560	546,226	-
of which: forborne exposures	X				
e) Other unimpaired exposures	X	2,733,328	6,679	2,726,649	-
of which: forborne exposures	X	1,062	7	1,055	
TOTAL A	**251,164**	**3,282,115**	**55,268**	**3,478,011**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					**-**
a) Impaired	10,389	X		10,389	-
b) Unimpaired	X	229,592	26	450,176	-
TOTAL B	**10,389**	**229,592**	**26**	**460,565**	**-**
TOTAL A+B	**261,553**	**3,511,707**	**55,294**	**3,938,576**	**-**

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

No positions to report.

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

No positions to report.

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

	Bad exposures	Unlikely to pay	Impaired past due exposures
A. Opening gross balance	**50,622**	**139,348**	**55,646**
- of which: positions transferred but not derecognised	-	-	-
B. Increases	**16,505**	**193,225**	**207,750**
B.1 transfers from performing loans	2,630	11,643	119,325
B.2 transfers from purchased or originated credit-impaired financial assets	821	13,175	20
B.3 transfers from other categories of impaired loans	998	4,781	-
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	12,056	163,626	88,405
C. Decreases	**14,773**	**184,141**	**213,019**
C.1 transfers to performing loans	1,564	596	86,399
C.2 write-offs	455	-	-
C.3 collections	12,754	182,824	121,562
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of impaired loans	-	722	5,058
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**52,354**	**148,433**	**50,377**
- of which: positions transferred but not derecognised	8	718	3,875

A.1.7a Loans subject to Covid-19 support measures: gross amount and carrying amount

	Gross amount	Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs *
A. BAD LOANS	**-**	**-**	**-**	**-**
a) Forborne in compliance with the EBA Guidelines	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
B. UNLIKELY-TO-PAY LOANS	**5,761**	**846**	**4,915**	**-**
a) Forborne in compliance with the EBA Guidelines	5,761	846	4,915	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
C. IMPAIRED PAST DUE LOANS	**135**	**4**	**130**	**-**
a) Forborne in compliance with the EBA Guidelines	135	4	130	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
D. PERFORMING LOANS	**-**	**-**	**-**	**-**
a) Forborne in compliance with the EBA Guidelines	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
E. OTHER PERFORMING LOANS	**71,796**	**324**	**71,473**	**-**
a) Forborne in compliance with the EBA Guidelines	6,304	108	6,197	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	65,492	216	65,276	-
TOTAL (A+B+C+D+E)	**77,692**	**1,174**	**76,518**	**-**

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

	Non-performing exposures with forbearance measures	Other forborne exposures
A. Opening gross balance	**2,056**	
- of which: positions transferred but not derecognised		
B. Increases	**2,393**	**2,124**
B.1 transfers from performing exposures without forbearance measures		1,062
B.2 transfers from forborne performing exposures		X
B.3 transfers from non-performing exposures with forbearance measures	X	1,062
B.4 transfers from non-performing exposures without forbearance measures	1,662	
B.5 other increases	730	-
C. Decreases	**3,785**	**1,062**
C.1 transfers to performing exposures without forbearance measures	X	
C.2 transfers to forborne performing exposures		X
C.3 transfers to non-performing exposures with forbearance measures	X	1,062
C.4 write-offs		
C.5 collections	3,120	
C.6 gains on sales		
C.7 losses on sales		
C.8 other decreases	664	
D. Closing gross balance	**664**	**1,062**
- of which: positions transferred but not derecognised		

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

No positions to report.

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

	BAD EXPOSURES		UNLIKELY TO PAY		IMPAIRED PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total impairment losses	**20,078**	**-**	**16,042**	**259**	**1,097**	**176**
- of which: positions transferred but not derecognised	-	-	-	-	-	-
B. Increases	**6,770**	**369**	**12,902**	**118**	**362**	-
B.1 impairment losses on purchased or originated credit-impaired financial assets	30	X	306	X	-	X
B.2 other impairment losses	6,700	-	12,484	118	277	-
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other categories of impaired loans	34	369	94	-	-	-
B.5 contract amendments without derecognition	-	X	-	X	-	X
B.6 other increases	6	-	18	-	84	-
C. Decreases	**1,607**	-	**8,592**	**259**	**1,024**	**176**
C.1. impairment gains	1,076	-	5,343	-	703	-
C.2 impairment gains due to collections	106	-	565	-	43	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of impaired loans	-	-	30	259	99	176
C.6 contract amendments without derecognition	-	X	-	X	-	X
C.7 other decreases	425	-	2,654	-	179	-
D. Closing total impairment losses	**25,241**	**369**	**20,352**	**118**	**435**	**-**
- of which: positions transferred but not derecognised	-	-	66	-	27	-

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

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

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/ guarantors pursuant to prudential requirements.

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

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

	External rating class							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Without rating	**Total**
A. Financial assets measured at amortised cost	**-**	**-**	**448,083** -	**-**	**-**	**-**	**2,749,770**	**3,197,853**
- First stage	-	-	448,083	-	-	-	2,364,413	2,812,495
- Second stage	-	-	-	-	-	-	134,194	134,194
- Third stage	-	-	-	-	-	-	251,164	251,164
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**425,554**	**-**	**-**	**-**	-	**425,554**
- First stage	-	-	425,554	-	-	-	-	425,554
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B)	-	-	**873,637**	-	-	-	**2,749,770**	**3,623,407**
of which: purchased or originated credit-impaired financial assets	-	-	- -	-	-	-	32,403	32,403
C. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-	**463,037**	**463,037**
- First stage	-	-	-	-	-	-	427,883	427,883
- Second stage	-	-	-	-	-	-	24,765	24,765
- Third stage	-	-	-	-	-	-	10,389	10,389
Total C	-	-	-	-	-	-	**463,037**	**463,037**
Total (A + B + C)	-	-	**873,637**	-	-	-	**3,212,807**	**4,086,444**

of which long-term rating

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

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

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

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

of which long-term rating

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

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

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

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

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

No positions to report.

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

	Gross amount	Carrying amount	Collateral (1)				CLN	Personal guarantees (2)								Total (1)+(2)
								Credit derivatives				Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral		Central Counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed on-statement of financial position loans:	**1,151,524**	**1,142,347**	**1,512**	**-**	**20,075**	**1,008,082**	**-**	**-**	**-**	**-**	**-**	**63,735**	**-**	**25,505**	**19,164**	**1,138,074**
1.1 fully guaranteed	1,104,948	1,097,545	1,512	-	20,075	1,008,049	-	-	-	-	-	23,473	-	25,505	19,105	1,097,720
- of which impaired	20,481	15,187	-	-	-	7,883	-	-	-	-	-	1,016	-	17	6,271	15,187
1.2 partially guaranteed	46,576	44,801	-	-	-	33	-	-	-	-	-	40,262	-	-	59	40,354
- of which impaired	2,504	925	-	-	-	-	-	-	-	-	-	839	-	-	59	898
2. Guaranteed off-statement of financial position loans:	**25,424**	**25,420**	**-**	**-**	**1,148**	**2,217**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,674**	**10,637**	**23,676**
2.1 fully guaranteed	18,833	18,829	-	-	1,148	2,217	-	-	-	-	-	-	-	5,888	9,576	18,829
- of which impaired	452	452	-	-	-	-	-	-	-	-	-	-	-	-	452	452
2.2 partially guaranteed	6,592	6,592	-	-	-	-	-	-	-	-	-	-	-	3,786	1,061	4,847
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

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

	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position loans and receivables										
A1. Bad exposures	17,811	1,143	-	-	-	-	9,147	23,501	155	597
- of which: forborne exposures										
A.2 Unlikely to pay	98,323	7,255	-	-	-	-	27,167	10,947	2,590	2,150
- of which: forborne exposures							177	118		
A.3 Impaired past due exposures	26,147	193	7	-	5	-	16,021	157	7,767	85
- of which: forborne exposures							587	176		
A.4 Unimpaired exposures	1,853,656	4,117	90,207	1,538	9	-	298,562	1,768	1,028,194	1,816
- of which: forborne exposures										
TOTAL (A)	**1,995,937**	**12,708**	**90,213**	**1,538**	**14**	**-**	**350,896**	**36,373**	**1,038,706**	**4,648**
B. Off-statement of financial position loans and receivables										
B.1 Impaired exposures	3,250	-	-	-	10	-	7,139	-	-	-
B.2 Unimpaired exposures	220,610	-	109,919	-	10	-	117,014	26	2,614	-
TOTAL (B)	**223,860**	**-**	**109,919**	**-**	**20**	**-**	**124,152**	**26**	**2,614**	**-**
TOTAL (A+B) AT 31.12.2020	**2,219,797**	**12,708**	**200,132**	**1,538**	**34**	**-**	**475,049**	**36,399**	**1,041,320**	**4,648**
TOTAL (A+B) AT 31.12.2019	**2,385,555**	**9,903**	**193,380**	**57**	**12**	**-**	**388,287**	**29,923**	**861,991**	**3,338**

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position loans and receivables	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**
A.1 Bad exposures	27,113	25,161	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	128,080	20,352	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	49,942	435	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	3,206,768	7,481	63,059	1,817	2,754	17	533	3	261	2
TOTAL (A)	**3,411,404**	**53,429**	**63,059**	**1,817**	**2,754**	**17**	**533**	**3**	**261**	**2**
B. Off-statement of financial position loans and receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Impaired exposures	10,389	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposures	436,503	10	11,172	-	-	-	2,500	16	-	-
TOTAL (B)	**446,892**	**10**	**11,172**	**-**	**-**	**-**	**2,500**	**16**	**-**	**-**
TOTAL (A+B) AT 31.12.2020	**3,858,296**	**53,439**	**74,231**	**1,817**	**2,754**	**17**	**3,034**	**19**	**261**	**2**
TOTAL (A+B) AT 31.12.2019	**3,758,458**	**43,020**	**57,099**	**198**	**1,094**	**4**	**-**	**-**	**46**	**-**

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position loans and receivables	**-**	**-**	-	-	-	-	-	-	-	-
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	93,980	20	-	-	-	-	-	-	-	-
Total (A)	**93,980**	**20**	-	-	-	-	-	-	-	-
B. Off-statement of financial position loans and receivables	**-**	**-**	-	-	-	-	-	-	-	-
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposures	2,446	-	-	-	-	-	-	-	-	-
Total (B)	**2,446**	**-**	-	-	-	-	-	-	-	-
Total A+B at 31.12.2020	**96,427**	**20**	-	-	-	-	-	-	-	-
Total A+B at 31.12.2019	**83,839**	**26**	**117**	-	-	-	-	-	-	-

As at 31 December 2020, the Bank's large exposures are as follows:

- Carrying amount € 1,821,836 (in thousands)
- Weighted value € 193,312 (in thousands)
- No. of positions 16.

D. TRANSFERS

A. Financial assets transferred and not derecognised

QUALITATIVE DISCLOSURE

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

QUANTITATIVE DISCLOSURE

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

	Financial assets transferred and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement	of which impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
C. Financial assets designated at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Financing	-	-	-		-	-	-
D. Financial assets measured at fair value through other comprehensive income	**76,891**	-	**76,891**	X	**76,899**	-	**76,899**
1. Debt instruments	76,891	-	76,891		76,899	-	76,899
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
E. Financial assets measured at amortised cost	**293,254**	**129,666**	**163,588**	**556**	**251,189**	**87,218**	**163,972**
1. Debt instruments	157,947	-	157,947		158,331	-	158,331
2. Financing	135,306	129,666	5,641	556	92,858	87,218	5,641
Total at 31.12.2020	**370,145**	129,666	**240,479**	**556**	**328,088**	**87,218**	**240,871**
Total at 31.12.2019	**192,101**	-	**192,101**		-	-	-

1.2 Market risks

The Group did not conduct trading activity on financial instruments. At 31 December 2020 asset positions, except for shares, included in the regulatory trading portfolio that may generate market risk are not recognised. The existing limit system defines a careful and balanced management of the operational autonomy, establishing limits in terms of portfolio amounts and composition by type of security.

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE DISCLOSURE

No positions to report.

1.2.2 Interest rate risk and price risk - Banking Book

QUALITATIVE DISCLOSURE

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

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

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

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

- Determination of material currencies. "Material currencies" are considered those that represent a portion of total assets, or also of the banking book liabilities, greater than 5%. For the purposes of the methodology for calculating exposure to interest rate risk, the positions denominated in "material currencies" are considered individually, while the positions in "non-material currencies" are aggregated for the equivalent amount in Euro;
- Classification of the assets and liabilities in time buckets. 19 time buckets are defined. The fixed-rate assets and liabilities are classified based on their residual maturity, while those at floating rates based on the interest rate renegotiation date. Specific classification rules are prescribed for specific assets and liabilities. With particular reference to the deposit and savings product "Si conto! Deposito", the Bank proceeded with the bucketisation that takes into account the implied redemption option;
- Within each time bucket, the asset and liability positions are multiplied by the weights derived from the product of a hypothetical change in rates and an approximation of the modified duration for each individual bucket;
- Within each time bucket, the asset positions are offset against the liability positions, so as to obtain a net position;
- Aggregation in the various currencies. The absolute values of the exposures regarding the individual "material currencies" and the aggregate of the "non-material currencies" are summed together, obtaining an amount that represents the change of the economic value of the Bank based on the assumed rate trends.

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

Given the foregoing submissions, it should be noted that:

- the interest rates applied to the factoring customers are at a fixed rate and can also be modified unilaterally by the Bank (in compliance with regulations in force and existing contracts);
- the average financial term of the bond securities portfolio is approximately one year;
- the salary/pension-backed loan portfolio that contains fixed rate contracts is that with the longest duration, however on the reporting date this portfolio was small and it was not deemed necessary to enter into interest rate hedge transactions on said maturities;
- the REPO deposits c/o the Central Bank are of short duration (the maximum maturity is equal to 3 months);
- the customers' deposits on the deposit account product are at a fixed rate for the entire duration of the constraint, which can be unilaterally renegotiated by the Bank (in compliance with regulations in force and existing contracts);
- the REPO and reverse REPO agreements are generally of short duration, without prejudice to different funding needs.

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

QUANTITATIVE DISCLOSURE

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

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	Open term
1. Assets	**1,147,400**	**261,918**	**342,963**	**285,130**	**1,172,041**	**373,878**	**38**	**-**
1.1 Debt instruments	-	-	275,892	193,779	406,671	3,566	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	275,892	193,779	406,671	3,566	-	-
1.2 Financing to banks	51,301	40,303	1	3	1	-	-	-
1.3 Financing to customers	1,096,100	221,615	67,070	91,348	765,369	370,312	38	-
- current accounts	62,705	-	-	-	-	2	-	-
- other financing	1,033,395	221,615	67,070	91,348	765,369	370,310	38	-
- with early repayment option	143,325	118,414	66,630	90,778	592,586	334,907	38	-
- other	890,069	103,202	440	570	172,784	35,404	-	-
2. Liabilities	**734,437**	**607,827**	**230,031**	**683,752**	**892,322**	**136,523**	**44**	**-**
2.1 Due to customers	663,864	493,300	107,529	485,307	388,928	118,480	44	-
- current accounts	-	246,203	104,809	474,361	350,921	24,584	44	-
- other payables	8,911	247,097	2,720	10,946	38,006	93,896	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	8,911	247,097	2,720	10,946	38,006	93,896	-	-
2.2 Due to banks	70,572	95,000	30,000	198,446	495,377	-	-	-
- current accounts	775	-	-	-	-	-	-	-
- other payables	69,798	95,000	30,000	198,446	495,377	-	-	-
2.3 Debt instruments	-	19,527	92,502	-	8,018	18,043	-	-
- with early repayment option	-	19,527	92,502	-	-	18,043	-	-
- other	-	-	-	-	8,018	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**27,996**	**2,113**	**3,536**	**19,767**	**1,279**	**102**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	27,996	2,113	3,536	19,767	1,279	102	-
- Options	-	27,996	2,113	3,536	19,767	1,279	102	-
+ long positions	-	600	2,113	3,536	19,767	1,279	102	-
+ short positions	-	27,396	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1.2.3 Currency risk

QUALITATIVE DISCLOSURE

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

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

QUANTITATIVE DISCLOSURE

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

	CURRENCIES					
	US DOLLARS	UK POUNDS	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**618**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	618
A.3 Financing to banks	-	-	-	-	-	-
A.4 Financing to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
Total assets	**-**	**-**	**-**	**-**	**-**	**618**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Difference (+/-)	**-**	**-**	**-**	**-**	**-**	**618**

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

1.3 Derivatives and hedging policies

1.3.1 Derivatives held for trading

A. Financial derivatives

At 31 December 2020 no amount was recognised for this item.

B. Credit derivatives

At 31 December 2020 no amount was recognised for this item.

1.3.2 Hedge Accounting

The Bank did not perform any such transactions in 2020.

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

At 31 December 2020 there were no such cases.

1.4 Liquidity risk

QUALITATIVE DISCLOSURE

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

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

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

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

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

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

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

In 2020, the Bank continued to pursue a particularly prudent financial policy aimed at funding stability. This approach allowed a balanced distribution between inflows from retail customer and corporate and institutional counterparties.

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

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

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

At 31 December 2020, the characteristics of the securities of the Quinto Sistema Sec. 2017 transaction were as follows.

Quinto Sistema Sec. 2017	ISIN	Amount outstanding at 31.12.2020	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005246811	217,042,106	A-high / Aa3	0.40%	2034
Class B1 (mezzanine)	IT0005246837	47,400,134	A-low / Ba1	0.50%	2034
Class B2 (sub-mezzanine)	IT0005246845	34,811,025	n.a.	0.50%	2034
Class C (junior)	IT0005246852	2,370,007	n.a.	0.50%	2034
		301,623,272			

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

At 31 December 2020, the characteristics of the securities of the Quinto Sistema Sec. 2019 transaction were as follows.

Quinto Sistema Sec. 2019	ISIN	Amount outstanding at 31.12.2020	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005382996	91,800,000	Not Rated	1M Euribor +0.65%	2038
Class B (mezzanine)	IT0005383002	12,300,000	Not Rated	0.50%	2038
Class C (junior)	IT0005383010	17,200,000	Not Rated	0.50%	2038
		121,300,000			

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

At 31 December 2020, the characteristics of the securities of the BS IVA SPV transaction were as follows.

BS IVA SPV	ISIN	Amount outstanding at 31.12.2020	Rating	Interest Rate	Maturity
Class A Notes (senior)	IT0005218802	24,248,352	n.a.	3M Euribor +0.90%	2038
Class B Notes (junior)	IT0005218810	2,353,086	n.a.	0,50%	2038
		26,601,438			

QUANTITATIVE DISCLOSURE

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

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	over 5 years	Open term
A. Assets	**1,258,756**	**7,121**	**2,617**	**27,279**	**94,337**	**369,327**	**316,346**	**1,054,511**	**328,767**	**40,269**
A.1 Government securities	-	-	28	-	21	265,231	192,961	415,192	-	-
A.2 Other debt instruments	-	-	-	64	-	64	128	3,129	2,609	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	1,258,756	7,121	2,589	27,215	94,316	104,032	123,257	636,190	326,158	40,269
- banks	51,319	-	-	34	1	1	3	1	-	40,269
- customers	1,207,437	7,121	2,589	27,182	94,316	104,031	123,254	636,189	326,158	-
B. Liabilities	**727,198**	**253,506**	**35,547**	**25,865**	**274,019**	**231,257**	**688,014**	**884,304**	**164,052**	**-**
B.1 Deposits and current accounts	648,667	8,156	35,405	25,807	272,081	135,090	477,307	350,921	24,628	-
- banks	953	-	30,000	15,000	50,000	30,000	-	-	-	-
- customers	647,714	8,156	5,405	10,807	222,081	105,090	477,307	350,921	24,628	-
B.2 Debt instruments	-	-	-	-	390	93,447	1,316		45,500	-
B.3 Other liabilities	78,531	245,350	142	58	1,547	2,720	209,391	533,383	93,923	-
C. Off-statement of financial position transactions	**79,720**	**-**	**-**	**58**	**9**	**-**	**56**	**4,358**	**20**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	77,273	-	-	58	-	-	56	119	-	-
- long positions	38,520	-	-	58	-	-	56	119	-	-
- short positions	38,753	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,446	-	-	-	9	-	-	4,239	20	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

With reference to the financial assets subject to “self-securitisation”, at the end of 2020, Banca Sistema has three securitisation transactions in place.

1.5 Operational risks

QUALITATIVE DISCLOSURE

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

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

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

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

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

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

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

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

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

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

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

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

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

PART F - INFORMATION ON EQUITY

SECTION 1 - EQUITY

A. QUALITATIVE DISCLOSURE

The objectives pursued in the Group’s equity management are inspired by the prudential supervisory provisions, and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.
The income allocation policy aims to strengthen the Group's capital with special emphasis on common equity, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. QUANTITATIVE DISCLOSURE

B.1 Equity: breakdown by business type

		31.12.2020	31.12.2019
1	Share capital	9,651	9,651
2	Share premium	39,100	39,100
3	Reserves	122,608	98,617
4	Equity instruments	-	-
5	(Treasury shares)	(234)	(234)
6	Valuation reserves	1,287	267
	- Equity instruments designated at fair value through other comprehensive income	-	154
	- Hedging of equity instruments designated at fair value through other comprehensive income	-	-
	- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,622	324
	- Property and equipment	-	-
	- Intangible assets	-	-
	- Hedges of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale and disposal groups	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
	- Net actuarial losses on defined benefit pension plans	(335)	(211)
	- Shares of valuation reserves of equity-accounted investees	-	-
	- Special revaluation laws	-	-
	- Other	-	-
7	Group profit for the year (+/-)	25,777	29,719
	TOTAL	**198,189**	**177,120**

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

	TOTAL AT 31.12.2020		TOTAL AT 31.12.2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt instruments	1,977	-	467	-
2. Equity instruments	-	(355)	11	-
3. Financing	-	-	-	-
Total	**1,977**	**(355)**	**478**	**-**

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

	Debt instruments	Equity instruments	Financing
1. Opening balance	**467**	**11**	-
2. Increases	**2,788**	**181**	-
2.1 Fair value gains	-	-	-
2.2 Impairment losses due to credit risk	206	X	-
2.3 Reclassifications of negative reserves to profit or loss on sale	-	X	-
2.4 Transfers to other equity items (equity instruments)	-	-	-
2.5 Other increases	2,582	181	-
3. Decreases	**1,278**	**547**	-
3.1 Fair value losses	-	547	-
3.2 Impairment gains due to credit risk	-	-	-
3.3 Reclassifications of positive reserves to profit or loss: on sale	403	X	
3.4 Transfers to other equity items (equity instruments)	-	-	-
3.5 Other decreases	875	-	-
4. Closing balance	**1,977**	**(355)**	-

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

	31.12.2020
A. Opening balance	**(211)**
B. Increases	**47**
B.1 Actuarial gains	-
B.2 Other increases	47
C. Decreases	**171**
C.1 Actuarial losses	171
C.2 Other decreases	-
D. Closing balance	**(335)**
Total	**(335)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

2.1 Own funds

A. QUALITATIVE DISCLOSURE

Own funds, risk-weighted assets and solvency ratios as at 31 December 2020 were determined based on the new regulation, harmonised for Banks, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based upon Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013), and the update of Circular no. 154. The Banca Sistema Group has not availed itself of the option provided for by Article 473 bis of Regulation (EU) 575/2013 (CRR), which concerns the transitional measures aimed at mitigating the impact of the introduction of IFRS 9.

