CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015

BANCA SISTEMA
CONTEMPORARY BANK

1INFO DIGITAL SIGN

CONTENTS

CONSOLIDATED REPORT ON OPERATIONS

COMPOSITION OF PARENT COMPANY'S MANAGEMENT BODIES

Board of Directors

Chairman:	Ms	Luitgard Spögler
Vice Chairman:	Mr	Claudio Pugelli
CEO and General Manager:	Mr	Gianluca Garbi
Directors:	Prof.	Giovanni Puglisi
	Prof.	Giorgio Barba Navaretti (Independent)
	Mr	Michele Calzolari (Independent)
	Mr	Daniele Pittatore (Independent)
	Ms	Carlotta De Franceschi
	Mr	Andrea Zappia (Independent)

Board of Statutory Auditors

Chairman:	Mr	Diego De Francesco
Chairman Standing Auditors:	Mr	Biagio Verde
	Mr	Massimo Conigliaro
Substitute Auditors:	Mr	Gaetano Salvioli
	Mr	Marco Armarolli

Executive Committee

Chairman:	Mr	Gianluca Garbi
Members:	Prof.	Giovanni Puglisi
	Ms	Carlotta De Franceschi

Internal Control and Risk Management Committee

Chairman:	Mr	Michele Calzolari
Members:	Mr	Giorgio Barba Navaretti
	Mr	Daniele Pittatore
	Ms	Luitgard Spögler

Nominations Committee

Chairman:	Mr	Andrea Zappia
Members:	Mr	Michele Calzolari
	Ms	Luitgard Spögler

Remuneration Committee

Chairman:	Prof.	Giorgio Barba Navaretti
Members:	Mr	Michele Calzolari
	Mr	Claudio Pugelli

Ethics Committee

Chairman:	Mr	Claudio Pugelli
Members:	Mr	Andrea Zappia
	Ms	Marco Pompeo

Supervisory Body

Chairman:	Mr	Diego De Francesco
Members:	Mr	Michele Calzolari
	Mr	Franco Pozzi

The Board of Directors was appointed by resolution of the Shareholders' Meeting dated 27 November 2015, with the appointment of Luitgard Spögler to the position of Chairman of the Board of Directors. Subsequently, the Board of Directors, meeting on the same date, appointed (I) Attorney-at-Law Claudio Pugelli Vice Chairman, (II) Mr Gianluca Garbi to the position of CEO, (III) and set up the Executive Committee, the Internal Control and Risk Management Committee, the Nominations Committee, the Remuneration Committee, the Ethics Committee and the Supervisory Body. The Board of Statutory Auditors was appointed by resolution of the Shareholders Meeting dated 22 April 2014.

HIGHLIGHTS DATA AS AT 31 DECEMBER 2015

Balance sheet data (€ ,000)

	31 Dec 2015	31 Dec 2014	%
Total assets	2,411,670	2,081,253	15.9%
Securities portfolio	925,402	858,007	7.9%
Loans - Factoring	1,049,832	851,856	23.2%
Loans - Salary-backed loans and SME	203,465	31,892	538.0%
Funding - Banks and REPOs	1,271,164	1,060,211	19.9%
Funding - Term deposits	572,379	569,410	0.5%
Funding - Current accounts	335,541	311,751	7.6%

Profit and loss data (€ ,000)

	31 Dec 2015	31 Dec 2014	%
Interest margin	58,006	48,337	20.0%
Net fee and commission income	11,168	11,501	-2.9%
Operating income	71,814	64,550	11.3%
Personnel expenses (*)	(13,139)	(12,107)	8.5%
Other administrative expenses (*)	(20,112)	(18,384)	9.4%
Profit before taxes (*)	34,139	29,672	15.1%

Performance indicators

	31 Dec 2015	31 Dec 2014	%
Cost/income Ratio (*)	46%	49%	-5.1%
ROAE (**)	33,8%	62,0%	-45.6%

(*) Amounts and indicators calculated using profit and loss data adjusted for non-recurrent costs, as presented in the paragraph "Financial results" of this Report.

(**) The Return on Average Equity (ROAE) was calculated as the ratio of the normalised profit for the period to average shareholders' equity.

SUMMARY REMARKS ON FY 2015

2015 was a significant year for Banca Sistema, because just four years after its incorporation, as enshrined in the Shareholders' Agreement signed by the previous shareholders, the company has obtained a listing on the Stock Exchange. Since 2 July 2015, shares in Banca Sistema have been traded on the Mercato Telematico Azionario - Italian Equities Market (MTA) - of the Italian Stock Exchange, STAR segment.

In line with the new ownership structure, on 27 November 2015 a new Board of Directors, Chairman and CEO were appointed. The importance of 2015 is confirmed by the end-of-year results, with a net profit adjusted for non-recurrent costs relating to the listing, and an extraordinary contribution to the National Resolution Fund, totalling 23.7 million (19.5 million for the same period in 2014), up 21% yoy, and by the profitability, one of the highest in the European banking sector. The strong increase in factoring core business, with a turnover of 1,411 million, amounts to a rise of 20% yoy and was achieved through sales actions aimed at:

1. increasing the number of customers, up from 124 in 2014 to 294 in 2015, with a continuingly high recurring turnover, about 90%;
2. diversifying origination channels, through the conclusion of 14 commercial agreements with banks (with a total of 1,100 branches in Italy) for the distribution of factoring products, contributing 73 million to turnover.

In addition, the increase further reduced the concentration of volumes on single customers. The diversification of the business, which begun at the end of 2014, and specifically of guaranteed loans to SMEs and the purchase of salary- and pension-backed loans (CQS/CQP), can already be deemed significant, given the increase in stocks, up respectively by 19 million in 2014 to 83 million in 2015 and from 13 million to 120 million during the period.

On the basis of the results, the Board of Directors has recommended a dividend of 25%. The business context in which Banca Sistema operates remains positive in 2016; it will therefore be possible to take advantage of the opportunities that arise, based on solid capital and broadly diversified liquidity.

PROFILE OF THE PARENT COMPANY

The Group is active mainly in the Italian factoring market and specialised in the acquisition, management and financing of receivables due to companies by the Italian Public Administration entities (‘PA’).

In particular, the Banca Sistema Group provides financial support to Italian and foreign companies by acquiring trade receivables and VAT credits due from the PA.

The Group operates through a specific collection method which is not based on the recovery of receivables through systematic recourse to legal action against the debtors, but favours out-of-court settlements, with the purpose of establishing repayment plans or payment agreements with the assigned debtors, enabling a constant and gradual reduction in the collection time for the receivables and greater core business profitability. In such a model, the collection of late payment interest applicable to the PA in the event of payment after 30/60 days constitutes an instrument whose purpose is to discourage delays in payment, as well as a negotiating lever for reaching the aforementioned agreements and speeding up payment times.

Since 2011, the Group’s primary objective has been to satisfy the financial requirements of companies who supply the PA by factoring, managing and recovering receivables, serving as a link between the public and private sectors.

The Group offers a wide range of products aimed at companies which claim receivables from the Public Administration entities and consisting in the provision of factoring services, mainly without recourse, for

the management of delays in payment by the Public Administration entities, as well as financing services for annual and quarterly VAT credits enjoyed by companies. The Group also offers its customers factoring services with recourse, maturity factoring and reverse factoring. Moreover, the Company offers online factoring and the certification of receivables due from the Public Administration entities.
Since 2014, thanks to the partnership established with a specialised operator, the Company has begun to purchase with recourse receivables and manage tax receivables (mainly VAT credits) arising from insolvency proceedings.
In 2014, the Group also launched operations in the private debt factoring sector (both with- and without recourse) and according to the maturity factoring formula.
In addition to operating on the factoring market, which constitutes the Group's core business, the Company has developed new business lines. Already active in the market for the management and recovery of credit on behalf of third parties via the subsidiary Solvi S.r.l. (merged into the Issuer with effect from 1 August 2013), in 2014 Banca Sistema began to provide diversified additional products and services, including: (I) the purchase of credit portfolios derived from loans against one fifth of salaries and pensions from qualified lenders, and (II) loans to SMEs guaranteed by the Guarantee Fund of the Ministry of the Economy and Finance.
The main source for raising funds to finance the Group's core business is banking activities, both retail and corporate, including the offer of traditional banking services such as current accounts and saving accounts for private clients, companies and businesses in Italy and Germany, as well as other ancillary banking services. These sources of funding, combined with the access to funding provided by the ECB through the ABACO (Collateralised Bank Assets) Procedure, treasury activities such as the management of Italian Republic securities held in portfolio and the management of the financial and credit assets and liabilities ('ALM') of the Issuer, as well as access to the interbank market, allow the Company stable access to reliable sources of liquidity at competitive rates.
For the distribution of its products and services, the Issuer uses its own direct network, chiefly composed of the Group's subsidiaries and representative offices, as well as an indirect network, comprising banks, real estate investment companies, financial advisors and financial intermediaries (credit brokers), who operate under specific distribution agreements concluded with the Issuer.

COMPOSITION AND STRUCTURE OF THE GROUP

On 31 December 2015, the Banca Sistema Group comprised the Parent Company, Banca Sistema S.p.A., and Specialty Finance Trust Holding Limited, a company incorporated under U.K. law and fully controlled by the Bank.

LISTING OF THE PARENT COMPANY

In compliance with the Shareholders Agreement and for the purposes of fully exploiting the activities of Banca Sistema and supporting its growth, the Shareholders' Meeting, acting on a proposal from the Board of Directors, in its session of 26 March 2015, resolved to approve the proposal to apply for admission of the Company's ordinary shares for listing on the STAR Segment of the MTA - Italian Equities Market organised and managed by Borsa Italiana S.p.A.
The listing and resulting expansion of the shareholder base will enable the Bank to reinforce the visibility of its business model and boost, in such a way, its standing within the reference market, including through the entry into the capital of qualified, national and international investors.
Following the launch of the Banca Sistema listing project, the Board of Directors, in its meeting of 26 March 2015, approved the new 2015-2018 three-year

project, thus modifying the one approved by the Board on 13 February 2014.

From an organisational and governance perspective, the Board of Directors, during its meetings of 26 March 2015, 28 April 2015 and 28 May 2015, in accordance with the stipulations of the primary and secondary legislation in force, completed the adjustment of the corporate governance system, approving various internal procedures, reorganising the advisory committees, as well as appointing an investor relator and a designated manager responsible for drafting the company accounting documents.

On 3 June 2015, the extraordinary shareholders' meeting thus debated the share capital increase from € 8,450,526.24 up to the nominal maximum amount of € 10 million, as a divisible increase and against payment, with the exclusion of option rights, pursuant to art. 2441, paragraph 5, of the Italian Civil Code, for the purposes of the public subscription and sale offer for the listing of the Company's shares, conditional upon the issuing, by Borsa Italiana S.p.A., of the measure admitting the Company's shares for trading on the STAR segment of the MTA - Italian Equities Market (provided the prerequisites exist), organised and managed by Borsa Italiana S.p.A.: on 15 June 2015, the Bank of Italy issued the relevant declaration of compliance.

On 17 June 2015, Borsa Italiana, through measure no. 8073, provided for the listing on the stock exchange of the Bank' shares for trading on the MTA - Italian Equities Market. On 18 June 2015, Consob issued a measure approving the prospectus, which enabled the launch of the public share offer: on this date, the institutional offer was launched, while, on 19 June 2015, the retail offer also began. Both offers ended on 29 June: the offer price was set at € 3.75 per share, equivalent to company capitalisation of around € 302 million, calculated on the basis of the Offer Price. Trading began on 2 July 2015.

On this date the conditions precedent as adopted by the extraordinary meeting on 3 June 2015 were checked; in particular, the share capital was subscribed and paid up, totalling € 1,200,000.00 with the issuing of 10,000,000 ordinary shares, each with a nominal value of € 0.12. Therefore, the new, fully subscribed and paid up share capital is € 9,650,526.24, subdivided into 80,421,052 shares, each with a nominal value of € 0.12. The global offering of the Bank's ordinary shares arising from a specific capital increase and from the shares already held by the shareholder SOF Luxco S.a.r.l. ended on 29 June 2015. The purpose of this offering was listing on the Star Segment of the MTA - Italian Equities Market organised and managed by Borsa Italiana (Italian Stock Exchange), with an offer price set at € 3.75 per share. Trading of the share began on the MTA on 2 July 2015.

Lastly, on 17 July 2015, the Coordinator of the Global Sale and Subscription Offer, Barclays Bank PLC, including in the name and on behalf of the members of the Institutional Placement Consortium, fully exercised the Greenshoe Option granted by the Vendor Shareholder, SOF Luxco S.a.r.l., for a global total of 3,897,865 ordinary Banca Sistema shares. The acquisition price for the shares which were the subject of the Greenshoe Option was € 3.75 per share - corresponding to the Offer Price for shares which are the subject of the Global Sale and Subscription Offer - for an overall amount of around € 14.6 million gross of the commissions and costs related to the operation. The settlement of the shares related to the Greenshoe Option occurred on 21 July 2015.

Globally, the Global Sale and Subscription Offer, including the Greenshoe Option, concerned 42,876,525 ordinary Banca Sistema shares, totalling 53.32% of the share capital, for an overall value of around € 160.8 million gross of the commissions and costs related to the operation.

Barclays Bank PLC acted as the global coordinator of the Global Sale and Subscription Offer, Banca Akros acted as the Placement Manager for the Public Offer, while Intermonte acted as Sponsor. The Joint Bookrunners, in addition to Barclays, were Banca Akros, Intermonte and Jefferies.

SIGNIFICANT EVENTS DURING THE REFERENCE PERIOD

On 20 February 2015, the following were approved: (I) the '2014 Risks Division Annual Report', (II) the '2014 Compliance Department Annual Report', (III) the '2014 Anti-Money Laundering Department Annual Report' (IV) the 'Compliance Department Annual Report on complaints received by the Bank' (V) the 'Annual Report on the activities carried out by the Internal Audit Department during 2014' and (VI) the Periodic Report to the Board of Directors and Board of Statutory Auditors from the Supervisory Body concerning the application of the 'Organisation, management and control model pursuant to Legislative Decree 231/2001'.

The Board of Directors of Banca Sistema S.p.A., on 26 March 2015, approved (I) the 'Annual report on the procedures to provide investment services and activities and ancillary services and the distribution of financial products issued by insurance companies and banks, CONSOB decision no. 17297', (II) the '2014 ICAAP Report', (III) the update to the MiFid Policy and (IV) authorised the publication of the 'New prudential supervisory provisions, Third Pillar information for the public', in accordance with the procedures laid down by the applicable regulations.

The Banca Sistema S.p.A. Shareholders' Meeting, in its session on 26 March 2015, approved (I) the Financial Statements for the year ended 31/12/2014 and (II) the 'Remuneration Policies for the year 2015'.

During March 2015, with a view to developing the salary-backed loan product (CQS, Cessione del Quinto), commercial agreements were signed with two new specialised operators.

On 28 April 2015, the following were approved (I) the quarterly report from the Internal Control Departments at 31/03/2015 (Risk Reporting, Tableau de bord of the Compliance Department and Tableau de bord of the Internal Audit Department), (II) the annual report from the internal audit department concerning audits conducted on the externalised operating departments, (III) the update of the Liquidity Policy and Contingency Funding Plan, and (IV) the 'Board of Directors Self-Regulation Document' and the document on the 'Optimal qualitative and quantitative composition of the Board of Directors', following the completion of the self-regulation process of the Corporate Bodies conducted in accordance with Bank of Italy Circular no. 285, Supervisory positions on bank corporate governance.

On 30 June 2014, the Board of Directors of Banca Sistema S.p.A. approved the following: (I) the 'Complex Securities Management Policy' (II) the 'Annual report on the procedures for providing investment services and activities and ancillary services and the distribution of financial products issued by insurance companies and banks, CONSOB decision no. 17297'.

On 3 June 2015, the Shareholders' Extraordinary Meeting decided on the following:

(1) amendments to the articles of association, necessary for improving the cohesiveness and clarity of certain provisions, including bringing them in line with the provisions of Bank of Italy Circular no. 285 concerning corporate governance and incentives;

(2) a share capital increase, against payment and with a premium, up to a maximum amount of € 10 million and therefore a maximum of € 1,549,473.42, through the issue of a maximum of 12,912,281 ordinary shares worth a nominal amount of € 0,12 (a decision subject to the condition precedent of the issuing, by the Italian Stock Exchange, of a measure admitting the Company for listing on the STAR segment of the MTA - Italian Equities Market;

(3) amendments to the articles of association for the purposes of the Company's listing (a decision subject to the condition precedent of the start of the trading of the Company shares on the Italian Stock Exchange's MTA.

Finally, on the same date, in ordinary session, the Shareholders' Meeting approved the 'Meeting Regulations'.

On 15 July, the sale/purchase agreement for 200 stakes with a total value of € 5 million, accounting for 0.066% of the share capital of Bank of Italy, was signed, with the simultaneous transfer of the holding certificate.

On 30 July 2015, the Board of Directors approved (I) the quarterly report from the Internal Control Departments as at 30 June 2015 (Risk Reporting, Tableau de board of the Compliance Department and Tableau de board of the Internal Audit Department), (II) the periodic report for the Board of Directors and Board of Statutory Auditors by the Supervisory Body concerning the application of the Organisation, management and control model pursuant to Legislative Decree 231/2001 and the updating of the model to reflect the changes in the law and the listing of Banca Sistema S.p.A. on the STAR market of the Italian Stock Exchange, (III) the Consolidated Anti-Money Laundering Document and (IV) the updating of the master resolution concerning transactions with associated parties.

On 24 September 2015, the Board of Directors acknowledged the resignations tendered by Ms Lindsey McMurray and Mr Matthew Potter as Directors of the Bank, effective immediately from 18 September 2015. In Ms McMurray's case, her resignation also resulted in her automatic dismissal as member of the Executive Committee. They tendered their resignations following the change in the company's ownership following the listing on 2 July 2015, resulting in the disposal by SOF Luxco S.a.r.l. of its interest in the Bank. Subsequently, on 22 September 2015, with effect from 30 November, Mr Gianluca Garbi, Mr Claudio Pugelli, Prof. Giovanni Puglisi and Mr Daniele Pittatore tendered their resignations from the Company's Board of Directors in support of the process of renewal of the Board of Directors, so that it might better reflect the Bank's new ownership structure.

On 15 October 2015, the Board of Directors approved the Directors' Report relating to the proposed purchase and sale of Treasury shares, and therefore revised the Agenda for the scheduled Shareholders' Meeting, which shall be called upon to authorise the purchase and sale of Treasury shares.

On 30 October, the Board of Directors approved the Consolidated Financial Data as at 30 September 2015, supported by the certification of the designated manager pursuant to section 154-bis concerning the drafting of company accounts.

The Board of Directors also approved the "Regulation of the designated manager responsible for drafting accounting documents" and the quarterly report from the Internal Control Departments as at 30 September 2015 (Risk Reporting, Tableau de board of the Compliance Department and Tableau de board of the Internal Audit Department).

On 27 November 2015, following resolutions of the Shareholders' Meeting held on the same date, appointing a new Board of Directors and the appointment as Chairman of Ms Luitgard Spögler, the new Board appointed (I) Mr Claudio Pugelli Vice Chairman, (II) Mr Gianluca Garbi to the position of CEO, (III) and set up the Executive Committee, the Internal Control and Risk Management Committee, the Nominations Committee, the Remuneration Committee, the Ethics Committee and the Supervisory Body.

On 16 December 2015, the Board of Directors verified compliance with the requirements for professionalism, integrity, no reasons for suspension and independence of all members of the Board of Directors, and approved (I) the budget for 2016 and the review of the RAF for 2016, (II) the Regulation on Whistleblowing, (III) the update of the Collection Policy.

The Board of Directors also approved the Remuneration Policies of Gruppo Banca Sistema S.p.A. for 2016 and initiated the Stock Grant Plan for 2016-2019 with approval of the relevant Regulation, and the resolutions arising for the creation of a legal reserve fund for profits linked to the free share capital increase reserved to beneficiaries of the Stock Grant Plan for 2016-2019 and the free share capital increase pursuant to section 2349 of the Italian Civil Code servicing the Stock Grant Plan with approval of the proposed amendment of article 5 of the Articles of Association.

During December 2015, with a view to developing the salary-backed loan product (CQS, Cessione del Quinto), commercial agreements were signed with a new specialist operator, in addition to the agreements previously signed.

THE MACROECONOMIC SCENARIO

Prospects are improving in advanced countries, but the weakness in emerging economies is stifling the expansion of global trade, which continues to disappoint, contributing to the fall in commodity prices.

Forecasts for growth in the world economy in 2016 and the following year indicate a modest uptick compared to 2015. At the beginning of 2016, however, significant new turmoil emerged in the financial market in China, leading to fears about economic growth in that country. Crude oil prices have fallen to below the lowest levels during the crisis of 2008-09.

The December increase in the Federal funds rate by the Federal Reserve, fostered by a significant improvement in the employment market, indicates the end of the zero rate policy in the United States introduced in 2008.

With reference to the Euro area, as shown in Economic Bulletin no. 1 2016 of the Bank of Italy, issued on 16 January 2016, during Q3 2015 GDP increased by 0.3% compared to Q2, driven by domestic demand.

Growth in the Euro area continues but remains fragile: the rapid weakening of export demand has so far been gradually offset by domestic demand.

Estimates for Q4 2015 indicate that the economic activity in the area continued to grow at the same rate as in Q3, more or less across the board in major countries. In December, the €-coin parameter of the Bank of Italy, measuring GDP in the area, increased to the highest level since July 2011. Business confidence of companies and families, supported by favourable employment data, indicates continued recovery. Growth prospects in the area are threatened by enduring uncertainty about demand in important export markets, particularly emerging economies. In addition, geopolitical tension, above all in the Middle East, could negatively impact on confidence, the recovery in consumption and worldwide business activities.

On the basis of preliminary data in December, inflation is 0.2%, below expectations.

In December, the forecasts of experts at the ECB indicated inflation in 2016 at 1.0% (zero in 2015).

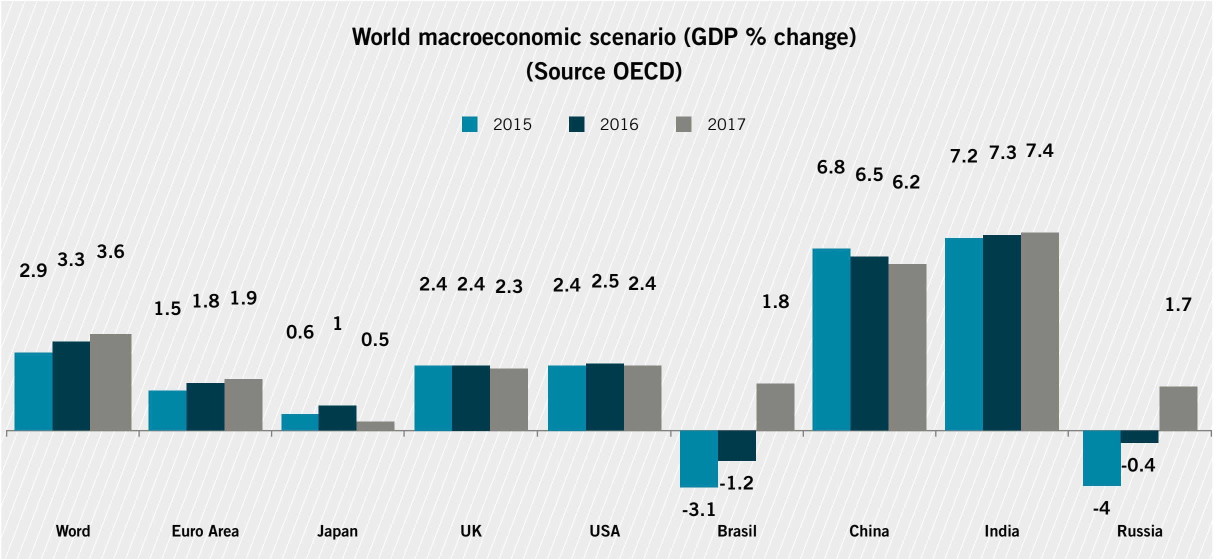
The bond purchase programme is proving effective in supporting economic activity in the Euro area, but the fall in foreign demand and in the price of oil has contributed to growing fears of low inflation and growth, accentuated over the past few months.

In the meeting last 3 December the Executive Committee of the ECB strengthened monetary stimulus with some measures, including:

(a) reduction by ten points of the interest rate for deposits with the Eurosystem, now at - 0.30%; (b) extension for a further six months of the bond purchasing programme (until at least March 2017), broadening the purchases to bonds issued by Local and Regional Authorities: (c) the decision to reinvest the capital repaid at maturity until necessary; (d) leading refinancing programmes and 3-month loans will remain at fixed interest with full allocation of the sums requested until the final maintenance period in 2017.

In addition, the Executive Committee will intensify recourse to the instruments available as and when necessary in order to guarantee the long-term return of inflation to levels that are in line with price stability.

Monetary expansion is reaching the credit market. In the three months ending in November, loans to non-financial companies in the area increased further (by 1.8%). The increase in loans to families was stable, at 1.9%. In November, average interest rates on new loans to non-financial companies and families were very low (2.1% and 2.3%).



ITALY

In Italy, the recovery is continuing slowly. In Q3 2015, as shown in Economic Bulletin no. 1 2016 of the Bank of Italy issued on 16 January 2016, GDP was up 0.2% in terms of the economic cycle, just below expectations. Exports, sustained for the past four years by demand from foreign countries but now negatively impacted by weakness in the market outside Europe, are being gradually offset by domestic demand, particularly for consumption and rebuilding stock levels.

The consolidation has been more or less across the board, with the exception of the building industry, which however is climbing out of prolonged recession. The trend in demand from abroad is uncertain.

The confidence of companies has improved, with a majority planning increases in investments in the first half of 2016.

As specified in the Bulletin, estimates for Q4 are for an increase in GDP of 0.2% as in Q3. In December the Ita-coin parameter of the Bank of Italy - which estimates GDP in real-time - was up 0.20% in line with the positive trend since November 2014.

Within the framework of the Eurosystem bond purchasing programme, Italian Treasury bonds were purchased at the end of last December in the amount of about €79 billion (including 73 billion by the Bank of Italy), with average remaining life of a little over nine years. Foreign investors continued to show interest in Italian assets slightly increasing their share of government bonds; Italian families have gradually rebalanced their portfolios towards managed savings.

In addition, family spending continued to increase, contributing to the increase in GDP. The most recent indications on the climate of confidence and disposable income are in line with the further expansion in consumption in the Q4 2015 following similar expansion in the previous two quarters.

In December, inflation fell to 0.1% over the 12-month period. Family and company expectations are for a slight increase in prices over the coming months which will remain at modest levels. Inflation is held back by the fall in energy prices and continuing over-capacity

in the manufacturing sector which contributes to keep prices at minimum levels.

In the employment sector, during the summer months employment continued to rise, above all amongst young people and in services; contracts continued to move towards stable forms of employment. Unemployment fell to 11.4% in October-November, the lowest level since 2012, partly due to the fall in youth unemployment, which however remains historically very high.

The expectations of companies are quietly optimistic in relation to employment.

In the final months of 2015, the growth of loans in the non-financial private sector strengthened.

Loans to companies increased for the first time in almost four years.

Lending criteria continue to be relaxed: the cost of loans to families and companies is very low compared with the past, benefiting from the quantitative easing carried out by the ECB.

The gradual improvement in the economy is reflected in the quality of credit, profitability and the capitalisation of banks. Due to the gradual improvement of the economy, the amount of existing non-performing loans fell together with new NPLs from the peak in 2013. The profitability of major banking groups increased in the first three quarters of 2015 compared to the same period in 2014. The improvement in the balance sheets of banks should continue in 2016 due to the expected consolidation of the cyclical recovery.

As set out in the Bulletin, expectations for growth in GDP suggest 0.8% for 2015 (0.7% on the basis of quarterly accounts, adjusted for the number of working days); the increase in 2016 and in 2017 could be about 1.5%.

The stimulus measures for the purchase of capital goods included in the Stability Law for 2016 should encourage investments as early as Q1; the accumulation of capital should also be fostered by investments in the building sector, following positive signs in the real estate market, as observed from mid-2015 onwards.

Inflation is expected to be 0.3% in 2016 and 1.2% in 2017. Investments, modest so far, could benefit from an uptick in demand and more favourable lending conditions as well as from the stimulus measures in the Stability Law. The expansion in consumption could be helped by an increase in disposable incomes, helped by improvement in the employment market.

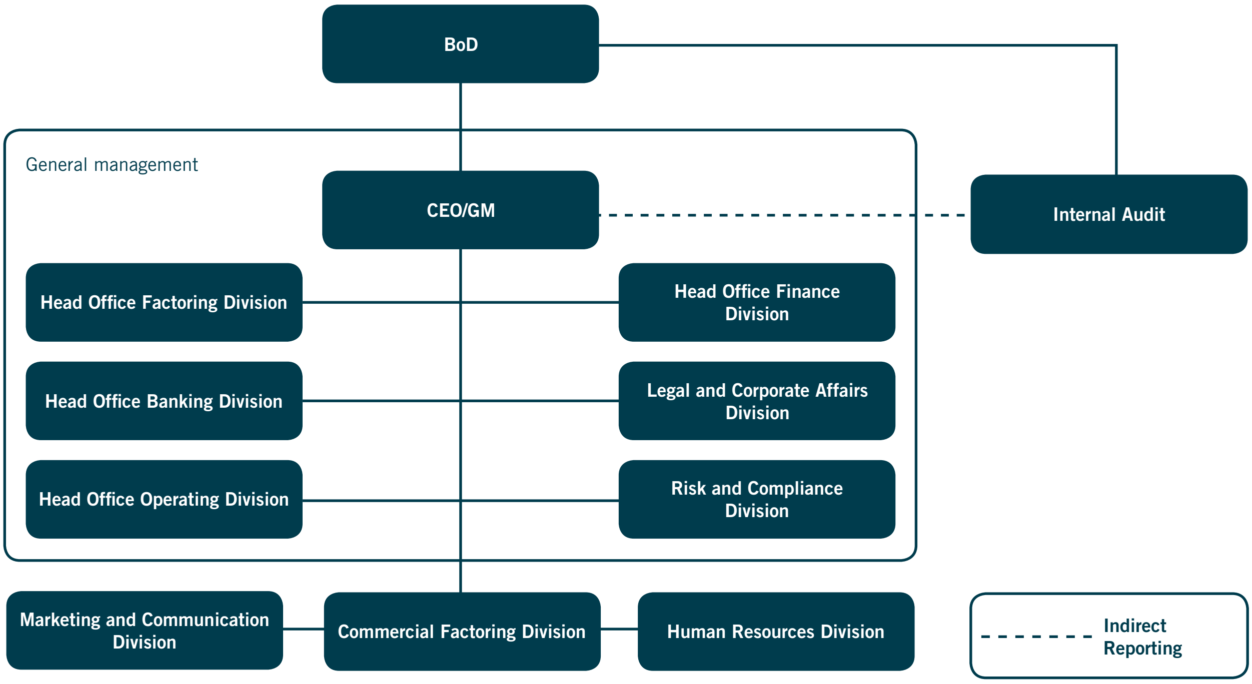
Significant risks remain, particularly from the international scenario: emerging economies could slow down more and for longer than expected, impacting strongly on financial and currency markets. In addition, monetary policy will need to cope with the risk of falling inflation due to lower than expected demand if over-capacity remains in the system for a lengthy period and to lower commodity prices if they negatively impact on wages and salaries.

