INTERIM CONSOLIDATED FINANCIAL REPORT

AT 30 JUNE 2021

BANCA SISTEMA

Banca SISTEMA Group

INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2021

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DIRECTORS’ REPORT

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

Chairperson	Ms.	Luitgard Spögler
Deputy Chairperson	Mr.	Giovanni Puglisi *(Independent)*
CEO and General Manager	Mr.	Gianluca Garbi
Directors	Mr.	Daniele Pittatore *(Independent)*
	Ms.	Carlotta De Franceschi *(Independent)*
	Mr.	Marco Giovannini *(Independent)*
	Mr.	Daniele Bonvicini *(Independent)*
	Ms.	Maria Leddi *(Independent)*
	Ms.	Francesca Granata *(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

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

Chairperson	Mr.	Daniele Bonvicini
Members	Ms.	Maria Leddi
	Mr.	Marco Giovannini
	Mr.	Daniele Pittatore

Appointments Committee

Chairperson	Ms.	Carlotta De Franceschi
Members	Ms.	Francesca Granata
	Ms.	Luitgard Spögler

Remuneration Committee

Chairperson	Mr.	Marco Giovannini
Members	Mr.	Giovanni Puglisi
	Ms.	Francesca Granata

Ethics Committee

Chairperson	Mr.	Giovanni Puglisi
Members	Ms.	Maria Leddi
	Ms.	Carlotta De Franceschi

Supervisory Body

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

FINANCIAL HIGHLIGHTS AT 30 JUNE 2021

Statement of financial position data (€ ,000)

	30 Jun 2021	31 Dec 2020	
Total Assets	3,454,325	3,671,371	-5.9%
Securities Portfolio	644,559	878,830	-26.7%
Loans - Factoring	1,418,448	1,481,678	-4.3%
Loans - Salary-backed loans	959,014	933,873	2.7%
Funding - Banks and REPOs	894,778	1,104,878	-19.0%
Funding - Term Deposits	1,171,080	1,216,523	-3.7%
Funding - Current Accounts	703,105	633,548	11.0%

30 Jun 2021

31 Dec 2020

30 Jun 2020

Income statement data (€ ,000)

	30 Jun 2021	30 Jun 2020	
Net interest income	38,505	33,620	14.5%
Net fee and commission income	7,848	8,089	-3.0%
Total Income	50,315	46,165	9.0%
Personnel Expenses	(14,304)	(11,130)	28.5%
Other administrative expenses	(15,951)	(12,242)	30.3%
Profit for the period attributable to the owners of the Parent	8,490	13,315	-31.1%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 30 JUNE 2021

With reference to the continuing Covid-19 emergency, the Group, which immediately implemented the remote working arrangements when the emergency began, continues to engage in on-going communication initiatives with employees at Group level to ensure continuity in the flow of information, the level of listening, and the sharing of corporate objectives and strategies.

On 25 March 2021, the Banca Sistema Group's 2021-2023 strategic plan was approved. The plan is based on the Group's ability to consolidate and further grow the market position it has achieved in the 10 years since its establishment in the three businesses in which it operates. The plan foresees achieving the following by the end of 2023:

- Factoring: growth in lending to € 2.6 billion (2020-2023 CAGR: +20%) and volumes up to € 4.8 billion (2020-2023 CAGR: +16%);
- Salary- and Pension-Backed Loans: growth in lending of € 1.3 billion (2020-2023 CAGR: +11%);
- Collateralised lending: growth in lending to € 150 million (2020-2023 CAGR: +23%).

The Strategic Plan includes the implementation of new initiatives, including the development of digital tools, which will allow the Group to further grow and excel in terms of operational efficiency, and diversify its offering and accessibility to customers and agents/brokers. By 2023, RoTE is expected to be > 16% and the CET1 ratio > 12%.

At 30 June the Bank granted 45 state-guaranteed loans to its factoring customers for a total of € 131 million. As at the same date, other loans of the same type were being evaluated.

With reference to the moratoria on existing loans, the Bank has carefully considered measures for suspending payment terms. As at 30 June 2021, there were 39 active moratoria totalling € 12.1 million out of € 18.8 million, all of which originated in 2020.

In a communication dated 5 March 2021, the Bank of Italy subjected the Banca Sistema Group to an audit pursuant to Articles 54 and 68 of Legislative Decree No. 385/93. At the date this financial report was approved, the audit was completed and the Bank is waiting to receive the final results. It should be noted that a number of adjustments requested by the Authority were already implemented during the audit.

On 2 April, a copy of the current Articles of Association, following the entry into force of the amendments to Article 10 thereof introduced by the Extraordinary Shareholders' Meeting of 23 April and 27 November 2020, was made available to the public at the registered office, on the Banca Sistema website and also on the authorised storage mechanism at the website www.1info.it. The current Articles of Association were registered with the Milan Companies' Register on 30 March 2021.

On 30 April 2021, the Ordinary Shareholders' Meeting of Banca Sistema resolved to approve the financial statements at 31 December 2020, as well as the Board's resolution on the allocation of the profit for 2020. In this regard, the Shareholders' Meeting resolved to postpone the payment of the dividends from the profits for 2019 and 2020, amounting to a total of € 13,912,842 or € 0.173 per ordinary share, until after 30 September 2021, granting the Board of Directors with the mandate to implement the resolution, if, before that date, the Supervisory Authority has not issued regulatory provisions that prevent the payment of those dividends; to date, no developments have occurred.

The Shareholders' Meeting also resolved to submit to the Bank of Italy the request for authorisation to repurchase treasury shares, to be used as part of the variable remuneration paid to specific employees, for an amount of no more than € 2,810,000 and to purchase fully paid-in ordinary treasury shares of the Bank, with a nominal amount of € 0.12 (zero point twelve) each, for a maximum approved amount of € 2,810,000, as indicated above, and in any case in compliance with the limit of one fifth of the share capital.

On the same date, the Ordinary Shareholders' Meeting of Banca Sistema also resolved to appoint the Board of Directors for the 2021-2022-2023 financial years.

Following the renewal, the Board of Directors resolved to confirm Luitgard Spögler as Chairperson of the Board of Directors and Gianluca Garbi as CEO of the Bank, conferring on him necessary operational powers.

On 7 May, the Board of Directors approved the appointment of Giovanni Puglisi as Deputy Chairperson, while on 24 May, after verifying that the requirements and criteria envisaged by current legislation were met, it approved the composition of the following committees: Internal Control and Risk Management Committee, Appointments Committee, Remuneration Committee and Ethics Committee.

On 25 June 2021, Banca Sistema completed a simultaneous transaction that involved the early repayment of two subordinated Tier 2 bonds and the issuance, for the same amount of € 37.5 million, of a subordinated Additional Tier 1 (AT1) bond.

Specifically, partly as a result of regulatory changes, Banca Sistema was authorised by the Bank of Italy to proceed with the early repayment of the following subordinated Tier 2 bonds:

- '2017 - 2027', with a variable rate (equal to the 6-month EURIBOR + 4.5%), for a total of € 19.5 million;
- '2019 - 2029', with a fixed rate (equal to 7% per annum), for a total of € 18 million;

and seamlessly issued and placed a subordinated AT1 loan for a total of € 37.5 million.

The new perpetual issuance gives Banca Sistema the option, if the conditions set out in the CRR are met, to repay the loan early at year 10 and at each subsequent reference date as established in the contract. The AT1 bond, placed with institutional investors, has an annual fixed-rate coupon of 9% and all the characteristics required by the regulations for this type of instrument.

The Italian factoring market

According to data released by Assifact, the Italian association of factoring providers, in the first half of 2021 the factoring market grew by 11.68%, reversing the downward trend that characterised 2020 and the first quarter of this year following the extended lockdown for the health emergency that resulted in a significant drop in turnover for the entire production system.

Total turnover amounted to € 119.5 billion compared to € 107 billion in the same period of 2020. The second quarter of the year saw particularly strong growth: +36% in April, +49% in May, and +21% in June, which coincided with the robust recovery in business turnover and in relation to the upward trend in GDP, which, according to estimates by the Italian Ministry of Economy and Finance and Bankit, is projected to increase by 5%. Supply chain finance transactions (reverse factoring and confirming) performed particularly well, with an increase of 28%, accounting for over 11% of turnover.

Without recourse factoring is by far the most appreciated product on the market, accounting for over 79% of total turnover versus 21% for recourse factoring transactions. In terms of amounts outstanding (receivables to be collected as at 30 June 2021), these percentages do not vary much (74% without recourse versus 26% with recourse), thereby confirming the preference among customers for completing assignments by hedging the risk associated with the assigned debtors.

The receivables turnover rate is higher than last year thanks to an improvement in average collection times. However, it should be noted that according to Assifact's estimates for March 2021, this improvement is attributable solely to the Public Administration sector, which seems to pay current debts more quickly than in the past, while average collection times in B2B appear to be slightly worse. Outstanding amounts, equal to € 57.7 billion, increased by 3.62% compared to 2020, while advances/assignment consideration, equal to € 45.1 billion, increased by 1.01%. The proportion of advances to outstanding receivables (78.13% compared to 80.04% in 2020) allows banks/intermediaries to maintain a conservative margin for any possible credit dilution risks.

Unlike traditional bank loans, the sector has not benefited (if only marginally) from the extraordinary measures taken by the Government to support businesses in this difficult moment for the economy. Nonetheless, companies specialising in factoring have continued to support businesses, granting moratoria to assigned debtors and assuming risks with essentially no state guarantees. The particular attention paid to the management of purchased or financed receivables and the constant monitoring of collections have, in any case, made it possible to keep risk at lower levels than those of bank loans.

The sector’s low level of risk is confirmed by the figures provided by Assifact: at the end of March 2021 (June 2021 figures are not yet available), gross non-performing loans of financial intermediaries amounted to 4.09% of outstanding receivables of which 1.06% related to past due exposures, 1.36% were unlikely to pay, and 1.67% were bad exposures, percentages - as mentioned previously - that are lower than those recorded in traditional bank lending.

Past due positions as a percentage of total non-performing loans went from 21% in December 2020 to 26% in March 2021 following the application of the new EBA guidelines on the definition of default, which consider receivables past due by more than 90 days to be non-performing, significantly penalising factoring, which deals with trade receivables where delayed payments are the norm and 90 days past due are almost never associated with a downgrading of the debtor nor are they indicative of probable insolvency, unlike what happens with financial receivables.

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

According to data provided by Assifact, at 31 March 2021 (most recent data available), € 8.3 billion of outstanding receivables are due from Public Administration debtors (+4.4% on March 2020, but down 10% on December 2020), which represents 15% of all outstanding receivables. A total of 33.46% of receivables are due from entities of the National Health Service, 41% are due from the Central Authorities, and 22.76% are due from Territorial Entities, with the remainder due from other Public Sector Entities.

The efforts made by the Government in recent years, also as a result of the infringement proceedings initiated by the European Commission against Italy for failure to comply with the regulations on late payments, through the establishment of ad hoc funds aimed at rectifying the payment of certain, liquid, and collectable Public Administration debt, have led to a reduction in payment times by the Public Administration. This improvement is concentrated in receivables that are not past due, while the delays of past due receivables continue to increase. It should be noted that at the end of March, once again according to Assifact's estimates, € 3.9 billion in receivables were past due, equal to 47% of total receivables due from the Public Administration with over 65% of these being past due for more than a year.

To support businesses hit hard by the pandemic and forced to slow down or suspend operations, the Government issued three separate decrees last year ("Cura Italia", "Liquidity" and "Relaunch") so that businesses could benefit from moratoria and government-backed loans through the National Guarantee Fund and SACE. Factoring, which was initially excluded from these measures, was only added to the list of eligible receivables when the Relaunch Decree was converted into law, but was limited to receivables with recourse, which account for a minimal part of overall transactions.