Reconciliation of Group equity and Own Funds

	31.12.2020
Group equity	207,486
Equity attributable to non-controlling interests	(9,297)
Equity attributable to the owners of the parent	**198,189**
Dividends distributed and other foreseeable expenses	(6,434)
Equity assuming dividends are distributed to shareholders	**191,756**
Regulatory adjustments	**(35,753)**
- Commitment to repurchase treasury shares	(283)
- Deduction of intangible assets	(32,725)
- Prudential filter for Prudent Valuation (1)	(431)
- Other adjustments (2)	(2,314)
Computable equity attributable to non-controlling interests	**7,795**
Common Equity Tier 1 (CET1)	**163,797**
Security issued by Banca Sistema (3)	8,000
Additional Tier 1 Capital	**8,000**
Securities issued by Banca Sistema (3)	37,500
Equity attributable to non-controlling interests that can be included in T2	155
Tier 2 Capital	**37,655**
Total Own Funds	**209,452**

(1) Regulatory filter for additional valuation adjustments (AVA) to the prudential valuation under the provisions of Regulation 2016/101.
(2) Following the financial difficulty of a local authority, the Bank used this filter to manage an overdraft position.
(3) Included in the item "Financial liabilities at amortised cost"

A. QUANTITATIVE DISCLOSURE

	31.12.2020
A. Common Equity Tier 1 (CET1) before application of prudential filters	**199,550**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	-
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**199,550**
D. Items to be deducted from CET1	**35,753**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**163,797**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	**8,000**
of which AT1 instruments covered by transitional measures	**-**
H. Items to be deducted from AT1	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**8,000**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	**37,655**
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P. Total Tier 2 (T2) (M-N+/-O)	**37,655**
Q. Total Own Funds (F+L+P)	**209,452**

2.2 Capital adequacy

A. QUALITATIVE DISCLOSURE

Total own funds were € 209 million at 31 December 2020 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit. The increase was due to the combined effect of the profit for 2019, the merger of Atlantide (which generated goodwill of € 2.1 million, classified on the Statement of financial position under intangible assets) and the issue, in the second quarter and third quarter of 2019, of a TIER 2 subordinated loan for a total of € 18 million (in conjunction with the repayment of another Lower TIER 2 subordinated loan of € 12 million, which can no longer be fully included as a capital). The increase in capital ratios compared to 31 December 2019 is attributable to higher profits and lower capital absorption from loans.

B. QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	4,285,516	4,453,157	1,120,413	1,236,603
1. Standardised approach	4,285,516	4,453,157	1,120,413	1,236,603
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS			-	-
B.1 Credit and counterparty risk			89,633	98,928
B.2 Credit assessment adjustment risk			-	3
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			14,147	13,540
1. Basic indicator approach			14,147	13,540
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			103,780	112,471
C. EXPOSURES AND CAPITAL RATIOS			**1,297,255**	**1,405,890**
C.1 Risk-weighted assets			1,297,255	1,405,890
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			12.6%	11.7%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			13.2%	12.3%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			16.1%	15.0%

Section 1 - Transactions performed in the year

On 13 July 2020 the acquisition of the former Intesa Sanpaolo collateralised lending business unit was completed.

As this is a business unit, there are no income statement data for the months prior to the transaction.

Key information concerning this transaction is summarised below:

PURCHASE PRICE ALLOCATION *In thousands of Euro*

Purchase price	34,000
Price adjustment	(991)
Final price (A)	**33,009**
Adjusted Business Unit "Equity" (B)	3,209
Residual value to be allocated (A+B)	**29,800**
Loans and receivables with customers	(1,224)
Post-employment benefits	(166)
Property and equipment	25
Allocation to goodwill	**28,435**

The final price amounted to € 33 million following the change in the business unit's imbalance (excess value) between the closing date and the signing date of the transaction, and an adjustment recognised by the counterparty in relation to the valuation of the loans and receivables. As required by IFRS 3, this excess value was allocated to the financial statements items that had a difference in fair value with respect to their carrying amount and, in particular, to the item "Loans and receivables with customers", leaving the unallocated balance under goodwill, which is subject to an annual impairment test.

Section 2 - Transactions performed after the end of the year

No transactions to report.

Section 3 - Retrospective adjustments

No transactions to report.

PART H - RELATED PARTY TRANSACTIONS

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

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

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

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

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

DISCLOSURE ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	31.12.2020
Remuneration to Board of Directors and Board of Statutory Auditors	2,185	207	10	2,402
Short-term benefits for employees	-	-	2,574	2,574
Post-employment benefits	85	-	215	301
Other long-term benefits	121	-	82	204
Termination benefits	-	-	-	-
Share-based payments	220	-	45	265
Total	**2,612**	**207**	**2,926**	**5,745**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets and liabilities as at 31 December 2020, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	404	981	0.05%
Due to customers	1,511	10,840	0.55%
Other liabilities	-	-	0.00%

The following table indicates the costs and income for 2020, differentiated by type of related party.

In thousands of Euro	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	-	-	0.00%
Interest expense	20	40	0.28%
Other administrative expenses	-	-	0.00%

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

	AMOUNT (thousands of Euro)	PERCENTAGE (%)
LIABILITIES	**9,719**	**0.27%**
Due to customers		
Shareholders - SGBS	600	0.03%
Shareholders - Fondazione CR Alessandria	7,801	0.35%
Shareholders - Fondazione Sicilia	1,318	0.06%

	AMOUNT (thousands of Euro)	PERCENTAGE (%)
COSTS	**22**	**0.05%**
Interest expense		
Shareholders - SGBS	3	0.01%
Shareholders - Fondazione Sicilia	14	0.03%
Shareholders - Fondazione CR Alessandria	5	0.01%

PART I - SHARE-BASED PAYMENT PLANS

QUALITATIVE DISCLOSURE

As indicated in the 2020 Policy Document, Banca Sistema, having total assets of less than € 4 billion at both separate and consolidated levels, could be considered to be a "smaller bank". However, in virtue of its status as a listed company, and of the EBA guidelines, the Bank has opted to apply the rules relating to "medium size" banks under Circular 285, Title IV, Chapter 2.

As a medium size bank, therefore, and in accordance with the principle of proportionality, it shall apply the provisions relating to key personnel subject to percentages and to deferral and retention periods that may be reduced to less than half of those set out in the applicable legislation, but in doing so it shall weigh up a prudential alignment criterion also in relation to the provisions of the Code of Conduct, for longer deferral in the case of members of the Board of Directors and key management personnel, that are thus extended to all Key Personnel.

The Bank also indicates 25% of average total remuneration of Italian high earners, as indicated in the latest EBA report published in 2019 and relating to data processed at the end of 2017, as being a particularly high level of variable remuneration. In 2020, the variable component of remuneration for "key personnel" will be paid as follows upon approval of the financial statements:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in the Remuneration Policies;
- for amounts greater than € 30,000 and up to € 425,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than € 425,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

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

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

Disclosure of the fees paid to the independent auditors

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

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

The fees presented in the table, pertaining to 2020, are those contracted, including any index-linking (but do not include out-of-pocket expenses, any supervisory contribution and VAT).

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

Type of services	Entity providing the service	Entity receiving the service	Remuneration
Audit of the separate and consolidated financial statements and interim reports	BDO Italia S.p.A.	Banca Sistema S.p.A.	180
Other certifications	BDO Italia S.p.A.	Banca Sistema S.p.A.	31
Audit of the separate financial statements	BDO Italia S.p.A.	Largo Augusto Servizi e Sviluppo S.r.l	13
Audit of the separate financial statements	BDO Italia S.p.A.	Quinto Sistema SEC. 2017	22
Audit of the separate financial statements	BDO Italia S.p.A.	ProntoPegno S.p.A.	35

PART L - SEGMENT REPORTING

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

Breakdown by segment: income statement for 2020

Income statement (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	GROUP TOTAL
Net interest income	53,850	17,366	2,836	218	74,271
Net fee and commission income (expense)	15,456	(744)	2,691	25	17,428
Dividends	141	82	-	4	227
Net trading income	23	14	-	1	37
Gain from sales or repurchases of financial assets/liabilities	5,949	3,492	-	90	9,531
Total income	**75,419**	**20,210**	**5,527**	**337**	**101,494**
Net impairment losses on loans and receivables	(9,766)	(405)	(1)	(828)	(11,000)
Net financial income (expense)	**65,653**	**19,805**	**5,526**	**(491)**	**90,494**

Breakdown by segment: statement of financial position data as at 31 December 2020

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	GROUP TOTAL
Financial assets (HTS and HTCS)	272,764	158,202	-	-	430,966
Loans and receivables with banks	37,295	55,186	-	-	92,481
Loans and receivables with customers	1,786,370	1,111,606	77,684	69,009	3,044,669
Loans and receivables with customers - loans	*1,502,911*	*947,200*	*77,684*	*69,009*	*2,596,805*
Loans and receivables with customers - debt instruments	*283,459*	*164,405*	-	-	*447,864*
Due to banks	-	-	-	867,374	867,374
Due to customers	71,654	-	-	2,089,223	2,160,877

Following the review of the internal model which was completed at the end of the first quarter, this segment reporting was amended to include the following divisions:

- Factoring Division, which includes the business segment related to the origination of trade and tax receivables with and without recourse and the management and recovery of default interest. In addition, the division includes the business segment related to the origination of state-guaranteed loans to SMEs disbursed to factoring customers and the management and recovery of receivables on behalf of third parties;
- CQ Division, which includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios and salary- and pension-backed loans disbursed through the direct channel;
- Collateralised Lending Division, which includes the business segment related to collateral-backed loans;
- Corporate Division, which includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. In particular, the cost of funding managed in the central treasury pool is allocated to the divisions via an internal transfer rate ("ITR"), while income from the management of the securities portfolio and income from liquidity management (the result of asset and liability management activities) is allocated entirely to the business divisions through a pre-defined set of drivers. The division also includes income from the management of SME loan run-offs.

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

PART M - LEASE DISCLOSURE

SECTION 1 - LESSEE

QUALITATIVE DISCLOSURES

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

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

At 31 December 2020, there were 63 leases, 15 of which were property leases for a total right of use value of € 6.6 million, while 48 were for cars, for a total right of use value of € 0.8 million.

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

Contracts referring to other leases are long-term leases for cars which are generally used exclusively by the employees to whom they are assigned. These contracts have a maximum term of 5 years with monthly lease payments, no renewal option, and no option to purchase the asset.

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

QUANTITATIVE DISCLOSURES

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

Type of contract	Right of use (*)	Lease liabilities
Property lease payments	6,575,655	6,648,199
Long-term car lease	797,777	802,255
Total	**7,373,432**	**7,450,454**

(*) This is the right of use value net of accumulated depreciation.

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

Type of contract	Interest expense	Net impairment losses on property and equipment
Property lease payments	71,208	1,573,756
Long-term car lease	9,434	370,811
Total	**80,642**	**1,944,567**

SECTION 2 - LESSOR

QUALITATIVE DISCLOSURES

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

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

1. The undersigned, Gianluca Garbi, CEO, and Alexander Muz, Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the bank and
   - the effective application of the administrative and accounting procedures for the drafting of the consolidated financial statements during 2020.
2. Reference model

   The suitability of the administrative and accounting procedures for the drafting of the consolidated financial statements at 31 December 2020 was assessed based on an internal model defined by Banca Sistema S.p.A. that was designed in a manner consistent with the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for IT and Related Technology (COBIT) framework, which represent the reference standards for the internal control system generally accepted on an international level.
3. Moreover, the undersigned hereby state that:

   3.1 the consolidated financial statements:

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

   b) match the accounting books and records;

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

   3.2 The Directors' Report includes a reliable analysis of business performance and results, as well as of the position of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Milan, 29 March 2021

Gianluca Garbi

Chief Executive Officer

Alexander Muz

Manager in charge of financial reporting

INDEPENDENT AUDITORS' REPORT

Banca Sistema S.p.A.

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

Consolidated financial statements as at December 31, 2020

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

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Viale Abruzzi, 94
20131 Milano

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

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

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banca Sistema Group (the Group), which comprise the consolidated balance sheet as at December 31, 2020, the profit and loss account, the statement of other comprehensive income, the statement of changes in net equity, the cash flow statement for the year then ended, and notes and comments to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well as article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Banca Sistema S.p.A. (the Company) in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Audit responses

CLASSIFICATION AND MEASUREMENT OF LOANS AND RECEIVABLES WITH CUSTOMERS BOOKED UNDER THE FINANCIAL ASSETS MEASURED AT AMORTISED COST

Notes: Part A) Accounting policies – paragraph A.2, "Information on the main items of the consolidated financial statements": "Financial assets measured at amortised cost"; Part B) Information on the statement of financial position, Assets – Section 4 "Financial assets measured at amortised cost"; Part C) Information on the income statement – Section 8.1 "Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown"; Part E) Information concerning risk and related hedging policies

Loans and receivables with customers, which are booked under the financial assets measured at amortised cost as of December 31, 2020, are equal to Euro 3,050 million and represent the 83% of the Group's total assets.

The acquisition by the Company of non-impaired loans claimed by companies supplying goods and services, mainly towards the public administration (the "factoring credits") and origination of credits relating to the sector of the transfers of salary or pension backed loans (the "CQS/CQP credits") represens the Company's main activities.

Factoring credits and CQS/CQP credits as of December 31, 2020, are equal to, respectively, Euro 1,475 million and Euro 934 million.

For classification purposes, the directors of the Company carry out analyses, sometimes complex, aimed at identifying the positions which, after the disbursement and / or acquisition, show evidence of a possible loss of value, considering both internal information related to the trend credit positions, and external information related to the sector of reference or to the overall exposure of such debtors to the banking system.

The evaluation of loans and receivables with customers is a complex estimation activity, characterized by a high degree of uncertainty and subjectivity, in which the Company's directors use evaluation models that take into consideration numerous quantitative and qualitative elements such as, among others, historical data relating to collections, expected cash flows and related recovery times, the existence of indicators of possible impairment, the assessment of any guarantee, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the Group customers operate.

Our main audit procedures carried out in response to the key audit matter relating to the classification and evaluation of loans and receivables with customers, concerned the following activities:

- analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes;
- analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers;
- procedures for reconciling data between management systems and information reported in the financial statements;
- comparative analysis procedures and analysis of the results with the management involved;
- analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results;
- examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015;
- examination of the disclosures provided in the notes.

For these reasons, we have considered the classification and evaluation of loans and receivables with customers booked under financial assets valued at amortized cost, a significant key matter in the context of the auditing activity.

DETECTION OF DEFAULT INTEREST PURSUANT TO LEGISLATIVE DECREE NO. 231 OF 9 OCTOBER 2002 ON PERFORMING RECEIVABLES ACQUIRED WITHOUT RECOURSE.

Notes: Part A) Accounting policies – paragraph A.2., “Information on the main items of the consolidated financial statements”; Part C) Information on the income statement - Section 1 “interest – item 10 and 20”; Part E) Information concerning risk and related hedging policies

The Company’s directors account for accrued default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse.

Default interest recognized on an accrual basis in the year ended on December 31, 2020 amount to Euro 10 million and represent the 10% of the Group's interest and similar income.

The default interest deemed recoverable by the directors of the Company is estimated by using models based on the analysis of the time series concerning the recovery percentages and actual collection times observed internally.

These analyses are periodically updated following the progressive consolidation of the time series.

The aforementioned estimate, characterized by a high degree of uncertainty and subjectivity, feeds analysis models that take into account numerous quantitative and qualitative elements such as, among others, the historical data relating to collections, expected cash flows, the relative times collection costs and the impact of the risks associated with the geographical areas in which the Bank's customers operate.

For these reasons, we have considered the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse a significant key matter in the context of the auditing activity.

The main audit procedures carried out in response to the key audit matter relating to the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse, also carried out with the support of our experts, concerned the following activities:

- understanding of the business processes and the related IT environment with reference to the estimation of default interest;
- examination of the configuration and implementation of the controls and performance of procedures to evaluate the operational effectiveness of controls which are considered relevant, with particular reference to the estimation of default interest;
- analysis of the models used to estimate default interest and examination of the reasonableness of the main assumptions contained in them, with the support of our experts;
- analysis of the adequacy of the information provided in the explanatory notes.

VALUATION OF GOODWILL

Notes: Part A) Accounting policies - paragraph A.2., "Information on the main items of the consolidated financial statements": "Intangible assets"; Part B) Information on the statement of financial position - Section 10 "Intangible assets"; Part G) Business combinations - Section 1 "Transactions performed in the year".

The Group recorded among intangibles in the financial statements, a goodwill for Euro 32 million. Goodwill, as required by IAS 36 "Impairment of assets", is not depreciated but tested for impairment ("Impairment test"), at least annually, by means of comparison of the carrying value with recoverable amounts of each CGU represented by the value in use.

The impairment test performed by the Bank confirmed the recoverability of goodwill registered in the consolidated financial statements.

We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the recoverable amount of goodwill is based on the realisation of the assumptions of the plan, discount rates and expected future growth rates and other subjective assumptions.

Our main audit procedures performed, also with the support of our specialists, in response to the key audit matter regarding the valuation of goodwill, included the following:

- We challenged the reasonableness of the key underlying assumptions of the plan;
- We assessed and challenged the adequacy of the impairment model adopted;
- We assessed the key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates.
- We verified the clerical accuracy of the impairment model adopted.
- We performed sensitivity analysis of the control model of impairment when key assumptions change;
- We verified the disclosures provided.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provide by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the holding Banca Sistema S.p.A. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Sistema S.p.A. on April 18, 2019 to perform the audit of the separate and the consolidated financial statements of each fiscal year starting from December 31, 2019 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Sistema S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Sistema S.p.A. as at December 31, 2020, including their consistency with the consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the consolidated financial statements of Banca Sistema S.p.A. as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Banca Sistema Group as at December 31, 2020 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 30, 2021

BDO Italia S.p.A.
(signed in the original)
Rosanna Vicari
Partner

Banca SISTEMA

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2020

DIRECTORS' REPORT
AT 31 DECEMBER 2020

Introduction to the Directors' Report of Banca Sistema S.p.A.

This Directors' Report provides commentary on the Parent's performance and the related figures and results. For other information required by the applicable legal and regulatory provisions, please see the Directors' Report in the Banca Sistema Group's consolidated financial statements as regards the following:

- composition of management bodies;
- composition of the internal committees;
- significant events during the year;
- the macroeconomic scenario;
- factoring;
- salary- and pension-backed loans;
- funding activities;
- composition and organisational structure of the Group;
- capital and shares;
- risk management and support control methods;
- significant events after the reporting date;
- business outlook and main risks and uncertainties.

With respect to the notes to the separate financial statements, the sections where reference is made to the consolidated financial statements are provided below:

REFERRING SECTION OF THE SEPARATE FINANCIAL STATEMENTS	SECTION OF THE CONSOLIDATED FINANCIAL STATEMENTS TO WHICH REFERENCE IS MADE
Part B Section 9 - Intangible assets - Item 90 Narrative section	Part B Section 10 - Intangible assets - Item 100 Narrative section
Part E Section 1 - Credit risk Qualitative disclosure	Part E Section 2 - Prudential consolidation risks, 1.1 Credit risk Qualitative disclosure
Part E Section 2 - Market risk 2.1 Interest rate risk and price risk - regulatory trading portfolio Qualitative disclosure	Part E 1.2 Market risk 1.2.1 Interest rate risk and price risk - regulatory trading portfolio Qualitative disclosure
Part E Section 2 - Market risk 2.2 Interest rate risk and price risk - Banking Book Qualitative disclosure	Part E 1.2 Market risk 1.2.2 Interest rate risk and price risk - Banking Book Qualitative disclosure
Part E Section 2 - Market risk 2.3 Currency risk Qualitative disclosure	Part E 1.2 Market risk 1.2.3 Currency risk Qualitative disclosure
Part E Section 4 - Liquidity risk Qualitative disclosure	Part E 1.4 Liquidity risk Qualitative disclosure
Part E Section 5 - Operational risks Qualitative disclosure	Part E 1.4 Operational risks Qualitative disclosure

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2020

Statement of financial position data (€,000)

	31 Dec 2020	31 Dec 2019	
Total Assets	3,588,741	3,736,554	-4.0%
Securities Portfolio	881,183	991,560	-11.1%
Loans - Factoring	1,436,768	1,714,661	-16.2%
Loans - Salary-backed loans and SME	1,008,282	829,227	21.6%
Funding - Banks and REPOs	1,054,231	845,428	24.7%
Funding - Term Deposits	1,216,523	1,325,794	-8.2%
Funding - Current Accounts	639,546	682,289	-6.3%

Income statement data (€,000)

	31 Dec 2020	31 Dec 2019	
Net interest income	71,559	80,552	-11.2%
Net fee and commission income	14,747	15,841	-6.9%
Total Income	96,120	100,551	-4.4%
Personnel Expenses	(21,742)	(22,316)	-2.6%
Other administrative expenses	(21,570)	(22,512)	-4.2%
Profit for the year	25,746	29,956	-14.1%

Performance Indicators

	31 Dec 2020	31 Dec 2019	
Cost/income	49.1%	49.1%	0.1%
ROTE	13.2%	17.0%	-22.8%

HUMAN RESOURCES

As at 31 December 2020, the Bank had staff of 198, broken down by category as follows:

FTES	31.12.2020	31.12.2019
Senior managers	24	23
Middle managers (QD3 and QD4)	42	40
Other personnel	132	136
Total	**198**	**199**

During the year, a total of ten new resources were recruited in the Chief of Staff, ICT, Corporate Strategy, CQ Commercial, Human Capital, and Credit departments. Starting from the end of February, the Group, in response to the health emergency, promptly adapted its operational model to ensure business continuity by allowing employees to work remotely. Excluded from this new operational model were employees of the Banking branches and those working in the departments having the greatest impact on managing the emergency, namely ICT and Logistics. Along with all safety and precautionary measures, all activities were reorganised and managed remotely with a total of over 77% of workdays performed outside the Bank's premises. Even during the second half of the year, depending on the evolution of the health emergency and the resulting measures to counter the spread of the virus, including by restricting movement, operations continued to be carried out remotely for an average of around 75% of workdays. Several internal communication initiatives were carried out on the health emergency and its management by the Group's Crisis Committee, and on business performance and strategies between management and all employees. In addition, frequent exchanges between teams and between employees have been encouraged and the right to disconnect has been guaranteed based on the hours the central access tools are available. In April, a workplace climate survey was conducted specifically to verify the overall effectiveness of the actions taken. Survey participation was high, and the results revealed a high degree of satisfaction with the initiatives in place and with the feeling of safety and closeness ensured by the Group. During the emergency, an agreement was signed to guarantee qualified and immediate health and medical advice remotely through digital channels to employees and their families, even for matters unrelated to the coronavirus.

During the first half of the year, various professional training courses were organised covering regulatory topics affecting the Bank, both with internal and external instructors. Some of these courses were rescheduled for the second half of the year because of the health emergency. Specific training courses and coaching programmes were also developed and launched focusing on managerial and professional topics mainly for the Commercial Department and new managers. With the implementation of the new divisional structure and the ensuing appointments of the top-level managers of the new structures, targeted coaching programmes were developed and implemented to accelerate the onboarding of the new heads of division. During 2020, there was a shift from in-person classroom training in the early months of the year to distance learning as a way of continuing training programmes despite the continuing pandemic and the associated restrictions on movements and social contact. In the second half of the year, individual coaching, training on the regulatory and legal framework, as well as technical and language training for all Group staff also continued. In 2020, 257 days of training were provided to Banca Sistema staff, a 15% decrease compared to the previous year. This decrease was a consequence of some training courses being postponed and rescheduled remotely, and in a manner consistent with the guidelines of the interprofessional funds providing financed training, which were formalised on several occasions throughout 2020.

The average age of Group employees is 47 for men and 44 for women. The breakdown by gender is essentially balanced with men accounting for 56% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	2020	2019	€ Change	% Change
Net interest income	71,559	80,552	(8,993)	-11.2%
Net fee and commission income	14,747	15,841	(1,094)	-6.9%
Dividends and similar income	227	227	-	0.0%
Net trading income	56	215	(159)	-74.0%
Gain from sales or repurchases of financial assets/liabilities	9,531	3,716	5,815	>100%
Total income	**96,120**	**100,551**	**(4,431)**	**-4.4%**
Net impairment losses on loans and receivables	(12,481)	(9,053)	(3,428)	37.9%
Net financial income	**83,639**	**91,498**	**(7,859)**	**-8.6%**
Personnel expense	(21,742)	(22,316)	574	-2.6%
Other administrative expenses	(21,570)	(22,512)	942	-4.2%
Net accruals to provisions for risks and charges	(2,520)	(1,996)	(524)	26.3%
Net impairment losses on property and equipment/intangible assets	(1,618)	(1,748)	130	-7.4%
Other operating income (expense)	233	(795)	1,028	<100%
Operating costs	**(47,217)**	**(49,367)**	**2,150**	**-4.4%**
Gains (losses) on sales of investments	1,090	-	1,090	n.a.
Pre-tax profit from continuing operations	**37,512**	**42,131**	**(4,619)**	**-11.0%**
Income taxes for the year	(11,766)	(12,351)	585	-4.7%
Post-tax profit for the year	**25,746**	**29,780**	**(4,034)**	**-13.5%**
Post-tax profit (loss) from discontinued operations	-	176	(176)	-100.0%
Profit for the year	**25,746**	**29,956**	**(4,210)**	**-14.1%**
Profit (loss) attributable to non-controlling interests	-	-	-	**n.a.**
Profit for the year attributable to the owners of the parent	**25,746**	**29,956**	**(4,210)**	**-14.1%**

Profit for 2020 amounted to € 25.7 million, down on the previous year mainly due to a decline in net interest income as a result of the lower contribution from the loans and receivables factoring portfolio.

