INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2020

BANCA SISTEMA
CONTEMPORARY BANK

Banca SISTEMA Group

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BANCA SISTEMA

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DIRECTORS' REPORT

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

Chairperson	Ms.	Luitgard Spögler[1]
Deputy Chairperson	Mr.	Giovanni Puglisi *(Independent)*[2]
CEO and General Manager	Mr.	Gianluca Garbi
Directors	Mr.	Daniele Pittatore *(Independent)*
	Ms.	Carlotta De Franceschi *(Independent)*
	Ms.	Laura Ciambellotti *(Independent)*
	Mr.	Federico Ferro Luzzi *(Independent)*
	Mr.	Francesco Galietti *(Independent)*
	Mr.	Marco Giovannini *(Independent)*

Board of Statutory Auditors

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

Independent Auditors

BDO Italia S.p.A.

Manager in charge of financial reporting

Mr. Alexander Muz

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

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

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

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

Appointments Committee

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

Remuneration Committee

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

Ethics Committee

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

Supervisory Body

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

FINANCIAL HIGHLIGHTS AT 30 JUNE 2020

Statement of financial position data (€,000)

	30 Jun 2020	31 Dec 2019	
Total Assets	3,932,697	3,730,081	5.4%
Securities Portfolio	1,201,430	991,560	21.2%
Loans - Factoring	1,637,906	1,714,661	-4.5%
Loans - Salary-backed loans	891,347	817,229	9.1%
Funding - Banks and REPOs	1,282,572	845,429	51.7%
Funding - Term Deposits	1,005,799	1,325,794	-24.1%
Funding - Current Accounts	700,263	681,577	2.7%

Income statement data (€,000)

	30 Jun 2020	30 Jun 2019	
Net interest income	33,341	34,469	-3.3%
Net fee and commission income	8,089	8,174	-1.0%
Total Income	45,886	44,088	4.1%
Personnel Expenses	(11,130)	(10,475)	6.3%
Other administrative expenses	(12,242)	(11,351)	7.8%
Profit for the period	12,128	11,170	8.6%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 30 JUNE 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 subsequent freeze in economic activity have led to estimated global growth rates being lowered. In Italy, the likelihood of a recession that is implicit in the mandatory lockdown measures introduced has significantly changed national GDP growth estimates. Whereas Italian GDP was expected to be flat prior to the onset of COVID-19, it is now expected to drop by up to 8% in 2020. The combined effect of these factors and the uncertainties tied to the political solutions in the EU have led to a significant increase in the BTP-Bund spread and an increase in its volatility. At the same time, there was a significant increase in the yields of Italian bank bonds and a drop in their relative market prices. With the gradual easing of the lockdown rules starting in mid-May, unrestricted travel between regions and throughout the country has resumed. Restrictions and strict safety and precautionary protocols such as the prohibition of gatherings, maintaining safe social distances and the use of masks in enclosed places remain in force. Currently, the Italian government expects the state of emergency to continue for a number of months, possibly even until the end of 2020, with the consequent extension of some of the related measures, including, as regards the area of interest of the Bank, remote working and other forms of special leave for public and private employees.

Several initiatives have been launched at national and European level in response to the crisis generated by the COVID-19 pandemic.

In Italy, the "Cura Italia" Law Decree followed by the Liquidity and Relaunch Law Decrees were enacted to support the non-financial enterprises hardest hit by the lockdown and the loss of revenue. The aim of these decrees is to support businesses in dealing with short-term liquidity needs. 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 completed the process of launching the loan product guaranteed by SACE and/or the National Guarantee Fund for SMEs. 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 30 June the Bank granted 2 state-guaranteed loans for a total of € 5.4 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 is carefully considering measures for suspending payment terms. As at 30 June 2020, 50 requests for a moratorium had been received, 47 of which have so far been accepted for a total amount of € 14.5 million.

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.

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 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 30 June 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 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 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.

In view of the foregoing and in order to comply with the aforesaid recommendation, irrespective of the performance of the Bank's business, which is not expected to be significantly impacted by the current situation, the Bank's Board of Directors submitted to the ordinary and extraordinary Shareholders' Meeting of 23 April 2020 a new Board of Directors' Report concerning item 2 on the agenda, ordinary session, entitled "Allocation of profit for the year 2019. Relating and resulting resolutions" whereby:

- the proposed allocation of profit reported in the separate financial statements for the year 2019 of € 29,955,723.45 was confirmed as follows:
  - € 22,476,565.61 to "Retained earnings";

- "2019 Dividend" of € 7,479,157.84 (equal to € 0.093 per ordinary share);
- it was resolved to propose to the Shareholders' Meeting to defer the decision and the relative commitment on the payment of the dividend (ex-dividend date, record date and payment date) to the resolution of a new Shareholders' Meeting to be convened by the Board of Directors no earlier than 1 October 2020, but before the end of November, in accordance with the supervisory provisions or other recommendations of the Supervisory Authorities.

The Shareholders' Meeting of 23 April approved these agenda items and the amount of € 7,479,157.84 was deducted from CET 1 calculation.

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:

- Full introduction of remote working through 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;

- 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;
- 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;
- update of the Risk Assessment Document (DVR) - Assessment of Biological Risk annex (Coronavirus Emergency);
- installation of an air ionisation system and an air purification system for lifts is being completed for the Milan office.

With regard to business continuity, the Bank's Business Continuity Plan was revised in mid-2019 and a new revision is planned for July 2020. Since the start of the emergency and the period during which the employees began working remotely, the Bank, Divisions and Departments have been continuously implementing communication initiatives with employees (including Town Halls, meetings with the Chief Executive Officer) 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

Volumes in the second quarter of 2020 were influenced by the Bank's decision to wait a few months before acquiring receivables from specific sectors, particularly football receivables (whose volumes fell by 25% yoy) and the reduced number of factored tax receivables due mainly to the rescheduling of tax due dates (whose volumes fell by 7% yoy). Excluding football and tax receivables, factoring volumes grew by 8% yoy in the first half of 2020.

Volumes in the first half of 2020 were € 1,438 million, an increase of 2% over the first half of 2019 (10% in the first 4 months of 2020 compared to the same period in 2019).

Salary- and Pension-Backed Loans

The market for salary- and pension-backed loans also suffered a significant downturn due to the restrictions linked to the epidemic. Assofin data point to a decrease in May 2020 of 48.5% yoy, and 24.7% on a cumulative annual basis. Contrary to market data, the Bank did not see a similar decline in its distribution channels, posting volumes that were generally in line with expectations and growth of 19% in the outstanding capital of the product, which rose from € 751 million at 30 June 2019 to the current € 891 million.

The direct channel in particular was, however, threatened by the restrictions on movement of people, making it difficult to physically sign contracts (difficulties that were only partly mitigated by the measures issued under the Decree Law of 8 April 2020 - "Liquidity Decree" et seq.) and hampering the activities of the employers (ATCs) with regard to their obligations.

To counteract the effects of these limitations, on 19 May the Bank implemented a new digital platform to support the QuintoPuoi product to manage the remote signing of contracts using qualified electronic signatures.

Through this platform Banca Sistema offers its customers the possibility of activating a QuintoPuoi loan electronically, without having to physically meet the sales team, signing all the documentation from the comfort of their home. The platform allows Banca Sistema and its agents to efficiently respond to the needs and purchasing behaviours of customers that have emerged during this health emergency while safeguarding the health of its customers and collaborators. The platform also sets the groundwork for developing and establishing a new digital channel, which, combined with the traditional agency channel and the indirect channel on which the Bank has extensive experience, will further enhance its sales capacity.

Collateralised lending

On 8 April 2020, the Italian Government issued the Decree Law entitled "Urgent measures concerning access to credit and tax obligations for businesses, special powers in strategic sectors, as well as measures concerning health and labour and the extension of administrative and procedural deadlines", known as the "Liquidity Decree", which introduced measures to support businesses, artisans, self-employed workers and professionals.

More specifically, Article 11, paragraph 1, provides that "Without prejudice to the provisions of paragraphs 2 and 3, the expiry dates that fall within or commence in the period from 9 March 2020 to 30 April 2020, relating to promissory notes, bills of exchange and other debt securities issued before the effective date of this decree, and to any other deed enforceable at that date, shall be suspended for the same period. The suspension shall benefit debtors and obligated parties including those having a right of recourse or guarantee, without prejudice to their express right to waive this benefit".

ProntoPegno, with the support of the Parent, has explored the possibility of applying Article 11 to collateralised loan policies (which fall within the scope of credit securities). As a precautionary measure aimed at preventing default interest from accruing, the company has decided to extend the expiries of those policies "falling or commencing between 9 March 2020 and 30 April 2020" by 52 days, which is the number of days between 9 March and 30 April. During the conversion of the above-mentioned Decree Law, changes were made to Article 11 whereby the period during which the expiry dates of the promissory notes, bills of exchange and other debt securities (paragraph 1) were suspended was extended from 9 March 2020 to 31 August 2020 (instead of 30 April 2020).

As a consequence, default interest will not accrue until the new expiry date, thus generating a loss of default interest of about € 30,000 in the income statement. Nevertheless, the customer may decide at any time to redeem the asset, even prior to expiry, without being charged the early redemption fee.

In this regard, the following information has been added to ProntoPegno's website: (i) a pop-up informing customers that policies expiring in December 2019 and January, February and March 2020 will not be put to auction before June 2020; (ii) reduced opening hours, where applicable; (iii) a note stating that services are provided by appointment only; (iv) a specific paragraph explaining that default interest will not be charged for the period from 9 March to 31 August.

Following the spread of the health emergency caused by Covid-19, 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. In particular, the Branches and offices have been provided with masks, disinfectants, and signage to ensure people maintain safe social distances. The Branches continued to operate with a single employee working in shifts until the end of May to avoid the possibility of spreading any infection, whereas the office personnel worked remotely from the beginning of March.

As previously announced 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 CPQ) from the current 75% to 35%.

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

On 24 June 2020, the Group received authorisation from the Bank of Italy to acquire the collateralised lending business unit of the Intesa Sanpaolo Group.

The transaction, which was then completed on 10 July and took effect on 13 July 2020, will establish the largest collateralised lending operator in Italy with 12 branches and approximately € 70 million in total loans. With this acquisition, the Banca Sistema Group strengthens its presence in Italy by taking a decisive step forward in implementing its collateralised lending strategy on a larger scale and, thanks to its long-standing reputation as a solid, innovative and growing bank, is preparing to pursue new opportunities in this low-risk business segment, more than 90% of which is secured by gold.

The Banca Sistema Group has been active in the collateralised lending market since 2017, and since 2019 through its specialist subsidiary ProntoPegno S.p.A. and a network of six branches in Milan, Rome, Naples, Rimini, Palermo and Pisa.

The collateralised lending business unit acquired from the Intesa Sanpaolo Group holds loans of approximately € 56 million through a network of six branches in Turin, Naples, Florence, Mestre, Parma and Civitavecchia which employ 58 people. Loans, which have essentially remained stable over the last three years, have generated total income of approximately € 9 million per year.

The acquisition, valued at € 34 million including goodwill, was carried out by ProntoPegno, a subsidiary 75% owned by Banca Sistema and 25% by the banking foundations Fondazione Cassa di Risparmio di Cuneo, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria (which acquired different amounts of the above-mentioned remaining share capital of ProntoPegno), which 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.

Following the acquisition of the collateralised lending business unit by the subsidiary ProntoPegno, the estimated CET1 ratio at 30 June 2020 would be 11.7% (the Total Capital ratio would be 15.2%).The revenue and profit generated by the acquired business unit will increase the contribution of the collateralised lending business at Group level and is in line with the diversification strategy pursued by the Bank in recent years.

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. 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 and until 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.

The Italian factoring market

The half year just ended was marked by the Covid-19 health emergency which had serious repercussions on the real economy. The effects of the pandemic will have an impact on global GDP for the current year (down 4.6% according to Fitch) and in the Euro Area (down 8.7% according to recent estimates from the European Commission). Italy is the country facing the most serious slowdown (-11.2%), followed by Spain (-10.9%), Croatia (-10.8%) and France (-10.6%), while Germany (-6.3%) and the Netherlands (-6.8%) are the European countries having the least impact.

