CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 30 SEPTEMBER 2016

1INFO
DIGITAL SIGN

BANCA SISTEMA
CONTEMPORARY BANK

Banca Sistema Group

CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 30 SEPTEMBER 2016

BANCA SISTEMA
CONTEMPORARY BANK

CONTENTS

CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 30 SEPTEMBER 2016

COMPOSITION OF THE PARENT COMPANY'S MANAGEMENT BODIES

Board of Directors

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

Board of Statutory Auditors

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

Internal Control and Risk Management Committee

Members:	Ms	Carlotta De Franceschi
	Prof.	Giorgio Barba Navaretti
	Mr	Daniele Pittatore
	Ms	Luitgard Spögler

Nominations Committee

Members:	Mr	Andrea Zappia
	Ms	Ilaria Bennati
	Ms	Luitgard Spögler

Remuneration Committee

Chairman:	Prof.	Giorgio Barba Navaretti
Members:	Mr	Andrea Zappia
	Prof.	Giovanni Puglisi

Ethics Committee

Chairman:	Prof.	Giovanni Puglisi
Members:	Ms	Ilaria Bennati
	Mr	Marco Pompeo

Surveillance Body

Chairman:	Mr	Diego De Francesco
Members:	Mr	Daniele Pittatore
	Mr	Franco Pozzi

The Board of Directors was appointed by resolution of the Shareholders' Meeting dated 27 November 2015, with the appointment of Ms Luitgard Spögler to the position of Chairman of the Board of Directors. Subsequently, the Board of Directors, meeting on the same date, appointed Mr Gianluca Garbi to the position of CEO and set up the Executive Committee, the Internal Control and Risk Management Committee, the Nominations Committee, the Remuneration Committee, the Ethics Committee and the Surveillance Body. Following the resignation of Mr Michele Calzolari, tendered on 31 May 2016, on 10 June 2016 the Board of Directors co-opted Ms Ilaria Bennati as Director. In addition, the abolition of the Executive Committee became effective on 4 July 2016, with the resulting reorganisation of the Board committees, and Mr Giovanni Puglisi was appointed Deputy Chairperson. The Board of Statutory Auditors was appointed by resolution of the Shareholders' Meeting dated 22 April 2014.

HIGHLIGHTS DATA AS AT 30 SEPTEMBER 2016

30 Sep 2016
31 Dec 2015
30 Sep 2015

Balance sheet data (€ ,000)

Total assets	1,811,908 2,411,670	-24.9%
Securities portfolio	435,037 925,402	-53.0%
Loans - Factoring	982,915 1,049,832	-6.4%
Loans - Salary-backed loans and SME	292,875 203,466	43.9%
Funding - Banks and REPOs	721,910 1,271,164	-43.2%
Funding - Term deposits	400,148 572,379	-30.1%
Funding - Current accounts	345,415 335,574	2.9%

Profit and loss data(€ ,000)

Interest margin	50,812 42,994	18.2%
Net fee and commission income	6,862 8,308	-17.4%
Net income from banking activities	58,961 53,785	9.6%
Personnel expenses	(11,148) (9,708)	14.8%
Other administrative expenses (*)	(15,398) (13,754)	12.0%
Profit before taxes (*)	29,784 26,611	11.9%

Performance indicators

Cost/Income Ratio (*)	45% 44%	2.6%
ROAE (**)	27% 34%	-20.4%

(*) Amounts and indicators related to 30 September 2015 were calculated using profit and loss data adjusted for non-recurrent costs relating to the IPO.

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

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

The Board of Directors approved the following on 5 February 2016: (I) the Activity Plan for 2016 related to the II Level Internal Control Functions, (Risk, Compliance and Anti-Money laundering) and Internal Audit Department, and (II) the Board of Directors' Regulations. The Board of Directors also acknowledged the quarterly report from the Internal Control Department as at 31 December 2015 (Risk Reporting, Tableau de bord of the Compliance Department and Tableau de bord of the Internal Audit Department), as well as the quarterly report on Transactions with Associated Parties within the scope of the Master Resolution. In addition, the Board of Directors, upon confirmation of the decision made on 16 December 2015 regarding the purchase of a building for the Bank's new headquarters, approved the establishment of a new, wholly owned vehicle (a limited liability company) with a view to further developing the business. This company will deal with property asset management, in addition to other activities (e.g. the management and sale of advertising space, cultural and educational events, etc.), possibly even on behalf of third parties. The acquisition of the 100% interest in the vehicle is subject to prior communication to the Bank of Italy.