[1] Ita-coin provides a monthly estimate of the trends in economic activity, using information from a broad set of variables relating to the Italian economy, both quantitative (industrial production, inflation, retail sales, trade flows, stock indices) and qualitative (confidence of households and companies, PMI indicators) in nature;

ORGANISATIONAL STRUCTURE

ORGANISATIONAL CHART

The organisational chart of the Banca Sistema Group, is shown below:



GENERAL MANAGEMENT

The following report to the CEO and General Manager:

- Central Financial Manager
- Risk and Compliance Manager
- Central Operating Manager
- Legal and Company Affairs Manager
- Central Banking Manager
- Marketing and Communication Manager
- Central Factoring Manager
- Commercial Factoring Manager
- Human Resources Manager

REGISTERED OFFICES AND BRANCHES OF THE BANCA SISTEMA GROUP

The Registered Offices and Branches of the Banca Sistema Group are as follows:

- Milan - Corso Monforte, 20 (Registered office and branch)
- Rome - Piazzale delle Belle Arti, 8 (Administrative office)
- Pisa - Galleria Chiti, 1 (Branch)
- Padua - Via N. Tommaseo, 78 (Branch)(*)
- Palermo - Via della Libertà, 52 (Administrative office)
- London - (UK) Dukes House 32-38 Dukes Palace (Administrative office)

(*) Branch closed on 12 February 2016

HUMAN RESOURCES

As at 31 December 2015, the Group had a staff of 130, broken down by category as follows:

FTEs	31/12/2015	31/12/2014
Senior managers	15	14
Middle managers (QD3 and QD4)	33	27
Other personnel	82	72
Total	**130**	**113**

In FY 2015, the Group further strengthened its organisation, with 30 new employees hired, including one executive. During the same period, 13 persons left the Group, 9 of whom from the 'employees' level and 1 manager, who was replaced through internal promotion. Banca Sistema's listing on the STAR segment of the MTA involved the appointment of an Investor Relator, who supported the IPO and began to manage the relationships with the financial markets, once the listing had taken place.

Among the new arrivals, 7 persons joined the commercial sector, both factoring and banking; additionally, the Risk, IT, Treasury, Credit Management and Back Office areas were also reinforced.

The average age of Group employees is 39 for the men and 37 for the women, with women accounting for 40% of the total; these figures are similar to the 2014 figures.

The Italian factoring market

The development of factoring has recently shown the ability of this financial instrument to adapt to the changing circumstances of the economic cycle in Italy. This flexibility suggests that factoring will continue to grow in the future, after the apparent end of the recession, still characterised by problems of liquidity for SMEs.

The latest data from Assifact (the Italian Factoring Association) shows the first nine months of 2015 with turnover up 5.45% on the same period in 2014, a result that is expected to be substantially confirmed for the whole year when figures about last year are released.

The estimate of the value of the factoring market in 2015 suggests that the positive trend of recent years will continue, with turnover up 4.6% and outstanding loans up on 2014 by 3.6%. The estimate of factoring turnover is of a figure over 100 billion, representing 8% of the global market and 13% of the European market. This is an important result given the only slight increase in GDP in the Euro area in 2015.

Consequently, factoring remains an important means of supporting the real economy, capable of running counter to the difficult economic phase in Italy and Europe at large in recent years. Over the last thirty years, the factoring sector has grown four times faster than the global economy. In 1980, overall factoring volumes around the world were 50 billion; in 2015, the volume of expected annual turnover at global level exceeded € 2,300 billion (in 2000 it was 600 billion).

Italy is one of the most important markets in the world for factoring, amounting to 11% of national GDP. To gain an understanding of why this is the case, “Doing Business”, the World Bank Report, shows Italy in 56th position in terms of the business climate, between Turkey and Belarus, far from the USA (seventh), Great Britain (eighth) and Germany (fourteenth).

For access to credit, Italy is even further down, at 89th. Factoring is the response to this situation, providing innovative services (for example reverse factoring).

In Italy, factoring volume growth would have been even greater if the split payment decree concerning receivables for invoices issued to the Public Administration had not been enacted during the year. By virtue of the new law, the VAT shown in invoices cannot be factored since it is paid by the public entity directly to the government, reducing the turnover for factoring companies.

It is not easy to assess the exact impact of the split payment system on turnover, but a fall of about 12% seems reasonable.

According to figures provided by the industry association Assifact, the three Regions where factoring is most common in terms of sellers and debtors, are Lombardy, Lazio and Piedmont. A recent study by the same Association shows that so-called specialist credit, comprising mainly factoring and leasing, accounts for nearly 20% of total bank transactions and amounts to more than 15% of the country's gross domestic product.

During 2015, the intention of the government and public entities to reduce delays in payment was not translated into fact, as had been hoped. The impetus provided by the recent Law-Decrees (35/2013 and 66/2014) seems to have run out and from mid-2015 on payments were once again lengthily delayed.

This is confirmed by the deterioration in 2015 of payments due from public entities in Italy which, according to Assobiomedica (the Italian Biomedical Association) now pay on average after 161 days, i.e. a staggering 123 days more than the European average of 38 days. Specifically, as many as 16 Regional Authorities regularly pay late, some later than they did in December 2014.

The most recent available data from the Ministry of the Economy and Finance shows that of the 44.6 billion available to settle the Public Administration's debts for 2013 and previous years, 38.6 billion has been used. Press articles also relate that several regions have used this amount not to pay receivables but for other purposes.

During the year, new legislative instruments have been issued to ease the transfer to the financial system of payables due to companies from Public Administration entities. Despite the efforts of governments over the last few years and the media focus on the issue of late payments by the Public Administration, this issue remains a serious problem for Italy and represents approximately 3.1% of GDP. If receivables purchased from intermediaries are also considered, this amount climbs to € 70 billion.

The legislation introducing both the electronic platform for certifying receivables and electronic invoicing in dealings between suppliers and the Public Administration resulted in very high expectations, which until now have not been met, at least in part. According to figures provided by the Ministry of the Economy and Finance, at the end of the previous year the receivables certification platform had received requests to certify over 91 thousand invoices for an amount of approximately € 10 billion. There is no information concerning how many invoices were actually certified, but in our direct experience we can attest that a significant portion of the invoices submitted to the certification platform is rejected.

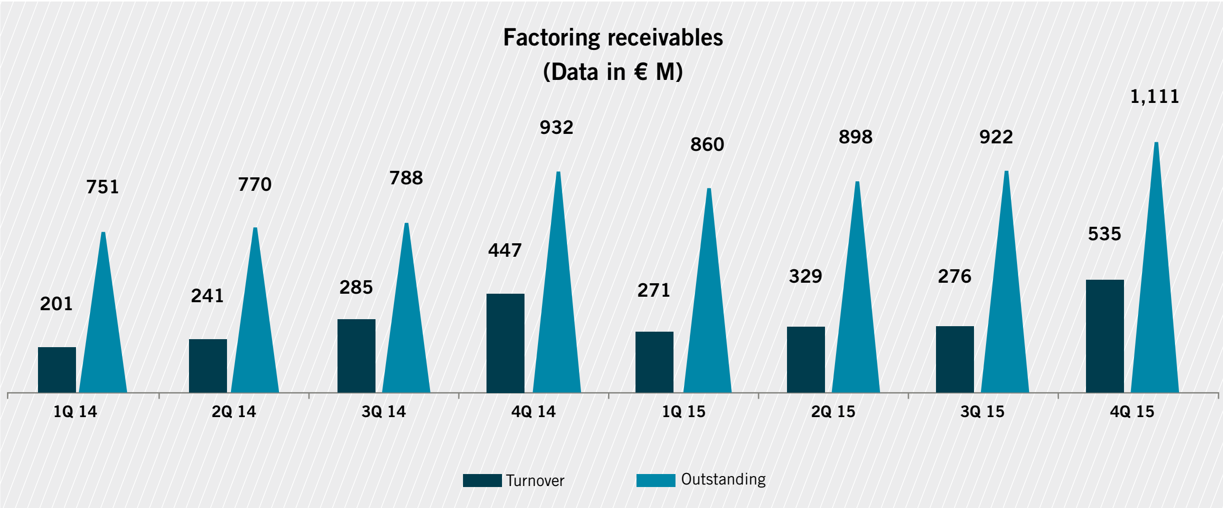
Another current issue is the introduction of mandatory electronic invoicing, with effect from 31 March 2015, for all suppliers issuing invoices to the Public Administration. According to figures provided by the Ministry of the Economy and Finance, over 20,000 public administrations have registered, but only 28% of these are actually active. The implicit cultural change brought about by electronic invoicing is an opportunity for the Public Administration to create a virtuous circle, improving the entire system.

In conclusion, 2015 was a very challenging year in terms of payments by public administrations.

The problem should remain at the top of the political and media agenda, otherwise the situation is likely to deteriorate. Nonetheless, there is no doubt that electronic invoicing and certification have led to an increase in factoring services provided to suppliers of the PA both in financial terms and in terms of supporting the needs of companies to accelerate payment collections.

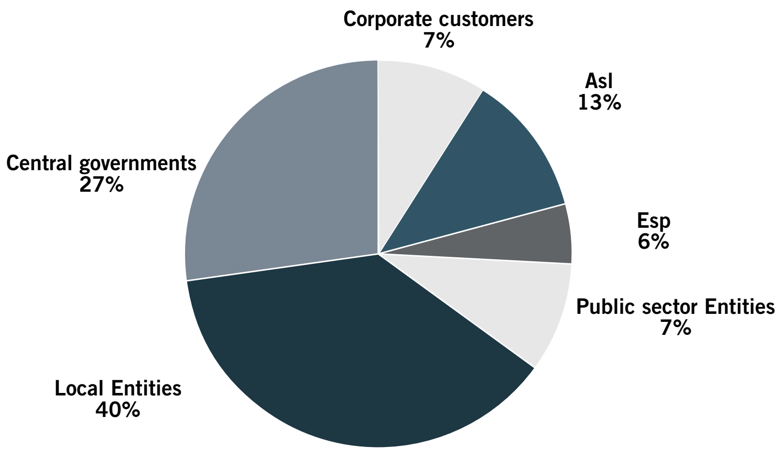
The Banca Sistema Group and factoring Activities

Turnover in 2015 for the Banca Sistema Group was € 1,411 million, up 20% on the same period in 2014. Considering the third party receivables managed, total volumes came to € 1,699 million as at 31 December 2015.



Outstanding loans as at 31 December 2015 amount to € 1,111 million, impacted by the trend in turnover in 2015 and by collections in the period, up 19% on the € 932 million at the end of 2014, due mainly to the acquisition of loan portfolios in Q4 2015 amounting to € 536 million (€ 311 million in December 2015 alone).
Collections against exposures to the Public Administration as at 31 December 2015 stand at € 1,191 million, up 19% on collections as at 31 December 2014.

The chart opposite shows the ratio of debtors to the outstanding portfolio as at 31 December 2015. The Group's core business remains the Public Administration entities segment.



The Group works through both direct assignments by companies and within the framework of regional agreements for restructuring or re-organising public entity debts. These operations include traditional factoring agreements, as well as reverse factoring agreements with highly reliable public entities which are seeking to use factoring with their suppliers in their role as debtors.

The following table shows the factoring turnover per product type:

TURNOVER (€ million)	31/12/2015	31/12/2014	€ Change	% Change
Trade receivables	1,270	1,121	149	13%
including without recourse	*1,096*	*1,016*	*80*	*8%*
including with recourse	*174*	*105*	*69*	*66%*
Tax receivables	141	53	88	166%
including without recourse	*123*	*43*	*80*	*186%*
including with recourse	*18*	*10*	*8*	*80%*
TOTAL	**1,411**	**1,174**	**237**	**20%**

Tax receivables (VAT) as at 31 December 2015 were considerably up (+166%),and include VAT from insolvency proceedings, an activity that begun at the end of the previous period with the assistance of a market specialist, partly due to the recent introduction of split payments.
The number of clients in 2015 increased to 294, up 137% on 2014, due to the strengthening of indirect factoring for the PA and private debtors and the extension of the sales network at the beginning of 2015, also via 14 new agreements with banks.
In addition, in the last few months of 2015, transactions were carried out with foreign debtors totalling € 20 million.

Group collection and debt recovery activities

For its debt recovery activities, the Group uses both its own internal structures, with significant skills and experience in the analysis, management and monitoring of the debt collection process, and a network of external operators and companies for debt recovery, active throughout the country.
The network of freelancers used by the Bank enables an exact adjustment of the debt collection activities with regard to each specific debtor or an increase in the number of operators when it becomes necessary to focus on specific areas.
Specifically, the Group works with 13 Collectors.
In compliance with the banking regulations applicable to the company and the obligations of non-competition as amended from time to time, they: (I) verify the certainty, liquidity and enforceability of the receivables; (II) establish a relationship between the Group and debtors in order to foster the collection of debts; (III) continuously update the available information and data.
In 2015, collections managed by the Bank under its credit factoring portfolios totalled € 1,191 million (up 19% on 2014).

Servicing activities

As at 31 December 2015, via the network of Collectors, the Group collects receivables on behalf of clients who contact the Company for its collecting service of their receivables.
On 31 December 2015, the amount of third-party receivables managed by the Group totalled € 288 million, while the commission income generated by this business segment totalled € 1,108 thousand.

BANKING

Direct funding

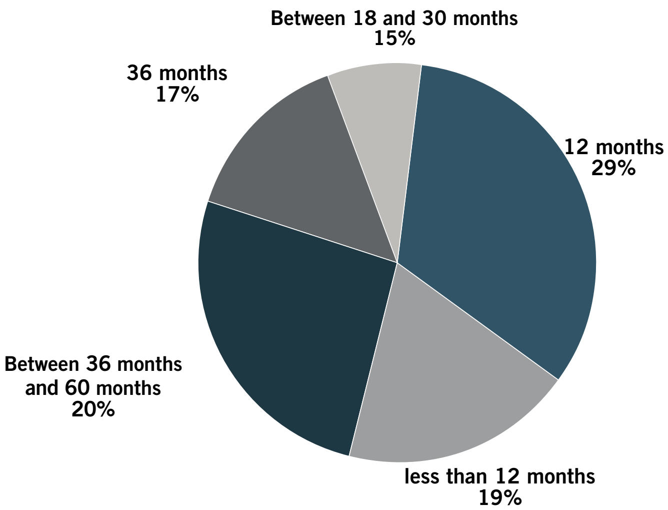
The funding policy of the banking division is strictly linked to changes in trade loans and market conditions. Today, funding is also geared towards current accounts, whereas, in the past, term deposits took precedence.
This choice was based on the need to make the relationship with the customers less volatile, and at the same time ensure a fee and commission return through the offering of traditional services.
A positive effect on the average cost of funding can be added to the above.

Despite not being the market leader, the Group achieved the expected goals by capping rates on term deposits, which remain in line with market rates and providing current accounts with easy terms and a good return. Total term deposits as at 31 December 2015 amounted to € 558 million (not including accruals maturing during the period), up € 6 million on the same period in the previous year. The above amount also includes total term deposits of € 39 million (obtained with the help of a partner platform) held with entities resident in Germany.

There were 10,693 individual customers with term deposits as at 31 December 2015, up on 31 December 2014 (11,246). The average deposit was € 52 thousand, up on €49 thousand as at 31 December 2014.

The breakdown of funding by term is shown below.

Breakdown of deposit accounts as at 31 December



Current accounts increased from 2,838 (as at 31 December 2014) to 3,632 at the end of the period, and the current account balance as at 31 December 2015 was € 336 million, up € 25 million.

Indirect funding

Indirect funding from assets under administration as at 31 December 2015 total € 364 million (€ 408 million as at 31 December 2014).

The breakdown is as follows:

Type (€ million)	31/12/2015	31/12/2014	€ Change	% Change
Bonds	123,037	254,613	-131,576	-51.68%
Equities	232,575	89,823	142,752	158.93%
Warrants	319	60,058	-59,739	-99.47%
Funds	8,177	3,019	5,158	170.85%
TOTAL	**364,108**	**407,513**	**-43,405**	**-10.65%**

During 2015, a process was launched to expand the offer of products/services such as new funds and to strengthen the structure through the hiring of new personnel in the Private Banking area.

Guaranteed loans to small and medium-sized enterprises

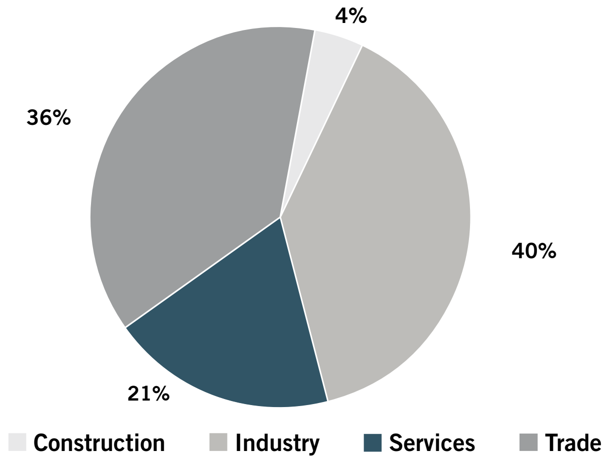
In 2014, the Banca Sistema Group started granting loans to SMEs, guaranteed by the Guarantee fund of the Ministry of Economic Development (Law 662/96).

This instrument enables companies to access secured credit, and the Group to grant riskier loans with low impact on the capital in view of the State guarantee (up to 80%); the average guarantee coverage for the Group is 80%. As at 31 December 2015, the Group disbursed € 79.0 million (€ 20.8 million in 2014), with € 85.2 million outstanding at the end of the period.

	31/12/2015	31/12/2014	€ Change	% Change
No. of files	188	52	136	262%
Volumes	79,015	20,805	58,210	280%

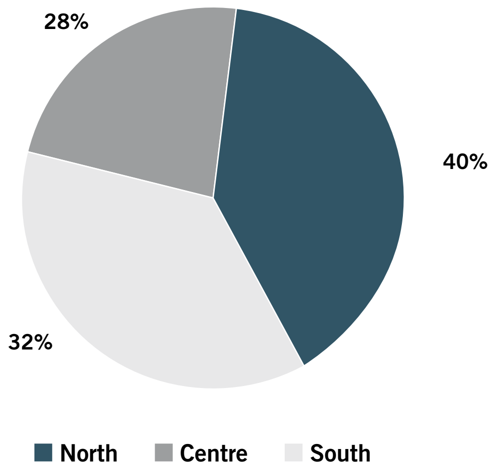
As the graphs below show, geographical areas and sectors are very varied, enabling the Group to benefit from a highly diversified portfolio.

Outstanding PMI - Breakdown by sector



The following shows the volumes disbursed per geographic area.

Area Volumes disbursed to PMI - Breakdown by geographical area



Salary-backed loans (CQS) and Pension-backed loans (CQP)

The Banca Sistema Group entered the salary and pension-backed loan (CQS/CQP) market in 2014, through the acquisition without recourse from other specialist brokers of receivables portfolios derived from this specific type of financing. As at 31 December 2015, the Bank has 5 ongoing agreements with specialist distributors in the sector.

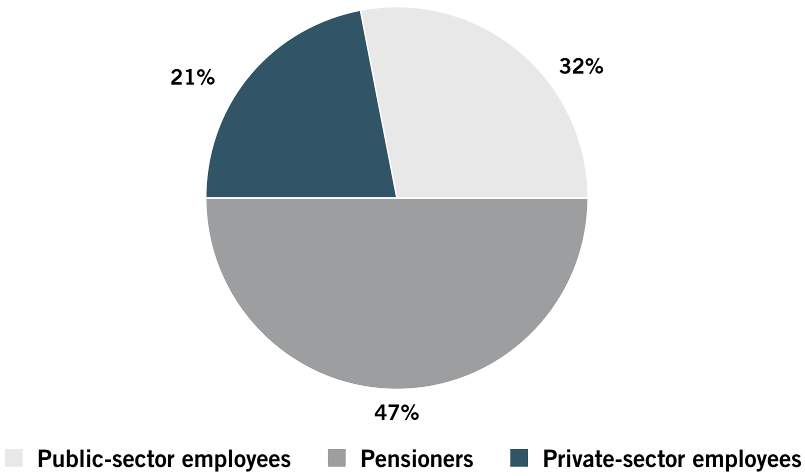
A salary-backed loan (CQS) is a consumer loan product that allows customers to allocate up to a fifth of their salaries to the payment of loan instalments.

The volumes acquired in 2015 amounted to € 114.9 million, including private-sector employees (21%), pensioners (47%) and public-sector employees (32%). Therefore, over 79% of the volumes refer to pensioners and employees of the PA, which remain the Bank's main debtor.

	31/12/2015	31/12/2014	€ Change	% Change
No. of applications	5.526	656	4.870	742%
Volumes	114,894	13,411	101,482	757%

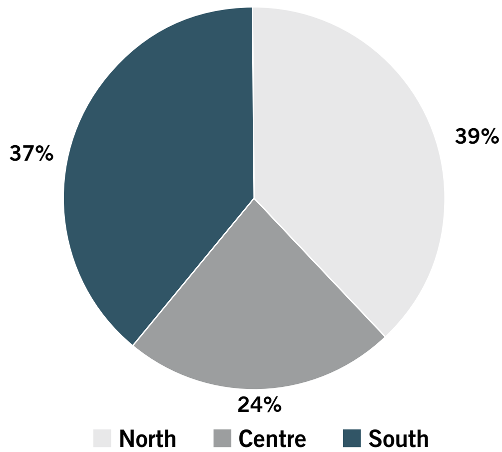
As shown in the table, the amounts disbursed during the period 2015 were considerably up on 2014, as a result of five new agreements stipulated by the Bank during the period.

CQS disbursed volumes - Breakdown



The following is a geographical breakdown of the pension- and salary-backed loan portfolio:

CQS disbursed volumes - Breakdown by geographical area



Treasury portfolio

A portfolio of owned securities has been established in order to better support liquidity commitments through the short-term investment in Italian Government Bonds. The portfolio of owned securities as at 31 December 2015 amounts to € 920 million (€ 858 million as at 31 December 2014) and comprises solely Italian short-term government bonds.

During the period, the portfolio of owned securities did not change in terms of value, type of securities and residual duration. In particular, as at 31 December 2015, the duration of the portfolio was 9 months (8.5 months as at 31 December 2014).

During 2015, transactions involving government bonds totalled € 9.8 billion (against € 19.3 billion traded in 2014).

The decline of yields on Italian government bonds to all-time lows following the introduction of quantitative easing by the European Central Bank considerably reduced market volatility and thus trading volumes.

Government bonds are mainly traded on the MTS Italian markets (in which the Bank trades as a market dealer), the European Bond Market (EBM), through the BondVision deal-to-client platform, or on BrokerTec.

The performance of investments in securities was in line with the improvement in spreads until the first quarter of 2015, i.e. with the improvement in the perception of risk by the markets in respect of peripheral countries in the Euro Area, before slowing from May onwards.

Wholesale funding

As at 31 December 2015, wholesale funding was about 58% of the total, comprising mainly repurchase agreements traded on the MTS MMF Repo platform, inter-bank deposits and, to a lesser extent, refinancing mechanisms with the ECB (54% as at 31 December 2014). These transactions were carried out during the period with Italian Treasury bonds owned by the Bank acting as underlying assets, along with eligible trade receivables due from Public Administrations arising from factoring activities and loans to SMEs (ABACO).

The choice between the above-mentioned funding sources mainly depends on the contingent market performance of short-term liquidity. In particular, compared with 31 December 2014, priority was given to repurchase agreements, rather than the MRO transactions proposed by the ECB. During 2015, trading on the MMF Repo screen-based market totalled about € 114.9 billion (€ 32.6 billion in 2014).

The Group also used the interbank deposit market both through the e-MID market and bilateral agreements with other banks.

As at 31 December 2015, deposits totalled € 282 million against € 91 million at the end of 2014, and trading totalled € 2.8 billion against € 6.7 billion in 2014.

The listing of Banca Sistema shares on the Milan Stock Exchange significantly improved access to MM lines of credit, with access to funds from the interbank market helpful to diversifying funding.

THE MAIN BALANCE SHEET AGGREGATES

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

ASSETS (€,000)	31/12/2015	31/12/2014	€ Change
Cash and cash equivalents	104	66	38
Financial assets held for trading	-	63	(63)
Financial assets available for sale	925.402	858.007	67.395
Due from banks	2.076	16.682	(14.606)
Loans to customers	1.457.990	1.193.754	264.236
Equity investments	2.696	2.448	248
Property and equipment	1.058	1.201	(143)
Intangible assets	1.872	1.904	(32)
of which: goodwill	1.786	1.786	-
Tax assets	7.353	2.752	4.601
Other assets	13.119	4.376	8.743
Total assets	**2.411.670**	**2.081.253**	**330.417**

2015 ended with total assets of approximately € 2.4 billion, up 15.9% on 31 December 2014. The Bank's AFS (available for sale) securities portfolio primarily comprises Italian government bonds with an average remaining duration of about 9.0 months as at 31 December 2015 (the average duration at the end of 2014 was 8.5 months), in line with Group investment policy to retain securities with durations of under 12 months. The valuation reserve was € 352 thousand as at 31 December. In July, the Bank purchased 200 stakes of the Bank of Italy for € 5 million. These stakes have been classified to the AFS portfolio.

LOANS TO CUSTOMERS (€,000)	31/12/2015	31/12/2014	€ Change	% Change
Factoring	1,049,832	851,856	197,976	23.2%
Salary/pension-backed loans (CQS/CQP)	120,356	13,228	107,128	809.9%
Loans to SME	83,110	18,664	64,446	345.3%
Reverse repurchase agreements	177,868	290,316	(112,448)	-38.7%
Current accounts	13,906	15,869	(1,963)	-12.4%
Compensation and Guarantee Fund	12,486	3,556	8,930	251.1%
Other receivables	432	265	167	63.0%
Total	**1,457,990**	**1.193,754**	**264,236**	**22.1%**

'Loans to customers' mainly comprise outstanding loans for factoring receivables without recourse from the Public Administration, down from 94% to 82% in the item, excluding Repos. On the other hand, government-backed loans to SMEs and salary- and pension-backed loans are up sharply, due to the significant increase in disbursements during the year, up from 4% to 16%.

As at 31 December 2015, the book value of receivables from factoring - given the trend in turnover in 2015 and collections during the period - has been impacted considerably by the acquisition of receivables portfolios in Q4 2015 with a value of € 536 million (€ 311 million in December 2015 alone).

Turnover from the factoring of receivables in 2015 was € 1.4 billion, up 20% on 2014 (€ 1.2 billion): this amount includes tax receivables of € 141 million (€ 53 million at the end of 2014). The positive trend in turnover was impacted by the increase in new clients, up from 124 in 2014 to 294.

As stated above, in 2015 the process of consolidating state-guaranteed loans to SMEs took place, with a total of € 79.0 million (€ 20.8 million as at 31 December 2014), with an even sharper increase in salary- and pension-backed loans (CQS/CQP), up from € 13.4 million as at 31 December 2014 to € 114.9 million as at 31 December 2015.

The following table shows the quality of the credit in the 'loans to customers' item, without considering the amount relating to reverse REPO.

	31/12/2014	31/03/2015	30/06/2015	30/09/2015	31/12/2015
Doubtful	11,439	16,401	22,266	21,724	20,021
Unlikely to pay	190	1,572	1,521	3,708	5,913
Overdue payments/defaults>180 days	30,568	48,220	31,143	71,656	65,420
Non-performing	**42,197**	**66,193**	**54,930**	**97,088**	**91,354**
Performing	846,070	798,444	943,940	934,067	1,172,410
Other loans to customers (excluding REPOs)	20,101	23,758		22,209	26,729
Total excluding REPOs	**908,368**	**888,395**	**998,870**	**1,053,364**	**1,290,493**
Total receivables					
Individual adjustments	2,473	3,963	4,566	6,379	7,137
Collective adjustments	2,457	1,910	2,455	2,471	3,233
Total adjustments	**4,930**	**5,873**	**7,021**	**8,850**	**10,370**
Net exposure	**903,438**	**882,522**	**991,849**	**1,044,514**	**1,280,123**

The ratio of net impaired loans to the total in the portfolio (net of reverse REPOs) is up from 4.4% as at 31 December 2014 to 6.6% as at 31 December 2015 due to a change in the internal classification method used, now more conservative in relation to overdue payments from the Public Administration, so the quality of credit has not in fact deteriorated, since this is a natural process for the business of the Bank.

The NPL ratio (calculated as the ratio of net non-performing loans to the total of loans to customers, net of reverse REPOs) was up from 1.01% as at 31 December 2014 to 1.09%, at a modest level (0.95% including reverse REPOs). The increase in NPLs is due mainly to new distressed local authorities, and the increase in loans classified in the "unlikely to pay" category is due entirely to loans to SMEs falling in that category: in this regard, the average coverage of the Government is 80% of exposure.

The coverage ratio of NPLs is up from 20% as at 31 December 2014 to 31% at the end of 2015; this

percentage is impacted by factoring of receivables from distressed local authorities, adequately written-down.
Loans to customers also include temporary investments in reverse repurchase agreements of € 178 million (€ 290 million at the end of 2014). The amounts of the cash used in the Compensation and Guarantee Fund for finance transactions in repurchase agreements with bank customers rose in accordance with the greater number of REPO operations.
Equity investments includes a 25.80% stake held by the Bank in CS Union S.p.A. (a company resulting from the merger of Candia S.p.a. and St. Ing. S.p.A.), purchasing and managing non-performing financial and trade receivables, as well as recovering debt from and for private companies.
The increase of € 248 thousand represents the pro-quota result for the period.
Other assets include amounts being processed after the end of the reference period and trade invoices to be issued and mainly attributable to collection.
The item is physiological and the increase on the previous period is due mainly to the increase of € 7.7 million in advance payments of taxation for withholding tax on interest and capital gains.

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

LIABILITIES AND SHAREHOLDERS' EQUITY (€ ,000)	31/12/2015	31/12/2014	Change
Due to banks	362,075	821,404	(459,329)
Due to customers	1,878,339	1,153,797	724,542
Securities issued	20,102	20,109	(7)
Tax liabilities	804	6,248	(5,444)
Other liabilities	55,317	36,441	18,876
Employee termination indemnities	1,303	1,173	130
Provisions for risks and charges	372	1,030	(658)
Valuation reserves	350	2	348
Reserves	65,750	13,059	52,691
Share capital	9,651	8,451	1,200
Profit for the period/year	17,607	19,539	(1,932)
Total liabilities and shareholders' equity	**2,411,670**	**2,081,253**	**330,417**

Wholesale funding represents about 58% of the total (54% as at 31 December 2014), and mainly comprises repurchase agreements traded through the MTS platform (classified under 'due to customers' since there is no direct balancing entry with banks) and, to a lesser extent, refinancing operations with the ECB and funding from other banks through term deposits.
There is only residual funding from bond loans, amounting to about 2% of the total wholesale funding.
The amount of collections from retail clients, essentially linked to the SI Conto! Deposito product, basically unchanged from the previous period.

DUE TO BANKS (€ ,000)	31/12/2015	31/12/2014	€ Change	% Change
Due to Central banks	80,002	730,020	(650,018)	-89.0%
Due to banks	282,073	91,384	190,689	208.7%
Current accounts and demand deposits	*10,328*	*36,384*	(26,056)	-71.6%
Term deposits	*271,745*	*55,000*	216,745	394.1%
Total	**362,075**	**821,404**	**(459,329)**	**-55.9%**

The item decreased compared to 31 December 2014 due to a decrease in funding from the ECB, preferring funding through repurchase agreements, which during the period proved more convenient than ECB rates. Funding from the ECB in the amount of € 49.3 million was obtained against trade receivables and government bonds.

As at 31 December 2015, there was an increase in funding on the interbank market in the form of term deposits.