As a result of the measures taken by the Government to limit the effects of the contagion, many companies have had to reduce or, in many cases, cease operations. The decrease in turnover has led to a reduction in volumes in the factoring market which, after 12 years of uninterrupted growth, is experiencing a significant contraction. According to preliminary estimates from Assifact, the Italian association of the leading factoring providers, at 30 June 2020 the total turnover came in at € 106.5 billion, a decrease of 13.45% compared to the same month of the previous year. With regard to the types of factoring contracts, 79% of the transactions are "without recourse" versus 21% being "with recourse" due to assignor customers' specific interest in hedging risk from debtors.

At the end of the first half of the year, outstanding receivables (i.e. total receivables still to be collected) amounted to € 55.5 billion (a decrease of 11.63% over the same period in 2019), 73% of which related to without recourse transactions and 27% to recourse transactions.

Advances and fees also suffered coming in at € 44.4 billion, down 11.93% on the same period in 2019.

The drop in volumes mainly affected operators active in the corporate market, while factors focused on debtors in the public sector proved to be quite resilient. In fact, at the end of June our Bank posted turnover of over € 1.4 billion, an increase of 2% over the same period last year, which allowed it to maintain its leadership in factoring to the Public Administration.

The factoring industry continues to show high credit quality: at 31 March 2020 (the most recent available data from Assifact) gross non-performing exposures in factoring amounted to 4.97% (5.56% at 31 March 2019) of overall gross exposures. Past due exposures amount to 1.04% while unlikely to pay amount to 1.89%. Bad exposures accounted for 2.03% (2.54% at 31 March 2019) which is much lower than in the traditional banking sector.

With regard to trade payables owed by the Public Administrations, collection times have improved slightly, but more than half of the total trade payables continue to be paid later than the contractually agreed due dates. Average payment times for trade receivables continue to differ significantly from the EU average in both B2B and B2PA and are far from the legal terms set to transpose the European Late Payment Directive.

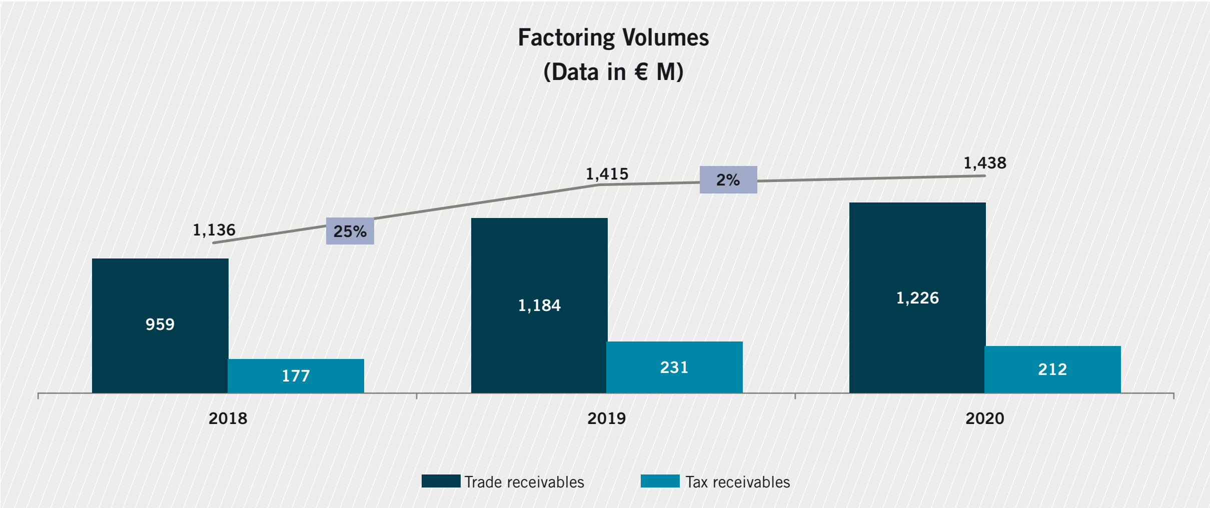
Following the monitoring carried out in recent months by the competent EU structure which highlighted both the failure to comply with the payment terms set by the Directive in many EU countries, and the abuse in some EU countries, particularly by the Public Administration, of refusing the assignment of receivables, which is creating serious financial problems for SMEs, in February the European Court of Justice sanctioned Italy for chronic delays by the Public Administration in paying its suppliers. The European Parliament, in turn, adopted a measure calling on all Member States to refrain from taking actions, such as refusing assignment, that would inhibit the transfer of the receivables.

In this peculiar emergency, the competent Authorities (ECB and EBA) have granted some flexibility to banks/financial intermediaries regarding the delivery of reports, while the Bank of Italy has postponed application of the new EBA criteria for identifying defaults from 31 December 2020 to 1 January 2021.

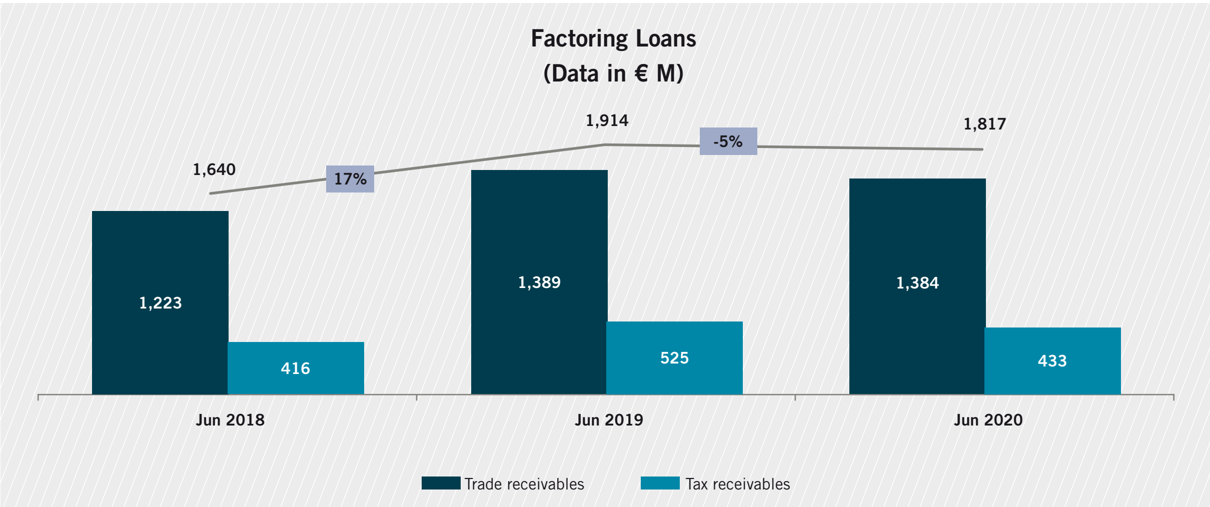
In the measures decided by the Government to address the challenges associated with the lockdown (Cura Italia Decree, Liquidity Decree and Relaunch Decree), no reference has ever been made to factoring despite its increasing importance as a tool used by companies for managing their working capital. As a result, the funds made available to the industrial sector through the state guarantee only concerned the moratorium on financial exposures and the granting of new credit lines extending over several years.

Banca Sistema and factoring activities

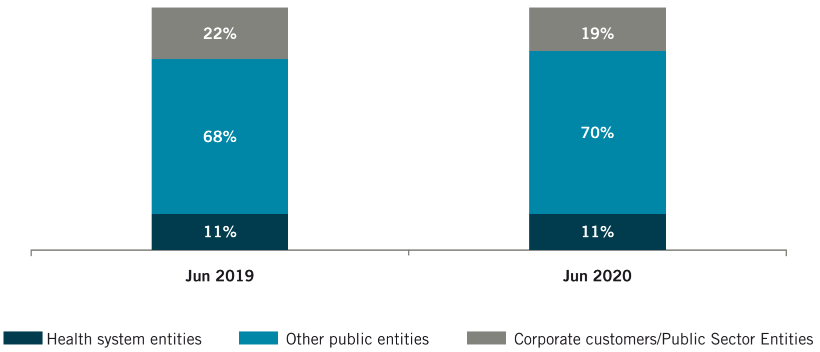
Total volumes at 30 June 2020 of the Banca Sistema Group were € 1,438 million, up 2% on the same period in 2019, and have remained stable year on year, despite the difficult market conditions in Italy.



Loans as at 30 June 2020 amounted to € 1,817 million, down 5% on the € 1,914 million at 30 June 2019 mainly due to increased collections during the period compared to the volumes acquired in 2020.



The chart below shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 30 June 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 June 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)	30.06.2020	30.06.2019	€ Change	% Change
Trade receivables	1,226	1,184	42	4%
of which, without recourse	*1,003*	*992*	*11*	*1%*
of which, with recourse	*223*	*192*	*31*	*16%*
Tax receivables	212	231	(19)	-8%
of which, without recourse	*212*	*227*	*(15)*	*-7%*
of which, with recourse	*0*	*4*	*(4)*	*-100%*
TOTAL	**1,438**	**1,415**	**23**	**2%**

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

Volumes in the first half of 2020 were € 1,438 million, an increase of 2% over the first half of 2019 (10% in the first 4 months of 2020 compared to the same period in 2019).

Volumes in the second quarter of 2020 were influenced by the Bank's decision to wait a few months before acquiring receivables from specific sectors, particularly football receivables (whose volumes fell by 25% yoy) and the reduced number of factored tax receivables due mainly to the rescheduling of tax due dates (whose volumes fell by 7% yoy). Excluding football and tax receivables, factoring volumes grew by 8% yoy in the first half of 2020.

Volumes related to the management of third-party portfolios amounted to € 220 million (€ 200 million in the first half of 2019).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

At 30 June 2020, the Group had operated in the salary- and pension-backed loans segment mainly through the purchase of receivables generated by other specialist operators. Starting from the second quarter of 2019 following the acquisition of Atlantide, the Banca Sistema Group has expanded its retail offering with the direct origination of salary- and pension-backed loans through a new product, QuintoPuoi. QuintoPuoi is distributed through a network of 39 single-company agents and 13 specialised brokers located throughout Italy and is supported by a dedicated structure within the Bank.

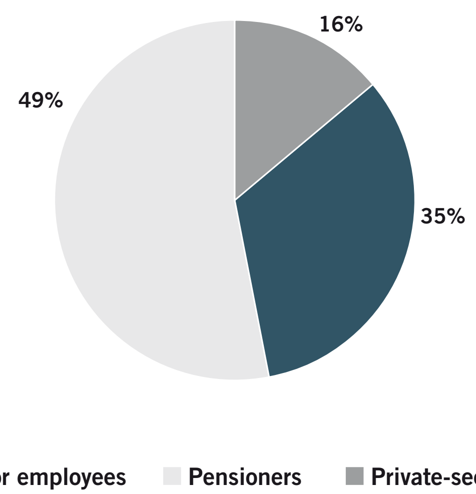
The volumes of acquired portfolios and directly originated receivables from the beginning of the year until June 2020 amounted to € 147 million (€ 17 million of which were originated by the Bank), including private-sector employees (16%), pensioners (49%) and public-sector employees (35%). Therefore, over 84% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

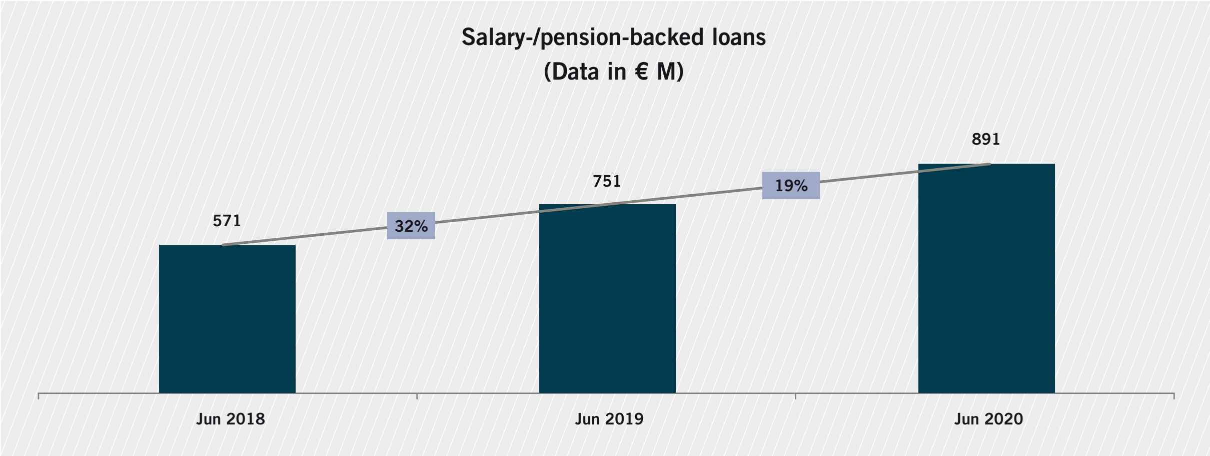
	30.06.2020	30.06.2019	€ Change	% Change
No. of applications (#)	3,061	7,297	(4,236)	-58%
of which originated	*402*	*396*	*6*	*2%*
Volumes disbursed (millions of Euro)	147	138	9	6%
of which originated	*17*	*8*	*8*	*103%*

