INTERIM CONSOLIDATED FINANCIAL REPORT AT 31 MARCH 2020

BANCA SISTEMA
CONTEMPORARY BANK

Banca SISTEMA Group

INTERIM CONSOLIDATED FINANCIAL REPORT AT 31 MARCH 2020

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)*
CEO and General Manager	Mr.	Gianluca Garbi
Directors	Mr.	Daniele Pittatore *(Independent)*
	Ms.	Carlotta De Franceschi *(Independent)*
	Ms.	Laura Ciambellotti *(Independent)*
	Mr.	Federico Ferro Luzzi *(Independent)*
	Mr.	Francesco Galietti *(Independent)*
	Mr.	Marco Giovannini *(Independent)*

Board of Statutory Auditors

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

Independent Auditors

BDO Italia S.p.A.

Manager in charge of financial reporting

Mr. Alexander Muz

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

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

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

Appointments Committee

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

Remuneration Committee

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

Ethics Committee

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

Supervisory Body

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

FINANCIAL HIGHLIGHTS AT 31 MARCH 2020

Statement of financial position data (€,000)

	31 Mar 2020	31 Dec 2019	
Total Assets	3,762,217	3,730,081	0.9%
Securities Portfolio	1,064,384	991,560	7.3%
Loans - Factoring	1,628,664	1,714,661	-5.0%
Loans - Salary-backed loans and SME	866,307	817,229	6.0%
Funding - Banks and REPOs	1,145,603	845,429	35.5%
Funding - Term Deposits	1,097,422	1,325,794	-17.2%
Funding - Current Accounts	639,259	681,577	-6.2%

Income statement data (€,000)

	31 Mar 2020	31 Mar 2019	
Net interest income	15,921	14,673	8.5%
Net fee and commission income	4,203	4,001	5.0%
Total Income	21,995	19,304	13.9%
Personnel Expenses	(5,716)	(4,897)	16.7%
Other administrative expenses	(6,621)	(5,265)	25.8%
Profit for the period	4,589	4,515	1.6%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 MARCH 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.

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 Law Decree 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 already initiated and 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.

With reference to the moratoriums on existing loans, the Bank will carefully consider measures for suspending payment terms. As at 31 March 2020, 47 requests for a moratorium had been received, 41 of which have so far been accepted for a total amount of € 13.2 million.

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

- an additional longer-term refinancing operation auction (LTRO) to guarantee fixed-rate liquidity. The rate in these operations will be fixed at the average of the deposit facility rate. 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. The interest rate may decrease to -75 bps. 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 2020. 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 a 650 million LTRO bridge loan (550 million as at 31 March 2020) at a refinancing rate equal to the average rate applied to deposits with the Central Bank of -0.50%. Interest will be settled at maturity on 24 June 2020 (the spot settlement date of the fourth TLTRO III operation).

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, 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.

In order to counter the effects of COVID-19 and to comply with the rules issued by the government, the Bank has adopted the following measures.

The Crisis Committee has met 9 times since 23 February 2020. 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:

- 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;
- Monitoring and reporting the actual number of remote working days to the Ministry of Labour and INAIL;
- The monitoring and use of unused 2019 holidays have been initiated;
- The procedures for extraordinary leave set out in the Prime Minister's Decree of 4 March 2020 have been implemented;
- 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 and is implementing 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;
- Provide the Group offices with digital body temperature sensors (currently being studied);
- Update of the Risk Assessment Document (DVR) - Assessment of Biological Risk annex (Coronavirus Emergency).

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.

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

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

Factoring

The spread of COVID-19 is and will certainly continue to impact the economy of Italy and the rest of the world. Among financial instruments, factoring more than any other is a reflection of the health of a nation's entrepreneurial fabric. Indeed, Banca Sistema had already seen a decrease and, in some cases, the absence of receivables being assigned by revolving customers as early as April. The decrease was, however, modest amounting to no more than 10% of monthly turnover and stems from the difficulty in issuing invoices faced by some customers operating in the sectors most affected by the epidemic, such as the foodservice and cleaning sectors, a part of public works sector, automotive, fuel suppliers, etc.

However, it is worth adding that factoring can also have counter-cyclical connotations with respect to the economic cycle. Banca Sistema is therefore committed to satisfying, in the very near future, the increased demand for financial services from businesses. Furthermore, it is possible that traditionally prudent multinational companies will be more inclined to assign their receivables from the Public Administration (both trade and tax receivables) to mitigate a hypothetical country risk.

Salary- and Pension-Backed Loans

As regards the "salary- pension-backed loan" product, a video identification and certified electronic signature system is in the process of being implemented through a certified service provider, making it possible to finalise contracts remotely.

Until this system is fully operational, the use of another system for identifying customers that is already used for other bank products such as current accounts and deposit accounts has been made available. Under this existing system, customers are identified through a bank transfer of € 1 and the original signed documentation is received by registered mail or courier.

The possibility of sending the documentation signed by the customer via non-certified e-mail - in accordance with the provisions of the Liquidity Decree - was subsequently added to this method of contract finalisation and will only be used until the electronic signature process is implemented. Thereafter, and pending new legal provisions, it will only be used for existing applications where the customer has already been identified through existing anti-money laundering procedures.

Collateralised lending

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.

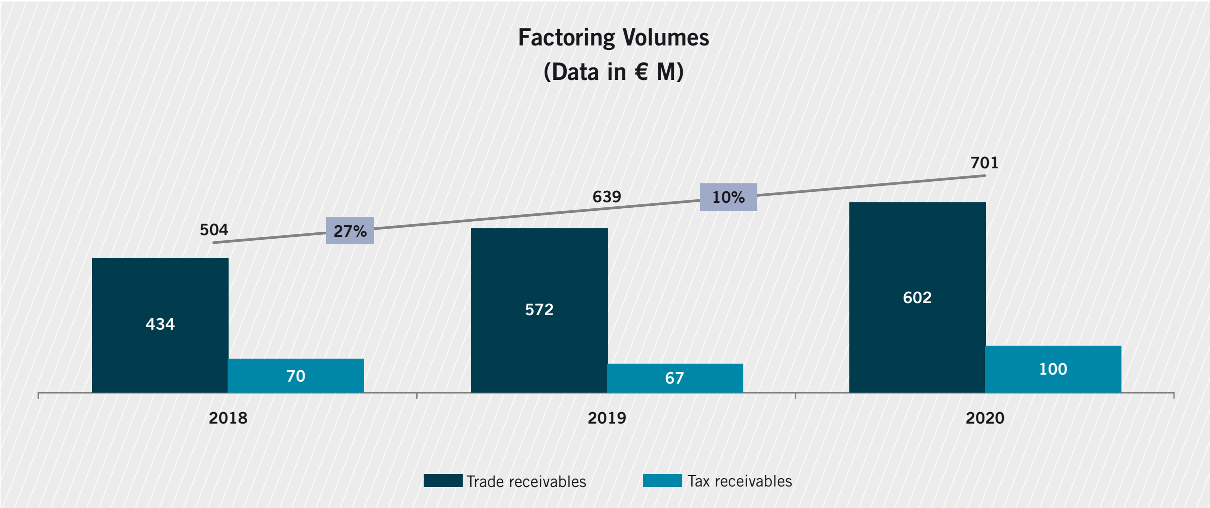
As a consequence, default interest will not accrue until the new expiry date, thus generating a loss of default interest of about € 10,000 in the income statement. Nevertheless, the customer may decide at any time to redeem the asset, even prior to expiry, without being charged the early redemption fee.