In the third quarter of 2020, the expected rates of recovery of default interest on factoring and the related collection times used for the estimate as at 30 September 2020 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 € 1.0 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 € 5.1 million.

Unlike the 2020 financial year, the figures for 2019 did not include the full year's operating costs of Atlantide, which entered the scope of consolidation in the second quarter of 2019 following the acquisition of the company which was completed on 3 April 2019. Since August 2019, the costs associated with the collateralised lending business have not been included as the business unit was merged into the newly formed ProntoPegno. Furthermore, to correctly interpret the operating costs, one must bear in mind that the amount due to the Resolution Fund is € 0.9 million higher than the first half of 2019 (the unexpected increase in the contribution was 75%).

NET INTEREST INCOME (€,000)	2020	2019	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	87,620	104,691	(17,071)	-16.3%
Factoring	*64,528*	*81,335*	*(16,807)*	*-20.7%*
CQ	*22,415*	*23,006*	*(591)*	*-2.6%*
Collateralised lending (interest income)	*-*	*350*	*(350)*	*-100.0%*
Government-backed loans to SMEs	*677*	*-*	*677*	*n.a.*
Securities portfolio	1,872	750	1,122	>100%
Other	1,533	2,111	(578)	-27.4%
Financial liabilities	4,222	2,692	1,530	56.9%
Total interest income	**95,247**	**110,244**	**(14,997)**	**-13.6%**
Interest and similar expense				
Due to banks	(412)	(575)	163	-28.3%
Due to customers	(15,716)	(21,059)	5,343	-25.4%
Securities issued	(7,372)	(7,930)	558	7.0%
Financial assets	(188)	(128)	(60)	46.9%
Total interest expense	**(23,688)**	**(29,692)**	**6,004**	**-20.2%**
Net interest income	**71,559**	**80,552**	**(8,993)**	**-11.2%**

Net interest income decreased compared to the previous year. This was due to the lower contribution of the Factoring Division as a result of the reduction in default interest from both legal and out-of-court actions, and tax receivables. On the other hand, the current funding policies had a positive impact on net interest income.

The total contribution of the Factoring Division to interest income was € 65.2 million, equal to 74% of the entire loans and receivables portfolio (compared to 78% at 31 December 2019), to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The component linked to default interest from legal action at 31 December 2020 was € 21.6 million (€ 29 million at 31 December 2019):

- of which € 1 million resulting from the updated recovery estimates and expected collection times (€ 5.1 million in 2019);
- of which € 9.0 million resulting from the current recovery estimates (€ 12.0 million in 2019);
- of which € 11.6 million (€ 11.9 million in 2019) coming from net collections during the year, i.e. the difference between the amount collected during the period, equal to € 21.5 million (€ 21.6 million in 2019) and that recognised on an accruals basis in previous years. This item includes gross collections of € 6.5 million from transfers to third parties (equal to € 7.0 million in 2019).

The decrease in the effect resulting from the updated recovery estimates is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly.

The amount of the stock of default interest from legal actions accrued at 31 December 2020, relevant for the allocation model, was € 98 million (€ 107 million at the end of 2019), which would become € 155 million including troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements amount to € 50.1 million. The amount of default interest accrued but not recognised in the income statement is € 105 million.

During the year, factoring portfolios were sold that generated a total net profit of € 2.4 million recognised in the item Gain from sales or repurchases of financial assets/liabilities.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios which is down slightly on the previous year at € 16.9 million as a result of the early redemption of several positions.

The contribution from the Collateralised Lending Division amounting to € 350 thousand represents income generated up to 31 July 2019, because from the following month the collateralised lending business unit was merged into the newly formed ProntoPegno.

The item “financial liabilities” mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans at negative rates, which account for € 4.2 million.

Despite the increase in average lending, interest expense decreased compared to the previous year thanks to the funding strategies put in place which aimed to carefully contain the cost of funding. In particular, interest on term deposits from customers decreased as a result of the reduction in the interest rate applied to deposit accounts. This has led to a decrease in funding from this channel, while the various forms of funding from the ECB, at negative rates, have increased significantly.

NET FEE AND COMMISSION INCOME (€,000)	2020	2019	€ Change	% Change
Fee and commission income				
Factoring activities	17,726	18,420	(694)	-3.8%
Fee and commission income - off-premises CQ	2,388	1,859	529	28.5%
Collateralised loans (fee and commission income)	2	226	(224)	-99.1%
Collection activities	1,138	1,247	(109)	-8.7%
Other	365	508	(143)	-28.1%
Total fee and commission income	**21,619**	**22,260**	**(641)**	**-2.9%**
Fee and commission expense				
Factoring portfolio placement	(1,279)	(1,204)	(75)	6.2%
Placement of other financial products	(1,767)	(2,721)	954	-35.1%
Fees - off-premises CQ	(3,013)	(1,936)	(1,077)	55.6%
Other	(813)	(558)	(255)	45.7%
Total fee and commission expense	**(6,872)**	**(6,419)**	**(453)**	**7.1%**
Net fee and commission income	**14,747**	**15,841**	**(1,094)**	**-6.9%**

Net fee and commission income of € 14.7 million was down by -6.9%.

Fee and commission income from factoring 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 down slightly on the previous year.

Other fee and commission income includes commissions and fees from collection and payment services, and the keeping and management of current accounts.

Fee and commission income - off-premises CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 2.4 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 3.0 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the estimated year-end bonuses payable to them.

Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios are linked to the origination costs of factoring receivables, which remained in line with those reported the previous year.

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

GAIN FROM SALES OR REPURCHASES (€,000)	2020	2019	€ Change	% Change
Gains from HTCS portfolio debt instruments	5,301	2,610	2,691	>100%
Gains from HTC portfolio debt instruments	340	-	340	n.a.
Gains from financial liabilities	16	-	16	n.a.
Gains from receivables (Factoring portfolio)	2,425	1,106	1,319	>100%
Gains from receivables (CQ portfolio)	1,449	-	1,449	n.a.
Total	**9,531**	**3,716**	**5,815**	**>100%**

The item Gain (loss) from sales or repurchases includes gains generated by the proprietary HTCS and HTC securities portfolio of € 5.6 million, and net realised gains from factoring receivables of € 2.4 million, the revenue from which derives mainly from the sale of factoring portfolios to private-sector assignors. During the second half of the year, loans and receivables from the internally originated CQ portfolio were sold, generating a gain of € 1.4 million.

Impairment losses on loans and receivables at 31 December 2020 amounted to € 12.5 million and include a model update of the collective provision due to the deterioration of the macroeconomic scenario caused by the ongoing health emergency. Impairment losses are mainly attributable to exposures to businesses and some factoring loans. The loss rate increased from 0.36% at 31 December 2019 to 0.48%. Impairment losses include a € 1.5 million impairment loss on a receivable from the UK subsidiary.

PERSONNEL EXPENSE (€,000)	2020	2019	€ Change	% Change
Wages and salaries	(20,256)	(20,883)	627	-3.0%
Social security contributions and other costs	(379)	(335)	(44)	13.1%
Directors' and statutory auditors' remuneration	(1,107)	(1,098)	(9)	0.8%
Total	**(21,742)**	**(22,316)**	**574**	**-2.6%**

The decrease in personnel expense is mainly due to lower redundancy charges of € 0.2 million (€ 0.6 million at 31 December 2019) and lower accruals for non-compete agreements.

OTHER ADMINISTRATIVE EXPENSES (€,000)	2020	2019	€ Change	% Change
Consultancy	(4,672)	(4,128)	(544)	13.2%
IT expenses	(5,020)	(5,711)	691	-12.1%
Servicing and collection activities	(2,951)	(2,992)	41	-1.4%
Indirect taxes and duties	(1,802)	(2,108)	306	-14.5%
Insurance	(468)	(486)	18	-3.7%
Other	(523)	(429)	(94)	21.9%
Expenses related to management of the SPVs	(537)	(530)	(7)	1.3%
Car hire and related fees	(546)	(635)	89	-14.0%
Advertising	(310)	(499)	189	-37.9%
Rent and related fees	(945)	(1,030)	85	-8.3%
Expense reimbursement and entertainment	(302)	(825)	523	-63.4%
Infoprovider expenses	(514)	(638)	124	-19.4%
Membership fees	(288)	(304)	16	-5.3%
Property management expenses	(66)	(101)	35	-34.7%
Audit fees	(240)	(329)	89	-27.1%
Telephone and postage expenses	(139)	(135)	(4)	3.0%
Logistics expenses	(61)	(61)	-	0.0%
Stationery and printing	(41)	(60)	19	-31.7%
Total operating expenses	**(19,425)**	**(21,001)**	**1,576**	**-7.5%**
Resolution Fund	(2,007)	(1,146)	(861)	75.1%
Merger-related costs	(138)	(365)	227	-62.2%
Total	**(21,570)**	**(22,512)**	**942**	**-4.2%**

Administrative expenses decreased mainly as a result of lower travel expenses due to the pandemic and lower IT costs. The cost related to the contribution to the Resolution Fund accounted for € 0.9 million of the increase in costs.

The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

The 2020 merger-related costs refer to costs incurred by the Parent in connection with the acquisition of the collateralised lending business unit completed in July. The 2019 merger-related costs include the costs for the integration and merger of Atlantide into the Bank.

The impairment losses on property and equipment/ intangible assets are 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 item accruals to provisions for risks is mainly attributable to the measurement and review of contingent liabilities for ongoing lawsuits, and the assessment and quantification of possible future risks.

The item Gains (losses) on sales of investments includes the € 1.1 million gain on the sale of 25% of the share capital of the ProntoPegno subsidiary by the Parent to its current minority shareholders.

The tax rate improved as it benefited from the reintroduction by the legislator of "ACE" (Aid to Economic Growth), which is aimed at strengthening the capital structure of companies, a measure that was introduced in 2011, abolished by the previous 2019 Budget Law and then reintroduced with the 2020 Budget Law. The gain on the sale of 25% of the equity investment in ProntoPegno held by the Parent benefits from the participation exemption (PEX), which means that 95% of it is exempt from taxation.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Cash and cash equivalents	108	154	(46)	-29.9%
Financial assets measured at fair value through profit or loss	2,353	-	2,353	n.a.
Financial assets measured at fair value through other comprehensive income	430,966	556,383	(125,417)	-22.5%
Financial assets measured at amortised cost	3,073,680	3,123,738	(50,058)	-1.6%
a) loans and receivables with banks	90,434	81,002	9,432	11.6%
b1) loans and receivables with customers - loans	2,535,382	2,607,559	(72,177)	-2.8%
b2) loans and receivables with customers - debt instruments	447,864	435,177	12,687	2.9%
Equity investments	45,250	20,000	25,250	>100%
Property and equipment	5,427	6,061	(634)	-10.5%
Intangible assets	3,932	3,921	11	0.3%
Tax assets	8,835	8,099	736	9.1%
Other assets	18,190	18,198	(8)	0,0%
Total assets	**3,588,741**	**3,736,554**	**(147,813)**	**-4.0%**

The year ended 31 December 2020 closed with total assets down by 4.0% on the end of 2019 and equal to € 3.7 billion.

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 down slightly compared to 31 December 2019 and continues to be mainly comprised of Italian government bonds with an average duration of about 14.8 months (the average remaining duration at the end of 2019 was 20.1 months). This is consistent with the Group investment policy. The HTCS portfolio amounted to € 425 million at 31 December 2020 (€ 550 million at 31 December 2019). The associated valuation reserve was positive at the end of the year, amounting to € 2.6 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 the Axactor Norway shares, which at 31 December 2020 had a negative fair value reserve of € 0.5 million, resulting in a year-end amount of € 0.6 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Factoring	1,436,768	1,714,661	(277,893)	-16.2%
Salary-/pension-backed loans (CQS/CQP)	933,873	817,229	116,644	14.3%
Loans to SMEs	74,409	11,998	62,411	>100%
Current accounts	64,027	41,829	22,198	53.1%
Compensation and Guarantee Fund	12,639	20,676	(8,037)	-38.9%
Other loans and receivables	13,666	1,166	12,500	>100%
Total loans	**2,535,382**	**2,607,559**	**(72,177)**	**-2.8%**
Securities	447,864	435,177	12,687	2.9%
Total loans and receivables with customers	**2,983,246**	**3,042,736**	**(59,490)**	**-2.0%**

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

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 57% (66% at the end of 2019). The volumes generated during the year amounted to € 3,101 million (€ 3,055 million at 31 December 2019).

Salary- and pension-backed loans grew thanks to new loans from acquired portfolios and originated receivables, which increased by 14% compared to the previous year (the new volumes acquired in 2020 amounted to € 308 million), while government-backed loans to SMEs increased following new disbursements made under SACE and SME Fund guarantees.

HTC Securities are composed entirely of Italian government securities with an average duration of 11.2 months for an amount of € 447 million. The mark-to-market valuation of the securities at 31 December 2020 was a positive fair value of € 4.9 million.

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

STATUS (€,000)	31.12.2020	31.12.2019
Bad exposures	52,354	50,622
Unlikely to pay	147,431	139,349
Past due	50,377	55,647
Non-performing	**250,162**	**245,618**
Performing	**2,337,945**	**2,392,985**
Stage 2	134,159	124,252
Stage 1	2,203,786	2,268,733
Total loans and receivables with customers	**2,588,107**	**2,638,603**
Individual impairment losses	**45,151**	**37,217**
Bad exposures	25,240	20,078
Unlikely to pay	19,476	16,042
Past due	435	1,097
Collective impairment losses	**8,787**	**5,686**
Stage 2	781	667
Stage 1	8,006	5,019
Total impairment losses	**53,938**	**42,903**
Net exposure	**2,534,169**	**2,595,700**

The ratio of gross non-performing loans to the total portfolio went from 9.3% at 31 December 2019 to the current 9.7%. Non-performing loans increased slightly compared to 31 December 2019. 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 1.1% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 18.0%.

Equity investments increased compared to the previous year, mainly as a result of the capital increase paid into the ProntoPegno subsidiary in preparation for its acquisition of the business unit. At the end of 2020, Banca Sistema entered into an equal partnership with EBN Banco de Negocios S.A., taking a stake in the capital of EBNSISTEMA Finance S.L., and thereby entering the Spanish factoring market. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave Banca Sistema a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business on the Iberian peninsula, specialising in the purchase of healthcare receivables.

Intangible assets refer to goodwill of € 3.9 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million.

Other assets mainly include amounts being processed after the end of the year and advance tax payments.

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

LIABILITIES AND EQUITY (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Financial liabilities measured at amortised cost	3,210,632	3,416,940	(206,308)	-6.0%
a) due to banks	819,001	388,358	430,643	>100%
b) due to customers	2,253,541	2,716,975	(463,434)	-17.1%
c) securities issued	138,090	311,607	(173,517)	-55.7%
Tax liabilities	16,645	16,433	212	1.3%
Other liabilities	136,004	98,809	37,195	37.6%
Post-employment benefits	3,374	2,955	419	14.2%
Provisions for risks and charges	22,637	21,792	845	3.9%
Valuation reserves	1,386	279	1,107	>100%
Reserves	162,900	139,973	22,927	16.4%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(234)	(234)	-	0.0%
Profit for the year	25,746	29,956	(4,210)	-14.1%
Total liabilities and equity	**3,588,741**	**3,736,554**	**(147,813)**	**-4.0%**

Wholesale funding, which represents about 39% of the total, increased in both relative and absolute terms from the end of 2019 following the increase in funding from the ECB and the decrease in funding through deposit accounts. The contribution of bond funding to total wholesale funding was 12%.

DUE TO BANKS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Due to Central banks	689,686	358,250	331,436	92.5%
Due to banks	129,315	30,108	99,207	>100%
Current accounts and demand deposits	*125,178*	*19*	*125,159*	*>100%*
Term deposits with banks	-	*30,089*	*(30,089)*	*-100.0%*
Other amounts due to banks	*4,137*	-	*4,137*	*n.a.*
Total	**819,001**	**388,358**	**430,643**	**>100%**

The item "Due to banks" increased compared to 31 December 2019 due to the increase in interbank funding and especially refinancing with the ECB backed by ABS from the salary- and pension-backed loans (CQS/CQP) securitisation, government bonds, CQS/CQP receivables and some factoring receivables. As a result of the decisions taken by the ECB in response to the effects of the COVID-19 pandemic, the amount available to the Bank under TLTRO III (starting in June 2020) increased to a maximum of € 491 million from the previous amount of € 295 million. From March to June, the Bank could benefit from the LTRO bridge loan for a total amount of 650 million at an average rate of -0.50% that was repaid on 24 June 2020. From May, the Bank could also benefit from PELTROs, Pandemic Emergency Longer-Term Refinancing Operations (200 million as at 31 December 2020) at a fixed rate of -0.25%.

DUE TO CUSTOMERS (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Term deposits	1,216,523	1,325,794	(109,271)	-8.2%
Financing (repurchase agreements)	235,230	457,070	(221,840)	-48.5%
Current accounts	639,546	682,289	(42,743)	-6.3%
Due to assignors	71,654	83,783	(12,129)	-14.5%
Other payables	90,588	168,039	(77,451)	-46.1%
Total	**2,253,541**	**2,716,975**	**(463,434)**	**-17.1%**

The item "Due to customers" decreased compared to the end of the previous year, mainly due to a decrease in funding from term deposits and from repurchase agreements. The year-end amount of term deposits decreased by 8.2% compared to the end of 2019, reflecting net negative deposits (net of accrued interest) of € -108 million due to the reduction in interest rates in the international channel; gross deposits from the beginning of the year were € 1,091 million, against withdrawals totalling € 1,199 million.

Due to assignors includes payables related to the unfunded portion of acquired receivables.

SECURITIES ISSUED (€,000)	31.12.2020	31.12.2019	€ Change	% Change
Bond - AT1	8,018	8,016	2	0.0%
Bond - Tier II	37,570	37,547	23	0.1%
Bonds - other	92,502	266,044	(173,542)	-65.2%
Total	**138,090**	**311,607**	**(173,517)**	**-55.7%**

The item Securities issued (138 million) decreased compared to 31 December 2019 and 30 September 2020 mainly due to the repayment of the senior bond maturing in October amounting to 175 million.

The nominal amount of securities issued at 31 December 2020 is broken down as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 December 2022 at 7% issued on 18 December 2012;
- Tier 2 subordinated loan of € 19.5 million, 2017-2027 with a variable coupon equal to 6-month Euribor + 4.5%;
- Tier 2 subordinated loan of € 18 million, 2019-2029 with a fixed coupon of 7%;
- Senior bonds (private placement) of € 92.5 million, 2018-2021 with a fixed coupon of 2%, and the senior shares of the ABS in the BS IVA securitisation subscribed by third-party institutional investors.

The provision for risks and charges of € 22.6 million includes the provision for possible liabilities attributable to past acquisitions of € 3.1 million, the estimated amount of personnel-related charges such as the portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, the estimate related to the non-compete agreement and ongoing labour-related lawsuits, totalling € 7.9 million. The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled of € 4.7 million and other estimated charges for ongoing lawsuits and legal disputes amounting to € 1.2 million. 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 (the liability is currently estimated to be € 1.3 million and is offset against goodwill), and the provision for supplementary customer allowances. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolio, for an amount of € 3.4 million.

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

The item also includes the 2019 dividend of € 7.5 million, which has been approved but not distributed. This amount is excluded from the calculation of CET1 insofar as it is excluded from the Bank’s equity.

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.12.2020	31.12.2019
Common Equity Tier 1 (CET1)	**188,364**	**146,549**
ADDITIONAL TIER 1	8,000	8,000
Tier 1 capital (T1)	**196,364**	**154,549**
TIER2	37,500	37,500
Total Own Funds (TC)	**233,864**	**192,049**
Total risk-weighted assets	**1,289,079**	**1,308,721**
of which, credit risk	1,116,262	1,152,292
of which, operational risk	172,817	156,429
Ratio - CET1	14.6%	11.2%
Ratio - T1	15.2%	11.8%
Ratio - TCR	18.1%	14.7%

Total own funds were € 234 million at 31 December 2020 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit.

As previously reported, on 30 June 2020 the Group began benefitting from the reduction in the weighting of the CQS/CQP assets set out in Regulation 876/2019 that came into effect on 27 June 2020.

The Group's consolidated capitalisation requirements, according to the transitory criteria, are as follows:

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

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

OTHER INFORMATION

Report on corporate governance and ownership structure

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a "Report on corporate governance and ownership structure" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2020 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Remuneration Report

Pursuant to section 84-quater, paragraph 1 of the Issuers' Regulation implementing Legislative Decree No. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2020 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Research and Development Activities

No research and development activities were carried out in 2020.

Future activities and new initiatives

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

RELATED PARTY TRANSACTIONS

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

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

ATYPICAL OR UNUSUAL TRANSACTIONS

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

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Reference should be made to the corresponding section of the Directors' Report in the Banca Sistema Group's consolidated financial statements, which is deemed to be fully reported here.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

Reference should be made to the corresponding section of the Directors' Report in the Banca Sistema Group's consolidated financial statements, which is deemed to be fully reported here.

PROPOSED ALLOCATION OF PROFIT FOR THE YEAR

Dear Shareholders,

The separate financial statements as at and for the year ended 31 December 2020, which we submit for your approval, show a profit for the year of € 25,745,540.65. We recommend allocating the profit for the year as follows:

- a dividend of € 6,433,684.16;
- the remainder of € 19,311,856.49 to retained earnings.

An allocation to the Legal Reserve was not made since the limits set out in Article 2430 of the Italian Civil Code were reached.