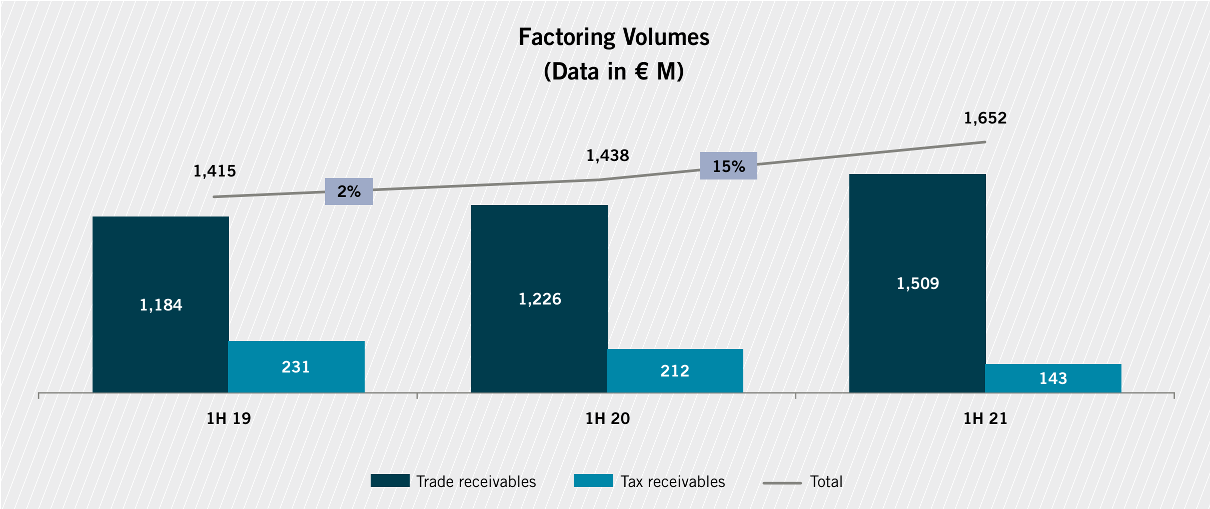
With regard to the outlook for the second half of the year, the health emergency is expected to continue to influence the market, but operators expect growth in turnover, albeit at lower levels than those seen at the end of June 2021.

Banca Sistema and factoring activities

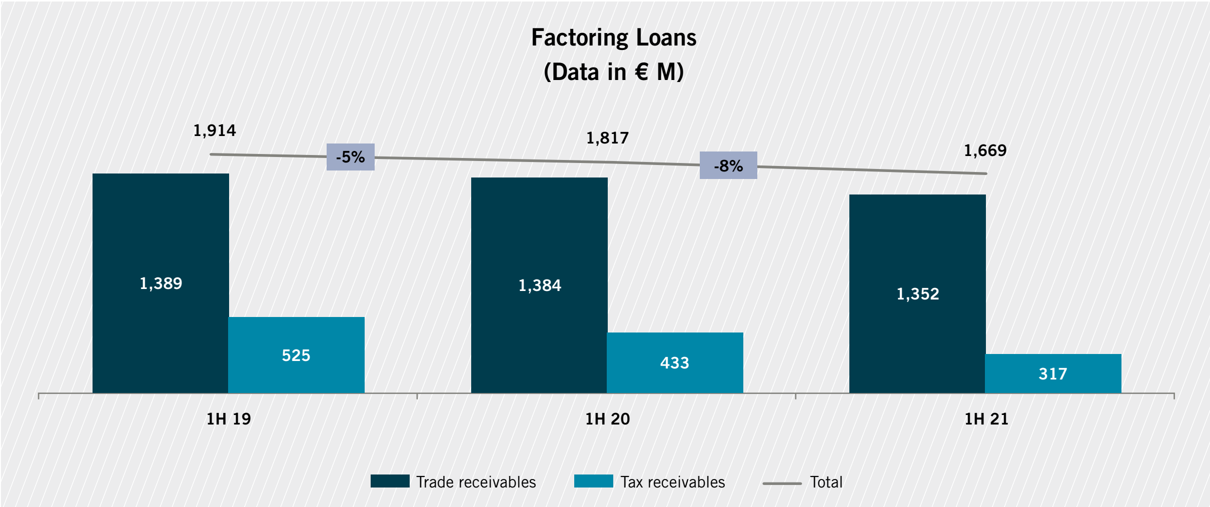
Volumes in the first half of 2021 increased by 15% year on year. Factoring turnover rose to € 1,652 million in the first half of 2021.

The Bank continues to demonstrate its resilience in the face of the crisis, confirming its ability to provide support to Public Administration suppliers. This was possible keeping operations up and running, notwithstanding the state of emergency.

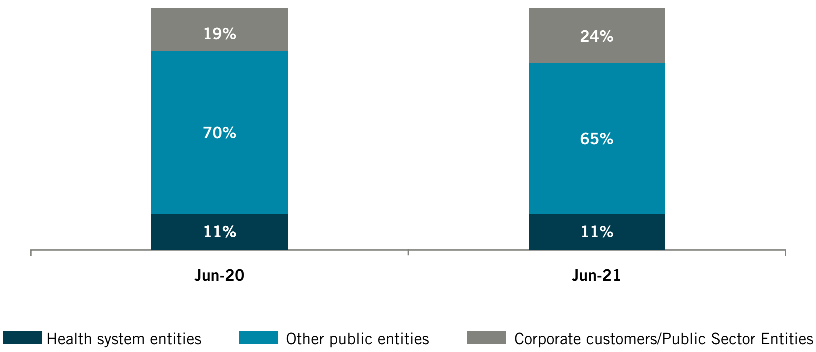
Factoring has proven to be the ideal tool both for small and medium-sized enterprises to finance their working capital and thus trade receivables, and for large companies, such as multinationals, to improve their net financial position, mitigate country risk and receive solid support in servicing and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



Loans as at 30 June 2021 amounted to € 1,669 million (management figures), down 8% on the € 1,817 million at 30 June 2020 mainly due to increased collections during the same period.



The chart below shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 30 June 2021 and 2020. 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 2021, existing distribution agreements accounted for 24% of total volumes. The following table shows the factoring volumes by product type:

PRODUCT (amounts in millions of Euro)	30.06.2021	30.06.2020	€ Change	% Change
Trade receivables	1,509	1,226	284	23%
of which, without recourse	*1,082*	*995*	*87*	*9%*
of which, with recourse	*427*	*230*	*197*	*85%*
Tax receivables	143	212	(69)	-33%
of which, without recourse	*143*	*212*	*(69)*	*-33%*
of which, with recourse	-	-	-	*na*
TOTAL	**1,652**	**1,438**	**215**	**15%**

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

Volumes related to the management of third-party portfolios amounted to € 215 million (in line with the previous year).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

At 30 June 2021, the Group continues to operate in the salary- and pension-backed loans segment mainly through the purchase of receivables generated by other specialist operators. Starting from the second quarter of 2019 following the acquisition of Atlantide, the Banca Sistema Group has expanded its retail offering with the direct origination of salary- and pension-backed loans through a new product, QuintoPuoi. QuintoPuoi is distributed through a network of single-company agents and specialised brokers located throughout Italy and is supported by a dedicated structure within the Bank.

In the second quarter of 2021, the salary- and pension-backed loan market continued its steady recovery after the contraction in 2020 caused by the pandemic. Volumes grew by 27.7% in the first five months of 2021 compared to the same period in 2020, returning to pre-Covid-19 levels.

The second quarter of 2021 was also a positive one for the Bank in terms of volumes financed, which reached a cumulative annual level of € 136 million in June.

Significant growth was also seen in the direct product through the issuance of new mandates with intermediaries (agents and credit brokers), thus increasing the channel's baseline.

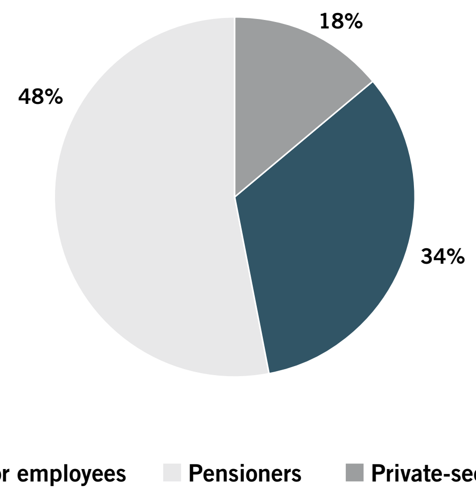
Outstanding capital reached € 959 million, up 4.6% from the previous quarter and 7.6% from last year.

The volumes of acquired portfolios and directly originated receivables from the beginning of the year until June 2021 amounted to € 136 million (€ 27 million of which directly originated).

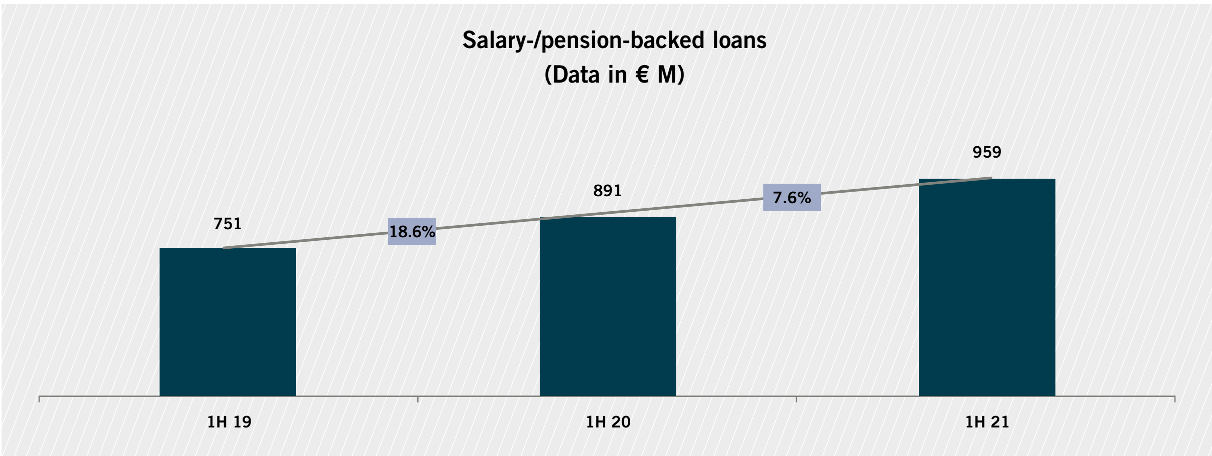
	30.06.2021	30.06.2020	€ Change	% Change
No. of applications (#)	6,821	7,621	(800)	-10%
of which originated	*1,232*	*767*	*465*	*61%*
Volumes disbursed (millions of Euro)	136	147	(11)	-8%
of which originated	*27*	*17*	*10*	*62%*

Loans are split between private-sector employees (18%), pensioners (48%) and public-sector employees (34%). Therefore, over 82% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

CQ disbursed volumes - Breakdown



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



COLLATERALISED LENDING AND PRONTOPEGNO

The Banca Sistema Group began working in the collateralised lending business at the beginning of 2017, combining the credentials of a solid bank with the advantages of a specialist that is continuously willing to innovate and grow to offer greater value to customers, in terms of professionalism and timeliness. To take advantage of the growth prospects that have emerged since starting this business, in 2019, the Bank decided to transfer its collateralised lending business to a dedicated company. In July 2020, ProntoPegno, in line with its growth strategy within this business, acquired Intesa Sanpaolo Group's collateralised lending business unit which contributed € 55.3 million in loans at the acquisition date.

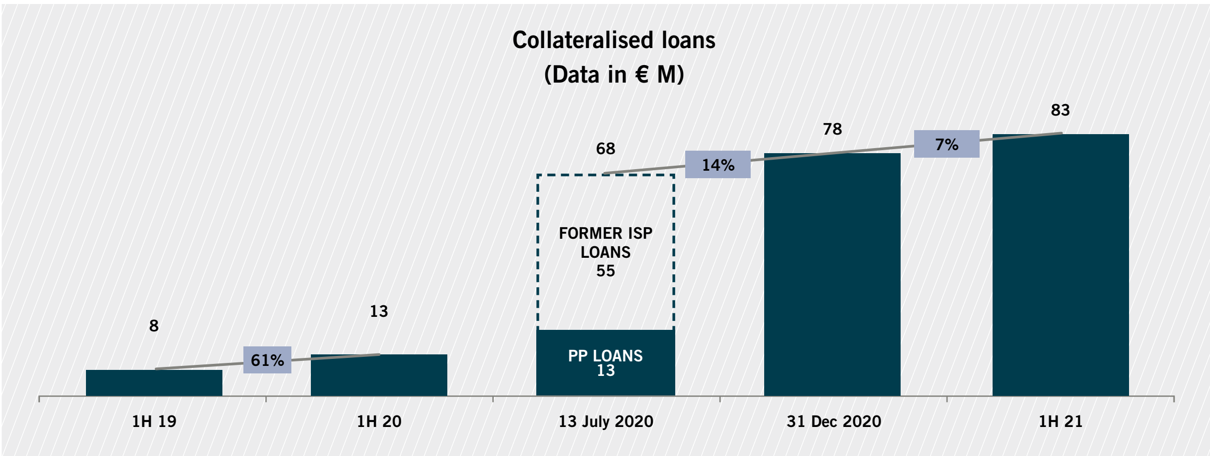
In June 2021, ProntoPegno completed the purchase of a portfolio of loans from the CR Asti Banking Group and opened two new branches in Brescia and Asti. The Pawnbroker of the Banca Sistema Group now has 14 branches located across the country.