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 30 April.

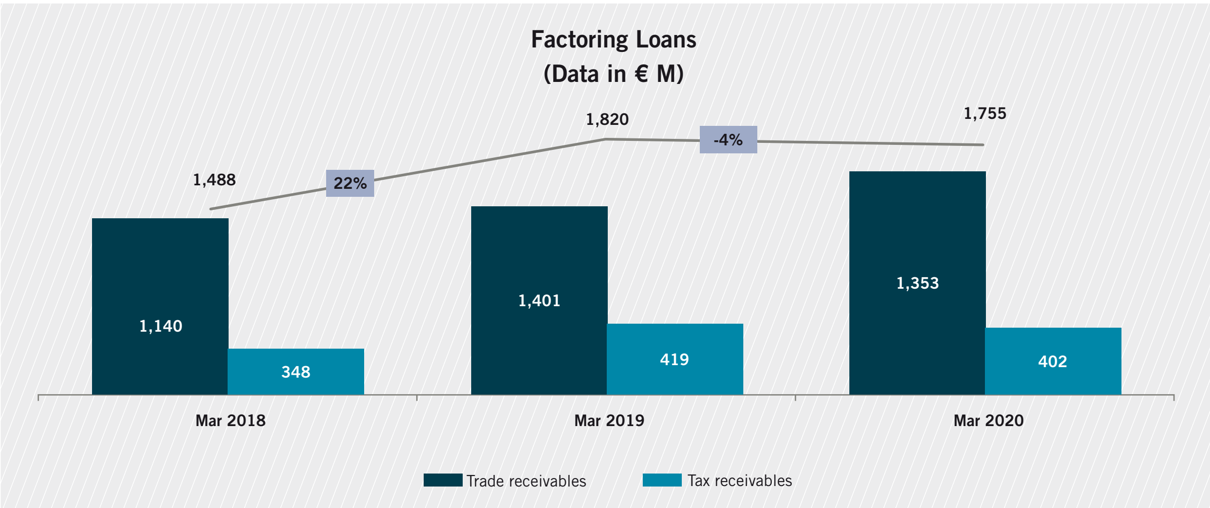
With regard to the auction originally scheduled for April, customers have been informed that it has been rescheduled for May and will last two days. The auction will be conducted in compliance with the current decree (use of masks, gloves and observance of the minimum social distances).

Banca Sistema and factoring activities

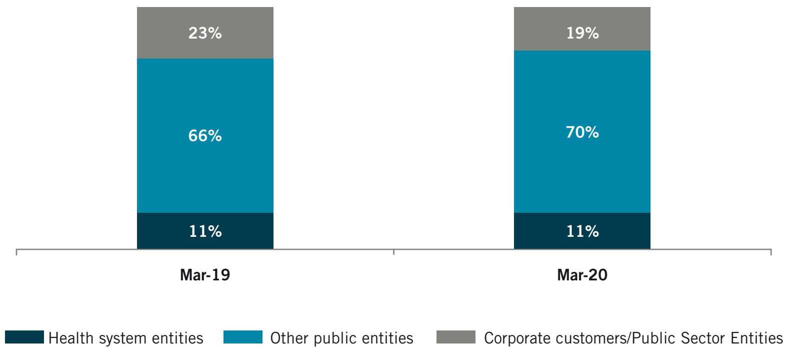
Total volumes for the period ended 31 March 2020 of the Banca Sistema Group were € 701 million, up 10% on the same period in 2019, thus continuing to confirm its ability to post solid year over year growth.



Loans as at 31 March 2020 amounted to € 1,755 million, down 4% on the € 1,820 million at 31 March 2019 mainly due to decreased volumes acquired in 2020 compared to collections during the same period.



The chart below shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 31 March 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 March 2020, existing distribution agreements accounted for 23% of total volumes. The following table shows the factoring volumes by product type:

PRODUCT (amounts in millions of Euro)	31.03.2020	31.03.2019	€ Change	% Change
Trade receivables	601	572	29	5%
of which, without recourse	*521*	*493*	*28*	*6%*
of which, with recourse	*80*	*79*	*2*	*2%*
Tax receivables	100	67	33	49%
of which, without recourse	*100*	*67*	*33*	*49%*
of which, with recourse	*0*	*0*	*0*	*0%*
TOTAL	**701**	**639**	**62**	**10%**

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

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

At 31 March 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 40 single-company agents and 18 specialised brokers located throughout Italy and is supported by a dedicated structure within the Bank.

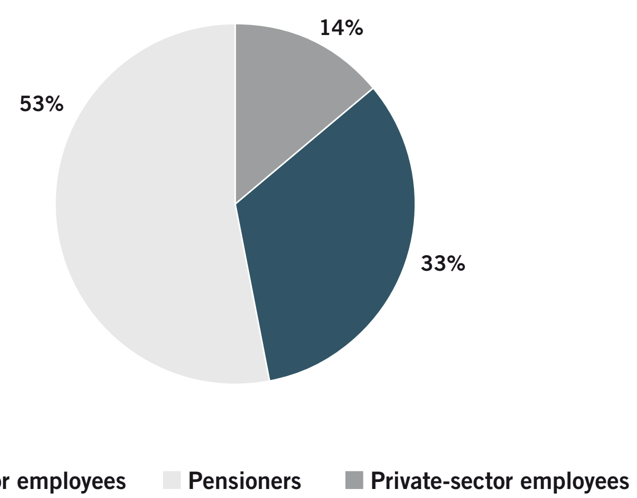
The volumes of acquired portfolios and directly originated receivables from the beginning of the year until March 2020 amounted to € 86 million, including private-sector employees (14%), pensioners (53%) and public-sector employees (33%). Therefore, over 86% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

