INTERIM CONSOLIDATED FINANCIAL REPORT

AT 31 MARCH 2021

BANCA SISTEMA

Banca SISTEMA Group

INTERIM CONSOLIDATED FINANCIAL REPORT AT 31 MARCH 2021

BANCA SISTEMA

CONTENTS

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)*
	Ms.	Laura Ciambellotti *(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

Appointments Committee

Members	Ms.	Luitgard Spögler
	Mr.	Daniele Bonvicini
	Mr.	Marco Giovannini

The composition of the other internal committees and the Chairperson of the Appointments Committee will be defined at the next meeting of the Board of Directors.

FINANCIAL HIGHLIGHTS AT 31 MARCH 2021

Statement of financial position data (€,000)

	31 Mar 2021	31 Dec 2020	
Total Assets	3,447,243	3,671,371	-6.1%
Securities Portfolio	706,158	878,830	-19.6%
Loans - Factoring	1,415,340	1,481,678	-4.5%
Loans - Salary-backed loans and SME	1,035,445	1,008,282	2.7%
Funding - Banks and REPOs	914,643	1,104,878	-17.2%
Funding - Term Deposits	1,166,098	1,216,523	-4.1%
Funding - Current Accountsi	586,209	633,548	-7.5%

Income statement data (€,000)

	31 Mar 2021	31 Mar 2020	
Net interest income	19,267	15,921	21.0%
Net fee and commission income	4,024	4,203	-4.3%
Total Income	25,985	21,995	18.1%
Personnel Expenses	(6,920)	(5,716)	21.1%
Other administrative expenses	(8,621)	(6,621)	30.2%
Profit for the period attributable to the owners of the Parent	4,462	4,589	-2.8%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 MARCH 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.

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 quarterly report was approved, the audit was still in progress.

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, diversify its offering and be more accessible to customers and agents/brokers. By 2023, RoTE is expected to be > 16% and the CET1 ratio > 12%.

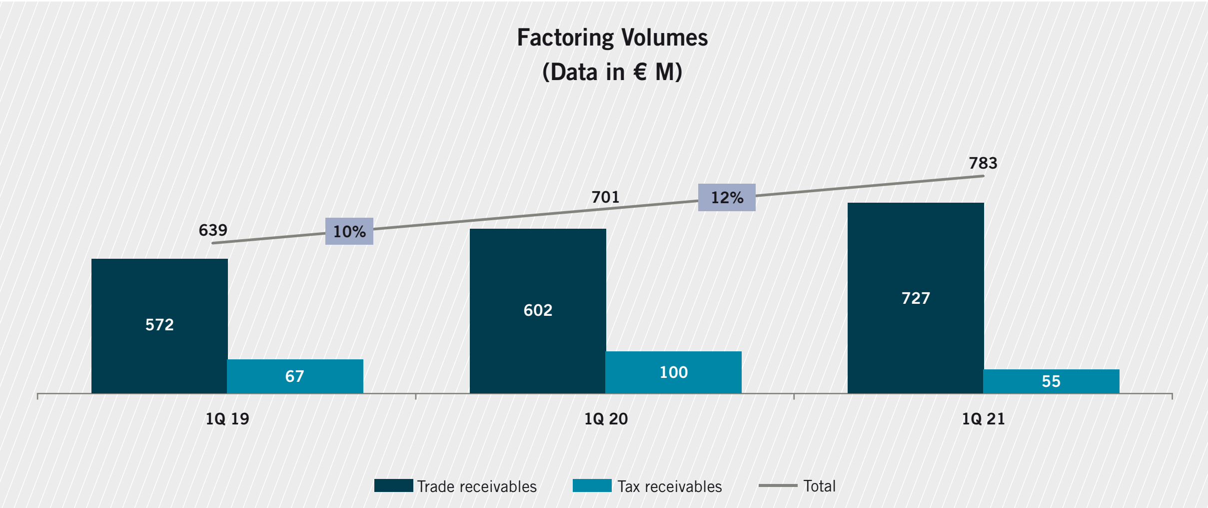
At 31 March, the Bank granted 37 state-guaranteed loans for a total of € 112.7 million. As at the same date, other loans of the same type were being evaluated.

With reference to the moratoria on existing loans, the Bank has carefully considered measures for suspending payment terms. As at 31 March 2021, there were 39 active moratoria totalling € 12.1 million, all of which originated in 2020. All moratoria granted, except three (one more than the previous period) for which the customers have given a formal waiver, have been extended, as required by law, to 30 June 2021.