On 15 March 2016 the Board of Directors approved: (I) the "Annual report on the procedures for providing services, investment activities, ancillary services and activities related to the distribution of financial products issued by insurance companies and banks as per CONSOB decision no. 17297', II) the '2015 Risks Division Annual Report", III) the "2015 Compliance Department Annual Report", (IV) the "2015 Anti-Money Laundering Department Annual Report", (V) the "Compliance Department Annual Report on complaints received by the Bank", (VI) the "Annual Report on the activities carried out by the Internal Audit Department during 2015", and (VII) the Periodic Report to the Board of Directors and Board of Statutory Auditors from the Surveillance Body concerning the application of the "Organisation, management and control model pursuant to Legislative Decree 231/2001". The Board of Directors also approved the Report on corporate governance and ownership structure which was prepared in accordance with section 123-bis of Legislative Decree no. 58/1998, as well as the updated IT System documentation (IT Security Policy, IT Risk Summary Report, Information Technology and Communication Adequacy and Cost Summary Report).

Following the resolutions dated 16 December 2015 approving the Remuneration Policies of the Banca Sistema Group for 2016 and the launch of the 2016-2019 Stock Grant Plan with approval of the relevant Regulation, as well as the ensuing resolutions for the creation of a legal reserve of profits linked to the free share capital increase reserved to beneficiaries of the 2016-2019 Stock Grant Plan and the free share capital increase pursuant to article 2349 of the Italian Civil Code servicing the Stock Grant Plan, following approval of the proposed amendment of article 5 of the Articles of Association, on 24 March 2016 the Board of Directors approved some changes to the previously approved versions that it deemed necessary based on indications received from the Supervisory Authorities.

On 25 March 2016, the Bank of Italy issued the authorisation provision - pursuant to Articles 77 and 78 of Regulation (EU) No. 575/2013, as well as Article 29 of Commission Delegated Regulation No. 241/2014 - for the repurchase of the Common Equity Tier 1 capital instruments issued by the Bank as resolved by the Shareholders' Meeting on 27 November 2015 for a predetermined amount not exceeding € 1,477,649.49 (amount to be deducted entirely from own funds as of the authorisation date) for the following purposes: (I) to support regular trading performance so as to avoid price movements that are not in line with the market movements and to guarantee market making (Article 29 (3) of Commission Delegated Regulation No. 241/2014); (II) to pay a portion of the variable remuneration in shares to key personnel as set out in the remuneration and incentive policies approved by the Shareholders' Meeting (Article 29 (4) of Commission Delegated Regulation No. 241/2014); (III) provide the directors with a flexible, strategic and operational tool that will allow them to use own shares as consideration for any extraordinary transactions, such as acquisitions or investment exchanges, with other parties regarding transactions of interest to the Bank. The maximum amount available for this purpose is € 140,000 (Article 29 (5) of Commission Delegated Regulation No. 241/2014);

On 28 April 2016, the ordinary and extraordinary Shareholders' Meeting decided on the following:

1) the approval of the financial statements of Banca Sistema S.p.A. as at and for the year ended 31 December 2015;

2) the allocation of the profit for 2015, with the payment of a dividend of € 0.053 per share;

3) the approval of the 2016 Remuneration Policies of the Banca Sistema S.p.A. Group, with a maximum limit of the ratio of the variable component to the fixed component of remuneration of 2:1 for positions falling into the category of "key personnel";

4) to acknowledge the Remuneration Report, drafted in accordance with Part One, Title IV, Chapter 2, of Bank of Italy Circular No. 285 of 17 December 2013, approved by the Board of Directors on 24 March 2016, with a favourable opinion on Section I;