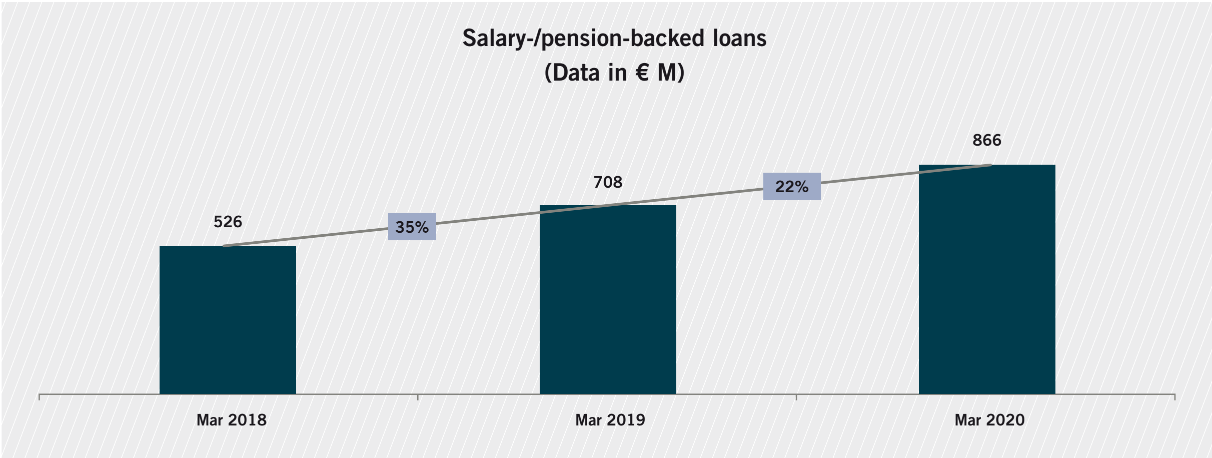
	31.03.2020	31.03.2019	€ Change	% Change
No. of applications	4,559	3,714	845	23%
of which originated	*382*	-	*382*	*ns*
Volumes disbursed (millions of Euro)	86	67	19	29%
of which originated	*8*	*8*	*na*	*na*

As shown in the table, the amount disbursed at March 2020 is up compared to the amount disbursed at March 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)
526
35%
708
22%
866
Mar 2018
Mar 2019
Mar 2020

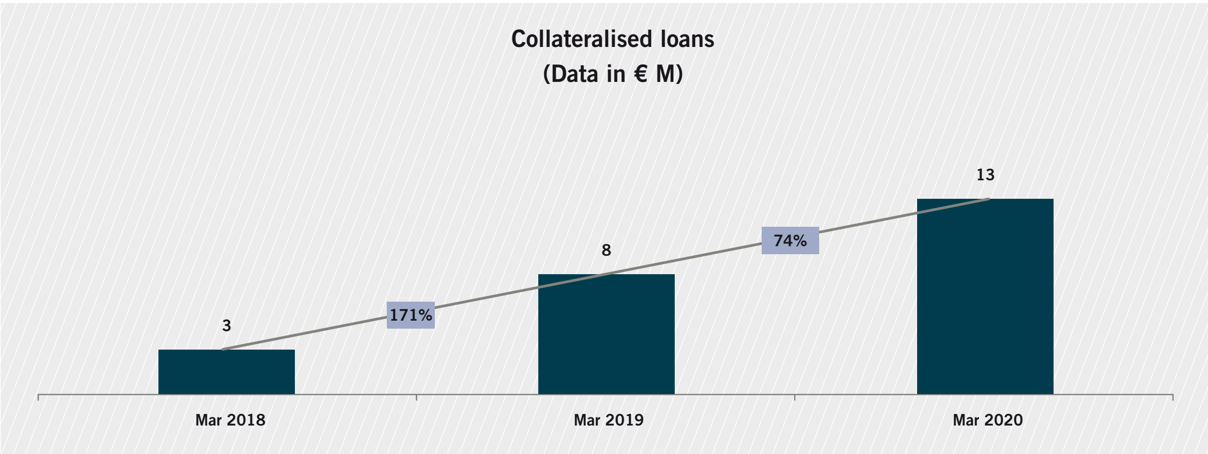
COLLATERALISED LENDING AND PRONTOPEGNO

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:

	31.03.2020	31.03.2019	€ Change	% Change
No. of applications	3,775	2,939	836	28%
Volumes disbursed (millions of Euro)	5	4	1	36%
Loans (millions of Euro)	13	8	6	74%



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 31 March 2020 is provided below.

ASSETS (€,000)	31.03.2020	31.12.2019	€ Change	% Change
Cash and cash equivalents	511	499	12	2.4%
Financial assets measured at amortised cost	14,033	12,869	1,164	9.0%
a) loans and receivables with banks	991	1,112	(121)	-10.9%
b1) loans and receivables with customers - loans	13,042	11,757	1,285	10.9%
Property and equipment	458	489	(31)	-6.3%
Tax assets	272	176	96	54.5%
Other assets	123	36	87	>100%
Total assets	**15,397**	**14,069**	**1,328**	**9.4%**

LIABILITIES AND EQUITY (€,000)	31.03.2020	31.12.2019	€ Change	% Change
Financial liabilities measured at amortised cost	10,139	8,502	1,637	19.3%
a) due to banks	9,777	8,243	1,534	18.6%
b) due to customers	362	259	103	39.8%
Other liabilities	547	690	(143)	-20.7%
Post-employment benefits	95	95	-	0.0%
Provisions for risks and charges	258	222	36	16.2%
Valuation reserves	(8)	(12)	4	-33.3%
Reserves	(428)	-	(428)	n.a.
Share capital	5,000	5,000	-	0.0%
Loss for the period/year	(206)	(428)	222	-51.9%
Total liabilities and equity	**15,397**	**14,069**	**1,328**	**9.4%**

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 initial capital contribution of € 5 million, consist of the liability to the parent resulting from the transfer of the business unit.

The other "financial liabilities measured at amortised cost" include the premium (€ 259 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 31 March 2020 is provided below. Since the company started operating on 1 August 2019, no comparative data are available.

INCOME STATEMENT (€,000)	First quarter of 2020
Net interest income	202
Net fee and commission income	158
Total income	**360**
Net impairment losses on loans and receivables	-
Net financial income	**360**
Personnel expense	(362)
Other administrative expenses	(322)
Net impairment losses on property and equipment/intangible assets	(30)
Other operating income	50
Operating costs	**(664)**
Pre-tax loss from continuing operations	**(304)**
Income taxes for the period	98
Post-tax loss for the period	**(206)**

The company closed the first quarter of 2020 slightly better than expected, with a loss for the period of € 206 thousand. With the contribution of the future 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 16 employees transferred from the Bank to the Company, as well as the pro-quota 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.

FUNDING AND TREASURY ACTIVITIES

Treasury portfolio

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

The balance at 31 March 2020 increased to a nominal € 1.65 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 31 March, the nominal amount of securities in the HTCS portfolio amounted to € 750 million (compared to € 550 million at 31 December 2019) with a duration of 23.4 months (20.1 months at 31 December 2019).

At 31 March, the HTC portfolio amounted to € 315 million with a duration of 13.4 months.

Wholesale funding

At 31 March 2020, wholesale funding was about 47% of the total, mainly comprising bonds, inter-bank deposits and refinancing transactions with the ECB (39% at 31 December 2019).

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

For its short-term liquidity needs, the Group used the interbank deposit market. Existing bank deposits at 31 March 2020 totalled € 148 million (€ 30 million at 31 December 2019).