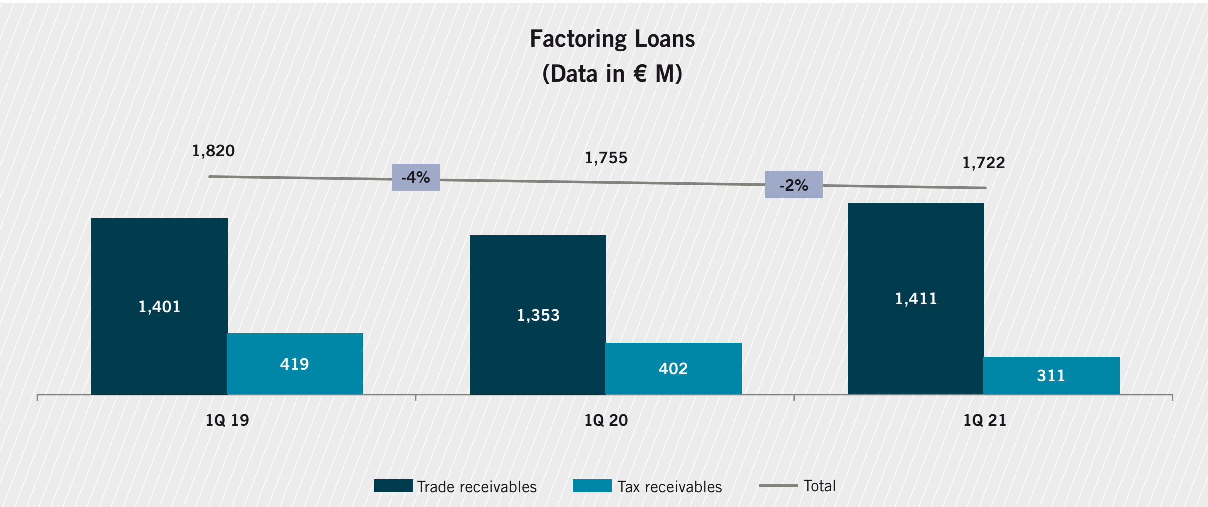
FACTORING

Banca Sistema and factoring activities

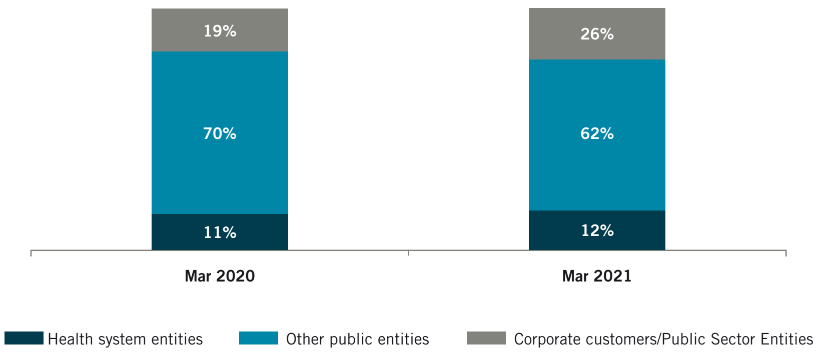
Total volumes at 31 March 2021 of the Banca Sistema Group were € 783 million, up 12% on 2020 despite the difficult market conditions in Italy.



Loans as at 31 March 2021 amounted to € 1,722 million, down 2% on the € 1,755 million at 31 March 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 31 March 2021 and31 March 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 March 2021, existing distribution agreements accounted for 22% of total volumes. The following table shows the factoring volumes by product type:

PRODUCT (amounts in millions of Euro)	31.03.2021	31.03.2020	€ Change	% Change
Trade receivables	**727**	**602**	**125**	**21%**
of which, without recourse	*514*	*517*	*(3)*	*-1%*
of which, with recourse	*213*	*85*	*128*	*>100%*
Tax receivables	**55**	**100**	**(44)**	**-44%**
of which, without recourse	*55*	*100*	*(44)*	*-44%*
of which, with recourse	*0*	*0*	*0*	*n/a*
TOTAL	**783**	**701**	**81**	**12%**

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

Volumes in March 2021 were € 783 million, an increase of 12% over March 2020. Excluding only tax receivables, volume growth was 21%.

Volumes related to the management of third-party portfolios amounted to € 103 million (in line with the previous year).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

At 31 March 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.

The first quarter of 2021 saw a recovery in the salary- and pension-backed loan market, which posted an increase of 9.6% over the same period in 2020. The result certainly reflects the impact of the reduced volumes disbursed in March 2020 when the lockdown began, but it is a sign that can be associated with a plausible increase in demand for loans and a certain degree of resilience that the sector may have acquired with respect to the constraints imposed by the pandemic.

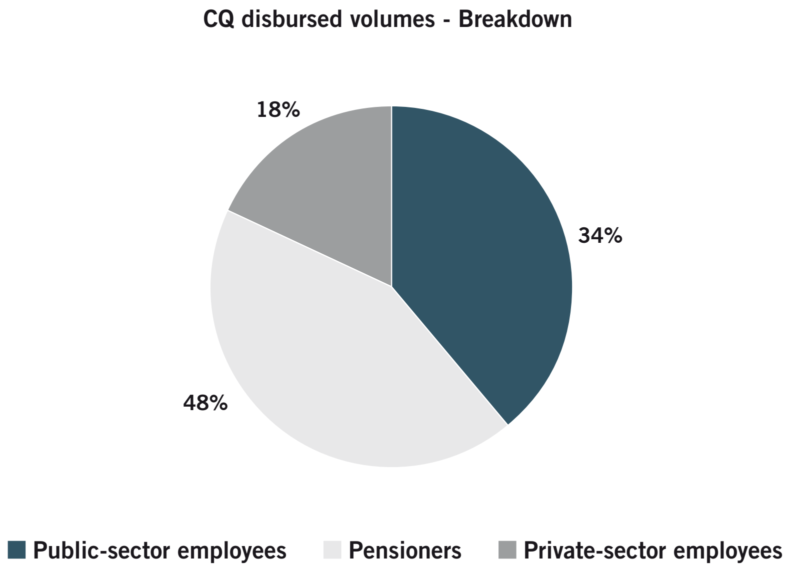
Banca Sistema also increased and stabilised its business in the agency channel, thanks also to the gradually increasing adoption of tools for signing loan agreements remotely.

However, the value of the Division’s assets fell by 1.8% in the first quarter of 2021 to € 917 million in outstanding loans (+6% compared to 31 March 2020). The decrease is primarily linked to the lower volumes of loans and receivables without recourse acquired during the period due to the increasing pressure on margins in this channel, and to the effect of early repayments, which increased as a result of the maturity of the portfolio and the higher number of agreements that exceeded the terms beyond which they can be refinanced under the regulations.

The volumes of acquired portfolios and directly originated receivables from the beginning of the year until March 2021 amounted to € 42 million (€ 12 million of which directly originated).

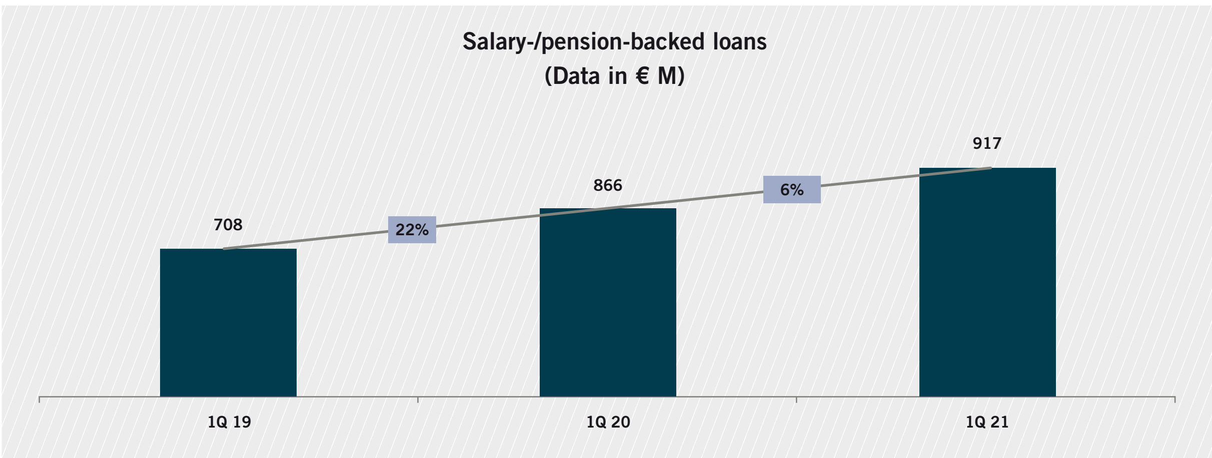
	31.03.2021	31.03.2020	€ Change	% Change
No. of applications (#)	2,050	4,576	(2,526)	-55%
of which originated	*542*	*382*	*160*	*42%*
Volumes disbursed (millions of Euro)	42	86	(45)	-52%
of which originated	*12*	*8*	*4*	*48%*

As shown in the table, the amount disbursed at March 2021 is down compared to the amount disbursed at March 2020.