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

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

CQ disbursed volumes - Breakdown




Salary-/pension-backed loans
(Data in € M)
571
32%
751
19%
891
Jun 2018
Jun 2019
Jun 2020

COLLATERALISED LENDING AND PRONTOPEGNO

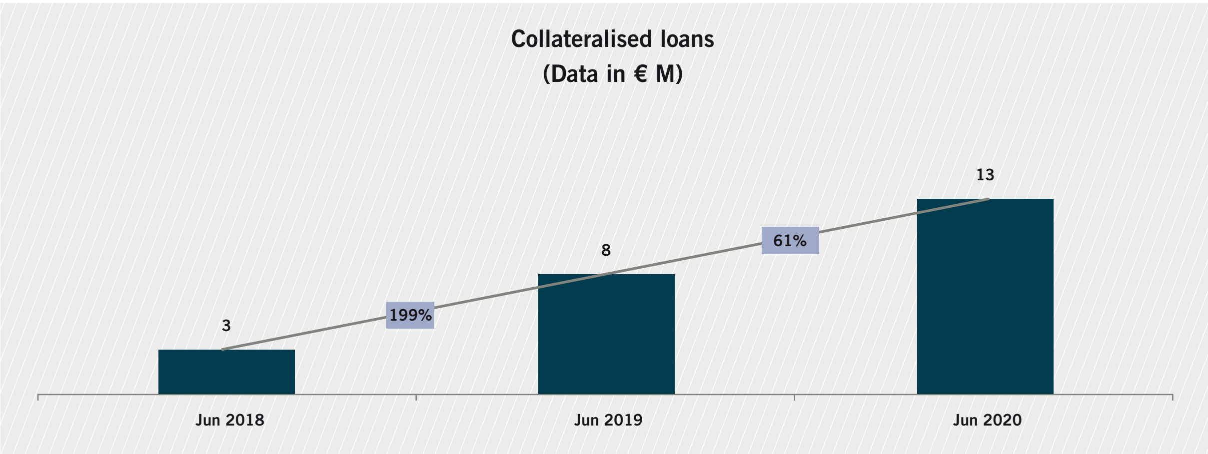
The Banca Sistema Group began working in the collateralised lending business at the beginning of 2017, combining the credentials of a solid bank with the advantages of a specialist that is continuously willing to innovate and grow to offer greater value to customers, in terms of professionalism and timeliness.

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

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

Key figures are provided below:

	30.06.2020	30.06.2019	€ Change	% Change
No. of applications	7,923	6,044	1,879	31%
Volumes disbursed (millions of Euro)	11	8	3	39%
Loans (millions of Euro)	13	8	5	61%



As mentioned previously, volumes were impacted in March by the COVID-19 crisis because of the restrictions put in place that prevented people from going to the branches, as well as due to the postponement of the auctions which was made for the benefit of customers.

The statement of financial position of the consolidated company ProntoPegno as at 30 June 2020 is provided below.

ASSETS (€,000)	30.06.2020	31.12.2019	€ Change	% Change
Cash and cash equivalents	588	499	89	17.8%
Financial assets measured at amortised cost	40,091	12,869	27,222	>100%
a) loans and receivables with banks	26,753	1,112	25,641	>100%
b1) loans and receivables with customers - loans	13,338	11,757	1,581	13.4%
Property and equipment	496	489	7	1.4%
Tax assets	377	176	201	>100%
Other assets	199	36	163	>100%
Total assets	**41,751**	**14,069**	**27,682**	**>100%**

LIABILITIES AND EQUITY (€,000)	30.06.2020	31.12.2019	€ Change	% Change
Financial liabilities measured at amortised cost	2,538	8,502	(5,964)	-70.1%
a) due to banks	2,008	8,243	(6,235)	-75.6%
b) due to customers	530	259	271	>100%
Other liabilities	860	690	170	24.6%
Post-employment benefits	142	95	47	49.5%
Provisions for risks and charges	144	222	(78)	-35.1%
Valuation reserves	(28)	(12)	(16)	>100%
Reserves	15,410	-	15,410	n.a.
Share capital	23,162	5,000	18,162	>100%
Loss for the period	(477)	(428)	(49)	11.4%
Total liabilities and equity	**41,751**	**14,069**	**27,682**	**>100%**

As described previously, 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 on 13 July 2020. Therefore, the effects on the accounts will materialise in the second half of the year.

To prepare for the transaction, in June, the Parent allowed new 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, the contracts for which were transferred at their carrying amount by the Bank on 1 August 2019.

Liabilities, on the other hand, in addition to the capital and reserves, consist of the liability to the parent resulting from the transfer of the business unit.

The other "financial liabilities measured at amortised cost" include the premium (€ 530 thousand) resulting from the auctions carried out. For 5 years, this amount is recognised in the financial statements as due to customers; if customers do not collect the amount, it would be recognised as revenue.

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

The income statement of the consolidated company ProntoPegno as at 30 June 2020 is provided below. Since the company started operating on 1 August 2019, no comparative data are available.

INCOME STATEMENT (€,000)	FIRST HALF OF 2020
Net interest income	424
Net fee and commission income	328
Total income	**752**
Net impairment losses on loans and receivables	-
Net financial income	**752**
Personnel expense	(642)
Other administrative expenses	(822)
Net impairment losses on property and equipment/intangible assets	(60)
Other operating income	100
Operating costs	**(1,424)**
Pre-tax loss from continuing operations	**(672)**
Income taxes for the period	195
Loss for the period	**(477)**

The company closed the first half of 2020 slightly better than expected, with a loss for the period of € 477 thousand. With the contribution of the acquisition of Intesa Sanpaolo's collateralised lending business unit, the company is expected to break even by the end of the year when it has sufficient critical mass to be profitable.

Personnel expenses mostly include the cost of the 17 employees transferred from the Bank to the Company, 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 reported loss includes merger-related costs of € 152 thousand which have already been incurred to prepare for the opening of the former Intesa Sanpaolo branches of the business unit that was subsequently acquired.

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 30 June 2020 increased to a nominal € 1.2 billion from € 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.

At 30 June, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounts to € 750 million (compared to € 550 million as at 31 December 2019) with a duration of 23.3 months (20.1 months at 31 December 2019). At 30 June, the HTC portfolio amounted to € 450 million with a duration of 17.3 months.

Wholesale funding

As at 30 June, wholesale funding was about 50% of the total, mainly comprising bonds, inter-bank deposits and refinancing transactions with the ECB (39% as at 31 December 2019).

The issue of both senior and subordinated bonds over the past two years placed with institutional investors has enabled a diversification of the sources of funding and a significant increase in the duration of funding.

Securitisations with salary- and pension-backed loans as collateral completed with a partly-paid securities structure continue to allow Banca Sistema to efficiently refinance its CQS/CQP portfolio and to continue to grow its salary- and pension-backed loan business, whose funding structure is optimised by the securitisation.

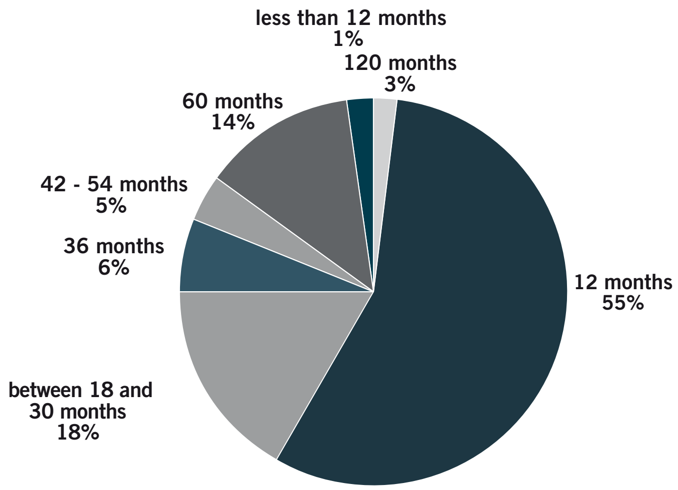
For its short-term liquidity needs, the Group used the interbank deposit market. Existing bank deposits at June 2020 totalled € 63 million, an increase compared to € 30 million at 31 December 2019.

Retail funding

The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.
Retail funding accounts for 50% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.
Total term deposits as at 30 June 2020 amounted to € 1,006 million, a decrease of 24% compared to 31 December 2019. The above-mentioned amount also includes total term deposits of € 524 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 52% of total deposit funding), a decrease of € 211 million over the same period of the previous year as a result of the policy to reduce interest rates being implemented.

The breakdown of funding by term is shown below. The average *residual life* of the portfolio is 14 months.

Breakdown of deposit accounts as at 30 June



Current accounts increased from 6,366 (as at 30 June 2019) to 8,629 as at 30 June 2020, while the current account balance at 30 June 2020 increased by 20% on 2018 to € 703 million.

COMPOSITION AND STRUCTURE OF THE GROUP

Scope of the banking group

At 30 June 2020, the Banca Sistema Group comprised the Parent, Banca Sistema S.p.A., ProntoPegno S.p.A., Largo Augusto Servizi e Sviluppo S.r.l., and Specialty Finance Trust Holdings Limited, a company incorporated under UK Law, all fully owned by the Bank.

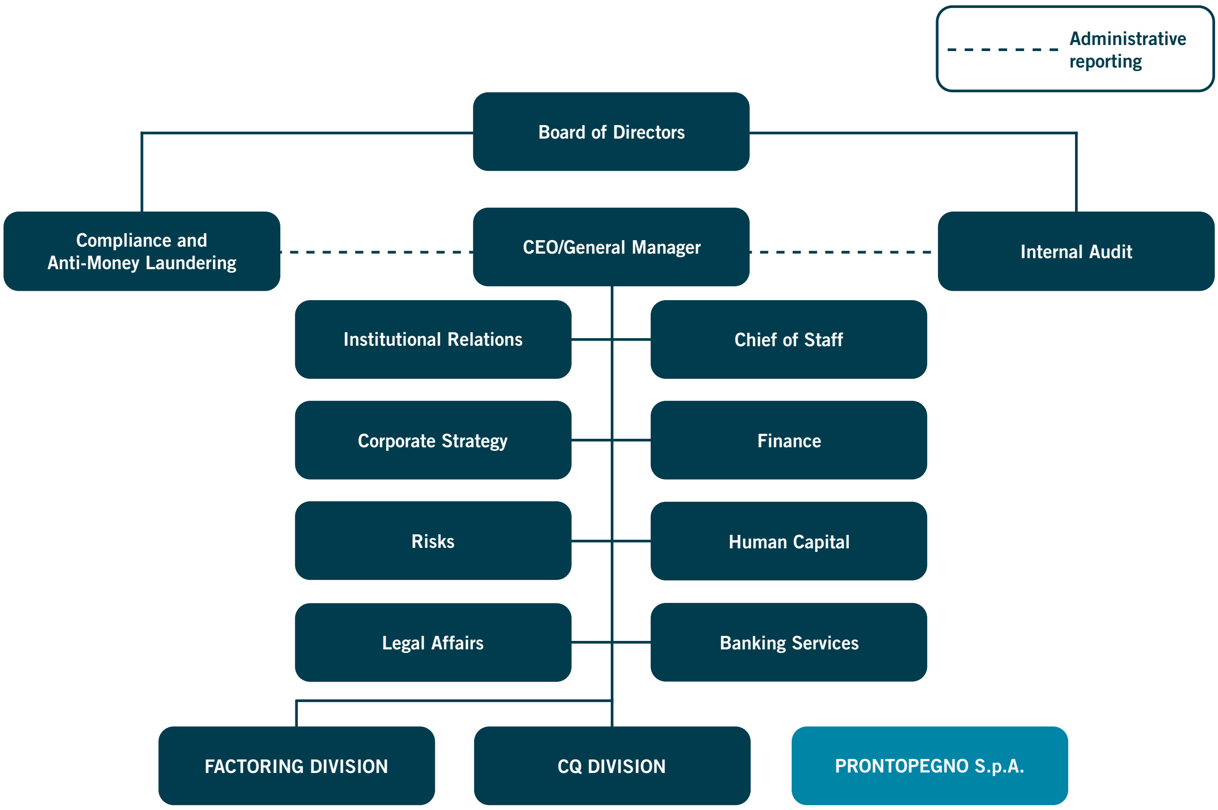
Organisational chart

The organisational structure has undergone significant changes, moving from a functional organisational model to a divisional organisational model.