Milan, 11 March 2021

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in Euros)

	Assets	31.12.2020	31.12.2019
10.	Cash and cash equivalents	108,490	153,601
20.	Financial assets measured at fair value through profit or loss	2,353,445	-
	a) financial assets held for trading	-	-
	b) financial assets designated at fair value through profit or loss	-	-
	c) other financial assets mandatorily measured at fair value through profit or loss	*2,353,445*	-
30.	Financial assets measured at fair value through other comprehensive income	430,965,635	556,383,266
40.	Financial assets measured at amortised cost	3,073,679,467	3,123,737,882
	a) loans and receivables with banks	*90,433,675*	*81,002,261*
	b) loans and receivables with customers	*2,983,245,792*	*3,042,735,621*
70.	Equity investments	45,250,000	20,000,000
80.	Property and equipment	5,426,963	6,061,393
90.	Intangible assets	3,931,911	3,920,808
	of which:		
	goodwill	*3,919,700*	*3,919,700*
100.	Tax assets	8,835,232	8,099,379
	a) current	-	-
	b) deferred	*8,835,232*	*8,099,379*
120.	Other assets	18,189,979	18,197,732
	Total Assets	**3,588,741,122**	**3,736,554,061**

	Liabilities and equity	31.12.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	3,210,631,042	3,416,939,923
	a) due to banks	*819,000,552*	*388,357,667*
	b) due to customers	*2,253,540,906*	*2,716,975,290*
	c) securities issued	*138,089,584*	*311,606,966*
60.	Tax liabilities	16,644,951	16,433,038
	a) current	*1,995,302*	*2,213,198*
	b) deferred	*14,649,649*	*14,219,840*
80.	Other liabilities	136,006,687	98,810,084
90.	Post-employment benefits	3,373,701	2,955,435
100.	Provisions for risks and charges:	22,636,456	21,791,092
	a) commitments and guarantees issued	*25,923*	*43,590*
	c) other provisions for risks and charges	*22,610,533*	*21,747,502*
110.	Valuation reserves	1,386,179	278,968
140.	Reserves	123,799,503	100,872,736
150.	Share premium	39,100,168	39,100,168
160.	Share capital	9,650,526	9,650,526
170.	Treasury shares (-)	(233,632)	(233,632)
180.	Profit for the year	25,745,541	29,955,723
	Total liabilities and equity	**3,588,741,122**	**3,736,554,061**

INCOME STATEMENT

(Amounts in Euros)

		2020	2019
10.	Interest and similar income	95,247,332	110,243,896
	of which: interest income calculated with the effective interest method	93,444,182	107,552,012
20.	Interest and similar expense	(23,688,033)	(29,691,485)
30.	**Net interest income**	**71,559,299**	**80,552,411**
40.	Fee and commission income	21,618,986	22,260,029
50.	Fee and commission expense	(6,871,488)	(6,418,953)
60.	**Net fee and commission income**	**14,747,498**	**15,841,076**
70.	Dividends and similar income	226,667	226,667
80.	Net trading income	55,509	214,846
100.	Gain from sales or repurchases of:	9,530,798	3,716,224
	a) financial assets measured at amortised cost	*4,213,550*	*1,105,860*
	b) financial assets measured at fair value through other comprehensive income	*5,301,079*	*2,610,364*
	c) financial liabilities	*16,169*	-
120.	**Total income**	**96,119,771**	**100,551,224**
130.	Net impairment losses on:	(12,480,750)	(9,053,279)
	a) financial assets measured at amortised cost	*(12,428,581)*	*(8,948,421)*
	b) financial assets measured at fair value through other comprehensive income	*(52,169)*	*(104,858)*
150.	**Net financial income**	**83,639,021**	**91,497,945**
160.	Administrative expenses	(43,312,698)	(44,827,766)
	a) personnel expense	*(21,742,327)*	*(22,315,805)*
	b) other administrative expenses	*(21,570,371)*	*(22,511,961)*
170.	Net accruals to provisions for risks and charges	(2,520,150)	(1,996,083)
	a) commitments and guarantees issued	*17,667*	*(36,264)*
	b) other net accruals	*(2,537,817)*	*(1,959,819)*
180.	Net impairment losses on property and equipment	(1,616,526)	(1,640,515)
190.	Net impairment losses on intangible assets	(809)	(107,062)
200.	Other operating income (expense)	232,514	(795,556)
210.	**Operating costs**	**(47,217,669)**	**(49,366,982)**
250.	Gains (losses) on sales of investments	1,090,000	-
260.	**Pre-tax profit from continuing operations**	**37,511,352**	**42,130,963**
270.	Income taxes	(11,765,811)	(12,350,772)
280.	**Post-tax profit from continuing operations**	**25,745,541**	**29,780,191**
290.	Post-tax profit (loss) from discontinued operations	-	175,532
300.	**Profit for the year**	**25,745,541**	**29,955,723**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euros)

		2020	2019
10.	**Profit for the year**	**25,745,541**	**29,955,723**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	**-**	**-**
70.	Defined benefit plans	(36,799)	(19,660)
	Items, net of tax, that will be reclassified subsequently to profit or loss	**-**	**-**
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,144,011	1,430,086
170.	**Total other comprehensive income, net of income tax**	**1,107,211**	**1,410,426**
180.	**Comprehensive income (Items 10+170)**	**26,852,752**	**31,366,149**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2020

(Amounts in Euros)

				Allocation of prior year profit		Changes during the year								
							Transactions on equity							
	Balance at 31.12.2019	Change in opening balances	Balance at 1.1.2020	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income for 2020	**Equity at 31.12.2020**
Share capital:														
a) ordinary shares	**9,650,526**	-	9,650,526	-	-	-	-	-	-	-	-	-	-	**9,650,526**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium	**39,100,168**	-	39,100,168	-	-	-	-	-	-	-	-	-	-	**39,100,168**
Reserves	**100,872,736**	-	100,872,736	22,476,565	-	450,202	-	-	-	-	-	-	-	**123,799,503**
a) income-related	**101,681,819**	-	101,681,819	22,476,565	-	(9,026)	-	-	-	-	-	-	-	**124,149,358**
b) other	**(809,083)**	-	(809,083)	-	-	459,228	-	-	-	-	-	-	-	**(349,855)**
Valuation reserves	**278,968**	-	278,968	-	-	-	-	-	-	-	-	-	1,107,211	**1,386,179**
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	**(233,632)**	-	(233,632)	-	-	-	-	-	-	-	-	-	-	**(233,632)**
Profit for the year	**29,955,723**	-	29,955,723	(22,476,565)	(7,479,158)	-	-	-	-	-	-	-	25,745,541	**25,745,541**
Equity	**179,624,489**	**-**	**179,624,489**	**-**	**(7,479,158)**	**450,202**	-	-	-	-	-	-	**26,852,752**	**199,448,285**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2019

(Amounts in Euros)

	Balance at 31.12.2018	Change in opening balances	Balance at 1.1.2019	Allocation of net result from previous year		Changes during the year								
							Transactions on equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income for 2019	**Equity at 31.12.2019**
Share capital:														
a) ordinary shares	**9,650,526**	-	9,650,526	-	-	-	-	-	-	-	-	-	-	**9,650,526**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium	**39,184,038**	-	39,184,038	-	-	(83,870)	-	-	-	-	-	-	-	**39,100,168**
Reserves	**79,803,766**	-	79,803,766	21,073,928		(4,958)	-	-	-	-	-	-	-	**100,872,736**
a) income-related	**80,628,056**	-	80,628,056	21,073,928	-	(20,165)	-	-	-	-	-	-	-	**101,681,819**
b) other	**(824,290)**	-	(824,290)	-	-	15,207	-	-	-	-	-	-	-	**(809,083)**
Valuation reserves	**(1,131,458)**	-	(1,131,458)	-	-	-	-	-	-	-	-	-	1,410,426	**278,968**
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	**(198,893)**	-	(198,893)	-	-	(34,739)	-	-	-	-	-	-	-	**(233,632)**
Profit for the year	**28,070,560**	-	28,070,560	(21,073,928)	(6,996,632)	-	-	-	-	-	-	-	29,955,723	**29,955,723**
Equity	**155,378,539**	-	**155,378,539**	**-**	**(6,996,632)**	**(123,567)**	-	-	-	-	-	-	**31,366,149**	**179,624,489**

STATEMENT OF CASH FLOWS (indirect method)

(Amounts in Euros)

	2020	2019
A. OPERATING ACTIVITIES		
1. Operations	**52,706,142**	**49,939,249**
▪ Profit for the year (+/-)	25,745,541	29,955,723
▪ Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	-	-
▪ Gains/losses on hedging activities (-/+)	-	-
▪ Net impairment losses due to credit risk (+/-)	12,428,581	8,948,421
▪ Net impairment losses on property and equipment and intangible assets (+/-)	1,617,335	1,747,577
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	2,520,150	1,996,083
▪ Taxes, duties and tax assets not yet paid (+)	(261,165)	1,492,987
▪ Other adjustments (+/-)	10,655,700	5,798,458
2. Cash flows generated by (used for) financial assets	**174,048,197**	**(562,424,429)**
▪ Financial assets held for trading	-	-
▪ Financial assets designated at fair value through profit or loss	-	-
▪ Other assets mandatorily measured at fair value through profit or loss	(2,353,445)	-
▪ Financial assets measured at fair value through other comprehensive income	126,524,842	(250,503,362)
▪ Financial assets measured at amortised cost	48,357,111	(309,864,973)
▪ Other assets	1,519,689	(2,056,094)
3. Cash flows generated by (used for) financial liabilities	**(200,555,442)**	**528,034,390**
▪ Financial liabilities measured at amortised cost	(221,973,490)	498,196,976
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	21,418,048	29,837,414
Net cash flows generated by operating activities	**26,198,897**	**15,549,210**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**1,884,430**	**-**
▪ Sales of equity investments	1,250,000	-
▪ Dividends from equity investments	-	-
▪ Sales of property and equipment	634,430	-
▪ Sales of intangible assets	-	-
▪ Sales of business units	-	-
2. Cash flows used in	**(28,128,438)**	**(8,652,669)**
▪ Purchases of equity investments	(26,500,000)	(721,989)
▪ Purchases of property and equipment	(1,616,526)	(6,991,980)
▪ Purchases of intangible assets	(11,912)	(938,700)
▪ Purchases of business units	-	-
Net cash flows used in investing activities	**(26,244,008)**	**(8,652,669)**
C. FINANCING ACTIVITIES		
▪ Issues/repurchases of treasury shares	-	(34,739)
▪ Issues/repurchases of equity instruments	-	-
▪ Dividend and other distributions	-	(6,996,632)
Net cash flows generated by (used in) financing activities	**-**	**(7,031,371)**
NET CASH FLOWS FOR THE YEAR	**(45,111)**	**(134,830)**

KEY:
(+) generated
(–) used

Reconciliation	2020	2019
Cash and cash equivalents at the beginning of the year	**153,601**	**288,431**
Total net cash flows for the year	(45,111)	(134,830)
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	**108,490**	**153,601**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with International Financial Reporting Standards

The separate financial statements of Banca Sistema S.p.A. at 31 December 2020 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

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

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

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

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

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

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

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

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

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

SECTION 2 - General basis of preparation

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

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

If the information required by the IFRS and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and fair view that is relevant, reliable, comparable and understandable, the notes to the financial statements provide the additional information required. For the sake of completeness, please note that this financial report also considers the interpretation and supporting documents regarding the application of accounting standards, including those issued in connection with the Covid-19 pandemic, as well as those issued by European regulatory and supervisory bodies and standard setters.

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

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

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

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

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

consideration;

- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

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

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

The following should be noted regarding the regulatory developments in the IAS/IFRS:

REGULATION (EU)	TITLE
2020/34 of 15 January 2020	Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform
2020/1434 of 9 October 2020	Amendment to IFRS 16 - Covid-19-related rent concessions
2020/551 of 21 April 2020	Amendments to IFRS 3 - Definition of a Business

The introduction of the amendments to the Regulations listed above had no significant impact.

The following table summarises the new international financial reporting standards that will be effective from 1 January 2021.

REGULATION (EU)	TITLE
2020/2097 of 15 December 2020	Amendments to IFRS 4 - Extension of the Temporary Exemption from Applying IFRS 9
2021/25 of 13 January 2021	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2

SECTION 3 - Subsequent events

With regard to IAS 10, after 31 December 2020, the reporting date of the financial statements, and up to 29 March 2021, no events occurred that would require any adjustments to the figures in the financial statements.

On 29 March 2021, the Board of Directors of Banca Sistema resolved on a technical-formal reclassification of the draft financial statements as at 31 December 2020 already approved in the meeting held on 11 March, that has no effect on the profit for the year and on the capital ratios reported to the market on 10 February.

The reclassification is aimed exclusively at accounting for loans under disposal – totalling € 5.6 million out of total assets of € 3.7 billion – that cannot be derecognised from an accounting point of view. This leads to an increase by an equal amount in the line-item “Financial assets measured at amortised cost” and in the line-item “Financial liabilities measured at amortised cost”. The above disposals had been recognised for the same amounts as off-statement of financial position commitments.

SECTION 4 - Other aspects

With reference to the risks, uncertainties and effects of the COVID-19 pandemic, given the type of activities carried out by the Group, for the moment no significant impacts have been identified, particularly with regard to the valuations and items subject to estimates, where consideration has been given, insofar as can currently be estimated, to the impact of the pandemic on future forward-looking scenarios. However, the situation is being continuously monitored and any impacts not yet evident will be reflected, if necessary, in the estimated recoverable value of the financial assets.

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

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

Financial assets measured at fair value through profit or loss

Classification criteria

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

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

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

Recognition criteria

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

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

Measurement and recognition criteria for income components

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

In particular, this item includes:

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

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

Derecognition criteria

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

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

Classification criteria

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

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

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

In particular, this item includes:

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

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

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

Recognition criteria

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial assets measured at amortised cost

Classification criteria

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

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

In particular, this item includes:

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

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

Recognition criteria

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Hedging transactions

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

Equity investments

Classification criteria

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

Recognition criteria

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

Measurement criteria

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment and/ or other measurement elements. The amount of any impairment, calculated based on the difference between the carrying amount of the investment and its recoverable value is recognised in the income statement under "Gains (losses) on equity investments". If the reasons for impairment are removed following an event occurring after recognition of the impairment, impairment gains are recognised in the income statement under the same item as above to the extent of the previous impairment loss.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards. Gains and losses on the sale of equity investments are charged to the income statement under the item "220 Gains (losses) on equity investments"; gains and losses on the sale of investments other than those measured at equity are charged to the income statement under the item "250 Gains (losses) on sales of investments".

Property and equipment

Classification criteria

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

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

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

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

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

Recognition criteria

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

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

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

Measurement criteria

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

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

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

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

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

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

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

Derecognition criteria

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

Intangible assets

Classification criteria

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

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

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

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

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

Measurement criteria

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

Derecognition criteria

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

Non-current assets held for sale and disposal groups

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

Financial liabilities measured at amortised cost

Classification criteria

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

Recognition criteria

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial liabilities held for trading

Classification and recognition criteria

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

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial liabilities designated at fair value through profit or loss

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

Current and deferred taxes

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

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

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

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

Provisions for risks and charges

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

Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.

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

Other information

Post-employment benefits

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

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

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

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

Repurchase agreements

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

Criteria for determining the fair value of financial instruments

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants", at a specific measurement date, excluding forced transactions. Underlying the definition of fair value is a presumption that a company is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

In the case of financial instruments quoted in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

1. of the most recent NAV (Net Asset Value) published by the management investment company for the harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), the Hedge Funds and the SICAVs;
2. of the recent transaction prices observable in the markets;
3. of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);
4. of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis,

Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;

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

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

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

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

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

Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity. A business combination may give rise to an investment relationship between the parent (acquirer) and the subsidiary (acquiree). A business combination may also involve the purchase of the net assets, including any goodwill, of another entity rather than the purchase of the equity of the other entity (mergers and contributions).

Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method, which comprises the following phases:

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

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

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

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

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

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

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

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

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

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

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

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

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

No financial instruments were transferred between portfolios.

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

No financial assets were reclassified.

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

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURE

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

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

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

A.4.3 Fair value hierarchy

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

- Level 1- Effective market quotes

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

A.4.4 Other Information

The item is not applicable for the Bank.

QUANTITATIVE DISCLOSURE

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	-	2,353	-	-	-
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value through profit or loss	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value through profit or loss	-	-	2,353	-	-	-
2. Financial assets measured at fair value through other comprehensive income	425,966	-	5,000	551,383	-	5,000
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
TOTAL	**425,966**	**-**	**7,353**	**551,383**	**-**	**5,000**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

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

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

breakdown by fair value level

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2020				31.12.2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	3,073,679	452,969	72,001	2,664,963	3,123,738	435,177	-	2,688,561
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
TOTAL	**3,073,679**	**452,969**	**72,001**	**2,664,963**	**3,123,738**	**435,177**	**-**	**2,688,561**
1. Financial liabilities measured at amortised cost	3,210,631	-	-	3,210,491	3,416,940	-	-	3,416,940
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**3,210,631**	**-**	**-**	**3,210,491**	**3,416,940**	**-**	**-**	**3,416,940**

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

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

Nothing to report.

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31.12.2020	31.12.2019
a. Cash	108	**154**
b. Demand deposits with Central Banks	-	-
TOTAL	**108**	**154**

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20

2.5 Other financial assets mandatorily measured at fair value through profit or loss: breakdown by product

	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**-**	**-**	**2,353**	**-**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	-	-	2,353	-	-	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. OEIC units	-	-	**-**	-	-	-
4. Financing	-	-	**-**	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**-**	**2,353**	**-**	**-**	**-**

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

This item consists of the junior security of the BS IVA securitisation, a transaction consolidated on a line-by-line basis in the Group's financial statements.

2.6 Other financial assets mandatorily measured at fair value through profit or loss: breakdown by debtor/issuer

	31.12.2020	31.12.2019
1. Equity instruments	**-**	-
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt instruments	**2,353**	-
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	2,353	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
3. OEIC units	**-**	-
4. Financing	**-**	-
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
Total	**2,353**	-

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

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

	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**425,348**	**-**	**-**	**550,219**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	425,348	-	-	550,219	-	-
2. Equity instruments	**618**	**-**	**5,000**	**1,164**	**-**	**5,000**
3. Financing	**-**	-	**-**	**-**	**-**	**-**
Total	**425,966**	-	**5,000**	**551,383**	**-**	**5,000**

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

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

	31.12.2020	31.12.2019
1. Debt instruments	**425,348**	**550,219**
a. Central Banks	-	-
b. Public administrations	425,348	550,219
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
2. Equity instruments	**5,618**	**6,164**
a. Banks	5,000	5,000
b. Other issuers:	618	1,164
- other financial companies	618	1,164
of which: insurance companies	-	-
- non-financial companies	-	-
- other	-	-
4. Financing	**-**	**-**
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
Total	**430,966**	**556,383**

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

	Gross amount				Total impairment losses			Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt instruments	425,554	425,554	-	-	206	-	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31.12.2020	**425,554**	**425,554**	-	-	**206**	-	-	-
Total at 31.12.2019	**550,373**	**550,373**	-	-	**154**	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

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

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

	31.12.2020						31.12.2019					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**40,275**	**-**	**-**	**-**	**-**	**40,275**	**19,966**	**-**	**-**	**-**	**-**	**19,966**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	40,269	-	-	X	X	X	19,912	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	6	-	-	X	X	X	54	-	-	X	X	X
B. Loans and receivables with banks	**50,159**	**-**	**-**	**-**	**-**	**50,159**	**61,036**	**-**	**-**	**-**	**-**	**61,036**
1. Financing	50,159	-	-	-	-	50,159	61,036	-	-	-	-	61,036
1.1 Current accounts and demand deposits	41,089	-	-	X	X	X	52,503	-	-	X	X	X
1.2. Term deposits	3,129	-	-	X	X	3,129	-	-	-	X	X	X
1.3. Other financing:	5,941	-	-	X	X	X	8,533	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	5,941	-	-	X	X	X	8,533	-	-	X	X	X
2. Debt instruments	**-**	**-**	**-**	**X**	**X**	**X**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instrumentsi	-	-	-	X	X	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	X	X	X	-	-	-	-	-	-
Total	**90,434**	**-**	**-**	**-**	**-**	**90,434**	**81,002**	**-**	**-**	**-**	**-**	**81,002**

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

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

	31.12.2020						31.12.2019					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
1. Financing	**2,329,158**	**205,011**	**31,699**	-	-	**2,568,889**	**2,399,160**	**208,399**	**27,527**	**-**	-	**2,632,328**
1.1 Current accounts	62,468	239	-	X	X	X	41,966	56	-	X	X	X
1.2 Reverse repurchase agreements	5,546	-	-	X	X	X	-	-	-	X	X	X
1.3 Loans	70,553	1,290	-	X	X	X	6,753	1,970	-	X	X	X
1.4 Credit cards, personal loans and salary- and pension-backed loans	913,311	7,880	-	X	X	X	796,367	6,012	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	911,782	179,445	31,699	X	X	X	963,352	188,869	27,527	X	X	X
1.7 Other financing	365,498	16,157	-	X	X	X	590,722	11,492	-	X	X	X
2. Debt instruments	**449,077**	**-**	**-**	**452,969**	**X**	**-**	**435,177**	**-**	**-**	**436,634**	**-**	-
2.1 Structured instruments	-	-	-	-	X	-	-	-	-	-	-	-
2.2 Other debt instruments	449,077	-	-	452,969	X	-	435,177	-	-	436,634	-	-
Total	**2,778,235**	**205,011**	**31,699**	**452,969**	**72,001**	**2,568,889**	**2,834,337**	**208,399**	**27,527**	**436,634**	**-**	**2,632,328**

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

Financing mainly includes the loans and receivables of companies that supply goods and services mainly to the Public Administration (ASL – local health authorities – and Territorial Entities) and receivables related to the pension and salary-backed loans segment.

Factoring receivables include default interest recognised on an accruals basis for € 50.1 million.

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

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

Subsequent to their recognition, factoring receivables are measured at amortised cost, based on the present value of the estimated cash flows of the principal, or for all receivables whose recovery strategy involves legal action, based on the present value of the cash flows, in addition to the principal, of the default interest component that will accrue up to the expected date of collection on amounts considered recoverable.

As a matter of prudence, given the limited amount of historical data available, the recovery percentages used for territorial entities and the public sector (statistical series starting from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (statistical series starting from 2005) a confidence interval of the fifth percentile is used. The estimated recovery percentages and expected collection dates are updated based on annual analyses in light of the progressive consolidation of the historical data series, which provide increasingly solid and robust estimates. In the fourth quarter of 2020, the expected rates of recovery of default interest on factoring, in light of the statistical evidence that benefits from the progressive consolidation of the historical data series, have increased, as have the related collection times used. The update of these estimates led to the recognition of higher total interest income of € 1.0 million (€ 4.8 million at 31 December 2019). The decrease in the effect resulting from the updated recovery estimates is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly. The amount of the stock of default interest from legal actions accrued at 31 December 2020, relevant for the allocation model, was € 101 million (€ 104 million at the end of the fourth quarter of 2020), € 155 million when including troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements amount to € 50.1 million. Therefore, the amount of default interest accrued but not yet recognised in the income statement is € 105 million.

Securities are composed primarily of Italian government securities with an average duration of approximately 14.8 months. The HTCS portfolio amounted to € 425 million at 31 December 2020 (€ 550 million at 31 December 2019). The associated valuation reserve was positive at the end of the year, amounting to € 2.6 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 the Axactor Norway shares, which at 31 December 2020 had a negative fair value reserve of € 0.5 million, resulting in a year-end amount of € 0.6 million.

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

	31.12.2020			31.12.2019		
	First and second stage	Third stage	of which: purchased or originated credit-impaired assets	First and second stage	Third stage	of which: purchased or originated credit-impaired assets
1. Debt instruments	**449,077**	**-**	**-**	**435,177**	**-**	**-**
a) Public administrations	447,864	-	-	435,177	-	-
b) Other financial companies	1,213	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,329,158**	**205,011**	**31,699**	**2,399,160**	**208,399**	**27,527**
a) Public administrations	993,321	142,282	31,699	1,281,129	142,646	27,527
b) Other financial companies	86,641	7	-	72,341	4	-
of which: insurance companies	9	5	-	9	3	-
c) Non-financial companies	298,562	52,334	-	210,459	56,872	-
d) Households	950,634	10,387	-	835,231	8,877	-
Total	**2,778,235**	**205,011**	**31,699**	**2,834,337**	**208,399**	**27,527**

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

	Gross amount				Total impairment losses			
	First stage							
		of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs (*)
Debt instruments	449,296	449,296			219			-
Financing	2,294,239	976,673	134,159	250,162	8,025	781	45,152	-
Total at 31.12.2020	**2,743,535**	**1,425,969**	**134,159**	**250,162**	**8,244**	**781**	**45,152**	**-**
Total at 31.12.2019	**2,796,917**	**1,248,699**	**124,252**	**245,618**	**5,165**	**667**	**37,217**	-
of which: purchased or originated credit-impaired financial assets	X	X	20,294	12,109	X	171	533	-

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross amount and total impairment losses

	Gross amount				Total impairment losses			
	First stage							
		of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs (*)
1. Forborne loans in compliance with the EBA Guidelines	3,797	-	2,507	5,896	99	9	851	-
2. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-
3. New loans	65,492	-	-	-	216	-	-	-
Total at 31.12.2020	**69,289**	**-**	**2,507**	**5,896**	**315**	**9**	**-**	**-**
Total at 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

SECTION 7 - EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	**London**	100%	100%
2. Largo Augusto Servizi e Sviluppo S.r.l.	**Milan**	100%	100%
3. ProntoPegno S.p.A.	**Milan**	75%	75%
B. Joint ventures			
1. EBNSISTEMA FINANCE S.L.	**Madrid**	50%	50%

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd	-	44	536	1,926	65	-	(78)	-	(118)	(117)	-	(117)	-	(117)
2. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	28,631	12,718	305	1,455	(130)	(611)	69	98	-	98	-	98
3. ProntoPegno S.p.A.	1,822	81,988	32,959	74,305	5,927	6,027	2,836	(520)	(2,664)	(1,936)	-	(1,936)	-	(2,023)

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Post-tax profit (loss) from discontinued operations	Profit for the year	Other comprehensive income (expense), net of income tax	Comprehensive income
B. Joint ventures														
1. EBNSISTEMA FINANCE S.L.	-	2,175	-	-	49	-	132	-	126	126	-	126	-	126

7.5 Equity investments: changes

	31.12.2020	31.12.2019
A. Opening balance	**20,000**	**19,278**
B. Increases	**26,500**	**1,500**
B.1 Purchases	1,000	-
B.2 Impairment gains	-	-
B.3 Revaluations	-	-
B.4 Other increases	25,500	1,500
C. Decreases	**1,250**	**778**
C.1 Sales	1,250	778
C.2 Impairment losses	-	-
C.3 Write-offs	-	-
C.4 Other decreases	-	-
D. Closing balance	**45,250**	**20,000**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

Equity investments increased compared to the previous year, mainly as a result of the capital increase paid into the ProntoPegno subsidiary in preparation for its acquisition of the business unit. At the end of 2020, Banca Sistema entered into an equal partnership with EBN Banco de Negocios S.A. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave Banca Sistema a 50% stake in the Madrid-based company.