5) to approve the 2016 Stock Grant Plan, concerning the free assignment to beneficiaries of ordinary shares of the Company at the end of the first cycle of the 2016 Plan, contingent on the achievement of certain company and individual performance targets;

6) the establishment of a specific restricted equity reserve in service of the 2016 Stock Grant Plan and the 2017-2019 plans that may in future be approved by the Shareholders' Meeting in respect of the years of accrual 2017, 2018 and 2019, designated the "Restricted reserve for capital increase in service of stock-grant plans for bonuses in 2016, 2017, 2018 and 2019", in the amount of € 1,600,000.00, to be drawn from a pre-existing free equity reserve consisting of "undistributed profits" identified in the "Undistributed profit reserve";

7) to approve (according to the authorisation received from the Bank of Italy on 26 April 2016 by provision no. 552423) a free share capital increase, pursuant to Article 2349 of the Italian Civil Code and Article 5.4 of the Articles of Association, in divisible form, in service of the 2016 Stock Grant Plan, and in service of the stock grant plans that may in future be approved by the Shareholders' Meeting in respect of the years of accrual 2017, 2018 and 2019. The maximum amount of this free share capital increase is a nominal € 49,920, corresponding to a maximum number of 416,000 ordinary Company shares with a par value of € 0.12 each, and it must be executed by 30 June 2023. The free share capital increase will involve the use of the restricted reserve for share capital increases in service of the 2016 Plan and the 2017-2019 plans (established in the amount of € 1,600,000).

Within the framework of the securitisation transaction 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 relating to salary- and pension-backed loans to the special purpose vehicle Quinto Sistema Sec. 2016 S.r.l for a book value of € 119.6 million, with the subsequent issue of ABS on 29 March 2016. The SPV Quinto Sistema Sec. 2016 S.r.l. was included in the list of SPVs under no. 35253.4 on 9 March 2016. On 24 March, the bond documents for the issue of the ABS were signed, while on 29 March the OTC repo contract (structured as a sale and repurchase agreement) with Duomo Funding plc was signed. Finally, on 30 March the settlement transactions for both the issue of the ABS (subscribed by Banca Sistema) and the Repo contract with Duomo Funding plc regarding the senior tranche were concluded. The amount of the issue was € 120.9 million. On 23 May a new portfolio of salary-backed loans was sold to the SPV Quinto Sistema Sec. 2016 for a book value of € 24.1 million partly financed through collection of principal from the securitised portfolio (€ 1.8 million), with the remainder funded through further payments "called up" on the ABS according to their "partly paid" structure. Following the second sale, the total securitised portfolio reached an outstanding value of approximately € 138. On 23 May the OTC repo contract was renewed with Duomo Funding plc for a term of two months in the case of the senior tranche, in an amount, following the sale of the new portfolio, of € 111.9 (rolling over the initial repo, which had a nominal value of € 93.5), refinanced, as in the case of the previous transaction, without a haircut at an annual interest rate of 0.503% (including commissions).

On 29 April 2016, the Board of Directors, as part of a larger process of revising the Bank's organisational structure, approved (I) the abolition of the Executive Committee, (II) the resulting revision of operating powers and (III) the reorganisation of the compositions of the Board committees, in addition to the appointment of the new Deputy Chairperson of the Board of Directors (Mr Giovanni Antonino Puglisi) and the new Compliance Officer (Ms Daniele Mosconi). Furthermore, the Board of Directors also approved the reorganisation of the company structures through (I) the establishment of the new Collection Division, which will be responsible for management and recovery of the receivables of the Bank and third parties, assigned to Egisto Franceschi, former Head of the Central Banking Division, and (II) the merger of the Central Factoring Division and the Central Banking Division to form the new Central Commercial Division, assigned to Steve Skerrett, former Head of the Central Factoring Division. All of the above changes became effective on 4 July, following the expiry of the period of five business days from 24 June 2016, the date of issue by the Bank of Italy of the provision authorising the purchase by Banca Sistema S.p.A. of a 100% equity interest in Beta Stepstone S.p.A.