DUE TO CUSTOMERS (€,000)	31/12/2015	31/12/2014	€ Change	% Change
Term deposits	572,379	569,410	2,969	0.5%
Funding (repurchase agreements)	909,089	238,807	670,282	280.7%
Current accounts and demand deposits	335,541	311,751	23,823	7.6%
Deposits with Cassa Depositi e Prestiti	30,603	2,580	28,023	1086.2%
Other amounts due	30,727	31,249	(555)	-1.7%
Total	**1,878,339**	**1,153,797**	**724,542**	**62.8%**

The shift in the mix, as described above, towards funding through repurchase agreements resulted in a sharp increase in the item compared to 31 December 2014.

The period-end stock of term deposits was up 0.5 % on the end of 2014, as a result of net positive negative deposits of € 6 million; gross deposits in 2015 were € 480 million, against withdrawals mainly for non-renewals totalling € 474 million (net deposits for the whole of 2014 were positive and amounted to € 35 million).

The item also includes collections of € 30.6 million from Cassa Depositi e Prestiti, against a guarantee comprising solely loans to SMEs by the Bank.

Other amounts due include payables related to receivables acquired but not funded.

The composition of the securities issued is the same as at 31 December 2014 and is as follows:

- TIER 2 subordinated loan totalling € 12 million,
- TIER 1 subordinated loan totalling €8 million.

The main changes in the provision for risks and charges, totalling € 372 thousand, were as follows:

- release of € 300 thousand following the elimination of a potential risk connected to the collection of a tax credit acquired without recourse;
- release from the provision made over the previous financial years for the residual part of the long-term incentive plan following payment after the IPO ;
- new provision of the deferred part of the 2015 bonus.

'Other liabilities' mainly include payments received after the end of the period by the assigned debtors and which were still being assigned and items being processed during the days following period-end, as well as trade payables and tax liabilities. The item was impacted by an erroneous payment of € 7 million by a public authority, promptly moved from the end of the year to the beginning of January.

The following shows the changes in shareholders' equity since 31 December 2015:

SHAREHOLDERS' EQUITY (€,000)	31/12/2014	ALLOCATION OF PROFIT		OTHER CHANGES	NET RESULT FOR THE PERIOD	31/12/2015
		Dividends	**Reserves**			
Share capital	8,451			1,200		9,651
Share premium reserve	4,325			35,111		39,436
Reserves	8,734		17,567	13		26,314
Valuation reserves	2				348	350
Profit (Loss) for the period	19,539	(1,972)	(17,567)		17,607	17,607
Total	**41,051**	**(1,972)**	**-**	**36,324**	**17,955**	**93,358**

The increase in the share premium reserve includes the amount collected during the placement of the new shares issued during the listing phase (10 million shares at the unit price of € 3.75) less the listing costs of € 1.5 million, net of deferred tax assets of € 0.3 million deductible over five years.

In accordance with the international accounting standards, all incremental costs strictly linked to the listing process were capitalised (mainly placement commissions for the new shares and consultancy costs) in proportion to the number of new shares issued compared with the total number of new shares.

The following table provides a summary of the changes in reserves:

(€ ,000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	TOTAL
Collections from IPO	1,200	36,300	**37,500**
Capitalised listing costs		(1,525)	**(1,525)**
Deferred tax assets		336	**336**
Total	**1,200**	**35,111**	**36,311**

The share capital increase from € 8.4 million to € 9.7 million was recorded on 2 July after the entry in the Companies' Register records; the remainder of the cash deposited was allocated to the share premium reserve.

The reconciliation between the net result and shareholders' equity of the parent company and the figures from the consolidated financial statements is shown below.

(€ ,000)	NET RESULT	SHAREHOLDERS' EQUITY
Banca Sistema balances as at 31/12/2015	**17,037**	**93,403**
Assumption of value of investments		
Profit (loss)/shareholders' equity - subsidiaries	36	(45)
Other changes		
Adjustments to transfers of investments	534	
Banca Sistema consolidated balances as at 31/12/2015	**17,607**	**93,358**

CAPITAL ADEQUACY

By means of a letter dated 5 May 2014, the Parent Company informed the Bank of Italy of its desire to exercise its option to be exempt from filing consolidated reports (an option laid down in paragraph 1.4 of circular 115 'Instructions for preparing banks' supervisory reports on a consolidated basis').

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31/12/2015	31/12/2014
Book equity	93,403	41,699
- dividends	(4,262)	(1,940)
Equity post dividend distribution	**89,141**	**39,759**
Adjustments for components which cannot be computed in CET1	**(2,249)**	**(1,910)**
Common Equity Tier 1 (CET1)	**86,892**	**37,849**
TIER1	8,000	8,000
Additional Tier 1 capital (T1)	**94,892**	**45,849**
TIER2	12,000	12,000
Total Own Funds (TC)	**106,892**	**57,849**
Total risk weighted assets	**635,658**	**363,771**
of which, credit risk	535,194	298,803
of which, operational risk	100,464	64,953
including market risk	0	0
of which, CVA (credit value adj. on derivatives)	0	15
Ratio - CET1	13.7%	10.4%
Ratio - AT1	14.9%	12.6%
Ratio - TCR	**16.8%**	**15.9%**

Proforma Own funds as at 31 December 2015 stand at € 107 million, including profits from 2015 net of the anticipated dividend of €4,262 thousand.

The increase in RWA compared to 31 December 2014 is due to the increase in loans, the increase in overdue payments and the overall increase in salary-backed loans (CQS) and loans to SMEs which absorb assets more than factoring.

In addition, in compliance with the EBA and Guidelines on common SREP (Supervisory Review and Evaluation Process), by letter dated 14 October 2015 the Bank of Italy requested that the following minimum requirements be maintained:

- CET1 ratio of 7.2% + additional 0.2% above the minimum regulatory requirement;
- TIER1 ratio of 9.6% + additional +1.1% above the minimum regulatory requirement;
- Total capital ratio of 12.9% + additional +2.4% above the minimum regulatory requirement;

CAPITAL AND SHARES

Capital and ownership structure

The share capital of Banca Sistema is divided into 80,421,052 ordinary shares, for 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 28 January 2016, 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 company and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l. (Management Company)	23.10%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.40%
Fondazione Pisa	7.40%
Schroders	6.73%
Market	47.97%

Share performance

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

- FTSE Italia All-Share;
- FTSE Italia STAR;
- FTSE Italia Small Cap.

The following table presents share performance from the first day of listing, 2 July 2015, until 31 December 2015.

Source: Bloomberg

As a result of the above trends, at the end of December 2015 market capitalisation exceeded € 312 million.

Approximately 23 million shares of Banca Sistema, for a total value of over € 95 million, were traded on the Italian On-line Equities Market from 2 July 2015 to 30 December 2015.

ECONOMIC RESULTS

STATEMENT OF PROFIT AND LOSS (€,000)	2015	2014	Change
Interest margin	58,006	48,337	9,669
Net fee and commission income	11,168	11,501	(333)
Dividends and similar income	-	33	(33)
Profit (Loss) on trading	122	869	(747)
Profit from disposal or repurchase of financial assets	2,518	3,810	(1,292)
Operating income	**71,814**	**64,550**	**7,264**
Net value adjustments due to loan impairment	(5,439)	(3,520)	(1,919)
Net income from banking activities	**66,375**	**61,030**	**5,345**
Personnel expenses	(13,139)	(12,107)	(1,032)
Other administrative expenses	(20,112)	(18,385)	(1,727)
Net allowance for risks and charges	300	(369)	669
Net value adjustments to property and equipment/intangible assets	(312)	(230)	(82)
Other operating income (expenses)	71	(338)	409
Operating expenses	**(33,192)**	**(31,429)**	**(1,763)**
Profit (loss) from equity investments	422	71	351
Profit (Loss) from disposal of investments	534	-	534
Profit from current operations before taxes	**34,139**	**29,672**	**4,467**
Income taxes for the period	(10,426)	(10,133)	(293)
Profit (loss) for the period from normal operations	**23,713**	**19,539**	**4,174**
Profit (loss) for the statutory period	**17,607**		

The Group ended 2015 with a net profit of € 17.6 million, which without the non-recurrent costs of the listing (of € 4.9 million) and the cost of the contribution to the National Resolution Fund (€ 1.2 million) gives a profit from normal operations of € 23.7 million, up 21% on the previous year. The economic results for 2015 are set out below with remarks, based on the profit and loss statement for normal operations.

INTEREST MARGIN (€,000)	2015	2014	€ Change	% Change
Interest and similar income				
Credit portfolios	77,685	71,024	6,661	9.4%
Securities portfolio	813	3,198	(2,385)	-74.6%
Other	521	1,571	(1,050)	-66.8%
Total interest income	**79,019**	**75,793**	**3,226**	**4.3%**
Interest expense and similar charges				
Due to banks	(1,198)	(1,654)	456	-27.6%
Due to customers	(18,587)	(24,164)	5,577	-23.1%
Securities issued	(1,228)	(1,638)	410	-25.0%
Total interest expense	**(21,013)**	**(27,456)**	**6,443**	**-23.5%**
Interest margin	**58,006**	**48,337**	**9,669**	**20.0%**

The interest margin is up 20% on last year, due to the combined effect of a fall in interest rates on collections, the increase in interest receivable from factoring and the positive trend in new business lines including loans to SMEs and salary- and pension-backed loans (CQS/CQP). Interest receivable essentially arises from the revenues generated by the core business activities of the Bank, up from 94% to 98%. Interest receivable from the factoring loans portfolio is up 9.4% and comprise essentially the revenues from factoring, which are 90% of the total of interest receivable, Interest receivable from factoring is generated by the purchase of discounted loans and does not include penalty interest from the Public Administration of about e € 82 million in relation to receivables already collected and about € 70 million on receivables not collected, a total of € 152 million (€ 121 million in 2014). In 2015, the Bank collected penalty interest on portfolios acquired mainly in previous periods, amounting to € 2.9 million.

The request for penalty interest is one of the most effective ways of trying to shorten payment delays.

The increase in the margin was also driven by the marked growth in interest on the salary-backed and SME portfolios, which collectively rose from € 708 thousand to € 6,840 (for contributions to the interest on the receivables portfolio of 3.3% and 5.3%, respectively).

Compared to 2014, however, the interest margin also shows less dependence on interest from securities, which fell by € 2.4 million due to a reduction in government bond yields during the period. Moreover, there was a smaller contribution from Other interest income chiefly caused by a decrease in income generated by revenue from investments in hot money transactions and reverse repurchase agreements with institutional clients.

The cost of funding decreased compared to the same period of the previous year due to a general reduction of market rates, which had a positive impact on wholesale funding, accompanied by a decline in deposit and current account rates, as well as by the maturity of term deposits at rates that are higher than current renewals.

Interest due to banks is mainly attributable to the cost of funding from other banks. With respect to the previous year, interest expense for funding from the ECB was reduced mainly through a limited use of this form of financing. Interest payable on bond loans issued benefits from loans which expired during 2014. Funding through REPOs, as a result of the current inter-bank rates and ECB policies, has not generated overall expenses.

COMMISSION MARGIN (€,000)	2015	2014	€ Change	% Change
Fee and commission income				
Collection activities	1,108	1,269	(161)	-12.7%
Factoring activities	10,905	10,842	63	0.6%
Other	729	458	271	59.2%
Total fee and commission income	**12,742**	**12,569**	**173**	**1.4%**
Fee and commission expense				
Placement	(1,031)	(735)	(296)	40.3%
Other	(543)	(333)	(210)	63.1%
Total fee and commission expense	**(1,574)**	**(1,068)**	**(506)**	**47.4%**
Net fee and commission income	**11,168**	**11,501**	**(333)**	**-2.9%**

Net fee and commission income, amounting to € 11.2 million, is down 2.9% due to the combined effect of increased commission paid to third parties for placements (closely related to the increase in turnover from factoring) and a decrease in commission for collections due to the reduction in managed third-party invoices, down from € 300 million to € 288 million.

Whereas, commission from factoring is unchanged on last year. Other fee and commission income mainly includes commissions linked to the placement of insurance sureties, collection and payment services and the holding and management of current accounts.

Fee and commission expense includes the costs of origination of factoring receivables of € 780 thousand (up 36% on last year) while the remainder includes returns to third party intermediaries for the placement of the SI Conto! product. Deposit (up 57% on last year).

Other commission expenses include commission for trading third-party securities and for interbank collections and payment services.

RESULTS OF THE SECURITIES PORTFOLIO (€,000)	2015	2014	€ Change	% Change
Profit (Loss) on trading				
Profit (loss) realised on trading portfolio debt securities	122	869	(747)	-86.0%
Total	**122**	**869**	**(747)**	**-86.0%**
Profit (loss) from disposal or repurchase				
Profit (loss) on AFS portfolio debt securities	2,518	3,809	(1,291)	-33.9%
Total	**2,518**	**3,809**	(1,291)	-33.9%
Total profit (loss) from securities portfolio	**2,640**	**4,678**	**(2,038)**	**-43.6%**

In the first half of 2015, profits generated by the owned portfolio and from the trading portfolio made a smaller contribution than in same period last year, due to less favourable market trends and a fall in the volumes traded on behalf of third parties.

Adjustments to receivable values in 2015 amounted to a total of € 5.4 million (€ 3.6 million in 2014), with an increase in analytical adjustments to the previous period of € 4.7 million and of € 0.7 million for collective adjustments, essentially due to more outstanding receivables in the SME and salary-backed loan (CQS) portfolio.

The increase in analytical adjustments, on the other hand, is due mainly to troubled local authorities adding their contribution to NPLs (compared to the previous quarter, 2 new authorities determining an increase in analytics of € 0.5 million). The cost of risk (calculate excluding reverse REPOs) is 0.50%.

PERSONNEL EXPENSES (€,000)	2015	2014	€ Change	% Change
Wages and salaries	(10,193)	(9,272)	(921)	9.9%
Social security contributions and other costs	(2,414)	(2,291)	(123)	5.4%
Directors' and statutory auditors' remuneration	(532)	(544)	12	-2.2%
Total	**(13,139)**	**(12,107)**	**(1,032)**	**8.5%**

The increase in personnel costs of € 1 million is due mainly to the increase in wages and salaries to the hiring of new staff, up from 113 in 2014 to 127 in 2015, partly offset by a reduction in the variable portion of pay.

OTHER ADMINISTRATIVE EXPENSES (€,000)	2015	2014	€ Change	% Change
Servicing and collection activities	(6,958)	(7,088)	130	-1.8%
Resolution Fund	(617)	-	(617)	n.a.
Consultancy	(2,817)	(1,992)	(825)	41.4%
Computer expenses	(2,990)	(2,720)	(270)	9.9%
Rent and related fees	(1,753)	(1,506)	(247)	16.4%
Indirect taxes and duties	(1,563)	(1,412)	(151)	10.7%
Advertising	(512)	(783)	271	-34.6%
Auditing fees	(262)	(293)	31	-10.6%
Other	(508)	(669)	161	-24.1%
Car hire and related fees	(619)	(508)	(111)	21.9%
Expense reimbursement and entertainment	(470)	(391)	(79)	20.2%
Membership fees	(219)	(184)	(35)	19.0%
Infoprovider expenses	(286)	(253)	(33)	13.0%
Maintenance of movables and real properties	(221)	(228)	7	-3.1%
Telephone and postage expenses	(184)	(162)	(22)	13.6%
Stationery and printing	(57)	(101)	44	-43.6%
Insurance	(67)	(69)	2	-2.9%
Discretionary payments	(9)	(26)	17	-65.4%
Total	**(20,112)**	**(18,385)**	**(1,727)**	**9.4%**

Other administrative costs of € 20.1 million are up 9.4% on 2014; given that the ordinary contributions to the National Resolution Fund, as described below, were requested only in 2015, with an unaltered perimeter, the other administrative costs rose by 6%.

Third party costs for collecting and servicing trade receivables are due mainly to commission payable on collection activities for factoring (carried out via an internal network of professionals and specialist third party companies) and for servicing activities relating to receivables from acquisitions in the salary- and pension-backed loans portfolios (CQS/CQP). The decrease in costs against 2014 is due to a percentage reduction in collections managed by third party servicers.

The rise in IT expenses is linked to the increase in services provided by the outsourcer due to the increase in Group operations and IT updates related for new products.

The increase in consulting is mainly due to the additional legal expenses incurred for debt recovery and additional consulting costs for extraordinary transactions under evaluation.

Rental costs increased due to the new premises in Milan, from the second half of the previous year.

Profit from holdings shows the net profits in 2015 obtained from CS Union SpA, of € 0.9 million, included in the Group profit and loss statement for the pro-quota portion relating to the Group.

The profit from the disposal of investments of € 534 thousand refers to a prudent estimate of the part of the deferred price included in the agreement that SFT Holding should receive from SFTI after liquidation, on the basis of the current positive trend in the liquidation process. This refers to the unwinding of securitisation for Public Funding and the revenues can therefore be deemed part of the profits of the core business even though in the form of a deferred price.

The positive amount of € 300 thousand for the provision for risks and charges is due to the release of a provision in 2014 relating to the potential risk (no longer applicable) of collecting a tax receivable acquired without recourse.

The Group tax rate fell from 34% in 2014 to 31% in 2015 due mainly to:

- the dispositions of the Stability Law for 2015 (Law 190 dated 23 December 2014), including section 1, paragraphs 20-25 which introduced from 1 January 2015 - an important change - the full deduction, for the purposes of calculating the amount of IRAP payable, of the costs of permanent staff as specified in the ACE provision (“assistance for economic growth”), the deduction increasing from 4 to 4.5% with an increase of 40% in the multiplier (of increases in shareholders equity compared to the previous year), benefiting the Bank due to its listing on the STAR segment of the Stock Exchange from 02/07/2015.

The following shows the reconciliation of the normalised and statutory statement of profit and loss.

STATEMENT OF PROFIT AND LOSS (€,000)	2015 NORMALISED	IPO COSTS	RESOLUTION FUND	2015 STATUTORY
Interest margin	58,006	-		58,006
Net fee and commission income	11,168	-		11,168
Dividends and similar income	-	-		-
Profit (Loss) on trading	122	-		122
Profit from disposal or repurchase of financial assets	2,518	-		2,518
Operating income	**71,814**	**-**		**71,814**
Net value adjustments due to loan impairment	(5,439)	-		(5,439)
Net income from banking activities	**66,375**	**-**		**66,375**
Personnel expenses	(13,139)	(4,389)		(17,528)
Other administrative expenses	(20,112)	(2,386)	(1,852)	(24,350)
Net allowance for risks and charges	300	-		300
Net value adjustments to property and equipment/ intangible assets	(312)	-		(312)
Other operating income (expenses)	71	-		71
Operating expenses	**(33,192)**	**(6,775)**	**(1,852)**	**(41,819)**
Profit (loss) from equity investments	422	-		422
Profit (Loss) from disposal of investments	534	-		534
Profit from current operations before taxes	**34,139**	**(6,775)**	**(1,852)**	**25,512**
Income taxes for the period	(10,426)	1,919	602	(7,905)
Profit (loss) for the period	**23,713**	**(4,856)**	**(1,250)**	**17,607**

Personnel expenses include a gross variable component recognised to the management and linked to the Bank's listing.
The other administrative expenses mainly include share placement commissions, consultancy costs and other costs linked to the listing process.
The sum of € 1.9 million comprises the extraordinary contribution to the National Resolution Fund.

New legislation and taxation

Contributions under the deposit guarantee and resolution mechanisms

The European Union issued Directive 2014/49/EU on 16 April 2014 and Directive 2014/59/EU on 15 May 2014, known respectively as the "Deposit Guarantee Schemes Directive" (DGS) and the "Bank Recovery and Resolution Directive" (BRRD) setting up the Sole Resolution Mechanism (EU Regulation 806/2014 dated 15 July 2014) to strengthen and stabilise the financial market.

Contribution expenses arising from the Deposit Guarantee Schemes Directive

The Directive establishes that national DGSs (in Italy the Interbank Deposit Safeguard Fund or FITD) should provide themselves with the necessary resources to protect deposits via obligatory contributions from the banks. The new Directive calls for Italian banks to switch from an ex-post contribution system to a mixed system, which provides for funds to be paid ex-ante until reaching, no later than 10 years after the Directive comes into effect (i.e. before 3 July 2024), a minimum target level, amounting to 0.8% of covered deposits.

The contributions of each entity are calculated according to the ratio of the amount of their own deposits to the overall amount of the Country's protected deposits.

On 3 December 2015, the Interbank Deposit Safeguard Fund notified that the overall contribution in 2015 to be paid by banks, corresponding to 50% of the contribution that will be required from 2016 onwards, is €200,350.

Accounting measures for the contributions paid into the national DGS

Pursuant to recent communications the contributions will be entered into the accounts under the item "Other management charges".

Tax measures on contributions paid into the national DGS

In relation to tax, pursuant to the principle of the balance sheet providing the basis for taxable amounts, the contribution to the national DGS will be fully deductible for the purposes of establishing the amount of IRES payable and 90% for IRAP.

Voluntary Contributions to the FITD

At its extraordinary meeting on 26 November 2015, the Interbank Fund modified its Articles of Association not only to introduce ahead of time the new ex-ante funding method, but also to set up a voluntary scheme for the implementation of actions supporting banks under receivership, in distress or risk of distress, which to date is the case only with Banca Tercas.

The voluntary scheme has its own governance and acts entirely independently and separately from the compulsory scheme, using private resource provided by the participating banks independently and in addition to the compulsory contributions payable under the law and the Articles of Association. After indicating its wish to take part, the participation of banks in the scheme is binding for 2 years and for a total of € 500 million (with 265 million already allocated to Tercas) plus any expenses and charges.

In the case of action (already taken) with Tercas in the amount of € 265 million, this sum should be reallocated by the compulsory scheme to the voluntary scheme by a "clearing entry" which will have no impact on the profit and loss statement of participating banks.

Participating banks could then be called upon to provide a further maximum sum of € 235 million over the next two years (for other bank "bail-ins").

If the "voluntary" scheme does not reach the required percentage contributions, Banca Tercas will be called upon to repay the sum so far received.

The "voluntary" mechanism will take effect provided the at least 90% of the consortium banks participate and provide 95% of coverage.

Consortium banks may show their intention to take part or pass resolutions for the purpose no later than 10 December.

The Board of Directors of the Fund "has subordinated the implementation of the scheme to some conditions, including, specifically, certainty about tax measures for the voluntary scheme, ensuring substantial neutrality with the compulsory scheme via changes in regulations to make the costs of contributions, actions on behalf of other banks and the functioning of the voluntary scheme, tax deductible.

Contribution expenses arising from the Bank Recovery and Resolution Directive

Directive 2014/59/EU defines the new resolution rules, which shall apply from 01 January 2015 to all the European Union banks in the event of financial difficulties, even if only prospective. To this end, the aforementioned directive calls for national resolution funds to have financial resources which must be provided through compulsory contributions from authorised credit institutions. In this case, too, the financing mechanism is mixed. Amounts must be paid in advance until reaching a minimum target level of 1% of covered deposits by 31 December 2024. The contributions from each entity are calculated according to the ratio of the amount of own liabilities (net of own funds and covered deposits) to the overall amount of liabilities for all the authorised credit institutions across the country. The allocation of resources from national resolution funds during 2015 will be transferred to the European Single Resolution Fund (SRF) managed by a new European Resolution Authority (Single Resolution Board - SRB), whose establishment is provided for by Regulation no. 806/2014, which introduced the Single Resolution Mechanism (SRM), which will enter into force on 01 January 2016. The Bank of Italy, pursuant to Legislative Decree 180 dated 16 November 2015, implemented the BRR Directive (59/2014) setting up the National Resolution Fund (FRN).

On the basis of the regulations enshrined in the Directive, on 23 November 2015, the Bank of Italy established the obligation to pay by 1 December 2015 the sum of € 617,287.

Subsequently, on 27 November 2015, the Bank of Italy notified the obligation by 7 December 2015 to pay the National Resolution Fund the sum of € 1,851,862, as the extraordinary contribution to the resolution process of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara.

Accounting measures for contributions to the Resolution Fund

Pursuant to communications received by the Bank of Italy establishing the sum Banca Sistema must pay as ordinary and extraordinary contributions in 2015, these charges amounting to € 2,469,149 were entered into the accounts under the item (Other administrative charges").

Tax measures for contributions to the Resolution Fund

In relation to tax, pursuant to the principle of the balance sheet providing the basis for taxable amounts, the contribution to the national DGS will be fully deductible for the purposes of establishing the amount of IRES payable and 90% for IRAP.

Legislative Decree No. 83 dated 27 June 2015

For the purposes of accelerating the emergence of losses on receivables, aligning Italy with the other EU countries and eliminating the competitive gap that has existed to date, article 16 of the Decree calls for write-downs and losses on receivables due from customers, recognised in the financial statements of banks and insurance companies, to be fully deductible both for IRES and IRAP purposes in the relevant financial year. In an initial phase, however, the deductibility for write-downs and losses on receivables for IRES and IRAP purposes is limited to 75 per cent.

The remaining 25% may be deducted in various percentages up to the 2025 fiscal period (e.g. 5% of the residual amount in 2016, 8% in 2017, 10% in 2018 etc.).

This measure both replicates and reinforces that implemented through the Stability law for 2013, by means of which, from 2013 onwards, the write-downs and losses on receivables due from customers recorded in the financial statements had become 'deductible on a straight-line basis in the financial year during which they are recognised and the four subsequent years'.

Comforted by the opinion of leading law and consulting firms, the listing process has enabled the Bank to carry out an in-depth and detailed assessment of "risk factors" illustrating the results to regulators, to market manager and to investors (see the Prospectus - Section IV Risk Factors).

Below are set out the leading macro categories subject to evaluation i.e. governance: with an analysis of the risks relating to the ability of the Bank to support company strategy; the macroeconomic context: "Italy country risk" was assessed and the probable impact on credit control, with particular reference to the core business of credit factoring with the PA; funding policy: with an analysis of the degree of sustainability of investments carried out by the Bank in relation to funding policy/the sources of funding; developments in operational risks: associated mainly with the management and updating of the information systems used by the Bank; the evaluation of the sufficiency of assets and the characteristic risks of banking, with the numerical presentation of capital and liquidity ratios.

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

- suitable supervision by relevant company bodies and functions;
- suitable policies and procedures to manage risk (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 reviews.

The 'Risk Management System' is monitored by the Risk and Compliance Division, which ensures that capital adequacy and the degree of solvency with respect to its business are kept under constant control. Management continuously analyses the Bank's operations in order to fully identify the risks the Bank is exposed to (risk map).

In order to reinforce its ability to manage corporate risks, the Bank has set up a Risk Management Committee, which helps the CEO to define strategies, risk policies and profitability targets.

The Risk Management Committee continuously monitors relevant risks and any new or potential risks, arising from changes in the working environment or scheduled Group operations.

In addition, pursuant to the eleventh amendment of Bank of Italy Circular 285/13, within the framework of the Internal Control System (Part I, Section IV, Chapter 3, Subsection II, Paragraph 5) the Bank gave the Internal Control Committee the job of coordinating the second and third level Control Departments; to that end, the Committee allows the integration and interaction between these Departments, encouraging synergy, reducing overlaps and supervising operations.

Starting from 1 January 2014, the Bank has used a reference framework both to identify its own risk appetite and for the internal process of determining capital sufficiency. This system is the Risk Appetite Framework (RAF) designed to make sure that the growth and development aims of the Bank 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 in light of strategic guidelines and regulatory changes.

The methods used by the Bank to measure, assess and aggregate risks are approved by the Board of Directors, upon the proposal of the Risk Department, subject to approval by the Risk Management Committee. In order to measure 'Pillar 1 risks', the Bank has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes.

In order to evaluate non-measurable "Pillar II" risks, the Bank 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 operations comparable to those of the Bank are assessed.

OTHER INFORMATION

Report on governance and ownership

Pursuant to section 123-bis, paragraph 3 of Legislative Decree No. 58 dated 24 February 1998, a "Report on governance and ownership" has been drawn up; the document - published jointly with the draft Financial Statements for the FY ended 31 December 2015 - is available in the Governance Section of the Bank website (www.bancasistema.it).

Remuneration Report

Pursuant to section 84-quater, paragraph 1 of Legislative Decree No. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the draft Financial Statements for the FY ended 31 December 2015 - is available in the Governance Section of the Bank website (www.bancasistema.it).

Research and Development Activities

No research and development activity was carried out in 2015.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties and connected parties, including the relative authorisation and disclosure procedures, are governed by the 'Procedure governing transactions with associated parties' approved by the Board of Directors and published on the Internet site of the Parent Company, Banca Sistema S.p.A. Transactions between the Group companies and related parties or connected parties were carried out in the interests of the Company, 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 administration, management and control functions in accordance with article 136 of the Consolidated Law on Banking, they are included in the Executive Committee decision, specifically authorised by the Board of Directors and with the approval of the Statutory auditors, subject to compliance with the obligations provided under the Civil Code with respect to matters relating to the conflict of interest of directors.

ATYPICAL OR UNUSUAL TRANSACTIONS

During 2015, the Group did not carry out atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

On 4 February 2016, Banca Sistema reached an agreement with Stepstone Financial Holdings for the acquisition of 100% of the share capital of Beta Stepstone S.p.A. (hereafter "Beta" or the "Company").

The purchase is in line with the strategic plan of Banca Sistema as notified in July 2015 during the IPO. The purchase strengthens the presence of Banca Sistema in the factoring market for healthcare operators in Central and Southern Italy. The purchase price of € 60.8 million to be paid in cash by Banca Sistema, includes penalty Late Payment Interest or LPI, not yet collected by Beta, which stood at about € 16 million as at 30 June 2015.

Under the agreement, part of the purchase price will be paid in advance via a guaranteed deposit, which will be released to the Seller only after the Bank has collected the LPI. The completion of the deal during the first half of 2016 is subject to authorisation by the relevant Authorities.

The purchase price is subject to review and correction at the end of the operation.

Within the framework of the securitisation operation approved by the Board of Directors on 5 February 2016, on 4 March 2016 an agreement was signed to sell the first portfolio of receivables to the special purpose vehicle Quinto Sistema Sec. 2016 S.r.l for a balance sheet value of Euro 119.6 million, and the anticipation that ABS bonds will be issued by the end of March 2016.

The SPV Quinto Sistema Sec. 2016 S.r.l. was included on 9 March 2016n in the list of SPVs under no. 35253.4.

There were no additional significant events after the end of the period to be mentioned.

SUBSEQUENT EVENTS AND OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

FY 2015 ended with continuing growth in line with the previous period in the factoring sector and the provision of SMEs and salary-backed loans.

The interest margin, based on current market conditions, will continue to benefit from essentially stable funding costs and diversification through new sources of funding.

During the year, new strategic commercial agreements and framework agreements were stipulated, enabling the Group to continue the diversification process for the products provided.

The objective is still to broaden the customer base and exploit opportunities presented by the Banca Sistema Group's excellent strategic positioning on the Italian market.

Net income from the listing and consequent bolstering of the Bank's Own Funds will facilitate the achievement of its strategies and, therefore, more accurately, the strengthening and consolidation of the factoring 'core business' as well as the growth of the new business lines introduced in 2014, while promoting the possibility of continuing with the diversification of the business through the identification of new opportunities, including through strategic acquisitions.