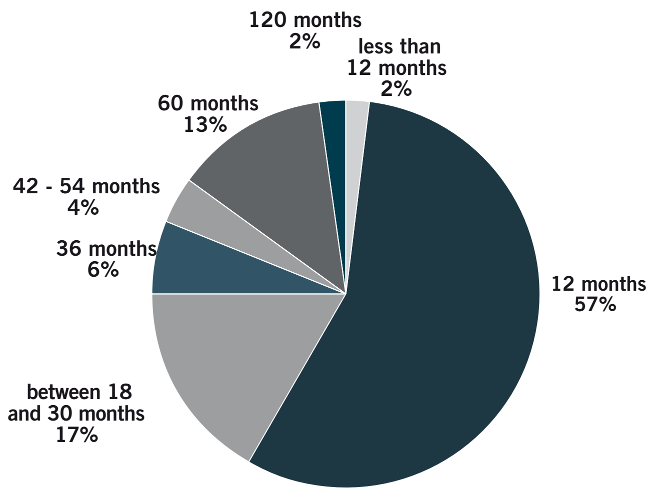
Retail funding

Retail funding accounts for 53% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits at 31 March 2020 amounted to € 1,097 million, a decrease of 17% compared to 31 December 2019 following the reduction in the interest rates of the international channel. The above-mentioned amount also includes total term deposits of € 587 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 53% of total deposit funding), a decrease of € 70 million over the same period of the previous year.

The breakdown of funding by term is shown below. The average residual life of the portfolio is 15 months.

Breakdown of deposit accounts as at 31 March 2020



Current accounts increased from 6,160 (as at 31 March 2019) to 6,969 in March 2020, while the current account balance at 31 March 2020 increased by 14% on 2019 to € 640 million.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	FIRST QUARTER OF 2020	FIRST QUARTER OF 2019	€ Change	% Change
Net interest income	15,921	14,673	1,248	8.5%
Net fee and commission income	4,203	4,001	202	5.0%
Net trading income (expense)	(18)	256	(274)	<100%
Gain from sales or repurchases of financial assets/liabilities	1,889	374	1,515	>100%
Total income	**21,995**	**19,304**	**2,691**	**13.9%**
Net impairment losses on loans and receivables	(1,922)	(2,625)	703	-26.8%
Net financial income	**20,073**	**16,679**	**3,394**	**20.3%**
Personnel expense	(5,716)	(4,897)	(819)	16.7%
Other administrative expenses	(6,621)	(5,265)	(1,356)	25.8%
Net accruals to provisions for risks and charges	(672)	(337)	(335)	99.4%
Net impairment losses on property and equipment/intangible assets	(376)	(374)	(2)	0.5%
Other operating income	106	120	(14)	-11.7%
Operating costs	**(13,279)**	**(10,753)**	**(2,526)**	**23.5%**
Pre-tax profit from continuing operations	**6,794**	**5,926**	**868**	**14.6%**
Income taxes for the period	(2,205)	(1,976)	(229)	11.6%
Post-tax profit for the period	**4,589**	**3,950**	**639**	**16.2%**
Post-tax profit from discontinued operations	-	565	(565)	-100.0%
Profit for the period attributable to the owners of the parent	**4,589**	**4,515**	**74**	**1.6%**

The first quarter of 2020 closed with a profit for the period of € 4.6 million. Given that 2019 included the consolidated profit generated by the sale of the remaining 10% of Axactor Italia, growth over the previous period is 16.2%.

Unlike the first quarter 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 € 0.7 million higher than the first quarter of 2019 (the unexpected increase in the contribution was 82%).

NET INTEREST INCOME (€,000)	FIRST QUARTER OF 2020	FIRST QUARTER OF 2019	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	21,249	20,593	656	3.2%
Securities portfolio	171	162	9	5.6%
Other	909	883	26	2.9%
Financial liabilities	25	-	25	n.a.
Total interest income	**22,354**	**21,638**	**716**	**3.3%**
Interest and similar expense				
Due to banks	10	(282)	292	<100%
Due to customers	(4,307)	(4,782)	475	-9.9%
Securities issued	(2,091)	(1,893)	(198)	10.5%
Financial assets	(45)	(8)	(37)	>100%
Total interest expense	**(6,433)**	**(6,965)**	**532**	**-7.6%**
Net interest income	**15,921**	**14,673**	**1,248**	**8.5%**

Net interest income increased by 8.5% from the same period of the previous year due to the combined effect of the contribution from the loans and receivables portfolio and the reduction in interest expense due to the decrease in the cost of funding.

The total contribution of the factoring portfolio was € 15.5 million (equal to 69% of the entire loans and receivables portfolio), which is up 5% on the same period of the previous year thanks to the contribution of the portfolios acquired in last quarter of 2019. When considering the commission component associated with the factoring business, the contribution increased by 5.4% over 31 March 2019. The component linked to default interest from legal action at 31 March 2020 was € 3.4 million (€ 4.0 million in the first quarter of 2019):

- of which € 1.2 million resulting from the current recovery estimates (€ 3.0 million in the first quarter of 2019);
- of which € 2.2 million (€ 1.0 million in the first quarter of 2019) coming from net collections during the period, i.e. the difference between the amount collected during the period, equal to € 5.2 million (€ 2.7 million in the first quarter of 2019) and that recognised on an accruals basis in previous periods. This item includes gross collections of € 2.9 million from transfers to third parties.

The amount of the stock of default interest from legal actions accrued at 31 March 2020, relevant for the allocation model, was € 100 million (€ 100 million at the end of the first quarter of 2019) while the loans and receivables recognised in the financial statements amounted to € 48.1 million.

During the period, factoring portfolios were sold that generated a total profit of € 1.3 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 in line with the same period of the previous year at € 5.5 million.

The contribution of the collateralised loans portfolio also grew to € 218 thousand, up 56.8% compared to the same period of the previous year.

The item "Other" mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements at negative rates, which accounts for € 0.6 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. 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 QUARTER OF 2020	FIRST QUARTER OF 2019	€ Change	% Change
Fee and commission income				
Collection activities	288	268	20	7.5%
Factoring activities	4,961	4,657	304	6.5%
Fee and commission income - off-premises	499	-	499	n.a.
Other	258	190	68	35.8%
Total fee and commission income	**6,006**	**5,115**	**891**	**17.4%**
Fee and commission expense				
Placement	(1,029)	(972)	(57)	5.9%
Fees - off-premises	(660)	-	(660)	n.a.
Other	(114)	(142)	28	<100%
Total fee and commission expense	**(1,803)**	**(1,114)**	**(689)**	**61.8%**
Net fee and commission income	**4,203**	**4,001**	**202**	**5.0%**

Net fee and commission income of € 4.2 million increased by 5% due to the greater commissions from factoring. These should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the previous year. 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 € 160 thousand.

Fee and commission income - off-premises refers to the commissions on the new salary- and pension-backed loan (CQ) origination business of € 0.5 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 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 commission expense includes commissions for trading third-party securities and for interbank collections and payment services.