The decrease is related to the sale of 25% of shares in ProntoPegno to the current minority shareholders.

SECTION 8 - PROPERTY AND EQUIPMENT - ITEM 80

8.1 Operating property and equipment: breakdown of property and equipment

	31.12.2020	31.12.2019
1. Owned	**357**	**356**
a) land	-	-
b) buildings	-	-
c) furniture	142	172
d) electronic equipment	215	184
e) other	-	-
2. Under finance lease	**5,070**	**5,705**
a) land	-	-
b) buildings	4,357	5,018
c) furniture	-	-
d) electronic equipment	-	-
e) other	713	687
Total	**5,427**	**6,061**
of which: obtained from the enforcement of guarantees received	-	-

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

Depreciation rates:

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

The item “Under finance lease” includes the right of use relating to rents, of which the most significant amount refers to the property owned by the subsidiary Largo Augusto Servizi e Sviluppo S.r.l. (LASS) located in Milan, and the item “Other” includes the right of use relating to leased company cars.

8.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**-**	**6,321**	**1,243**	**2,117**	**1,176**	**10,857**
A.1 Total net impairment losses	-	1,303	1,071	1,933	489	4,796
A.2 Net opening balances	**-**	**5,018**	**172**	**184**	**687**	**6,061**
B. Increases	**-**	**491**	**10**	**111**	**376**	**988**
B.1 Purchases	-	491	10	108	350	959
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	-	-	3	26	29
B.8 Business combination transactions	-	-	-	-	-	-
B.9 First-time adoption of IFRS 16	-	-	-	-	-	-
C. Decreases	**-**	**1,151**	**40**	**80**	**351**	**1,622**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,151	38	80	346	1,615
C.3 Impairment losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a. investment property	-	-	-	-	-	-
b. non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	2	-	5	7
B.8 Business combination transactions	-	-	-	-	-	-
D. Net closing balance	**-**	**4,358**	**142**	**215**	**712**	**5,427**
D.1 Total net impairment losses	-	2,454	1,111	2,013	840	6,418
D.2 Gross closing balance	-	6,812	1,253	2,228	1,552	11,845
E. Measurement at cost	**-**	**4,358**	**142**	**215**	**712**	**5,427**

SECTION 9 - INTANGIBLE ASSETS - ITEM 90

9.1 Intangible assets: breakdown by type of asset

	31.12.2020		31.12.2019	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	-	**3,920**	-	**3,920**
A.2 Other intangible assets	**12**	-	**1**	-
A.2.1 Assets measured at cost:	12	-	1	-
a. Internally developed assets	-	-	-	-
b. Other	12	-	1	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
TOTAL	**12**	**3,920**	**1**	**3,920**

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

With respect to information related to goodwill, reference should be made to Part B - Information on the statement of financial position, Section 10 – Intangible assets – Item 100 of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

9.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally developed		Other intangible assets: Other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**3,920**	-	-	**3,104**	-	**7,024**
A.1 Total net impairment losses	-	-	-	3,103	-	3,103
A.2 Net opening balances	**3,920**	-	-	**1**	-	**3,921**
B. Increases	**-**	-	-	**12**	-	**12**
B.1 Purchases	-	-	-	12	-	-
B.2 Increases in internally developed assets	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
B.7 Business combination transactions	-	-	-	-	-	**-**
C. Decreases	**-**	-	-	**-**	-	**-**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	**1**	-	**1**
- Amortisation	-	-	-	1	-	1
- Impairment losses:	-	-	-	**-**	-	-
- equity	-	-	-	**-**	-	-
- profit or loss	-	-	-	**-**	-	-
C.3 Fair value losses recognised in:	-	-	-	**-**	-	-
- equity	-	-	-	**-**	-	-
- profit or loss	-	-	-		-	-
C.4 Transfers to disposal groups	-	-	-	**-**	-	-
C.5 Other decreases	-	-	-	**-**	-	-
C.6 Altre variazioni	-	-	-	**-**	-	-
D. Net closing balance	**3,920**	-	-	**12**	-	**3,932**
D.1 Total net impairment losses	-	-	-	3,104	-	3,104
E. Gross closing balance	**3,920**	-	-	**3,116**	-	**7,036**
F. Measurement at cost	3,920	-	-	12	-	3,932

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

SECTION 10 - TAX ASSETS AND TAX LIABILITIES - ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

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

	31.12.2020	31.12.2019
Current tax assets	**12,062**	**10,995**
IRES prepayments	8,863	8,249
IRAP prepayments	3,136	2,609
Other	63	137
Current tax liabilities	**(14,057)**	**(13,208)**
Provision for IRES	(10,827)	(9,658)
Provision for IRAP	(2,970)	(3,523)
Provision for substitute tax	(260)	(27)
Total	**(1,995)**	**(2,213)**

10.1 Deferred tax assets: breakdown

	31.12.2020	31.12.2019
Deferred tax assets through profit or loss:	**8,334**	**7,771**
Impairment losses on loans	2,376	2,756
Non-recurring transactions	414	427
Other	5,544	4,588
Deferred tax assets through equity:	**501**	**328**
Non-recurring transactions	239	247
HTCS securities	176	-
Other	86	81
Total	**8,835**	**8,099**

10.2 Deferred tax assets: breakdown

	31.12.2020	31.12.2019
Deferred tax liabilities through profit or loss:	**13,775**	**14,060**
Uncollected default interest income	13,775	14,000
Other	-	60
Deferred tax liabilities through equity:	**875**	**160**
HTCS securities	875	160
Total	**14,650**	**14,220**

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

	31.12.2020	31.12.2019
1. Opening balance	**7,771**	**6,716**
2. Increases	**3,498**	**1,852**
2.1 Deferred tax assets recognised in the year	-	-
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. impairment gains	-	-
d. other	3,498	1,852
e. business combination transactions	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**2,935**	**797**
3.1 Deferred tax assets derecognised in the year	-	160
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. changes in accounting policies	-	-
d. other	2,935	160
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	637
a. conversion into tax assets pursuant to Law 214/2011	-	-
b. other	-	637
4. Closing balance	**8,334**	**7,771**

10.3 bis Change in deferred tax assets pursuant to Law 214/2011

	31.12.2020	31.12.2019
1. Opening balance	**3,429**	**3,376**
2. Increases	**-**	**53**
3. Decreases	**400**	**-**
3.1 Reversals	-	-
3.2 Conversions into tax assets	-	-
a) arising on loss for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	400	-
4. Closing balance	**3,029**	**3,429**

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

	31.12.2020	31.12.2019
1. Opening balance	**14,060**	**12,222**
2. Increases	**41**	**2,049**
2.1 Deferred tax liabilities recognised in the year	41	2,049
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	41	2,049
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**326**	**211**
3.1 Deferred tax liabilities derecognised in the year	54	68
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	54	68
3.2 Tax rate reductions	-	-
3.3 Other decreases	272	143
4. Closing balance	**13,775**	**14,060**

10.5 Change in deferred tax assets (through equity)

	31.12.2020	31.12.2019
1. Opening balance	**328**	**910**
2. Increases	**189**	**16**
2.1 Deferred tax assets recognised in the year	189	16
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	189	16
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**16**	**598**
3.1 Deferred tax assets derecognised in the year	16	588
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. due to changes in accounting policies	-	-
d. other	16	588
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	10
4. Closing balance	**501**	**328**

10.6 Change in deferred tax liabilities (through equity)

	31.12.2020	31.12.2019
1. Opening balance	**160**	**9**
2. Increases	**875**	**160**
2.1 Deferred tax liabilities recognised in the year	875	160
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	875	160
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**160**	**9**
3.1 Deferred tax liabilities derecognised in the year	160	9
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	160	9
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**875**	**160**

SECTION 12 - OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

	31.12.2020	31.12.2019
Tax advances	9,359	7,175
Other	2,793	3,531
Prepayments not related to a specific item	2,227	1,952
Work in progress	1,933	2,970
Trade receivables	1,677	2,446
Security deposits	157	54
Leasehold improvements	44	70
Total	**18,190**	**18,198**

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

LIABILITIES

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

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

	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**689,686**	**X**	**X**	**X**	**358,250**	**X**	**X**	**X**
2. Due to banks	**129,315**	**X**	**X**	**X**	**30,108**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	-	X	X	X	19	X	X	X
2.2 Term deposits	125,178	X	X	X	30,089	X	X	X
2.3 Financing	1,863	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	**-**	**X**	**X**	**X**	-	**X**	**X**	**X**
2.3.2 Other	1,863	X	X	X	-	X	X	X
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	2,274	X	X	X	-	X	X	X
TOTAL	**819,001**			**819,001**	**388,358**			**388,358**

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

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

	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	**639,459**	X	X	X	**682,214**	X	X	X
2. Term deposits	**1,216,417**	X	X	X	**1,325,742**	X	X	X
3. Financing	**306,884**	X	X	X	**543,941**	X	X	X
3.1 Repurchase agreements	235,230	X	X	X	457,070	X	X	X
3.2 Other	71,654	X	X	X	86,871	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities		X	X	X	-	X	X	X
6. Other payables	**90,781**	X	X	X	**165,078**	X	X	X
TOTAL	**2,253,541**	**-**	**-**	**2,253,541**	**2,716,975**	**-**	**-**	**2,716,987**

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

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

	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**138,090**	**-**	**-**	**137,949**	**311,607**	**177,657**	**-**	**135,722**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	138,090	-	-	137,949	311,607	177,657	-	135,722
2. other securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-	-	-
TOTAL	**138,090**	**-**	**-**	**137,949**	**311,607**	**177,657**	**-**	**135,722**

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

1.4 Breakdown of subordinated loans/securities

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate: ISIN IT0004881444	Until 17 June 2023, fixed rate at 7% From 18 June 2023, 6-month Euribor +5% variable rate	Perpetual	8,000	8,018
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2): ISIN IT0005247397	6-month Euribor + 4.5%	30/03/2027	19,500	19,527
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2): ISIN IT0005373060	Fixed rate at 7%	20/06/2029	18,000	18,043
TOTAL					**45,500**	**45,588**

This item includes Senior bonds (private placement) of € 92.5 million, 2018-2021 with a fixed coupon of 2%.

SECTION 6 - TAX LIABILITIES - ITEM 60

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 10 of assets in these notes to the financial statements.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31.12.2020	31.12.2019
Payments received in the reconciliation phase	73,367	54,893
Work in progress	26,868	9,180
Accrued expenses	10,858	10,975
2019 dividends due to shareholders	7,479	-
Trade payables	5,788	6,485
Finance lease liabilities	5,126	5,736
Tax liabilities with the Tax Authority and other tax authorities	4,956	9,458
Due to employees	719	838
Pension repayments	707	699
Due to group companies	114	436
Other	25	110
TOTAL	**136,007**	**98,810**

SECTION 9 - POST-EMPLOYMENT BENEFITS - ITEM 90

9.1 Post-employment benefits: changes

	31.12.2020	31.12.2019
A. Opening balance	**2,955**	**2,402**
B. Increases	**646**	**911**
B.1 Accruals	577	513
B.2 Other increases	69	180
B.3 Business combination transactions	-	218
C. Decreases	**227**	**358**
C.1 Payments	175	222
C.2 Other decreases	52	136
D. Closing balance	**3,374**	**2,955**
TOTAL	**3,374**	**2,955**

9.2 Other Information

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

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

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

Annual discount rate	0.34%
Annual inflation rate	0.80%
Annual post-employment benefits increase rate	2.10%
Annual salary increase rate	1.00%

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

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

	31.12.2020	31.12.2019
1. Provisions for credit risk related to commitments and financial guarantees issued	**26**	**44**
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	**22,610**	**21,747**
4.1 legal and tax disputes	4,264	4,481
4.2 personnel expense	7,932	7,220
4.3 other	10,414	10,046
TOTAL	**22,636**	**21,791**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. Opening balance	**44**	**-**	**21,747**	**21,791**
B. Increases	**-**	**-**	**12,082**	**12,082**
B.1 Accruals	-	-	10,658	10,658
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	1,424	1,424
B.5 Business combination transactions	-		-	-
C. Decreases	**18**	**-**	**11,219**	**11,237**
C.1 Utilisations	-	-	3,128	3,128
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	18	-	8,091	8,109
D. Closing balance	**26**	**-**	**22,610**	**22,636**

Accruals are mainly due to deferred amounts due to personnel and agents equal to € 4.1 million and other accruals for possible liabilities to assignors that have yet to be settled and pending lawsuits amounting to € 5.1 million.

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

	Provisions for credit risk related to financial guarantees issued			
	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	Total
1. Commitments to disburse funds	-	-	-	-
2. Financial guarantees issued	26	-	-	26
TOTAL	**26**	**-**	**-**	**26**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2020	31.12.2019
Legal and tax disputes	4,264	4,481
Personnel expense	7,932	7,220
Other	10,414	10,046
TOTAL	**22,610**	**21,747**

Legal and tax disputes include a provision for possible liabilities arising from past acquisitions and therefore recognised in accordance with IFRS 3 for an amount of € 3.1 million and, for the remainder, provisions for lawsuits where the risk of losing the case is considered probable.

"Personnel expense" includes:

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

The calculation method can be summarised in the following steps:

- projection for each employee in service at the valuation date of the NCA that has already been accrued, and the future obligations up to an uncertain payment date;
- determination for each employee of the NCA payments that the Group will have to make in the event of employment termination due to dismissal and retirement in case of fulfilment of the NCA commitments;
- discounting, at the valuation date, of each probable payment.

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

The item "Other" includes an estimate of charges related to possible liabilities to assignors that have yet to be settled for € 4.7 million, the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years (the liability is currently estimated to be € 1.3 million and is offset against goodwill), and an estimate for amounts due to agents of € 1 million. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolio, for an amount of € 3.4 million.

SECTION 12 - BANK EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

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

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.

Based on evidence from the Shareholders' Register and more recent information available, as at 18 February 2021 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.54%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Chandler SARL	7.48%
Fondazione Sicilia	7.40%
Moneta Micro Entreprises	5.12%
*Market**	*48.45%*

(*) Includes treasury shares held by the Bank.

At 31 December 2020, the bank held 168,669 treasury shares (equal to 0.21% of the share capital) as a stock of securities to be used for the incentive plan for the Group's key personnel.

The breakdown of the bank's equity is shown below:

	31.12.2020	31.12.2019
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	123,799	100,873
4. (Treasury shares)	(234)	(234)
5. Valuation reserves	1,386	279
6. Equity instruments	-	-
7. Profit for the year	25,746	29,956
TOTAL	**199,448**	**179,625**

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

12.2 Share capital - Number of shares: changes

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

12.4 Income-related reserves: other information

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

	Amount as at 31.12.2020	Possible use	Available portion
A. Share capital	9,651	-	-
B. Equity-related reserves	-	-	-
Share premium reserve	39,100	A,B,C	-
Reserve to provide for losses	-	-	-
C. Income-related reserves:	-	-	-
Legal reserve	1,930	B	-
Valuation reserve	1,386	-	-
Negative goodwill	1,774	A,B,C	-
Retained earnings	120,507	A,B,C	-
Reserve for treasury shares	200	-	-
Reserve for future capital increase	-	-	-
D. Other reserves	(612)	-	-
E. Treasury shares	(234)	-	-
TOTAL	**173,702**	-	-
Profit for the year	25,746	-	-
TOTAL EQUITY	**199,448**	-	-
Undistributable portion	-	-	-
Distributable portion	-	-	-

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

1. Commitments and financial guarantees issued

	Nominal amount of commitments and financial guarantees issued				
	First stage	Second stage	Third stage	**31.12.2020**	**31.12.2019**
Commitments to disburse funds	**421,159**	**24,765**	**10,389**	**456,313**	**246,489**
a) Central Banks	-	-	-	-	-
b) Public administrations	220,610	-	3,250	223,860	-
c) Banks	-	-	-	-	-
d) Other financial companies	109,919	-	-	109,919	121,035
e) Non-financial companies	88,342	24,536	7,139	120,017	120,372
f) Households	2,288	229	-	2,517	5,082
Financial guarantees issued	**6,724**	**-**	**-**	**6,724**	**3,119**
a) Central Banks	-	-	-	-	-
b) Public administrations	20	-	-	20	-
c) Banks	2,446	-	-	2,446	2,446
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	4,161	-	-	4,161	627
f) Households	97	-	-	97	45

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

3. Assets pledged as collateral for liabilities and commitments

	31.12.2020	31.12.2019
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	71,350	192,101
3. Financial assets measured at amortised cost	285,987	469,875
4. Property and equipment	-	-
of which: Property and equipment included among inventories	-	-

6. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**-**
3. Securities custody and administration	**1,262,864**
a) third-party securities held as part of depositary bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third-party securities on deposit (excluding asset management): other	32,207
1. securities issued by the reporting entity	4,063
2. other securities	28,144
c) third-party securities deposited with third parties	32,207
d) securities owned by the bank deposited with third parties	1,230,658
4. Other transactions	**-**

PART C - INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	2020	2019
1. Financial assets measured at fair value through profit or loss:	-	-	-	-	-
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value through profit or loss	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets measured at amortised cost:	1,872	89,153	-	91,025	107,552
3.1 Loans and receivables with banks	-	167	X	167	146
3.2 Loans and receivables with customers	1,872	88,986	X	90,858	107,406
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	4,222	2,692
TOTAL	**1,872**	**89,153**	**-**	**95,247**	**110,244**
of which: interest income on impaired assets	-	-	-	-	-
of which: interest income on finance leases	-	-	-	-	-

The total contribution of the Factoring Division to interest income was € 65.2 million, equal to 74% of the entire loans and receivables portfolio (compared to 78% at 31 December 2019), to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The component linked to default interest from legal action at 31 December 2020 was € 21.6 million (€ 29 million at 31 December 2019):

- of which € 1 million resulting from the updated recovery estimates and expected collection times (€ 5.1 million in 2019);
- of which € 9.0 million resulting from the current recovery estimates (€ 12.0 million in 2019);
- of which € 11.6 million (€ 11.9 million in 2019) coming from net collections during the year, i.e. the difference between the amount collected during the period, equal to € 21.5 million (€ 21.6 million in 2019) and that recognised on an accruals basis in previous years. This item includes gross collections of € 6.5 million from transfers to third parties (equal to € 7.0 million in 2019).

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios which is down slightly on the previous year at € 16.9 million as a result of the early redemption of several positions.

The contribution from the Collateralised Lending Division amounting to € 350 thousand represents income generated up to 31 July 2019, because from the following month the collateralised lending business unit was merged into the newly formed ProntoPegno.

The item “financial liabilities” mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements and ECB loans at negative rates, which account for € 4.2 million.

1.3 Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	**2020**	**2019**
1. Financial liabilities measured at amortised cost	16,128	7,372	-	23,500	29,564
1.1 Due to Central banks	-	X	-	-	-
1.2 Due to banks	412	X	-	412	578
1.3 Due to customers	15,716	X	-	15,716	21,056
1.4 Securities issued	X	7,372	-	7,372	7,930
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	188	127
TOTAL	**16,128**	**7,372**	**-**	**23,688**	**29,691**
of which: interest expense related to lease liabilities	66	-	-	-	-

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

2.1 Fee and commission income: breakdown

	2020	2019
a. guarantees issued	36	13
b. credit derivatives	-	-
c. management, brokerage and consultancy services:	152	124
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. individual asset management	10	10
4. securities custody and administration	1	2
5. depositary services	-	-
6. placement of securities	100	72
7. order collection and transmission	41	40
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individuali	-	-
9.1.2. collettive	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d. collection and payment services	54	62
e. services for securitisations	-	-
f. services for factoring	17,715	18,409
g. tax collection services	-	-
h. management of multilateral trading facilities	-	-
i. keeping and management of current accounts	96	91
j. other services	3,566	3,561
TOTAL	**21,619**	**22,260**

It should be noted that item j) Other services is detailed in the following table, and consists mainly of the fees and commissions arising from the origination of salary- and pension-backed loan (CQS/CQP) products, as well as servicing for third-party factoring transactions.

The aggregate of other fees and commissions is in any case residual.

	2020	2019
Fees and commissions from servicing of third-party factoring transactions	1,148	1,417
CQ origination fees and commissions	2,353	1,859
Collateralised lending fees and commissions	-	-
Other fees and commissions (residual)	64	284
Total	**3,566**	**3,560**

2.2 Fee and commission income: distribution channels of products and services

	2020	2019
A) at its branches:	**110**	**82**
1. asset management	10	10
2. placement of securities	100	72
3. third-party services and products	-	-
B) off-premises:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
C) other distribution channels:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-

2.3 Fee and commission expense: breakdown

	2020	2019
a. guarantees received	41	-
b. credit derivatives	-	-
c. management and brokerage services:	6,122	5,923
1. trading in financial instruments	52	70
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	-	-
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	6,070	5,853
d. collection and payment services	199	222
e. other services	509	274
TOTAL	**6,871**	**6,419**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

		2020		2019	
		dividends	similar income	dividends	similar income
A.	Financial assets held for trading	-	-	-	-
B.	Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-
C.	Financial assets measured at fair value through other comprehensive income	227	-	227	-
D.	Equity investments	-	-	-	-
	TOTAL	**227**	**-**	**227**	**-**

SECTION 4 - NET TRADING INCOME (EXPENSE) - ITEM 80

4.1 Net trading income (expense): breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**57**	**-**	**(1)**	**56**
1.1 Debt instruments	-	57	-	(1)	57
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	(1)	(1)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-		-
3. Other financial assets and liabilities: exchange rate gains (losses)	**X**	**X**	**X**	**X**	**-**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
On debt instruments and interest rates	-	-	-	-	-
On equity instruments and equity indexes	-	-	-	-	-
On currencies and gold	X	X	X	X	-
Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
TOTAL	**-**	**57**	**-**	**(1)**	**56**

SECTION 6 - GAIN FROM SALES OR REPURCHASES - ITEM 100

6.1 Gain from sales or repurchases: breakdown

	2020			2019		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	5,351	(1,137)	4,214	1,106	-	1,106
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	5,351	(1,137)	4,214	1,106	-	1,106
2. Financial assets measured at fair value through other comprehensive income	5,327	(26)	5,301	4,140	(1,530)	2,610
2.1 Debt instruments	5,327	(26)	5,301	4,140	(1,530)	2,610
2.2 Financing	-	-	-		-	-
TOTAL ASSETS	**10,678**	**(1,163)**	**9,515**	**5,246**	**(1,530)**	**3,716**
B. Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	16	-	16	-	-	-
TOTAL LIABILITIES	**16**	**-**	**16**	**-**	**-**	**-**

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

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

	Impairment losses (1)			Impairment gains (2)		2020	2019
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Loans and receivables with banks	**2**	**-**	**-**	**(8)**	**-**	**(6)**	**17**
- financing	2	-	-	(8)	-	(6)	17
- debt instruments	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**3,440**	**-**	**9,034**	**(34)**	**(5)**	**12,435**	**8,931**
- financing	3,343	-	9,034	(34)	(5)	12,338	8,881
- debt instruments	97	-	-	-	-	97	50
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
C. Total	**3,442**	**-**	**9,034**	**(42)**	**(5)**	**12,429**	**8,948**

8.1a Net impairment losses due to credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

	Net impairment losses			Total for 2020	Total for 2019
	First and second stage	Third stage			
		write-offs	Other		
1. Forborne loans in compliance with the EBA Guidelines	(27)	-	483	456	-
2. Loans subject to other forbearance measures	-	-	-	-	-
3. New loans	216	-	-	216	-
Total (T)	**189**	**-**	**483**	**672**	**-**

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

	Impairment losses (1)			Impairment gains (2)		2020	2019
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Debt instruments	**52**	**-**	**-**	**-**	**-**	**52**	**105**
B. Financing	**-**	-	-	-	-	**-**	**-**
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
Of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**52**	-	-	-	-	**52**	**105**

SECTION 10 - ADMINISTRATIVE EXPENSES - ITEM 160

10.1 Personnel expense: breakdown

	2020	2019
1) Employees	20,077	20,251
a) wages and salaries	11,530	11,280
b) social security charges	3,081	2,968
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	807	857
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	379	335
- defined contribution plans	379	335
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	4,280	4,811
2) Other personnel	428	458
3) Directors and statutory auditors	1,107	1,098
4) Retired personnel	-	-
5) Recovery of costs for employees of the Bank seconded to other entities	-	-
6) Reimbursement of costs for employees of other entities seconded to the Bank	130	509
TOTAL	**21,742**	**22,316**

10.2 Average number of employees by category

Employees

a) Senior managers:	25
b) Managers:	42
c) Remaining employees:	132

10.5 Other administrative expenses: breakdown

	2020	2019
Consultancy	(4,672)	(4,128)
IT expenses	(5,020)	(5,711)
Servicing and collection activities	(2,951)	(2,992)
Indirect taxes and duties	(1,802)	(2,108)
Insurance	(468)	(486)
Other	(523)	(429)
Expenses related to management of the SPVs	(537)	(530)
Car hire and related fees	(546)	(635)
Advertising	(310)	(499)
Rent and related fees	(945)	(1,030)
Expense reimbursement and entertainment	(302)	(825)
Infoprovider expenses	(514)	(638)
Membership fees	(288)	(304)
Property management expenses	(66)	(101)
Audit fees	(240)	(329)
Telephone and postage expenses	(139)	(135)
Logistics expenses	(61)	(61)
Stationery and printing	(41)	(60)
Total operating expenses	**(19,425)**	**(21,001)**
Resolution Fund	(2,007)	(1,146)
Merger-related costs	(138)	(365)
Total	**(21,570)**	**(22,512)**

Administrative expenses decreased mainly as a result of lower travel expenses due to the pandemic and lower IT costs. The cost related to the contribution to the Resolution Fund accounted for € 0.9 million of the increase in costs. The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

The 2020 merger-related costs refer to costs incurred by the Parent in connection with the acquisition of the collateralised lending business unit completed in July. The 2019 merger-related costs include the costs for the integration and merger of Atlantide into the Bank.