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 and Compliance & AML, also Finance, Risks, 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 will be able to concentrate, with even greater speed and focus, on growing their respective customer segments and innovating products and processes. The organisational chart in force since 1 February 2020 is as follows:



HUMAN RESOURCES

As at 30 June 2020, the Group had a staff of 216, broken down by category as follows:

FTES	30.06.2020	31.12.2019	30.06.2019
Senior managers	26	24	23
Middle managers (QD3 and QD4)	50	45	42
Other personnel	140	146	144
Total	**216**	**215**	**209**

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 and CQ businesses. Each of these two 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 and Recruiting 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 four new resources were recruited primarily in the Chief of Staff, ICT, Corporate Strategy and CQ Commercial 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 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. 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.

The average age of Group employees is 43 for men and 40 for women. The breakdown by gender is essentially balanced with women accounting for 48% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	FIRST HALF OF 2020	FIRST HALF OF 2019	€ Change	% Change
Net interest income	33,341	34,469	(1,128)	-3.3%
Net fee and commission income	8,089	8,174	(85)	-1.0%
Dividends and similar income	227	227	-	0.0%
Net trading income	38	211	(173)	-82.0%
Gain from sales or repurchases of financial assets/liabilities	4,191	1,007	3,184	>100%
Total income	**45,886**	**44,088**	**1,798**	**4.1%**
Net impairment losses on loans and receivables	(5,068)	(4,760)	(308)	6.5%
Net financial income	**40,818**	**39,328**	**1,490**	**3.8%**
Personnel expense	(11,130)	(10,475)	(655)	6.3%
Other administrative expenses	(12,242)	(11,351)	(891)	7.8%
Net accruals to provisions for risks and charges	(1,143)	(1,285)	142	-11.1%
Net impairment losses on property and equipment/intangible assets	(751)	(877)	126	-14.4%
Other operating income	265	436	(171)	-39.2%
Operating costs	**(25,001)**	**(23,552)**	**(1,449)**	**6.2%**
Gains (losses) on sales of investments	1,090	(8)	1,098	<100%
Pre-tax profit from continuing operations	**16,907**	**15,768**	**1,139**	**7.2%**
Income taxes for the period	(4,898)	(5,160)	262	-5.1%
Post-tax profit for the period	**12,009**	**10,608**	**1,401**	**13.2%**
Post-tax profit (loss) from discontinued operations	-	562	(562)	-100.0%
Profit for the period attributable to the owners of the parent	**12,009**	**11,170**	**839**	**7.5%**
Loss for the period attributable to non-controlling interests	**119**	**-**	**119**	**n.a.**
Profit for the period attributable to the owners of the parent	**12,128**	**11,170**	**958**	**8.6%**

The first half of 2020 closed with a profit attributable to the owners of the Parent of € 12.1 million. Given that 2019 included the profit of € 0.6 million generated by the sale of the remaining 10% of Axactor Italia and that 2020 includes a profit of € 1.1 million from the sale of 25% of the equity investment in ProntoPegno to non-controlling shareholders, the first half of 2020 closed up 4% compared with 30 June 2019.

Unlike the first half of 2020, the figures for 2019 did not include the 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%).

NET INTEREST INCOME (€,000)	FIRST HALF OF 2020	FIRST HALF OF 2019	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	42,588	46,080	(3,492)	-7.6%
Securities portfolio	805	399	406	>100%
Other	546	558	(12)	-2.2%
Financial liabilities	1,950	1,538	412	26.8%
Total interest income	**45,889**	**48,575**	**(2,686)**	**-5.5%**
Interest and similar expense				
Due to banks	(173)	(334)	161	-48.2%
Due to customers	(8,045)	(9,943)	1,898	-19.1%
Securities issued	(4,201)	(3,808)	(393)	10.3%
Financial assets	(129)	(21)	(108)	>100%
Total interest expense	**(12,548)**	**(14,106)**	**1,558**	**-11.0%**
Net interest income	**33,341**	**34,469**	**(1,128)**	**-3.3%**

Net interest income decreased compared to the same period of the previous year. This was due to the lower contribution of the loans and receivables factoring portfolio to net interest income as a result of the reduction in default interest deriving from both legal and out-of-court actions. On the other hand, the current interest rate policies on ECB refinancing transactions had a positive impact on net interest income.

The total contribution of the factoring portfolio to interest income was € 30.9 million (equal to 67% of the entire loans and receivables portfolio), 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 30 June 2020 was € 9.9 million (€ 11.9 million in the first half of 2019):

- of which € 3.7 million resulting from the current recovery estimates (€ 5.4 million in the first half of 2019);
- of which € 6.2 million (€ 6.5 million in the first half of 2019) coming from net collections during the period, i.e. the difference between the amount collected during the period, equal to € 12.4 million (€ 11.6 million in the first half of 2019) and that recognised on an accruals basis in previous periods. This item includes gross collections of € 5.2 million from transfers to third parties (equal to € 5.2 million in 2019).

The amount of the stock of default interest from legal actions accrued at 30 June 2020, relevant for the allocation model, was € 98 million (€ 98 million at the end of the first half of 2019) while the loans and receivables recognised in the financial statements amounted to € 47.4 million.

During the period, factoring portfolios were sold that generated a total profit of € 2 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 same period of the previous year at € 11.1 million.

The contribution of the collateralised loans portfolio grew to € 0.5 million, up 57.8% compared to the same period of the previous year.

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 € 1.9 million.

Despite the increase in average lending, interest expense decreased compared to the previous year thanks to the meticulous containment of the cost of funding and the monetary policies. In particular, interest on term deposits from customers decreased as a result of the reduction in the interest rate applied to deposit accounts.

NET FEE AND COMMISSION INCOME (€,000)	FIRST HALF OF 2020	FIRST HALF OF 2019	€ Change	% Change
Fee and commission income				
Collection activities	559	595	(36)	-6.1%
Factoring activities	9,616	9,339	277	3.0%
Fee and commission income - off-premises	1,010	672	338	50.3%
Other	495	407	88	21.6%
Total fee and commission income	**11,680**	**11,013**	**667**	**6.1%**
Fee and commission expense				
Placement	(1,679)	(1,766)	87	-4.9%
Fees - off-premises	(1,333)	(763)	(570)	74.7%
Other	(579)	(310)	(269)	86.8%
Total fee and commission expense	**(3,591)**	**(2,839)**	**(752)**	**26.5%**
Net fee and commission income	**8,089**	**8,174**	**(85)**	**-1.0%**

Net fee and commission income of € 8.1 million decreased slightly by 1% due to commissions from the CQ agents network which were not present in the first quarter of 2019 as the business was included from the second quarter onwards.

Net fee and commission income from factoring, which increased by 3%, should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

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

Other fee and commission income includes commissions and fees from collection and payment services, the keeping and management of current accounts, and fees related to the collateral-backed loan business, amounting to € 332 thousand (up 77% on the same period of the previous year).

Fee and commission income - off-premises refers to the commissions on the new salary- and pension-backed loan (CQ) origination business of € 1 million, which should be considered together with the item Fees - off-premises, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the estimated year-end bonuses payable to them.

Placement fees and commissions 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 and 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)	FIRST HALF OF 2020	FIRST HALF OF 2019	€ Change	% Change
Gains from HTCS portfolio debt instruments	2,250	1,007	1,243	>100%
Gains from HTC portfolio debt instruments	340	-	340	n.a.
Gains from receivables	1,586	-	1,586	n.a.
Gains from financial liabilities	15	-	15	n.a.
Total	**4,191**	**1,007**	**3,184**	**>100%**

The item Gain (loss) from sales or repurchases includes gains generated by the proprietary HTCS and HTC securities portfolio, which increased by € 1.6 million overall compared to the previous year, and net realised gains from receivables of € 1.6 million, the revenue from which derives mainly from the sale of factoring portfolios (recurring asset since 2019).

Impairment losses on loans and receivables at 30 June 2020 amounted to € 5.1 million and include an adjustment of € 0.5 million driven among others by 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 decreased from 0.38% at 30 June 2019 to 0.37%.

PERSONNEL EXPENSE (€,000)	FIRST HALF OF 2020	FIRST HALF OF 2019	€ Change	% Change
Wages and salaries	(10,321)	(9,731)	(590)	6.1%
Social security contributions and other costs	(201)	(156)	(45)	28.8%
Directors' and statutory auditors' remuneration	(608)	(588)	(20)	3.4%
Total	**(11,130)**	**(10,475)**	**(655)**	**6.3%**

The increase in personnel expense is due to the increase in the average number of employees from 194 to 215.

OTHER ADMINISTRATIVE EXPENSES (€,000)	FIRST HALF OF 2020	FIRST HALF OF 2019	€ Change	% Change
Consultancy	(1,856)	(1,997)	141	-7.1%
IT expenses	(2,896)	(2,782)	(114)	4.1%
Servicing and collection activities	(1,350)	(1,300)	(50)	3.8%
Indirect taxes and duties	(945)	(1,034)	89	-8.6%
Insurance	(275)	(219)	(56)	25.6%
Other	(313)	(213)	(100)	46.9%
Expenses related to management of the SPVs	(377)	(162)	(215)	>100%
Car hire and related fees	(281)	(283)	2	-0.7%
Advertising	(201)	(282)	81	-28.7%
Rent and related fees	(334)	(307)	(27)	8.8%
Expense reimbursement and entertainment	(190)	(377)	187	-49.6%
Infoprovider expenses	(286)	(274)	(12)	4.4%
Membership fees	(202)	(190)	(12)	6.3%
Property management expenses	(158)	(157)	(1)	0.6%
Audit fees	(141)	(153)	12	-7.8%
Telephone and postage expenses	(82)	(63)	(19)	30.2%
Logistics expenses	(36)	(28)	(8)	28.6%
Stationery and printing	(15)	(19)	4	-21.1%
Resolution Fund	(2,007)	(1,146)	(861)	75.1%
Merger-related costs	(297)	(365)	68	-18.6%
Total	**(12,242)**	**(11,351)**	**(891)**	**7.8%**

Administrative expenses increased mainly due to the contribution to the Resolution Fund which accounts for € 0.9 million of the increase in costs. Net of this, the increase in costs is not significant.

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

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 amounting to € 365 thousand.

The impairment losses on property and equipment/ intangible assets is the result of higher provisions for property used for business purposes, as well as the depreciation of the "right-of-use" asset following the application of IFRS 16.