In addition, the Board of Directors approved the update to the Liquidity Policy and Contingency Funding Plan, the 2015 ICAAP Report, the "Annual report from the Internal Audit Department concerning audits conducted on the outsourced operating functions" and the Regulations for the Coordination of the Internal Control Department. Furthermore, the Board acknowledged the quarterly report by the Internal Control Department as at 31.3.2016 (Risk Reporting, Tableau de bord of the Compliance Department and Tableau de Bord of the Internal Audit Department), the quarterly report on Transactions with Associated Parties within the scope of the Master Resolution and the Pillar III Disclosure.

Banca Sistema's first senior bond issue, approved during the session of the Board of Directors held on 29 April, was concluded on 3 May 2016. The placement in a club deal reserved for institutional investors, in the total amount of € 70 million, spread over six investors, has a term of two years, with a fixed rate and an all-inclusive cost of 200 bps. The issue is part of a plan to diversify the forms of funding, in accordance with the Funding Plan, and allows for improved asset liability management.

Following the resolutions passed by the Board of Directors on 16 December 2015 and 5 February 2016, on 21 April 2016 a preliminary purchase agreement was signed for the purchase of a building for the Bank's new headquarters. Then, on 17 May 2016, notice of acquisition of equity investments not subject to authorisation entailing modification of the banking group was sent to the Bank of Italy - pursuant to Article 53 (1) (c) of Legislative Decree No. 385 of 1 September 1993, as amended (the "Consolidated Law on Banking"), and the Supervisory Provisions set out in Circular No. 285 of the Bank of Italy of 17 December 2013 - regarding the acquisition of a 100% equity interest in a newly incorporated special-purpose vehicle in the form of a limited liability company.

On 10 June 2016 the Board of Directors approved Banca Sistema's participation in the second plan of targeted long-term refinancing operations ("TLTRO-II") for a maximum available amount of € 123 million. On the basis of the bids received, Banca Sistema subscribed the operation for the maximum amount available (€ 122,850,000.00). The operation was allotted on 24 June 2016 with spot settlement on 29 June 2016. The Board of Directors also approved the Regulations of the Internal Audit Department.

In the context of a new securitisation transaction approved by the Board of Directors on 10 June 2016, the following sales contracts were signed on 30 June: the Sales Contract (including the Guarantees), Servicing Contract and Corporate Servicing Contract (for the management of the SPV). The portfolio of loans sold includes 145 enforceable injunctions (status of "not opposed" and later stages) amounting to total principal of € 23.9 million, with € 7.7 million of late payment interest accrued (of which € 1.5 million relating to invoices the principal of which has been repaid and € 6.2 million of invoices that have yet to be repaid).

On 21 June 2016 Banca Sistema and the majority shareholders signed an agreement with Axactor AB for the acquisition of a 90% equity interest in CS Union

S.p.A., an independent leading Italian player in the field of debt recovery and the purchase of non-performing loans (NPLs). The transaction was finalised on 28 June, with the sale to Axactor of the 15.8% equity interest in CS Union held by Banca Sistema, which will therefore continue to hold a 10% interest in the company, for a pre-tax capital gain of € 2.3 million in the first half of 2016. The consideration (€ 3.8 million) was settled 60% in cash and the remainder in shares of Axactor. A three-year shareholders' agreement was also signed by Banca Sistema and Axactor for the joint development of the NPL business in Italy.

After having signed an agreement with Stepstone Financial Holdings on 4 February 2016 for the acquisition of a 100% interest in Beta Stepstone S.p.A. and having received notice of authorisation from the Bank of Italy on 24 June 2016, on 1 July 2016 the acquisition was finalised for consideration of € 57.2 million (compared to the previously agreed € 60.8 million, which was corrected on the basis of several contractual reductions and adjustments). The acquisition price includes a share of late payment interest not yet collected by Beta of approximately € 16.3 million; an identical amount was paid as a security deposit and will be released to the seller only after the collection of the aforementioned late payment interest. That consideration was also adjusted on the basis of shareholders' equity at the closing of the transaction (30 June 2016), which will result in an adjustment in the favour of Banca Sistema of €633 thousand. The purchase is in line with the strategic plan of Banca Sistema as notified in July 2015 during the IPO. The purchase strengthens the Bank's presence in the factoring market for healthcare operators in Central and Southern Italy.