GAIN FROM SALES OR REPURCHASES (€,000)	FIRST QUARTER OF 2020	FIRST QUARTER OF 2019	€ Change	% Change
Gains from HTCS portfolio debt instruments	273	374	(101)	-27.0%
Gains from HTC portfolio debt instruments	340	-	340	n.a.
Gains from receivables	1,276	-	1,276	n.a.
Total	**1,889**	**374**	**1,515**	**>100%**

The item Gain (loss) from sales or repurchases mainly includes gains generated by the proprietary HTCS and HTC portfolio which increased by € 0.2 million overall compared to the previous year.

Gains from receivables of € 1.3 million derive, as described above, from the sale of factoring portfolios.

Impairment losses on loans and receivables at 31 March 2020 amounted to € 1.9 million and were down compared to the first quarter of 2019. Impairment losses are mainly attributable to a single position and some factoring loans. The loss rate decreased from 0.42% at 31 March 2019 to 0.28%.

PERSONNEL EXPENSE (€,000)	FIRST QUARTER OF 2020	FIRST QUARTER OF 2019	€ Change	% Change
Wages and salaries	(5,293)	(4,542)	(751)	16.5%
Social security contributions and other costs	(108)	(75)	(33)	44.0%
Directors' and statutory auditors' remuneration	(315)	(280)	(35)	12.5%
Total	**(5,716)**	**(4,897)**	**(819)**	**16.7%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 174 to 215. This increase was influenced by the 21 new employees of the recently acquired company, Atlantide, who joined the Bank's personnel in the second quarter of the year.

The number of Group employees is provided in the following table:

FTES	31.03.2020	31.12.2019	31.03.2019
Senior managers	24	24	20
Middle managers (QD3 and QD4)	47	45	43
Other personnel	145	146	119
Total	**216**	**215**	**182**

OTHER ADMINISTRATIVE EXPENSES (€,000)	FIRST QUARTER OF 2020	FIRST QUARTER OF 2019	€ Change	% Change
Consultancy	(1,150)	(943)	(207)	22.0%
IT expenses	(1,220)	(1,296)	76	-5.9%
Servicing and collection activities	(690)	(587)	(103)	17.5%
Indirect taxes and duties	(495)	(473)	(22)	4.7%
Insurance	(139)	(112)	(27)	24.1%
Other	(163)	(68)	(95)	>100%
Expenses related to management of the SPVs	(160)	(79)	(81)	>100%
Car hire and related fees	(151)	(137)	(14)	10.2%
Advertising	(155)	(109)	(46)	42.2%
Rent and related fees	(159)	(129)	(30)	23.3%
Expense reimbursement and entertainment	(145)	(139)	(6)	4.3%
Infoprovider expenses	(128)	(67)	(61)	91.0%
Membership fees	(94)	(89)	(5)	5.6%
Property management expenses	(98)	(81)	(17)	21.0%
Audit fees	(71)	(74)	3	-4.1%
Telephone and postage expenses	(52)	(28)	(24)	85.7%
Logistics expenses	(22)	(6)	(16)	>100%
Stationery and printing	(4)	(9)	5	-55.6%
Resolution Fund	(1,525)	(839)	(686)	81.8%
Total	**(6,621)**	**(5,265)**	**(1,356)**	**25.8%**

Administrative expenses increased mainly due to the contribution to the Resolution Fund which accounts for € 0.7 million of the increase in costs. Net of this, the increase is not significant.

IT expenses mainly associated with the services provided by the outsourcer remained unchanged compared to the first quarter of 2019.

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

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 MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€,000)	31.03.2020	31.12.2019	€ Change	% Change
Cash and cash equivalents	644	652	(8)	-1.2%
Financial assets measured at fair value through other comprehensive income	749,312	556,383	192,929	34.7%
Financial assets measured at amortised cost	2,954,184	3,112,387	(158,203)	-5.1%
a) loans and receivables with banks	72,813	81,510	(8,697)	-10.7%
b1) loans and receivables with customers - loans	2,566,299	2,595,700	(29,401)	-1.1%
b2) loans and receivables with customers - debt instruments	315,072	435,177	(120,105)	-27.6%
Property and equipment	29,290	29,002	288	1.0%
Intangible assets	3,921	3,921	-	0.0%
Tax assets	10,146	8,476	1,670	19.7%
Other assets	14,720	19,260	(4,540)	-23.6%
Total assets	**3,762,217**	**3,730,081**	**32,136**	**0.9%**

The quarter ended 31 March 2020 closed with total assets in line with the end of 2019 and equal to € 3.8 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 23.4 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 € 744 million at 31 March 2020 (€ 550 million at 31 December 2019). The associated valuation reserve was negative at the end of the period, amounting to € 2.8 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million, and the Axactor Norway shares, which at 31 December 2019 had a negative net fair value reserve of € 0.6 million, resulting in a period-end amount of € 0.3 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	31.03.2020	31.12.2019	€ Change	% Change
Factoring	1,628,664	1,714,661	(85,997)	-5.0%
Salary-/pension-backed loans (CQS/CQP)	866,307	817,229	49,078	6.0%
Collateralised loans	13,043	11,757	1,286	10.9%
Loans to SMEs	10,167	11,998	(1,831)	-15.3%
Current accounts	18,393	18,213	180	1.0%
Compensation and Guarantee Fund	25,728	20,676	5,052	24.4%
Other loans and receivables	3,997	1,166	2,831	>100%
Total loans	**2,566,299**	**2,595,700**	**(29,401)**	**-1.1%**
Securities	315,072	435,177	(120,105)	-27.6%
Total loans and receivables with customers	**2,881,371**	**3,030,877**	**(149,506)**	**-4.9%**

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 € 701 million (€ 639 million at 31 March 2019).

Salary- and pension-backed loans grew thanks to new loans from acquired portfolios and originated receivables, which increased by 6% compared to the previous year (the new volumes acquired in the first quarter of 2020 amounted to € 86 million), while government-backed loans to SMEs fell, which is in line with the strategic decision to discontinue this line of business.

The collateralised loan business, carried out through the ProntoPegno subsidiary, reported loans of € 10.2 million at 31 March 2020, which are the result of loans granted during the first half of the year and renewals with existing customers.

Securities are composed entirely of Italian government securities with an average duration of 13.4 months for an amount of € 315 million. The mark-to-market valuation of the securities at 31 March 2020 was a negative fair value of € 0.5 million.