SECTION 11 - NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 170

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

	2020	2019
Net accruals for other commitments and other guarantees	18	(36)
TOTAL	**18**	**(36)**

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

	2020	2019
Provisions for risks and charges - other provisions and risks	(2,538)	(1,960)
Release of provisions for risks and charges	-	-
TOTAL	**(2,538)**	**(1,960)**

SECTION 12 - NET IMPAIRMENT LOSSES ON PROPERTY AND EQUIPMENT - ITEM 180

12.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Property and equipment				
1. Operating assets	**1,617**	-	-	**1,617**
- Owned	119	-	-	119
- Right-of-use assets acquired under a lease	1,498	-	-	1,498
2. Investment property	**-**	-	-	**-**
- Owned	-	-	-	-
- Right-of-use assets acquired under a lease	-	-	-	-
3. Inventories	**-**	-	-	**-**
TOTAL	**1,617**	**-**	**-**	**1,617**

SECTION 13 - NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS - ITEM 190

13.1 Net impairment losses on intangible assets: breakdown

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

SECTION 14 - OTHER OPERATING INCOME AND EXPENSE - ITEM 200

14.1 Other operating expense: breakdown

	2020	2019
Amortisation of leasehold improvements	27	42
Other operating expense	1,409	1,857
TOTAL	**1,436**	**1,899**

14.2 Other operating income: breakdown

	2020	2019
Recoveries of expenses on current accounts and deposits for sundry taxes	518	333
Recoveries of sundry expenses	157	155
Other income	994	615
TOTAL	**1,669**	**1,103**

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

SECTION 19 - INCOME TAXES - ITEM 270

19.1 Income taxes: breakdown

		2020	2019
1.	Current taxes (-)	(12,739)	(12,420)
2.	Changes in current taxes of previous years (+/-)	125	852
3.	Decrease in current taxes for the year (+)	-	-
3.bis	Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	563	1,055
5.	Changes in deferred tax liabilities (+/-)	285	(1,838)
6.	Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(11,766)	(12,351)

SECTION 20 - POST-TAX PROFIT (LOSS) FROM DISCONTINUED OPERATIONS - ITEM 290

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

	2020	2019
1. Income	-	-
2. Expense	-	-
3. Result of the measurement of the group of assets and associated liabilities	-	-
4. Gains (losses) on sales	-	179
5. Taxes and duties	-	(3)
Profit (loss)	**-**	**176**

20.2 Breakdown of income taxes from discontinued operations

	2020	2019
1. Current taxes (-)	-	(3)
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Income taxes for the year (-1+/-2+/-3)	**-**	**(3)**

SECTION 21 - OTHER INFORMATION

Nothing to report.

SECTION 22 - EARNINGS PER SHARE

Earnings per share (EPS)	2020
Profit for the year (thousands of Euro)	25,746
Average number of outstanding shares	80,252,383
Basic earnings per share (in Euro)	0.321
Diluted earnings per share (in Euro)	0.321

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

PART D - OTHER COMPREHENSIVE INCOME

Breakdown of comprehensive income

		2020	2019
10.	**Profit for the year**	**25,746**	**29,956**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
20.	Equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses) - hedged item	-	-
	b) fair value gains (losses) - hedging instrument	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(37)	(20)
80.	Non-current assets held for sale	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	-
100.	Income taxes on items that will not be reclassified subsequently to profit or loss	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net position gains (losses)	-	-
140.	Hedging instruments (non-designated elements):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-

		2020	2019
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	1,144	1,430
	a) fair value gains	1,092	325
	b) reclassification to profit or loss	-	-
	- impairment losses due to credit risk	52	104
	- gains on sales	-	1,001
	c) other changes	-	-
160.	Non-current assets held for sale and disposal groups:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	- impairment losses	-	-
	- gains/losses on sales	-	-
	c) other changes	-	-
180.	Income taxes on items that will be reclassified subsequently to profit or loss	-	-
190.	**Total other comprehensive income**	**1,107**	**1,410**
200.	**Comprehensive income (10+190)**	**26,853**	**31,366**

SECTION 1 - CREDIT RISK

QUALITATIVE DISCLOSURE

1. General aspects

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2. Credit Risk Management Policies

2.1 Organisational aspects

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.2 Management, measurement and control systems

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.3 Methods of measuring expected losses

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.4 Credit Risk mitigation techniques

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3. Impaired loans

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.1 Management strategies and policies

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.2 Write-offs

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.3 Purchased or originated credit-impaired financial assets

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

4. Financial assets subject to commercial renegotiation and forborne exposures

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

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

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

	Bad exposures	Unlikely to pay	Impaired past due exposures	Unimpaired past due exposures	Other unimpaired exposures	Total
1. Financial assets measured at amortised cost	27,113	127,955	49,942	546,227	2,322,443	3,073,679
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	425,348	425,348
3. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	2,353	2,353
5. Financial assets held for sale	-	-	-	-	-	-
Total at 31.12.2020	**27,113**	**127,955**	**49,942**	**546,227**	**2,750,144**	**3,501,381**
Total at 31.12.2019	**30,544**	**123,306**	**54,549**	**709,093**	**2,756,465**	**3,673,957**

The financial assets measured at fair value through other comprehensive income do not include the shares of the Bank of Italy and Axactor.

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

	Gross amount	Total impairment losses	Carrying amount	overall partial write-offs (*)	Gross amount	Total impairment losses	Carrying amount	Total (carrying amount)
1. Financial assets measured at amortised cost	250,162	45,152	205,010	-	2,877,693	9,024	2,868,669	3,073,679
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	425,554	206	425,348	425,348
3. Financial assets designated at fair value through profit or loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-			-	-
Total at 31.12.2020	**250,162**	**45,152**	**205,010**	**-**	**3,303,247**	**9,230**	**3,296,371**	**3,501,381**
Total at 31.12.2019	**245,616**	**37,217**	**208,399**	**-**	**3,471,544**	**5,986**	**3,465,558**	**3,673,957**

A.1.3 Breakdown of financial assets by past due range (carrying amounts)

	First stage			Second stage			Third stage		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days	Up to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	13,514	18,292	504,135	948	1,063	8,676	405	1,137	175,108
2. Financial assets measured at fair value throughù other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
TOTAL AT 31.12.2020	**13,514**	**18,292**	**504,135**	**948**	**1,063**	**8,676**	**405**	**1,137**	**175,108**
TOTAL AT 31.12.2019	**29,272**	**24,744**	**647,530**	**999**	**464**	**6,753**	**1,218**	**3,652**	**155,153**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in impaired positions and accruals to provisions

	Total impairment losses																Overall accruals to provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets included in the first stage					Assets included in the second stage					Assets included in the third stage					Of which: purchased or originated credit-impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses		First stage	Second stage	Third stage	
Opening total impairment losses	**5,165**	**154**	**-**	**-**	**5,319**	**667**	**-**	**-**	**-**	**667**	**37,217**	**-**	**-**	**37,217**	**-**	**212**	**44**	**-**	**-**	**43,247**
Increases in purchased or originated financial assets	-	-	-	-	-	87	-	-	-	87	332	-	-	332	-	420	-	-	-	420
Derecognition other than write-offs	710	-	-	-	710	220	-	-	-	220	715	-	-	715	-	42	-	-	-	1,645
Net impairment losses/gains due to credit risk (+/-)	3,788	52	-	-	3,840	247	-	-	-	247	8,318	-	-	8,318	-	115	(18)	-	-	12,387
Contract amendments without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing total impairment losses	**8,243**	**206**	**-**	**-**	**8,449**	**781**	**-**	**-**	**-**	**781**	**45,152**	**-**	**-**	**45,152**	**-**	**704**	**26**	**-**	**-**	**54,408**
Recoveries from collection on financial assets that have been written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
1. Financial assets measured at amortised cost	44,329	31,710	4,371	3,525	38,963	38,148
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	10,590	3,786	-	11,931	4,387	11,159
TOTAL AT 31.12.2020	**54,919**	**35,496**	**4,371**	**15,456**	**43,349**	**49,307**
TOTAL AT 31.12.2019	**48,967**	**10,557**	**31,604**	**4,056**	**73,083**	**43,174**

A.1.5a Loans subject to Covid-19 support measures: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
A. Loans measured at amortised cost	-	-	-	**2,507**	**135**	-
A.1 forborne in compliance with the EBA Guidelines	-	-	-	2,507	135	-
A.2 subject to other forbearance measures	-	-	-	-	-	-
A.3 new loans	-	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 forborne in compliance with the EBA Guidelines	-	-	-	-	-	-
B.2 subject to other forbearance measures	-	-	-	-	-	-
B.3 new loans	-	-	-	-	-	-
TOTAL AT 31.12.2020	-	-	-	**2,507**	**135**	-
TOTAL AT 31.12.2019	-	-	-	-	-	-

A.1.6 On- and off-statement of financial position loans and receivables with banks: gross amounts and carrying amounts

	Gross amount		Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs *
	Impaired	Unimpaired			
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES	-				
a) Bad exposures	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	-	-	-	-
of which: forborne exposures	X	-	-	-	-
e) Other unimpaired exposures	X	90,453	20	90,433	-
of which: forborne exposures	X				
TOTAL A	-	**90,453**	**20**	**90,433**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES	-				
a) Impaired	-	X	-	-	-
b) Unimpaired	X	2,446	-	2,445	-
TOTAL B	-	**2,446**	**-**	**2,445**	**-**
TOTAL A+B	-	**92,899**	**20**	**92,878**	**-**

A.1.7a Loans subject to Covid-19 support measures: gross amount and carrying amount

	Gross amount		Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs *
	Impaired	Unimpaired			
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					
a) Bad exposures	52,354	X	25,241	27,113	-
of which: forborne exposures	369	X	369		-
b) Unlikely to pay	147,431	X	19,476	127,955	-
of which: forborne exposures	296	X	118	177	-
c) Impaired past due exposures	50,377	X	435	49,942	-
of which: forborne exposures		X			-
d) Unimpaired past due exposures	X	548,786	2,560	546,226	-
of which: forborne exposures	X				-
e) Other unimpaired exposures	X	2,666,361	6,650	2,659,711	-
of which: forborne exposures	X	1,062	7	1,055	
TOTAL A	**250,162**	**3,215,148**	**54,363**	**3,410,947**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					
a) Impaired	10,389	X		10,389	-
b) Unimpaired	X	450,202	26	450,176	-
TOTAL B	**10,389**	**450,202**	**26**	**460,565**	**-**
TOTAL A+B	**260,551**	**3,665,350**	**54,389**	**3,871,512**	**-**

A.1.7 On- and off-statement of financial position loans and receivables with customers: gross amounts and carrying amounts

	Gross amount	Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs *
A. BAD LOANS	**-**	**-**	**-**	**-**
a) Forborne in compliance with the EBA Guidelines	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
B. UNLIKELY-TO-PAY LOANS	**5,761**	**846**	**4,915**	**-**
a) Forborne in compliance with the EBA Guidelines	5,761	846	4,915	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
C. IMPAIRED PAST DUE LOANS	**135**	**4**	**130**	**-**
a) Forborne in compliance with the EBA Guidelines	135	4	130	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
D. PERFORMING LOANS	**-**	**-**	**-**	**-**
a) Forborne in compliance with the EBA Guidelines	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
E. OTHER PERFORMING LOANS	**71,796**	**324**	**71,473**	**-**
a) Forborne in compliance with the EBA Guidelines	6,304	108	6,197	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	65,492	216	65,276	-
TOTAL (A+B+C+D+E)	**77,692**	**1,174**	**76,518**	**-**

A.1.9 On-statement of financial position loans and receivables with customers: gross impaired positions

	Bad exposures	Unlikely to pay	Impaired past due exposures
A. Opening gross balance	**50,622**	**139,348**	**55,646**
- of which: positions transferred but not derecognised	-	-	-
B. Increases	**16,505**	**192,215**	**207,750**
B.1 transfers from performing loans	2,630	11,636	119,325
B.2 transfers from purchased or originated credit-impaired financial assets	821	13,175	20
B.3 transfers from other categories of impaired loans	998	4,781	-
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	12,056	162,622	88,405
C. Decreases	**14,773**	**184,132**	**213,019**
C.1 transfers to performing loans	1,564	595	86,399
C.2 write-offs	455	-	-
C.3 collections	12,754	182,816	121,562
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of impaired loans	-	722	5,058
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**52,354**	**147,431**	**50,377**
- of which: positions transferred but not derecognised	8	718	3,875

A.1.9bis On-statement of financial position loans and receivables with customers: breakdown of gross forborne exposures by credit quality

	Non-performing exposures with forbearance measures	Other forborne exposures
A. Opening gross balance	**2,056**	**-**
- of which: positions transferred but not derecognised	-	-
B. Increases	**2,392**	**2,124**
B.1 transfers from performing exposures without forbearance measures	-	1,062
B.2 transfers from forborne performing exposures	-	X
B.3 transfers from non-performing exposures with forbearance measures	X	1,062
B.4 transfers from non-performing exposures without forbearance measures	1,662	-
B.5 other increases	731	-
C. Decreases	**3,784**	**1,062**
C.1 transfers to performing exposures without forbearance measures	X	-
C.2 transfers to forborne performing exposures	-	-
C.3 transfers to non-performing exposures with forbearance measures	X	1,062
C.4 write-offs	-	-
C.5 collections	3,120	-
C.6 gains on sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	664	-
D. Closing gross balance	**664**	**1,062**
- of which: positions transferred but not derecognised	-	-

A.1.11 On-statement of financial position non-performing loans and receivables with customers: changes in impaired positions

	BAD EXPOSURES		UNLIKELY TO PAY		IMPAIRED PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total impairment losses	**20,078**	-	**16,042**	**259**	**1,097**	**176**
- of which: positions transferred but not derecognised	-	-	-	-	-	-
B. Increases	**6,770**	**369**	**12,026**	**118**	**362**	**-**
B.1 impairment losses on purchased or originated credit-impaired financial assets	30	-	306	-	-	-
B.2 other impairment losses	6,700	-	11,608	118	277	-
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other categories of impaired loans	34	369	94	-	-	-
B.5 contract amendments without derecognition	-	-		-	-	-
B.6 other increases	6	-	18	-	84	-
C. Decreases	**1,607**	-	**8,592**	**259**	**1,024**	**176**
C.1 impairment gains	1,076	-	5,343	-	703	-
C.2 impairment gains due to collections	106	-	565	-	43	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of impaired loans	-	-	30	259	99	-
C.6 contract amendments without derecognition	-	-	-	-	-	-
C.7 other decreases	425	-	2,654	-	179	176
D. Closing total impairment losses	**25,241**	**369**	**19,476**	**118**	**435**	**-**
- of which: positions transferred but not derecognised	-	-	66	-	27	-

A.2 CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BASED ON EXTERNAL AND INTERNAL RATING

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

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

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

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

	External rating class							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Without rating	**Total**
A. Financial assets measured at amortised cost	**-**	**-**	**448,083**	**-**	**-**	**-**	**2,679,773**	**3,127,856**
- First stage	-	-	448,083	-	-	-	2,295,452	2,743,535
- Second stage	-	-	-	-	-	-	134,159	134,159
- Third stage	-	-	-	-	-	-	250,162	250,162
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**425,554**	**-**	**-**	**-**	**-**	**425,554**
- First stage	-	-	425,554	-	-	-	-	425,554
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B)	**-**	**-**	**873,637**	**-**	**-**	**-**	**2,679,773**	**3,553,410**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	32,403	32,403
C. Commitments to disburse funds and financial guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**463,037**	**463,037**
- First stage	-	-	-	-	-	-	427,883	427,883
- Second stage	-	-	-	-	-	-	24,765	24,765
- Third stage	-	-	-	-	-	-	10,389	10,389
Total C	**-**	**-**	**-**	**-**	**-**	**-**	**463,037**	**463,037**
Total (A + B + C)	**-**	**-**	**873,637**	**-**	**-**	**-**	**3,142,810**	**4,016,447**

of which long-term rating

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

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

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

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

of which long-term rating

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

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

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

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

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

	Gross amount	Carrying amount	Collateral (1)				CLN	Personal guarantees (2)								Total (1)+(2)
								Credit derivatives				Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral		Central Counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed on-statement of financial position loans:	**1,090,797**	**1,081,627**	**1,512**	**-**	**20,075**	**947,366**	**-**	**-**	**-**	**-**	**-**	**63,735**	**-**	**25,505**	**19,164**	**1,077,358**
1.1 fully guaranteed	1,044,257	1,036,862	1,512	-	20,075	947,366	-	-	-	-	-	23,473	-	25,505	19,105	1,037,036
- of which impaired	20,477	15,184	-	-	-	7,880	-	-	-	-	-	1,016	-	17	6,271	15,184
1.2 partially guaranteed	46,540	44,766	-	-	-	-	-	-	-	-	-	40,262	-	-	59	40,321
- of which impaired	2,504	925	-	-	-	-	-	-	-	-	-	839	-	-	59	898
2. Guaranteed off-statement of financial position loans:	**25,424**	**25,421**	**-**	**-**	**1,148**	**2,217**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,674**	**10,637**	**23,676**
2.1 fully guaranteed	18,833	18,829	-	-	1,148	2,217	-	-	-	-	-	-	-	5,888	9,576	18,829
- of which impaired	452	452	-	-	-	-	-	-	-	-	-	-	-	-	452	452
2.2 partially guaranteed	6,592	6,592	-	-	-	-	-	-	-	-	-	-	-	3,786	1,061	4,847
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

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

	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position loans and receivables	-	-	-	-		-	-	-	-	-
A1. Bad exposures	17,811	1,143	-	-	-	-	9,147	23,501	155	597
- of which: forborne exposures			-	-	-	-		369		
A.2 Unlikely to pay	98,323	7,255	-	-	-	-	27,167	10,947	2,465	1,274
- of which: forborne exposures			-	-	-	-		118		
A.3 Impaired past due exposures	26,147	193	7	-	5	-	16,021	157	7,767	85
- of which: forborne exposures						-				
A.4 Unimpaired exposures	1,866,533	4,099	90,207	1,538	9	-	298,562	1,768	950,635	1,805
- of which: forborne exposures						-		7		
TOTAL (A)	**2,008,815**	**12,690**	**90,213**	**1,538**	**14**	**-**	**350,896**	**36,373**	**961,023**	**3,761**
B. Off-statement of financial position loans and receivables	-	-	-	-		-	-	-	-	-
B.1 Impaired exposures	3,250	-	-	-	10	-	7,139	-	-	-
B.2 Unimpaired exposures	220,610	-	109,919	-	10	-	117,014	26	2,614	-
TOTAL (B)	**223,860**	**-**	**109,919**	**-**	**20**	**-**	**124,152**	**26**	**2,614**	-
TOTAL (A+B) AT 31.12.2020	**2,232,675**	**12,690**	**200,132**	**1,538**	**34**	**-**	**475,049**	**36,399**	**963,637**	**3,761**
TOTAL (A+B) AT 31.12.2019	**2,409,171**	**9,903**	**193,380**	**57**	**12**	**-**	**388,287**	**29,923**	**849,234**	**3,338**

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position loans and receivables	-	-	-	-	-	-	-	-	-	-
A.1 Bad exposures	27,113	25,161	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	127,955	19,476	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	49,942	435	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	3,139,414	7,452	62,974	1,816	2,754	17	533	3	261	2
Total (A)	**3,344,425**	**52,524**	**62,974**	**1,816**	**2,754**	**17**	**533**	**3**	**261**	**2**
B. Off-statement of financial position loans and receivables	-	-	-	-	-	-	-	-	-	-
B.1 Impaired exposures	10,389	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposures	436,503	10	11,172	-	-	-	2,500	16	-	-
Total (B)	**446,892**	**10**	**11,172**	**-**	**-**	**-**	**2,500**	**16**	**-**	**-**
Total (A+B) at 31.12.2020	**3,791,317**	**52,534**	**74,147**	**1,816**	**2,754**	**17**	**3,034**	**19**	**261**	**2**
Total (A+B) at 31.12.2019	**3,779,986**	**43,019**	**58,947**	**198**	**1,094**	**4**	**-**	**-**	**46**	**-**

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

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	90,434	20	-	-	-	-	-	-	-	-
Total (A)	**90,434**	**20**	-	-	-	-	-	-	-	-
B. Off-statement of financial position loans and receivables										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposures	2,446	-	-	-	-	-	-	-	-	-
Total (B)	**2,446**	-	-	-	-	-	-	-	-	-
Total (A+B) at 31.12.2020	**92,880**	**20**	-	-	-	-	-	-	-	-
Total (A+B) at 31.12.2019	**83,448**	**9**	-	-	-	-	-	-	-	-

B.4 Large exposures

As at 31 December 2020, the Bank's large exposures are as follows:

a) Carrying amount € 1,851,717 (in thousands)

b) Weighted value € 156,036 (in thousands)

c) No. of positions 15.

C. SECURITISATION TRANSACTIONS

QUALITATIVE DISCLOSURE

For the qualitative aspects, please refer to the contents of the Directors' Report herein.

QUANTITATIVE DISCLOSURE

The following table details the amounts of the junior and senior tranches issued by the special purpose vehicle and repurchased by Banca Sistema, and the loan granted to the special purpose vehicle for € 14.4 million.