Milan, 15 March 2016

On behalf of the Board of Directors

The Chairman
Luitgard Spögler

The CEO
Gianluca Garbi

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31/12/2015	31/12/2014
10.	Cash and cash equivalents	104	66
20.	Financial assets held for trading	-	63
40.	Financial assets available for sale	925,402	858,007
60.	Due from banks	2,076	16,682
70.	Loans to customers	1,457,990	1,193,754
100.	Equity investments	2,696	2,448
120.	Property and equipment	1,058	1,201
130.	Intangible assets	1,872	1,904
	of which goodwill	*1,786*	*1,786*
140.	Tax assets	7,353	2,752
	a) current	3,537	41
	b) deferred	3,816	2,711
	b1) as specified in Law 214/2011	2,658	2,261
160.	Other assets	13,119	4,376
	Total assets	**2,411,670**	**2,081,253**

(Amounts in thousands of Euro)

	Liabilities and shareholders' equity	31/12/2015	31/12/2014
10.	Due to banks	362,075	821,404
20.	Due to customers	1,878,339	1,153,797
30.	Securities issued	20,102	20,109
80.	Tax liabilities	804	6,248
	a) current		6,234
	b) deferred	804	14
100.	Other liabilities	55,317	36,441
110.	Employee termination indemnities	1,303	1,173
120.	Provisions for risks and charges	372	1,030
	b) other provisions	372	1,030
140.	Valuation reserves	350	2
170.	Reserves	26,314	8,734
180.	Share premium reserve	39,436	4,325
190.	Share capital	9,651	8,451
220.	Profit (loss) for the year (+/-)	17,607	19,539
	Total liabilities and shareholders' equity	**2,411,670**	**2,081,253**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(Amounts in thousands of Euro)

	Items	31/12/2015	31/12/2014
10.	Interest and similar income	79,019	75,793
20.	Interest expense and similar charges	(21,013)	(27,456)
30.	**Interest margin**	**58,006**	**48,337**
40.	Fee and commission income	12,742	12,569
50.	Fee and commission expense	(1,574)	(1,068)
60.	**Net fee and commission income**	**11,168**	**11,501**
70.	Dividends and similar income		33
80.	Profit (Loss) on trading	122	869
100.	Profit (loss) from disposal or repurchase of:	2,518	3,810
	a) receivables	-	-
	b) financial assets available for sale	2,518	3,810
	c) financial assets held to maturity	-	-
	d) financial liabilities	-	-
120.	**Operating income**	**71,814**	**64,550**
130.	Net value adjustments/write-backs due to impairment of:	(5,439)	(3,520)
	a) receivables	(5,439)	(3,520)
	b) financial assets available for sale	-	-
	c) financial assets held to maturity	-	-
	d) other financial transactions	-	-
140.	**Net income from banking activities**	**66,375**	**61,030**
180.	Administrative expenses:	(41,878)	(30,491)
	a) personnel expenses	(17,528)	(12,107)
	b) other administrative expenses	(24,350)	(18,385)
190.	Net allowance for risks and charges	300	(369)
200.	Net adjustments to/recoveries on property and equipment	(252)	(190)
210.	Net adjustments to/recoveries on intangible assets	(60)	(40)
220.	Other operating income (expenses)	71	(338)
230.	**Operating expenses**	**(41,819)**	**(31,429)**
240.	Profit (loss) from equity investments	422	71
270.	Profit (Loss) from disposal of investments	534	-
280.	**Profit (loss) before tax from continuing operations**	**25,512**	**29,672**
290.	Taxes on income from continuing operations	(7,905)	(10,133)
300.	**Profit after tax from continuing operations**	**17,607**	**19,539**
320.	**Profit for the year**	**17,607**	**19,539**
340.	**Parent company profit for the period**	**17,607**	**19,539**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

	Items	31/12/2015	31/12/2014
10.	**Profit (Loss) for the period**	**17,607**	**19,539**
	Other income items net of taxes without reversal to the statement of profit and loss		
20.	Property and equipment	-	-
30.	Intangible assets	-	-
40.	Defined benefit plans	(46)	4
50.	Non-current assets held for sale	-	-
60.	Share of valuation reserves connected with investments carried at equity:	-	-
	Other income items net of taxes with reversal to the statement of profit and loss	**-**	**-**
70.	Hedges of foreign investments	-	-
80.	Foreign exchange differences	-	-
90.	Cash flow hedges	-	-
100.	Financial assets available for sale	394	255
110.	Non-current assets held for sale	-	-
120.	Share of valuation reserves connected with investments carried at equity:	-	-
130.	**Total other comprehensive income (net of tax)**	348	259
140.	**Comprehensive income (Items 10+130)**	**17,955**	**19,798**
150.	**Total consolidated comprehensive income pertaining to minority interests**	**-**	**-**
160.	**Total consolidated comprehensive income pertaining to the Parent Company**	**17,955**	**19,798**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31/12/2015

Amounts in thousands of Euro

	Balance at 31.12.2014	Change in opening balances	Balance at 1.1.2015	Allocation of netresult from previous year		Changes during the year									
							Operations on shareholders' equity								
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Changes in equity instruments	Derivatives on treasury shares	*Stock Options*	Changes in equity investments	Comprehensive income at 30.09.2015	**Group shareholders' equity at 30.09.2015**
Share capital:															
a) ordinary shares	**8,451**	-	8,451		-	1,200	-	-	-	-	-	-	-	-	**9,651**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium reserve	**4,325**	-	4,325	-	-	35,111	-	-	-	-	-	-	-	-	**39,436**
Reserves	**8,734**	-	8,734	17,567	-	13	-	-	-	-	-	-	-	-	**26,314**
a) retained earnings	**9,006**	-	9,006	17,567		-	-	-			-	-	-	-	**26,573**
b) other	**(272)**	-	(272)		-	13	-	-			-	-	-	-	**(259)**
Valuation reserves	**2**	-	2	-	-	-	-	-			-	-	-	348	**350**
Equity instruments	**-**	-	-	-	-	-	-	-			-	-	-	-	**-**
Treasury shares	**-**	-	-	-	-	-	-	-			-	-	-	-	**-**
Profit (loss) for the period	**19,539**	-	19,539	(17,567)	(1,972)	-	-	-			-	-	-	17,607	**17,607**
Shareholders' equity	**41,051**	-	**41,051**	-	**(1,972)**	**36,324**	-	-	-	-	-	-	-	**17,955**	**93,358**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31.12.2014

Amounts in thousands of Euro

				Allocation of net result from previous year		Changes during the year										
							Operations on shareholders' equity									
	Balance at 31.12.2013	Change in opening balances	Balance at 1.1.2014	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Acquisto azioni proprie	Purchase of treasury shares	Extraordinary dividends	Changes in equity instruments	*Stock Options*	Changes in equity investments	Comprehensive income as at 2014	**Group shareholders' equity at 31.12.2014**
Share capital:															
a) ordinary shares	**8,451**	-	8,451		-	-	-	-	-	-	-	-	-	-	**8,451**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium reserve	**4,325**	-	4,325	-	-	-	-	-	-	-	-	-	-	-	**4,325**
Reserves	**2,456**	-	2,456	6,298	-	(20)	-	-	-	-	-	-	-	-	**8,734**
a) retained earnings	**2,708**	-	2,708	6,298	-	-	-	-			-	-	-	-	**9,006**
b) other	**(252)**	-	(252)		-	(20)	-	-			-	-	-	-	**(272)**
Valuation reserves	**(257)**	-	(257)	-	-	-	-	-			-	-	-	259	**2**
Equity instruments	**-**	-	-	-	-	-	-	-			-	-	-	-	**-**
Treasury shares	**-**	-	-	-	-	-	-	-			-	-	-	-	**-**
Profit (loss) for the period	**7,002**	-	7,002	(6,298)	(704)	-	-	-			-	-	-	19,539	**19,539**
Shareholders' equity	**21,977**	-	**21,977**	-	**(704)**	**(20)**	-	-	-	-	-	-	-	**19,798**	**41,051**

STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	31/12/2015	31/12/2014
A. OPERATING ACTIVITIES		
1. Management	**12,997**	**24,970**
▪ interest income collected	79,019	75,793
▪ interest expense paid	(21,013)	(27,456)
▪ dividends and similar income	-	-
▪ net fees and commissions	11,168	11,501
▪ personnel expenses	(15,848)	(10,207)
▪ net premiums collected	-	-
▪ other insurance income/expenses	-	-
▪ other income	(23,978)	(19,091)
▪ other expenses	-	-
▪ taxes and duties	(16,351)	(5,570)
▪ income/expenses relating to groups of assets held for disposal, net of taxes	-	-
2. Cash flows from (used in) financial assets	**(323,797)**	**(72,697)**
▪ financial assets held for trading	185	806
▪ financial assets designated at fair value through profit and loss	-	-
▪ financial assets available for sale	(64,529)	(6,893)
▪ receivables due from customers	(269,675)	(108,424)
▪ due from banks: on demand	14,606	42,132
▪ due from banks: other receivables	-	-
▪ other assets	(4,384)	(317)
3. Cash flows generated by/used in financial liabilities	**276,429**	**51,601**
▪ due to banks: on demand	(459,329)	(110,176)
▪ due to banks: other payables	-	-
▪ due to customers	724,542	164,982
▪ securities issued	(7)	(15,107)
▪ financial liabilities held for trading	-	-
▪ financial liabilities designated at fair value through profit and loss	-	-
▪ other liabilities	11,223	11,902
Net cash flow from (used in) operating activities	**(34,371)**	**3,875**
B. INVESTMENT ACTIVITIES		
1. Cash flows from	**0**	**(8)**
▪ sales of equity investments	0	(41)
▪ dividends collected on equity investments	-	33
▪ sales/reimbursements of financial assets held to maturity	-	-
▪ sales of property and equipment	-	-
▪ sales of intangible assets	-	-
▪ purchases of subsidiaries and business lines	-	-
2. Cash flows used in	**(137)**	**(3,169)**
▪ purchases of equity investments	**-**	**(2,377)**
▪ purchases of financial assets held to maturity	-	-
▪ purchases of property and equipment	(109)	(676)
▪ purchases of intangible assets	(28)	(116)
▪ purchases of subsidiaries and business lines	-	-
Net cash flow generated by/used in investment activities	**(137)**	**(3,177)**
C. FINANCING ACTIVITIES		
▪ issues/purchases of treasury shares	36,517	-
▪ issues/purchases of equity instruments	-	-
▪ dividend distribution and other	(1,972)	(704)
Net cash flow from (used in) financing activities	**34,545**	**(704)**
NET CASH FLOW GENERATED/USED DURING THE YEAR	**38**	**(5)**

RECONCILIATION

Cash and cash equivalents at the beginning of the year	66	71
Total net cash flow generated/used during the year	38	(5)
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at balance sheet date	104	66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with international accounting standards

The Consolidated financial statements of the Banca Sistema S.p.A. Group as at 31 December 2015 were drawn up in accordance with International accounting standards - called IAS/IFRS - issued by the International *Accounting Standards Board* (IASB) and interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC) and approved by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by Art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering circular by the Bank of Italy no. 262 of 22 December 2005, regarding the forms and rules for drafting the Banks' Financial Statements, as amended by the fourth update of 15 December 2015.

The International Accounting Standards are applied by referring to the "*Systematic Framework for preparing and presenting Financial Statements*" (Framework).

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

- is relevant to the purposes of the financial decisions made by the users;
- is reliable, so that the consolidated financial statements:
- faithfully represent the capital/financial position, the profit and loss and the cash flows of the entity;
- reflect the economic substance of the operations, other events and circumstances and not merely the legal form;
- are neutral, i.e. devoid of prejudice;
- are prudent;
- are complete, with reference to all relevant aspects.
- When exercising the aforementioned judgement, the Board of Directors of the Bank has made reference to and considered the applicability of the following sources, described in descending order of importance:
- the provisions and application guidelines contained in the Principles and Interpretations governing similar or related cases;
- the definitions, recognition criteria and measuring concepts for accounting for the assets, liabilities, revenues and costs contained in the "*Systematic framework*".

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

In accordance with Art. 5 of Legislative Decree no. 38 of 28 February 2005, if, in exceptional cases, the application of a provision imposed by the international accounting standards were incompatible with the true and correct representation of the capital or financial position or the profit and loss result, the provision would not apply. The justifications for any exceptions and their influence on the representation of the capital situation or financial position or profit and loss would be explained in the Notes to the financial statements. Any profits resulting from the exception would be recorded in a non-distributable reserve if they did not correspond to the recovered value in the financial statements. However, no exceptions to the IAS/IFRS were applied.

The financial statements were audited by KPMG S.p.A.

SECTION 2 - General accounting policies

The Financial Statements are drawn up with clarity and are a true and faithful representation of the capital and financial position and the profit and loss for the year, the changes in shareholders' equity and the cash flows and comprise the statement of financial position, the income statement, statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the financial statements.

The Financial Statements are accompanied by the Director's Report on Management Performance. If the information required by the international accounting standards and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and correct representation that is relevant, reliable, comparable and understandable, the notes to the financial statements provide the additional information required.

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

- the measurements are made considering that the company will continue as an ongoing business guaranteed by the financial support of the Shareholders;
- costs and revenue are accounted for on an accrual basis;
- in order to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of representation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each significant class of similar items is separately indicated in the statement of financial position and income statement; items with dissimilar natures or uses are presented separately unless they are considered to be irrelevant;
- accounts that have no associated sums for the financial year or for the previous financial year are not indicated in the statement of financial position or the income statement;
- if an element of the assets or liabilities 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 recorded 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 international accounting standard 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 relevance and significance of the information;
- comparative data for the previous financial year are presented for each account of the statement of financial position and income statement; if the accounts are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; they 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 IAS/IFRS, company management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and returns for the period.

As provided in IAS 8, it is essential to make reasonable estimates when preparing the financial statements. The estimates that had to be made when drawing up these financial statements do not adversely affect their reliability; these estimates are regularly revised and are mainly based on previous experience.

Any changes resulting from the review of the accounting estimates are reported in the period in which the revision is made if it relates only to that period. If the revision relates to either current or future periods, the change is reported in the period in which the revision is made and in the relevant future periods.

Pursuant to the provisions of Art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements use the Euro as the currency for accounting purposes. Amounts presented in the financial statements are in thousands of Euro. Note the following in reference to regulatory developments in the IAS/IFRS international accounting standards.

Main international accounting standards in effect from 2015

The accounting standards adopted for the drafting of the consolidated financial statements, with reference to the classification, recording, valuation and derecognition phases for the various assets and liabilities, like the methods for recognising costs and revenues, have remained unchanged compared with 2014 financial statements. As part of the process of revising and harmonising the regulatory framework with the aim of reinforcing the degree of solidity and solvency of banking intermediaries and reducing the extent of discretion in accounting and prudential definitions of various European Union Member States, the European Banking Authority (EBA) has drawn up specific technical standards, known as "Implementing Technical Standards" (ITSs), concerning the definitions of non-performing exposures and forborne exposures.

On 20 January 2015, these new regulatory developments were adopted by the Bank of Italy, which in particular amended Circular 272 "Matrix of accounts" and Circular 262 "Bank financial statements: presentation and compilation rules".

“In particular, three classes of non-performing exposures have been defined: past due, unlikely to pay and doubtful.

The previous notions of watchlist loans and restructured exposures have therefore been abolished. The definitions of "past due" and "doubtful exposures" are consistent with previous legislation; Unlikely to pay is an additional new category of non-performing exposures for which the bank believes it to be unlikely that the debtor will be able to repay its credit obligations in full (principal and interest), without any need for legal action to protect credit. This assessment is conducted by the bank regardless the presence of any cases of non-payment and therefore it is not necessary to await express manifestation of signs of difficulty.

The additional class of forborne exposures, across all categories of non-performing and performing loans, has also been introduced. In these Financial Statements, exposures previously classified as watchlist and restructured that did not meet the requirements for classification as doubtful have been included in the category in question.

For comparative purposes, credit exposures as at 31 December 2014 have been restated. Subjective watchlist positions have been reassigned to the new category of unlikely to pay, whereas objective watchlist positions (i.e., positions in respect of the public administration overdue by more than 270 days, for which the Bank does not believe that facts and circumstances support the presumption of default) have been reclassified among past due exposures.

Given the current prevalence of credit exposures to the public administration, no forborne exposures have been identified.

SECTION 3 - Area and methods of consolidation

The consolidated financial statements include the Parent Company Banca Sistema S.p.A. and the companies directly or indirectly controlled by or connected with it. Compared with the situation as at 31 December 2014, no changes to the scope of consolidation have been reported.

The following statement shows the investments included within the scope of consolidation of the consolidated, condensed half-year report.

Company Names	Registered office	Type of relationship (1)	Investment		% of votes available (2)
			Investing company	% held	
Companies					
Companies subject to full consolidation					
1 S.F. Trust Holdings Ltd	**London**	**1**	**Banca Sistema**	**100%**	**100%**
Consolidated at equity					
2 CS Union S.p.A.	**Italy**	**4**	**Banca Sistema**	**25.80%**	**25.80%**

Changes in the scope of consolidation

The Group's scope has not changed compared with the end of the previous year.

Full 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 managerial and financial policies of the said subsidiary to obtain benefits from its business.
Full consolidation provides for line-by-line aggregation of the balance sheet and income statement aggregates from the accounts of the subsidiaries. To this end, the following adjustments were made:
(a) the book value of the investments held by the Parent Company and the corresponding part of the shareholders' equity are derecognised;
(b) the portion of shareholders' equity and profit or loss for the year is shown in a specific caption.

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

Consolidation with the equity method

Associated companies are consolidated with the equity method.
The equity method provides for the initial recognition of the investment at cost and subsequent value adjustment based on the relevant share of the shareholders' equity of the investee company.
The differences between the value of the equity investment and the shareholders' equity of the relevant investee company are included in the accounting value of the investee company.
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 company is shown in a specific item of the consolidated income statement.
If there is evidence that the value of an equity investment may be impaired, the recoverable value of said

equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment. Should the recovery value prove lower than the book value, the difference is recognised in the income statement.

SECTION 4 - Subsequent events

With regard to IAS 10, after 31 December 2015, the balance-sheet date, and up to 15 March 2016, the date that the financial statements were presented to the Board of Directors, no events occurred that would require any adjustments to the figures in the financial statements.

SECTION 5 - Other aspects

There are no significant aspects to note.

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

1. Financial assets held for trading

Classification criteria

This item classifies the financial instruments on a cash basis held for trading . A financial asset or liability is classified as held-for-trading (so-called Fair Value Through Profit or Loss - FVPL), and recorded under 20 "Held-for-trading financial assets" or 40 "Held-for- trading financial liabilities", if it is:

- purchased or held mainly to sell it or repurchase it in the short term;
- part of a portfolio of identified financial instruments managed on a single basis and where there is evidence of a recent and effective strategy aimed at obtaining profit in the short term;
- a derivative (apart from designated derivatives that are effective hedging instruments - see paragraph below on this issue);

Recognition criteria

Initial recognition of the held-for-trading financial assets occurs: I) at the settlement date for debt securities, capital and shares in UCITS; II) at the subscription date for derivative contracts.
The initial recognition of held-for-trading financial assets is at fair value, not including any transaction costs or income that are directly recognised on the income statement even though directly attributable to the instrument.
The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components

Following initial recognition, held-for-trading financial assets are measured at fair value, and any changes are recorded in the income statement. For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for calculating the fair value of financial instruments". Gains and losses on disposal or redemption and unrealised gains or losses resulting from changes in the fair value of held-for-trading financial assets are recognised on the income statement under "net income from trading activities".

Derecognition criteria

Held-for-trading financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the assets.

[2] The positions held for trading purposes are those that are meant to be subsequently transferred in the short term and/or held in order to provide short-term benefits in the difference between the purchase and the sales price or other price changes or interest rate changes. The positions are intended to mean own positions or positions resulting from Customer services or trading support (Market making).

2. Available-for-sale financial assets

Classification criteria

This category includes the non-derivative financial assets not classified otherwise as "Held-for-trading financial assets", "Held-to-maturity financial assets", or "Financial assets measured at fair value" or "Receivables".
The investments "available for sale" are financial assets that are intended to be retained for an indefinite period of time and that may be sold for reasons of liquidity, changes in interest rates, exchange rates or market prices.
A financial instrument is designated to the category in question when it is initially recorded or following any reclassifications in accordance with paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) no. 1004/2008 of the European Commission of 15 October 2008.

Recognition criteria

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

Measurement and recognition criteria for income components

Following initial recognition, available-for-sale financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost, recorded in a specific equity reserve recorded in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recorded.
For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for calculating the fair value of financial instruments".
With reference to the valuation reserves relating to debt securities issued by the Central Authorities of countries belonging to the European Union, the Bank of Italy issued an order on 18 May 2010 recognising - for the purposes of calculating the regulatory capital (prudential filters) - the option of fully neutralising the capital gains and losses reported in the aforesaid reserves after 31 December 2009. The Parent Company availed of that option starting from calculation of the regulatory capital.
Impairment testing is performed in accordance with paragraphs 58 et seq. of IAS 39 at every year-end. As regards equity securities listed on an active market, a significant or prolonged reduction of the fair value below the purchase cost is also evidence of impairment.
If the fair value is reduced in cost by more than 50% or in duration by more than 18 months, the impairment is considered to be permanent. If, however, the decrease in the fair value of the cost of the instrument is lower than or equal to 50% but above 20%, or in duration by not more than 18 months but not less than 9, the Group will analyse other income and market indicators. If the results of said analysis are such as to shed doubt on the possibility of recovering the amount originally invested, permanent impairment will be recognised. The amount transferred to the income statement is therefore equal to the difference between the book value (acquisition cost net of any losses due to impairment already reported in the income statement) and the current fair value.
The amount of any impairment is recorded under the income statement item "net value adjustments/ write- backs due to impairment of available-for-sale financial assets". This amount also includes the reversal to the income statement of any profits/losses from the measurement previously recorded in the specific shareholders' equity reserve. If, in a subsequent period, the fair value of the financial instrument increases and this increase may be objectively related to an event that occurred after the impairment was reported in the income statement, the impairment must be derecognised by reporting the write-back under the same income statement item where monetary elements (for example, debt securities) and shareholders' equity if they relate to non-monetary items are reported (for example, equity securities). The write-back in the income statement may not, in any event, exceed the amortised cost that

the instrument would have had in the absence of the previous adjustments.

Interest income on the aforesaid financial assets is calculated by applying effective interest rate criteria with recognition of the result under the income statement item "interest income and similar income".

The profits and losses deriving from the disposal or reimbursement of the aforementioned financial assets are reported in the income statement item "Profits (losses) from disposal or repurchase of: available- for-sale financial assets" and include the possible reversal to the income statement of the profits/losses previously recorded in the specific shareholders' equity reserve.

Derecognition criteria

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

3. Held-to-maturity financial assets

Held-to-maturity financial assets (HTM) are non-derivative financial assets, with fixed or calculable payments and fixed maturities for which there is the objective intention and capacity to hold them to maturity.

The following are not included:

(a) those held for trading and those carried at fair value upon initial recognition recognised in the income statement (see paragraph 1: held-for-trading financial assets);

(b) those designated as available for sale (see previous paragraph);

(c) those that meet the definition of receivables and loans (see paragraph below).

When the financial statements or interim accounts are being drafted, the intention and capacity to hold financial assets to maturity is assessed.

These assets are reported under item "50 Held-to-maturity financial assets".

Recognition criteria

The held-to-maturity financial assets are initially reported when, and only when, the Group becomes party to the contractual clauses of the instrument, or at the time of settlement, at a value equal to the cost, inclusive of any directly attributable costs and income. If the reporting of this asset in this category derives from reclassification from the "Available-for-sale financial assets" or - only in rare circumstances if the asset is no longer owned for the purpose or selling or repurchasing it in the short term - by the "Held-for-trading financial assets", the fair value of the asset, recorded at the time of transfer, is taken as the new measurement of the amortised cost of this asset.

Measurement criteria

The held-to-maturity financial assets are valued at the amortised cost, using the effective interest rate method (for a definition of this, please refer to the paragraph below "Receivables and Loans"). The result from applying this method is charged to the income statement in item "10 Interest income and similar income".

Impairment testing of the assets is performed when drafting the financial statements or the interim reports. If there is impairment, the difference between the book value of the asset and the current value of the estimated future cash flows, discounted at the original effective interest rate, is charged to the income statement under "130 Net value adjustments/write-backs due to impairment of c) held-to-maturity financial assets". The same income statement item also reports any write-backs recorded if the reasons behind the previous value adjustments are no longer valid.

The fair value of the held-to-maturity financial assets is determined for information purposes or to ensure effective hedging against exchange risk or credit risk (in relation to the risk subject to hedging).

Derecognition criteria

Held-to-maturity financial assets are derecognised when the contractual rights on the cash flows deriving from the assets are expired, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the assets. The result of the disposal of the held-to-maturity financial assets is charged to the income statement under "100 Profits (losses) from the disposal or repurchase of c) held-to-maturity financial assets".

4. Receivables

4.1. Due from banks

Classification criteria

This category includes cash financial assets held at banks that provide for fixed or calculable payments and are not listed on a market (current accounts, guarantee deposits, debt securities etc.).

It also includes amounts due from Central Banks that are not demand deposits (which are recorded under "Cash and cash equivalents").

Please refer to paragraph 4.2 below "Loans to customers" for information regarding reporting, measurement, derecognition and recognition of the income items of the receivables.

4.2. Loans to customers

Classification criteria

Loans to customers include unstructured cash financial assets for customers that have fixed or calculable payments and that are not quoted on an active market. Most loans to customers comprise on demand advances to customers as part of the factoring of non-recourse receivables acquired with respect to the Public Administration, where there are no contractual clauses that would prevent them from being registered.In accordance with the general principle of the precedence of economic substance over legal form, a company may cancel a financial asset from its financial statements only if it is through a transfer of the risks and benefits related to the transferred instrument.

IAS 39 provides that a company can only cancel a financial asset from its financial statements if and only if:

a) the financial asset is transferred and, with this, essentially all of the risks and contractual rights to the cash flows deriving from the asset expire;
b) the benefits attached to ownership of the asset are no longer valid.

The following conditions must be checked on an alternative basis in order for the financial asset to be transferred:

a) the company has transferred the rights to receive cash flows from the financial asset;
b) the company has maintained the right to receive the cash flows from the financial asset, but has assumed the obligation to pay them to one or more beneficiaries as part of an agreement in which the following conditions are met:
   - the company is under no obligation to pay predetermined sums to any beneficiary apart from what is received from the original financial asset;
   - the company may not sell or pledge the financial asset;
   - the company is under an obligation to transfer any financial flow that it collects, on behalf of any beneficiaries, without delay. Any investment of the financial flows for a period between cashing them and payment must take place only with financial assets that are equivalent to cash and therefore with no right to any interest that has matured on said invested sums.

In order to verify the transfer of a financial asset that results in the cancellation of the assignor from the financial statements, for each transfer the assigning company must assess the extent of any risks and benefits connected to the financial asset it holds.

In order to evaluate the actual transfer of the risks and benefits, the exposure of the assigning company must be compared with the variability of the current value or the financial flows generated by the financial asset transferred, before and after the assignment.

The assigning company essentially maintains all the risks and benefits when its exposure to the "variability" of the current value of the net future financial flows does not change significantly following its transfer. However, there is a transfer when the exposure to this "variability" is no longer significant.

In summary, there can be three situations and each has specific effects, namely:

a) if the company transfers almost all of the risks and benefits of ownership of the financial asset, it must 'write-off' the financial asset and record the rights or obligations deriving from the assignment separately as assets or liabilities;
b) if the company maintains almost all of the risks and benefits of ownership of the financial asset, it must continue to recognise the financial asset;
c) if the company does not transfer or maintain almost all of the risks and benefits of ownership of the financial asset, it must evaluate the elements of control of the financial asset, and:
   - if it does not have control, it must write off the financial asset and separately recognise the individual assets/liabilities resulting from the rights/obligations of the assignment;
   - if it maintains control, it must continue to recognise the financial asset up to the limit of its investment commitment.

In order to check control, the discriminating factor to consider is the beneficiary's capacity to unilaterally assign the financial asset without any restrictions by the assigning company. if the beneficiary of a financial asset transfer can sell the entire financial asset to a non-related third party and can do it unilaterally without having to impose any further limitations on the transfer, the assigning company no longer controls the financial asset.

In all other cases, it maintains control over the financial asset.

The most frequently used forms of assigning a financial instrument may have profoundly different accounting effects:

- in the case of non-recourse transactions (with no guarantee restrictions), the assigned assets may be deleted from the assigning company's financial statements;
- in the case of a with-recourse assignment, in the majority of cases, the risk connected to the transferred asset remains with the seller and, therefore the assignment does not meet the requirements to have the instrument sold written off on an accounting basis.

Recognition criteria

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

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

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

Measurement and recognition criteria for income components

Following initial recognition, loans to customers are stated at amortised cost, equal to the initial recognition value reduced/increased by capital repayments, by any value adjustments/write-backs and the amortisation – calculated on the basis of the effective interest rate – of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.

The effective interest rate is the rate that discounts the flow of future payments estimated for the expected duration of the loan, in order to obtain the exact net book value at the time of initial recognition, which includes both the directly attributable transaction costs and all of the fees paid or received between the parties.

This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.

The estimation of the flows and of the contractual duration of the loan takes into account all contractual clauses that may influence the amounts and the maturities (such as, for example, early extinction and various exercisable options), without considering, on the other hand, any losses expected on the loan.

Furthermore, an analysis is always performed to identify problem loans that show objective evidence of possible impairment at year-end. The methods used to calculate the analytical and generic write-downs applied to the credit portfolio are described below. In particular, exposures classified as impaired loans are analysed in order to quantify the potential impairment of the individual loan. With reference to the non-performing loans from the factoring portfolio with the Public Administration, the Bank makes an analytical write-down for the Municipalities who are registered as having "financial difficulty" status in accordance with legislative decree 267/00.

If appropriate write-downs were not made at the pricing stage, the Bank makes an analytical write-down on the outstanding value of the loan net of the rediscount, which has not yet fallen due. The percentage write-down, without the Bank loss figures, was defined in accordance with the market benchmark.

On the other hand, with respect to the credit positions from the factoring portfolio where the debtor counterparty is a private company, the Bank does not record doubtful positions and therefore only applies a collective write-down to those positions.

For all the factoring portfolio credit positions that are classified as performing and past due (Public Administration and private), the Bank makes a prudential write-down, defining a segment of the portfolio through specific clusters defined when acquiring the portfolios and for which it makes in-depth assessments at the pricing stage, and therefore on those types of receivables and also exposures to Central Administration offices (for example Ministries).

On the other hand, with respect to the exposures related to ordinary factoring receivables, a generic write-down was applied by applying a fixed percentage to the factoring portfolio. With reference to the impaired loans forming part of the SME portfolio, the Group writes-down the entire portion of the loan that is not backed by the Guarantee Fund issued by Mediocredito Centrale.

With respect to performing SME loans, the Group defined a generic write-down in accordance with the percentage of impaired income observed on its portfolio.

With respect to the pension and salary-backed loans, since no non-performing positions have been recorded, the Group wrote-down the receivables based on market benchmarks.

Derecognition criteria

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

5. Financial assets measured at fair value

At the date of the financial statements, the company did not hold any "*Financial assets measured at fair value*".

6. Hedging transactions

At the date of the financial statements, the Company had not made any "*Hedging transactions*".

7. Equity investments

Classification criteria

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

Recognition criteria

Equity investments are recorded in the financial statements at purchase cost.

Measurement criteria

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

The differences between the value of the equity investment and the shareholders' equity of the relevant subsidiary are included in the accounting value of the subsidiary.

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 subsidiary is shown in a specific item of the consolidated income statement.

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

The most recent approved (annual or interim) financial statements are used for the consolidation of the investments in associates. In the cases in which the companies do not apply the IAS/IFRS standards and therefore, for said companies, it has been verified that the possible application of the IAS/IFRS would not have produced significant effects on the Banca Sistema Group's consolidated financial statements.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and benefits.

Recognition criteria of income components

In accordance with IAS 18, dividends are recorded when the right of the shareholder to receive payment has been established and, therefore, after the date of resolution of the Shareholders' Meeting of the investee company.