At present, the company has about 53,000 policies issued for about 30,000 customers, amounting to total loans of € 78,946 million. In the first half of 2021, outstanding loans grew by 7.0% compared to 2020 (annualised growth of 14%). New loans were nearly € 47 million while renewals amounted to € 29 million. In the first half of 2021 alone, there were 45 auctions and the value of the loans whose items were auctioned amounted to € 953,195 (+220% over 2020).

At an operational level, the first half of 2021 saw the continued integration of the business unit acquired from Intesa. The new staff became fully familiar with the procedures and systems used, resulting in the elimination of queues, which had led to an increase in the number of complaints in the period immediately following the acquisition but have now nearly disappeared.

Collateralised lending continues to provide liquidity support to households. In 2021, the product will undergo significant digitalisation to improve operating efficiency and broaden the target customer base.

The following chart shows the performance of outstanding loans:



The statement of financial position of the consolidated company ProntoPegno as at 30 June 2021 is provided below.

ASSETS (€,000)	30.06.2021	31.12.2020	€ Change	% Change
Cash and cash equivalents	1,228	1,822	(594)	-32.6%
Financial assets measured at amortised cost	91,243	81,988	9,255	11.3%
a) loans and receivables with banks	8,481	4,304	4,177	97.0%
b1) loans and receivables with customers - loans	82,762	77,684	5,078	6.5%
Property and equipment	2,953	2,869	84	2.9%
Intangible assets	28,952	28,793	159	0.6%
of which: goodwill	*28,436*	*28,436*	-	*0.0%*
Tax assets	1,350	1,200	150	12.5%
Other assets	1,191	97	1,094	>100%
Total assets	**126,917**	**116,769**	**10,148**	**8.7%**

LIABILITIES AND EQUITY (€,000)	30.06.2021	31.12.2020	€ Change	% Change
Financial liabilities measured at amortised cost	83,829	74,305	9,524	12.8%
a) due to banks	79,732	70,394	9,338	13.3%
b) due to customers	4,097	3,911	186	4.8%
Tax liabilities	511	258	253	98.1%
Other liabilities	4,178	3,877	301	7.8%
Post-employment benefits	968	1,054	(86)	-8.2%
Provisions for risks and charges	485	738	(253)	-34.3%
Valuation reserves	(62)	(99)	37	-37.4%
Reserves	13,474	15,410	(1,936)	-12.6%
Share capital	23,162	23,162	-	0.0%
Profit (loss) for the period/year	372	(1,936)	2,308	n.a.
Total liabilities and equity	**126,917**	**116,769**	**10,148**	**8.7%**

The assets consist mainly of loans to customers for the collateralised lending business, which increased by € 5.1 million during the first half of the year, and goodwill of € 28.4 million related to the acquisition of the collateralised lending business unit in the second half of 2020.

At 30 June 2021, liabilities, in addition to the capital and reserves, consisted primarily of the loan granted by the Parent of € 71.6 million, which was increased from the amount outstanding at the end of the year following the full repayment of the loan with Intesa Sanpaolo.

The "Other financial liabilities measured at amortised cost" include the auction buyer's premium of € 4.1 million. For 5 years, this amount is recognised in the financial statements as due to customers.

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

The income statement of the consolidated company ProntoPegno for the period ended 30 June 2021 is provided below. Comparative figures are not significant as the acquisition of the collateralised lending business unit from Intesa Sanpaolo only became effective and was reflected in the income statement from 13 July 2020.

INCOME STATEMENT (€,000)	30.06.2021	30.06.2020	€ Change	% Change
Net interest income	2,482	424	2,058	>100%
Net fee and commission income	3,142	328	2,814	>100%
Total income	**5,624**	**752**	**4,872**	**>100%**
Net impairment losses on loans and receivables	50	-	50	n.a.
Net financial income	**5,674**	**752**	**4,922**	**>100%**
Personnel expense	(3,010)	(642)	(2,368)	>100%
Other administrative expenses	(1,832)	(822)	(1,010)	>100%
Net impairment losses on property and equipment/intangible assets	(598)	(60)	(538)	>100%
Other operating income	226	100	126	>100%
Operating costs	**(5,214)**	**(1,424)**	**(3,790)**	**>100%**
Pre-tax profit (loss) from continuing operations	**460**	**(672)**	**1,132**	**<100%**
Income taxes for the period	(88)	195	(283)	<100%
Profit (loss) for the period	**372**	**(477)**	**849**	**<100%**

The company closed the first half of 2021 with a profit of € 372 thousand, reporting a significant increase in total income as a result of the contribution of the acquired collateralised lending business unit which was not present in the same period of the prior year. The result for the first half of the year is slightly lower than expected because of ongoing restrictions related to the Covid-19 pandemic and the decision not to accrue default interest following the application of Article 11 of Liquidity Decree no. 23/2020, converted into Law no. 40/2020.

Personnel expenses mostly include the cost of the 74 employees (71 at the end of 2020), 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.

FUNDING AND TREASURY ACTIVITIES

Treasury portfolio

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

The balance at 30 June 2021 was equal to a nominal € 638 million compared to € 873 million at 31 December 2020.

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

At 30 June, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounts to € 403 million (compared to € 423 million as at 31 December 2020) with a duration of 30.5 months (14.8 months at 31 December 2020). At 30 June, the HTC portfolio amounted to € 235 million with a duration of 30.1 months (compared to € 450 million at 31 December 2020, which had a duration of 11.2 months).

Wholesale funding

At 30 June, wholesale funding was about 36% of the total, mainly comprising refinancing transactions with the ECB, as well as bonds (41% at 31 December 2020).

Securitisations with salary- and pension-backed loans as collateral completed with a partly-paid securities structure continue to allow Banca Sistema to efficiently refinance its CQS/CQP portfolio and to continue to grow its salary- and pension-backed loan business, whose funding structure is optimised by the securitisation. The Bank also continues to adhere to the ABACO procedure introduced by the Bank of Italy which was expanded to include consumer credit during the Covid-19 emergency.

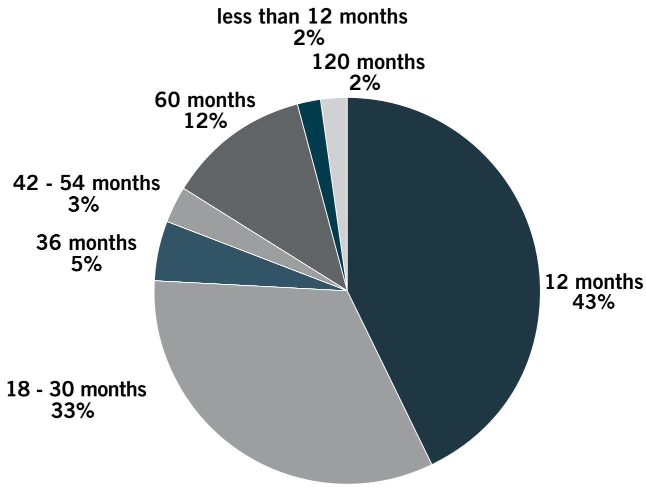
Retail funding

Retail funding accounts for 64% 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 2021 amounted to € 1,171 million, a decrease of 4% compared to 31 December 2020. The above-mentioned amount also includes total term deposits of € 578 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 49% of total deposit funding), an increase of € 53 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 12 months.

Breakdown of deposit accounts as at 30 June



Current accounts decreased from 8,629 (as at 30 June 2020) to 8,009 as at 30 June 2021, while the current account balance as at 30 June 2021 was € 703 million and in line with 2020.

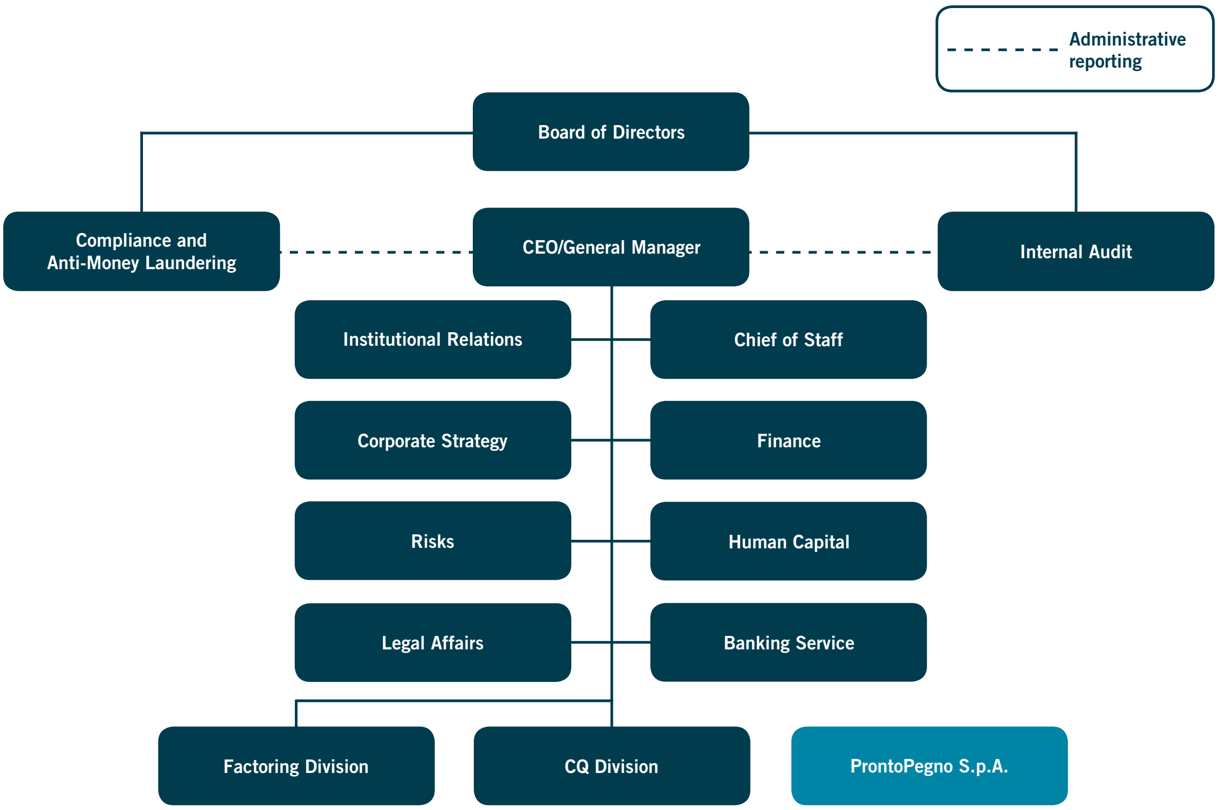
COMPOSITION AND STRUCTURE OF THE GROUP

Scope of the banking group

At 30 June 2021, the Banca Sistema Group comprised the Parent, Banca Sistema S.p.A., the subsidiaries ProntoPegno S.p.A., Largo Augusto Servizi e Sviluppo S.r.l., and Specialty Finance Trust Holdings Limited, a company incorporated under UK Law, and the Spanish joint venture EBNSistema Finance S.L. The scope of consolidation also includes the following special purpose securitisation vehicles whose receivables are not subject to derecognition: Quinto Sistema Sec. 2019 S.r.l., Quinto Sistema Sec. 2017 S.r.l. and BS IVA SPV S.r.l.

Organisational chart

Since 2020, the Bank's organisational structure has been based on the divisional organisational model which assigns specific powers and autonomy in terms of lending, sales and operations to each of the Factoring and CQ businesses, and more specifically, also allows the divisional organisational structures to evolve according to their respective needs and objectives. With these objectives in mind, during the first half of 2021, two separate Commercial Departments, respectively named Outbound/B2B Commercial Department and Network Commercial Department, were set up within the CQ Division, the former focusing on managing the indirect channel (B2B for the purchase of portfolios originated by third parties) and the outbound channel (acquisition of customers through the portal and the Division's direct sales initiatives), and the latter focusing on monitoring the network and organised geographically. The organisational chart in force since 1 February 2020 is as follows:



HUMAN RESOURCES

As at 30 June 2021, the Group had a staff of 275, broken down by category as follows:

FTES	30.06.2021	31.12.2020	30.06.2020
Senior managers	25	26	26
Middle managers (QD3 and QD4)	62	52	50
Other personnel	188	191	140
Total	**275**	**269**	**216**

Consistent with the approved budget and the first initiatives set out in the 2021/2023 Business Plan, in the first part of the year the Bank launched its annual recruitment and hiring programme and recruited a total of 11 new employees to fill positions in the CQ, Factoring, Corporate Centre and ProntoPegno structures.

The Group, in continuation of what was done in 2020 in response to the health emergency, maintained the flexible operational model that was implemented to ensure business continuity, thus allowing employees to continue to work remotely. Excluded from this 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 50% of workdays performed outside the Bank’s premises. Gradually, since July, and in line with national and regional health provisions to prevent and counter the spread of the Covid-19 virus, a more balanced remote working schedule has been organised, with two days of remote work and three days of work on site at the Bank's premises each week. The remote medical counselling programme for all Group employees, which had been organised back in 2020 to respond to possible difficulties in accessing advice and initial medical assistance, was extended for another year.