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.

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



COLLATERALISED LENDING AND PRONTOPEGNO

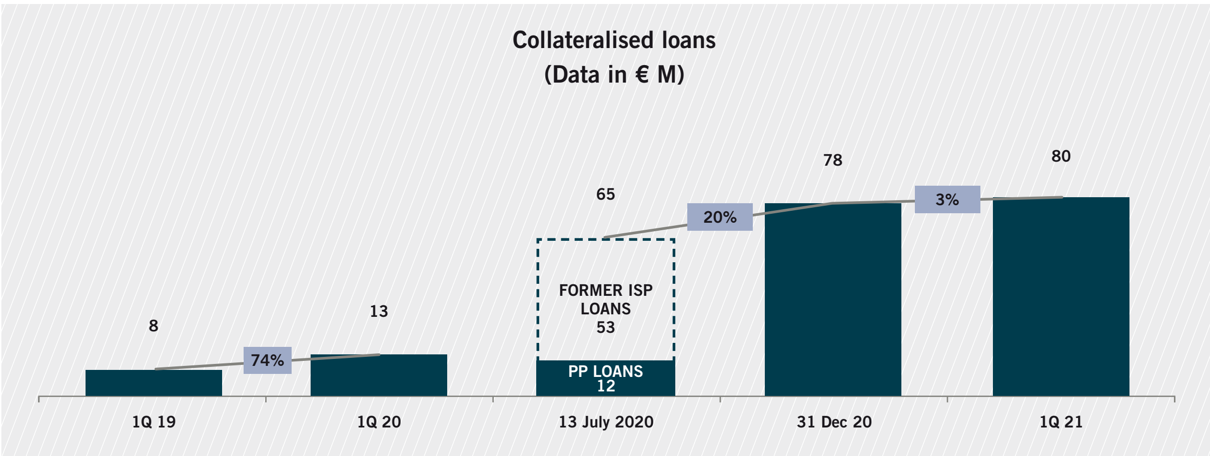
The Banca Sistema Group began working in the collateralised lending business at the beginning of 2017, combining the credentials of a solid bank with the advantages of a specialist that is continuously willing to innovate and grow to offer greater value to customers, in terms of professionalism and timeliness. 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. Following the acquisition, the Pawnbroker of the Banca Sistema Group now has 12 branches located across the country.

At present, the company has about 51,000 policies issued for about 29,000 customers, amounting to total loans of € 76,431 million. In the first quarter of 2021, outstanding loans grew by 3.2% compared to 2020 (annualised growth of 13.45%). New loans were nearly € 26 million while renewals amounted to € 11.5 million. In the first quarter of 2021 alone, there were 13 auctions and the value of the loans whose items were auctioned amounted to € 491,550 (+443.5% over 2020).

At an operational level, the first quarter of 2021 saw the successful 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.

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 31 March 2021 is provided below.

ASSETS (€,000)	31.03.2021	31.12.2020	€ Change	% Change
Cash and cash equivalents	2,040	1,822	218	12.0%
Financial assets measured at amortised cost	85,374	81,988	3,386	4.1%
a) loans and receivables with banks	5,729	4,304	1,425	33.1%
b1) loans and receivables with customers - loans	79,645	77,684	1,961	2.5%
Property and equipment	3,084	2,869	215	7.5%
Intangible assets	28,888	28,793	95	0.3%
of which: goodwill	*28,436*	*28,436*	-	*0.0%*
Tax assets	1,300	1,200	100	8.3%
Other assets	656	97	559	>100%
Total assets	**121,342**	**116,769**	**4,573**	**3.9%**

LIABILITIES AND EQUITY (€,000)	31.03.2021	31.12.2020	€ Change	% Change
Financial liabilities measured at amortised cost	78,512	74,305	4,207	5.7%
a) due to banks	74,491	70,394	4,097	5.8%
b) due to customers	4,021	3,911	110	2.8%
Tax liabilities	393	258	135	52.3%
Other liabilities	3,956	3,877	79	2.0%
Post-employment benefits	1,032	1,054	(22)	-2.1%
Provisions for risks and charges	774	738	36	4.9%
Valuation reserves	(75)	(99)	24	-24.2%
Reserves	13,474	15,410	(1,936)	-12.6%
Share capital	23,162	23,162	-	0.0%
Profit (loss) for the period/year	114	(1,936)	2,050	<100%
Total liabilities and equity	**121,342**	**116,769**	**4,573**	**3.9%**

The assets consist mainly of loans to customers for the collateralised lending business, which increased by € 2 million during the quarter, and goodwill of € 28.4 million.
At 31 March 2021, liabilities, in addition to the capital and reserves, consisted primarily of the loan granted by the Parent, which was increased from 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 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 31 March 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)	FIRST QUARTER OF 2021	FIRST QUARTER OF 2020	€ Change	% Change
Net interest income	1,198	202	996	>100%
Net fee and commission income	1,510	158	1,352	>100%
Total income	**2,708**	**360**	**2,348**	**>100%**
Net impairment losses on loans and receivables	-	-	-	n.a.
Net financial income	**2,708**	**360**	**2,348**	**>100%**
Personnel expense	(1,431)	(362)	(1,069)	>100%
Other administrative expenses	(953)	(322)	(631)	>100%
Net impairment losses on property and equipment/intangible assets	(285)	(30)	(255)	>100%
Other operating income	100	50	50	100,0%
Operating costs	**(2,569)**	**(664)**	**(1,905)**	**>100%**
Pre-tax profit (loss) from continuing operations	**139**	**(304)**	**443**	**<100%**
Income taxes	(25)	98	(123)	<100%
Profit (loss) for the period	**114**	**(206)**	**320**	**<100%**

The company closed the first quarter of 2021 with a profit of € 114 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 quarter 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 72 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 31 March 2021 was equal to a nominal € 699.5 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, but not predictable.

At 31 March, the nominal amount of government securities in the HTCS (formerly AFS) portfolio amounted to € 464.5 million (compared to € 423 million as at 31 December 2020) with a duration of 25.2 months (14.8 months at 31 December 2020). At 31 March, the HTC portfolio amounted to € 235 million with a duration of 33.2 months (compared to € 450 million at 31 December 2020, which had a duration of 11.2 months).