C.2 Exposures deriving from the main "third-party" securitisation transactions broken down by type of asset securitised and by type of exposure

	ON-STATEMENT OF FINANCIAL POSITION						GUARANTEES ISSUED						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains
BS IVA SPV S.r.l. securitisation	1,213	-	-	-	2,353	-	-	-	-	-	-	-	14,427	-	-	-	-	-

D. TRANSFERS

A. Financial assets transferred and not derecognised

QUALITATIVE DISCLOSURE

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

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

	Financial assets transferred and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement	of which impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
C. Financial assets designated at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Financing	-	-	-		-	-	-
D. Financial assets measured at fair value through other comprehensive income	**76,891**	-	**76,891**	X	**76,899**	-	**76,899**
1. Debt instruments	76,891	-	76,891		76,899	-	76,899
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
E. Financial assets measured at amortised cost	**293,254**	**129,666**	**163,588**	**556**	**251,189**	**87,218**	**163,972**
1. Debt instruments	157,947	-	157,947		158,331	-	158,331
2. Financing	135,306	129,666	5,641	556	92,858	87,218	5,641
Total at 31.12.2019	**370,145**	**129,666**	**240,479**	**556**	**328,088**	**87,218**	**240,871**
Total at 31.12.2018	**192,101**	-	**192,101**		-	-	-

F. MODELS FOR THE MEASUREMENT OF CREDIT RISK

SECTION 2 - MARKET RISK

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE DISCLOSURE

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.2 Interest rate risk and price risk - Banking Book

QUALITATIVE DISCLOSURE

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

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

QUANTITATIVE DISCLOSURE

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

Currency of denomination: Euro

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	Open term
1. Assets	**1,122,384**	**234,562**	**313,386**	**285,091**	**1,172,041**	**373,878**	**38**	**-**
1.1 Debt instruments	-	-	275,892	193,779	406,671	403,542	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	275,892	193,779	406,671	3,566	-	-
1.2 Financing to banks	46,997	40,303	1	3	1	-	-	-
1.3 Financing to customers	1,075,387	194,259	37,493	91,309	765,369	370,312	38	-
- current accounts	62,705	-	-	-	-	-	-	-
- other financing	1,012,682	194,259	37,493	91,309	765,369	370,310	38	-
- with early repayment option	122,613	91,058	37,053	90,739	592,586	334,907	38	-
- other	890,069	103,202	440	570	172,783	35,404	-	-
2. Liabilities	**660,132**	**607,827**	**230,031**	**683,752**	**892,322**	**136,523**	**44**	**-**
2.1 Due to customers	659,953	493,300	107,529	485,307	388,928	118,480	44	-
- current accounts	654,953	246,203	104,809	474,361	350,921	24,584	44	-
- other payables	5,000	247,097	2,720	10,946	38,006	93,896	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	5,000	247,097	2,720	10,946	38,006	93,896	-	-
2.2 Due to banks	178	95,000	30,000	198,446	495,377	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	178	95,000	30,000	198,446	495,377	-	-	-
2.3 Debt instruments	-	19,527	92,502	-	8,018	18,043	-	-
- with early repayment option	-	19,527	92,502	-	-	18,043	-	-
- other	-	-	-	-	8,018	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**27,996**	**2,113**	**3,536**	**19,767**	**1,279**	**102**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	27,996	2,113	3,536	19,767	1,279	102	-
- Options	-	27,996	2,113	3,536	19,767	1,279	102	-
+ long positions	-	600	2,113	3,536	19,767	1,279	102	-
+ short positions	-	27,396	-	-	-	-	-	-
- Other derivatives	-							-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2.3 Currency risk

QUALITATIVE DISCLOSURE

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

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

QUANTITATIVE DISCLOSURE

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

	CURRENCIES					
	US DOLLARS	UK POUNDS	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**618**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	618
A.3 Financing to banks	-	-	-	-	-	-
A.4 Financing to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
Total assets	**-**	**-**	**-**	**-**	**-**	**618**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Difference (+/-)	**-**	**-**	**-**	**-**	**-**	**618**

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

SECTION 3 - DERIVATIVES AND HEDGING POLICIES

3.1 Derivatives held for trading

A. Financial derivatives

At 31 December 2020 no amount was recognised for this item.

B. Credit derivatives

At 31 December 2020 no amount was recognised for this item.

3.2 Hedge Accounting

The Bank did not perform any such transactions in 2020.

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

At 31 December 2020 there were no such cases.

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURE

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

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

QUANTITATIVE DISCLOSURE

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

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	over 5 years	Open term
A. Assets	**1,233,738**	**5,546**	**837**	**23,039**	**74,573**	**339,746**	**316,307**	**1,054,511**	**328,767**	**40,269**
A.1 Government securities	-	-	28	-	21	265,231	192,961	415,192	-	-
A.2 Other debt instruments	-	-	-	64	-	64	128	3,129	2,609	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	1,233,738	5,546	809	22,975	74,552	74,451	123,219	636,190	326,158	40,269
- banks	47,015	-	-	34	1	1	3	1	-	40,269
- customers	1,186,723	5,546	809	22,941	74,551	74,450	123,216	636,189	326,158	-
B. Liabilities	**652,893**	**253,506**	**35,547**	**25,865**	**274,019**	**231,257**	**688,014**	**884,304**	**164,052**	**-**
B.1 Deposits and current accounts	647,892	8,156	35,405	25,807	272,081	135,090	477,307	350,921	24,628	-
- banks	178		30,000	15,000	50,000	30,000	-	-	-	-
- customers	647,714	8,156	5,405	10,807	222,081	105,090	477,307	350,921	24,628	-
B.2 Debt instruments	-	-	-	-	390	93,447	1,316	-	45,500	-
B.3 Other liabilities	5,000	245,350	142	58	1,547	2,720	209,391	533,383	93,923	-
C. Off-statement of financial position transactions	**79,720**	**-**	**-**	**58**	**9**	**-**	**56**	**4,358**	**20**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	77,273	-	-	58	-	-	56	119	-	-
- long positions	38,520	-	-	58	-	-	56	119	-	-
- short positions	38,753	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,446	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURE

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

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

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

PART F - INFORMATION ON EQUITY

SECTION 1 - BANK EQUITY

A. QUALITATIVE DISCLOSURE

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

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

B. QUANTITATIVE DISCLOSURE

B.1 Bank equity: breakdown

		31.12.2020	31.12.2019
1	Share capital	9,651	9,651
2	Share premium	39,100	39,100
3	Reserves	123,800	100,873
	- income-related	123,328	100,868
	a) legal	1,930	1,930
	b) established under the Articles of Association	-	-
	c) treasury shares	-	-
	d) other	200	200
	- other	121,198	98,738
3.bis	Interim dividends (-)	471	5
4	Equity instruments	-	-
5	(Treasury shares)	(234)	(234)
6	Valuation reserves	1,386	279
	- Equity instruments designated at fair value through other comprehensive income	206	154
	- Hedging of equity instruments designated at fair value through other comprehensive income	-	-
	- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,416	324
	- Property and equipment	-	-
	- Intangible assets	-	-
	- Hedges of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale and disposal groups	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
	- Net actuarial losses on defined benefit pension plans	(235)	(199)
	- Shares of valuation reserves of equity-accounted investees	-	-
	- Special revaluation laws	-	-
7	Profit for the year	25,746	29,956
	Total	**199,448**	**179,625**

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

	TOTAL AT 31.12.2020		TOTAL AT 31.12.2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt instruments	1,771	-	467	-
2. Equity instruments	-	(355)	11	-
3. Financing	-	-	-	-
Total	**1,771**	**(355)**	**478**	**-**

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

	Debt instruments	Equity instruments	Financing
1. Opening balance	**467**	**11**	-
2. Increases	**2,788**	**181**	-
2.1 Fair value gains	-	-	-
2.2 Impairment losses due to credit risk	206	X	-
2.3 Reclassifications of negative reserves to profit or loss on sale	-	X	-
2.4 Transfers to other equity items (equity instruments)	-	-	-
2.5 Other increases	2,582	181	-
3. Decreases	**1,278**	**547**	-
3.1 Fair value losses	-	547	-
3.2 Impairment gains due to credit risk	-	-	-
3.3 Reclassifications of positive reserves to profit or loss: on sale	403	X	
2.4 Transfers to other equity items (equity instruments	-	-	-
2.5 Other decreases	875	-	-
4. Closing balance	**1,977**	**(355)**	-

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

	POST-EMPLOYMENT BENEFITS
A. Opening balance	**(199)**
B. Increases	**14**
B.1 Actuarial gains	-
B.2 Other increases	14
C. Decreases	**50**
C.1 Actuarial losses	50
C.2 Other decreases	-
D. Closing balance	**(235)**
Total	**(235)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

2.1 Own funds

A. QUALITATIVE DISCLOSURE

Own funds, risk-weighted assets and solvency ratios as at 31 December 2020 were determined based on the new regulation, harmonised for Banks, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based upon Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013), and the update of Circular no. 154. The Banca Sistema Group has not availed itself of the option provided for by Article 473 bis of Regulation (EU) 575/2013 (CRR), which concerns the transitional measures aimed at mitigating the impact of the introduction of IFRS 9.

Reconciliation of Bank equity and Own Funds

	31.12.2020
Equity attributable to the owners of the parent	**199,448**
Dividends distributed and other foreseeable expenses	(6,434)
Equity assuming dividends are distributed to shareholders	193,015
Regulatory adjustments	**(4,648)**
- Commitment to repurchase treasury shares	(283)
- Deduction of intangible assets	(3,932)
- Prudential filter for Prudent Valuation (1)	(433)
- Other adjustments	-
Common Equity Tier 1 (CET1)	**188,367**
Security issued by Banca Sistema	8,000
Additional Tier 1 Capital	**8,000**
Securities issued by Banca Sistema (2)	37,500
Tier 2 Capital	**37,500**
Total Own Funds	**233,867**

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

A. QUANTITATIVE DISCLOSURE

	31.12.2020
A. Common Equity Tier 1 (CET1) before application of prudential filters	**192,299**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	-
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**192,299**
D. Items to be deducted from CET1	**3,932**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**188,367**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	**8,000**
of which AT1 instruments covered by transitional measures	**-**
H. Items to be deducted from AT1	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**8,000**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	**37,500**
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P. Total Tier 2 (T2) (M-N+/-O)	**37,500**
Q. Total Own Funds (F+L+P)	**233,867**

2.2 Capital adequacy

A. QUALITATIVE DISCLOSURE

The Own Funds totalled € 234 million, against risk-weighted assets of € 1,289 million, derived almost exclusively from credit risk.

As at 31 December 2020, Banca Sistema had a CET1 capital ratio equal to 14.6%, a Tier 1 capital ratio equal to 15.2% and a Total capital ratio of 18.1%.

B. QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	**4,098,042**	**4,410,113**	**1,116,262**	**1,231,519**
1. Standardised approach	4,098,042	4,410,113	1,116,262	1,231,519
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS			-	-
B.1 Credit and counterparty risk			**89,301**	**98,522**
B.2 Credit assessment adjustment risk			-	**3**
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**13,825**	**13,508**
1. Basic indicator approach			13,825	13,508
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			**103,126**	**112,030**
C. EXPOSURES AND CAPITAL RATIOS			**1,289,079**	**1,400,404**
C.1 Risk-weighted assets			1,289,079	1,317,043
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			14.6%	11.0%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			15.2%	12.5%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			18.1%	15.2%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

On 13 July 2020 the acquisition of the former Intesa Sanpaolo collateralised lending business unit was completed.

As this is a business unit, there are no income statement data for the months prior to the transaction.

Key information concerning this transaction is summarised below:

PURCHASE PRICE ALLOCATION *In thousands of Euro*

Purchase price	34,000
Price adjustment	(991)
Final price (A)	**33,009**
Adjusted Business Unit "Equity" (B)	3,209
Residual value to be allocated (A+B)	**29,800**
Loans and receivables with customers	(1,224)
Post-employment benefits	(166)
Property and equipment	25
Allocation to goodwill	**28,435**

The final price amounted to € 33 million following the change in the business unit's imbalance (excess value) between the closing date and the signing date of the transaction, and an adjustment recognised by the counterparty in relation to the valuation of the loans and receivables. As required by IFRS 3, this excess value was allocated to the financial statements items that had a difference in fair value with respect to their carrying amount and, in particular, to the item "Loans and receivables with customers", leaving the unallocated balance under goodwill, which is subject to an annual impairment test.

Section 2 - Transactions performed after the end of the year

No transactions to report.

Section 3 - Retrospective adjustments

No transactions to report.

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

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

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

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

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

DISCLOSURE ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	31.12.2020
Remuneration to Board of Directors and Board of Statutory Auditors	2,089	166	-	**2,255**
Short-term benefits for employees	0	-	2,574	**2,574**
Post-employment benefits	85	-	213	**298**
Other long-term benefits	122	-	82	**204**
Termination benefits	-	-	-	**-**
Share-based payments	220	-	45	**265**
Total	**2,516**	**166**	**2,914**	**5,596**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2020, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	31,599	404	981	1.1%
Due to customers	-	1,511	10,840	0.6%
Other liabilities	115	-	-	0.1%

The following table indicates the costs and income for 2020, differentiated by type of related party.

In thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	710	-	-	0.7%
Interest expense	6	20	40	0.3%
Other administrative expenses	399	-	-	1.6%

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

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
ASSETS	**31,599**	**0.85%**
Loans and receivables with customers		
ProntoPegno S.p.A.	17,033	0.46%
Largo Augusto Servizi e Sviluppo S.r.l.	12,718	0.34%
Speciality Finance Trust Holdings Ltd	1,848	0.05%
LIABILITIES	**9,834**	**0.26%**
Due to customers		
Shareholders - SGBS	600	0.03%
Shareholders - Fondazione CR Alessandria	7,801	0.36%
Shareholders - Fondazione Sicilia	1,318	0.06%
Other liabilities		
Speciality Finance Trust Holdings Ltd		
ProntoPegno S.p.A.	34	0.02%
Largo Augusto Servizi e Sviluppo S.r.l.	81	0.06%

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
INCOME	**710**	**0.72%**
Interest income		
Speciality Finance Trust Holdings Ltd	78	0.08%
ProntoPegno S.p.A.	225	0.23%
Largo Augusto Servizi e Sviluppo S.r.l.	407	0.41%
COSTS	**426**	**0.86%**
Interest expense		
Shareholders - SGBS	3	0.01%
Shareholders - Fondazione Sicilia	13	0.06%
Shareholders - Fondazione CR Alessandria	5	0.02%
ProntoPegno S.p.A.	6	0.03%
Other administrative expenses		
ProntoPegno S.p.A.	399	1.56%

PART I - SHARE-BASED PAYMENT PLANS

QUALITATIVE DISCLOSURE

As indicated in the 2020 Policy Document, Banca Sistema, having total assets of less than € 4 billion at both separate and consolidated levels, could be considered to be a "smaller bank". However, in virtue of its status as a listed company, and of the EBA guidelines, the Bank has opted to apply the rules relating to "medium size" banks under Circular 285, Title IV, Chapter 2.

As a medium size bank, therefore, and in accordance with the principle of proportionality, it shall apply the provisions relating to key personnel subject to percentages and to deferral and retention periods that may be reduced to less than half of those set out in the applicable legislation, but in doing so it shall weigh up a prudential alignment criterion also in relation to the provisions of the Code of Conduct, for longer deferral in the case of members of the Board of Directors and key management personnel, that are thus extended to all Key Personnel.

The Bank also indicates 25% of average total remuneration of Italian high earners, as indicated in the latest EBA report published in 2019 and relating to data processed at the end of 2017, as being a particularly high level of variable remuneration. In 2020, the variable component of remuneration for "key personnel" will be paid as follows upon approval of the financial statements:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in these Policies;
- for amounts greater than € 30,000 and up to € 425,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than € 425,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

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

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

Disclosure of the fees paid to the independent auditors

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

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

The fees presented in the table, pertaining to 2020, are those contracted, including any index-linking (but do not include out-of-pocket expenses, any supervisory contribution and VAT).

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

Type of services	Entity providing the service	Entity receiving the service	Remuneration
Audit of the separate financial statements and interim reports	BDO Italia S.p.A.	Banca Sistema S.p.A.	180
Other certifications	BDO Italia S.p.A.	Banca Sistema S.p.A.	31

PART L - SEGMENT REPORTING

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

Breakdown by segment: income statement for 2020

Income statement (€,000)	Factoring Division	CQ Division	Corporate Centre	BANCA SISTEMA TOTAL
Net interest income	53,812	17,366	381	71,559
Net fee and commission income (expense)	15,456	(744)	36	14,747
Dividends	141	82	4	227
Net trading income	23	14	19	56
Gain from sales or repurchases of financial assets/liabilities	5,949	3,492	90	9,531
Total income	**75,381**	**20,210**	**529**	**96,120**
Net impairment losses on loans and receivables	(9,748)	(405)	(2,328)	(12,481)
Net financial income (expense)	**65,633**	**19,805**	**(1,799)**	**83,639**

Breakdown by segment: statement of financial position data as at 31 December 2020

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Corporate Centre	BANCA SISTEMA TOTAL
Financial assets (HTS and HTCS)	272,764	158,202	-	430,966
Loans and receivables with banks	35,999	54,434	-	90,434
Loans and receivables with customers	1,779,674	1,128,922	69,009	2,977,605
Loans and receivables with customers - loans	*1,496,215*	*964,516*	*69,009*	*2,529,741*
Loans and receivables with customers - debt instruments	*283,459*	*164,405*	-	*447,864*
Due to banks	-	-	816,727	816,727
Due to customers	71,654	-	2,091,299	2,162,953

Following the review of the internal model which was completed at the end of the first quarter, this segment reporting was amended to include the following divisions:

- Factoring Division, which includes the business segment related to the origination of trade and tax receivables with and without recourse and the management and recovery of default interest. In addition, the division includes the business segment related to the origination of state-guaranteed loans to SMEs disbursed to factoring customers and the management and recovery of receivables on behalf of third parties;
- CQ Division, which includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios and salary- and pension-backed loans disbursed through the direct channel;
- Collateralised Lending Division, which includes the business segment related to collateral-backed loans;
- Corporate Division, which includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. In particular, the cost of funding managed in the central treasury pool is allocated to the divisions via an internal transfer rate ("ITR"), while income from the management of the securities portfolio and income from liquidity management (the result of asset and liability management activities) is allocated entirely to the business divisions through a pre-defined set of drivers. The division also includes income from the management of SME loan run-offs.

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

PART M - LEASE DISCLOSURE

SECTION 1 - LESSEE

QUALITATIVE DISCLOSURES

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

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

At 31 December 2020, there were 51 leases, 7 of which were property leases for a total right of use value of € 4.4 million, while 44 were for cars, for a total right of use value of € 0.7 million.

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

Contracts referring to other leases are long-term leases for cars which are generally used exclusively by the employees to whom they are assigned. These contracts have a maximum term of 5 years with monthly lease payments, no renewal option, and no option to purchase the asset.

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

QUANTITATIVE DISCLOSURES

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

Type of contract	Right of use (*)	Lease liabilities
Property lease payments	4,357,396	4,409,082
Long-term car lease	712,479	716,784
Total	**5,069,875**	**5,125,866**

(*) This is the right of use value net of accumulated depreciation.

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

Type of contract	Interest expense	Net impairment losses on property and equipment
Property lease payments	57,080	1,152,209
Long-term car lease	8,655	345,562
Total	**65,735**	**1,497,771**

SECTION 2 - LESSOR

QUALITATIVE DISCLOSURES

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

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

1. The undersigned, Gianluca Garbi, CEO, and Alexander Muz, Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the bank and
   - the effective application of the administrative and accounting procedures for the drafting of the separate financial statements during 2020.
2. Reference model
   The suitability of the administrative and accounting procedures for the drafting of the separate financial statements at 31 December 2020 was assessed based on an internal model defined by Banca Sistema S.p.A. that was designed in a manner consistent with the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for IT and Related Technology (COBIT) framework, which represent the reference standards for the internal control system generally accepted on an international level.
3. Moreover, the undersigned hereby state that:
   3.1 the separate financial statements:
   a) were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b) match the accounting books and records;
   c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer.

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

Milan, 29 March 2021

Gianluca Garbi

Chief Executive Officer

Alexander Muz

Manager in charge of financial reporting

BOARD OF STATUTORY AUDITORS' REPORT

BANCA SISTEMA S.P.A.

* * *

BOARD OF STATUTORY AUDITORS' REPORT

TO THE SHAREHOLDERS' MEETING CALLED TO APPROVE

THE FINANCIAL STATEMENTS AT 31 DECEMBER 2020

IN ACCORDANCE WITH ARTICLE 153 OF LEGISLATIVE DECREE 58/1998 and ARTICLE 2429 OF THE ITALIAN CIVIL CODE

***

Part One: introduction

Dear Shareholders of Banca Sistema S.p.A. ("**Bank**"),

pursuant to Article 153 of Legislative Decree 58/1998 and Article 2429 of the Italian Civil Code, we give you this report on our supervisory activities during the calendar year (and, for the sake of completeness, on the most significant events occurring after the end of the year),
and also make proposals concerning the financial statements and their approval.

This report has been approved by the whole board and by the legal deadline pursuant to law.

As required by law and the Articles of Association, we monitored compliance with the law, regulations, and Articles of Association during 2020, whose compliance we confirm. We also monitored the application of proper management methods, the adequacy and functioning of the organisational, management and accounting structure, and the other acts and aspects as envisaged by law.

We have examined the draft separate financial statements of Banca Sistema S.p.A. at 31 December 2020 (the "**Financial Statements**"), comprised of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes to the Financial Statements, and accompanied by the Directors' Report and complementary financial statements, showing profit for the year of € 25,745,540.65.

After approving the draft financial statements on 11 March 2021, the Board of Directors sent us the reporting package by the statutory deadline. On 29 March 2021, the Board of Directors of Banca Sistema approved a technical-formal reclassification of the draft financial statements as at 31 December 2020 that has no effect on the profit for the year and on the capital ratios. The reclassification is aimed exclusively at accounting for loans under disposal – totalling € 5.6 million out of total assets of € 3.7 billion – that cannot be derecognised from an accounting point of view. This leads to an increase by an equal amount in the line-item "Financial assets measured at amortised cost" and in the line-item "Financial liabilities measured at amortised cost". The above disposals had been recognised for the same amounts as off-statement of financial position commitments.

Between the meeting dedicated to drafting the previous report on the financial statements and today, the current Board of Statutory Auditors held 16 meetings (including the meeting concerning the preparation of this report), and participated, with at least one member, in all the meetings of the Board of Directors and the Internal Control and Risk Management Committee, as confirmed by the documents provided to you in the package prepared for this Shareholders' Meeting.

We shall provide you with detailed information in this report about all of our activities.

Part Two: monitoring legal compliance and compliance with the Articles of Association

In this part we report on the activities performed by the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code.

During the year, the Board of Statutory Auditors monitored compliance with the law, the memorandum of association and compliance with the principles of proper management. These activities adhere to the principles of conduct of the Board of Statutory Auditors of listed companies recommended by the National Board of Business Experts and Accountants.

In addition to the meetings referred to above, the Board of Statutory Auditors participated in all meetings held in 2020 by the corporate bodies in compliance with the Articles of Association, the law and regulatory provisions that govern their proceedings. Therefore, we can reasonably assure that the adopted resolutions complied with the law and the Articles of Association, were not manifestly imprudent, reckless or potentially in conflict of interest or counter to the resolutions approved by the Shareholders' Meeting or of a nature that could compromise the solidity of the company assets.

In the course of performing its own duties at meetings, the Board of Statutory Auditors met periodically with the heads of the principal internal departments of the Company (risk, compliance, legal affairs, corporate affairs, internal control system and audit, underwriting).

It examined the documents submitted to it and performed its own analyses and assessments, as summarised in its own minutes. These did not reveal anything that could cast doubt on compliance with the law, the Articles of Association, and principles of proper management. It analysed the most important operating, financial and equity transactions, verifying their compliance with the law and the memorandum of association, finding that they were not manifestly imprudent or reckless and/or in potential conflict of interest and/or in conflict with the resolutions passed by the Shareholders' Meeting and/or prejudicial to the operating, asset and liability, and financial performance of the Bank. It participated in working groups on specific matters and held special meetings on particularly significant issues. The Board of Statutory Auditors has approved all examined transactions as being consistent with the corporate interest.

The Board of Statutory Auditors acknowledges that the key information concerning the Bank's transactions with related parties has been provided during the Board of Directors meetings and in the Financial Statements. In this regard, the Board of Statutory Auditors deems it appropriate to call the shareholders' attention to the interpretation of the paragraphs in the Directors' Report and Notes to the Financial Statements where those events are described.