The following measures became effective on 4 July 2016, in accordance with the resolutions passed by the Board of Directors on 29 April 2016:

- the abolition of the Executive Committee, with the resulting expansion/update of the powers previously granted to the CEO and General Manager;
- the reorganisation of the composition of Board committees;
- the reorganisation of company structures through the establishment of the new Collection Division and the merger of the Central Factoring Division and Central Banking Division into the Central Commercial Division.

On 29 July 2016 the Board of Directors approved the plan for the merger by incorporation of Beta Stepstone S.p.A. into Banca Sistema S.p.A. The application for authorisation of the merger pursuant to Art. 57, paragraph 1, of the Consolidated Law on Banking was therefore submitted to the Bank of Italy on the same date.

On the same date, the Board of Directors also acknowledged the quarterly report at 30.06.2016 of the internal control functions (Risk Reporting, Tableau de Board of the Compliance Function and Tableau de Board of the Internal Audit Division), in addition to the quarterly report on Transactions with Associated Parties falling within the framework of the Master Resolution, for which the update was nonetheless approved, with a new expiry of July 2017 set.

The vehicle Largo Augusto Servizi e Sviluppo S.r.l. (LASS), fully owned by Banca Sistema, with capital of €4 million, was incorporated on 25 August 2016. The company's objects include, among others, the promotion of and participation in real-estate investment transactions, primarily with companies belonging to the banking group. On 31 August 2016 LASS then purchased a property located at Largo Augusto 1 in Milan, Italy, for a total of € 21.5 million, to be used as the Bank's new headquarters, once the planned restructuring work has been completed.