The increase in 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 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)	30.06.2020	31.12.2019	€ Change	% Change
Cash and cash equivalents	717	652	65	10.0%
Financial assets measured at fair value through other comprehensive income	754,084	556,383	197,701	35.5%
Financial assets measured at amortised cost	3,119,600	3,112,387	7,213	0.2%
a) loans and receivables with banks	65,711	81,510	(15,799)	-19.4%
b1) loans and receivables with customers - loans	2,606,543	2,595,700	10,843	0.4%
b2) loans and receivables with customers - debt instruments	447,346	435,177	12,169	2.8%
Property and equipment	29,142	29,002	140	0.5%
Intangible assets	3,921	3,921	-	0.0%
of which: goodwill	3,920	3,920	-	0.0%
Tax assets	8,886	8,476	410	4.8%
Other assets	16,347	19,260	(2,913)	-15.1%
Total assets	**3,932,697**	**3,730,081**	**202,616**	**5.4%**

The half year ended 30 June 2020 closed with total assets up by 5.4% on the end of 2019 and equal to € 3.9 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 increased and continues to be mainly comprised of Italian government bonds with an average duration of about 23.3 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 € 750 million at 30 June 2020 (€ 550 million at 31 December 2019). The associated valuation reserve was positive at the end of the period, amounting to € 0.1 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million, and the Axactor Norway shares, which at 30 June 2020 had a negative fair value reserve of € 0.8 million, resulting in a period-end amount of € 0.3 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	30.06.2020	31.12.2019	€ Change	% Change
Factoring	1,637,906	1,714,661	(76,755)	-4.5%
Salary-/pension-backed loans (CQS/CQP)	891,347	817,229	74,118	9.1%
Collateralised loans	13,340	11,757	1,583	13.5%
Loans to SMEs	15,990	11,998	3,992	33.3%
Current accounts	20,069	18,213	1,856	10.2%
Compensation and Guarantee Fund	23,885	20,676	3,209	15.5%
Other loans and receivables	4,006	1,166	2,840	>100%
Total loans	**2,606,543**	**2,595,700**	**10,843**	**0.4%**
Securities	447,346	435,177	12,169	2.8%
Total loans and receivables with customers	**3,053,889**	**3,030,877**	**23,012**	**0.8%**

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

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were in line with the end of 2019 at 63%. The volumes generated over the period amounted to € 1,438 million (€ 1,415 million at 30 June 2019).

Salary- and pension-backed loans grew thanks to new loans from acquired portfolios and originated receivables, which increased by 9% compared to the previous year (the new volumes acquired in the first half of 2020 amounted to € 147 million), while government-backed loans to SMEs increased following a disbursement made under a SACE guarantee.

The collateralised loan business, carried out through the ProntoPegno subsidiary, reported loans of € 13.3 million at 30 June 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.

Securities are composed entirely of Italian government securities with an average duration of 17.3 months for an amount of € 450 million. The mark-to-market valuation of the securities at 30 June 2020 was a positive fair value of € 3.1 million.

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

STATUS	30.06.2019	30.09.2019	31.12.2019	31.03.2020	30.06.2020
Bad exposures	54,124	57,319	50,622	48,564	48,714
Unlikely to pay	113,462	122,738	139,349	141,127	140,422
Past due	68,733	59,674	55,647	68,747	84,134
Non-performing	**236,319**	**239,731**	**245,618**	**258,438**	**273,270**
Performing	**2,428,104**	**2,387,359**	**2,392,985**	**2,352,389**	**2,380,051**
Stage 2	114,250	123,782	124,252	155,374	165,148
Stage 1	2,313,854	2,263,577	2,268,733	2,197,015	2,214,903
Total loans and receivables with customers	**2,664,423**	**2,627,090**	**2,638,603**	**2,610,827**	**2,653,321**
Individual impairment losses	**33,662**	**34,746**	**37,217**	**38,194**	**38,495**
Bad exposures	19,602	20,394	20,078	19,819	19,920
Unlikely to pay	12,665	13,588	16,042	17,106	17,707
Past due	1,395	764	1,097	1,269	868
Collective impairment losses	**6,791**	**7,303**	**5,686**	**6,335**	**8,283**
Total impairment losses	**40,453**	**42,049**	**42,903**	**44,529**	**46,779**

The ratio of gross non-performing loans to the total portfolio went from 9.3% at 31 December 2019 to 10.3% at the end of the first half of 2020. The increase in the absolute value of non-performing loans compared to 31 December 2019 is mainly due to factoring positions with local authorities in financial difficulty and private-sector assignors. The amount of past due loans and local authorities in financial difficulty is attributed to factoring receivables without recourse from Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.
Net bad exposures remained at moderate levels and amounted to 1.1% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 14.1%.
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 € 26.4 million after the accumulated depreciation of the building. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments for branches and company cars.
Intangible assets 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.

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

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

LIABILITIES AND EQUITY (€,000)	30.06.2020	31.12.2019	€ Change	% Change
Financial liabilities measured at amortised cost	3,593,664	3,416,486	177,178	5.2%
a) due to banks	754,266	388,359	365,907	94.2%
b) due to customers	2,317,152	2,551,600	(234,448)	-9.2%
c) securities issued	522,246	476,527	45,719	9.6%
Tax liabilities	15,275	16,433	(1,158)	-7.0%
Other liabilities	107,348	94,662	12,686	13.4%
Post-employment benefits	3,295	3,051	244	8.0%
Provisions for risks and charges	21,927	22,297	(370)	-1.7%
Valuation reserves	(435)	267	(702)	<100%
Reserves	170,078	137,749	32,329	23.5%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(234)	(234)	-	0.0%
Profit for the period	12,128	29,719	(17,591)	-59.2%
Total liabilities and equity	**3,932,697**	**3,730,081**	**202,616**	**5.4%**

Wholesale funding, which represents about 50% (39% at 31 December 2019) of the total, increased in relative 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 40.7% (56.4% at the end of 2019).

DUE TO BANKS (€,000)	30.06.2020	31.12.2019	€ Change	% Change
Due to Central banks	691,220	358,250	332,970	92.9%
Due to banks	63,046	30,109	32,937	>100%
Current accounts and demand deposits	*63,046*	*20*	*63,026*	*>100%*
Term deposits with banks	-	*30,089*	*(30,089)*	*-100%*
Total	**754,266**	**388,359**	**365,907**	**94.2%**

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 and government bonds. 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 also benefit from the LTRO bridge loan (650 million as at 30 June 2020) at a refinancing rate equal to the average rate applied to deposits with the Central Bank of -0.50%.

DUE TO CUSTOMERS (€,000)	30.06.2020	31.12.2019	€ Change	% Change
Term deposits	1,005,799	1,325,794	(319,995)	-24.1%
Financing (repurchase agreements)	528,306	457,070	71,236	15.6%
Current accounts	700,263	681,577	18,686	2.7%
Due to assignors	82,223	83,783	(1,560)	-1.9%
Other payables	561	3,376	(2,815)	-83.4%
Total	**2,317,152**	**2,551,600**	**(234,448)**	**-9.2%**

The item “Due to customers” decreased compared to the end of the year, mainly due to a decrease in funding from term deposits and from repurchase agreements. The period-end amount of term deposits decreased by 24.1% compared to the end of 2019, reflecting net negative deposits (net of accrued interest) of € -319 million due to the reduction in interest rates in the international channel; gross deposits from the beginning of the year were € 386 million, against withdrawals totalling € 706 million.

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

SECURITIES ISSUED (€,000)	30.06.2020	31.12.2019	€ Change	% Change
Bond - AT1	8,015	8,016	(1)	0.0%
Bond - Tier II	37,560	37,547	13	0.0%
Bonds - other	476,671	430,964	45,707	10.6%
Total	**522,246**	**476,527**	**45,719**	**9.6%**

The nominal amount of securities issued at 30 June 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 (market placement) of € 175 million, 2017-2020 with a fixed coupon of 1.75%;
- Senior bonds (private placement) of € 91.6 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 € 29.5 million includes the provision for possible liabilities attributable to past acquisitions, the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to lawsuits with customers and the estimated charges for other lawsuits and legal disputes. Following the acquisition of Atlantide, the provision increased as a result of the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years, and the provision for supplementary customer allowances. Also included is the provision to cover the estimated adverse effect of possible early repayments on CQS portfolios purchased from third-party intermediaries.

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

The item also includes the approved dividend of € 7.5 million that has not yet been distributed, as it is subject to a resolution of a new Shareholders' Meeting on the dividend payment date, to be convened by the Board of Directors no earlier than 1 October 2020, but before the end of November. This amount will be excluded from the calculation of CET1.

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

(€,000)	PROFIT (LOSS)	EQUITY
Profit/equity of the parent	**12,555**	**184,473**
Assumption of value of investments	-	(44,231)
Consolidated loss/equity	(546)	50,947
Equity attributable to the owners of the parent	**12,009**	**191,189**
Equity attributable to non-controlling interests	119	(9,661)
Group equity	**12,128**	**181,528**

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	30.06.2020	31.12.2019
Common Equity Tier 1 (CET1)	**173,932**	**165,119**
ADDITIONAL TIER 1	8,000	8,000
Tier 1 capital (T1)	**181,932**	**173,119**
TIER2	37,540	37,500
Total Own Funds (TC)	**219,472**	**210,619**
Total risk-weighted assets	**1,265,765**	**1,405,890**
of which, credit risk	1,096,492	1,236,603
of which, operational risk	169,252	169,252
of which, CVA	21	35
Ratio - CET1	13.7%	11.7%
Ratio - T1	14.4%	12.3%
Ratio - TCR	17.3%	15.0%
Ratio - pro-forma CET1 (*)	*11.7%*	
Ratio - pro-forma T1 (*)	*12.3%*	
Ratio - pro-forma TCR (*)	*15.2%*	

(*) = estimate of the impact on the capital ratios resulting from the acquisition of the collateralised lending business unit from Intesa Sanpaolo which took effect on 13 July 2020.

Total own funds were € 219 million at 30 June 2020 and included the profit for the period, net of dividends estimated on the profit for the period which were equal to a pay-out of 25% of the Parent's profit.

Total own funds increased compared to 31 March 2020 (€ 211.3 million) reflecting the combined effect of net operating income for the quarter and the positive change in the reserve on the portfolio of Italian government securities classified as HTCS. 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. For consistency and to improve the comparability of the ratios, the pro-forma figure at 31 December has been provided.

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 30 June 2020 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

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

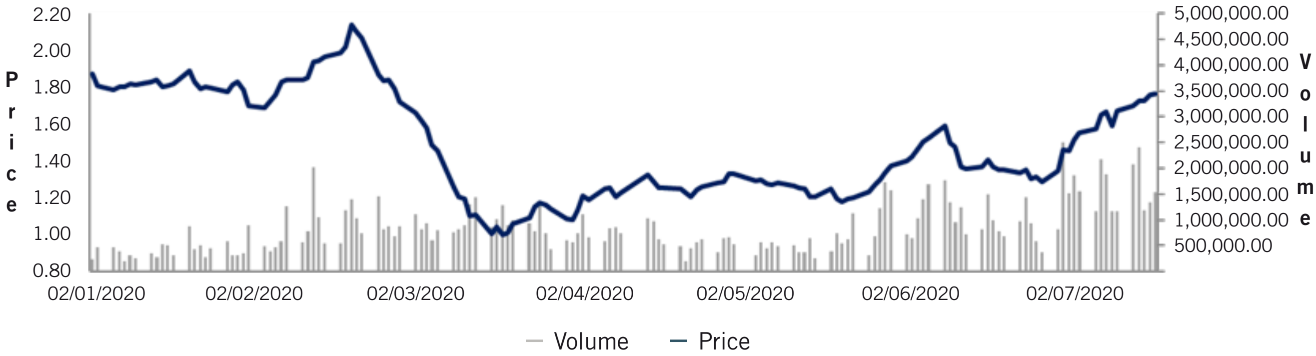
Treasury shares

At 30 June 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) which is unchanged compared to 31 December 2019.

Stock performance

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

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



During the first half of 2020, the shares were among the most traded in the STAR segment in terms of turnover velocity (cumulative daily share volumes over the total number of outstanding shares).

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 are being implemented that will allow the Group to be compliant with the new definition of default that is being introduced whose implementation date is 1 January 2021.

Regarding the monitoring of credit risk, in February 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.

The Group is involved in development activities aimed at adapting its information systems to the new definition of default that will come into force on 1 January 2021.

OTHER INFORMATION

Research and Development Activities

No research and development activities were carried out in 2020.

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 2020, 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

The acquisition of Intesa Sanpaolo Group's collateralised lending business unit was completed on 10 July with effect from 13 July 2020. This acquisition will lead to an increase in assets of € 57 million.

The acquisition price, which is still subject to possible variations depending on the imbalance of the business unit, was € 34 million and the excess value over the business unit's imbalance, which will be subject to subsequent allocation in accordance with international accounting standards, is € 29.8 million.

Following the acquisition of the collateralised lending business unit by the subsidiary ProntoPegno, the estimated CET1 ratio at 30 June 2020 would be 11.7% (the Total Capital ratio would be 15.2%).

With reference to the new recommendations issued, respectively on 27 and 28 July 2020, by the European Central Bank (ECB) and the Bank of Italy on the distribution of dividends by credit institutions, the Board of Directors reserved the right to discuss the issue at a forthcoming Board meeting to be held in time to allow the Shareholders' Meeting, which will be convened in the period between 1 October and 30 November 2020, to vote on the relevant resolutions.