8. Property and equipment

Classification criteria

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

They also include costs for improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recorded under “other assets” and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under Other operating charges/income. Property, plant and equipment also include payments on account for the purchase and restructuring of assets not yet part of the production process and therefore not yet subject to depreciation. “Functional” property, plant and equipment are represented by assets held for the provision of services or for administrative purposes, while property held for “investment purposes” are those held to collect lease rentals and/or held for capital appreciation.

Recognition criteria

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

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

Measurement and recognition criteria for income components

Following initial recognition, “functional” property, plant and equipment are recorded at cost, less accumulated depreciation and any write-downs for impairment losses, in line with the “cost model” illustrated in paragraph 30 of IAS 16. More specifically, property, plant and equipment are systematically depreciated each year on the basis of their estimated useful life, using the straight line basis method apart from:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated;
- works of art, which are not depreciated as their useful life cannot be estimated and their value

typically appreciates over time;

- property investments which are recorded at fair value in accordance with IAS 40.

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

At the end of each year, if there is any evidence that property, plant or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its book value and its recoverable amount, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the actual value of future cash flows expected from the asset. Any adjustments are recognised to the income statement under "net value adjustments on property, plant and equipment". If the reasons that led to recognition of the impairment loss cease to apply, a write-back is recorded that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

For property, plant and equipment held "for investment purposes", which come within the area of application of the IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recorded in the income statement under the item "net result of the fair value measurement of property, plant and equipment and intangible assets".

Derecognition criteria

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

9. Intangible assets

Classification criteria

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

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

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recorded as a cost in the year in which it was incurred. Intangible assets include, in particular, software to be used over several years and other identifiable assets generated by legal or contractual rights. Goodwill is also included under this item, representing the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination). Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of equity components acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the equity elements acquired, it is recognised directly to the income statement.

Measurement criteria

The value of the intangible assets is systematically amortised from the time of their input into the production process.

With reference to the goodwill, on an annual basis (or at the time of an impairment loss), an assessment test is carried out on the adequacy of its book value. For this purpose, the Unit generating the financial flows to which the goodwill is attributed, is identified. The amount of any impairment is determined by the difference between the goodwill book value and its recovery value, if lower. This recovery value is equal to the higher amount between the fair value of the Unit that generates the financial flows, net of any sale cost, and its value in use. As stated above, any consequent value adjustments are recognised in the income statement.

Derecognition criteria

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

10. Held-for-sale non-current assets

At the date of the financial statements, the company did not hold any "*Non-current assets held for sale*".

11. Current and deferred taxes

Income taxes for the period, calculated in compliance with prevailing tax regulations, are recorded in the income statement based on the accrual criteria, in accordance with the recognition in the financial statements of the costs and of the revenues that generated them, apart from those referring to the items directly debited or credited to the shareholders' equity, where the recognition of the tax is made on the shareholders' equity in order to be consistent.

Allocations for income taxes are calculated on the basis of a prudential estimate of the current, prepaid and deferred tax burden. More specifically, prepaid and deferred taxes are determined on the basis of the temporary differences between the book value of assets and liabilities and their value for taxation purposes. Prepaid tax assets are recorded in the financial statements to the extent that it is probable that they will be recovered on the basis of the Company's ability to continue to generate positive taxable income.

Prepaid and deferred taxes are accounted for at equity level with open balances and without offsetting entries, recording the former under "*Tax assets*" and the latter under "T*ax liabilities*".

With respect to current taxes, at the level of individual taxes, the prepayments made are offset with the relevant tax charge, indicating the net imbalance under "c*urrent tax assets*" or the "*current tax liabilities*" depending on whether it is positive or negative.

12. Provisions for risks and charges

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

The provisions are reviewed at the balance sheet date and adjusted to reflect the current best estimate. These are recorded under their own items in the income statement in accordance with a cost classification approach based on the "*nature*" of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under "*personnel costs*". The provisions that refer to risks and charges of a fiscal nature are reported as "*income taxes*", whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement recorded as "*net allocations for risks and charges*".

13. Payables and securities in issue

Classification criteria

Amounts due to banks and due to customers include the various forms of inter-banking or client funding deposits (current accounts, demand and bonded deposits, loans, repurchasing agreements, etc.) whereas securities in issue include all the liabilities issued (bond loans not classified as "*financial liabilities measured at fair value*", etc.).

All the financial instruments issued by the Bank are expressed in the financial statements net of any amounts repurchased and include those that have matured as at the balance sheet date but have not yet been reimbursed.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt securities are issued. Initial recognition is based on the fair value of the liabilities, increased by the costs/income of the transaction directly attributable to the acquisition of the financial instrument.

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

The initial fair value of a financial liability is usually equivalent to the amount cashed.

Any derivative contracts included in said financial liabilities, which are subject to the assumptions of IAS 32 and 39, are broken down and measured separately.

Measurement criteria

After the initial recognition, the aforesaid financial liabilities are valued at amortised cost with the effective interest rate method.

Derecognition criteria

The above financial liabilities are derecognised from the statement of financial position at maturity or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the book value of the extinguished liability and the amount paid is recorded in the income statement, under "*profit (loss) from disposal or repurchase of: financial liabilities*".

If the Group, subsequent to the repurchase, re-places its own securities on the market, said transaction is considered a new issue and the liability is recorded at the new placement price.

14. Held-for-trading financial liabilities

At the date of the financial statements, the Company did not have any "*Held-for-trading financial liabilities*".

15. Financial liabilities designated at fair value

At the date of the financial statements, the Company did not have any "*financial liabilities carried at fair value*".

16. Currency transactions

The currency assets and liabilities include, in addition to those explicitly designated in a currency other than the Euro, those that include financial indexing clauses associated with the Euro exchange rate with a designated currency or a designated bundle of currencies. In accordance with the conversion methods to be used, the assets and liabilities in currencies are subdivided between monetary and non-monetary items.

Recognition criteria

Foreign currency transactions are recorded, at the time of initial recognition, in Euro, applying the spot exchange rates in force on the date of the transaction to the amount in foreign currency.

Measurement criteria

At each balance sheet date:

- the monetary elements in foreign currencies are converted using the exchange rate in force at the end of the financial year;
- the non-monetary components valued at historical cost are converted at the exchange rate in effect on the date of the transaction;
- the non-monetary components carried at fair value in a foreign currency are converted at the exchange rate in effect on the date the fair value is determined.

The differences in the exchange rates that result from the settlement of monetary elements or the conversion of monetary elements at rates that differ from the initial conversion rates, or the conversion rates on the date of the previous financial statements, are reported in the income statement for the financial year in which they occur in the "Net profit from trading" or if they relate to financial assets/liabilities for which the fair value option is used in accordance with IAS 39, in the "Net result of the financial assets and liabilities measured at fair value ". When a profit or a loss relative to a non-monetary component is recorded in shareholders' equity, the exchange difference relative to said component is also recognised in shareholders' equity in the year in which it occurs. On the other hand, if the profits or losses of a non-monetary element are reported in the income statement, the difference in the exchange rate is also reported in the income statement in the year in which they occur as stated above.

17. Other information

17.1. Employee termination indemnities

According to the IFRIC, the Employee termination indemnities can be equated with a post-employment-benefit of the "defined-benefit plan type") which, based on IAS 19, is to be calculated via actuarial methods. Consequentially, the end of the year measurement of the posting in question is made based on the accrued benefits method using the unit credit criteria anticipated (*Projected Unit Credit Method*).

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

The actuarial profits and losses, defined as the difference between the book value of the liability and the present value of the obligation at years' end, are recognized in shareholders' equity.

An independent actuary assesses the severance package in compliance with method indicated above.

17.2. Repurchase agreements

The “repurchase agreements” that oblige the party selling the subject matter of the transaction (for example securities) to repurchase them in the future and the “securities lending” transactions where the guarantee is represented by cash, are considered equivalent to swap operations and, therefore, the amounts received and disbursed appear in the financial statements as payables and receivables. In particular, the aforesaid transactions “repurchase agreements” and “securities lending” transactions are recorded in the financial statements as payables for the spot value received, while that for investments are recorded as receivables for the spot price paid. Such transactions do not result in changes in the securities portfolio. Consistently, the cost of funds and the income from the investments, consisting of accrued dividends on the securities and from the difference between the spot price and the forward price thereof, are recorded for the accrual period under the interest items in the income statement.

17.3. Criteria for determining the fair value of financial instruments

Fair value is defined as “the price that would be collected for the sale of an asset or also that would be paid for the transfer of a liability in an orderly transaction between market participants”, at a specific measurement date, excluding forced-type transactions. Underlying the definition of fair value in fact is the presumption that the company is in operation, and that it has no intention or need to liquidate, significantly reduce the volume of its assets, or engage in a transaction at unfavourable terms.

In the case of financial instruments listed in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is considered to be listed in an active market if the quoted prices are readily and regularly available from a price list, trader, intermediary, industrial sector, agencies that determine prices, or regulatory authority and said prices represent actual market transactions that regularly take place in normal dealings.

In the absence of an active market, the fair value is determined using measurement techniques generally accepted in financial practice, aimed at establishing what price the financial instrument would have had, on the valuation date, in a free exchange between knowledgeable and willing parties. Such measurement techniques require, in the hierarchical order in which they are presented, the use:

1. of the most recent NAV (Net Asset Value) published by the management investment company for the harmonized funds (UCITS - Undertakings for Collective Investment in Transferable Securities),

the Hedge Funds and the SICAVs;

2. of the recent transaction prices observable in the markets;
3. of the price indications deducible from *infoproviders* (e.g., *Bloomberg, Reuters*);
4. of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis, Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;
5. of the price indications provided by the counterparty issuer adjusted if necessary to take into account the counterparty and/or liquidity risk (for example, the price resolved on by the Board of Directors and/or the Shareholders' meeting for the shares of unlisted cooperative bank, the unit value communicated by the management investment company for the closed-end funds reserved to institutional investors or for other types of UCIs other than those cited in paragraph 1, the redemption value calculated in compliance with the issue regulation for the insurance contracts);
6. for the equity-linked instruments, where the measurement techniques pursuant to the previous paragraphs are not applicable: i) the value resulting from independent surveys if available; ii) the value corresponding to the portion of shareholders' equity held resulting from the company's most recent financial statements approved; iii) the cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

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

- **Level 1** - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- **Level 2** - the valuation is not based on prices of the same financial instrument subject to valuation, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model). The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to valuation. The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretional parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.
- **Level 3** - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the shareholders' equity held in the company or obtained using measurement models that do not use market

data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

17.4 Business combinations

A business combination involves the combination of separate companies or business activities in a single party who has to draft the financial statements. A combination may give rise to a participatory relation between the parent company (acquirer) and the subsidiary (acquired). A combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of another entity's capital (mergers and contributions). Based on the provisions of IFRS 3, business combinations must be accounted for by applying the acquisition method, which comprises the following phases:

- identification of the acquirer;
- determination of the cost of the business combination;
- allocation, on the acquisition date, of the business combination cost in terms of the assets acquired and the liabilities and potential liabilities taken on.

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

The acquisition date is the date on which control of the acquired company is actually obtained. If the acquisition is completed through a single transfer, the date of the transfer will be the acquisition date.

If the business combination is carried out through several transfers

- the cost of the combination is the overall cost of the individual operations
- the exchange date is the date of each exchange operation (namely the date on which each investment is recorded in the acquiring company's financial statements), whereas the acquisition date is the one on which control is obtained over the acquired company.
- The cost of a business combination is assigned by recording the assets, liabilities and potential liabilities that are identifiable in the acquired company, at the relevant fair values at the date of acquisition. The assets, liabilities and potential liabilities that can be identified in the acquired company are recorded separately on the acquisition date only if, on this date, they meet the following criteria:
- if an asset is not an intangible asset, it is probable that any future connected economic benefits will flow to the acquiring company and it is possible to assess its fair value reliably;
- if a liability is not a potential liability, it is probable that, in order to extinguish the obligation, investment in resources will be required to produce economic benefits and it is possible to assess the fair value reliably;
- in the case of an intangible asset or a potential liability, the relevant fair value may be assessed reliably.

The positive difference between the cost of the business combination and the acquiring body's profit sharing at the fair value net of the assets, liabilities and potential identifiable liabilities, must be accounted for as goodwill. After the initial recognition, the goodwill acquired in a business combination is measured at the relevant cost and is submitted to an impairment test at least once a year. If the difference is negative, a new measurement is made. This negative difference, if confirmed, is recorded immediately as revenue in the income statement.

17.5 Derecognition

This is the removal from the statement of financial position of a financial asset or liability that had previously been recognised.

Before assessing the existence of the conditions for removing financial assets from the financial statements, it has to be checked whether these conditions must be applied to these assets as a whole or only in part in accordance with IAS 39. The cancellation rules are applied to the part of the financial assets to be transferred only if at least one of the following requirements have been met:

- the part comprises only cash flows that relate to a financial asset (or a group of assets) that are specifically identified (for example, only the portion of interest relating to the asset);
- the part comprises the cash flows in accordance with a precisely identified percentage of their total (for example, 90% of all cash flows deriving from the asset);
- the part includes a precisely identified portion of specifically identified cash flows (for example, 90% of cash flows only of the portion relating to the asset).

If the aforementioned criteria are not met, the cancellation standards must apply to the financial asset (or group of financial assets) as a whole.

The conditions for the complete cancellation of a financial asset are the extinction of the contractual rights, such as their natural maturity, or the transfer to another counterparty of cash flows deriving from this asset. Payment rights are considered to be transferred if contractual rights are held to receive the financial flows from the asset, but an obligation is assumed to pay these flows to one or more entities and all three of the following conditions are satisfied (pass-through agreement):

- the Group is under no obligation to pay out amounts uncollected from the original assets
- the sale and offering as guarantees of the original asset is prohibited, except if it guarantees the obligation to pay financial flows;
- the Group is obliged to transfer immediately all the financial flows that it receives and has no right to invest them, except for investments in liquid assets during the short period between the collection and payment dates, on condition that the interest matured over the period is paid.

In addition, the elimination of a financial asset is subject to a check being carried out that all the risks and benefits deriving from holding the rights have effectively been transferred (true sale). If there is a transfer of substantially all the risks and benefits, the transferred asset (or group of assets) will be cancelled and the rights and obligations relating to the transfer will be recorded as assets or liabilities.

On the other hand, if the risks and benefits are maintained, the transferred asset (or group of activities) must continue to be recognised. In that case, a liability corresponding to the amount received as consideration for the transfer, and subsequently, all the income accrued on the assets as well as all the expenses accrued on the liabilities must be recorded.

The main operations that do not allow a financial asset to be cancelled fully are the receivable securitisation operations, the repurchase agreements and the security lending transactions based on the aforementioned rules.

In the case of repurchase agreements and security lending transactions, the assets that are the object of the transactions are not removed from the financial statements since the terms of the transactions require all the associated risks and benefits to be maintained.

17.6 Introduction of the “bilateral CVA” to the valuation of derivatives

IFRS 13 - applicable from 1 January 2013 - establishes the need to consider, in the fair value of derivative contracts, the risk of non-performance (risk of one of the two parties in the contract not fulfilling their obligations) both at the time of initial recognition and in subsequent valuations. This risk includes:

- changes in the entity’s creditworthiness, for which, in determining the fair value of derivatives, the risk of non-fulfilment of obligations must also be considered;
- changes in the counterparty creditworthiness

The fair value of a derivative instrument can be broken down into various components that include the effect of the various underlying risk factors.

1. The collateralised component of the fair value is calculated as if the contract was subject to a perfect collateral agreement, as such to reduce the counterparty’s risk to a negligible level. In practice, said situation can be brought closer with the CSA (Credit Support Annex) which makes provision for daily margining, zero threshold and minimum transfer amount and overnight flat rate. This

component of fair value includes the market risk (e.g. with respect to underlying assets, volatility, etc.) and the risk of financing implicit in the CSA (overnight rate loan, OIS discounting method).

2. The component, known as the Bilateral Credit Value Adjustment (bCVA), takes into consideration the possibility of the counterparties (Counterparty and Investor) going bankrupt and is in turn given by two addends, called the Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA), that represent the following scenarios:
    - the CVA (negative) takes into consideration the scenarios in which the Counterparty (Customer) goes bankrupt before the Investor (Bank), and the latter presents a positive exposure to the Counterparty. In these scenarios, the Investor suffers a loss equal to the cost of replacement of said derivative;
    - the DVA (positive) takes into consideration the scenarios in which the Investor goes bankrupt before the Counterparty, and the former presents a negative exposure to the Counterparty. In these scenarios, the Investor benefits from a profit equal to the cost of replacement of said derivative.

The calculation of the latter component of fair value is performed by taking into consideration the presence of netting arrangements and collateral agreements allowing the counterparty's risk to be mitigated. In the first case, the presence of the netting arrangement determines the performance of the calculation of the bilateral CVA on a portfolio including all transactions subject to netting in place with that same Counterparty. Consequently, in the presence of netting arrangements, both the CVA component and the DVA component decrease in absolute terms, in order to mitigate the counterparty risk they cause. In the case of CSA contracts (collateral) with daily margining, reduced thresholds and Minimum Transfer Amounts, counterparty risk can be considered negligible. Therefore, the calculation of the bCVA only considers the transactions not covered by CSA. By contrast, in the case of a CSA with thresholds and Minimum Transfer Amounts that are not negligible, the bCVA is calculated on the basis of the materiality approach.

The bCVA calculation depends on the creditworthiness of the Investor and Counterparty, available via recourse to various sources. The Risk Management Department, in collaboration with the Administrative and Fiscal management, defined a rule allowing the creditworthiness data to be selected as a function of its availability. The rule provides as follows:

- in the case of counterparties with a CDS spread quoted on the market, the bCVA is calculated by considering the risk-neutral probability of default (i.e. estimated on the basis of the prices of bonds and not on the basis of historical data) quoted on the market and relating to both the Counterparty and the Investor, measured on the basis of the quoted CDS spread credit curve;
- in the case of Large Corporate counterparties without a CDS quoted on the market with turnover greater than the critical threshold, the bCVA is calculated by considering the risk-neutral probability of default of a counterparty that is associated to the contract counterparty (comparable approach). Creditworthiness is measured:
- for Project Finance counterparties using the CDS spread credit curve (Industrial comparable);
- for other counterparties using the CDS spread credit curve (comparable for the counterparty);
- in the case of illiquid counterparties not included in the previous categories, the bCVA is calculated by considering the probability of default of the counterparty and of the Group, determined using the credit curve obtained from the probability of default matrixes.

The application of the standard did not have any significant effects on the Group, since its portfolio is almost entirely composed of short-term assets.

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

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

No financial instruments were transferred between portfolios.

A.3.2 Reclassified financial assets: effects on overall profit before transfer

No financial assets were reclassified.

A.3.3 The transfer of financial assets held for trading

No financial assets held for trading were transferred.

A.3.4 Effective interest rate and expected cash flows from the reclassified assets

No cash flows are expected from the reclassified assets.

A.4 - INFORMATION ON FAIR VALUE

QUALITATIVE INFORMATION

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

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of valuations

The book value was assumed as a reasonable approximation of the fair value.

A.4.3 Fair value hierarchy

In order to prepare the financial statements, the fair value hierarchy used was the following:

- Level 1- Effective market quotes - The valuation is the market price of said financial instrument subject to valuation, obtained on the basis of prices present in an active market.
- Level 2 - Comparable Approach
- Level 3 - Mark-to-Model Approach

A.4.4 Other Information

The item is not applicable for the Group.

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31/12/2015			31/12/2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Held-for-trading financial assets	-	-	-	-	-	63
2. Financial assets measured at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	920,402	-	5,000	858,007	-	-
4. Hedging derivatives	-	-	-	-	-	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
TOTAL	**920,402**	-	**5,000**	**858,007**	-	**63**
1. Held-for-trading financial liabilities	-	-	-	-	-	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-		-	-		-

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

On.4.5.2 Annual changes of assets measured at fair value based on a recurring basis (level 3)

	Held-for-trading financial assets	Financial assets measured at fair value	Available-for-sale financial assets	Hedging derivatives	Property and equipment	Intangible assets
1. Opening balance	**63**	**-**	**-**	**-**	**-**	**-**
2. Increases	-	**-**	**5,000**	**-**	**-**	**-**
2.1 Purchases	-	-	5,000	-	-	-
2.2 Profits booked to:	-	-	-	-	-	-
2.2.1 The Income Statement	-	-	-	-	-	-
- *of which: Capital gains*	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-
3. Decreases	**63**	**-**	**-**	**-**	**-**	**-**
3.1 Sales	63	-	-	-	-	-
3.2 Refunds	-	-	-	-	-	-
3.3 Losses booked to:	-	-	-	-	-	-
3.3.1 The Income Statement	-	-	-	-	-	-
- *of which Capital loss*	-	-	-	-	-	-
3.3.2 Shareholders' equity	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	**0**	**-**	**5,000**	**-**	**-**	**-**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2015				31/12/2014			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Held-to-maturity financial assets	-	-	-	-	-	-	-	-
2. Due from banks	2,076	-	-	2,076	16,682	-	-	16,591
3. Loans to customers	1,457,990	-	-	1,457,990	1,193,754	-	-	1,194,759
4. Property and equipment held for investment	-	-	-	-	-	-	-	-
5. Non-current assets and groups of assets held for sale	-	-	-	-	-	-	-	-
Total	**1,460,066**	**-**	**-**	**1,460,066**	**1.210,436**	**-**	**-**	**1,211,350**
1. Due to banks	362,075	-	-	362,075	821,404	-	-	821,404
2. Due to customers	1,878,339	-	-	1,878,339	1,153,797	-	-	1,153,797
3. Securities in issue	20,102	-	-	20,102	20,109	-	-	20,109
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**2,260,516**	**-**	**-**	**2,260,516**	**1,995,310**	**-**	**-**	**1,995,310**

Key:
BV = Book Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 - INFORMATION CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

PART B - INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31/12/2015	31/12/2014
a. Cash	104	66
b. Demand deposits with Central Banks	-	-
TOTAL	**104**	**66**

SECTION 2 - HELD-FOR-TRADING FINANCIAL ASSETS - ITEM 20

2.1 Held-for-trading financial assets: breakdown by product

Items / Values	31/12/2015			31/12/2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A Non-derivative financial assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCI	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL A	-	-	-	-	-	-
B Derivative instruments	-		-	-		
1. Financial derivatives	-	-	-	-	-	-
1.1 for trading	-	-	-	-	-	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	63
2.1 for trading	-	-	-	-	-	63
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
TOTAL B	-	-	-	-	-	**63**
TOTAL (A+B)		-			-	**63**

2.2 Held-for-trading financial assets: breakdown by debtors/issuers

Items/Values	31/12/2015	31/12/2014
A. Non-derivative financial assets		
1. Debt securities		
a) Governments and Central Banks		
b) Other public institutions		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. Units of UCI		
4. Loans		
a) Governments and Central Banks		
b) Other public institutions		
c) Banks		
d) Other subjects		
Total A		
B. Derivative instruments		
a) Banks		
- fair value		63
b) Customers		
- fair value		
Total B		**63**
Total (A+B)		**63**

SECTION 4 - AVAILABLE-FOR-SALE FINANCIAL ASSETS - ITEM 40

4.1 Financial assets and liabilities measured at fair value

Items / Values	31/12/2015			31/12/2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**920,402**			**858,007**		
1.1 Structured securities						
1.2 Other debt securities	920,402			858,007		
2. Equity securities			**5,000**			
2.1 Valued at fair value			5,000			
2.2 Valued at cost						
3. Units of UCI						
4. Loans						
Total	**920,402**		**5,000**	**858,007**		

The AFS portfolio is predominantly made up of Italian government securities with a short-term maturity.

The equity security refers to the equivalent value of the interest in Bank of Italy.

4.2 Available-for-sale financial assets: breakdown by debtors/issuers

Items / Values	31/12/2015	31/12/2014
1. Debt securities	**920,402**	**858,007**
a) Governments and Central Banks	920,402	858,007
b) Other public institutions		
c) Banks		
d) Other issuers		
2. Equity securities	**5,000**	
a) Banks	5,000	
b) Other issuers		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. Units of UCI		
4. Loans		
a) Governments and Central Banks		
b) Other public institutions		
c) Banks		
d) Other subjects		
TOTAL	**925,402**	**858,007**

SECTION 5 - HELD-TO-MATURITY FINANCIAL ASSETS - ITEM 50

The portfolio was not used during the year.

SECTION 6 - DUE FROM BANKS - ITEM 60

6.1 Due from banks: breakdown by product

Type of transactions / Values	31/12/2015				31/12/2014			
	VB	FV			VB	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**1,909**				**16,114**			
1. Term deposits		X	X	X		X	X	X
2. Legal reserves	1,909	X	X	X	16,114	X	X	X
3. Repurchase agreements		X	X	X		X	X	X
4. Other		X	X	X		X	X	X
B. Due from banks	**167**				**568**			
1. Loans	167				**568**			
1.1 Current accounts and demand deposits	167	X	X	X	568	X	X	X
1.2. Term deposits		X	X	X		X	X	X
1.3. Other loans:								
- Reverse repurchase agreements		X	X	X		X	X	X
- Financial leases		X	X	X		X	X	X
- Other		X	X	X		X	X	X
2. Debt securities								
2.1 Structured securities		X	X	X		X	X	X
2.2 Other debt securities		X	X	X		X	X	X
TOTAL	**2,076**			**2,076**	**16,682**			**16,682**

Key:
VB = Book Value
FV = Fair Value

The item predominantly included the liquidity for the legal reserves c/o Bank of Italy; the Bank is a direct participant it the gross Target II regulation.

SECTION 7 - LOANS TO CUSTOMERS - ITEM 70

7.1 Loans to customers: breakdown by product

Type of transactions / Values	31/12/2015						31/12/2014					
	Book value			Fair Value			Book value			Fair Value		
	Performing	Non-Performing		L1	L2	L3	Performing	Non-Performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**1,373,774**	**2,216**	**82,000**			**1,457,990**	**1,154,030**	**6,117**	**33,607**			**1,193,754**
1. Current accounts	13,878		28	X	X	X	15,818		58	X	X	X
2. Reverse repurchase agreements	177,868		8.0	X	X	X	290,316			X	X	X
3. Mortgages	74,894		8.216	X	X	X	18,357		307	X	X	X
4. Credit cards, personal loans and salary-backed loans	119,850		938	X	X	X	13,485			X	X	X
5. Financial leases				X	X	X				X	X	X
6. Factoring	861,507	2,216	72,795	X	X	X	812,498	6,117	33,242	X	X	X
7. Other loans	125,777		23	X	X	X	3,556	-		X	X	X
Debt securities												
8. Structured securities				X	X	X		-		X	X	X
9. Other debt securities				X	X	X		-		X	X	X
TOTAL (book value)	**1,373,774**	**2,216**	**82,000**	**-**	**-**	**1,457,990**	**1,154,030**	**6,117**	**33,607**	**-**	**-**	**1,193,754**

The item may predominantly include the amount of the credit acquired by the Group, in connection with its factoring activities. The debt exposure of the factoring activities is predominantly with the Public Administration, in particular with Local health authorities and Territorial Entities.

The item mortgages (that refers essentially to Government Guaranteed SME loans) and credit cards and personal loans and salary-backed loans increases with respect to the previous year

7.2 Loans to customers: breakdown by debtors/issuers

Type of transactions/Values	31/12/2015			31/12/2014		
	Performing	Non-Performing		Performing	Non-Performing	
		Purchased	Other		Purchased	Other
1. Debt securities:	**-**	**-**	**-**	-	-	-
a) Governments	-	-	-	-	-	-
b) Other Public institutions	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**1,373,774**	**2,216**	**82,000**	**1,154,030**	**6,117**	**33,607**
a) Governments	273,962	-	1,631	179,182	-	-
b) Other Public institutions	521,021	2,216	40,655	557,789	6,117	3,667
c) Other parties	578,791	-	39,714	417,059	-	29,940
- non-financial companies	252,569	-	38,198	96,470	-	27,223
- financial companies	198,607	-	-	303,352	-	-
- insurance companies	-	-	-	-	-	-
- other	127,615	-	1,516	17,237	-	2,717
TOTAL	**1,373,774**	**2,216**	**82,000**	**1,154,030**	**6,117**	**33,607**

SECTION 10 – EQUITY INVESTMENTS – ITEM 100

10.1 Equity investments: information on investment relationships

Names	Registered office	Interest %	% of votes available
A. Wholly-controlled enterprises			
1. S.F. Trust Holdings Ltd	**London**	**100%**	**100%**
C. Companies under considerable control			
1. C.S. Union S.p.A.	**Cuneo, Italy**	**25.80%**	**25.80%**

10.3 Significant equity investments: accounting information

Names	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Interest margin	Net value adjustments to property and equipment/intangible assets	Profit (Losses) before tax from continuing operations	Profit (Losses) after tax from continuing operations	Profit (Loss) on groups of assets held for sale after tax	Profit (Losses) for the year	Other income (net of tax)	Overall profitability
A. Wholly-controlled enterprises														
1. S.F. Trust Holdings Ltd	-	80	980	1.265	158	-	(44)	(6)	355	355	-	355	-	355

10.4 Non-significant equity investments: accounting information

Names	Book value of equity investments	Total assets	Total liabilities	Total income	Profit (Losses) after tax from continuing operations	Profit (Loss) on groups of assets held for sale after tax	Profit (Losses) for the year	Other income items (after taxes)	Overall profitability
C. Companies under considerable control									
1. CS Union SpA	2,696	18,986	15,146	8,156	961	-	961	-	961

Figures presented in accordance with International Accounting Standards.

10.5 Investments: annual changes

	31/12/2015	31/12/2014
A. Opening balance	**2,448**	**-**
B. Increases	**248**	**2,448**
B.1 Purchases		2,377
B.2 Write-backs		
B.3 Revaluations		
B.4 Other changes	248	71
C. Decreases		
C.1 Sales		
C.2 Value adjustments		
C.3 Other changes		
D. Closing balance	**2,696**	**2,448**
E. Total revaluations		
F. Total adjustments		
TOTAL		

With effective dates starting from 1 March 2015 St.Ing was merged by incorporation in Candia, which changed its company name to CS Union S.p.A. ("CS Union").

From 31 March 2015, the Bank held a shareholding amounting to 25.8% of CS Union's share capital.

The increase refers to the profit on the holdings in CS Union as at 31/12/2015.

SECTION 12 - PROPERTY, PLANT AND EQUIPMENT - ITEM 120

12.1 Property and equipment: composition of the assets valued at cost

	31/12/2015	31/12/2014
1.1. Property and equipment owned	**1,058**	**1,201**
a) land		
b) buildings		
c) furniture	282	309
d) electronic equipment	766	873
e) other	10	19
1.2. Property and equipment acquired under finance lease		
a) land		
b) buildings		
c) furniture		
d) electronic equipment		
e) other		
TOTAL	**1,058**	**1,201**

The property and equipment are recorded in the financial statements in accordance with the general acquisition cost criteria, including the accessory charges and any other expenses incurred to place the assets in in conditions useful for the company, in addition to indirect costs for the portion reasonably attributable to assets that refer to the costs incurred, as at the end of FY 2015.