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

STATUS	31.03.2019	30.06.2019	30.09.2019	31.12.2019	31.03.2020
Bad exposures	55,877	54,124	57,319	50,622	48,564
Unlikely to pay	98,206	113,462	122,738	139,349	141,127
Past due	76,183	68,733	59,674	55,647	68,747
Non-performing	**230,266**	**236,319**	**239,731**	**245,618**	**258,438**
Performing	**2,305,247**	**2,428,104**	**2,387,359**	**2,392,985**	**2,352,389**
Stage 2	119,559	114,250	123,782	124,252	155,374
Stage 1	2,185,688	2,313,854	2,263,577	2,268,733	2,197,015
Total loans and receivables with customers	**2,535,513**	**2,664,423**	**2,627,090**	**2,638,603**	**2,610,827**
Individual impairment losses	**32,220**	**33,662**	**34,746**	**37,217**	**38,194**
Bad exposures	18,944	19,602	20,394	20,078	19,819
Unlikely to pay	11,672	12,665	13,588	16,042	17,106
Past due	1,604	1,395	764	1,097	1,269
Collective impairment losses	**6,299**	**6,791**	**7,303**	**5,686**	**6,335**
Stage 2	680	585	806	667	865
Stage 1	5,619	6,206	6,497	5,019	5,470
Total impairment losses	**38,519**	**40,453**	**42,049**	**42,903**	**44,529**
Net exposure	**2,496,994**	**2,623,970**	**2,585,041**	**2,595,700**	**2,566,298**

The ratio of gross non-performing loans to the total portfolio went from 9.3% at 31 December 2019 to 9.9% at the end of the first quarter 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 14.8%.

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 € 26.5 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 € 3,920 thousand, 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 € 1,786 thousand;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2,144 thousand.

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)	31.03.2020	31.12.2019	€ Change	% Change
Financial liabilities measured at amortised cost	3,438,955	3,416,486	22,469	0.7%
a) due to banks	806,239	388,359	417,880	>100%
b) due to customers	2,164,453	2,551,600	(387,147)	-15.2%
c) securities issued	468,263	476,527	(8,264)	-1.7%
Tax liabilities	18,818	16,433	2,385	14.5%
Other liabilities	99,567	94,662	4,905	5.2%
Post-employment benefits	2,955	3,051	(96)	-3.1%
Provisions for risks and charges	22,690	22,297	393	1.8%
Valuation reserves	(2,220)	267	(2,487)	<100%
Reserves	167,446	137,749	29,697	21.6%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(234)	(234)	-	0.0%
Profit for the period/year	4,589	29,719	(25,130)	-84.6%
Total liabilities and equity	**3,762,217**	**3,730,081**	**32,136**	**0.9%**

Wholesale funding, which represents about 47% (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 40.9% (56.4% at the end of 2019).

DUE TO BANKS (€,000)	31.03.2020	31.12.2019	€ Change	% Change
Due to Central banks	658,160	358,250	299,910	83.7%
Due to banks	148,079	30,109	117,970	>100%
Current accounts and demand deposits	*148,079*	*20*	*148,059*	*>100%*
Term deposits with banks	*-*	*30,089*	*(30,089)*	*-100.0%*
Total	**806,239**	**388,359**	**417,880**	**>100%**

The total of the sub-item "Due to banks" increased compared to 31 December 2019 due to the increase in interbank funding and 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 will also be able to benefit from the LTRO bridge loan (550 million as at 31 March 2020) at a refinancing rate equal to the average rate applied to deposits with the Central Bank of -0.50%.

DUE TO CUSTOMERS (€,000)	31.03.2020	31.12.2019	€ Change	% Change
Term deposits	1,097,422	1,325,794	(228,372)	-17.2%
Financing (repurchase agreements)	339,364	457,070	(117,706)	-25.8%
Current accounts	639,259	681,577	(42,318)	-6.2%
Due to assignors	84,933	83,783	1,150	1.4%
Other payables	3,475	3,376	99	2.9%
Total	**2,164,453**	**2,551,600**	**(387,147)**	**-15.2%**

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 17.2% compared to the end of 2019, reflecting net negative deposits (net of accrued interest) of € -228 million due to the reduction in interest rates in the international channel; gross deposits from the beginning of the year were € 274 million, against withdrawals totalling € 501 million.

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

SECURITIES ISSUED (€,000)	31.03.2020	31.12.2019	€ Change	% Change
Bond - AT1	8,155	8,016	139	1.7%
Bond - Tier II	37,665	37,547	118	0.3%
Bonds - other	422,443	430,964	(8,521)	-2.0%
Total	**468,263**	**476,527**	**(8,264)**	**-1.7%**

The nominal amount of securities issued at 31 March 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 € 90 million, 2018-2021 with a fixed coupon of 2%.

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

The provision for risks and charges of € 22.7 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 reconciliation between the profit for the period and equity of the parent and the figures from the consolidated financial statements is shown below.

(€ ,000) *FIGURES ARE IN THOUSANDS OF EURO*	PROFIT (LOSS)	EQUITY
Profit/equity of the parent	**4,821**	**181,950**
Assumption of value of investments	-	(20,000)
Consolidated loss/equity	(232)	17,282
Equity attributable to the owners of the parent	**4,589**	**179,232**
Equity attributable to non-controlling interests	-	(32)
Group equity	**4,589**	**179,200**

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.03.2020	31.12.2019
Common Equity Tier 1 (CET1)	**165,800**	**165,119**
ADDITIONAL TIER 1	8,000	8,000
Tier 1 capital (T1)	**173,800**	**173,119**
TIER2	37,500	37,500
Total Own Funds (TC)	**211,300**	**210,619**
Total risk-weighted assets	**1,476,782**	**1,405,890**
of which, credit risk	1,307,502	1,236,603
of which, operational risk	169,252	169,252
of which, market risk	0	0
of which, CVA	28	35
Ratio - CET1	11.2%	11,7%
Ratio - T1	11.8%	12,3%
Ratio - TCR	14.3%	15,0%
Pro-forma CET1 (CRR II amendment) (*)	*13.4%*	*13,9%*
Pro-forma T1 (CRR II amendment) (*)	*14.0%*	*14,6%*
Pro-forma TCR (CRR II amendment) (*)	*17.1%*	*17,8%*

(*) = estimate of the impact on the capital ratios resulting from the application of the reduction in the weighting of the CQS/CQP assets set out in Regulation 876/2019 that will be applied as of 28 June 2021 or possibly by 2020.
In fact, on 28 April 2020, among the various measures proposed to mitigate the economic impact of the COVID-19 pandemic across the European Union, the European Commission presented an amendment to Regulation (EU) 876/2019 ("CRR 2") aimed at bringing forward the entry into force of the provisions relating to the reduction of the risk capital weighting for salary- and pension-backed loans (scheduled for 28 June 2021).
The Commission, counting on the full cooperation of the European Parliament and the Council, which must discuss the measures, has recommended that these initiatives be dealt with as a matter of urgency and adopted by June. The change in weighting, as previously communicated, reduces the risk capital weight to 35% from the current 75% for salary- and pension-backed personal loans.

Total own funds were € 211 million at 31 March 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.

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 the T1 ratio and the Total Capital Ratio, the OCR, were increased by 5 basis points. The new SREP decision does not include any quantitative liquidity requirements.