During the first quarter of the year - following the skills assessments and agreed development actions - work began on identifying professional and technical training needs in relation to the Bank's legal and regulatory issues. This is currently being carried out with both internal and external instructors and will be delivered in a manner that is compatible with the health emergency. In addition, the specific training and coaching programmes on managerial and professional topics which have already been launched are continuing.

The average age of Group employees is 45 for men and 44 for women. The breakdown by gender is essentially balanced with men accounting for 56% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	First half of 2021	First half of 2020	€ Change	% Change
Net interest income	38,505	33,620	4,885	14.5%
Net fee and commission income	7,848	8,089	(241)	-3.0%
Dividends and similar income	227	227	-	0.0%
Net trading income	21	38	(17)	-44.7%
Gain from sales or repurchases of financial assets/liabilities	3,714	4,191	(477)	-11.4%
Total income	**50,315**	**46,165**	**4,150**	**9.0%**
Net impairment losses on loans and receivables	(7,831)	(5,068)	(2,763)	54.5%
Net financial income	**42,484**	**41,097**	**1,387**	**3.4%**
Personnel expense	(14,304)	(11,130)	(3,174)	28.5%
Other administrative expenses	(15,951)	(12,242)	(3,709)	30.3%
Net accruals to provisions for risks and charges	(26)	(1,143)	1,117	-97.7%
Net impairment losses on property and equipment/intangible assets	(1,376)	(751)	(625)	83.2%
Other operating income	1,375	266	1,109	>100%
Operating costs	**(30,282)**	**(25,000)**	**(5,282)**	**21.1%**
Gains (losses) on equity investments	15	-	15	n.a.
Gains (losses) on sales of investments	-	1,090	(1,090)	-100.0%
Pre-tax profit from continuing operations	**12,217**	**17,187**	**(4,970)**	**-28.9%**
Income taxes for the period	(3,634)	(4,991)	1,357	-27.2%
Post-tax profit for the period	**8,583**	**12,196**	**(3,613)**	**-29.6%**
Profit for the period	**8,583**	**12,196**	**(3,613)**	**-29.6%**
Profit (loss) attributable to non-controlling interests	(93)	119	(212)	<100%
Profit for the period attributable to the owners of the Parent	**8,490**	**12,315**	**(3,825)**	**-31.1%**

The first half of 2021 ended with a profit for the period of € 8.5 million, a decrease on the same period a year earlier despite Total income increasing by 9%. The results for the first half of 2021 were affected by unexpectedly higher impairment losses. In particular, as described in more detail later in the report, this was due to an extraordinary, non-recurring impairment loss on a position relating to a municipality in financial difficulty for € 2.4 million in the first quarter, and a higher impairment loss in the second quarter due to a lengthening of the estimated collection times for positions with municipalities in financial difficulty, which had a one-off effect of € 1.4 million. If the new collection times for municipalities in financial difficulty are confirmed, the default interest component, which is not recognised in the financial statements, will increase, with an overall positive financial effect in excess of € 1.4 million given the accrual of default interest at the ECB rate plus 8%. It should also be noted that the result for the first half of 2020 included the € 1.1 million gain on the sale of 25% of the share capital of the ProntoPegno subsidiary by the Parent to its current minority shareholders.

NET INTEREST INCOME (€,000)	First half of 2021	First half of 2020	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	44,725	42,439	2,286	5.4%
Factoring	29,450	30,869	(1,419)	-4.6%
CQ	10,704	11,114	(410)	-3.7%
Collateralised lending (interest income)	2,744	456	2,288	>100%
Government-backed loans to SMEs	1,827	-	1,827	n.a.
Securities portfolio	847	805	42	5.2%
Other	407	695	(288)	-41.4%
Financial liabilities	1,742	1,950	(208)	-10.7%
Total interest income	**47,721**	**45,889**	**1,832**	**4.0%**
Interest and similar expense				
Due to banks	(254)	(173)	(81)	46.8%
Due to customers	(6,670)	(8,046)	1,376	-17.1%
Securities issued	(1,876)	(3,922)	2,046	-52.2%
Financial assets	(416)	(128)	(288)	>100%
Total interest expense	**(9,216)**	**(12,269)**	**3,053**	**-24.9%**
Net interest income	**38,505**	**33,620**	**4,885**	**14.5%**

Net interest income increased compared to the same period last year, due to the higher contribution of the Collateralised Lending Division and the good performance of guaranteed SME loans to factoring customers.

The total contribution of the Factoring Division (which includes Government-backed loans to SMEs) to interest income was € 31.3 million, equal to 70% of the entire loans and receivables portfolio (compared to 73% at 30 June 2020), 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 2021 was € 12.0 million (€ 9.9 million at 30 June 2020):

- of which € 5.9 million resulting from the current recovery estimates (€ 3.7 million in 2020);
- of which € 6.1 million (€ 6.2 million in 2020) coming from net collections during the year, i.e. the difference between the amount collected during the period, equal to € 9.2 million (€ 12.4 million in 2020) and that recognised on an accruals basis in previous years. In 2020, this item included gross collections of € 5.2 million from transfers to third parties, compared to € 0.7 million in 2021.

The amount of the stock of default interest from legal actions accrued at 30 June 2021, relevant for the allocation model, was € 101 million (€ 98 million at the end of 2020), which becomes € 161 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements, based on the current accounting model, amount to € 51 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 110 million.

The contribution of interest on the salary- and pension-backed portfolios is down slightly on the previous year at € 10.7 million as a result of the early redemption of several positions.

The contribution of the Collateralised Lending Division grew significantly to € 2.7 million, compared to € 0.5 million in the previous year. The increase is mostly due to the recent acquisition of the collateralised lending business unit starting from 13 July 2020.

Compared to the first half of 2020, the interest component from government-backed loans granted by the Bank to factoring customers, a support measure in response to the Covid-19 pandemic, has had a positive and significant impact.

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 € 1.7 million.

Interest expense decreased compared to the previous year thanks to the funding strategies put in place which aimed to carefully contain the cost of funding. In particular, interest on term deposits from customers decreased as a result of the reduction in the interest rate applied to deposit accounts. This has also led to a decrease in funding from this channel. The cost of bonds also decreased following the full repayment in the last quarter of 2020 of the € 175 million senior bond which the Bank deemed appropriate to refinance with other more cost-effective forms of funding.

NET FEE AND COMMISSION INCOME (€,000)	First half of 2021	First half of 2020	€ Change	% Change
Fee and commission income				
Factoring activities	6,618	9,616	(2,998)	-31.2%
Fee and commission income - off-premises CQ	1,404	1,010	394	39.0%
Collateralised loans (fee and commission income)	3,174	332	2,842	>100%
Collection activities	528	559	(31)	-5.5%
Other	213	163	50	30.7%
Total fee and commission income	**11,937**	**11,680**	**257**	**2.2%**
Fee and commission expense				
Factoring portfolio placement	(824)	(709)	(115)	16.2%
Placement of other financial products	(1,020)	(970)	(50)	5.2%
Fees - off-premises CQ	(1,899)	(1,333)	(566)	42.5%
Other	(346)	(579)	233	-40.2%
Total fee and commission expense	**(4,089)**	**(3,591)**	**(498)**	**13.9%**
Net fee and commission income	**7,848**	**8,089**	**(241)**	**-3.0%**

Net fee and commission income amounted to € 7.8 million, down by 3% due to a reduction in the contribution from factoring linked to particularly significant collections in the second quarter, which was not entirely offset by the increase in the fees and commissions generated by the Collateralised Lending Division.

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

Fee and commission income from the collateral-backed loans business grew by € 2.8 million compared to the same period of the previous year thanks to the acquisition of the collateralised lending business unit.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration remained in line with the first half of 2020.

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

Fee and commission income - off-premises CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 1.4 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 1.9 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the estimated year-end bonuses payable to them and commissions borne solely by the Bank.

Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios is linked to the origination costs of factoring receivables, which remained in line with those reported in the same period of 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 2021	First half of 2020	€ Change	% Change
Gains from HTCS portfolio debt instruments	2,350	2,250	100	4.4%
Gains from HTC portfolio debt instruments	411	340	71	20.9%
Gains from financial liabilities	-	15	(15)	-100.0%
Gains from receivables (Factoring portfolio)	953	1,586	(633)	-39.9%
Total	**3,714**	**4,191**	**(477)**	**-11.4%**

The item Gain (loss) from sales or repurchases includes gains generated by the proprietary HTCS and HTC securities portfolio of € 2.8 million, and net realised gains from factoring receivables of € 1.0 million, the revenue from which derives from the sale of factoring portfolios to private-sector assignors.

Impairment losses on loans and receivables at 30 June 2021, brought to the attention of the Bank of Italy's inspectors at the end of their audit, amounted to € 7.8 million and were significantly affected by a valuation adjustment made in the first quarter of 2021 of € 2.4 million on a portion of invoices included in the insolvency procedure of a local authority which will not occur again in future quarters and will be largely recovered from the default interest (almost all of which has already been recognised by the court and not yet accounted for in the income statement, like all the default interest related to troubled local authorities), which will be collected when the settlement agreement with the OSL (Organo Straordinario di Liquidazione - Extraordinary Liquidation Committee) concerning the items identified by the Bank is finalised. The impairment losses for the second quarter of 2021 were also negatively impacted by a lengthening of the estimated collection times for positions with municipalities in financial difficulty, reflecting an increase in the average time to emerge from financial difficulties, resulting in a one-off effect of € 1.4 million. The lengthening of the collection times will be more than offset by the higher default interest that will accrue as a consequence of the longer collection times, the impact of which on the income statement will be recognised at the time of collection. To date, the amount of default interest collected from municipalities that have emerged from their financial difficulties has been approximately 70% of the amount due.

As at 30 June 2021, the Bank has already accepted the increased hedging requirements communicated by the inspectors as a result of their audit.

The annualised loss rate increased from 0.42% for all of 2020 to 0.46% (this figure is calculated without annualising the non-recurring adjustments described above).

PERSONNEL EXPENSE (€,000)	First half of 2021	First half of 2020	€ Change	% Change
Wages and salaries	(13,477)	(10,321)	(3,156)	30.6%
Social security contributions and other costs	(109)	(201)	92	-45.8%
Directors' and statutory auditors' remuneration	(718)	(608)	(110)	18.1%
Total	**(14,304)**	**(11,130)**	**(3,174)**	**28.5%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 215 to 272. Contributing to this increase was the addition of new employees from the business unit incorporated into ProntoPegno who joined the company's personnel in the second half of 2020.

OTHER ADMINISTRATIVE EXPENSES (€,000)	First half of 2021	First half of 2020	€ Change	% Change
Consultancy	(3,195)	(1,898)	(1,297)	68.3%
IT expenses	(3,223)	(2,898)	(325)	11.2%
Servicing and collection activities	(1,557)	(1,324)	(233)	17.6%
Indirect taxes and duties	(1,357)	(945)	(412)	43.6%
Insurance	(467)	(275)	(192)	69.8%
Other	(281)	(290)	9	-3.1%
Expenses related to management of the SPVs	(549)	(376)	(173)	46.0%
Car hire and related fees	(366)	(281)	(85)	30.2%
Advertising	(597)	(201)	(396)	197.0%
Rent and related fees	(586)	(334)	(252)	75.4%
Expense reimbursement and entertainment	(186)	(190)	4	-2.1%
Infoprovider expenses	(366)	(286)	(80)	28.0%
Membership fees	(224)	(202)	(22)	10.9%
Property management expenses	(349)	(156)	(193)	123.7%
Audit fees	(148)	(141)	(7)	5.0%
Telephone and postage expenses	(126)	(105)	(21)	20.0%
Logistics expenses	(74)	(21)	(53)	252.4%
Stationery and printing	(16)	(15)	(1)	6.7%
Total operating expenses	**(13,667)**	**(9,938)**	**(3,729)**	**37.5%**
Resolution Fund	(2,284)	(2,007)	(277)	13.8%
Merger-related costs	-	(297)	297	-100.0%
Total	**(15,951)**	**(12,242)**	**(3,709)**	**30.3%**

Administrative expenses increased mainly due to consultancy costs in connection with higher legal expenses incurred for managing the legal recovery proceedings for receivables and default interest from Italian and Spanish public administration debtors.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure, which have increased compared to the first half of 2020, also due to the costs deriving from the ProntoPegno branches acquired along with the business unit.

Compared to the previous year, the Resolution Fund required a € 0.3 million higher contribution, for a total of € 2.3 million.

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

Other income includes the release of estimated accrued costs of € 0.9 million for accruals made in the previous year that were not incurred in 2021.