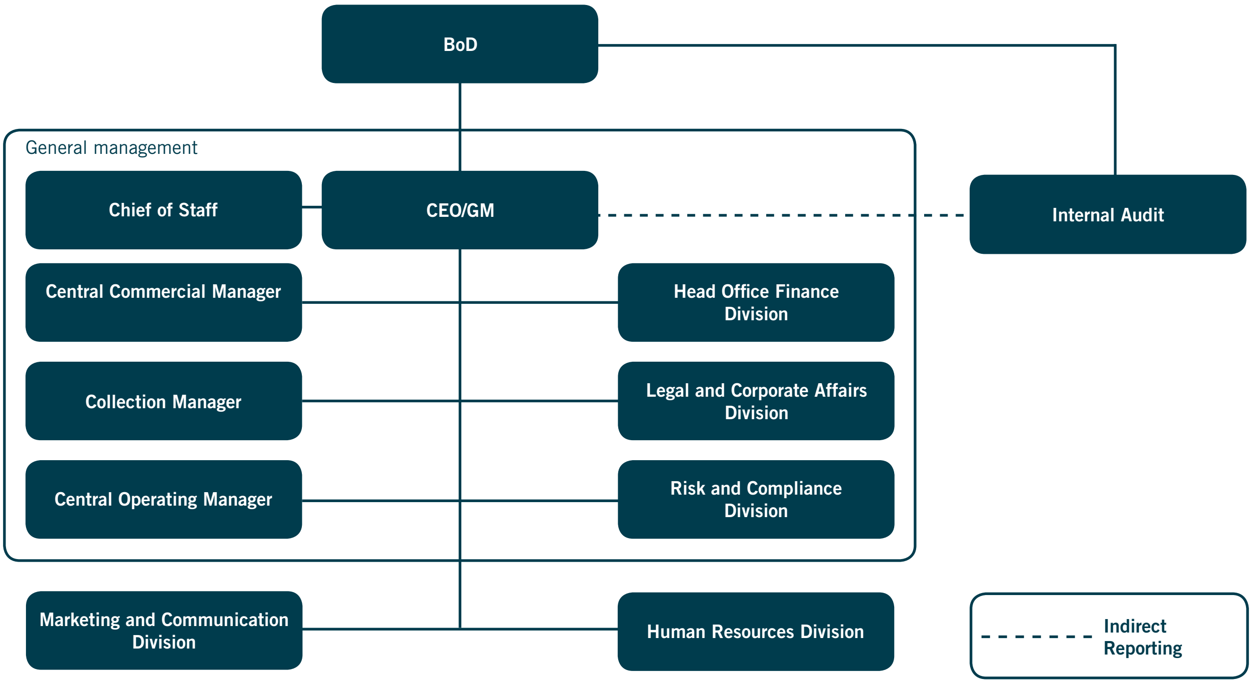
COMPOSITION AND ORGANISATIONAL STRUCTURE OF THE GROUP

Scope of the banking group

At 30 September 2016, the Banca Sistema Group comprised the Parent Company, Banca Sistema S.p.A., Specialty Finance Trust Holding Limited, a company incorporated under U.K. law, and the new companies Beta Stepstone S.p.A. (acquired on 1 July 2016) and Largo Augusto Servizi e Sviluppo S.r.l. (incorporated on 25 August 2016), all fully owned by the Bank.

Organisational chart

The organisational chart of Parent Company, Banca Sistema, is shown below:



GENERAL MANAGEMENT

The following report to the CEO and General Manager:

- Central Commercial Manager
- Central Financial Manager
- Collection Manager
- Risk and Compliance Manager
- Central Operating Manager
- Legal and Company Affairs Manager
- Marketing and Communication Manager
- Human Resources Manager
- Chief of Staff

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 (Administrative office)
- Palermo - Via della Libertà, 52 (Administrative office)
- Naples - Via Toledo, 156 (Legal and administrative office)
- London - (UK) Dukes House 32-38 Dukes Palace (Administrative office)

HUMAN RESOURCES

As at 30 September 2016, the Group had a staff of 143, broken down by category as follows:

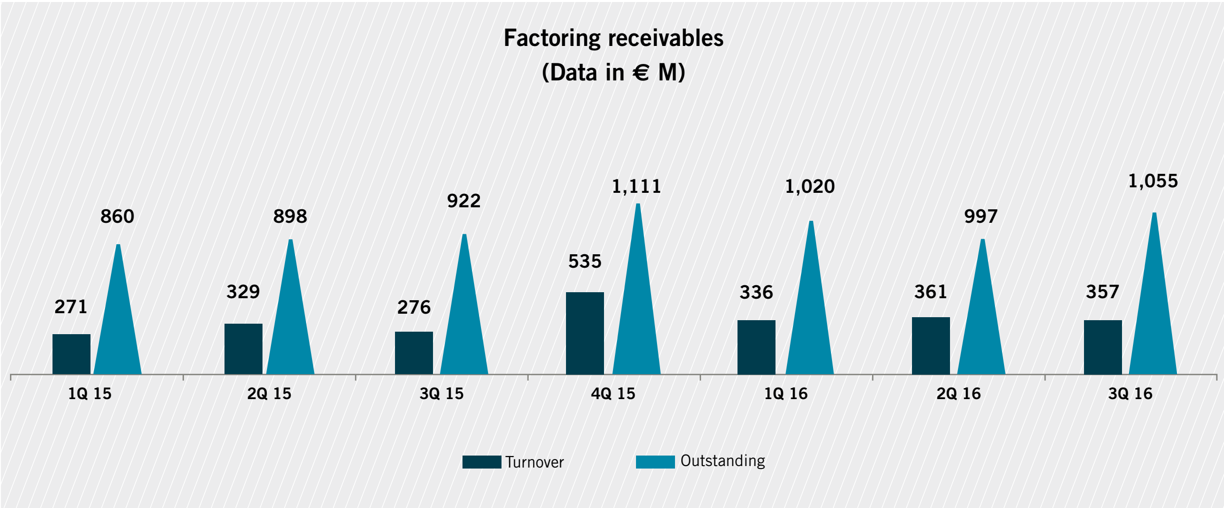
FTEs	30.09.2016	31.12.2015	30.09.2015
Senior managers	18	15	15
Middle managers (QD3 and QD4)	43	33	34
Other personnel	82	82	87
Total	**143**	**130**	**136**

At 30 September 2016 the headcount included 14 new resources attributable to the new subsidiary Beta Stepstone. During the year, 15 new resources joined the Parent Company in the Commercial, Legal and Operations business areas.