Wholesale funding

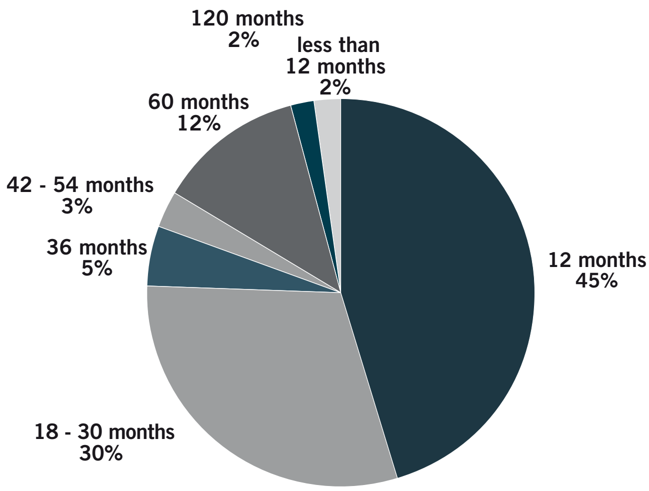
At 31 March, wholesale funding was about 40% of the total, mainly comprising refinancing transactions with the ECB, as well as bonds (41% at 31 December 2020). Securitisations with salary- and pension-backed loans as collateral completed with a partly-paid securities structure continue to allow Banca 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 60% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.
Total term deposits as at 31 March 2021 amounted to € 1,166 million, a decrease of 4% compared to 31 December 2020. The above-mentioned amount also includes total term deposits of € 607 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 52% of total deposit funding), an increase of € 20 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 31 March



Current accounts increased from 6,969 (as at 31 March 2020) to 7,938 in March 2021, while the current account balance at 31 March 2021 decreased by 8% on 2020 to € 586 million.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	FIRST QUARTER OF 2021	FIRST QUARTER OF 2020	€ Change	% Change
Net interest income	19,267	15,921	3,346	21.0%
Net fee and commission income	4,024	4,203	(179)	-4.3%
Dividends and similar income	-	-	-	n.a.
Net trading income (expense)	5	(18)	23	<100%
Gain from sales or repurchases of financial assets/liabilities	2,689	1,889	800	42.4%
Total income	**25,985**	**21,995**	**3,990**	**18.1%**
Net impairment losses on loans and receivables	(4,103)	(1,922)	(2,181)	>100%
Net financial income	**21,882**	**20,073**	**1,809**	**9.0%**
Personnel expense	(6,920)	(5,716)	(1,204)	21.1%
Other administrative expenses	(8,621)	(6,621)	(2,000)	30.2%
Net accruals to provisions for risks and charges	(1)	(672)	671	-99.9%
Net impairment losses on property and equipment/intangible assets	(658)	(376)	(282)	75.0%
Other operating income	852	106	746	>100%
Operating costs	**(15,348)**	**(13,279)**	**(2,069)**	**15.6%**
Gains (losses) on equity investments	10	-	10	n.a.
Pre-tax profit from continuing operations	**6,544**	**6,794**	**(250)**	**-3.7%**
Income taxes for the period	(2,053)	(2,205)	152	-6.9%
Post-tax profit for the period	**4,491**	**4,589**	**(98)**	**-2.1%**
Profit for the period	**4,491**	**4,589**	**(98)**	**-2.1%**
Profit (loss) attributable to non-controlling interests	(29)	-	(29)	n.a.
Profit for the period attributable to the owners of the Parent	**4,462**	**4,589**	**(127)**	**-2.8%**

The first quarter of 2021 ended with a profit for the period of € 4.5 million which was in line with the same period of the previous year, taking into account an increase of € 0.2 million in the Resolution Fund and an extraordinary, non-recurring impairment loss on a position relating to a municipality in financial difficulty for € 2.4 million. The abovementioned impairment loss 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 growth in total income of 18% more than offset the increase in operating costs, which compared to the first quarter of 2020 include the higher costs arising from the acquisition of the collateralised lending business unit by the subsidiary ProntoPegno.

NET INTEREST INCOME (€,000)	FIRST QUARTER OF 2021	FIRST QUARTER OF 2020	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	22,760	21,165	1,595	7.5%
Factoring	15,562	15,477	85	0.5%
CQ	5,172	5,470	(298)	-5.4%
Collateralised lending (interest income)	1,300	218	1,082	>100%
Government-backed loans to SMEs	726	-	726	n.a.
Securities portfolio	415	171	244	>100%
Other	201	355	(154)	-43.4%
Financial liabilities	865	665	202	30.4%
Total interest income	**24,241**	**22,354**	**1,887**	**8.4%**
Interest and similar expense				
Due to banks	(124)	10	(134)	<100%
Due to customers	(3,493)	(4,308)	815	-18.9%
Securities issued	(1,216)	(2,091)	875	-41.8%
Financial assets	(141)	(44)	(97)	>100%
Total interest expense	**(4,974)**	**(6,433)**	**1,459**	**-22.7%**
Net interest income	**19,267**	**15,921**	**3,346**	**21.0%**

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 to interest income was € 15.6 million, equal to 68% of the entire loans and receivables portfolio (compared to 73% at 31 March 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 31 March 2021 was € 6.6 million (€ 3.4 million at 31 March 2020):

- of which € 2.3 million resulting from the current recovery estimates (€ 1.2 million in 2020);
- of which € 4.3 million (€ 2.2 million in 2020) coming from net collections during the year, i.e. the difference between the amount collected during the period, equal to € 6 million (€ 5.2 million in 2020) and that recognised on an accruals basis in previous years. In 2020, this item included gross collections of € 2.9 million from transfers to third parties.

The amount of the stock of default interest from legal actions accrued at 31 March 2021, relevant for the allocation model, was € 99 million (€ 98 million at the end of 2020), which becomes € 158 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 amount to € 51 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 107 million.

The contribution of interest on the salary- and pension-backed portfolios is down slightly on the previous year at € 5.2 million as a result of the early redemption of several positions.

The contribution of the Collateralised Lending Division grew significantly to € 1.3 million, compared to € 0.2 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 quarter of 2020, the interest component from government-backed loans, 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 € 0.9 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 QUARTER OF 2021	FIRST QUARTER OF 2020	€ Change	% Change
Fee and commission income				
Factoring activities	3,417	4,961	(1,544)	-31.1%
Fee and commission income - off-premises CQ	645	499	146	29.3%
Collateralised loans (fee and commission income)	1,521	160	1,361	>100%
Collection activities	260	288	(28)	-9.7%
Other	97	98	(1)	-1.0%
Total fee and commission income	**5,940**	**6,006**	**(66)**	**-1.1%**
Fee and commission expense				
Factoring portfolio placement	(431)	(472)	41	-8.7%
Placement of other financial products	(497)	(557)	60	-10.8%
Fees - off-premises CQ	(835)	(660)	(175)	26.5%
Other	(153)	(114)	(39)	34.2%
Total fee and commission expense	**(1,916)**	**(1,803)**	**(113)**	**6.3%**
Net fee and commission income	**4,024**	**4,203**	**(179)**	**-4.3%**

Net fee and commission income amounted to € 4 million, down slightly by 4.3% due to a reduction in the contribution from factoring linked to particularly significant collections in the first quarter, which was not entirely offset by 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 € 1.4 million compared to the same period of the previous year thanks to the acquisition of the collateralised lending business unit in the third quarter of 2020.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are down slightly on the first quarter 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 € 0.6 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 0.8 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the estimated year-end bonuses payable to them.

Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios 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 QUARTER OF 2021	FIRST QUARTER OF 2020	€ Change	% Change
Gains from HTCS portfolio debt instruments	1,943	273	1,670	>100%
Gains from HTC portfolio debt instruments	411	340	71	20.9%
Gains from receivables (Factoring portfolio)	335	1,276	(941)	-73.7%
Total	**2,689**	**1,889**	**800**	**42.4%**

The item Gain (loss) from sales or repurchases includes gains generated by the proprietary HTCS and HTC securities portfolio of € 2.4 million, and net realised gains from factoring receivables of € 0.3 million, the revenue from which derives from the sale of factoring portfolios to private-sector assignors.

Impairment losses on loans and receivables at 31 March 2021 amounted to € 4.1 million and were significantly affected by a valuation adjustment 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 annualised loss rate increased from 0.28% at 31 March 2020 to 0.37% (this figure is calculated without annualising the non-recurrent adjustment of this position).

PERSONNEL EXPENSE (€,000)	FIRST QUARTER OF 2021	FIRST QUARTER OF 2020	€ Change	% Change
Wages and salaries	(6,504)	(5,293)	(1,211)	22.9%
Social security contributions and other costs	(55)	(108)	53	-49.1%
Directors' and statutory auditors' remuneration	(361)	(315)	(46)	14.6%
Total	**(6,920)**	**(5,716)**	**(1,204)**	**21.1%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 215 to 271. 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.

As at 31 March 2021, the Group had a staff of 273, broken down by category as follows:

FTES	31.03.2021	31.12.2020	31.03.2020
Senior managers	25	26	24
Middle managers (QD3 and QD4)	53	52	47
Other personnel	195	191	145
Total	**273**	**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 6 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. During the first three months of the year, the annual performance management process took place, whereby all Group employees prepared a self-assessment of their skills and abilities which was then supplemented by the direct managers with an evaluation of the individual business results achieved. Through a series of calibration sessions, the individual incentives that may be assigned were then defined in accordance with the Group's Remuneration Policies.

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.

OTHER ADMINISTRATIVE EXPENSES (€,000)	FIRST QUARTER OF 2021	FIRST QUARTER OF 2020	€ Change	% Change
Consultancy	(1,840)	(1,049)	(791)	75.4%
IT expenses	(1,638)	(1,320)	(318)	24.1%
Servicing and collection activities	(818)	(690)	(128)	18.6%
Indirect taxes and duties	(621)	(495)	(126)	25.5%
Insurance	(231)	(139)	(92)	66.2%
Other	(186)	(165)	(21)	12.7%
Expenses related to management of the SPVs	(175)	(159)	(16)	10.1%
Car hire and related fees	(173)	(151)	(22)	14.6%
Advertising	(199)	(155)	(44)	28.4%
Rent and related fees	(308)	(159)	(149)	93.7%
Expense reimbursement and entertainment	(87)	(145)	58	-40.0%
Infoprovider expenses	(181)	(128)	(53)	41.4%
Membership fees	(157)	(94)	(63)	67.0%
Property management expenses	(92)	(98)	6	-6.1%
Audit fees	(73)	(71)	(2)	2.8%
Telephone and postage expenses	(61)	(52)	(9)	17.3%
Logistics expenses	(52)	(22)	(30)	136.4%
Stationery and printing	(6)	(4)	(2)	50.0%
Total operating expenses	**(6,898)**	**(5,096)**	**(1,802)**	**35.4%**
Resolution Fund	(1,723)	(1,525)	(198)	13.0%
Total	**(8,621)**	**(6,621)**	**(2,000)**	**30.2%**

Administrative expenses increased mainly due to consultancy costs and IT expenses.

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 quarter of 2020, also due to the costs deriving from the ProntoPegno branches acquired along with the business unit in July 2020.

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

Compared to the previous year, the Resolution Fund required an even higher contribution of € 0.2 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 € 0.4 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)	31.03.2021	31.12.2020	€ Change	% Change
Cash and cash equivalents	2,166	1,930	236	12.2%
Financial assets measured at fair value through other comprehensive income	472,847	430,966	41,881	9.7%
Financial assets measured at amortised cost	2,867,264	3,142,791	(275,527)	-8.8%
a) loans and receivables with banks	79,085	92,481	(13,396)	-14.5%
b1) loans and receivables with customers - loans	2,554,868	2,602,446	(47,578)	-1.8%
b2) loans and receivables with customers - debt instruments	233,311	447,864	(214,553)	-47.9%
Equity investments	1,010	1,000	10	1.0%
Property and equipment	41,529	32,607	8,922	27.4%
Intangible assets	32,821	32,725	96	0.3%
Tax assets	10,473	10,313	160	1.6%
Other assets	19,133	19,039	94	0.5%
Total assets	**3,447,243**	**3,671,371**	**(224,128)**	**-6.1%**

The quarter ended 31 March 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 up slightly compared to 31 December 2020 and continues to be mainly comprised of Italian government bonds with an average duration of about 25.2 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 € 464.5 million at 31 March 2021 (€ 425 million at 31 December 2020). The associated valuation reserve was positive at the end of the period, amounting to € 0.5 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million, and the Axactor Norway shares which at 31 March 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)	31.03.2021	31.12.2020	€ Change	% Change
Factoring	1,415,340	1,481,678	(66,338)	-4.45%
Salary-/pension-backed loans (CQS/CQP)	917,279	933,873	(16,594)	-1.8%
Collateralised loans	79,656	77,684	1,972	2.5%
Loans to SMEs	118,166	74,409	43,757	58.8%
Current accounts	15,946	15,351	595	3.9%
Compensation and Guarantee Fund	7,208	12,639	(5,431)	-43.0%
Other loans and receivables	1,273	6,812	(5,539)	-81.3%
Total loans	**2,554,868**	**2,602,446**	**(47,578)**	**-1.8%**
Securities	233,311	447,864	(214,553)	-47.9%
Total loans and receivables with customers	**2,788,179**	**3,050,310**	**(262,131)**	**-8.6%**

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 55% (57% at the end of 2020). The volumes generated during the year amounted to € 783 million (€ 701 million at 31 March 2020).