Percent depreciation:

- office furniture: 12%
- furnishings: 15%
- electronic machinery and miscellaneous equipment: 20%
- assets under Euro 516: 100%

12.5 Property and equipment for business use: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**-**	**-**	**943**	**1,453**	**202**	**2,598**
A.1 Total net value adjustments	-	-	634	580	183	**1,397**
A.2 Net opening balances	**-**	**-**	**309**	**873**	**19**	**1.201**
B. Increases	**-**	**-**	**16**	**100**	**-**	**115**
B.1 Purchases	-	-	12	100	-	**111**
B.2 Capitalized improvement expenses	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value allocated to	-	-	-	-	-	-
a. shareholders' equity	-	-	-	-	-	-
b. the income statement	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Transfers of properties held for investment	-	-	-	-	-	-
B.7 Other changes	-	-	4	-	-	**4**
C. Decreases	**-**	**-**	**43**	**207**	**9**	**258**
C.1 Sales	-	-		-	-	-
C.2 Depreciation	-	-	43	207	9	**258**
C.3 Value adjustments for impairment allocated to	-	-	-	-	-	-
a. shareholders' equity	-	-	-	-	-	-
b. the income statement	-	-	-	-	-	-
C.4 Negative changes in fair value allocated to	-	-	-	-	-	-
a. shareholders' equity	-	-	-	-	-	-
b. the income statement	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a. property and equipment held for investment	-	-	-	-	-	-
b. assets held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**282**	**766**	**10**	**1,058**
D.1 Total net value reductions	-	-	677	786	183	**1,646**
D.2 Gross closing balance	**-**	**-**	**959**	**1,552**	**193**	**2,704**
E. Valuation at cost	-	-	**282**	**766**	**10**	**1,058**

SECTION 13 - INTANGIBLE ASSETS - ITEM 130

13.1 Intangible assets: breakdown by type of asset

Assets / Values	31/12/2015		31/12/2014	
	Definite duration	Indefinite duration	Definite duration	Indefinite duration
A.1 Goodwill	-	**1,786**	-	**1,786**
A.2 Other intangible assets	**86**	-	**118**	-
A.2.1 Assets valued at cost	86	-	118	-
a. Internally generated intangible assets	-	-	-	-
b. Other assets	86	-	118	-
A.2.2 Assets measured at fair value	-	-	-	-
a. Internally generated intangible assets	-	-	-	-
b. Other assets	-	-	-	-
TOTAL	**86**	**1,786**	**118**	**1,786**

The other intangible assets are recorded at purchase cost including accessory costs and are systematically amortized over a period of 5 years. The item consists mainly of software.

The goodwill originates from the consolidation of the former SF Trust Group of Solvi Srl, subsequent to the merger by incorporation in the Parent Company.

Subsequent to the merger by incorporation, the former Solvi's assets were fully integrated in those of the Bank with the purpose of pursuing efficiencies both in terms of expected synergies with the other businesses and in terms of overall operating costs. Being that the activities once performed by Solvi Srl, now fully integrated, and inseparable from the rest of Banca Sistema's operations, the Bank is not currently able to distinguish the expected cash flows of the merged entity from those of the bank itself.

In the specific case, therefore, the goodwill of Euro 1.8 million recorded in the financial statements is an asset that cannot be separated from the rest of the bank.

In light of the consideration made above, the impairment test pursuant to IAS 36 requires that the recoverable value of goodwill be greater than its book value in the financial statements; in detail, as provided for by paragraph 18 of IAS 36, the recoverable amount has been defined as “the higher of the fair value of an asset or of a cash-generating unit having deducted sales costs and its value in use”. Specifically, the impairment test was conducted referring to the “Value in use” based on the flows indicated in the 2016 Budget, in the Bank's business plan in relation to the 2015-2018 period and to a forecast of expected cash flows for the 2019-2020 period, conservatively assuming an estimated growth rate of 2% on an annual basis.

The main parameters used for estimation purposes were as follows:

Risk Free Rate + country risk premium	1.7%
Equity Risk Premium	5.5%
Beta	1.2%
Cost of equity	8.2%
Growth rate “g”	2.0%

The estimated value in use obtained on the basis of the parameters used and the growth assumptions is considerably greater than shareholders' equity as at 31/12/2015. Furthermore, considering that the use value was determined via recourse to estimates and assumptions that may introduce elements of uncertainty, sensitivity analysis - as required by the accounting standards of reference - were performed with the purpose of verifying the variations of the results previously obtained as a function of the basic assumptions and parameters.

In particular, the quantitative exercise was completed by a stress test of the parameters relative to at the Bank's growth rate and the discounting rate of the expected cash flows (quantified in an isolated or simultaneous movement of 50bps), that confirmed the absence of impairment indicators, confirming a value in use once again significantly greater than the book value of goodwill in the financial statements.

In virtue of all that above, no qualitative trigger events that suggest a need for impairment having been identified, the Division deem it appropriate to not write-down the book value of goodwill posted in the financial statements as at 31 December 2015.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		Def	Indef	Def	Indef	
A. Opening balance	**1.786**	-	-	**3,613**	-	**5,399**
A.1 Total net value adjustments	-	-	-	3,495	-	**3,495**
A.2 Net opening balances	**1.786**	-	-	**118**	-	**1,904**
B. Increases	**0**	-	-	**28**	-	**28**
B.1 Purchases	-	-	-	28	-	**28**
B.2 Increases in internal intangible assets	-	-	-	-	-	**-**
B.3 Write-backs	-	-	-	-	-	**-**
B.4 Positive changes in fair value:	-	-	-	-	-	**-**
- of shareholders' equity	-	-	-	-	-	**-**
- of the income statement	-	-	-	-	-	**-**
B.5 Positive foreign exchange differences	-	-	-	-	-	**-**
B.6 Other changes	-	-	-	-	-	**-**
C. Decreases	-	-	-	**60**	-	**60**
C.1 Sales	-	-	-	**-**	-	**-**
C.2 Value adjustments	-	-	-	60	-	**60**
- Amortization	-	-	-	60	-	**60**
- Write-downs:	-	-	-	-	-	**-**
+ of shareholders' equity	-	-	-	-	-	**-**
+ of the income statement	-	-	-	-	-	**-**
C.3 Negative changes in fair value:	-	-	-	-	-	**-**
- of shareholders' equity	-	-	-	-	-	**-**
- of the income statement	-	-	-	-	-	**-**
C.4 Transfers of held-for-sale non-current assets	-	-	-	-	-	**-**
C.5 Negative foreign exchange differences	-	-	-	-	-	**-**
C.6 Other changes	-	-	-	-	-	**-**
D. Net closing balance	**1,786**	-	-	**86**	-	**1,872**
D.1 Total net value adjustments	-	-	-	3,463	-	**3,463**
E. Gross closing balance	**1,786**	-	-	**3,549**	-	**5,335**
F. Valuation at cost	1,786	-	-	86	-	**1,872**

Key **-** Def: of definite duration | Indef: of indefinite duration

The item goodwill refers to the incorporation of the subsidiary Solvi S.r.l. that took place on 01/08/2013.

SECTION 14 - TAX ASSETS AND TAX LIABILITIES - ITEM 140 OF ASSETS AND ITEM 80 OF LIABILITIES

14.1 Prepaid tax assets: breakdown

The balance is composed as follows:

- Prepaid taxes amounting to Euro 1,807 thousand relative to value adjustments on loans;
- Prepaid taxes mounting to Euro 1,671 thousand relative to extraordinary transactions;
- Other prepaid taxes amounting to Euro 337 thousand.

14.2 Deferred tax liabilities: breakdown

The balance is composed as follows:

- Liabilities for deferred taxes incurred during FTA amounting to Euro 3;
- Liabilities for deferred taxes amounting to Euro 595 thousand relative to interest on arrears pursuant to regulation 231;
- Liabilities for deferred taxes amounting to Euro 206 thousand relative to capital gains suspended for securities classified in the AFS portfolio.

14.3 Change in prepaid taxes (as offsetting entry in the income statement)

	31/12/2015	31/12/2014
1. Initial amount	**2,434**	**888**
2. Increases	**1,259**	**1,655**
2.1 Prepaid taxes recorded in the year	1,259	1,655
a) relative to previous financial years		397
b) due to the changes in accounting policies		
c) write-backs		
e) other	1,259	1,258
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**496**	**109**
3.1 Prepaid taxes annulled in the year	496	109
a) reversals	496	109
b) write-downs for uncollectible amounts		
c) changes in accounting policies		
e) other		
3.2 Tax rate reductions		
3.3 Other decreases		
a) transformation in tax receivables pursuant to Law 214/2011		
b) other		
4. Final amount	**3,197**	**2,434**

14.3.1 Change in prepaid taxes pursuant to Law 214/2011.

	31/12/2015	31/12/2014
1. Initial amount	**2,261**	**1,002**
2. Increases	**450**	**1,361**
3. Decreases	**53**	**103**
3.1 Reversals	33	83
3.2 Transformations in tax receivables		
a) deriving from losses for the year		
b) deriving from tax losses		
3.3 Other decreases	20	20
4. Final amount	**2,658**	**2,261**

14.4 Change in deferred taxes (as offsetting entry in the income statement)

	31/12/2015	31/12/2014
1. Initial amount	**3**	**3**
2. Increases	**595**	
2.1 Deferred taxes recorded in the year	595	
a) relative to previous financial years		
b) due to the changes in accounting policies		
c) other	595	
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		
3.1 Deferred taxes annulled in the year		
a) reversals		
b) due to the changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Final amount	**598**	**3**

14.5 Change in prepaid taxes (as offsetting entry in shareholders' equity)

	31/12/2015	31/12/2014
1. Initial amount	**277**	**412**
2. Increases	**445**	
2.1 Prepaid taxes recorded in the year	445	
a) relative to previous financial years		
b) due to the changes in accounting policies		
c) other	445	
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases	**104**	**135**
3.1 Prepaid taxes annulled in the year	104	20
a) reversals	104	20
b) write-downs for uncollectible amounts		
c) due to the changes in accounting policies		
e) other		
3.2 Tax rate reductions		
3.3 Other decreases		115
4. Final amount	**618**	**277**

14.6 Change in deferred taxes (as offsetting entry in shareholders' equity)

	31/12/2015	31/12/2014
1. Initial amount	**3**	**3**
2. Increases	**595**	
2.1 Deferred taxes recorded in the year	595	
a) relative to previous financial years		
b) due to the changes in accounting policies		
c) other	595	
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		
3.1 Deferred taxes annulled in the year		
a) reversals		
b) due to the changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Final amount	**598**	**3**

SECTION 16 - OTHER ASSETS - ITEM 160

16.1 Other assets: breakdown

	31/12/2015	31/12/2014
Tax advances	10,179	2,484
Items under processing	1,038	253
Other	997	561
Leasehold improvements	572	825
Prepayments not attributable to a specific item	266	166
Guarantee deposits	67	66
Accrued income not attributable to a specific item	-	21
Total	**13,119**	**4,376**

The item is predominantly composed of tax advances relative to virtual stamp and withholding taxes on interest expense and withholding on capital gains. The "Items under processing" predominantly relate to bank transfers allocated to their own items and set to zero in January 2015.

The leasehold improvements mainly relate to the capitalised costs linked to the opening of the branches.

LIABILITIES

SECTION 1 - DUE TO BANKS - ITEM 10

1.1 Due to banks: breakdown by product

Type of transactions / Values	31/12/2015	31/12/2014
1. Due to central banks	**80,002**	**730,020**
2. Due to banks	**282,073**	**91,384**
2.1 Current accounts and demand deposits	10,328	36,366
2.2 Term deposits	271,745	55,018
2.3 Loans		
2.3.1 Repurchase agreements		
2.3.2 Other		
2.4 Liabilities for commitments to repurchase own equity investments		
2.5 Other payables		
TOTAL	**362,075**	**821,404**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	**362,075**	**821,404**
Fair value	**362,075**	**821,404**

The item is down on 31 December 2014 due to a decrease in funding from the ECB, as a result of an increase in funding through repurchase agreements, which during the period proved more convenient than central bank rates. Funding from the ECB in the amount of € 49.3 million was obtained against trade receivables and government bonds.

As at 31 December 2015, there was an increase in funding on the interbank market in the form of term deposits.

SECTION 2 - DUE TO CUSTOMERS - ITEM 20

2.1 Due to customers: breakdown by product

Type of transactions / Values	31/12/2015	31/12/2014
1. Current accounts and demand deposits	335,541	311,751
2. Term deposits	572,379	569,410
3. Loans	909,089	238,807
3.1 Repurchase agreements	909,089	238,807
3.2 Other	-	-
4. Liabilities for commitments to repurchase own equity instruments		
5. Other payables	**61,330**	**33,829**
TOTAL	**1,878,339**	**1,153,797**
Fair value - level 1		
Fair value - level 2		
Fair value - level 3	1,878,339	1,153,797
Fair value	**1,878,339**	**1,153,797**

The item other payables includes collections of € 30.6 million from Cassa Depositi e Prestiti, against a guarantee comprising solely loans to SMEs by the Bank.

This also includes payables for receivables acquired but not funded and a payable to assigning companies for factoring operations.

SECTION 3 - SECURITIES IN ISSUE - ITEM 30

3.1 Securities in issue: breakdown by product

Type of securities / Values	Total 2015				Total 2014			
		Fair Value				Fair Value		
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
A. Securities								
1. Bonds	20,102	-	-	20,102	20,109	-	-	20,109
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	20,102	-	-	20,102	20,109	-	-	20,109
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**20,102**	-	-	**20,102**	**20,109**	-	-	**20,109**

3.2 Detail of Item 30 "Securities in issue": subordinated securities

	Issuer	Type of issue	Coupon	Maturity date	Par Value	IAS value
Tier 1 capital	Banca Sistema S.p.A.	Innovative equity instruments: mixed rate ISIN IT0004881444	Until June 2023, rate fixed at 7% From 14 June 2023 floating rate 6-month Euribor + 5.5%	Perpetual	8,000	8,016
Tier 2 capital	Banca Sistema S.p.A.	Subordinate ordinary loans (Lower Tier 2): ISIN IT0004869712	6-month Euribor + 5.5%	15/11/2022	12,000	12,086
TOTAL					**20,000**	**20,102**

SECTION 8 - TAX LIABILITIES - ITEM 80

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 14 of assets in these notes to the financial statements.

SECTION 10 - OTHER LIABILITIES - ITEM 100

10.1 Other liabilities: breakdown

	31/12/2015	31/12/2014
Items under processing	32,785	14,741
Tax payables to the Revenue Agency and other tax authorities	12,007	11,524
Accrued expenses	4,298	3,448
Payments received in the reconciliation phase	1,823	2,198
Trade payables	2,260	2,068
Due to employees	1,423	2,004
Pension repayments	562	437
Other	159	20
TOTAL	**55,317**	**36,441**

SECTION 11 - EMPLOYEE TERMINATION INDEMNITIES - ITEM 110

An external actuary, who issued his appraisal, calculated the actuarial value of the fund.

11.1 Employee termination indemnities: annual changes

	31/12/2015	31/12/2014
A. OPENING BALANCE	**1,173**	**732**
B. INCREASES	**562**	**569**
B.1 Allowances in the year	524	379
B.2 Other changes	38	190
C. DECREASES	**432**	**128**
C.1 Benefits paid	347	21
C.2 Other changes	85	107
D. CLOSING BALANCE	**1,303**	**1,173**
TOTALE	**1,303**	**1,173**

The increase in "Other changes" refers to the actuarial adjustment amount accounted for in 2015. The other decreases mainly refer to employee termination indemnities paid in 2015.

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

Annual discount rate	2.03%
Annual inflation rate	1.500% for 2016
	1.800% for 2017
	1.700% for 2018
	1.600% for 2019
	2.000% from 2020 onwards
Annual employment indemnities rate increase	2.625% for 2016
	2.850% for 2017
	2.775% for 2018
	2,700% for 2019
	3.000% from 2020 onwards
Annual real salary increase rate	1.00%

The discount rate used for determining the present value of the obligation was calculated, pursuant to paragraph 83 of IAS 19, from the Iboxx Corporate AA index with 10+ duration during the valuation month. To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provision for risks and charges: breakdown

Items / Values	31/12/2015	31/12/2014
1. Provision for pensions		
2. Other provisions for risks and charges	372	1,030
2.1 legal disputes		
2.2 personnel charges	302	660
2.3 Other	70	370
TOTAL	**372**	**1,030**

"Other provisions" predominantly refer to the deferred part of bonuses.

12.2 Provision for risks and charges: annual changes

	Provision for pensions	Other provisions	**Total**
A. Opening balance	**-**	**1,030**	**1,030**
B. Increases	**-**	**298**	**298**
B.1 Allowances in the year	-	298	298
B.2 Time value changes	-	-	-
B.3 Changes due to discount rate changes	-	-	-
B.4 Other changes	-	-	-
C. Decreases	**-**	**956**	**956**
C.1 Uses in the year	-	956	956
C.2 Changes due to discount rate changes	-	-	-
C.3 Other changes	-		-
D. Closing balance	**-**	**372**	**372**

The main changes in the provision for risks and charges were as follows:

- release of € 300 thousand following the elimination of a potential risk connected to the collection of a tax credit acquired without recourse;
- release of the allowance made over the previous financial years for the remaining part of the long-term incentive plan, following payment after the IPO;
- new provision of the deferred part of the 2015 bonus.

SECTION 15 - GROUP EQUITY - ITEMS 140, 160, 170, 180, 190, 200 AND 220

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

The share capital of Banca Sistema is divided into 80,421,052 ordinary shares having a par value of Euro 0.12 for total paid-in share capital of € 9,651 thousand. All outstanding shares have regular dividend entitlement from 1 January. Based on evidence from the Shareholders' Register and more recent information available, as at 2 July 2015, 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 company and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l. (Management Company)	23.10%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.40%
Fondazione Pisa	7.40%
Schroders	6.73%
Market	47.97%

The breakdown of the Group's equity is shown below:

Voci/Valori	2015	2014
1. Stock	9,651	8,451
2. Share premiums	39,436	4,325
3. Reserves	26,314	8,734
4. Treasury shares	-	-
5. Valuation reserves	350	2
6. Capital instruments	-	-
7. Operating profit	17,607	19,539
TOTAL	**93,358**	**41,051**

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

15.2 Share capital - Parent Company's number of shares: annual changes

Items / Types	Ordinary	Other
A. Existing shares existing at the start of the year	**70,421,052**	**-**
fully paid-up	70,421,052	-
not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Outstanding shares: opening balance	**70,421,052**	**-**
B. Increases	**10,000,000**	**-**
B.1 New issues	10,000,000	-
on payment:	10,000,000	
- business combination transactions	-	-
- conversion of bonds	-	-
- exercising warrants	-	-
- other	10,000,000	-
without consideration:	-	
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Disposal of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Company disposal transactions	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	80,421,052	**-**
D.1 Treasury shares (+)		-
D.2 Existing shares at the end of the year	80,421,052	-
fully paid-up	80,421,052	-
not fully paid-up	-	-

15.4 Revenue reserves: other information

In compliance with Art. 2427(7 bis) of the Italian civil code, below is the detail of the shareholders' equity item revealing the origin and possibility of use and distributability.

Nature	Value as at 31/12/2015	Possibility of use	Quota available
A) Share capital	9,651	-	-
B) Capital reserves			
Share-premium reserve	39,436	A,B,C	-
Reserve for loss recorded		-	-
C) Revenue reserves:			
Legal reserves	1,522	B	-
Valuation reserve	350	-	-
Extraordinary Reserve	13	A,B,C	-
Profit from previous year	25,132	A,B,C	-
Paid for future capital increase	-	-	-
D) Other reserves	(353)	-	-
Total	**75,751**		-
Net profit	17,607	-	-
Total equity	**93,358**	-	
Non-distributable quota	**-**	-	-
Distributable quota	**-**	-	-

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

OTHER INFORMATION

1. Guarantees issued and commitments

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

Transactions	31/12/2015	31/12/2014
1) Financial guarantees issued	671	1,921
a) Banks		1,921
b) Customers	671	
2) Commercial guarantees issued		
a) Banks	45	67
b) Customers	45	45
3) Irrevocable commitments to disburse funds		22
a) Banks		
I) for specified use		
II) for unspecified use		
b) Customers		
I) for specified use		
II) for unspecified use		
4) Commitments underlying credit derivatives: protection sales		
5) Assets pledged for third-party commitments		
6) Other commitments		
TOTAL	**716**	**1,988**

2. Assets pledged as security for own liabilities and commitments

Portfolios	31/12/2015	31/12/2014
1. Held-for-trading financial assets		
2. Financial assets measured at fair value		
3. Available-for-sale financial assets	771,332	713,699
4. Held-to-maturity financial assets		
5. Due from banks		
6. Loans to customers	107,242	144,723
7. Property and equipment		

5. Management and brokering on behalf of third parties

Type of services	AMOUNT
1. Execution of orders on behalf of customers	
a) Purchases	
1. regulated	
2. non-regulated	
b) Sales	
1. regulated	
2. non-regulated	
2. Portfolio management	
a) individual	
b) collective	
3. Securities custody and administration	**1,080,874**
a) third-party securities under custody: related to the performance of depositary	
bank services (excluding asset management)	
1. securities issued by the bank drafting the financial statements	
2. other securities	
b) third-party securities under custody (excluding asset management): other	**160,120**
1. securities issued by the bank drafting the financial statements	**24,534**
2. other securities	**135,586**
c) third-party securities deposited with third parties	**160,120**
d) property deeds deposited with third parties	**920,754**
4. Other transactions	

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1. Interest and similar income: breakdown

Items / Technical forms	Debt securities	Loans	Other transactions	2015	2014
1. Held-for-trading financial assets	-	-	-	-	-
2. Available-for-sale financial assets	813	-	-	813	3,198
3. Held-to-maturity financial assets	-	-	-	-	-
4. Due from banks	-	8	-	8	50
5. Loans to customers	-	78,198	-	78,198	72,544
6. Financial assets measured at fair value	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	1
TOTAL	**813**	**78,206**	**-**	**79,019**	**75,793**

1.4 Interest expense and similar charges: breakdown

Items / Technical forms	Payables	Securities	Other transactions	2015	2014
1. Due to Central banks	84	**-**	**-**	**84**	**893**
2. Due to banks	1,115	-	-	**1,115**	**761**
3. Due to customers	18,586	-	-	**18,586**	**24,164**
4. Securities in issue	-	1,228	-	**1,228**	**1,638**
5. Held-for-trading financial liabilities	-	-	-	**-**	**-**
6. Financial liabilities measured at fair value	-	-	-	**-**	**-**
7. Other liabilities and provisions	-	-	-	**-**	**-**
8. Hedging derivatives	**-**	**-**	**-**	**-**	**-**
TOTALE	**19,785**	**1,228**	**-**	**21,013**	**27,456**

SECTION 2 -COMMISSIONS - ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

Type of services / Values	2015	2014
a) guarantees given	3	1
b) credit derivatives		
c) management, dealing and consultancy services:	332	302
1. trading in financial instruments		3
2. currency trading		
3. portfolio management		
3.1. individual		
3.2. collective		
4. securities custody and administration	2	1
5. depositary bank		
6. placement of securities	25	14
7. income from reception and transmission of orders	46	47
8. consultancy services		
8.1. on investments		
8.2. on financial structure		
9. distribution of third party services	259	237
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products	259	237
9.3. other products		
d) collection and payment services	54	18
e) servicing related to securitisations		
f) services related to factoring	10,905	10,898
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts	77	65
j) other services	1.371	1,285
TOTAL	**12,742**	**12,569**

2.2 Fee and commission expense: breakdown

Services / Values	2015	2014
a) guarantees received	62	86
b) credit derivatives	63	
c) management, dealing and consultancy services:	359	226
1. trading in financial instruments	108	66
2. currency trading		
3. portfolio management		
3.1 own portfolio		
3.2 third party portfolios		
4. securities custody and administration		
5. placement of financial instruments		
6. 'out-of-branch' sale of financial instruments, products and services	251	160
d) collection and payment services	141	160
e) other services	949	596
TOTAL	**1,574**	**1,068**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items / Income	2015		2014	
	dividend income	income from units of UCI	dividend income	income from units of UCI
D. Equity investments			33	
Total	**-**	**-**	**33**	**-**

SECTION 4 - NET INCOME FROM TRADING ACTIVITIES - ITEM 80

4.1 Net income from trading activities: breakdown

Operations / income items	Capital gains (A)	Profits from trading (B)	Capital loss (C)	Losses from trading (D)	Net income [(A+B) - (C+D)]
1. Held for trading financial assets	**-**	**157**	**-**	**-**	**157**
1.1 Debt securities	-	157	-	-	157
1.2 Equity securities	-	-	-	-	-
1.3 Units of UCI	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Held-for-trading financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: foreign exchange differences	**-**	**-**	**-**	**(35)**	**(35)**
4. Derivative instruments	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
On debt securities and interest rates	-	-	-	-	-
On securities and stock indices	-	-	-	-	-
On currencies and gold	-	-	-	-	-
Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
TOTAL	**-**	**157**	**-**	**-**	**122**

SECTION 6 - PROFIT (LOSS) FROM DISPOSAL/REPURCHASE - ITEM 100

6.1 Profit (loss) from disposal/repurchase: breakdown

Voci/Componenti reddituali	2015			2014		
	Profits	Losses	Net income	Profits	Losses	Net income
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Available-for-sale financial assets	2,655	(137)	2,518	4,192	(382)	3,810
3.1 Debt securities	2,655	(137)	2,518	4,192	(382)	3,810
3.2 Equity securities	-	-	-	-	-	-
3.3 Units of UCI	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Held-to-maturity financial assets	-	-	-	-	-	-
TOTAL ASSET	**2,655**	**(137)**	**2,518**	**4,192**	**(382)**	**3,810**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	-	-	-	-	-	-
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**

SECTION 8 - NET VALUE ADJUSTMENTS/WRITE-BACKS DUE TO IMPAIRMENT - ITEM 130

8.1 Net value adjustments due to loan impairment: breakdown

Operations / income items	Value adjustments (1)			Write-backs (2)				2015	2014
	Individual		of the portfolio	Individual		of the portfolio			
	Write-offs	Other		A	B	A	B		
A. Due from banks:	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers:	-	(4,286)	(1,607)	-	285	-	169	(5,439)	(3,520)
Non-performing loans purchased	-	-	-	-	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-
Other receivables	-	(4,286)	(1,607)	-	285	-	169	(5,439)	(3,520)
Loans	-	(4,286)	(1,607)	-	285	-	169	(5,439)	(3,520)
Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**-**	**(4,286)**	**(1,607)**	**-**	**285**	**-**	**169**	**(5,439)**	**(3,520)**

Key:
A = from interest
B = other write-backs

SECTION 11 – ADMINISTRATIVE EXPENSES - ITEM 180

11.1 Personnel expense: breakdown

Type of expenditure / Values	2015	2014
1) Employees	16,921	11,084
a) wages and salaries	8,232	6,267
b) social security charges	1,843	1,499
c) termination indemnities		
d) supplementary benefits		
e) allowance to the provision for employee termination indemnities	354	573
f) allowance to the provision for pensions and similar obligations:		
- defined contribution plans		
- defined benefit plans		
g) payments to external pension funds:	217	219
- defined contribution plans	217	219
- defined benefit plans		
h) costs from share-based payments		
i) other benefits in favour of employees	6,275	2,526
2) Other personnel	45	127
3) Directors and statutory auditors	532	544
4) Early retirement costs		
5) Recovery of expenses for employees of the Bank seconded to other entities		
6) Reimbursement of expenses for employees of other entities seconded to the Bank	30	352
TOTAL	**17,528**	**12,107**

Other benefits in favour of employees include a gross variable component recognised to the management and linked to the Bank's listing.

11.2 Average number of employees by category

Employees:

- Senior managers 15
- Managers 31
- Remaining employees 82

11.5 Other administrative expenses: breakdown

Type of expenditure / Values	2015	2014
Servicing and collection activities	6,958	7,088
Resolution Fund	2,469	-
Consultancy	4,020	1,992
Computer expenses	2,990	2,720
Rent and related fees	1,753	1,506
Indirect taxes and duties	1,563	1,412
Advertising	791	783
Auditing fees	874	293
Other	593	669
Car hire and related fees	619	508
Expense reimbursement and entertainment	518	391
Membership fees	250	184
Infoprovider expenses	323	253
Maintenance of movables and real properties	221	228
Telephone and postage expenses	184	162
Stationery and printing	148	101
Insurance	67	69
Discretionary payments	9	26
TOTAL	**24,350**	**18,385**

SECTION 12 - NET ALLOWANCE FOR RISKS AND CHARGES - ITEM 190

12.1 Net allowance for risks and charges: breakdown

Item	2015	2014
Allowance for risks and charges - other provisions and risks		(369)
Releasing allowance for risks and charges - other risks and charges	300	
TOTAL	**300**	**(369)**

SECTION 13 - NET ADJUSTMENTS TO/WRITE-BACKS ON PROPERTY AND EQUIPMENT - ITEM 200

13.1 Net value adjustments to property and equipment: breakdown

Asset / Income item	Amortization (a)	Value adjustments for impairment (b)	Write-backs (c)	**Net income (a + b - c)**
A. Property and equipment				
A.1 Owned	(252)	-	-	(252)
▪ Used in operations	(252)	-	-	(252)
▪ For investment	-	-	-	-
A.2 Acquired in financial lease	-	-	-	-
▪ Used in operations	-	-	-	-
▪ For investment	-	-	-	-
TOTAL	**(252)**	-	-	**(252)**

SECTION 14 - NET ADJUSTMENTS TO/WRITE-BACKS ON INTANGIBLE ASSETS - ITEM 210

14.1 Net adjustments to intangible assets: breakdown

Asset / Income item	Amortization (a)	Value adjustments for impairment (b)	Write-backs (c)	**Net income (a + b - c)**
A. Intangible assets				
A.1 Owned	(60)	-	-	(60)
▪ Generated internally by the company	(60)	-	-	(60)
▪ Other	-	-	-	-
A.2 Acquired in financial lease	-	-	-	-
TOTAL	**(60)**	-	-	**(60)**

SECTION 15 - OTHER OPERATING EXPENSES AND INCOME - ITEM 220

15.1 Other operating expenses: breakdown

	2015	2014
Amortization on leasehold improvements	257	223
Other operating expenses	241	328
TOTAL	**498**	**551**

The amount of the item "other operating expenses" includes an amount of € 200 thousand relative to the ordinary contribution to the Interbank Deposit Protection Fund for 2015.

15.2 Other operating income: breakdown

	2015	2014
Reimbursement of expenses on current accounts and deposits for sundry taxes	372	169
Recoveries of sundry expenses	170	26
Other Income	27	18
TOTAL	**569**	**213**

"Reimbursement of expenses on current accounts and deposits for sundry taxes" includes the sums recovered from customers for the substitute tax on medium and long-term loans and for the stamp tax on current account and security statements of account.

SECTION 16 - PROFIT (LOSS) FROM DISPOSAL/REPURCHASE - ITEM 240

16.1 Profit (loss) from equity investments: breakdown

Income item / Sectors		2015	2014
1) Companies under joint control			
A.	Income	-	-
	1. Revaluations	-	-
	2. Profits from disposals	-	-
	3. Write-backs	-	-
	4. Other Income	-	-
B.	Expenses		
	1. Write-downs	-	-
	2. Impairment	-	-
	3. Losses from disposal	-	-
	4. Other charges	-	-
	Net income		-
2) Companies subject to significant influence			
A.	Income	422	71
	1.Revaluations	-	-
	2.Profits from disposals	-	-
	3. Write-backs	-	-
	4. Other Income	422	71
B.	Expenses	-	-
	1. Write-downs	-	-
	2. Impairment	-	-
	3. Losses from disposal	-	-
	4. Other charges	-	-
	Net income	**422**	**71**
	TOTAL	**422**	**71**

SECTION 19 - PROFIT (LOSS) FROM DISPOSAL/REPURCHASE - ITEM 270

19.1 Profit (loss) from disposal of investments: breakdown

Income Item / Values	2015	2014
A. Real assets		
- Profits from disposals		
- Losses from disposal		
B. Other assets	534	
- Profits from disposals	534	
- Losses from disposal		
NET INCOME	**534**	

SECTION 20 - TAXES ON INCOME FROM CONTINUING OPERATIONS - ITEM 290

20.1 Taxes on income from continuing operations: breakdown

	Item / Values	2015	2014
1	Current taxes (-)	(8,122)	(11,758)
2	Changes in current taxes of previous years (+/-)	49	79
3	Reduction in current taxes of the year (+)	-	-
3.bis	Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
4	Changes in deferred tax assets (+/-)	763	1,547
5	Changes in deferred tax liabilities (+/-)	(595)	
6	Income tax for the year (-) (-1+/-2+3+/-4+/-5)	(7,905)	(10,132)

20.2 Reconciliation between theoretical tax charge and actual fiscal charge of the financial statements

IRES	Taxable income	IRES	%
Theoretical fiscal charge for IRES (Corporate Income Tax)	**24,942**	**(6,859)**	**27.50%**
Permanent increase	1,312	(361)	1.45%
Temporary increase	3,636	(1,000)	4.01%
Permanent decrease	(6,479)	1,782	-7.14%
Actual fiscal charge for IRES (Corporate Income Tax)	**23,411**	**(6,438)**	**25.81%**
IRAP	Taxable income	IRAP	%
Theoretical fiscal charge for IRAP	**24,942**	**(1,389)**	**5.57%**
Permanent increase	32,175	(1,792)	7.19%
Permanent decrease	(26,878)	1,497	-6.00%
Actual fiscal charge for IRAP	**30,238**	**(1,684)**	**6.75%**
▪ Other fiscal charges			
Total actual fiscal charge for IRES and IRAP	**53,648**	**(8,122)**	**32.56%**

SECTION 23 - OTHER INFORMATION

Nothing to report.