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)	30.06.2021	31.12.2020	€ Change	% Change
Cash and cash equivalents	1,342	1,930	(588)	-30.5%
Financial assets measured at fair value through other comprehensive income	411,053	430,966	(19,913)	-4.6%
Financial assets measured at amortised cost	2,933,683	3,142,791	(209,108)	-6.7%
a) loans and receivables with banks	85,173	92,481	(7,308)	-7.9%
b1) loans and receivables with customers - loans	2,615,004	2,602,446	12,558	0.5%
b2) loans and receivables with customers - debt instruments	233,506	447,864	(214,358)	-47.9%
Equity investments	1,015	1,000	15	1.5%
Property and equipment	41,353	32,607	8,746	26.8%
Intangible assets	32,883	32,725	158	0.5%
Tax assets	10,300	10,313	(13)	-0.1%
Other assets	22,696	19,039	3,657	19.2%
Total assets	**3,454,325**	**3,671,371**	**(217,046)**	**-5.9%**

The half year ended 30 June 2021 closed with total assets down by 6% over the end of 2020 and equal to € 3.5 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income (“HTCS” or “Held to collect and Sell”) of the Group was down compared to 31 December 2020 and continues to be mainly comprised of Italian government bonds with an average duration of about 30.5 months (the average remaining duration at the end of 2020 was 14.8 months). This is consistent with the Group investment policy. The HTCS portfolio amounted to € 403 million at 30 June 2021 (€ 423 million at 31 December 2020). The associated valuation reserve was positive at the end of the period, amounting to € 13 thousand 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 2021 had a negative fair value reserve of € 0.5 million, resulting in a period-end amount of € 0.6 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	30.06.2021	31.12.2020	€ Change	% Change
Factoring	1,418,448	1,481,678	(63,230)	-4.3%
Salary-/pension-backed loans (CQS/CQP)	959,014	933,873	25,141	2.7%
Collateralised loans	82,762	77,684	5,078	6.5%
Loans to SMEs	133,612	74,409	59,203	79.6%
Current accounts	14,935	15,351	(416)	-2.7%
Compensation and Guarantee Fund	4,917	12,639	(7,722)	-61.1%
Other loans and receivables	1,316	6,812	(5,496)	-80.7%
Total loans	**2,615,004**	**2,602,446**	**12,558**	**0.5%**
Securities	233,506	447,864	(214,358)	-47.9%
Total loans and receivables with customers	**2,848,510**	**3,050,310**	**(201,800)**	**-6.6%**

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

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 54% (57% at the end of 2020). The volumes generated during the year amounted to € 1,652 million (€ 1,438 million at 30 June 2020).

Salary- and pension-backed loans increased by 2.7%; compared to the previous year, the volumes disbursed decreased slightly due to lower portfolios acquired (the new volumes acquired in the first half of 2021 amounted to € 136 million).

Government-backed loans to SMEs increased following new disbursements made under SACE and SME Fund guarantees, equal to € 65.7 million.

The collateralised loan business, carried out through the subsidiary ProntoPegno, grew significantly reporting loans of € 83 million at 30 June 2021 which are the result of loans granted during the first half of the year and renewals with existing customers.

HTC securities are composed entirely of Italian government securities with an average duration of 30.1 months for an amount of € 235 million. The mark-to-market valuation of the securities at 30 June 2021 was a positive fair value of € 2.9 million.

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

STATUS	30.06.2020	30.09.2020	31.12.2020	31.03.2021	30.06.2021
Bad exposures	48,714	49,759	52,354	50,710	169,372
Unlikely to pay	140,422	144,848	148,433	148,874	34,387
Past due	84,134	60,966	50,377	112,423	92,462
Non-performing	**273,270**	**255,573**	**251,164**	**312,007**	**296,221**
Performing	**2,380,051**	**2,477,606**	**2,404,623**	**2,300,186**	**2,382,395**
Stage 2	165,148	169,719	134,194	116,732	116,414
Stage 1	2,214,903	2,307,887	2,270,429	2,183,454	2,265,981
Total loans and receivables with customers	**2,653,321**	**2,733,179**	**2,655,787**	**2,612,193**	**2,678,616**
Individual impairment losses	**38,495**	**39,997**	**46,027**	**50,384**	**56,623**
Bad exposures	19,920	21,212	25,240	26,660	46,160
Unlikely to pay	17,707	18,265	20,352	22,961	10,025
Past due	868	520	435	763	438
Collective impairment losses	**8,284**	**9,781**	**7,315**	**6,941**	**6,989**
Stage 2	943	982	781	749	660
Stage 1	7,341	8,799	6,534	6,192	6,329
Total impairment losses	**46,779**	**49,778**	**53,342**	**57,325**	**63,612**
Net exposure	**2,606,542**	**2,683,401**	**2,602,445**	**2,554,868**	**2,615,004**

The ratio of gross non-performing loans to the total portfolio increased to 11.1% compared to 9.5% at 31 December 2020, following the increase in past due loans, mainly due to the entry into force of the new definition of default on 1 January 2021 ("New DoD"). Past due loans are associated with factoring receivables without recourse from Public Administration and are considered normal for the sector. Despite the new technical rules used to report past due loans for regulatory purposes, this continues not to pose particular problems in terms of credit quality and probability of collection.

The increase in bad exposures is the result of reclassifying, as required by the Bank of Italy during the ordinary audit recently carried out, exposures to local authorities in financial difficulty, which the Group had previously classified as unlikely to pay because, in fact, until the settlement proposed by the OSL is accepted, the exposure does not fall under the liquidation procedure. This reclassification has no impact on prudential ratios, nor on the quality of the receivable that the Group will collect in full at the end of the financial difficulties, including default interest accrued up to that date and not recognised in the income statement. The coverage ratio for non-performing loans is 19.1%, up from 18.7% at 31 December 2020.

Property and equipment includes the property located in Milan, which is also being used as Banca Sistema's new offices, and the new building in Rome. The carrying amount of the properties, including capitalised costs, is € 35.9 million, net of accumulated depreciation. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments for branches and company cars.

Intangible assets refer to goodwill of € 32.3 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013

amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020.

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

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)	30.06.2021	31.12.2020	€ Change	% Change
Financial liabilities measured at amortised cost	3,022,710	3,274,229	(251,519)	-7.7%
a) due to banks	844,720	869,647	(24,927)	-2.9%
b) due to customers	1,989,451	2,164,244	(174,793)	-8.1%
c) securities issued	188,539	240,338 *	(51,799)	-21.6%
Tax liabilities	14,495	16,903	(2,408)	-14.2%
Other liabilities	136,573	136,894	(321)	-0.2%
Post-employment benefits	4,301	4,428	(127)	-2.9%
Provisions for risks and charges	23,184	23,430	(246)	-1.0%
Valuation reserves	(369)	1,287	(1,656)	<100%
Reserves	180,400	161,333 *	19,067	11.8%
Equity instruments	45,500	8,000 *	37,500	>100%
Equity attributable to non-controlling interests	9,390	9,297	93	1.0%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	-	(234)	234	-100.0%
Profit for the period/year	8,490	26,153 *	(17,663)	n.a.
Total liabilities and equity	**3,454,325**	**3,671,371**	**(217,046)**	**-5.9%**

(*) For more information reference should be made to the "General basis of preparation" section in the Notes.

Wholesale funding, which represents about 36% of the total (41% at 31 December 2020), decreased in absolute terms from the end of 2020 mainly following the decrease in funding through repurchase agreements. The contribution of bond funding to total wholesale funding was 26% (23% at the end of 2020).

DUE TO BANKS (€,000)	30.06.2021	31.12.2020	€ Change	% Change
Due to Central banks	737,270	689,686	47,584	6.9%
Due to banks	107,450	179,962	(72,512)	-40.3%
Current accounts and demand deposits	*102,450*	*127,088*	*(24,638)*	*-19.4%*
Term deposits with banks	-	-	-	*n.a.*
Financing from other banks	*5,000*	*48,737*	*(43,737)*	*-89.7%*
Other amounts due to banks	-	*4,137*	*(4,137)*	*-100.0%*
Total	**844,720**	**869,648**	**(24,928)**	**-2.9%**

The item "Due to banks" decreased compared to 31 December 2020 due to the decrease in interbank funding; ECB refinancing, which increased by 7%, is backed by ABS from the salary- and pension-backed loans (CQS/CQP) securitisation, government bonds, CQS/CQP receivables and some factoring receivables.

DUE TO CUSTOMERS (€,000)	30.06.2021	31.12.2020	€ Change	% Change
Term deposits	1,171,080	1,216,523	(45,443)	-3.7%
Financing (repurchase agreements)	50,058	235,230	(185,172)	-78.7%
Current accounts	703,105	633,548	69,557	11.0%
Due to assignors	61,098	75,021	(13,923)	-18.6%
Other payables	4,110	3,922	188	4.8%
Total	**1,989,451**	**2,164,244**	**(174,793)**	**-8.1%**

The item "Due to customers" decreased compared to the end of the prior year, mainly due to a decrease in funding from term deposits and from repurchase agreements. The period-end amount of term deposits decreased by 3.7% compared to the end of 2020, reflecting net negative deposits (net of accrued interest) of € -47 million due to the reduction in interest rates in the international channel; gross deposits from the beginning of the year were € 360 million, against withdrawals totalling € 407 million.

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

BONDS ISSUED (€,000)	30.06.2021	31.12.2020	€ Change	% Change
Bond - AT1	45,500	8,018	37,482	>100%
Bond - Tier II	0	37,570	(37,570)	-100.0%
Bonds - other	188,539	202,750	(14,211)	-7.0%

The value of bonds issued decreased compared to 31 December 2020 due to the repayment of the € 90 million senior bond that matured in May, partially offset by the increase in the senior shares of the ABS financed by third-party investors.

Bonds issued at 30 June 2021 are 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 and 18 December 2013 (reopening date);
- Tier 1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

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 Tier 2 subordinated loans were repaid before maturity upon simultaneous issuance of an Additional Tier 1 (AT1) subordinated bond for the same amount. It should be noted that given their predominant characteristics, all AT1 instruments are classified, starting from this financial year, under item 140 "Equity instruments" in equity, therefore including the € 8 million previously classified under financial liabilities.

The provision for risks and charges of € 23.2 million includes the provision for possible liabilities attributable to past acquisitions of € 3.1 million, the estimated amount of personnel-related charges for the portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, the estimate related to the non-compete agreement and ongoing labour-related lawsuits, totalling € 7.7 million. The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled of € 4.5 million and other estimated charges for ongoing lawsuits and legal disputes amounting to € 1.2 million. Following the acquisition of Atlantide, the provision includes the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years (the liability is currently estimated to be € 1.3 million and is offset against goodwill). Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolio, for an amount of € 3.8 million.

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 2019 and 2020 dividends totalling € 13.9 million, which have been approved but not distributed. This amount is excluded from the calculation of CET1 insofar as it is excluded from the Bank's equity.

The reconciliation between the profit for the 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	**8,552**	**244,952**
Assumption of value of investments	-	(44,198)
Consolidated profit/equity	16	52,308
Gain (loss) on equity investments	15	-
Equity attributable to the owners of the parent	**8,583**	**253,062**
Equity attributable to non-controlling interests	(93)	(9,390)
Profit/equity of the Group	**8,490**	**243,672**

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	30.06.2021	31.12.2020
Common Equity Tier 1 (CET1)	**170,771**	**163,797**
ADDITIONAL TIER 1	45,500	8,000
Tier 1 capital (T1)	**216,271**	**171,797**
TIER 2	121	37,655
Total Own Funds (TC)	**216,392**	**209,452**
Total risk-weighted assets	**1,394,363**	**1,297,255**
of which, credit risk	1,217,520	1,120,412
of which, operational risk	176,843	176,843
of which, market risk	-	-
Ratio - CET1	12.2%	12.6%
Ratio - T1	15.5%	13.2%
Ratio - TCR	15.5%	16.1%

Total own funds were € 216 million at 30 June 2021 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. It should be noted that dividends declared on 2019 and 2020 profits are not included in CET1, despite their payment being postponed to a date after 30 September 2021.

The increase in risk-weighted assets with respect to 31 December 2020 is mainly attributable to the increase in non-performing exposures due to the introduction of the new definition of default.

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 ratios remained unchanged from those for 2020. The latest SREP decision does not include any quantitative liquidity requirements.

The ratios at 30 June 2021 are as follows:

- CET1 12.2%
- T1 15.5%
- TCR 15.5%.