OTHER INFORMATION

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

On 21 April 2020, the Bank of Italy issued the decision assessing compliance with sound and prudent management of the amendments to the Articles of Association proposed by the Board of Directors. On 23 April 2020, the Shareholders' Meeting approved the aforementioned amendments to the Bank's Articles of Association, including the introduction of increased voting rights pursuant to Art. 127-quinquies of Legislative Decree no. 58 of 24 February 2998.
The ordinary and extraordinary Shareholders' Meeting of Banca Sistema, which was held on single call on 23 April 2020, resolved to make payment of the 2019 dividend of € 7,479,157.84 (equal to € 0.093 per ordinary share) subject to the resolution of a new Shareholders' Meeting to be convened by the Board of Directors no earlier than 1 October 2020, in accordance with the supervisory provisions or other recommendations of the Supervisory Authorities. The Shareholders' Meeting will, in any case, be convened no later than 30 November 2020. Therefore, the portion of net profit for 2019 reported in the separate financial statements and allocated for distribution to shareholders in the form of a dividend will not be counted as capital for regulatory purposes.
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

Compared to what was presented in the financial statements as at 31 December 2019 and with regard to the ongoing effects of the COVID-19 pandemic, it is not yet possible to reliably estimate the future impact on the carrying amounts of assets and liabilities in the financial statements. Nevertheless, no impacts have been identified that would currently need to be reflected in the financial statements such as the need to reduce the value of financial assets due to increased impairment losses or the need to reduce the amount of intangible assets as a result of reductions in their value in use.

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 uncertainties and the difficulties in predicting the actual future impacts of the pandemic, the drafting of the new business plan has been postponed.

Milan, 8 May 2020

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31.03.2020	31.12.2019
10.	Cash and cash equivalents	644	652
20.	Financial assets measured at fair value through other comprehensive income	749,312	556,383
40.	Financial assets measured at amortised cost	2,954,184	3,112,387
	a) loans and receivables with banks	*72,813*	*81,510*
	b) loans and receivables with customers	*2,881,371*	*3,030,877*
90.	Property and equipment	29,290	29,002
100.	Intangible assets	3,921	3,921
	of which:		
	goodwill	*3,920*	*3,920*
110.	Tax assets	10,146	8,476
	a) current	*1*	*1*
	b) deferred	*10,145*	*8,475*
130.	Other assets	14,720	19,260
	Total Assets	**3,762,217**	**3,730,081**

	Liabilities and equity	31.03.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	3,438,955	3,416,486
	a) due to banks	*806,239*	*388,359*
	b) due to customers	*2,164,453*	*2,551,600*
	c) securities issued	*468,263*	*476,527*
60.	Tax liabilities	18,818	16,433
	a) current	*5,275*	*2,213*
	b) deferred	*13,543*	*14,220*
80.	Other liabilities	99,567	94,662
90.	Post-employment benefits	2,955	3,051
100.	Provisions for risks and charges:	22,690	22,297
	a) commitments and guarantees issued	*42*	*44*
	c) other provisions for risks and charges	*22,648*	*22,253*
120.	Valuation reserves	(2,220)	267
150.	Reserves	128,314	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 (+/-)	32	32
200.	Profit for the period/year	4,589	29,719
	Total liabilities and equity	**3,762,217**	**3,730,081**

INCOME STATEMENT

(Amounts in thousands of Euro)

		First quarter of 2020	First quarter of 2019
10.	Interest and similar income	22,354	21,638
	of which: interest income calculated with the effective interest method	21,497	21,012
20.	Interest and similar expense	(6,433)	(6,965)
30.	**Net interest income**	**15,921**	**14,673**
40.	Fee and commission income	6,006	5,115
50.	Fee and commission expense	(1,803)	(1,114)
60.	**Net fee and commission income**	**4,203**	**4,001**
70.	Dividends and similar income	-	-
80.	Net trading income (expense)	(18)	256
90.	Net hedging income (expense)	-	-
100.	Gain from sales or repurchases of:	1,889	374
	a) financial assets measured at amortised cost	*1,276*	-
	b) financial assets measured at fair value through other comprehensive income	*273*	*374*
	c) financial liabilities	*340*	-
120.	**Total income**	**21,995**	**19,304**
130.	Net impairment losses on:	(1,922)	(2,625)
	a) financial assets measured at amortised cost	*(1,811)*	*(2,544)*
	b) financial assets measured at fair value through other comprehensive income	*(111)*	*(81)*
150.	**Net financial income**	**20,073**	**16,679**
190.	Administrative expenses	(12,337)	(10,162)
	a) personnel expense	*(5,716)*	*(4,897)*
	b) other administrative expenses	*(6,621)*	*(5,265)*
200.	Net accruals to provisions for risks and charges	(672)	(337)
	a) commitments and guarantees issued	*2*	*(30)*
	b) other net accruals	*(674)*	*(307)*
210.	Net impairment losses on property and equipment	(369)	(367)
220.	Net impairment losses on intangible assets	(7)	(7)
230.	Other operating income	106	120
240.	**Operating costs**	**(13,279)**	**(10,753)**
290.	**Pre-tax profit from continuing operations**	**6,794**	**5,926**
300.	Income taxes	(2,205)	(1,976)
310.	**Post-tax profit from continuing operations**	**4,589**	**3,950**
320.	Post-tax profit from discontinued operations	-	565
330.	**Profit for the period attributable to the owners of the parent**	**4,589**	**4,515**
350.	**Profit for the period attributable to the owners of the parent**	**4,589**	**4,515**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		First quarter of 2020	2019
10.	**Profit for the period/year**	**4,589**	**29,719**
	Items, net of tax, that will not be reclassified subsequently to profit or loss		
20.	Equity instruments designated at fair value through other comprehensive income	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income		
50.	Property and equipment		
60.	Intangible assets		
70.	Defined benefit plans	168	(32)
80.	Non-current assets held for sale	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	**-**	**-**
100.	Hedges of foreign investments	-	-
110.	Exchange rate gains (losses)	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated elements)		
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(2,655)	1,430
150.	Non-current assets held for sale	-	-
160.	Share of valuation reserves of equity-accounted investments:	-	-
170.	**Total other comprehensive income (expense), net of income tax**	**(2,487)**	**1,398**
180.	**Comprehensive income (Items 10+170)**	**2,102**	**31,117**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**2,102**	**31,117**

STATEMENTS OF CHANGES IN EQUITY AS AT 31.03.2020

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 quarter of 2020	**Equity attributable to the owners of the parent at 31.03.2020**	**Equity attributable to non-controlling interests at 31.03.2020**
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	7,479	22	-	-	-	-	-	-	-	-	**128,314**	-
a) income-related	**98,942**	-	**98,942**	22,240	7,479	(20)	-	-	-	-	-	-	-	-	**128,641**	-
b) other	**(325)**	-	**(325)**	-	-	(2)	-	-	-	-	-	-	-	-	**(327)**	-
Valuation reserves	**267**	-	**267**	-	-	-	-	-	-	-	-	-	-	(2,487)	**(2,220)**	-
Equity instruments	**-**	-	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(234)**	-	**(234)**	-	-	-	-	-	-	-	-	-	-	-	**(234)**	-
Profit for the period	**29,719**	-	**29,719**	(22,240)	(7,479)	-	-	-	-	-	-	-	-	4,589	**4,589**	-
Equity attributable to the owners of the parent	**177,120**	**-**	**177,120**	**-**	**-**	**(22)**	-	-	-	-	-	-	-	**2,102**	**179,200**	**-**
Equity attributable to non-controlling interests	**32**	**-**	**32**	**-**	**-**	**-**	-	-	-	-	-	-	-	**-**	**-**	**32**

Group equity still includes the dividend of € 7,479 thousand on which, on 23 April 2020, the Shareholders' Meeting of the Parent resolved to defer the decision and the relative payment commitment to the resolution of a new Shareholders' Meeting to be convened by the Board of Directors no earlier than 1 October 2020, in accordance with the supervisory provisions or other recommendations of the Supervisory Authorities.