Salary- and pension-backed loans were down slightly as a result of lower loan volumes from acquired portfolios and originated receivables, which decreased by 52% compared to the previous year (the new volumes acquired in the first quarter of 2021 amounted to € 42 million), which did not offset the higher amount of repayments received.

Government-backed loans to SMEs increased following new disbursements made under SACE and SME Fund guarantees.

The collateralised loan business, carried out through the subsidiary ProntoPegno, grew significantly reporting loans of € 80 million at 31 March 2021 which are the result of loans granted during the first quarter and renewals with existing customers.

HTC Securities are composed entirely of Italian government securities with an average duration of 33.2 months for an amount of € 233 million. The mark-to-market valuation of the securities at 31 March 2021 was a positive fair value of € 4.9 million.

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

STATUS	31.03.2020	30.06.2020	30.09.2020	31.12.2020	31.03.2021
Bad exposures	48,564	48,714	49,759	52,354	50,710
Unlikely to pay	141,127	140,422	144,848	148,433	148,874
Past due	68,747	84,134	60,966	50,377	112,423
Non-performing	**258,438**	**273,270**	**255,573**	**251,164**	**312,007**
Performing	**2,352,389**	**2,380,051**	**2,477,606**	**2,404,623**	**2,300,186**
Stage 2	155,374	165,148	169,719	134,194	116,732
Stage 1	2,197,015	2,214,903	2,307,887	2,270,429	2,183,454
Total loans and receivables with customers	**2,610,827**	**2,653,321**	**2,733,179**	**2,655,787**	**2,612,193**
Individual impairment losses	**38,194**	**38,495**	**39,997**	**46,027**	**50,384**
Bad exposures	19,819	19,920	21,212	25,240	26,660
Unlikely to pay	17,106	17,707	18,265	20,352	22,961
Past due	1,269	868	520	435	763
Collective impairment losses	**6,335**	**8,284**	**9,781**	**7,315**	**6,941**
Stage 2	865	943	982	781	749
Stage 1	5,470	7,341	8,799	6,534	6,192
Total impairment losses	**44,529**	**46,779**	**49,778**	**53,342**	**57,325**
Net exposure	**2,566,298**	**2,606,542**	**2,683,401**	**2,602,445**	**2,554,868**

The ratio of gross non-performing loans to the total portfolio increased to 11.9% 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.

Net bad exposures remained at moderate levels and amounted to 0.9% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 16.1%.

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 items, is € 36 million after the accumulated depreciation of the building. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments for branches and company cars.

Intangible assets refer to goodwill of € 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, specialising in 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)	31.03.2021	31.12.2020	€ Change	% Change
Financial liabilities measured at amortised cost	3,043,894	3,282,230	(238,336)	-7.3%
a) due to banks	821,200	869,648	(48,448)	-5.6%
b) due to customers	1,924,487	2,164,244	(239,757)	-11.1%
c) securities issued	298,207	248,338	49,869	20.1%
Tax liabilities	18,621	16,903	1,718	10.2%
Other liabilities	145,824	136,894	8,930	6.5%
Post-employment benefits	4,407	4,428	(21)	-0.5%
Provisions for risks and charges	23,915	23,430	485	2.1%
Valuation reserves	(44)	1,287	(1,331)	<100%
Reserves	187,230	161,708	25,522	15.8%
Equity attributable to non-controlling interests	9,325	9,297	28	0.3%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(42)	(234)	192	-82.1%
Profit for the period/year	4,462	25,777	(21,315)	-82.7%
Total liabilities and equity	**3,447,243**	**3,671,371**	**(224,128)**	**-6.1%**

Wholesale funding, which represents about 40% 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 33% (23% at the end of 2020).

DUE TO BANKS (€,000)	31.03.2021	31.12.2020	€ Change	% Change
Due to Central banks	738,070	689,686	48,384	7.0%
Due to banks	83,130	179,962	(96,832)	-53.8%
Current accounts and demand deposits	*83,130*	*127,088*	*(43,958)*	*-34.6%*
Term deposits with banks	-	-	-	*n.a.*
Financing from banks	-	*48,737*	*(48,737)*	*-100.0%*
Other amounts due to banks	-	*4,137*	*(4,137)*	*-100.0%*
Total	**821,200**	**869,648**	**(48,448)**	**-5.6%**

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)	31.03.2021	31.12.2020	€ Change	% Change
Term deposits	1,166,098	1,216,523	(50,425)	-4.1%
Financing (repurchase agreements)	93,443	235,230	(141,787)	-60.3%
Current accounts	586,209	633,548	(47,339)	-7.5%
Due to assignors	70,057	75,021	(4,964)	-6.6%
Other payables	8,680	3,922	4,758	>100%
Total	**1,924,487**	**2,164,244**	**(239,757)**	**-11.1%**

The item "Due to customers" decreased compared to the end of the year, mainly due to a decrease in funding from term deposits and from repurchase agreements. The period-end amount of term deposits decreased by 4.1% compared to the end of 2020, reflecting net negative deposits (net of accrued interest) of € -50 million due to the reduction in interest rates in the international channel; gross deposits from the beginning of the year were € 241 million, against withdrawals totalling € 291 million.

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

SECURITIES ISSUED (€,000)	31.03.2021	31.12.2020	€ Change	% Change
Bond - AT1	8,155	8,018	137	1.7%
Bond - Tier II	37,688	37,570	118	0.3%
Bonds - other	252,364	202,750	49,614	24.5%
Total	**298,207**	**248,338**	**49,869**	**20.1%**

The item Securities issued increased compared to 31 December 2020 due to the increase in the senior share financed by third-party investors.

The nominal amount of securities issued at 31 March 2021 is broken down as follows

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

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

The provision for risks and charges of € 23.9 million includes the provision for possible liabilities attributable to past acquisitions of € 3.1 million, the estimated amount of personnel-related charges such as the portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, the estimate related to the non-compete agreement and ongoing labour-related lawsuits, totalling € 9.2 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 increased as a result of the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years (the liability is currently estimated to be € 1.3 million and is offset against goodwill), and the provision for supplementary customer allowances. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments (also known as pre-payments) on CQS portfolios purchased from third-party intermediaries and on the assigned portfolio, for an amount of € 3.4 million.

Other liabilities mainly include payments received after the end of the 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 dividend of € 7.5 million, which has been approved but not distributed. This amount is excluded from the calculation of CET1 insofar as it is excluded from the Bank's equity.