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 2021 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

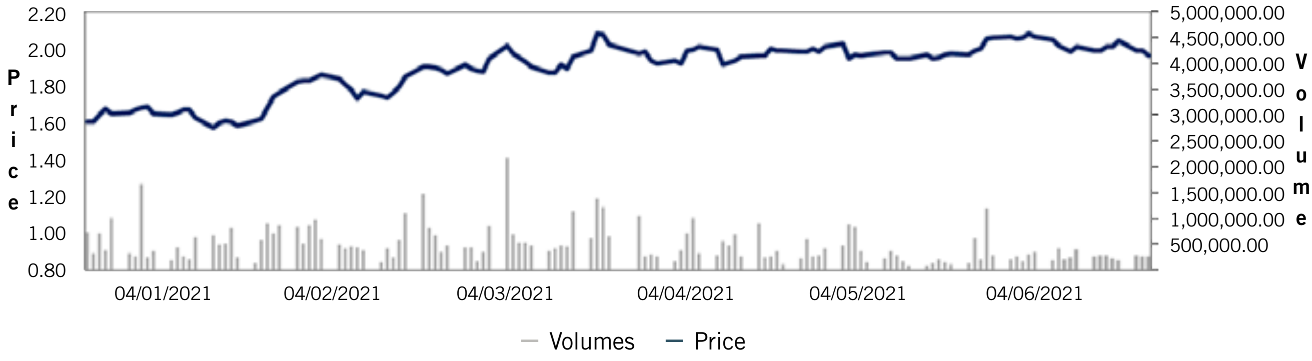
PERSON AT THE TOP OF THE CHAIN OF OWNERSHIP	SHAREHOLDER		% OF THE VOTING CAPITAL
Gianluca Garbi	SGBS S.r.l.[1]		23.10%
	Garbifin S.r.l.		0.54%
	Gianluca Garbi		0.64%
	Fondazione Cassa di Risparmio di Alessandria[1]		7.91%
	Chandler		7.48%
	Fondazione Sicilia[1]		7.40%
	Moneta Micro Entreprises		5.12%
Market			47.81%
Total shares		**80,421,052**	**100%**

[1] On 29 June 2020, SGBS S.r.l., Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia signed a Shareholders' Agreement (extracts of which are available in the Investors/Governance/Corporate Documents section of the same website), which came into force on 2 July 2020 and will remain effective until 1 July 2022.

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.


2.20
2.00
1.80
1.60
1.40
1.20
1.00
0.80
Price
5,000,000.00
4,500,000.00
4,000,000.00
3,500,000.00
3,000,000.00
2,500,000.00
2,000,000.00
1,500,000.00
1,000,000.00
500,000.00
Volume
04/01/2021
04/02/2021
04/03/2021
04/04/2021
04/05/2021
04/06/2021
Volumes
Price

RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

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

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

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

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

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

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

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

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

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

With regard to protecting against credit risk, along with the well-established second level controls and the periodic monitoring put in place by the Risk Department, functional requirements were implemented to allow the Group to be compliant with the new definition of default that is being introduced starting on 1 January 2021.

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

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

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

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

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

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

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

OTHER INFORMATION

Research and Development Activities

No research and development activities were carried out in 2021.

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 2021, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

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

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The availability of extraordinary public resources resulted in an acceleration of payments in certain segments, which had a negative impact on factoring profitability. The longer average times for lawsuits and insolvency procedures could lead to higher default interest being recognised on a cash basis rather than an accruals basis.

The situation surrounding the Covid-19 pandemic is being continuously monitored and any impacts not yet evident will be reflected, if necessary, in the estimated recoverable value of the financial assets.

Milan, 30 July 2021

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2021

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	30.06.2021	31.12.2020
10.	Cash and cash equivalents	1,342	1,930
30.	Financial assets measured at fair value through other comprehensive income	411,053	430,966
40.	Financial assets measured at amortised cost	2,933,683	3,142,791
	a) loans and receivables with banks	*85,173*	*92,481*
	b) loans and receivables with customers	*2,848,510*	*3,050,310*
70.	Equity investments	1,015	1,000
90.	Property and equipment	41,353	32,607
100.	Intangible assets	32,883	32,725
	of which:	-	-
	Goodwill	*32,355*	*32,355*
110.	Tax assets	10,300	10,313
	a) current	*314*	*62*
	b) deferred	*9,986*	*10,251*
130.	Other assets	22,696	19,039
	Total Assets	**3,454,325**	**3,671,371**

	Liabilities and equity	30.06.2021	31.12.2020
10.	Financial liabilities measured at amortised cost	3,022,710	3,274,230
	a) due to banks	*844,720*	*869,648*
	b) due to customers	*1,989,451*	*2,164,244*
	c) securities issued	*188,539*	*240,338 (*)*
60.	Tax liabilities	14,495	16,903
	a) current	*1*	*1,995*
	b) deferred	*14,494*	*14,908*
80.	Other liabilities	136,573	136,894
90.	Post-employment benefits	4,301	4,428
100.	Provisions for risks and charges:	23,184	23,430
	a) commitments and guarantees issued	*52*	*26*
	c) other provisions for risks and charges	*23,132*	*23,404*
120.	Valuation reserves	(369)	1,287
140.	Equity instruments	45,500	8,000 (*)
150.	Reserves	141,300	122,232 (*)
160.	Share premium	39,100	39,100
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	-	(234)
190.	Equity attributable to non-controlling interests (+/-)	9,390	9,297
200.	Profit for the period/year	8,490	26,153 (*)
	Total liabilities and equity	**3,454,325**	**3,671,371**

(*) For more information reference should be made to the “General basis of preparation” section in the Notes.

INCOME STATEMENT

(Amounts in thousands of Euro)

		First half of 2021	First half of 2020
10.	Interest and similar income	47,721	45,889
	of which: interest income calculated with the effective interest method	44,770	44,368
20.	Interest and similar expense	(9,216)	(12,269)*
30.	**Net interest income**	**38,505**	**33,620**
40.	Fee and commission income	11,937	11,680
50.	Fee and commission expense	(4,089)	(3,591)
60.	**Net fee and commission income**	**7,848**	**8,089**
70.	Dividends and similar income	227	227
80.	Net trading income	21	38
100.	Gain from sales or repurchases of:	3,714	4,191
	a) financial assets measured at amortised cost	*1,364*	*1,926*
	b) financial assets measured at fair value through other comprehensive income	*2,350*	*2,250*
	c) financial liabilities	-	*15*
120.	**Total income**	**50,315**	**46,165**
130.	Net impairment losses/gains on:	(7,831)	(5,068)
	a) financial assets measured at amortised cost	*(7,839)*	*(4,860)*
	b) financial assets measured at fair value through other comprehensive income	*8*	*(208)*
150.	**Net financial income**	**42,484**	**41,097**
190.	Administrative expenses	(30,255)	(23,372)
	a) personnel expense	*(14,304)*	*(11,130)*
	b) other administrative expenses	*(15,951)*	*(12,242)*
200.	Net accruals to provisions for risks and charges	(26)	(1,143)
	a) commitments and guarantees issued	*(26)*	*40*
	b) other net accruals	-	*(1,183)*
210.	Net impairment losses on property and equipment	(1,275)	(738)
220.	Net impairment losses on intangible assets	(101)	(13)
230.	Other operating income	1,375	265
240.	**Operating costs**	**(30,282)**	**(25,001)**
250.	Gains (losses) on equity investments	15	-
280.	Gains (losses) on sales of investments	-	1,090
290.	**Pre-tax profit from continuing operations**	**12,217**	**17,186**
300.	Income taxes	(3,634)	(4,990)*
310.	**Post-tax profit from continuing operations**	**8,583**	**12,196 ***
330.	**Profit for the period**	**8,583**	**12,196 ***
340.	**Loss for the period attributable to non-controlling interests**	**(93)**	**119**
350.	**Profit for the period attributable to the owners of the parent**	**8,490**	**12,315 ***

(*) For more information reference should be made to the “General basis of preparation” section in the Notes.

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		First half of 2021	2020
10.	**Profit for the period**	**8,490**	**26,153 (*)**
	Items, net of tax, that will not be reclassified subsequently to profit or loss		
70.	Defined benefit plans	117	(124)
	Items, net of tax, that will be reclassified subsequently to profit or loss		-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(1,772)	1,144
170.	**Total other comprehensive income (expense), net of income tax**	**(1,655)**	**1,020**
180.	**Comprehensive income (Items 10+170)**	**6,835**	**27,173 (*)**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**6,835**	**27,173 (*)**

(*) For more information reference should be made to the “General basis of preparation” section in the Notes.

STATEMENTS OF CHANGES IN EQUITY AS AT 30/06/2021

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the period										
							Transactions on equity									
	Balance at 31.12.2020	Change in opening balances	**Balance at 1.1.2021**	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 2021	**Equity at 30.06.2021**	**Equity attributable to non-controlling interests at 30.06.2021**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,100**	-	39,100	-	-	-	-	-	-	-	-	-	-	-	**39,100**	-
Reserves	**122,232**	-	122,232	19,719	-	(652)	-	-	-	-	-	-	-	-	**141,299**	-
a) income-related	**120,797 (*)**	-	120,797	19,719	-	(5)	-	-	-	-	-	-	-	-	**140,511**	-
b) other	**1,435**	-	1,435	-	-	(647)	-	-	-	-	-	-	-	-	**788**	-
Valuation reserves	**1,287**	-	1,287	-	-	-	-	-	-	-	-	-	-	(1,655)	**(368)**	-
Equity instruments	**8,000 (*)**	-	8,000	-	-	-	-	-	-	37,500	-	-	-	-	**45,500**	-
Treasury shares	**(234)**	-	(234)	-	-	234	-	-	-	-	-	-	-	-	**-**	-
Profit for the period	**26,153 (*)**	-	26,153	(19,719)	(6,434)	-	-	-	-	-	-	-	-	8,490	**8,490**	-
Equity attributable to the owners of the parent	**206,189**	**-**	206,189	**-**	**(6,434)**	**(418)**	-	-	-	**37,500**	-	-	**-**	**6,835**	**243,672**	**-**
Equity attributable to non-controlling interests	**9,297**	**-**	**9,297**	**-**	**-**	**-**	-	-	-	-	-	-	**93**	**-**	**-**	**9,390**

(*) For more information reference should be made to the "General basis of preparation" section in the Notes.

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	**98,242**	-	98,242	22,615	-	460	-	-	-	-	-	-	-	-	**121,317**	-
a) income-related	**98,567(*)**	-	98,567	22,615 (*)	-	(3)	-	-	-	-	-	-	-	-	**121,179 (*)**	-
b) other	**(325)**	-	(325)	-	-	463	-	-	-	-	-	-	-	-	**138**	-
Valuation reserves	**267**	-	267	-	-	-	-	-	-	-	-	-	-	(702)	**(435)**	-
Equity instruments	**8,000 (*)**	-	8,000	-	-	-	-	-	-	-	-	-	-	-	**8,000(*)**	-
Treasury shares	**(234)**	-	(234)	-	-	-	-	-	-	-	-	-	-	-	**(234)**	-
Profit for the period	**30,094 (*)**	-	30,094	(22,615)	(7,479)	-	-	-	-	-	-	-	-	12,315(*)	**12,315(*)**	-
Equity attributable to the owners of the parent	**185,120**	**-**	**185,120**	**-**	**(7,479)**	**460**	-	**-**	-	-	-	-	-	**11,613**	**189,714 (*)**	-
Equity attributable to non-controlling interests	**32**	**-**	**32**	**-**	**-**	**-**	-	**-**	-	-	-	-	**9,629**	**-**	**-**	**9,661**

(*) For more information reference should be made to the “General basis of preparation” section in the Notes.

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

Amounts in thousands of Euro

	First half of 2021	First half of 2020
A. OPERATING ACTIVITIES		
1. Operations	**30,571**	**35,640**
▪ Profit for the period (+/-)	8,490	12,315(*)
▪ 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 (+/-)	7,865	4,860
▪ Net impairment losses on property and equipment and intangible assets (+/-)	1,376	751
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	-	1,143
▪ Taxes, duties and tax assets not yet paid (+/-)	(1,332)	(431)
▪ Other adjustments (+/-)	14,172	17,002
2. Cash flows generated by (used for) financial assets	**230,379**	**(198,410)**
▪ 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	21,311	(198,403)
▪ Financial assets measured at amortised cost	208,686	(3,847)
▪ Other assets	382	3,840
3. Cash flows generated by (used for) financial liabilities	**(289,638)**	**163,726**
▪ Financial liabilities measured at amortised cost	(268,840)	161,364
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	(20,798)	2,362(*)
Net cash flows generated by (used for) operating activities	**(28,688)**	**956**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**-**
▪ Sales of equity investments	-	-
▪ Dividends from equity investments	-	-
▪ Sales of property and equipment	-	-
▪ Sales of intangible assets	-	-
▪ Sales of business units	-	-
2. Cash flows used in	**(9,400)**	**(891)**
▪ Purchases of equity investments	-	-
▪ Purchases of property and equipment	(9,141)	(878)
▪ Purchases of intangible assets	(259)	(13)
▪ Purchases of business units	-	-
Net cash flows used in investing activities	**(9,400)**	**(891)**
C. FINANCING ACTIVITIES		
▪ Issues/repurchases of treasury shares	-	-
▪ Issues/repurchases of equity instruments	37,500	-
▪ Dividend and other distributions	-	-
Net cash flows generated by (used in) financing activities	**37,500**	**-**
NET CASH FLOWS FOR THE PERIOD	**(588)**	**65**

RECONCILIATION

Cash and cash equivalents at the beginning of the period	**1,930**	**652**
Total net cash flows for the period	(588)	65
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	**1,342**	**717**

(*) For more information reference should be made to the “General basis of preparation” section in the Notes.