PART D - OTHER COMPREHENSIVE INCOME (CONSOLIDATED)

Analytical statement of other comprehensive income (consolidated)

	Items	Gross amount	Income Tax	Net amount
10.	**Profit (loss) for the year**	-	-	**17,607**
	Other income items without reversal to the income statement	-	-	-
20.	Property and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	-	-	(46)
50.	Held-for-sale non-current assets	-	-	-
60.	Share of valuation reserves connected with investments carried at equity	-	-	-
	Other income items with reversal to the income statement	-	-	-
70.	Hedges of foreign investments:	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to the income statement	-	-	-
	c) other changes	-	-	-
80.	Foreign exchange differences:			
	a) changes in value	-	-	-
	b) reversal to the income statement	-	-	-
	c) other changes	-	-	-
90.	Cash flow hedges:			
	a) changes in fair value	-	-	-
	b) reversal to the income statement	-	-	-
	c) other changes	-	-	-
100.	Available-for-sale financial assets:	589	195	394
	a) changes in fair value	623	206	417
	b) reversal to the income statement	(34)	(11)	(23)
	- adjustments for impairment losses	-	-	-
	- profit/loss on sale	(34)	(11)	(23)
	c) other changes	-	-	-
110.	Held-for-sale non-current assets:	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to the income statement	-	-	-
	c) other changes	-	-	-
120.	Share of valuation reserves connected with investments carried at equity:	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to the income statement	-	-	-
	- adjustments for impairment losses	-	-	-
	- profit/loss on sale	-	-	-
	c) other changes	-	-	-
130.	**Total other income items**	**589**	**195**	**348**
140.	**Comprehensive income (10+130)**	**589**	**195**	**17,955**

SECTION 1 - BANKING GROUP RISKS

1.1 Credit risk

QUALITATIVE INFORMATION

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

In particular, this system hinges on four core principles:

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

In order to reinforce its ability to manage corporate risks, the Group established the Risk Management Committee, which supports the CEO in defining strategies, risk policies and profitability targets.

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

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

The methods used to measure, assess and aggregate risks are approved by the Board of Directors, based on proposals from the Risk Division, subject to approval by the Risk Management Committee. In order to measure "Pillar 1 risks", the Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes.

In order to evaluate non-measurable "Pillar 2 risks", the Group adopts - where possible - the methods stipulated under Supervisory regulations or those established by trade associations. If there are no such indications, standard market practices by operators that work at a level of complexity and operation comparable to the Group are also assessed.

With reference to the new provisions in matters of regulatory supervision (15° update of circular 263 - New regulations for the prudential supervision of banks), a series of obligations on the management and on risk control, including the Risk Appetite Framework (RAF) and the regulatory instructions defined by the Basel Committee were introduced. The Group, when drafting the business plan for the 2015–2018 three-year period, had in fact associated the strategic objectives to a first release of the RAF. The key ratios and the respective levels were assessed and the any revisions needed were made while defining the company's annual objectives.

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

In particular, the RAF is based on a two-level structure:

1. primary indicators, that verify the Bank's soundness in terms of capital and funding/liquidity
2. secondary indicators, that verify the continuous alignment with the regulatory Basel 3 targets.

Target levels, consistent with the plan's defined values, the level I thresholds, defined as “warning” thresholds, that trigger discussion at Risks Management Committee level and subsequent communication to the Board of Directors and the level II thresholds, that required direct discussion in the Board of Director's Meeting to determine the actions to be taken are associated with the various key ratios.

The I and II level thresholds are defined with scenarios of potential stress with respect to the plan's objectives and on dimensions having a clear impact for the Group. The Group, starting from 1 January 2014, used an integrated reference framework both to identify its own risk appetite and for the internal process entailing the determination of the capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP).

Furthermore, the Internal Capital Adequacy Assessment Process allows the Group to comply with the public disclosure obligation, with appropriate tables, with regards to its capital adequacy, to risk exposure and to the general characteristics of the management, control, and monitoring systems of the risks themselves, (the so-called “third pillar”). As concerns this matter, the Group fulfils the public disclosure requirements provided for with the issuing of Circular no. 285 of 17 December 2013 "Prudential supervisory provisions for banks" in which the Bank of Italy transposed the Directive 2013/36/EU (CRD IV) of 26 June 2013. This regulation, together with that contained in (EU) Regulations N. 575/2013 (the so-called “CRR”) incorporates the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel III").

1. General aspects

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

The Banca Sistema Group, as at 31 December 2015, availed itself of the appraisal issued by the ECAI “DBRS”, for the exposures to Central Authorities, and Public Sector Institutions and Entities, whereas, as concerns the valuations relative to the regulatory business segment, it uses the agency “Fitch Ratings Ltd”.

The identification of a reference ECAI in no way represents, in subject matter or in purposes, an assessment on the merit of the opinions made by the ECAI or a support of the methodologies used, for which the External Credit Assessment Institutions remain solely responsible.

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

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

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

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

- Factoring activities (with and without recourse);
- Loans to SMEs (with guarantee from the National Guarantee Fund – FNG);
- Acquisition without recourse of salary-/pension-backed loans.

2. Credit Risk Management Policies

2.1 Organizational aspects

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

In addition to the Board of Directors, said powers are formally assigned to the Executive Committee and to the CEO, having heard the opinion of the Risk Management Committee.

In order to maintain high credit quality in its loan portfolio, the Banca Sistema Group, as the Parent Company, deemed it expedient to concentrate all phases relative to the assumption and control of risk control upon itself, thus obtaining, via the specialization of resources and the segregation of functions at each decision-making level, a degree of standardisation in the granting of credit and robust monitoring of the individual positions. In view of the above, the Group's "Underwriting Office" analyses the granting of credit. The Office performs assessments that focus on the separate analysis and on the extension of credit to counterparties (assignor, debtor) and on the management of the associated financial relationships, and this takes place all normal phases of the credit process, summarized as follows:

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

Credit risk is mainly generated as a direct result of the definitive acquisition of credit from the customer company against the assigned debtor's insolvency. In particular, the credit risk generated by the factoring portfolio essentially consists of Institutions Public Administration.

in reference to each credit acquired, Banca Sistema performs, via the credit management structure, activities described further on in order to verify the credit status, and whether or not there are any impediments to the payment of the invoices to be assigned, and date scheduled for the payment thereof.

Specifically, the structure endeavours:

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

With reference to new business: as regards the Loans to SME product, credit risk is associated with the inability of the two counterparties involved in the loan to honour their financial commitments i.e.:

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

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

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

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

Fund, the sole Manager of which is Mediocredito Centrale (the so-called "MCC").

As regards, instead, the acquisition of salary-/pension-backed loan portfolios, the credit risk is associated with the inability of the three counterparties involved in the loan process to honour their financial commitments, i.e.:

- the Employer (ATC)
- the financial assigning company
- the Insurance Company

The insolvency risk of Employer/ debtor is generated in the following cases:

- default of Employer (for ex: bankruptcy);
- the debtor losing his job (for ex: resignation/ dismissal of the debtor) or reduction of remuneration (for ex: redundancy fund);
- death of the debtor.

The cases of risk described above are mitigated by the obligatory subscription of a life and employment insurance policies. More specifically:

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

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

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

The Employer insolvency risk is generated in the event that a case is retroceded back to the Employee, which must therefore, repay the credit to the Bank. The Framework Agreement concluded with the employer anticipates the possibility of retroceding the credit in the cases of fraud on the part of the Employer/debtor or in any case, of non-observance, on the part of the employer, of the assumptive criteria anticipated by the framework agreement.

As concerns the financial instruments held on its own account; the Bank performs security purchase transactions regarding Italian government debt, which are allocated, for prudential supervision purposes, in the banking book.

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

The Treasury Division, operating within the limits allowed by the Board of Directors, conducts said operations.

Also, with reference to the new regulatory framework, specifically to Circular no. 285 and to the respective Supervisory Bulletin no. 12 of December 2013, paragraph II.6 in matters of own funds, the Bank adhered to the extension of the prudential treatment of the profits and of the losses not realized, relative to the exposure to the Central Authorities classified in the "available-for-sale financial assets" category for the entire period provided for by Art. 467(2), last paragraph of the CCR.

2.2 Management, measurement and control systems

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

By involving the various Central structures of Banca Sistema and via the specialization of the resources and the separation of functions at each decision-making level, it seeks to guarantee a high degree of efficiency and standardisation in overseeing credit risk and monitoring the individual positions.

With specific reference to the monitoring of credit activities, the Bank, via the "Collection Working Group", assesses and inspects the credit portfolio based upon the guidelines defined within the “collection policy”.

The framework relative to the above Credit Risk sets the objective of promptly identifying any anomalies and/or discontinuities and evaluating the persistence of risk profiles, in-line with the strategic indications provided.

The purchase activities of government securities classified among available-for-sale financial assets continued during 2015 in relation to the credit risk associated with the bond securities portfolios. Said financial assets, which in virtue of their classification fall within the perimeter of the “banking book” although outside of the bank's traditional investment activity, are sources of credit risk. This risk consists in the issuer's inability to redeem, upon maturity, all or part of the bonds subscribed.

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

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

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

2.3 Credit Risk mitigation techniques

It should be noted that, as of the balance sheet date, the Bank did not implement any hedging of the credit portfolio.

Note however that the Bank itself, to mitigate the exposure of the credit portfolio, continually assess the subscription of specific standard credit default swap (CDS) and credit linked notes (CLN) hedging contracts.

The use of this type of instrument allows the Bank to mitigate exposures at the levels of Risk Concentration Limits.

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

2.4. Non-performing financial assets

With reference to the factoring activities, customer relations are continuously monitored by the competent Management Functions.

Banca Sistema defined its credit quality policy as a function of the provisions in the Bank of Italy Circular 272, the principle definitions of which are provided on the following pages.

According to that defined in the Bank of Italy Circular no. 272/2008 (Accounts Matrix), “non-performing” financial assets that lie within the categories of the doubtful, unlikely to pay or past due and/or overdrawn exposures are defined as non-performing.

Exposures whose anomalous situation is attributable to factors relevant to the so-called “country risk” are the “non-performing” financial assets.

In particular, the following definitions apply:

Doubtful

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

This class also includes:

- the exposure to local institutions (municipalities and provinces) in state of financial difficulty for the portion subject to the applicable liquidation procedure
- the credits purchased from third parties having doubtful parties as the primary obligator, regardless of the accounting portfolio in which it is allocated.

Unlikely to pay

Classification into this category is first of all the result of the Banks opinion regarding the improbability that, without recourse to actions such as the enforcement of the guarantee, the debtor will fulfil all of his credit obligations (principal and/or interest). This assessment is made independently of whether any sums (or instalments) are past due and not paid. It is therefore unnecessary to wait for explicit symptoms of irregularity (non-repayment) if there are elements that entail a situation of default risk on the part of the debtor (e.g., a crisis in the industrial sector in which the debtor operates). The set of on- and off-balance sheet exposures to the same debtor in above conditions is named "unlikely to pay", save that the conditions for classifying the debtor under doubtful do not exist. The exposures to retail parties may be classified in unlikely to pay category at the level of the individual transaction, provided that the Bank evaluate has assessed that the conditions for classifying the set of exposures to the same debtor in that category do not exist.

Past due and/or overdrawn exposures

These are understood to be the on-balance sheet exposures at book value and "off-balance sheet" exposures (loans, securities, derivatives, etc.), other than those classified as doubtful, watch-list or among the restructured exposures, that, on the balance sheet date of the report, are past due or have been overdrawn by more than 90 days.

In order to verify the continuity of the overdue exposure in connection with the factoring operation, the following is specified:

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

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

It should be noted that the Bank has not recorded income loss on its credit portfolio since its formation.

The methods used to calculate the analytical and generic write-downs applied to the credit portfolio are described below.

The Bank conducts a satisfactory valuation of the credits that demonstrate objective evidence of a possible impairment and that no objective evidence exists suggesting that the book value of said credits is not fully recoverable, taking into account the default rate and of the magnitude of recovery of non-performing positions historically experienced by the Bank.

The Bank classifies their credits as a function of their credit rating; this classification is subject to review whenever the Bank becomes aware of significant events that could modify the prospects for the recovery thereof. In order to promptly recognize said events, the Bank, via the Credit Management Department, constantly monitors the wealth of information relative to the debtors and constantly checks agreements the existing out-of-court agreements and the various phases of the on-going legal procedures.

Below are the guidelines used by the Bank to conduct both the general and collective write-downs on the credit portfolio.

The Bank makes the write-downs on an analytical

[3] A state of financial difficulty occurs when the Entity is no longer able to carry out the functions and services defined as indispensable and when third-party credits exist that it is unable to manage with ordinary budget balancing measures or with the instrument of off-balance sheet debt.

basis for the credits that show specific evidence of impairment losses i.e. for the credits assigned the status of “Unlikely to pay” or “Doubtful” in virtue of subjective assessments that result in elements that suggest the credit as not fully collectable or not collectible within the estimated time limits.

With reference to the credits form the factoring portfolio, the Bank makes an analytical write-down for the Municipalities registered as being in a state of “financial difficulty” in accordance with legislative decree 267/00.

If appropriate write-downs were not made at the pricing stage, the Bank makes an analytical write-down on the outstanding value of the loan net of the rediscount which has not yet fallen due. This percentage write-down is defined as a function of the recovery rate historically recorded by the bank and is subject to revision during the year in case of changes in the collection activities the result in a change in the relative recovery rates. As regards instead the credit positions from the factoring portfolio where the debtor counterparty is a private company, the Bank evaluates, on a case-by-case basis, the amount of the allocation to be applied as a function of the presumable credit recovery value.

With reference to the non-performing (“unlikely to pay” and “doubtful”) credits lying in the SME loan portfolio, in case of termination of the contract, the Bank proceeds to write down, as a function of the expected recovery rate, the portion of the loan not collateralized by the Guarantee Fund issued through Mediocredito Centrale.

The specific write-down relative to the individual case of salary-/pension-backed loans / salary deduction is assessed on a case by case basis.

The return of exposures classified among “unlikely to pay” and “doubtful” to performing is carried out upon proposal by the Credit Management and subsequent to a favourable opinion of the Risk and Compliance Division which proposes, upon resolution by the Risk Management Committee, of the change of status with the release of the allocations previously resolved upon, subject to verification of the absence of criticality and of the state of insolvency.

The credits for which objective evidence of impairment have not been identified individually are subject to assessment of a collective impairment loss. The collective write-down is based on the probability of being classified under doubtful and on the amount of potential future losses in case of default.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Non-performing and performing credit exposures: amounts, value adjustments, dynamics, economic and regional distribution

A.1.1 Distribution of the credit exposures by portfolios and by credit quality (book values)

Portfolios / quality	Doubtful	Unlikely to pay	Non-performing past due exposures	Other non-performing exposures	Performing exposures	**Total**
1. Available-for-sale financial assets	-	-	-	-	925,402	925,402
2. Held-to-maturity financial assets	-	-	-	-	-	-
3. Due from banks	-	-	-	-	2,076	2,076
4. Loans to customers	13,899	5,093	65,225	258,961	1,114,812	1,457,990
5. Financial assets measured at fair value	-	-	-	-	-	-
6. Financial assets held for disposal	-	-	-	-	-	-
Total 2015	**13,899**	**5,093**	**65,225**	**258,961**	**2,042,290**	**2,385,468**
Total 2014	**9,158**	**9,955**	**20,610**	**63,330**	**1,965,453**	**2,068,506**

A.1.2 Distribution of credit exposures by portfolio and by credit quality (gross and net values)

Portfolios/quality	Non-performing assets			Performing financial assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Available-for-sale financial assets	-	-	-	920,402	-	920,402	**920,402**
2. Held-to-maturity financial assets	-	-	-	-	-	-	**-**
3. Due from banks	-	-	-	2,076	-	2,076	**2,076**
4. Loans to customers	91,535	7,137	84,216	1,377,007	3,323	1,373,774	**1,457,990**
5. Financial assets measured at fair value	-	-	-		-	-	-
6. Financial assets held for disposal	-	-	-	-	-	-	-
Totale 2015	**91,353**	**7,137**	**39,724**	**2,299,485**	**3,233**	**2,296,252**	**2,380,468**
Totale 2014	**42,197**	**2,473**	**13,698**	**2,031,239**	**2,457**	**2,028,782**	**2,068,506**

A.1.2.1 Distribution of credit exposures by portfolios

Portfolios / seniority past due	OTHER EXPOSURES					**Total (net exposure)**
	Past due up to 3 months	Past due by more than 3 months up to 6 months	Past due by more than 6 months up to 1 year	Past due by more than 1 year	Not past due	
1. Available-for-sale financial assets	-	-	-	-	920,402	920,402
2. Held-to-maturity financial assets	-	-	-	-	-	-
3. Due from banks	-	-	-	-	2,076	2,076
4. Loans to customers	163,710	27,445	43,308	24,497	1,114,814	1,373,774
5. Financial assets measured at fair value	-	-	-	-	-	-
6. Financial assets held for disposal	-	-	-	-	-	-
Totale 2015	**163,710**	**27,445**	**43,308**	**24,497**	**2,037,292**	**2,296,252**
Totale 2014	**35,188**	**8,270**	**9,630**	**10,242**	**1,965,452**	**2,028,782**

A.1.3 Banking group - On- and off-balance sheet credit exposures to banks: gross values, net brackets past due

Type of exposures / Values	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing assets				Performing financial assets			
	Up to 3 months	From more than 3 months up to 6 months	From more than 6 months up to 1 year	More than one year				
A. ON-BALANCE SHEET EXPOSURES								
a) doubtful of which:								
forborne exposures								
b) Unlikely to pay of which:								
forborne exposures								
c) Non-performing past due exposures								
of which: forborne exposures								
d) Performing past due exposures of which:								
forborne exposures								
e) Other performing exposures of which:								
forborne exposures					2,076			2,076
TOTAL A					**2,076**			**2,076**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing								
b) Performing					45			45
TOTAL B					**45**			**45**
TOTAL (A+B)					**2,121**			**2,121**

A.1.4 Banking group - On-balance sheet exposures to banks: dynamics of gross non-performing exposures

The on-balance sheet exposures to Banks are all performing.

A.1.5 Banking group - non-performing on-balance exposures to banks: dynamics of overall adjustments

There are no non-performing exposures to banks.

A.1.6 Banking group - On- and off-balance sheet credit exposures to customers: gross values, net values and band past due

Type of expenditure / Values	Gross exposure					Individual adjustments	Collective adjustments	Net exposure
	Non-performing assets				Performing financial assets			
	Up to 3 months	From more than 3 months up to 6 months	From more than 6 months up to 1 year	More than one year				
A. ON-BALANCE SHEET EXPOSURES								
a) doubtful of which: forborne exposures	474	499	848	18.199		6,122		**13,899**
b) Unlikely to pay of which: forborne exposures	5,913	-	-			820		**5,093**
c) Non-performing past due exposures of which: forborne exposures	33,621	11,275	12,926	7,597		195		**65,225**
d) Performing past due exposures of which: forborne exposures					259,724		763	**258,961**
e) Other performing exposures of which: forborne exposures					2,037,684		2,471	**2,035,213**
TOTAL A	**40,008**	**11,774**	**13,774**	**25,798**	**2,297,408**	**7,137**	**3,234**	**2,378,391**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non-performing								
b) Performing					671			**671**
TOTAL B					671			**671**
TOTAL (A+B)	**40,008**	**11,774**	**13,774**	**25,798**	**2,298,079**	**7,137**	**3,234**	**2,379,062**

A.1.7 Banking group - On-balance sheet exposures to customers: dynamics of gross non-performing exposures

Reasons / Categories	Doubtful	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing
A. Starting gross exposure	**11,439**	**10,078**	**20,680**	**63,568**	**1,951,919**
of which: non-derecognized assigned exposures					
B. Increases	**14,447**	**6,349**	**66,516**	**251,271**	**689,880**
B.1 incoming performing exposures	11,930	6,015	59,558	185,105	3,025
B.2 transfers from others categories of non-performing exposures	1,222		4,328	1,423	8,901
B.3 other increases	1,295	334	2,630	64,743	677,954
C. Decreases	**5,866**	**10,513**	**21,776**	**55,115**	**602,849**
C.1 outgoing performing exposures	973	2,395	6,955	3,025	185,105
C.2 derecognitions					
C.3 collections	4,893	2,630	14,760	32,122	360,209
C.4 gains on sales					
C.5 losses on sales					
C.6 transfers to others categories of non-performing exposures		5,488	61	19,968	57,535
C.7 Other decreases					
D. Final gross exposure	**20,020**	**5,913**	**65,419**	**259,724**	**2,038,950**
- of which: non-derecognized assigned exposures					
TOTAL					

A.1.8 Banking group - On-balance sheet exposures to customers: dynamics of overall adjustments

Reasons / Categories	DOUBTFUL		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES		PERFORMING PAST DUE EXPOSURES		PERFORMING	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Initials total adjustments	**2,281**		**122**		**70**		**249**			
- of which: non-derecognized assigned exposures										
B. Increases	**4,126**		**885**		**191**		**675**			
B.1 value adjustments	3,540		813		101		550			
B.2 losses from disposal										
B.3 transfers from others categories of non-performing exposures	102		12		17		11			
B.4 other increases	484		127		72		114			
C. Decreases	**286**		**286**		**67**		**161**			
C.1 valuation write-backs	5				10		31			
C.2 collection write-backs	271		6		1		4			
C.3 profits from disposals										
C.4 derecognitions										
C.5 transfers to others categories of non-performing exposures			119				113			
C.6 other decreases	10		2		56		12			
D. Final total adjustments	**6,122**		**820**		**194**		**763**			
- of which: non-derecognized assigned exposures										

A.2 CLASSIFICATION OF THE EXPOSURES BASED ON EXTERNAL AND INTERNAL RATING

A.2.1 Banking Group - Distribution of on- and off-balance sheet credit exposures by external rating class

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/guarantors pursuant to prudential requirements (cf. Circular no. 285 of 2013 “Regulations for the supervision of banks” and subsequent updates).

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

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

Exposures	Externa rating class							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Without rating	**Total**
A. On-balance sheet exposures	**-**	**1,591,125**	**-**	**-**	**-**	**-**	**790,528**	**2,381,653**
B. Derivatives	-	-	-	-	-	-	**-**	**-**
B.1 Financial derivatives	-	-	-	-	-	-	-	-
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**716**	**716**
D. Commitments to disburse funds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
E. OTHER	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**1,591,125**	**-**	**-**	**-**	**-**	**791,244**	**2,382,369**

Long-term rating

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

Short-term rating (for exposures to supervised brokers)

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

"Fitch Ratings", for exposures to companies and other parties.

Long-term rating

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

Short-term rating (for exposures to supervised brokers)

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

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

A.3.1 Banking group - Credit exposures to guaranteed customers

	Net exposure	Real security (1)				CLN	Personal security (2)								Total (1)+(2)
							Credit derivatives				Credit commitments				
							Other derivatives								
		Mortgaged estate	Properties under financial lease	Securities	Other collateral		Governments and Central Banks	Other public institutions	Banks	Other parties	Governments and Central Banks	Other public institutions	Banks	Other subjects	
2. Guaranteed on-balance sheet credit exposures:	*385,444*	-	-	*184,793*	*121,743*	-	-	-	-	-	*62,353*	-	-	*8,741*	***377,630***
2.1 fully guaranteed	350,459	-	-	184,793	*121,725*	-	-	-	-	-	33,861	-	-	8,741	**349,120**
- of which non-performing	*1,783*	-	-	-	*938*	-	-	-	-	-	*754*	-	-	*92*	***1,784***
2.2 partially guaranteed	34,985	-	-	-	18	-	-	-	-	-	28,492	-	-	-	**28,510**
- of which non-performing	*656*	-	-	-	-	-	-	-	-	-	*564*	-	-	-	***564***
2. Guaranteed off-balance sheet credit exposures:	*662*	-	-	-	*662*	-	-	-	-	-	-	-	-	-	***662***
2.1 fully guaranteed	662	-	-	-	662	-	-	-	-	-	-	-	-	-	**662**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Banking group - Distribution by sector of On- and off-balance sheet credit with customers (book value)

Exposures / Counterparties	Governments			Other public institutions			Financial companies			Insurance companies			Non-financial companies			Other subjects		
	Net Exposure	Individual adjustments	Collective adjustments	Net Exposure	Individual adjustments	Collective adjustments	Net Exposure	Individual adjustments	Collective adjustments	Net Exposure	Individual adjustments	Collective adjustments	Net Exposure	Individual adjustments	Collective adjustments	Net Exposure	Individual adjustments	Collective adjustments
A. On-balance sheet exposures																		
A1. Doubtful of which:				10,877	4,851			-	-	-	-	-	2,866	712		155	558	
forborne exposures								-	-	-	-	-						
A.2 Unlikely to pay								-	-	-	-	-	5,093	820				
of which:								-	-	-	-	-						
forborne exposures								-	-	-	-	-						
A.3 Non-performing past due	**1,631**	**20**		**31,995**	**83**			**-**	**-**	**-**	**-**	**-**	**30,239**	**88**		**1.361**	**4**	
exposures of which:								-	-	-	-	-						
forborne exposures								-	-	-	-	-						
A.4 Performing exposures	1,194,364		105	521,021		1,436	198,608	-	-	-	-	-	252,569		1,147	127.614		546
of which:								-	-	-	-	-						
forborne exposures								-	-	-	-	-						
TOTAL A	**1,195,995**	**20**	105	**563,893**	**4,934**	**1,436**	**198,608**	**-**	**-**	**-**	**-**	**-**	**290,767**	**1,618**	**1,147**	**129.130**	**562**	**546**
B. Off-balance-sheet exposures																		
B1. Doubtful																		
B2. Unlikely to pay																		
B3. Other non-performing assets																		
B4. Performing exposures													**671**					
TOTAL B													**671**					
TOTAL (A+B) 2015	**1,195,995**	**20**	**105**	**563,893**	**4,934**	**1,436**	**198,608**						**291,438**	**1,618**	**1,147**	**129.130**	**562**	**546**
TOTAL (A+B) 2014	**1,037,189**		**70**	**551,918**	**2,199**	**1,885**	**303,352**						**139,346**	**268**	**439**	**19.969**	**6**	**58**

B.2 Banking group - Territorial distribution of the on-balance sheet credit exposures and off-balance sheet credit exposures to customers to customers (book value)

Exposures / Geographical Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net Exposure	Total value adjustments	Net Exposure	Total value adjustments	Net Exposure	Total value adjustments	Net Exposure	Total value adjustments	Net Exposure	Total value adjustments
A. On-balance sheet exposures										
A.1 Doubtful	13,899	6,122								
A.2 Unlikely to pay	5,093	820								
A.3 Non-performing past due exposures	65,225	194								
A.4 Other performing exposures	2,274,230	3,175	21,211	59						
TOTAL	**2,358,447**	**10,311**	**21,211**	**59**						
B. Off-balance-sheet exposures										
B.1 Doubtful										
B.2 Unlikely to pay										
B.3 Other non-performing assets										
B.4 Other performing exposures	671									
TOTAL	**671**									
TOTAL (A+B) 2015	**2,359,118**	**10,311**	**21,211**	**59**						
TOTAL (A+B) 2014	**2,051,523**	**4,930**	**260**							

Exposures / Geographical Areas	NORTH WEST Italy		NORTH EAST Italy		CENTRAL Italy		SOUTHERN Italy and the ISLANDS	
	Net Exposure	Total value adjustments	Espos. Netta	Total value adjustments	Espos. Netta	Total value adjustments	Espos. Netta	Total value adjustments
A. On-balance sheet exposures								
A.1 Doubtful	817	259	155	489	1,484	272	11,442	5,102
A.2 Unlikely to pay	977	159	508	77	3,607	585		
A.3 Non-performing past due exposures	2.389	8	4,867	14	4,947	30	53,023	142
A.4 Other performing exposures	159,653	588	57,967	208	1,462,132	687	594,478	1,691
TOTAL	**163,836**	**1,014**	**63,497**	**788**	**1,472,170**	**1,574**	**658,943**	**6,935**
B. Off-balance-sheet exposures								
B.1 Doubtful								
B.2 Unlikely to pay								
B.3 Other non-performing assets								
B.4 Other performing exposures	662				9			
TOTAL	**662**				**9**			
TOTAL (A+B) 2015	**164,498**	**1,014**	**63,497**	**788**	**1,472,179**	**1,574**	**658,943**	**6,935**
TOTAL (A+B) 2014	**73,685**	**286**	**40,228**	**85**	**1,383,456**	**1,098**	**554,153**	**4.69**

3 Banking group - Distribution by sector of on- and off-balance sheet credit exposures to banks (book value)

Exposures / Geographical Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net Exposure	Adjustments overall value	Net Exposure	Adjustments overall value	Net Exposure	Adjustments overall value	Net Exposure	Adjustments overall value	Net Exposure	Adjustments overall value
A. On-balance sheet exposures										
A.1 Doubtful										
A.2 Unlikely to pay										
A.3 Non-performing past due exposures										
A.4 Other performing exposures	2,076									
Total A	**2,076**									
B. Off-balance-sheet exposures										
B.1 Doubtful										
B.2 Unlikely to pay										
B.3 Other non-performing assets										
B.4 Other performing exposures	45									
Total B	**45**									
Total (A+B) 2015	**2,121**									
Total (A+B) 2014	**18,557**		**153**							

B.4 Major exposures

As at 31 June 2015, the Parent Company's major exposures are as follows:

a) Book value € 2,559,004 (in thousands)

b) Average value € 101.146 (in thousands)

c) No. of positions 19.

C. SECURITISATION TRANSACTIONS

D. DISCLOSURE ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION COMPANIES)

E. ASSIGNMENT TRANSACTIONS

A. Financial assets assigned and not fully derecognized

QUALITATIVE INFORMATION

The financial assets sold and not derecognized refer predominantly to Italian government securities used for repurchase agreements. Said financial assets are classified in the financial statements among the available-for-sale financial assets, while the repurchase agreement loan is presented in due to customers.

As a last resort, the financial assets sold and not derecognized comprise trade receivables used for loan transactions in the ECB (Abaco).