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

(€,000)	PROFIT	EQUITY
Profit/equity of the parent	**4,404**	**202,429**
Assumption of value of investments	-	(42,704)
Consolidated profit/equity	77	50,857
Gain on equity investments	10	
Equity attributable to the owners of the parent	**4,491**	**210,582**
Equity attributable to non-controlling interests	(29)	(9,325)
Profit/equity of the Group	**4,462**	**201,257**

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.03.2021	31.12.2020
Common Equity Tier 1 (CET1)	**168,243**	**163,797**
ADDITIONAL TIER 1	8,000	8,000
Tier 1 capital (T1)	**176,243**	**171,797**
TIER2	37,618	37,655
Total Own Funds (TC)	**213,861**	**209,452**
Total risk-weighted assets	**1,374,184**	**1,297,255**
of which, credit risk	1,197,341	1,120,412
of which, operational risk	176,843	176,843
Ratio - CET1	12.2%	12.6%
Ratio - T1	12.8%	13.2%
Ratio - TCR	15.6%	16.1%

Total own funds were € 214 million at 31 March 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.

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

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 quarterly report was approved, the audit was still in progress.

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 at www.bancasistema.it (in the Investors/Governance/Corporate documents section) 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.

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 (b) 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 number having a total nominal amount not exceeding € 2,810,000 and in any case in compliance with the limit of one fifth of the share capital.

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

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The Group expects 2021 to be in line with the business plan approved in March, and it will continue to evaluate options for non-organic growth in its core business areas.

The Group experienced a slight decline in profitability that was mainly attributable to faster collection times in the factoring segment, a trend that continued into the first quarter.

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, 7 May 2021

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31.03.2021	31.12.2020
10.	Cash and cash equivalents	2,166	1,930
30.	Financial assets measured at fair value through other comprehensive income	472,847	430,966
40.	Financial assets measured at amortised cost	2,867,264	3,142,791
	a) loans and receivables with banks	*79,085*	*92,481*
	b) loans and receivables with customers	*2,788,179*	*3,050,310*
70.	Equity investments	1,010	1,000
90.	Property and equipment	41,529	32,607
100.	Intangible assets	32,821	32,725
	of which:	-	-
	goodwill	32,355	32,355
110.	Tax assets	10,473	10,313
	a) current	*28*	*62*
	b) deferred	*10,445*	*10,251*
130.	Other assets	19,133	19,039
	Total Assets	**3,447,243**	**3,671,371**

	Liabilities and equity	31.03.2021	31.12.2020
10.	Financial liabilities measured at amortised cost	3,043,894	3,282,230
	a) due to banks	*821,200*	*869,648*
	b) due to customers	*1,924,487*	*2,164,244*
	c) securities issued	*298,207*	*248,338*
60.	Tax liabilities	18,621	16,903
	a) current	*4,106*	*1,995*
	b) deferred	*14,515*	*14,908*
80.	Other liabilities	145,824	136,894
90.	Post-employment benefits	4,407	4,428
100.	Provisions for risks and charges:	23,915	23,430
	a) commitments and guarantees issued	*27*	*26*
	c) other provisions for risks and charges	*23,888*	*23,404*
120.	Valuation reserves	(44)	1,287
150.	Reserves	148,130	122,608
160.	Share premium	39,100	39,100
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(42)	(234)
190.	Equity attributable to non-controlling interests (+/-)	9,325	9,297
200.	Profit for the period/year	4,462	25,777
	Total liabilities and equity	**3,447,243**	**3,671,371**

INCOME STATEMENT

(Amounts in thousands of Euro)

		First quarter of 2021	First quarter of 2020
10.	Interest and similar income	24,241	22,354
	of which: interest income calculated with the effective interest method	22,809	21,497
20.	Interest and similar expense	(4,974)	(6,433)
30.	**Net interest income**	**19,267**	**15,921**
40.	Fee and commission income	5,940	6,006
50.	Fee and commission expense	(1,916)	(1,803)
60.	**Net fee and commission income**	**4,024**	**4,203**
80.	Net trading income (expense)	5	(18)
100.	Gain from sales or repurchases of:	2,689	1,889
	a) financial assets measured at amortised cost	746	1,276
	b) financial assets measured at fair value through other comprehensive income	1,943	273
	c) financial liabilities	-	340
120.	**Total income**	**25,985**	**21,995**
130.	Net impairment losses on:	(4,103)	(1,922)
	a) financial assets measured at amortised cost	(4,082)	(1,811)
	b) financial assets measured at fair value through other comprehensive income	(21)	(111)
150.	**Net financial income**	**21,882**	**20,073**
190.	Administrative expenses	(15,541)	(12,337)
	a) personnel expense	(6,920)	(5,716)
	b) other administrative expenses	(8,621)	(6,621)
200.	Net accruals to provisions for risks and charges	(1)	(672)
	a) commitments and guarantees issued	(1)	2
	b) other net accruals	-	(674)
210.	Net impairment losses on property and equipment	(608)	(369)
220.	Net impairment losses on intangible assets	(50)	(7)
230.	Other operating income	852	106
240.	**Operating costs**	**(15,348)**	**(13,279)**
250.	Gains (losses) on equity investments	10	-
290.	**Pre-tax profit from continuing operations**	**6,544**	**6,794**
300.	Income taxes	(2,053)	(2,205)
310.	**Post-tax profit from continuing operations**	**4,491**	**4,589**
330.	**Profit for the period**	**4,491**	**4,589**
340.	**Loss for the period attributable to non-controlling interests**	**(29)**	**-**
350.	**Profit for the period attributable to the owners of the parent**	**4,462**	**4,589**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		First quarter of 2021	First quarter of 2020
10.	**Profit for the period/year**	**4,462**	**25,777**
	Items, net of tax, that will not be reclassified subsequently to profit or loss		
70.	Defined benefit plans	102	(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	(1,433)	1,144
170.	**Total other comprehensive income (expense), net of income tax**	**(1,331)**	**1,020**
180.	**Comprehensive income (Items 10+170)**	**3,131**	**26,797**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**3,131**	**26,797**

STATEMENTS OF CHANGES IN EQUITY AS AT 31.03.2021

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 quarter of 2021	**Equity at 31.03.2021**	**Equity attributable to non-controlling interests at 31.03.2021**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,100**	-	39,100	-	-	-	-	-	-	-	-	-	-	-	**39,100**	-
Reserves	**122,608**	-	122,608	25,777	-	(255)	-	-	-	-	-	-	-	-	**148,130**	-
a) income-related	**121,173**	-	121,173	25,777	-	(2)	-	-	-	-	-	-	-	-	**146,948**	-
b) other	**1,435**	-	1,435	-	-	(253)	-	-	-	-	-	-	-	-	**1,182**	-
Valuation reserves	**1,287**	-	1,287	-	-	-	-	-	-	-	-	-	-	(1,331)	**(44)**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(234)**	-	(234)	-	-	192	-	-	-	-	-	-	-	-	**(42)**	-
Profit for the period/year	**25,777**	-	25,777	(25,777)	-	-	-	-	-	-	-	-	-	4,462	**4,462**	-
Equity attributable to the owners of the parent	**198,189**	**-**	**198,189**	**-**	**-**	**(63)**	-	-	-	-	-	-	-	**3,131**	**201,257**	**-**
Equity attributable to non-controlling interests	**9,297**	**-**	**9,297**	**-**	**-**	**-**	-	-	-	-	-	-	**28**	**-**	**-**	**9,325**