Among the significant events that occurred in 2020, we note:

- the Bank participated in the fourth TLTRO III operation for an amount of € 382.99 million, benefiting from the reduced rate of -50 bps between June 2020 and June 2021. Existing TLTRO III operations at 31 December 2020 totalled € 491.24 million.
- the Bank participated in the additional LTRO auction for a total amount of € 650 million at the average rate of -50 bps which was repaid on 24 June 2020.
- the Bank, in order to counter the effects of COVID-19 and to comply with the regulations issued by the Government, has adopted the measures described in the Memorandums of Understanding on workplace safety detailed below ("Shared Memorandum regulating measures to counter and contain the spread of the Covid-19 virus in the workplace", signed on 14 March between the social partners, and the "Shared Memorandum for measures to prevent, counter and contain the spread of the Covid-19 virus in the banking sector" signed on 16 March 2020 between ABI and the trade unions of the sector, as amended).
- the Crisis Committee has met 9 times since 23 February 2020 to review the situation and the relevant legislation, to apply precautionary and protective measures and to ensure business continuity. Also, starting on 19 March, special update meetings were held on an almost weekly basis between the

Chairperson of the Board of Directors, the Chief Executive Officer, the Chairperson of the Internal Control and Risk Management Committee, the Chairperson of the Board of Statutory Auditors, the Head of the Risk Department and the Head of ICT/Organisation.

- with regard to labour law, the steps taken by the Bank to comply with the measures issued by the government and the indications from the various authorities.
- adequate and proportionate introduction of remote working within the framework of a specific ad hoc Regulation communicated to all employees pursuant to the provisions on remote working (Law no. 81/2017) set out in the Prime Minister's Decree of 4 March 2020, as amended;
- facilitating the use of holidays (unused or not) and leaves from the bank of hours as a support measure for employees;
- emergency sanitisation of all locations throughout the country and adoption of all related health security measures, including periodic epidemiological tests;
- at their extraordinary meeting held on 23 April 2020, the shareholders of Banca Sistema resolved on the amendments to the Articles of Association proposed by the Board of Directors, namely: − the amendment to article 5 of the Articles of Association to introduce increased voting rights pursuant to article 127-quinquies of the Consolidated Law on Finance, which grants increased voting rights *"up to a maximum of two votes for each share held by the same shareholder for a continuous period of no less than twenty-four months from the date of entry"* in a specific list which must be held by the issuer; − the amendment to articles 8, 9, 10, 11, 12, 14 (13 with new numbering), 18 (17 with new numbering), and 20 (19 with new numbering) of the Articles of Association; repeal of article 13 of the Articles of Association and consequent new numbering of articles 14 to 24 of the Articles of Association; introduction of new article 25 to the Articles of Association. These regulatory interventions concern: (i) the elimination of clauses that are attributable to the changed shareholding structure of the Bank following its listing; (ii) the amendments to the composition of the Board of Directors and to the slate voting procedure governing the election of the members of the Bank's Board of Directors and the Board of Statutory Auditors; (iii) the alignment to the new provisions governing "gender balance"; (iv) the removal of clauses that constitute a mere literal repetition of the Supervisory Provisions for Banks; (v) the introduction of amendments made purely for coordination purposes, to rectify errors and/or incorrect references/cross-references and to streamline the text; (vi) -

the introduction of a transitional clause as regards the provisions on the composition of the Board of Directors.

- on 24 June 2020, the Banca Sistema Group received authorisation from the Bank of Italy to acquire the collateralised lending business unit of the Intesa Sanpaolo Group.
- on 10 July 2020, the Bank completed an extraordinary transaction with acquisition of Intesa Sanpaolo's (or "ISP") collateralised lending business unit. The acquisition was carried out by Pronto Pegno S.p.A., a subsidiary 75% owned by Banca Sistema and 25% by Fondazione Cassa di Risparmio di Cuneo, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria.
- on 22 June 2020, the European Parliament approved the amendments to Regulation (EU) 876/2019 ("CRR 2") which include bringing forward the entry into force of the provisions relating to the reduction of the risk capital weighting for salary- and pension-backed loans (CQS and CQP) from the current 75% to 35%. The reduction in weighting, which enables the Group to strengthen its capital structure, came into effect on 27 June 2020.
- on 29 June 2020 Banca Sistema announced that the shareholders Società di Gestione delle Partecipazioni in Banca Sistema S.r.l. (SGBS), Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia renewed the Shareholders' Agreement signed on 29 June 2018, amended on 22 February 2019, and expiring on 1 July 2020. The Shareholders' Agreement reflects a shareholding of 38.41% in Banca Sistema's share capital. The new Shareholders' Agreement came into effect on 2 July 2020 and expires on 1 July 2022.
- At their extraordinary meeting held on 27 November 2020, the shareholders of Banca Sistema approved the additional amendments to the Articles of Association proposed by the Board of Directors, namely: − amendment to article 5.7, eliminating the part where acquisition of the shareholder's increased voting right is subject to the issuance of a second communication, by the intermediary with which the shares are deposited, certifying the uninterrupted holding of the shares in question for a period of 24 months; − amendment to article 10.2, amending the part that imposes quantitative and qualitative conditions with regard to the composition of the lists of candidates for the position of Director, with the introduction of the possibility, in certain circumstances, of electing two directors instead of one from the minority list; − amendment to article 10.3, introducing an additional method for resolving on the appointment of independent Directors, should those already in place fail to provide the

number envisaged by the regulations; − introduction of the new article 12.3 that indicates, pursuant to article 150, paragraph 1, of the Consolidated Law on Finance, the procedures whereby the Directors and more particularly, the delegated bodies report to the Board of Statutory Auditors on the activities carried out, and the consequent changes to the numbering of current articles 12.3 and 12.4 as 12.4 and 12.5.

- on 29 December 2020, the Bank subscribed to 50% of the capital of the Spanish company EBNSISTEMA Finance S.L. for € 1 million, in a transaction to increase the capital of the Spanish investee. The other shareholder, holding an equal 50% stake, is the Spanish bank EBN Banco de Negocios S.A. The aim of the joint venture is to develop the Public Administration factoring business on the Iberian peninsula, specialising in the purchase of healthcare receivables.

The Board of Statutory Auditors also carried out the following activities during the year:

- The exchanges of correspondence with supervisory authorities concerning the clarifications requested as part of its ordinary control activities;
- The periodic exchanges of information with the independent auditors;
- The meeting with the Supervisory Body for the exchange of information;
- The approval of the Remuneration Policies Document;
- The analysis and monitoring of business activities in accordance with the Risk Appetite Framework;
- The meeting with the management and control bodies of the banking group companies;
- The verification of anti-money laundering compliance and procedures.

With regard to “significant events during the year”, reference is made to the Directors’ Report.

The Board of Statutory Auditors has issued the following opinions pursuant to law:

- The reasoned proposal for the award of the engagement for the legal auditing of the accounts pursuant to Article 13, paragraph 1, of Legislative Decree no. 39 of 27 January 2010;
- The opinions for the approval of non-audit services, requested by the Independent Auditors.

On 23 June 2020, the Board of Statutory Auditors issued its Observations on the Bank’s Restructuring Plan, as well as the report prepared by the Internal Audit Department on the controls carried out on the major outsourced departments, any deficiencies found and the consequent corrective measures adopted.

Finally, pursuant to Article 2408 of the Italian Civil Code, we declare that in 2020, no complaint from Shareholders or any other complaints were received, no wrongdoing or other significantly negative acts or omissions were reported by the Independent Auditors or others, that required reporting to the Bank of Italy.

Significant events after the reporting date.

Regarding significant events that occurred after the reporting period, it is important to note that the spread of the Covid-19 virus among the population is still ongoing despite the launch of the vaccination campaign, and the Italian government has extended the restrictions intended to protect people's health until 30 April 2021.

Part Three: supervision of the financial statements

In this section we report on our control activities related to the preparation and drafting of the separate financial statements of Banca Sistema S.p.A. for the year ended 31 December 2020.

The Financial Statements have been drafted in accordance with the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Commission and transposed in Italy by Legislative Decree 38 of 28 February 2005, while also considering the instructions issued by the Bank of Italy with Circular 262 of 22 December 2005, as amended.

Pursuant to Legislative Decree 39/2010, the person or entity responsible for the statutory audit of the accounts must give an opinion on the financial statements as to whether they comply with the laws and regulations governing their preparation and whether they give a true and fair view of the capital and financial position, the cash flows and the profit and loss for the year. In this regard, BDO Italia S.p.A. (“BDO”), from the time it took over from the previous independent auditors, exchanged material information with the Board of Statutory Auditors pursuant to the regulations in force and issued its own audit report on the financial statements at 31 December 2020 today. The report does not contain any objections or censures.

Therefore, the Board of Statutory Auditors assumes that the financial data correspond to the data resulting from the internal accounts, which are regularly kept in compliance with the principles set out in current regulations.

That said, the Board of Statutory Auditors has monitored activities to ensure that the general process of preparing and drafting the financial statements complies with current laws and regulations.

Part Four: relations with the independent auditors

Material information was exchanged during the year with representatives of the Independent Auditors so that they could perform their duties during the periodic meetings held pursuant to the regulations in force. These did not reveal any critical and/or significant problems.

In compliance with Article 6, paragraph 2), letter a) of European Regulation 537/2014 and paragraph 17 of international auditing standard (ISA Italia) no. 260, BDO has certified that, during the period between 1 January 2020 and today, it found no situations compromising the independence of the Independent Auditors or causes for incompatibility.

Likewise, BDO has informed the Board of Statutory Auditors that the legal audit carried out as at 31 December 2020 has not revealed significant shortcomings in the internal control system related to the financial reporting process that need to be brought to the attention of the Board of Statutory Auditors.

Part five: Acceptance of the Code of Conduct

The Bank adheres to the Code of Conduct of the Corporate Governance Committee for listed companies. Information about certain essential elements is provided as follows.

Internal Control Committee

Banca Sistema S.p.A. has its own Internal Control and Risk Management Committee, whose current members were appointed by the BoD on 24 May 2018. Mr. Franco Pozzi was nominated and appointed to head the Internal Control Committee. The Committee and the head of the Internal Control Committee meet periodically.

Other Committees

The Appointments Committee, the Remuneration Committee, and the Ethics Committee have been established.

Board of Directors

- The BoD supervises general operating performance, dedicating special attention to situations exhibiting conflicts of interest, giving special consideration to the information received from the CEO and the Internal Control and Risk Management Committee, by periodically comparing the results achieved with those planned.

- The BoD examines and approves transactions having a significant economic, asset and liability, and financial impact, especially in regard to related party transactions.
- The composition of the Board of Directors includes seven independent directors.
- The Chairperson of the Board of Directors meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, but does not meet the provisions of art. 3, application criteria 3.c.1.b and 3.c.2 of the Code of Conduct issued by Borsa Italiana.
- The CEO makes periodic reports to the BoD on his activities in the course of exercising his delegated authority.
- The CEO provides adequate information about the related party transactions whose examination is not reserved to the BoD.

The number of BoD, Internal Control Committee, and all Board committee meetings, and the attendance by the members of the Board of Statutory Auditors are shown in the document "Report on Corporate Governance".

Part Six: disclosure pursuant to Consob Communication no. 1025564 / 2001

This section presents the information required under Consob Communication no. 1025564 of 6 April 2001, as amended. In certain cases, that information has already been reported in other paragraphs of this Report.

- The Company did not execute any atypical or unusual transactions with:
  - Group companies;
  - Related parties;
  - Third parties.

  See also page 322 of the Financial Statements for more information in this regard.
- Significant transactions affecting the financial position, and assets and liabilities of the Bank were executed, and they have been illustrated in the financial statements.
- Ordinary / recurring transactions were executed with related parties, as described (with reference to them for reading) on pages 322-324 of the Financial Statements. In this regard, we inform you that they have always been appropriate and in the Bank's interest.
- The directors have explicitly stated the company's interest in execution of the transactions in their report on operations.

- The organisational structure of the Bank was revised during 2020. The actions approved by the BoD and subsequently implemented to improve the organisational structure have been illustrated.
- The orders issued by the company to its subsidiaries pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance are considered adequate.
- The Board of Statutory Auditors has exchanged the required information with the corporate bodies of the subsidiaries L.A.S.S. s.r.l., SF Trust and Pronto Pegno S.p.A., with no significant issues having arisen.
- The organisational structure has been found to be adequate in regard to the matters under the responsibility of the Board of Statutory Auditors.
- The internal control system has been found adequate, just as has been the administrative and accounting system. This is deemed to give a reliable and fair presentation of operating events.
- Please refer to "Part Two" of this Report for other assessments, observations and comments.
- No omissions, wrongdoing or irregularities have been found during supervisory activity.
- It is not considered necessary to make proposals to the shareholders' meeting in regard to the financial statements and their approval, aside from those approved by the Board of Directors and transcribed in the "summary and conclusions".
- The Board of Statutory Auditors has not had to exercise its powers to call the shareholders' meeting or the BoD.
- Pursuant to paragraph 2, sub-paragraph 2 of the Consob Communication, the following details are noted:
    - the transactions indicated in paragraph 2, sub-paragraph 2, in paragraph 2, sub-paragraph 2.1, and in paragraph 2, sub-paragraph 2.2 of Consob Communication no. 1025564 of 6 April 2001. No atypical and/or unusual transactions were executed, including intercompany transactions or related party transactions. Consequently, no additional description needs to be given in this regard;
    - the transactions indicated in paragraph 2, sub-paragraph 2.3 of the Consob Communication: as previously mentioned, reference is made to the reading of pages 322, 323 and 324 of the Financial Statements.

Summary and conclusions

Dear Shareholders of Banca Sistema S.p.A., On the basis of the foregoing report and given what has been brought to the attention of the Board of Statutory Auditors, and what has been confirmed by its periodic controls, it is believed that no reasons exist not to approve the draft financial statements of Banca Sistema at 31 December 2020, as drafted and proposed to you by the Board of Directors, and the proposed allocation of the profit for the year.

Likewise, the Board of Statutory Auditors has taken note of and brings to your attention the contents of the report of the Independent Auditors BDO Italia, issued pursuant to Articles 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537 of 16 April 2014, which shows that the financial statements have been clearly written and give a true and fair view of the operating result, assets and liabilities, financial position and cash flows of the Bank, the "additional report" prepared in accordance with Article 11 of Regulation (EU) no. 537/2014, and the result of the exchanges of information with the Independent Auditors, who have confirmed their own independence, have not found material errors, believe that the books are properly kept, and confirm that there are no material aspects requiring a report to the governance bodies.

Consequently, and notwithstanding all the references to the individual paragraphs of the Financial Statements previously made in this Report, the Board of Statutory Auditors reports that the proposal of the Board of Directors of Banca Sistema S.p.A. regarding the allocation of the profit for the year is as follows:

"Dear Shareholders,

The financial statements as at and for the year ended 31 December 2019, which we submit for your approval, show a profit for the year of € 25,745,540.84.

We recommend allocating the profit for the year as follows:

- *a dividend of € 6,433,684.16;*
- *the remainder of € 19,311,856.49 to retained earnings.*

An allocation to the Legal Reserve was not made since the limits set out in Article 2430 of the Italian Civil Code were reached.

Please note that on 27 March 2020 the Bank of Italy, having accepted the request made by the European Central Bank (ECB), extended the ECB's Recommendation to significant banks to include less significant banks under its direct supervision. The aim of the Recommendation is to allocate profits to strengthening own funds, and to ensure that the financial system is in the best position to absorb the losses that will arise from the COVID-19 health emergency and to continue supporting the economy. This Recommendation reinforces the decision to allow intermediaries to operate temporarily below the level of the Target Component, assigned following the SREP (Pillar 2 Guidance - P2G) process, as well as the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR). The Bank of Italy has therefore recommended the following to all the banks and banking groups under its supervision, at least until 1 October 2020:

1. to not pay dividends, including the distribution of reserves, and make no irrevocable commitments to pay dividends for the financial years 2019 and 2020;

2. to refrain from share buy-backs aimed at remunerating shareholders.

This recommendation was later reaffirmed by the Bank of Italy in a subsequent communication dated 28 July 2020 in which the Supervisory Authority also made it clear that "the limitations on dividend payments refer to cash pay-outs which have the effect of reducing the quantity and quality of Common Equity Tier 1 capital".

In view of the above, upon the proposal of the Bank's Board of Directors, the Ordinary Shareholders' Meeting of 27 November 2020 resolved (i) to confirm the resolution previously adopted by the Ordinary Shareholders' Meeting on 23 April 2020 regarding the allocation of the profit for the year 2019, namely to allocate the profit for 2019, amounting to € 29,955,723.45, to dividends for € 7,479,157.84 and to retained earnings, for the remaining amount of € 22,476,565.61, and (ii) to defer the decision on the payment of the dividend for the year ended 31 December 2019 of € 7,479,157.84, and the resulting commitment to pay the dividend to be resolved in a new Shareholders' Meeting to be convened by the Board of Directors as soon as possible - no earlier than 1 January 2021, and before 31 March 2021 - in accordance with the supervisory provisions.

On 16 December 2020, the Bank of Italy then issued a new recommendation on dividend distributions and variable remuneration policies of banks in which it reiterated to less significant banks: i) to refrain from recognising or paying dividends or limit their amount to no more than 15% of the cumulative profits of 2019-2020 or 20 basis points of the CET1 ratio (in any case the lesser of the two); ii) to refrain from recognising or paying interim dividends out of 2021 profits; and iii) to exercise extreme prudence in recognising variable remuneration. This recommendation also points out that "the term 'dividend' used in the recommendation refers only to cash pay-outs which have the effect of reducing the quantity and quality of Common Equity Tier 1 capital".

On 25 March 2021, the Shareholders' Meeting of Banca Sistema resolved to defer the decision on the payment of the dividend for the year ended 31 December 2019 of € 7,479,157.84 equal to € 0.093 per share for the 80,421,052 ordinary shares outstanding, and the resulting commitment to pay the dividend, to the resolution of the shareholders' meeting that will be called to approve the financial statements as at 31 December 2020.

In this regard, the Board of Statutory Auditors notes that Banca Sistema has always adopted a prudent dividend distribution policy, which has had beneficial effects in terms of equity capital, also with respect to the capital ratios. The distribution proposal, made by the Board of Directors on 11 March 2021 maintains the prudential approach adopted over time, with a distribution equal to 25% of the profits achieved.

In light of the above, the Board of Statutory Auditors invites the Shareholders' Meeting to approve the financial statements as at 31 December 2020 as prepared by the Board of Directors and to take due account of the Bank of Italy's recommendations for the purposes of the resolution regarding the allocation of the profit for the year.

Milan, 30 March 2021

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Board of Statutory Auditors

Massimo Conigliaro	Lucia Abati	Marziano Viozzi
Chairperson	*Standing Auditor*	*Standing Auditor*

INDEPENDENT AUDITORS' REPORT

Banca Sistema S.p.A.

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

Financial statements as at December 31, 2020

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

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

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

Report on the financial statements

Opinion

We have audited the financial statements of Banca Sistema S.p.A. (the Company), which comprise the balance sheet as at December 31, 2020, the profit and loss account, the statement of other comprehensive income, statement of changes in net equity, the cash flow statement for the year then ended and notes and comments to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well and article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Roma, Torino, Verona

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BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.

Key audit matters	Audit responses
CLASSIFICATION AND MEASUREMENT OF LOANS AND RECEIVABLES WITH CUSTOMERS BOOKED UNDER THE FINANCIAL ASSETS MEASURED AT AMORTISED COST	
Notes: Part A) Accounting policies – paragraph A.2, "Information on the main items of the separate financial statements": "Financial assets measured at amortised cost"; Part B) Information on the statement of financial position, Assets – Section 4 "Financial assets measured at amortised cost"; Part C) Information on the income statement – Section 8.1 "Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown"; Part E) Information concerning risk and related hedging policies – Section 1 "Credit risk" Loans and receivables with customers, which are booked under the financial assets measured at amortised cost as of December 31, 2020, are equal to Euro 2,983 million and represent the 83% of the Bank's total assets. The acquisition by the Bank of non-impaired loans claimed by companies supplying goods and services, mainly towards the public administration (the "factoring credits") and origination of credits relating to the sector of the transfers of salary or pension backed loans (the "CQS/CQP credits") represent the Bank's main activities. Factoring credits and CQS/CQP credits as of December 31, 2020, are equal to, respectively, Euro 1,437 million and Euro 934 million. For classification purposes, the directors of the Bank carry out analyses, sometimes complex, aimed at identifying the positions which, after the disbursement and / or acquisition, show evidence of a possible loss of value, considering both internal information related to the trend credit positions, and external information related to the sector of reference or to the overall exposure of such debtors to the banking system. The evaluation of loans and receivables with customers is a complex estimation activity, characterized by a high degree of uncertainty and subjectivity, in which the Bank's directors use evaluation models that take into consideration numerous quantitative and qualitative elements such as, among others, historical data relating to collections, expected cash flows and related recovery times, the existence of indicators of possible impairment, the assessment of any guarantee, the impact of macroeconomic variables,	Our main audit procedures carried out in response to the key audit matter relating to the classification and evaluation of loans and receivables with customers, concerned the following activities: ▪ analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes; ▪ analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers; ▪ procedures for reconciling data between management systems and information reported in the financial statements; ▪ comparative analysis procedures and analysis of the results with the management involved; ▪ analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results; ▪ examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015; ▪ examination of the disclosures provided in the notes.

future scenarios and risks of the sectors in which the Bank's customers operate.

For these reasons, we have considered the classification and evaluation of loans and receivables with customers booked under financial assets valued at amortized cost, a significant key matter in the context of the auditing activity.

DETECTION OF DEFAULT INTEREST PURSUANT TO LEGISLATIVE DECREE NO. 231 OF 9 OCTOBER 2002 ON PERFORMING RECEIVABLES ACQUIRED WITHOUT RECOURSE.

Notes: Part A) Accounting policies – paragraph A.2., “Information on the main items of the separate financial statements”; Part C) Information on the income statement – Section 1 “interest – item 10 and 20”; Part E) Information concerning risk and related hedging policies – Section 1 “Credit risk”

The Bank’s directors account for accrued default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse.

Default interest recognized on an accrual basis in the year ended on 31 December 2019 amount to Euro 10 million and represent the 10% of the Bank's interest and similar income.

The default interest deemed recoverable by the directors of the Bank is estimated by using models based on the analysis of the time series concerning the recovery percentages and actual collection times observed internally.

These analyses are periodically updated following the progressive consolidation of the time series.

The aforementioned estimate, characterized by a high degree of uncertainty and subjectivity, feeds analysis models that take into account numerous quantitative and qualitative elements such as, among others, the historical data relating to collections, expected cash flows, the relative times collection costs and the impact of the risks associated with the geographical areas in which the Bank's customers operate.

For these reasons, we have considered the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse a significant key matter in the context of the auditing activity.

The main audit procedures carried out in response to the key audit matter relating to the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse, also carried out with the support of our experts, concerned the following activities:

- understanding of the business processes and the related IT environment of the Bank with reference to the estimation of default interest;
- examination of the configuration and implementation of the controls and performance of procedures to evaluate the operational effectiveness of controls which are considered relevant, with particular reference to the estimation of default interest;
- analysis of the models used to estimate default interest and examination of the reasonableness of the main assumptions contained in them, with the support of our experts;
- analysis of the adequacy of the information provided in the explanatory notes.

VALUATION OF EQUITY INVESTMENTS HELD IN THE CONTROLLED COMPANY PRONTOPEGNO

Notes: Part A) Accounting policies – paragraph A.2, "Information on the main items of the separate financial statements": "Equity investments"; Part B) Information on the statement of financial position, Assets – Section 7 "Equity investments"

The Bank recorded Euro 29 million as the value of the equity investments held in the controlled company ProntoPegno S.p.A. as of December 31, 2020. Such amount represents the 0,8% of the Bank's total assets.

We focused on this area due to the significance of its amount and the significant judgement and complexity of the evaluation process; the impairment test is based on the realisation of the assumptions of the plan, discount rates and expected future growth rates and other subjective assumptions.

Our main audit procedures performed, also with the support of our specialists, in response to the key audit matter regarding the valuation of equity investments held in the controlled company ProntoPegno, included the following:

- We challenged the reasonableness of the key underlying assumptions of the plan;
- We assessed and challenged the adequacy of the impairment model adopted;
- We assessed the key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, discount rates, long term growth rates.
- We verified the clerical accuracy of the impairment model adopted.
- We performed sensitivity analysis of the control model of impairment when key assumptions change;
- We verified the disclosures provided.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/05, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provided by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

  Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Sistema S.p.A. on April 18, 2019 to perform the audit of the separate and the consolidated financial statements of each fiscal year starting from December 31, 2019 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Sistema S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Sistema S.p.A. as at December 31, 2020, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the financial statements of Banca Sistema S.p.A. as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the financial statements of Banca Sistema S.p.A. as at December 31, 2020 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 30, 2021

BDO Italia S.p.A.

(signed in the original)
Rosanna Vicari
Partner

BANCA
SISTEMA