QUANTITATIVE INFORMATION

E.1. Banking group - Financial assets sold and not cancelled: book value and entire value

Technical forms / Portfolio	Held-for-trading financial assets			Financial assets measured at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2015	31/12/2014
A. Non-derivative financial assets	-	-	-	-	-	-	**878,574**	-	-	-	-	-	-	-	-	-	-	-	**878,574**	**24,973**
1. Debt securities	-	-	-	-	-	-	771,332	-	-	-	-	-	-	-	-	-	-	-	771,332	24,973
2. Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. UCI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	107,242	-	-	-	-	-	-	-	-	-	-	-	107,242	-
B. Derivative instruments	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Total 2015	-	-	-	-	-	-	**878,574**	-	-	-	-	-	-	-	-	-	-	-	**878,574**	-
of which non-performing	-	-	-	-	-	-	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Total 2014	-	-	-	-	-	-	**24,973**	-	-	-	-	-	-	-	-	-	-	-	**-**	**24,973**
of which non-performing	-	-	-	-	-	-	**-**	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**

Key:
A = financial assets disposed of and recorded in whole (book value)
B = financial assets disposed of and recorded partially (book value)
C = financial assets disposed of and recorded in partially (entire value)

E.2. Banking group - Financial liabilities against financial assets sold and not derecognized: book value

Liabilities / Asset portfolio	Held-for-trading financial assets	Financial assets measured at fair value	Available-for-sale financial assets	Held-to-maturity financial assets	Due from banks	Loans to customers	**Total**
1. Due to customers	**-**	**-**	**731,223**	**-**	**49,257**	**30,603**	**811,083**
a) against fully recorded assets	-	-	731,223	-	49,257	30,603	811,083
b) against partially recorded assets	-	-	-	-	-	-	-
2. Due to banks	**-**	**-**	**30,743**	**-**	-	-	**30,743**
a) against fully recorded assets	-	-	30,743	-	-	-	30,743
b) against partially recorded assets	-	-	-	-	-	-	-
Total 2015	**-**	**-**	**761,966**	**-**	**49,257**	**30,603**	**841,826**
Total 2014	-	-	**24,969**	-	**-**	**-**	**24,969**

F. BANKING GROUP - MODELS FOR THE MEASUREMENT OF CREDIT RISK

1.2 Banking group - market risks

Banca Sistema did not conduct trading activity on financial instruments. As at 31 December 2015k, no active positions are recorded in the trading book for regulatory purposes that might generate market risks.

The existing limit system defines a careful and balanced management of the operational autonomy, establishing limits in terms of portfolio amounts and composition by type of security.

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE INFORMATION

Banca Sistema did not normally conduct trading activity on financial instruments.

1.2.2 Interest rate risk and price risk – Regulatory Trading Portfolio

QUALITATIVE INFORMATION

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

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

The Bank calculates the exposure to interest rate risk on the banking book consistent as dictated by regulations currently in force, via the simplified regulatory approach (Cf. Circular no. 285/2006, Part One, Title III, Chapter 1, Schedule C); by using this method, the Bank is able to monitor the impact of the unexpected changes in market conditions on shareholders' equity, in this way identifying the relative mitigation measures to be implemented.

In greater detail, the processes of estimating the exposure to interest rate risk of the banking book anticipated by the simplified method is organized in the following phases:

- Determination of the relevant currencies. "Relevant currencies" are considered those that represent a portion of total assets, or also of the banking book liabilities, greater than 5%. For the purposes of the methodology for calculating exposure to interest rate risk, the positions denominated in "relevant currencies" are considered individually, while the position in "non-relevant currencies" are aggregated for the relative exchange value in Euro;
- Classification of the assets and liabilities in time brackets. 14 time brackets are defined. The fixed-rate assets and liabilities are classified based on their residual maturity, while those at floating-rates based on the interest rate renegotiation date. Specific classification rules are prescribed for specific assets and liabilities. With particular reference to the deposit and savings product "Si conto! Deposito", the Bank proceeded with the bucketization that takes into account the implied redemption option.
- Weighting the net exposures of each bracket. The asset and liability positions are offset within each bucket, obtaining a net position. The net position by bracket is multiplied by the corresponding weighting factor obtained as the product between a hypothetical change of the rates and an approximation of the modified duration for the individual bracket;
- Sum of the weighted net exposures of the various brackets. The weighted exposures calculated for each bracket (sensitivity) are summed together. The net weighted exposure thus obtained approximates the change of the present value of the posting, denominated in a certain currency, in the event of

the assumed rate shock;

- Aggregation in the various currencies. The absolute values of the exposures regarding the individual “relevant currencies” and the aggregate of the “non-relevant currencies” are summed together, obtaining a value that represents the change of the economic value of the Bank as a function of the assumed rate trends.

With reference to the Bank's financial assets, the main sources that generate interest rate risk are Loans to customers and the bond securities portfolio. With regard to the financial liabilities, relevant instead are the customer deposits and savings activities via current accounts, the savings account, and the collections on the interbank market.

Given the foregoing submissions, it should be noted that:

- the interest rates applied to the factoring customers are at a fixed rate and can also be modified unilaterally by the Bank, (in compliance with regulations in force and existing contracts);
- the average financial term of the bond securities portfolio is a less than one year;
- the salary/pension-backed loan that contains fixed rate contract is that with the greatest duration, however on the balance sheet date this portfolio is contained and it is not deemed expedient to perform Interest rate hedging operations on said maturities;
- the REPO deposits c/o the Central bank are of short duration (the maximum maturity is equal to 3 months);
- The customers' deposits on the deposit account product are at a fixed rate for the entire duration of the constraint, which can be unilaterally renegotiated by the Bank in compliance with regulations in force and the existing contracts).
- the REPO and reverse REPO agreements are generally of short duration, without prejudice to different funding needs

The Bank continuously monitors the main asset and liability postings subject to interest rate risk, furthermore, no hedging instruments were uses as at the balance sheet date.

B. Fair value hedges

The Bank did s not perform any such transactions in 2015.

C. Cash flow hedging

The Bank did s not perform any such transactions in 2015.

QUANTITATIVE INFORMATION

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

Type / Residual term	On demand	Up to 3 months	From more than 3 months to 6 months	From more than 6 months up to 1 year	From more than 1 year up to 5 years	From more than 5 years up to 10 years	More than 10 years	Unspecified term
1. Non-derivative financial assets	**264,172**	**738,836**	**242,637**	**565,261**	**494,732**	**73,089**	**1,741**	**-**
1.1 Debt securities	-	268,123	99,041	372,181	181,057	-	-	-
- with option of advance repayment	-	-	-	-	-	-	-	-
- other	-	268,123	99,041	372,181	181,057	-	-	-
1.2 Loans to banks	87	1,909	-	-	-	-	**1,741**	-
1.3 Loans and advances to customers	264,085	468,804	143,596	193,080	313,675	73,089	**-**	-
- current accounts	13,985	-	-	-	-	1	**1,741**	-
- other loans	250,100	468,804	143,596	193,080	313,675	73,088	**-**	-
- with option of advance repayment	8,074	9,173	12,814	53,824	157,013	55,968	*38*	-
- other	242,026	459,631	130,782	139,256	156,662	17,120	*1,703*	-
2. Cash liabilities	**391,712**	**1,471,668**	**101,472**	**87,186**	**193,781**	**6,682**	**8,016**	**-**
2.1 Due to customers	381,137	1,120,168	89,386	87,186	193,781	6,682	-	-
- current accounts	350,279	208,146	87,316	81,494	178,945	1,719	-	-
- other payables	30,858	912,022	2,070	5,692	14,836	4,963	-	-
- with option of advance repayment	-	-	-	-	-	-	-	-
- other	30,858	912,022	2,070	5,692	14,836	4,963	-	-
2.2 Due to banks	10,575	351,500	-	-	-	-	-	-
- current accounts	203	-	-	-	-	-	8,016	-
- other payables	10,372	351,500	-	-	-	-	-	-
2.3 Debt securities	-	-	12,093	-	-	-	8,016	-
- with option of advance repayment	-	-	12,093	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Altre passività	-	-	-	-	-	-	-	-
- con opzione di rimborso anticipato	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

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

All postings are in local currency, therefore the bank is not subject to foreign exchange risk.

1.2.4 Derivative instruments

A. Financial derivatives

The Bank does not operate on own account with derivative instruments.

B. Credit derivatives

As at 31 December 2015, the Bank had not executed any derivative contract to hedge the credit portfolio.

B.2 OTC Credit derivatives: gross positive fair value - breakdown by product

Underlying assets / Derivative types	POSITIVE FAIR VALUE	
	31/12/2015	31/12/2014
A. Regulatory trading portfolio		**63**
a) Credit default swap		63
b) Credit spread option		
c) Total return swap		
d) Other		
B. Banking book		
a) Credit default swap		
b) Credit spread option		
c) Total return swap		
d) Other		
Total		**63**

B.6 Residual life of credit derivatives: notional values

Underlying asset / Residual maturity	Up to 1 year	More than 1 and up to 5 years	More than 5 years	**Total**
A. Regulatory trading portfolio	-	-	-	-
A.1 Credit derivatives with "qualified" reference obligation	-	-	-	-
A.2 Credit derivatives with "non-qualified" reference obligation	-	-	-	-
B. Banking book	**-**	**-**	-	-
B.1 Credit derivatives with "qualified" reference obligation	-	-	-	-
B.2 Credit derivatives with "non-qualified" reference obligation	-	-	-	-
Total 2015	**-**	**-**	-	-
Total 2014	**5,035**	**-**	-	**5,035**

C. FINANCIAL AND CREDIT DERIVATIVES

As at 31 December 2015 the item no value.

1.3 Banking group - liquidity risk

QUALITATIVE INFORMATION

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

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

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

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

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

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

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

During the course of 2015, the Bank continued to adopt a particularly conservative financial policy meant to stabilize funding. This approach, allowed a balanced distribution between inflows from retail customer and corporate and institutional counterparties.

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

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

QUANTITATIVE INFORMATION

1. Time distribution of financial assets and liabilities by remaining contractual term

Item / Time brackets	On demand	From more than 1 day to 7 days	From more than 7 day to 15 days	From more than 15 days to 1 month	From more than 1 month to 3 months	From more than 3 months to 6 months	From more than 6 months up to 1 year	From more than 1 year to 5 years	Over 5 years	indeterminate
Non-derivative financial assets	**253,693**	**184,750**	**24,653**	**34,886**	**424,032**	**273,382**	**567,835**	**529,237**	**71,997**	**1,909**
A.1 Government securities	-	-	-	-	267,978	98,972	372,019	180,870	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCI units.	-	-	-	-	-	-	-	-	-	-
A.4 Loans	253,693	184,750	24,653	34,886	156,054	174,410	195,816	348,367	71,997	1,909
Banks	87	-	-	-	-	-	-	-	-	1,909
Customers	253,606	184,750	24,653	34,886	156,054	174,410	195,816	348,367	71,997	-
Cash liabilities	**385,291**	**944,012**	**16,647**	**148,574**	**362,870**	**90,727**	**88,677**	**193,781**	**26,682**	**-**
B.1 Deposits and current accounts	354,431	112,967	16,624	43,248	307,242	88,025	82,353	178,945	1,719	-
Banks	10,574	105,000	5,000	20,000	141,500	-	-	-	-	-
Customers	343,857	7,967	11,624	23,248	165,742	88,025	82,353	178,945	1,719	-
B.2 Debt securities	-	-	-	-	-	632	632	-	20,000	-
B.3 Other liabilities	30,860	831,045	23	105,326	55,628	2,070	5,692	14,836	4,963	-
Off-balance-sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial Guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	63	-	-	-	-	-	-	-	-	-
Long positions	63	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-

1.4 Banking Group - operational risks

QUALITATIVE INFORMATION

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

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

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

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

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

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

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

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

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

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

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

To protect the integrity of data, the Bank has implemented a datawarehouse; this tool allows the Bank to have a single repository that guarantees the correctness, completeness and accuracy of the data, as well as the possibility for a single point of access port to the information within the Bank.

In order to conduct consistent and complete analysis with respect to the other activities conducted by the Bank's other control functions, the results in relation to the non-compliance risk audits conducted by the Compliance and Anti-money laundering function, are shared both within the Risk Management and Compliance Division, with the Internal Audit and Risk Management Committee, and with the CEO;. The Internal Audit Division also monitors the regular performance of bank operations and processes and evaluates the level of effectiveness and efficiency of the overall internal control system set up to deal with risk exposure.

Finally, as an additional protection against operational risk, the Bank has:

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

SECTION 1 - CONSOLIDATED SHAREHOLDERS' EQUITY

A. QUALITATIVE INFORMATION

The objectives pursued in the Banks equity management are inspired by the prudential supervisory provisions, and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.
The Bank's income allocation policy aims to strengthen the Bank's capita with special emphasis on primary capital, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. QUANTITATIVE INFORMATION

B.1 Consolidated shareholders' equity: analysis by type of company

As at 31 December 2015, the Shareholders' equity was composed as follows:

Items in the shareholders' equity	Banking group	Insurance companies	Other companies	Netting and adjustments from consolidation	Total
Stock	9,651	-	-	-	9,651
Share premiums	39,436	-	-	-	39,436
Reserves	26,314	-	-	-	26,314
Capital instruments	-	-	-	-	-
(Treasury shares)	-	-	-	-	-
Valuation reserves	350	-	-	-	350
- Available-for-sale financial assets	417	-	-	-	417
- Property and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Foreign exchange differences	-	-	-	-	-
- Held-for-sale non-current assets	-	-	-	-	-
- Actuarial gain (loss) relative to defined-benefit plans	(67)	-	-	-	(67)
- Quotas of the valuation reserves regarding investee companies carried at equity	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
Net profit / (Loss) for the year of the group and non-controlling interests	**17,607**	-	-	-	**17,607**
TOTAL	**93,358**	-	-	-	**93,358**

B.2 Valuation reserves for financial assets available for sale: breakdown

Assets / Values	Banking Group		Insurance companies		Other Companies		Netting and adjustments from consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	508	113	-	-	-	-	-	-	508	113
2. Equity securities	-	-	-	-	-	-	-	-	-	-
3. Units of UCI	-	-	-	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 2015	***508***	**113**	**-**	**-**	**-**	**-**	**-**	**-**	**508**	**113**
Total 2014	**113**	**90**	**-**	**-**	**-**	**-**	**-**	**-**	**113**	**90**

B.3 Valuation reserves for financial assets available for sale: annual changes

	Debt securities	Equity securities	Units of UCI	Loans
1. Opening balance	**23**	-	-	-
2. Positive variations	**758**	-	-	-
2.1 Increases in fair value	623	-	-	-
2.2 Reclassifications from negative reserves to the income statement:	135	-	-	-
▪ following impairment	-	-	-	-
▪ following disposal	135	-	-	-
2.3 Other changes	-	-	-	-
3. Negative variations	**387**	-	-	-
3.1 Reductions in fair value	-	-	-	-
3.2 Adjustments for impairment losses				
3.3 Reclassifications of positive reserves to the	-	-	-	-
income statement: following disposal	170	-	-	-
3.4 Other changes	217	-	-	-
4. Closing balance	**395**	-	-	-

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS FOR BANKS

By means of a letter dated 05 May 2014, the Parent Company informed the Bank of Italy of its desire to exercise its option to be exempt from filing consolidated reports (an option laid down in paragraph 1.4 of circular 115 ‘Instructions for preparing banks' supervisory reports on a consolidated basis’).

In any case, the Parent company's own funds and capital ratios are shown below

2.1 Own funds

A. QUALITATIVE INFORMATION

The Own Funds, the risk weighted assets and the solvency ratios as at 31 December 2015 were determined based on the new regulation, harmonized for Banks, contained in the Directive 2013/36/EU (CRD IV) and in the Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based upon the Circular of the Bank of Italy no. 285 and no. 286 (enacted in 2013), and the update of Circular no. 154.

The legislative provisions relative to own funds require the gradual introduction of the new regulatory framework, through a transitory period, in general until 2017, during which certain elements that under normal circumstances will be computable or fully deductible in the Common Equity, impact the Common Equity Tier 1 capital only by percentage.

Own funds are characterized by a 3-tier structure

1) Common Equity Tier 1, CET1 capital

A) Common Equity Tier 1 - CET1

La presente voce include:

- Paid up capital of Euro 9.7 million Euro;
- A share-premium reserve of Euro 39.4 million;
- Other reserves including undistributed profits of Euro 40 million.

In particular, this item is includes a net profit of Euro 17 million recognized in Own funds pursuant to article 26 of the CRR, net of foreseeable dividends pertaining to the Group and of the other positive accumulated income components of Euro 350 thousand composed as follows:

- Negative reserve for actuarial losses deriving from defined benefit plans in accordance with the application of the new IAS 19 amounting to Euro 67 thousand;
- Positive reserves on available-for-sale assets amounting to Euro 417 thousand.

D) Items to be deducted from CET1

This item includes the following main aggregates:

- Goodwill and other intangible assets, equal to Euro 1.9 million;

E) Transitional regime - Impact on CET1 (+/-), including the minority interest subject to temporary provisions.

This item includes the following temporary adjustments:

- The exclusion of unearned profits on AFS securities, amounting to Euro 417 thousand (-);
- A positive filter on negative actuarial reserves (IAS 19), amounting to Euro 40 thousand (+).

2) Additional Tier 2, AT1 capital

G) Additional Tier1 (AT1) including elements to be deducted and the effects of the transitional provisions.

This item includes: the security ISIN IT0004881444 issued by Banca Sistema as an innovative tool of blended rate capital amounting to Euro 8 million.

3) Tier 2, T2 capital

M) Tier2 (T2) including elements to be deducted and the effects of the transitional provisions

This item includes the security ISIN IT0004869712 issued by Banca Sistema as an ordinary subordinated loan (Lower Tier 2) equal to Euro 12 million.

B. QUANTITATIVE INFORMATION

	31/12/2015
A. Common Equity Tier 1 - CET1 Before application of prudential filters	89,141
of which CET 1 instruments subject to transitional provisions	(377)
B. CET1 prudential filters (+/-)	-
C. CET1 including elements to be deducted and of the effects of the transitional provisions (A+/-B)	**89,141**
D. Items to be deducted from CET1	**(1,872)**
E. Transitional Provisions - Impact on CET (+/-)	**(377)**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**86,892**
G. Additional Tier1 (AT1) including elements to be deducted and the effects of the transitional provisions	**8,000**
of which AT1 instruments subject to transitional provisions	-
H. Items to be deducted from AT1	**-**
I. Transitional Provisions - Impact on AT1 (+/-)	**-**
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**8,000**
M. Tier2 (T2) including elements to be deducted and the effects of the transitional provisions	**12,000**
of which T2 instruments subject to transitional provisions	-
N. Items to be deducted from T2	**-**
O. Transitional Provisions - impact on T2 (+/-)	**-**
P. Total Tier 2 (T2) (M-N+/-O)	**12,000**
Q. Total Own Funds (F+L+P)	**106,892**

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The Own funds totalled 106.9 million, against risk-weighted assets of 636 million, derived almost exclusively from credit risk.

Based on article 467(2) of the CRR, implemented by the Bank of Italy in Circular 285, the Bank adopted the option to exclude, from its own funds, the profits or losses not realized relative to the exposures to the Central Authorities classified in the Available-for-sale financial assets (AFS) category. The effects of said exclusion on the capital ratios are marginal. As at 31 December 2015, the Banca Sistema group presented a CET1 capital ratio equal to 13.7%, a Tier 1 capital ratio equal to 14.9% and a Total capital ratio of 16.8%.

B. QUANTITATIVE INFORMATION

Category / Value	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/REQUIREMENTS	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
A. RISK ASSETS	2,234,170	1,799,310	535,194	298,803
A.1 Credit risk and counterparty risk	**2,234,170**	**1,799,310**	**535,194**	**298,803**
1. Standardised approach	-	-	-	-
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitised debt	-	-	-	-
B. MINIMUM REGULATORY REQUIREMENTS			42,815	23,904
B.1 Credit risk and counterparty risk			-	1
B.2 Credit assessment adjustment risk			-	-
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			8,037	5,196
B.5 Operational risk			**8,037**	**5,196**
1. Basic indicator approach			**-**	-
2. Standardised approach			**-**	-
3. Advanced method			**-**	-
B.6 Other calculation elements				
B.7 Total capital requirements			**50,853**	**29,102**
C. RISK ASSETS AND REGULATORY WEIGHTINGS			**635,658**	**363,771**
C.1 Risk-weighted assets			635,658	363,771
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			13.67%	10.40%
C.3 Tier1 capital/risk-weighted assets (Tier 1 capital ratio)			14.93%	12.60%
C.4 Total own funds/risk-weighted assets (Total Capital Ratio)			16.82%	15.90%

PART H - TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties and connected parties, including the relative authorisation and disclosure procedures, are governed by the 'Procedure governing transactions with associated parties' approved by the Board of Directors and published on the Internet site of the Parent Company, Banca Sistema S.p.A.

Transactions between the Group companies and related parties or connected parties were carried out in the interests of the Company, 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 administration, management and control functions in accordance with article 136 of the Consolidated Law on Banking, they are included in the Executive Committee decision, specifically authorised by the Board of Directors and with the approval of the Statutory auditors, subject to compliance with the obligations provided under the Civil Code with respect to matters relating to the conflict of interest of directors.

- 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 compensation of key management personnel

The following data show the compensation of key managers, 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.

Values in thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER EXECUTIVES	31/12/2015
Remuneration to Board of Directors and Board of Statutory Auditors	3,350	92	-	3,442
Short-term benefits for employees	-	-	3,675	3,675
Post-employment benefits	-	-	260	260
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	-	-	-	-
Total	**3,350**	**92**	**3,963**	**7,378**

DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2015, differentiated by type of related party with an indication of the impact on each individual caption.

Values in thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGERS	OTHER RELATED PARTIES	% OF CAPTION
Loans to customers	1,265	1,801	7,384	0.21%
Due to customers	-	1,241	16,774	0.96%
Securities in issue	-	-	20,102	100.00%
Other assets	-	-	89	0.00%
Other liabilities	436	-	12	0.79

The following table indicates the costs and income for 2015, differentiated by type of related party.

Values in thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGERS	OTHER RELATED PARTIES	% OF CAPTION
Interest income	44	16	-	0.08%
Interest expense	-	28	1,460	0.13%
Other administrative expenses	-	-	926	0.00%
Fee and commission income	-	-	3	0.00%

The following table sets forth the details of each related party.

	AMOUNT (Thousands of euro)	PERCENTAGE (%)
ASSETS	**2,411,670**	**0.36%**
Loans to customers	**-**	**-**
CS Union S.p.A.	7,384	0.51%
Speciality Finance Trust Holdings Ltd	1,265	0.09%
Other assets	-	-
CS Union S.p.A.	89	0.68%
LIABILITIES	**2,411,670**	**1.54%**
Due to customers	**-**	**-**
CS Union S.p.A.	133	0.01%
Shareholders - SGBS	2	0.00%
Shareholders - Fondazione Pisa	16,187	0.86%
Shareholders - Fondazione CR Alessandria	43	0.00%
Shareholders - Fondazione Sicilia	277	0.01%
Other liabilities	**-**	**-**
CS Union S.p.A.	12	0.02%
Speciality Finance Trust Holdings Ltd	436	0.79%
Securities in issue	**-**	**-**
Shareholders - Fondazione Pisa	20,102	100.00%

	AMOUNT (Thousands of euro)	PERCENTAGE (%)
REVENUE	**95,728**	**0.91%**
Interest income	**-**	**-**
CS Union S.p.A.	827	1.05%
Speciality Finance Trust Holdings Ltd	44	0.06%
Fee and commission income	-	-
Shareholders - Fondazione Pisa	3	0.02%
COSTS	**70,216**	**3.39%**
interest expense	**-**	**-**
CS Union S.p.A.	1	0.00%
Shareholders - SGBS	-	
Shareholders - Fondazione Pisa	1,446	6.88%
Shareholders - Fondazione CR Alessandria	3	0.02%
Shareholders - Fondazione Sicilia	2	0.01%
Other administrative expenses	**-**	**-**
CS Union S.p.A.	926	3.80%

PART I - PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

During FY 2015, the Bank did not conduct the transactions under discussion.

Disclosure of the consideration paid to the auditing company

Pursuant to the provisions of Art. 149 duodecies of the Consob Issuers' Regulations, the information regarding the fees paid to the auditing company KPMG S.p.A. and to the companies affiliated with the same network are reported below for the following services:

- Auditing services that include:
- The auditing of the annual accounts, for the purpose of expressing a professional opinion.
- The auditing of the interim accounts.
- Certification services that include tasks whereby the auditor evaluates a specific element, the determination of which is performed by another party who is responsible thereof, through appropriate criteria, in order to express a conclusion that provides the recipient party a confidence level concerning said specific element.
- Tax advisory services.
- Other services.

I corrispettivi esposti in tabella, di competenza dell'esercizio 2015, sono quelli contrattualizzati, comprensivi di eventuali indicizzazioni (ma non anche di spese vive, dell'eventuale contributo di vigilanza ed IVA).

The fees presented in the table, pertaining to FY 2015, are those contracted out, including any index-linking (but not out-of-pocket expenses, of any regulatory contribution and VAT). They do not include, in accordance with the cited provision, the compensation recognized to any secondary auditors or to parties of the respective networks.

Type of services	Entity providing the service	Addressee	Remuneration
Audit of the Financial statements	KPMG S.p.A.	Banca Sistema S.p.A.	114
Audit of the Financial statements	KPMG S.p.A.	Banca Sistema S.p.A.	10
Audit of the half-year financial reports	KPMG S.p.A.	Banca Sistema S.p.A.	25
Other services: activities associated with the listing procedure of Banca Sistema S.p.A. on the STAR segment of the Mercato Telematico Azionario (MTA market) organized and managed by Borsa Italiana S.p.A.	KPMG S.p.A.	Banca Sistema S.p.A.	500
Total			**649**

PART L - SEGMENT REPORTING

For the purpose of segment reporting required by IFRS 8, the income statement aggregated for business line is reported below.

Distribution by business segments: Income figures as at 31 December 2015

Items	31/12/2015			
Values in thousands of Euro	**Factoring**	**Banking**	**Corporate**	**Consolidated totals**
Interest margin	52,771	4,376	859	58,006
Net fees and commissions	11,171	380	(383)	11,168
Other costs/revenues			2,640	2,640
Net interest and other banking income	**63,942**	**4,756**	**3,116**	**71,814**
Net value adjustments for loan impairment	(3,104)	(2,335)	-	(5,439)
Operating income	**60,838**	**2,421**	**3,116**	**66,375**

Distribution by business segments: asset figures as at 31 December 2015

Items	31/12/2015			
Values in thousands of Euro	**Factoring**	**Banking**	**Corporate**	**Consolidated totals**
Financial assets	-	-	925,402	925,402
Due from banks	-	-	2,076	2,076
Due to banks	-	-	362,075	362,075
Loans to customers	837,687	125,239	495,064	1,457,990
Due to customers	28,426	-	1,849,913	1,878,339

The Factoring divisions includes the business area referred to at the origination of the non-recourse and recourse factoring commercial and fiscal factoring loans. Furthermore, the division includes the business area referred to in the credit management and collection services activities for third parties.

The Banking sector includes the business area referred to at the origination of secured loans to small and medium businesses, salary-/pension-backed loan portfolios, and the administered costs/revenues, and from and placement of third-party products. The Corporate sector includes activities inherent to the management of Group's financial resources and the costs/revenues in support of the business activities. Furthermore, all the consolidating entries in addition to all the intercompany nettings were included in this sector. The secondary report by geographical area was omitted being irrelevant, in so far that the customers are essentially concentrated in the domestic market.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned, Gianluca Garbi, in his capacity as CEO, and Margherita Mapelli, in her capacity as Designated manager responsible for drafting the company accounting documents of Banca Sistema S.p.A. hereby certify, 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 company, and
   - that the Group has effectively applied the administrative and accounting procedures for preparing the Consolidated financial statements for the period from 1 January 2015 to 31 December 2015.
2. The suitability and effective application of the administrative and accounting process for the drafting of the consolidated financial statements as at 31 December 2015 was verified based on internally defined methodologies, consistent with the provisions of the reference standards for the internal audit system generally accepted on an international level.

3. In addition, the undersigned also certify as follows:

3.1. The consolidated financial statements:

a) have been prepared in accordance with the applicable international financial reporting standards recognised in the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) correspond with the accounting books and records;

c) are suitable for providing a faithful and proper representation of the financial performance, income, and cash flows of the issuer and of the group of companies included in the consolidation.

3.2 The Directors' Report contains a reliable analysis of the performance, operating results and financial situations of the issuer and of the companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Milan, 15 March 2016

Gianluca Garbi

CEO

Margherita Mapelli

Designated manager responsible for drafting the company accounting documents

INDEPENDENT AUDITORS' REPORT

The attached Independent Auditors' report referred to is compliant with the one which will be filed c/o the registered office.

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI

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Relazione della società di revisione indipendente ai sensi degli artt. 14 e 16 del D.Lgs. 27 gennaio 2010, n. 39

Agli Azionisti di
Banca Sistema S.p.A.

Relazione sul bilancio consolidato

Abbiamo svolto la revisione contabile dell'allegato bilancio consolidato del Gruppo Banca Sistema, costituito dallo stato patrimoniale al 31 dicembre 2015, del conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla relativa nota integrativa.

Responsabilità degli amministratori per il bilancio consolidato

Gli amministratori di Banca Sistema S.p.A. sono responsabili per la redazione del bilancio consolidato che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05.

Responsabilità della società di revisione

E' nostra la responsabilità di esprimere un giudizio sul bilancio consolidato sulla base della revisione contabile. Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia) elaborati ai sensi dell'art. 11, comma 3, del D.Lgs. n. 39/10. Tali principi richiedono il rispetto di principi etici, nonché la pianificazione e lo svolgimento della revisione contabile al fine di acquisire una ragionevole sicurezza che il bilancio consolidato non contenga errori significativi.

La revisione contabile comporta lo svolgimento di procedure volte ad acquisire elementi probativi a supporto degli importi e delle informazioni contenuti nel bilancio consolidato. Le procedure scelte dipendono dal giudizio professionale del revisore, inclusa la valutazione dei rischi di errori significativi nel bilancio consolidato dovuti a frodi o a comportamenti o eventi non intenzionali. Nell'effettuare tali valutazioni del rischio, il revisore considera il controllo interno relativo alla redazione del bilancio consolidato della banca che fornisca una rappresentazione veritiera e corretta al fine di definire procedure di revisione appropriate alle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della banca. La revisione contabile comprende altresì la valutazione dell'appropriatezza dei principi contabili adottati, della ragionevolezza delle stime contabili effettuate dagli amministratori, nonché la valutazione della presentazione del bilancio consolidato nel suo complesso.

Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Giudizio

A nostro giudizio, il bilancio consolidato fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria del Gruppo Banca Sistema al 31 dicembre 2015, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. n. 38/05.

Relazione su altre disposizioni di legge e regolamentari

Giudizio sulla coerenza della relazione sulla gestione e di alcune informazioni contenute nella relazione sul governo societario e gli assetti proprietari con il bilancio consolidato

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere, come richiesto dalle norme di legge, un giudizio sulla coerenza della relazione sulla gestione e delle informazioni della relazione sul governo societario e gli assetti proprietari indicate nell'art. 123-bis, comma 4, del D.Lgs. n. 58/98, la cui responsabilità compete agli amministratori di Banca Sistema S.p.A., con il bilancio consolidato del Gruppo Banca Sistema al 31 dicembre 2015. A nostro giudizio la relazione sulla gestione e le informazioni della relazione sul governo societario e gli assetti proprietari sopra richiamate sono coerenti con il bilancio consolidato del Gruppo Banca Sistema al 31 dicembre 2015.

Milano, 24 marzo 2016

KPMG S.p.A.

Bruno Verona
Socio