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 2021, 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 2020.

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.

The accounting policies adopted for the drafting of the financial statements, 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 2020, to which reference is made.

It should also be noted that in applying IAS 8 (paras. 41-49), in order to provide a true and fair view of the financial statements, it was necessary to reclassify the

AT1 instruments previously classified under item 10 "Financial liabilities measured at amortised cost, c) securities issued", to item 140 "Equity instruments" resulting in the reclassification of the income component previously recognised in the income statement from "Profit for the year" to "Reserves". The impact on the items of the comparative statements for the 2020 financial year and the first half of 2020, respectively, is shown below:

Statement of financial position - Liabilities and equity In thousands of Euro	31.12.2020	Reclassification	31.12.2020 after restatement
10. c) Securities issued	138,090	(8,000)	130,090
130. Equity instruments	-	8,000	8,000
180. Profit for the year	25,745	376	26,121
140. Reserves	123,800	(376)	123,424

Income statement In thousands of Euro	First half of 2020	Reclassification	First half of 2020 after restatement
20. Interest and similar expense	(12,570)	279	(12,291)
270. Income taxes	(5,064)	(92)	(5,156)
300. Profit for the period	12,555	187	12,742

Scope and methods of consolidation

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

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

	Registered office	Type of Relationship (1)	Investment		% 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%**	**75%**
EBNSISTEMA Finance S.L.	**Spain**	**7**	**Banca Sistema**	**50%**	**50%**

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

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

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

Changes in the scope of consolidation

Compared to the situation as at 31 December 2020, the scope of consolidation has not changed.

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 financial 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 interim 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.

Other aspects

The condensed interim consolidated financial statements were approved on 30 July 2021 by the Board of Directors, which authorised their 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 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.

ASSETS

CASH AND CASH EQUIVALENTS - ITEM 10

Cash and cash equivalents: breakdown

	30.06.2021	31.12.2020
a. Cash	1,342	1,930
b. Demand deposits with Central Banks	-	-
TOTAL	**1,342**	**1,930**

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

	30.06.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**405,438**	**-**	**-**	**425,348**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	405,438	-	-	425,348	-	-
2. Equity instruments	**615**	**-**	**5,000**	**618**	**-**	**5,000**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
Total	**406,053**	**-**	**5,000**	**425,966**	**-**	**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

	30.06.2021						31.12.2020					
	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
Loans and receivables with Central Banks	**23,052**	**-**	**-**	-	**-**	**23,052**	**40,275**	**-**	**-**	-	**-**	**40,275**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	22,645	-	-	X	X	X	40,269	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	407	-	-	X	X	X	6	-	-	X	X	X
B. Loans and receivables with banks	**62,109**	**12**	**-**	**-**	**-**	**62,121**	**52,206**	**-**	**-**	**-**	**-**	**52,206**
1. Financing	**62,109**	**12**	**-**	**-**	**-**	**62,121**	**52,206**	**-**	**-**	**-**	**-**	**52,206**
1.1 Current accounts and demand deposits	52,929	-	-	X	X	52,929	41,957	-	-	X	X	X
1.2. Term deposits	-	-	-	X	X	X	3,129	-	-	X	X	3,129
1.3. Other financing:	9,180	12	-	X	X	9,192	7,120	-	-	X	X	7,120
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	9,180	12	-	X	X	9,192	7,120	-	-	X	X	X
2. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Total	**85,161**	**12**	**-**	**-**	**-**	**85,173**	**92,481**	**-**	**-**	**-**	**-**	**92,481**

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

	30.06.2021						31.12.2020					
	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	**2,375,406**	**239,598**	**28,538**	-	**-**	**2,695,785**	**2,397,310**	**205,136**	**31,699**	**-**	**-**	**2,646,322**
1.1 Current accounts	14,789	328	-	X	X	X	15,296	239	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	5,546	-	-	X	X	X
1.3 Loans	131,609	449	-	X	X	X	70,553	1,290	-	X	X	X
1.4 Credit cards, personal loans and salary- and pension-backed loans	938,645	8,986	-	X	X	X	913,311	7,880	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	815,958	215,578	28,538	X	X	X	949,547	179,445	31,699	X	X	X
1.7 Other financing	474,405	14,257	-	X	X	X	443,057	16,282	-	X	X	X
2. Debt instruments	**233,506**	**-**	**-**	**233,209**	**72,000**	**-**	**447,864**	**-**	**-**	**452,969**	**-**	**-**
2.1 Structured instruments	-	-	-	-	-	-		-	-	-	-	-
2.2 Other debt instruments	233,506	-	-	233,209	72,000	-	447,864	-	-	452,969	-	-
Total	**2,608,912**	**239,598**	**28,538**	**233,209**	**72,000**	**2,695,785**	**2,845,174**	**205,136**	**31,699**	**452,969**	**-**	**2,646,322**

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

	30.06.2021			31.12.2020		
	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	**233,506**	**-**	**-**	**447,864**	**-**	**-**
a) Public administrations	233,506	-	-	447,864	-	-
b) Other financial companies	**-**	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,375,406**	**239,598**	**28,538**	**2,397,310**	**205,136**	**31,699**
a) Public administrations	929,012	194,897	28,538	1,031,084	142,283	31,699
b) Other financial companies	29,675	1	-	52,316	7	-
of which: insurance companies	10	1	-	9	5	-
c) Non-financial companies	367,637	32,776	-	285,716	52,334	-
d) Households	1,049,082	11,924	-	1,028,194	10,512	-
Total	**2,608,912**	**239,598**	**28,538**	**2,845,174**	**205,136**	**31,699**

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

	Gross amount				Total impairment losses			
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs (*)
		of which instruments with low credit risk						
Debt instruments	233,620	233,620	-	-	113	-	-	-
Financing	2,351,119	816,074	116,425	296,233	6,329	660	56,624	-
Total	**2,584,739**	**1,049,694**	**116,425**	**296,233**	**6,442**	**660**	**56,624**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	9,293	19,966	X	30	691	**-** -

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

	Gross amount				Total impairment losses			
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs (*)
		of which instruments with low credit risk						
1. Forborne loans in compliance with the EBA Guidelines	5,825	-	-	6,099	122	-	966	-
2. Loans subject to other forbearance measures	-	-	-	-	-	-	-	-
3. New loans	127,195	-	-	-	408	-	-	-
Total for 2021	**133,020**	-	-	**6,099**	**530**	-	**966**	-
Total for 2020	**69,289**	-	**2,507**	**5,896**	**315**	**9**	**851**	-

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%	75%

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

PROPERTY AND EQUIPMENT - ITEM 90

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

	30.06.2021	31.12.2020
1. Owned	**37,313**	**28,673**
a) land	10,897	8,529
b) buildings	25,016	18,966
c) furniture	429	345
d) electronic equipment	912	833
e) other	59	0
2. Under finance lease	**4,040**	**3,934**
a) land	-	-
b) buildings	3,354	3,136
c) furniture	-	-
d) electronic equipment	-	-
e) other	686	798
Total	**41,353**	**32,607**
of which: obtained from the enforcement of guarantees received	-	-

INTANGIBLE ASSETS - ITEM 100

Intangible assets: breakdown by type of asset

	30.06.2021		31.12.2020	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**-**	**32,355**	**-**	**32,355**
A.2 Other intangible assets	**528**	**-**	**370**	**-**
A.2.1 Assets measured at cost:	528	-	370	-
a. Internally developed assets	-	-	-	-
b. Other	528	-	370	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
TOTAL	**528**	**32,355**	**370**	**32,355**

OTHER ASSETS - ITEM 130

	30.06.2021	31.12.2020
Tax advances	7,541	9,447
Work in progress	4,833	2,144
Other	4,670	3,380
Prepayments not related to a specific item	3,472	2,255
Trade receivables	1,185	1,491
Leasehold improvements	811	141
Security deposits	184	181
Total	**22,696**	**19,039**

LIABILITIES

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

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

	30.06.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**737,270**	X	X	X	**689,686**	X	X	X
2. Due to banks	**107,450**	X	X	X	**179,962**	X	X	X
2.1 Current accounts and demand deposits	98	X	X	X	-	X	X	X
2.2 Term deposits	100,016	X	X	X	125,178	X	X	X
2.3 Financing	6,703	X	X	X	52,510	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	6,703	X	X	X	52,510	X	X	X
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities		X	X	X	-	X	X	X
2.6 Other payables	633	X	X	X	2,274	X	X	X
TOTAL	**844,720**			**844,720**	**869,648**			**869,648**

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

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

	30.06.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	703,020	X	X	X	633,461	X	X	X
2. Term deposits	1,171,040	X	X	X	1,216,417	X	X	X
3. Financing	111,165	X	X	X	306,884	X	X	X
3.1 Repurchase agreements	50,058	X	X	X	235,230	X	X	X
3.2 Other	61,107	X	X	X	71,654	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	-	X	X	X	-	X	X	X
6. Other payables	4,226	X	X	X	7,482	X	X	X
TOTAL	**1,989,451**			**1,989,451**	**2,164,244**			**2,164,244**

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

	30.06.2021				31.12.2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. bonds	**188,539**	**-**	**-**	**188,539**	**240,338 (*)**	**-**	**-**	**240,338 (*)**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	188,539	-	-	188,539	240,338 (*)	-	-	240,338 (*)
2. other securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**188,539**	**-**	**-**	**188,539**	**240,338 (*)**	**-**	**-**	**240,338 (*)**

(*) For more information reference should be made to the “General basis of preparation” section in the Notes.

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

OTHER LIABILITIES - ITEM 80

Other liabilities: breakdown

	30.06.2021	31.12.2020
Payments received in the reconciliation phase	82,027	73,626
Accrued expenses	14,327	11,440
Dividends due to shareholders	13,913	7,479
Trade payables	6,859	6,203
Work in progress	5,818	26,993
Finance lease liabilities	4,097	3,976
Tax liabilities with the Tax Authority and other tax authorities	3,672	5,243
Other	3,141	83
Due to employees	2,164	943
Pension repayments	555	908
Total	**136,573**	**136,894**

The item also includes the 2019 dividend of € 7.5 million and the 2020 dividend of € 6.5 million, which have been approved but not yet distributed. In this regard, the Shareholders' Meeting resolved to postpone the payment until after 30 September 2021, granting the Board of Directors with the mandate to implement the resolution, if, before that date, the Supervisory Authority has not issued regulatory provisions that prevent the payment of those dividends.

POST-EMPLOYMENT BENEFITS - ITEM 90

Post-employment benefits: changes

	30.06.2021	31.12.2020
A. Opening balance	**4,428**	**3,051**
B. Increases	**160**	**1,786**
B.1 Accruals	160	610
B.2 Other increases	-	236
B.3 Business combination transactions	-	940
C. Decreases	**287**	**409**
C.1 Payments	66	343
C.2 Other decreases	221	66
D. Closing balance	**4,301**	**4,428**
TOTAL	**4,301**	**4,428**

Annual discount rate	0.79%
Annual inflation rate	0.80%
Annual post-employment benefits increase rate	2.10%
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

	30.06.2021	31.12.2020
1. Provisions for credit risk related to commitments and financial guarantees issued	**52**	**26**
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	**23,132**	**23,404**
4.1 legal and tax disputes	4,264	4,264
4.2 personnel expense	7,747	8,726
4.3 other	11,121	10,414
TOTAL	**23,184**	**23,430**

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	**26**	**-**	**23,404**	**23,430**
B. Increases	**26**	**-**	**2,910**	**2,936**
B.1 Accruals	26	-	2,853	2,879
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	57	57
B.5 Business combination transactions	-	-	-	-
C. Decreases	**-**	**-**	**3,182**	**3,182**
C.1 Utilisations	-	-	2,977	2,977
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	205	205
D. Closing balance	**52**	**-**	**23,132**	**23,184**

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, 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 2021 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

PERSON AT THE TOP OF THE CHAIN OF OWNERSHIP	SHAREHOLDER		% OF THE VOTING CAPITAL
Gianluca Garbi	SGBS S.r.l.[1]		23.10%
	Garbifin S.r.l.		0.54%
	Gianluca Garbi		0.64%
	Fondazione Cassa di Risparmio di Alessandria[1]		7.91%
	Chandler		7.48%
	Fondazione Sicilia[1]		7.40%
	Moneta Micro Entreprises		5.12%
Market			47.81%
Total shares		**80,421,052**	**100%**

(1) On 29 June 2020, SGBS S.r.l., Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia signed a Shareholders' Agreement (extracts of which are available in the Investors/Governance/Corporate Documents section of the same website), which came into force on 2 July 2020 and will remain effective until 1 July 2022.