Group equity still includes the dividend of € 6,434 thousand on which, on 30 April 2021, the Shareholders' Meeting of the Parent resolved to defer the decision and the relative payment commitment to the resolution of a new Shareholders' Meeting to be convened after 30 September 2021, in accordance with the supervisory provisions or other recommendations of the Supervisory Authorities.

STATEMENT OF CHANGES IN EQUITY AS AT 31.03.2020

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the period										
							Transactions on equity									
	Balance at 31.12.2019	Change in opening balances	**Balance at 1.1.2020**	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the first quarter of 2020	**Equity attributable to the owners of the parent at 31.03.2020**	**Equity attributable to non-controlling interests at 31.03.2020**
Share capital:																
a) ordinary shares	**9,651**	-	**9,651**	-	-	-	-	-	-	-	-	-	-	-	**9,651**	**-**
b) other shares	**-**	-	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,100**	-	**39,100**	-	-	(22)	-	-	-	-	-	-	-	-	**39,100**	-
Reserves	**98,617**	-	**98,617**	22,240	7,479	(20)	-	-	-	-	-	-	-	-	**128,314**	-
a) income-related	**98,942**	-	**98,942**	22,240	7,479	(2)	-	-	-	-	-	-	-	-	**128,641**	-
b) other	**(325)**	-	**(325)**	-	-	-	-	-	-	-	-	-	-	-	**(327)**	-
Valuation reserves	**267**	-	**267**	-	-	-	-	-	-	-	-	-	-	(2,487)	**(2,220)**	-
Equity instruments	**-**	-	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(234)**	-	**(234)**	-	-	-	-	-	-	-	-	-	-	-	**(234)**	-
Profit for the period/year	**29,719**	-	**29,719**	(22,240)	(7,479)	-	-	-	-	-	-	-	-	4,589	**4,589**	-
Equity attributable to the owners of the parent	**177,120**	**-**	**177,120**	**-**	**-**	**(22)**	-	**-**	-	-	-	-	-	**2,102**	**179,200**	-
Equity attributable to non-controlling interests	**32**	**-**	**32**	**-**	-	**-**	-	**-**	-	-	-	-	-	**-**	**-**	**32**

STATEMENT OF CASH FLOWS (indirect method)

Amounts in thousands of Euro

	First quarter of 2021	First quarter of 2020
A. OPERATING ACTIVITIES		
1. Operations	**16,544**	**17,690**
▪ Profit for the period (+/-)	4,462	4,589
▪ Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	-	-
▪ Gains/losses on hedging activities (-/+)	-	-
▪ Net impairment losses due to credit risk (+/-)	4,082	1,811
▪ Net impairment losses on property and equipment and intangible assets (+/-)	658	376
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	1	672
▪ Taxes, duties and tax assets not yet paid (+/-)	(9,946)	(8,653)
▪ Other adjustments (+/-)	17,287	18,895
2. Cash flows generated by (used for) financial assets	**247,727**	**(20,242)**
▪ 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	(40,483)	(195,416)
▪ Financial assets measured at amortised cost	274,901	161,773
▪ Other assets	13,309	13,401
3. Cash flows generated by (used for) financial liabilities	**(254,359)**	**3,208**
▪ Financial liabilities measured at amortised cost	(254,494)	7,582
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	135	(4,374)
Net cash flows generated by operating activities	**9,912**	**656**
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	**(9,676)**	**(664)**
▪ Purchases of equity investments	-	-
▪ Purchases of property and equipment	(9,530)	(657)
▪ Purchases of intangible assets	(146)	(7)
▪ Purchases of business units	-	-
Net cash flows used in investing activities	**(9,676)**	**(664)**
C. FINANCING ACTIVITIES		
▪ Issues/repurchases of treasury shares	-	-
▪ Issues/repurchases of equity instruments	-	-
▪ Dividend and other distributions	-	-
Net cash flows generated by (used in) financing activities	**-**	**-**
NET CASH FLOWS FOR THE PERIOD	**236**	**(8)**

RECONCILIATION

Cash and cash equivalents at the beginning of the period	**1,930**	**652**
Total net cash flows for the period	236	(8)
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	**2,166**	**644**

ACCOUNTING POLICIES

GENERAL BASIS OF PREPARATION

This interim consolidated financial report at 31 March 2021 was drawn up in accordance with art. 154-ter of Legislative Decree no. 58 of 24 February 1998 and Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission, as established by Regulation (EC) no. 1606 of 19 July 2002, from which there were no derogations.

The interim consolidated financial report at 31 March 2021 comprises the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the interim consolidated financial report and is accompanied by a Directors' Report on the performance, the financial results achieved and the financial position of the Banca Sistema Group.

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

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

This interim consolidated financial report includes Banca Sistema S.p.A. and the companies directly or indirectly controlled by or connected with it. No changes to the scope of consolidation have been made compared to 31 December 2020.

This interim consolidated financial report at 31 March 2021 is accompanied by a statement by the manager in charge of financial reporting, pursuant to art. 154-bis of the Consolidated Law on Finance. The consolidated financial statements have been subject to review by BDO Italia S.p.A..

Events after the reporting date

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

Information on the main items of the consolidated financial statements

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

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

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

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

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

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

The accounting policies adopted for the drafting of this interim consolidated financial report, with reference to the classification, recognition, valuation and derecognition criteria for the various assets and liabilities, like the guidelines for recognising costs and revenue, have remained unchanged compared with those adopted in the separate and consolidated financial statements at 31 December 2020, to which reference is made.

Other aspects

The interim consolidated financial report was approved on 7 May 2021 by the Board of Directors, which authorised its disclosure to the public in accordance with IAS 10.

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The undersigned, Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby states, having taken into account the provisions of art. 154-bis, paragraph 2, of Legislative Decree no. 58 of 24 February 1998, that the accounting information in this interim consolidated financial report at 31 March 2021 is consistent with the company documents, books and accounting records.

Milan, 7 May 2021

Alexander Muz

Manager in charge of financial reporting

BANCA
SISTEMA