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

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The Group experienced a slight decrease in production in the second quarter as a result of the COVID-19 pandemic. This decline could continue for the rest of the year and could have an impact on year-end results, which is currently not deemed to be significant.

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.

In light of the current economic and market uncertainties and the difficulties in predicting the actual future impacts of the current pandemic, the drafting of the new business plan has been postponed to the start of the new year.

Milan, 31 July 2020

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2020

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	30.06.2020	31.12.2019
10.	Cash and cash equivalents	717	652
20.	Financial assets measured at fair value through other comprehensive income	754,084	556,383
40.	Financial assets measured at amortised cost	3,119,600	3,112,387
	a) loans and receivables with banks	*65,711*	*81,510*
	b) loans and receivables with customers	*3,053,889*	*3,030,877*
90.	Property and equipment	29,142	29,002
100.	Intangible assets	3,921	3,921
	of which:		
	goodwill	*3,920*	*3,920*
110.	Tax assets	8,886	8,476
	a) current	*1*	*1*
	b) deferred	*8,885*	*8,475*
130.	Other assets	16,347	19,260
	Total Assets	**3,932,697**	**3,730,081**

	Liabilities and equity	30.06.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	3,593,664	3,416,486
	a) due to banks	*754,266*	*388,359*
	b) due to customers	*2,317,152*	*2,551,600*
	c) securities issued	*522,246*	*476,527*
60.	Tax liabilities	15,275	16,433
	a) current	*2,192*	*2,213*
	b) deferred	*13,083*	*14,220*
80.	Other liabilities	107,348	94,662
90.	Post-employment benefits	3,295	3,051
100.	Provisions for risks and charges:	21,927	22,297
	a) commitments and guarantees issued	*3*	*44*
	c) other provisions for risks and charges	*21,924*	*22,253*
120.	Valuation reserves	(435)	267
150.	Reserves	121,317	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 (+/-)	9,661	32
200.	Profit for the period	12,128	29,719
	Total liabilities and equity	**3,932,697**	**3,730,081**

INCOME STATEMENT

(Amounts in thousands of Euro)

		FIRST HALF OF 2020	FIRST HALF OF 2019
10.	Interest and similar income	45,889	48,575
	of which: interest income calculated with the effective interest method	44,368	46,500
20.	Interest and similar expense	(12,548)	(14,106)
30.	**Net interest income**	**33,341**	**34,469**
40.	Fee and commission income	11,680	11,013
50.	Fee and commission expense	(3,591)	(2,839)
60.	**Net fee and commission income**	**8,089**	**8,174**
70.	Dividends and similar income	227	227
80.	Net trading income	38	211
100.	Gain from sales or repurchases of:	4,191	1,007
	a) financial assets measured at amortised cost	*1,926*	-
	b) financial assets measured at fair value through other comprehensive income	*2,250*	*1,007*
	c) financial liabilities	*15*	-
120.	**Total income**	**45,886**	**44,088**
130.	Net impairment losses on:	(5,068)	(4,760)
	a) financial assets measured at amortised cost	*(4,860)*	*(4,723)*
	b) financial assets measured at fair value through other comprehensive income	*(208)*	*(37)*
150.	**Net financial income**	**40,818**	**39,328**
190.	Administrative expenses	(23,372)	(21,826)
	a) personnel expense	*(11,130)*	*(10,475)*
	b) other administrative expenses	*(12,242)*	*(11,351)*
200.	Net accruals to provisions for risks and charges	(1,143)	(1,285)
	a) commitments and guarantees issued	*40*	*(5)*
	b) other net accruals	*(1,183)*	*(1,280)*
210.	Net impairment losses on property and equipment	(738)	(758)
220.	Net impairment losses on intangible assets	(13)	(119)
230.	Other operating income	265	436
240.	**Operating costs**	**(25,001)**	**(23,552)**
250.	Gains (losses) on sales of investments	1,090	(8)
290.	**Pre-tax profit from continuing operations**	**16,907**	**15,768**
300.	Income taxes	(4,898)	(5,160)
310.	**Post-tax profit from continuing operations**	**12,009**	**10,608**
320.	Post-tax profit (loss) from discontinued operations	-	562
330.	**Profit for the period**	**12,009**	**11,170**
340.	**Profit for the period attributable to non-controlling interests**	**119**	**-**
350.	**Profit for the period attributable to the owners of the parent**	**12,128**	**11,170**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		FIRST HALF OF 2020	2019
10.	**Profit for the period**	**12,128**	**29,719**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	**-**	**-**
70.	Defined benefit plans	(83)	(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	(619)	1,430
170.	**Total other comprehensive income (expense), net of income tax**	**(702)**	**1,398**
180.	**Comprehensive income (Items 10+170)**	**11,426**	**31,117**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**11,426**	**31,117**

STATEMENT OF CHANGES IN EQUITY AS AT 30.06.2020

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the period										
							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 the first half of 2020	**Equity at 30.06.2020**	**Equity attributable to non-controlling interests at 30.06.2020**
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	-	460	-	-	-	-	-	-	-	-	**121,317**	-
a) income-related	**98,942**	-	**98,942**	22,240	-	(3)	-	-	-	-	-	-	-	-	**121,179**	-
b) other	**(325)**	-	**(325)**	-	-	463	-	-	-	-	-	-	-	-	**138**	-
Valuation reserves	**267**	-	**267**	-	-	-	-	-	-	-	-	-	-	(702)	**(435)**	-
Equity instruments	**-**	-	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(234)**	-	**(234)**	-	-	-	-	-	-	-	-	-	-	-	**(234)**	-
Profit for the period	**29,719**	-	**29,719**	(22,240)	(7,479)	-	-	-	-	-	-	-	-	12,128	**12,128**	-
Equity attributable to the owners of the parent	**177,120**	**-**	**177,120**	**-**	**(7,479)**	**460**	-	-	-	-	-	-	**-**	**11,426**	**181,527**	**-**
Equity attributable to non-controlling interests	**32**	**-**	**32**	**-**	**-**	**-**	-	-	-	-	-	-	**9,629**	**-**	**-**	**9,661**

The approved dividend of € 7.5 million has not yet been distributed as it is subject to a resolution of a new Shareholders' Meeting on the dividend payment date, to be convened by the Board of Directors no earlier than 1 October 2020, but before the end of November, in accordance with the supervisory provisions or other recommendations of the Supervisory Authorities. Accordingly, at 30 June 2020, the dividend is classified under other liabilities.

STATEMENT OF CHANGES IN EQUITY AS AT 30.06.2019

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the period										
							Transactions on equity									
	Balance at 31.12.2018	Change in opening balances	**Balance at 1.1.2019**	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the first half of 2019	**Equity attributable to the owners of the parent at 30.06.2019**	**Equity attributable to non-controlling interests at 30.06.2019**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**39,184**	-	39,184	-	-	(42)	-	-	-	-	-	-	-	-	**39,142**	-
Reserves	**78,452**	-	78,452	20,170	-	250	-	-	-	-	-	-	-	-	**98,872**	-
a) income-related	**78,792**	-	78,792	20,170	-	(25)	-	-	-	-	-	-	-	-	**98,937**	-
b) other	**(340)**	-	(340)	-	-	275	-	-	-	-	-	-	-	-	**(65)**	-
Valuation reserves	**(1,131)**	-	(1,131)	-	-	-	-	-	-	-	-	-	-	920	**(211)**	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(199)**	-	(199)	-	-	-	-	-	-	-	-	-	-	-	**(199)**	-
Profit for the period	**27,167**	-	27,167	(20,170)	(6,997)	-	-	-	-	-	-	-	-	11,170	**11,170**	-
Equity attributable to the owners of the parent	**153,124**	-	**153,124**	-	**(6,997)**	**208**	-	-	-	-	-	-	-	**12,090**	**158,425**	-
Equity attributable to non-controlling interests	**30**	-	**30**	-	-	-	-	-	-	-	-	-	-	-	-	**30**

STATEMENT OF CASH FLOWS (indirect method)

Amounts in thousands of Euro

	FIRST HALF OF 2020	FIRST HALF OF 2019
A. OPERATING ACTIVITIES		
1. Operations	**35,453**	**44,856**
▪ Profit for the period (+/-)	12,128	11,170
▪ 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 (+/-)	4,860	4,723
▪ Net impairment losses on property and equipment and intangible assets (+/-)	751	877
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	1,143	1,285
▪ Taxes, duties and tax assets not yet paid (+/-)	(431)	817
▪ Other adjustments (+/-)	17,002	25,984
2. Cash flows used for financial assets	**(198,410)**	**(386,346)**
▪ 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	(198,403)	(54,957)
▪ Financial assets measured at amortised cost	(3,847)	(329,627)
▪ Other assets	3,840	(1,762)
3. Cash flows generated by financial liabilities	**163,913**	**350,551**
▪ Financial liabilities measured at amortised cost	161,364	342,796
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	2,549	7,755
Net cash flows generated by operating activities	**956**	**9,061**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**2,621**
▪ Sales of equity investments	-	2,621
▪ Dividends from equity investments	-	-
▪ Sales of property and equipment	-	-
▪ Sales of intangible assets	-	-
▪ Sales of business units	-	-
2. Cash flows used in	**(891)**	**(4,632)**
▪ Purchases of equity investments	-	-
▪ Purchases of property and equipment	(878)	(2,379)
▪ Purchases of intangible assets	(13)	(2,253)
▪ Purchases of business units	-	-
Net cash flows used in investing activities	**(891)**	**(2,011)**
C. FINANCING ACTIVITIES		
▪ Issues/repurchases of treasury shares	-	-
▪ Issues/repurchases of equity instruments	-	-
▪ Dividend and other distributions	-	(6,997)
Net cash flows generated by (used in) financing activities	**-**	**(6,997)**
NET CASH FLOWS FOR THE PERIOD	**65**	**53**

RECONCILIATION

Cash and cash equivalents at the beginning of the period	652	289
Total net cash flows for the period	65	53
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	717	342

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards

These condensed interim consolidated financial statements were drafted in accordance with Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) as endorsed and in force on 30 June 2020, including the interpretation documents (SIC) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by EU Regulation no. 1606 of 19 July 2002.

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

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

The specific accounting standards adopted have not been amended compared to the financial statements at 31 December 2019.

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

General basis of preparation

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

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

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

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

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

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

- the measurements are made considering that the bank will continue as a going concern guaranteed by the financial support of the Shareholders;
- costs and income are accounted for on an accruals basis;
- to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of presentation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each material class of similar items is presented separately in the statement of financial position and income statement; items of a dissimilar nature or function are presented separately unless they are

considered immaterial;

- items that have nil balances at period end or for the period or for the previous period are not indicated in the statement of financial position or the income statement;
- if an asset or liability comes under several items in the statement of financial position, the notes to the financial statements make reference to the other items under which it is recognised if it is necessary for a better understanding of the financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an IFRS or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of materiality and significance of the information;
- comparative data for the previous period are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous period, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; the tables included in this layout were not presented if they were not applicable to the bank's business.

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

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

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

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

Scope and methods of consolidation

The consolidated financial statements include the Parent, Banca Sistema S.p.A., and the companies directly or indirectly controlled by or connected with it. Compared to the situation as at 31 December 2019, the scope of consolidation has not changed.

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

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

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

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

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

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 period is shown in a specific caption.

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item "130 Intangible Assets" on the date of initial consolidation. The resulting differences, if negative, are recognised in the income statement. Intra-group balances and transactions, including income, costs and dividends, are entirely eliminated. The financial results of a subsidiary acquired during the period are included in the consolidated financial statements from the date of acquisition. At the same time, the financial results of a transferred subsidiary are included in the consolidated financial statements up to the date on which the subsidiary is transferred. The accounts used in the preparation of the consolidated financial statements are drafted on the same date. The consolidated financial statements were drafted using consistent accounting standards for similar transactions and events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for similar transactions and events in similar circumstances, adjustments are made to the financial position for consolidation purposes. Detailed information with reference to art. 89 of Directive 2013/36/EU of the European Parliament and Council (CRD IV) is published at the link www.bancasistema.it/pillar3.

Consolidation at equity

Associates are consolidated at equity.

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

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

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

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

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment.