STATEMENT OF CHANGES IN EQUITY AS AT 31.03.2019

Amounts in thousands of Euro

	Balance at 31.12.2018	Change in opening balances	Balance at 1.1.2019	Allocation of prior year profit		Changes during the period									Equity attributable to the owners of the parent at 31.03.2019	Equity attributable to non-controlling interests at 31.03.2019
							Transactions on equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the first quarter of 2019		
Share capital:																
a) ordinary shares	**9,651**	-	**9,651**	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,184**	-	**39,184**	-	-	(21)	-	-	-	-	-	-	-	-	**39,163**	-
Reserves	**78,452**	-	**78,452**	20,170	6,997	(5)	-	-	-	-	-	-	-	-	**105,614**	-
a) income-related	**78,792**	-	**78,792**	20,170	6,997	-	-	-	-	-	-	-	-	-	**105,959**	-
b) other	**(340)**	-	**(340)**	-	-	(5)	-	-	-	-	-	-	-	-	**(345)**	-
Valuation reserves	**(1,131)**	-	**(1,131)**	-	-	-	-	-	-	-	-	-	-	616	**(515)**	-
Equity instruments	**-**	-	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(199)**	-	**(199)**	-	-	-	-	-	-	-	-	-	-	-	**(199)**	-
Profit for the period	**27,167**	-	**27,167**	(20,170)	(6,997)	-	-	-	-	-	-	-	-	4,515	**4,515**	-
Equity attributable to the owners of the parent	**153,124**	**-**	**153,124**	**-**	**-**	**(26)**	-	**-**	-	-	-	-	-	**5,131**	**158,229**	-
Equity attributable to non-controlling interests	**30**	**-**	**30**	**-**	-	**-**	-	**-**	-	-	-	-	-	**-**	**-**	**30**

STATEMENT OF CASH FLOWS (indirect method)

Amounts in thousands of Euro

	First quarter of 2020	First quarter of 2019
A. OPERATING ACTIVITIES		
1. Operations	**17,690**	**26,230**
▪ Profit for the period (+/-)	4,589	4,515
▪ 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 (+/-)	1,811	2,544
▪ Net impairment losses on property and equipment and intangible assets (+/-)	376	374
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	672	337
▪ Taxes, duties and tax assets not yet paid (+/-)	(8,653)	(7,083)
▪ Other adjustments (+/-)	18,895	25,543
2. Cash flows used for financial assets	**(20,242)**	**(714,108)**
▪ Financial assets held for trading	-	(262,192)
▪ 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	(195,416)	(237,014)
▪ Financial assets measured at amortised cost	161,773	(222,984)
▪ Other assets	13,401	8,082
3. Cash flows generated by financial liabilities	**3,208**	**688,022**
▪ Financial liabilities measured at amortised cost	7,582	679,423
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	(4,374)	8,599
Net cash flows generated by operating activities	**656**	**144**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**0**	**1,835**
▪ Sales of equity investments	0	1,835
▪ Dividends from equity investments	-	-
▪ Sales of property and equipment	-	-
▪ Sales of intangible assets	-	-
▪ Sales of business units	-	-
2. Cash flows used in	**(664)**	**(1,902)**
▪ Purchases of equity investments	-	-
▪ Purchases of property and equipment	(657)	(1,895)
▪ Purchases of intangible assets	(7)	(7)
▪ Purchases of business units	-	-
Net cash flows used in investing activities	**(664)**	**(67)**
C. FINANCING ACTIVITIES		
▪ Issues/repurchases of treasury shares	0	-
▪ Issues/repurchases of equity instruments	-	-
▪ Dividend and other distributions	0	-
Net cash flows generated by (used in) financing activities	**0**	**0**
NET CASH FLOWS FOR THE PERIOD	**(8)**	**77**

RECONCILIATION

Cash and cash equivalents at the beginning of the period	652	289
Total net cash flows for the period	(8)	77
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	644	366

ACCOUNTING POLICIES

GENERAL BASIS OF PREPARATION

This interim consolidated financial report at 31 March 2020 was drawn up in accordance with art. 154-ter of Legislative Decree no. 58 of 24 February 1998 and Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission, as established by Regulation (EC) no. 1606 of 19 July 2002, from which there were no derogations.

The interim consolidated financial report at 31 March 2020 comprises the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the interim consolidated financial report and is accompanied by a Directors' Report on the performance, the financial results achieved and the financial position of the Banca Sistema Group.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38/2005, the interim consolidated financial report uses the Euro as the currency for accounting purposes.

The amounts in the interim consolidated financial report and the notes thereto are expressed (unless expressly specified) in thousands of Euro.

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

This interim consolidated financial report includes Banca Sistema S.p.A. and the companies directly or indirectly controlled by or connected with it. No changes to the scope of consolidation have been made compared to 31 December 2019.

This interim consolidated financial report at 31 March 2020 is accompanied by a statement by the manager in charge of financial reporting, pursuant to art. 154-bis of the Consolidated Law on Finance. The interim consolidated financial statements have been subject to review by BDO Italia S.p.A.

Events after the reporting date

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

Information on the main items of the interim consolidated financial report

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

Within the scope of drawing up the interim consolidated financial report in accordance with the IFRS, bank management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and income recognised during the period. The use of estimates is essential to preparing the interim consolidated financial report. The most significant use of estimates and assumptions in the interim consolidated financial report can be attributed to:

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

- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the interim consolidated financial report;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

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

The accounting policies adopted for the drafting of this interim consolidated financial report, with reference to the classification, recognition, valuation and derecognition criteria for the various assets and liabilities, like the guidelines for recognising costs and revenue, have remained unchanged compared with those adopted in the separate and consolidated financial statements at 31 December 2019, to which reference is made.

Other aspects

The interim consolidated financial report was approved on 8 May 2020 by the Board of Directors, which authorised its disclosure to the public in accordance with IAS 10.

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The undersigned, Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby states, having taken into account the provisions of art. 154-bis, paragraph 2, of Legislative Decree no. 58 of 24 February 1998, that the accounting information in this interim consolidated financial report at 31 March 2020 is consistent with the company documents, books and accounting records.

Milan, 8 May 2020

Alexander Muz

Manager in charge
of financial reporting

INTERIM CONSOLIDATED FINANCIAL REPORT AT

31 MARCH 2020

BANCA SISTEMA
CONTEMPORARY BANK