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:

	30.06.2021	31.12.2020
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	141,300	122,232 (*)
4. Equity instruments	45,500	8,000 (*)
5. (Treasury shares)	-	(234)
6. Valuation reserves	(369)	1,287
7. Equity attributable to non-controlling interests	9,390	9,297
8. Profit for the period/year	8,490	26,153 (*)
TOTAL	**253,062**	**215,486 (*)**

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.	30.06.2021
Equity investments in consolidated companies with significant non-controlling interests	-
1. Share capital	5,790
2. Share premium	3,960
3. Reserves	(484)
4. Profit for the period	93
Total	**9,359**

Quinto Sistema 2019 S.r.l.	30.06.2021
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.	30.06.2021
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.	30.06.2021
Equity investments in consolidated companies with significant non-controlling interests	-
1. Share capital	10
Total	**10**

INCOME STATEMENT

INTEREST - ITEMS 10 AND 20

Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	First half of 2021	First half of 2020
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:	847	45,132	-	45,979	43,963
3.1 Loans and receivables with banks	-	26	X	26	91
3.2 Loans and receivables with customers	847	45,106	X	45,953	43,872
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	1,742	1,926
TOTAL	**847**	**45,132**	**-**	**47,721**	**45,889**
Of which: interest income on impaired assets	-	-	-	-	-
Of which: interest income on finance leases	-	-	-	-	-

The total contribution of the Factoring Division (which includes Government-backed loans to SMEs) to interest income was € 31.3 million, equal to 70% of the entire loans and receivables portfolio (compared to 73% at 30 June 2020), to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added.

Subsequent to their recognition, factoring receivables are measured at amortised cost, based on the present value of the estimated cash flows of the principal, or for all receivables whose recovery strategy involves legal action, based on the present value of the cash flows, in addition to the principal, of the default interest component that will accrue up to the expected date of collection on amounts considered recoverable. As a matter of prudence, given the limited amount of historical data available, the recovery percentages used for territorial entities and the public sector (statistical series starting from 2008) are based on a confidence interval of the twentieth percentile, while for ASL - local health authorities (statistical series starting from 2005) a confidence interval of the fifth percentile is used. The estimated recovery percentages and expected collection dates are updated based on annual analyses in light of the progressive consolidation of the historical data series, which provide increasingly solid and robust estimates.

The amount of the stock of default interest from legal actions accrued at 30 June 2021, relevant for the allocation model, was € 101 million (€ 98 million at the end of 2020), which becomes € 161 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements, based on the model described above, amount to € 51 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 110 million.

Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	First half of 2021	First half of 2020
1. Financial liabilities measured at amortised cost	6,924	1,831	-	8,755	12,140 (*)
1.1 Due to Central banks	-	X	-	-	-
1.2 Due to banks	226	X	-	226	173
1.3 Due to customers	6,698	X	-	6.698	8,045
1.4 Securities issued	X	1,831	-	1,831	3,922 (*)
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	460	129
TOTAL	**6,924**	**1,831**	**-**	**9,216**	**12,269 (*)**
of which: interest expense related to lease liabilities	24	-	-	24	11

(*) For more information reference should be made to the “General basis of preparation” section in the Notes.

NET FEE AND COMMISSION INCOME - ITEMS 40 AND 50

Fee and commission income: breakdown

	First half of 2021	First half of 2020
a. guarantees issued	43	15
b. credit derivatives	-	-
c. management, brokerage and consultancy services:	80	64
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. individual asset management	6	5
4. securities custody and administration	-	-
5. depositary services	-	-
6. placement of securities	52	38
7. order collection and transmission	22	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	28	24
e. services for securitisations	-	-
f. services for factoring	7,146	9,616
g. tax collection services	-	-
h. management of multilateral trading facilities	-	-
i. keeping and management of current accounts	49	49
j. other services	4,591	1,912
TOTAL	**11,937**	**11,680**

Fee and commission expense: breakdown

	First half of 2021	First half of 2020
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	3,796	2,342
1. trading in financial instruments	25	37
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	3,771	2,305
d) collection and payment services	102	102
e) other services	191	1,147
TOTAL	**4,089**	**3,591**

DIVIDENDS AND SIMILAR INCOME - ITEM 70

Dividends and similar income: breakdown

		First half of 2021		First half of 2020	
		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	**-**	**20**	**-**	**-**	**20**
1.1 Debt instruments	-	20	-	-	20
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-		-
Other financial assets and liabilities: exchange rate gains	**X**	**X**	**X**	**X**	**1**
3. Derivatives	**-**	**-**	**-**	**-**	**-**
3.1 Financial derivatives:	-	-	-	-	-
- On debt instruments and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
TOTAL	**-**	**20**	**-**	**-**	**21**

GAIN FROM SALES OR REPURCHASES - ITEM 100

Gain from sales or repurchases: breakdown

	First half of 2021			First half of 2020		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	1,150	(197)	953	2,030	(444)	1,586
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	1,150	(197)	953	2,030	(444)	1,586
2. Financial assets measured at fair value through other comprehensive income	3,278	(517)	2,761	2,631	(26)	2,605
2.1 Debt instruments	3,278	(517)	2,761	2,631	(26)	2,605
2.2 Financing	-	-	-	-	-	-
TOTAL ASSETS (A)	**4,428**	**(714)**	**3,714**	**4,661**	**(470)**	**4,191**
B. Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
TOTAL LIABILITIES (B)	**-**	**-**	**-**	**-**	**-**	**-**

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 2021
	First and second stage	Third stage		First and second stage	Third stage	
		write-offs	Other			
A. Loans and receivables with banks	**9**	**-**	**-**	**-**	**-**	**9**
- financing	9	-	-	-	-	9
- debt instruments	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-
B. Loans and receivables with customers:	**493**	**-**	**8,168**	**766**	**65**	**7,830**
- financing	493	-	8,168	661	65	7,935
- debt instruments	-	-	-	105	-	(105)
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-
C. Total	**502**	**-**	**8,168**	**766**	**65**	**7,839**

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

	Impairment losses (1)			Impairment gains (2)		First half of 2021	First half of 2020
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Debt instruments	**-**	**-**	**-**	**8**	**-**	**(8)**	**208**
B. Financing	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
Of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**8**	**-**	**(8)**	**208**

ADMINISTRATIVE EXPENSES - ITEM 190

Personnel expense: breakdown

	First half of 2021	First half of 2020
1) Employees	13,335	10,319
a) wages and salaries	8,560	6,585
b) social security charges	2,111	1,677
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	495	393
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	109	201
- defined contribution plans	109	201
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	2,060	1,463
2) Other personnel	251	203
3) Directors and statutory auditors	718	608
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	**14,304**	**11,130**

Other administrative expenses: breakdown

Other administrative expenses (€,000)	First half of 2021	First half of 2020
Consultancy	2,986	1,856
IT expenses	3,432	2,896
Servicing and collection activities	1,557	1,350
Indirect taxes and duties	1,357	945
Insurance	467	275
Other	324	313
Expenses related to management of the SPVs	549	377
Car hire and related fees	366	281
Advertising	597	201
Rent and related fees	586	334
Expense reimbursement and entertainment	186	190
Infoprovider expenses	366	286
Membership fees	224	202
Property management expenses	306	158
Audit fees	148	141
Telephone and postage expenses	126	82
Logistics expenses	74	36
Stationery and printing	16	15
Resolution Fund	2,284	2,007
Merger-related costs	-	297
TOTAL	**15,951**	**12,242**

INCOME TAXES - ITEM 300

Income taxes: breakdown

		First half of 2021	First half of 2020
1.	Current taxes (-)	(2,994)	(6,084)
2.	Changes in current taxes of previous years (+/-)	24	125
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 (+/-)	(198)	244
5.	Changes in deferred tax liabilities (+/-)	(466)	725
6.	Tax expense for the period (-) (-1+/-2+3+/-4+/-5)	(3,634)	(4,990)

EARNINGS PER SHARE

Earnings per share (EPS)	First half of 2021	First half of 2020
Parent's profit for the period (thousands of Euro)	8,552	12,555
Average number of outstanding shares	80,391,577	80,298,538
Basic earnings per share (basic EPS) (in Euro)	0.106	0.156
Diluted earnings per share (diluted EPS) (in Euro)	0.106	0.156

OWN FUNDS AND CAPITAL RATIOS

Own funds

Quantitative disclosure

	30.06.2021
A. Common Equity Tier 1 (CET1) before application of prudential filters	**197,991**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	7,753
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**205,744**
D. Items to be deducted from CET1	**34,973**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**170,771**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	**45,500**
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)	**45,500**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	**121**
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)	**121**
Q. Total Own Funds (F+L+P)	**216,392**

Capital adequacy

QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	**4,166,384**	**4,285,516**	**1,217,521**	**1,120,413**
1. Standardised approach	4,166,384	4,285,516	1,217,521	1,120,413
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			97,402	89,633
B.2 Credit valuation adjustment risk			-	-
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			14,147	14,147
1. Basic indicator approach			14,147	14,147
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			111,549	103,780
C. EXPOSURES AND CAPITAL RATIOS			**1,394,363**	**1,297,251**
C.1 Risk-weighted assets			1,394,363	1,297,251
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			12.2%	12.6%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			15.5%	13.2%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			15.5%	16.1%

INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

Large exposures

As at 30 June 2021, the Group's large exposures are as follows:

- Carrying amount € 1,424,727 (in thousands)
- Weighted amount € 155,672 (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	30.06.2021
Remuneration to Board of Directors and Board of Statutory Auditors	946	108	5	**1,059**
Short-term benefits for employees	469	-	1,438	**1,907**
Post-employment benefits	44	-	71	**115**
Other long-term benefits	329	-	268	**597**
Share-based payments	301	-	134	**435**
Total	**2,089**	**108**	**1,916**	**4,113**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets, liabilities, guarantees and commitments as at 30 June 2021, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	365	962	0.0%
Due to customers	1,839	10,558	0.6%

The following table indicates the costs and income for the first half of 2021, differentiated by type of related party.

In thousands of Euro	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	-	-	0.0%
Interest expense	6	36	0.5%

Details are provided below for each of the following related parties that are shareholders exceeding the 5% stake threshold in individual Group companies.

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
LIABILITIES	**9,203**	**0.27%**
Due to customers		
Shareholders - SGBS	98	0.00%
Shareholders - Fondazione CR Alessandria	7,315	0.37%
Shareholders - Fondazione Sicilia	61	0.00%
Fondazione Pisa	1,729	0.09%

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
COSTS	**30**	**0.12%**
Interest expense		
Shareholders - SGBS	-	0.00%
Shareholders - Fondazione CR Alessandria	27	0.30%
Shareholders - Fondazione Sicilia	-	0.01%
Fondazione Pisa	3	0.03%

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 2021

Income statement (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	GROUP TOTAL
Net interest income	26,623	9,381	2,482	20	38,506
Net fee and commission income (expense)	5,444	(748)	3,143	9	7,848
Dividends	139	87	-	-	227
Net trading income (expense)	13	8	-	-	21
Gain from sales or repurchases of financial assets/liabilities	2,651	1,063	-	-	3,714
Total income	**34,870**	**9,790**	**5,625**	**30**	**50,315**
Net impairment losses on loans and receivables	(7,249)	(466)	51	(167)	(7,831)
Net financial income (expense)	**27,621**	**9,325**	**5,676**	**(137)**	**42,484**

Breakdown by segment: statement of financial position data as at 30 June 2021

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	GROUP TOTAL
Financial assets (HTS and HTCS)	252,837	158,216	-	-	411,053
Loans and receivables with banks	28,144	57,029	-	-	85,173
Loans and receivables with customers	1,702,292	1,057,039	82,762	6,417	2,848,510
Loans and receivables with customers - loans	*1,558,663*	*967,161*	*82,762*	*6,417*	*2,615,004*
Loans and receivables with customers - debt instruments	*143,629*	*89,878*	-	-	*233,506*
Due to banks	-	-	-	844,720	844,720
Due to customers	61,098	-	-	1,928,353	1,989,451

Following the review of the internal model which was completed in 2020, 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 2021.
2. Reference model

   The suitability of the administrative and accounting process for the drafting of the condensed interim financial statements at 30 June 2021 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 uncertainties 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, 30 July 2021

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, 2021. 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, 2021 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 4, 2021

BDO Italia S.p.A.

Signed by Andrea Mezzadra
Partner

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

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