Events after the reporting date

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

Information on the main items of the consolidated financial statements

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

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

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

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

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

Other aspects

The interim consolidated financial report was approved on 31 July 2020 by the Board of Directors, which authorised its disclosure to the public in accordance with IAS 10.

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 condensed interim consolidated financial statements:

- Level 1- Effective market quotes

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

A.4.4 Other Information

The item is not applicable for the Group.

DETAILED TABLES

ASSETS

CASH AND CASH EQUIVALENTS - ITEM 10

Cash and cash equivalents: breakdown

	30.06.2020	31.12.2019
a. Cash	717	652
b. Demand deposits with Central Banks	-	-
TOTAL	**717**	**652**

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

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

	30.06.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**748,751**	**-**	**-**	**550,219**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	748,751	-	-	550,219	-	-
2. Equity instruments	**333**	**-**	**5,000**	**1,164**	**-**	**5,000**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
Total	**749,084**	**-**	**5,000**	**551,383**	**-**	**5,000**

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

FINANCIAL ASSETS MEASURED AT AMORTISED COST - ITEM 40

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

	30.06.2020						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	**14,138**	**-**	**-**	-	**-**	**14,138**	**19,966**	**-**	**-**	-	**-**	**19,966**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	14,106	-	-	X	X	X	19,912	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	32	-	-	X	X	X	54	-	-	X	X	X
B. Loans and receivables with banks	**51,573**	**-**	**-**	**-**	**-**	**51,573**	**61,544**	**-**	**-**	**-**	**-**	**61,544**
1. Financing	**48,444**	**-**	**-**	**-**	**-**	**48,444**	**61,544**	**-**	**-**	**-**	**-**	**61,544**
1.1 Current accounts and demand deposits	48,398	-	-	X	X	X	53,011	-	-	X	X	X
1.2. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Other financing:	46	-	-	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	46	-	-	X	X	X	8,533	-	-	X	X	X
2. Debt instruments	**3,129**	**-**	**-**	**-**	**-**	**3,129**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	3,129	-	-	-	-	3,129	-	-	-	-	-	-
Total	**65,711**	**-**	**-**	**-**	**-**	**65,711**	**81,510**	**-**	**-**	**-**	**-**	**81,510**

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

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

	30.06.2020						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	**2,371,769**	**234,774**	**26,993**	-		**2,652,752**	**2,387,301**	**208,399**	**27,527**	**-**	**-**	**2,595,700**
1.1 Current accounts	20,051	170	-	X	X	X	30,106	56	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Loans	10,766	1,979	-	X	X	X	6,753	1,970	-	X	X	X
1.4 Credit cards, personal loans and salary- and pension-backed loans	870,378	7,868	-	X	X	X	796,368	6,012	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	931,397	212,658	26,993	X	X	X	963,352	188,869	27,527	X	X	X
1.7 Other financing	539,177	12,099	-	X	X	X	590,722	11,492	-	X	X	X
2. Debt instruments	**447,346**	**-**	**-**	**450,668**	**72,000**	**-**	**435,177**	**-**	**-**	**435,177**	**-**	**-**
2.1 Structured instruments	-	-	-	-		-	-	-	-	-	-	-
2.2 Other debt instruments	447,346	-	-	450,668	72,000	-	435,177	-	-	435,177	-	-
Total	**2,819,115**	**234,774**	**26,993**	**450,668**	**72,000**	**2,652,752**	**2,822,478**	**208,399**	**27,527**	**435,177**	**-**	**2,595,700**

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

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

	30.06.2020			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	**447,346**	**-**	**-**	**435,177**	**-**	**-**
a) Public administrations	447,346	-	-	435,177	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,371,769**	**234,774**	**26,993**	**2,387,301**	**208,399**	**27,527**
a) Public administrations	1,205,130	174,147	26,993	1,281,129	142,646	27,527
b) Other financial companies	52,999	5	-	60,481	4	-
of which: insurance companies	10	4	-	9	3	-
c) Non-financial companies	205,096	50,029	-	210,459	56,872	-
d) Households	908,544	10,593	-	835,232	8,877	-
Total	**2,819,115**	**234,774**	**26,993**	**2,822,478**	**208,399**	**27,527**

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	450,693	-	-	-	218	-	-	-
Financing	2,277,486	-	165,148	273,270	7,204	1,080	38,495	-
Total	**2,728,179**	-	**165,148**	**273,270**	**7,422**	**1,080**	**38,495**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	24,563	2,879	X	251	199	**-** -

EQUITY INVESTMENTS - ITEM 70

Equity investments: information on investment relationships

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

PROPERTY AND EQUIPMENT - ITEM 90

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

	30.06.2020	31.12.2019
1. Owned	**27,105**	**27,373**
a) land	8,416	8,416
b) buildings	17,956	18,211
c) furniture	296	329
d) electronic equipment	437	417
e) other	-	-
2 Under finance lease	**2,037**	**1,629**
a) land	-	-
b) buildings	1,218	905
c) furniture	-	-
d) electronic equipment	-	-
e) other	819	724
TOTAL	**29,142**	**29,002**
of which: obtained from the enforcement of guarantees received	-	-

INTANGIBLE ASSETS - ITEM 100

Intangible assets: breakdown by type of asset

	30.06.2020		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	**1**	**-**	**1**	**-**
A.2.1 Assets measured at cost:	1	-	1	-
a. Internally developed assets	-	-	-	-
b. Other	1	-	1	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
TOTAL	**1**	**3,920**	**1**	**3,920**

As envisaged and noted by regulatory bodies, as a consequence of the current economic situation caused by the spread of COVID-19, an impairment test on the value of goodwill reported in the financial statements was also carried out at 30 June 2020, the results of which do not indicate the need to recognise an impairment loss.

OTHER ASSETS - ITEM 130

	30.06.2020	31.12.2019
Tax advances	6,396	7,584
Other	3,194	4,172
Work in progress	2,697	2,944
Trade receivables	1,967	2,335
Prepayments not related to a specific item	1,755	1,962
Security deposits	177	76
Leasehold improvements	161	187
Total	**16,347**	**19,260**

LIABILITIES

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

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

	30.06.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**691,220**	X	X	X	**358,250**	X	X	X
2. Due to banks	**63,046**	X	X	X	**30,109**	X	X	X
2.1 Current accounts and demand deposits	20	X	X	X	20	X	X	X
2.2 Term deposits	63,026	X	X	X	30,089	X	X	X
2.3 Financing	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-				-			
2.6 Other payables	-	X	X	X	-	X	X	X
TOTAL	**754,266**			**754,266**	**388,359**			**388,359**

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

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

	30.06.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	700,198	X	X	X	681,500	X	X	X
2. Term deposits	1,005,797	X	X	X	1,325,741	X	X	X
3. Financing	610,529	X	X	X	544,200	X	X	X
3.1 Repurchase agreementsi	528,306	X	X	X	457,070	X	X	X
3.2 Other	82,223	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	628	X	X	X	159	X	X	X
TOTAL	**2,317,152**			**2,317,152**	**2,551,600**			**2,551,600**

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

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

	30.06.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. bonds	**522,246**	**177,094**	**-**	**345,152**	**476,527**	**176,657**	**-**	**135,722**
1.1 structured	-		-	-	-	-	-	-
1.2 other	522,246	177,094	-	345,152	476,527	176,657	-	135,722
2. other securities	**-**		**-**	**-**	**-**	**-**	**-**	**-**
1.1 structured	-		-	-	-	-	-	-
1.2 other	-		-	-	-	-	-	-
TOTAL	**522,246**	**177,094**	**-**	**345,152**	**476,527**	**176,657**	**-**	**135,722**

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

Breakdown of subordinated securities

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate	Until 17 June 2023, fixed rate at 7% From 18 June 2023, 6-month Euribor +5% variable rate	Perpetual	8,000	8,015
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	6-month Euribor + 4.5%	30/03/2027	19,500	19,522
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	Fixed rate at 7%	20/06/2029	18,000	18,038
TOTAL					**45,500**	**45,732**

OTHER LIABILITIES - ITEM 80

Other liabilities: breakdown

	30.06.2020	31.12.2019
Payments received in the reconciliation phase	57,057	54,893
Work in progress	14,667	9,365
Accrued expenses	13,287	10,820
Dividends due to shareholders	7,479	-
Trade payables	5,827	6,660
Tax liabilities with the Tax Authority and other tax authorities	4,620	9,471
Finance lease liabilities	2,061	1,710
Due to employees	1,665	903
Pension repayments	553	699
Other	132	141
Total	**107,348**	**94,662**

The item also includes the approved dividend of € 7.5 million that has not yet been distributed, as it is subject to a resolution of a new Shareholders' Meeting on the dividend payment date, to be convened by the Board of Directors no earlier than 1 October 2020, but before the end of November. This amount will be excluded from the calculation of CET1.

POST-EMPLOYMENT BENEFITS - ITEM 90

Post-employment benefits: changes

	30.06.2020	31.12.2019
A. Opening balance	**3,051**	**2,402**
B. Increases	**419**	**1,057**
B.1 Accruals	336	537
B.2 Other increases	83	302
B.3 Business combination transactions	-	218
C. Decreases	**175**	**408**
C.1 Payments	175	273
C.2 Other decreases	-	135
D. Closing balance	**3,295**	**3,051**
TOTAL	**3,295**	**3,051**

Annual discount rate	0.74%
Annual inflation rate	1.20% for 2020
Annual post-employment benefits increase rate	2.40% for 2020
Annual real salary increase rate	1.00%

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

PROVISIONS FOR RISKS AND CHARGES - ITEM 100

Provisions for risks and charges: breakdown

	30.06.2020	31.12.2019
1. Provisions for credit risk related to commitments and financial guarantees issued	**3**	**44**
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	**21,924**	**22,253**
4.1 legal and tax disputes	5,143	4,481
4.2 personnel expense	5,879	7,726
4.3 other	10,902	10,046
TOTAL	**21,927**	**22,297**

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	**-**	**-**	**3,520**	**3,520**
B.1 Accruals	-	-	3,295	3,295
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	225	225
B.5 Business combination transactions	-	-	-	-
C. Decreases	**41**	**-**	**3,849**	**3,890**
C.1 Utilisations	-	-	3,521	3,521
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	41	-	328	369
D. Closing balance	**3**	**-**	**21,924**	**21,927**

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

"Share capital" and "Treasury shares": breakdown

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares with a nominal amount of € 0.12 for a total paid-in share capital of € 9,651 thousand. All outstanding shares have regular dividend entitlement from 1 January. Based on evidence from the Shareholders' Register and more recent information available, as at 30 June 2020 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

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

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

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

	Amount 30.06.2020	Amount 31.12.2019
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	121,317	98,617
4. (Treasury shares)	(234)	(234)
5. Valuation reserves	(435)	267
6. Equity attributable to non-controlling interests	9,661	32
7. Profit for the period	12,128	29,719
TOTAL	**191,188**	**177,152**

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

EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS - ITEM 190

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

ProntoPegno S.p.A.	30.06.2020
Equity investments in consolidated companies with significant non-controlling interests	-
1. Share capital	5,790
2. Share premium	3,959
3. Loss for the period	(119)
Total	**9,630**

Quinto Sistema 2019 S.r.l.	30.06.2020
Equity investments in consolidated companies with significant non-controlling interests	-
1. Share capital	10
2. Reserves	2
Total	**12**

Quinto Sistema 2017 S.r.l.	30.06.2020
Equity investments in consolidated companies with significant non-controlling interests	-
1. Share capital	10
2. Reserves	(1)
Total	**9**

Bs Iva Spv S.r.l.	30.06.2020
Equity investments in consolidated companies with significant non-controlling interests	-
1. Share capital	10
Total	**10**

INTEREST - ITEMS 10 AND 20

Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	First half of 2020	First half of 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:	805	43,158	-	43,963	47,037
3.1 Loans and receivables with banks	-	91	X	91	88
3.2 Loans and receivables with customers	805	43,067	X	43,872	46,949
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	1,926	1,538
TOTAL	**805**	**43,158**	**-**	**45,889**	**48,575**
of which: interest income on impaired assets	-	-	-	-	-
of which: interest income on finance leases	-	-	-	-	-

Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	First half of 2020	First half of 2019
1. Financial liabilities measured at amortised cost	8,218	4,201	-	12,419	14,097
1.1 Due to Central banks	-	X	-	-	
1.2 Due to banks	173	X	-	173	330
1.3 Due to customers	8,045	X	-	8,045	9,959
1.4 Securities issued	X	4,201	-	4,201	3,808
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	129	9
TOTAL	**8,218**	**4,201**	**-**	**12,548**	**14,106**
of which: interest expense related to lease liabilities	11	-	-	11	11

NET FEE AND COMMISSION INCOME - ITEMS 40 AND 50

Fee and commission income: breakdown

	FIRST HALF OF 2020	FIRST HALF OF 2019
a. guarantees issued	15	13
b. credit derivatives	-	-
c. management, brokerage and consultancy services:	64	58
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. individual asset management	5	4
4. securities custody and administration	-	-
5. depositary services	-	-
6. placement of securities	38	33
7. order collection and transmission	21	21
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	24	51
e. services for securitisations	-	-
f. services for factoring	9,616	9,332
g. tax collection services	-	-
h. management of multilateral trading facilities	-	-
i. keeping and management of current accounts	49	33
j. other services	1,912	1,526
TOTAL	**11,680**	**11,013**

Fee and commission expense: breakdown

	FIRST HALF OF 2020	FIRST HALF OF 2019
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	2,342	1,187
1. trading in financial instruments	37	40
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	2,305	1,147
d) collection and payment services	102	101
e) other services	1,147	1,551
TOTAL	**3,591**	**2,839**

DIVIDENDS AND SIMILAR INCOME - ITEM 70

Dividends and similar income: breakdown

		First half of 2020		First half of 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**	**-**

NET TRADING INCOME - ITEM 80

Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**56**	**-**	**(1)**	**55**
1.1 Debt instruments	-	56	-	-	56
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 losses	**X**	**X**	**X**	**X**	**(17)**
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	**-**	**56**	**-**	**(1)**	**38**

GAIN FROM SALES OR REPURCHASES - ITEM 100

Gain from sales or repurchases: breakdown

	FIRST HALF OF 2020			FIRST HALF OF 2019		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	2,030	(444)	1,586	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	2,030	(444)	1,586	-	-	-
2. Financial assets measured at fair value through other comprehensive income	2,631	(26)	2,605	1,074	(67)	1,007
2.1 Debt instruments	2,631	(26)	2,605	1,074	(67)	1,007
2.2 Financing	-	-	-	-	-	-
TOTAL ASSETS	**4,661**	**(470)**	**4,191**	**1,074**	**(67)**	**1,007**

The loss on loans and receivables with customers is the result of the sale of non-performing loans with a nominal amount of € 3.1 million.

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

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

	Impairment losses (1)			Impairment gains (2)		FIRST HALF OF 2020	FIRST HALF OF 2019
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Loans and receivables with banks	**-**	**-**	**-**	**26**	**-**	**(26)**	**(8)**
- financing	-	-	-	26	-	(26)	(8)
- debt instruments	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**3,237**	**-**	**1,980**	**123**	**-**	**5,094**	**4,768**
- financing	2,932	-	1,980	123	-	4,789	4,697
- debt instruments	305	-	-	-	-	305	71
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
C. Total	**3,237**	**-**	**1,980**	**149**	**-**	**5,068**	**4,760**

ADMINISTRATIVE EXPENSES - ITEM 190

Personnel expense: breakdown

	FIRST HALF OF 2020	FIRST HALF OF 2019
1) Employees	10,319	9,641
a) wages and salaries	6,585	5,992
b) social security charges	1,677	1,481
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	393	360
f) accrual for pension and similar provisions:	-	-
- a contribuzione definita	-	-
- a benefici definiti	-	-
g) payments to external supplementary pension funds:	201	156
- defined contribution plans	201	156
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	1,463	1,652
2) Other personnel	203	246
3) Directors and statutory auditors	608	588
4) Retired personnel	-	-
5) Recovery of costs for employees of the Bank seconded to other entities	-	-
6) Reimbursement of costs for employees of other entities seconded to the Bank	-	-
TOTAL	**11,130**	**10,475**

Other administrative expenses: breakdown

Other administrative expenses (€,000)	FIRST HALF OF 2020	FIRST HALF OF 2019
Consultancy	1,856	1,997
IT expenses	2,896	2,782
Servicing and collection activities	1,350	1,300
Indirect taxes and duties	945	1,034
Insurance	275	219
Other	313	213
Expenses related to management of the SPVs	377	162
Car hire and related fees	281	283
Advertising	201	282
Rent and related fees	334	307
Expense reimbursement and entertainment	190	377
Infoprovider expenses	286	274
Membership fees	202	190
Property management expenses	158	157
Audit fees	141	153
Telephone and postage expenses	82	63
Logistics expenses	36	28
Stationery and printing	15	19
Resolution Fund	2,007	1,146
Merger-related costs	297	365
TOTAL	**12,242**	**11,351**

INCOME TAXES - ITEM 300

Income taxes: breakdown

		FIRST HALF OF 2020	FIRST HALF OF 2019
1.	Current taxes (-)	(5,992)	(5,541)
2.	Changes in current taxes of previous years (+/-)	125	852
3.	Decrease in current taxes for the period (+)	-	-
3.bis	Decrease in current taxes for the period due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	244	(563)
5.	Changes in deferred tax liabilities (+/-)	725	92
6.	Tax expense for the period (-) (-1+/-2+3+/-4+/-5)	(4,898)	(5,160)

EARNINGS PER SHARE

Earnings per share (EPS)	FIRST HALF OF 2020	FIRST HALF OF 2019
Parent's profit for the period (thousands of Euro)	12,555	10,900
Average number of outstanding shares	80,298,538	80,316,391
Basic earnings per share (basic EPS) (in Euro)	0.156	0.136
Diluted earnings per share (diluted EPS) (in Euro)	0.156	0.136

Other dividend information

The Shareholders' Meeting of 23 April approved the distribution of the 2019 profit as a dividend of € 7,479,157.84, deferring the decision and the relative commitment on its payment (ex-dividend date, record date and payment date) to the resolution of a new Shareholders' Meeting to be convened by the Board of Directors no earlier than 1 October 2020, but before the end of November, in accordance with the supervisory provisions or other recommendations of the Supervisory Authorities.

The approved dividend of € 7.5 million that has not yet been distributed is recognised under other liabilities. This amount will be excluded from the calculation of CET1.

OWN FUNDS AND CAPITAL RATIOS

Own funds

Quantitative disclosure

	30.06.2020
A. Common Equity Tier 1 (CET1) before application of prudential filters	**177,853**
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)	**175,510**
D. Items to be deducted from CET1	**1,790**
E. Transitional regime - Impact on CET (+/-)	**212**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**173,932**
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	**37,540**
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)	**37,540**
Q. Total Own Funds (F+L+P)	**219,472**

Capital adequacy

QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	**4,862,521,280**	**4,453,157**	**1,096,570**	**1,236,603**
1. Standardised approach	4,862,521,280	4,453,157	1,096,570	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			**87,726**	**98,928**
B.2 Credit assessment adjustment risk			**2**	**3**
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**13,540**	**13,540**
1. Basic indicator approach			13,540	13,540
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			**101,267**	**112,471**
C. EXPOSURES AND CAPITAL RATIOS			**1,265,843**	**1,405,890**
C.1 Risk-weighted assets			1,265,843	1,405,890
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			13.7%	11.7%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			14.4%	12.3%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			17.3%	15.0%

INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

Large exposures

As at 30 June 2020, the Group's large exposures are as follows:

- Carrying amount € 2,540,995 (in thousands)
- Weighted value € 202,946 (in thousands)
- No. of positions 15.

RELATED PARTY TRANSACTIONS

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

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

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

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

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

DISCLOSURE ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	FIRST HALF OF 2020
Remuneration to Board of Directors and Board of Statutory Auditors	1,113	71	-	**1,183**
Short-term benefits for employees	-	-	1,287	**1,287**
Post-employment benefits	59	-	106	**165**
Other long-term benefits	121	-	82	**204**
Termination benefits	-	-	248	**248**
Share-based payments	220	-	45	**265**
Total	**1,513**	**71**	**1,768**	**3,352**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets, liabilities, guarantees and commitments as at 30 June 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	14,706	47	1,000	0.5%
Due to customers	24,658	1,312	5,476	1.4%
Other liabilities	209	-	-	0.2%

The following table indicates the costs and income for the first half of 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	394	0	0	0.9%
Interest expense	1	9	13	0.2%

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

	AMOUNT (thousands of Euro)	PERCENTAGE (%)
ASSETS	**39,364**	**0.37%**
Loans and receivables with customers		
ProntoPegno S.p.A.	24,658	1.06%
Largo Augusto Servizi e Sviluppo S.r.l.	12,858	0.41%
Speciality Finance Trust Holdings Ltd	1,848	0.08%
LIABILITIES	**4,816**	**0.74%**
Due to customers		
Shareholders - SGBS	769	0.03%
Shareholders - Fondazione CR Alessandria	2,511	0.11%
Shareholders - Fondazione Sicilia	1,327	0.06%
Other liabilities		
ProntoPegno S.p.A.	118	0.12%
Largo Augusto Servizi e Sviluppo S.r.l.	91	0.09%

	AMOUNT (thousands of Euro)	PERCENTAGE (%)
INCOME	**394**	**0.86%**
Interest income		
Speciality Finance Trust Holdings Ltd	40	0.09%
ProntoPegno S.p.A.	165	0.36%
Largo Augusto Servizi e Sviluppo S.r.l.	189	0.41%
COSTS	**6**	**0.03%**
Interest expense		
Shareholders - SGBS	1	0.01%
Shareholders - Fondazione Sicilia	2	0.02%
Shareholders - Fondazione CR Alessandria	2	0.01%
ProntoPegno S.p.A.	1	0.01%

SEGMENT REPORTING

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

Breakdown by segment: income statement data for the first half of 2020

Income statement (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	GROUP TOTAL
Net interest income	24,796	8,071	424	50	33,341
Net fee and commission income (expense)	8,127	(369)	328	3	8,089
Dividends	145	80	-	1	227
Net trading income	24	13	-	0	38
Gain from sales or repurchases of financial assets/liabilities	3,254	924	-	13	4,191
Total income	**36,347**	**8,719**	**753**	**67**	**45,886**
Net impairment losses on loans and receivables	(4,875)	(277)	(0)	84	(5,068)
Net financial income	**31,473**	**8,442**	**752**	**151**	**40,818**

Breakdown by segment: statement of financial position data as at 30 June 2020

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	GROUP TOTAL
Financial assets (HTS and HTCS)	485,313	268,772	-	-	754,084
Loans and receivables with banks	12,218	53,493	-	-	65,711
Loans and receivables with customers	1,961,987	1,067,972	13,338	10,592	3,053,889
loans and receivables with customers - loans	*1,674,084*	*908,528*	*13,338*	*10,592*	*2,606,542*
loans and receivables with customers - debt instruments	*287,903*	*159,444*	-	-	*447,346*
Due to banks	-	-	-	754,266	754,266
Due to customers	82,223	-	-	2,234,929	2,317,152

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.

STATEMENTS ON THE CONDENSED INTERIM 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 condensed interim financial statements, during the first half of 2020.
2. Reference model
   The suitability of the administrative and accounting process for the drafting of the condensed interim financial statements at 30 June 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), which represents the reference standards for the internal control system generally accepted on an international level.
3. Moreover, the undersigned hereby state that:
   3.1 the condensed interim 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 the important events which occurred during the first half of the year and their impact on the condensed interim financial statements, together with a description of the main risks and un certainties for the remaining six months of the year. The directors' report includes, moreover, a reliable analysis of the information concerning significant related party transactions.

Milan, 31 July 2020

Gianluca Garbi

Chief Executive Officer

Alexander Muz

Manager in charge of financial reporting

INDEPENDENT AUDITORS’ REPORT

BANCA SISTEMA S.p.A.

Auditor’s review report on interim condensed consolidated financial statements

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

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes, of Banca Sistema Group as of June 30, 2020. Directors are responsible for the preparation of the interim condensed consolidated financial statements in compliance with International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Sistema Group as of June 30, 2020 are not prepared, in all material respects, in accordance with International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 5, 2020

BDO Italia S.p.A.

Signed by Rosanna Vicari
Partner

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

INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2020

BANCA SISTEMA
CONTEMPORARY BANK