During the same period, 16 resources left the Group from the Administration, Commercial and Collections business areas. Three of these were employees of SF Trust Holding. The average age of Group employees is 40 for men and 38 for women, with women accounting for 39% of the total. These figures are similar to those reported in the previous six months.

FACTORING

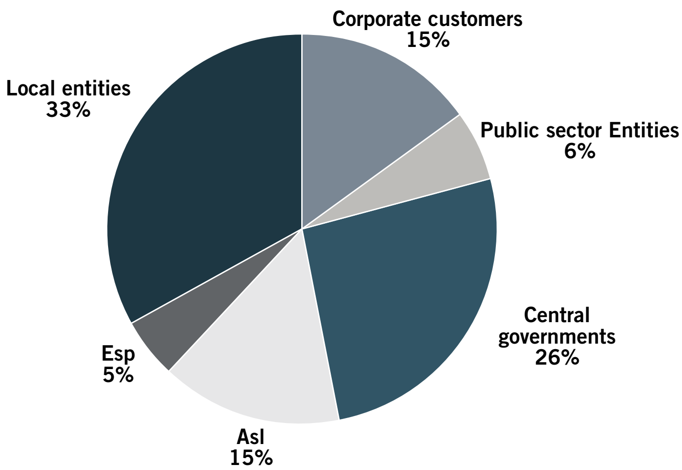
The turnover for the period ended September 2016 for the Banca Sistema Group was € 1,054 million (of which € 8 million attributable to Beta), up 20% on the same period in 2015. Considering the third party receivables managed, total volumes came to € 1,263 million as at 30 September 2016.



Outstanding loans as at 30 September 2016 amounted to € 1,055 million, impacted by the trend in turnover in 2016 and by collections in the period, up 14% on the € 922 million reported in the same period of 2015, but down 5% on the € 1,111 million recorded at 31 December 2015, mainly due to the collection trend during the first quarter of 2016, which was higher than receivable portfolios acquired during the same period.

Collections as at 30 September 2016 stood at € 1,142 million, of which € 12 million attributable to customers of Beta, up 33% on collections as at 30 September 2015.

The chart below shows the ratio of debtors to the outstanding portfolio as at 30 September 2016. 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 transactions 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:

PRODUCT	30.09.2016	30.09.2015	€ Change	% Change
Trade receivables	927	790	137	17%
of which, without recourse	691	677	13	2%
of which, with recourse	237	113	124	109%
Tax receivables	127	85	42	49%
of which, without recourse	110	67	43	65%
of which, with recourse	17	18	(1)	-7%
TOTAL	**1,054**	**875**	**179**	**20%**

Tax receivables (VAT) as at 30 September 2016 increased (+49%), partly due to the introduction of split payments in 2015, and include VAT credits from insolvency proceedings, a business that was launched at the end of 2014 with the support of a market specialist.

The number of customers in September 2016 increased to 299, up 47% on the same period of 2015 due to the strengthening of indirect factoring for the PA and private debtors, the extension of the sales network which began in 2015, and as a result of the agreements entered into with banks.

Collection and debt recovery activities

For the purposes of its debt recovery activities, the Group uses both its own internal structures, and a network of external operators and companies specialised in debt recovery that are active across the entire 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.

In September 2016, collections managed by the Bank under its credit factoring portfolios totalled € 1,129 million (up 31% on 2015).

Recovery and reconciliation of collections has always been divided into ordinary recovery activity, when invoices are paid according to the internally estimated schedule, and legal recovery activity. In particular, the policy for managing and recovering receivables claimed by Banca Sistema from the public administration has been characterised, since the launch of the business, by an approach that, normally, does not involve legal actions.

Clearly, legal action remains the sole remedy available in the event of voluntary non-payment or failure to reach out-of-court agreements with the factored debtor. In particular, legal action is initiated when it is necessary to avoid a loss for the Bank. In addition, the recovery of the late payment interest component is necessary in some cases in order to achieve the expected profitability. It should be noted that, due to an inefficient judicial system, as often remarked in many institutional settings, the transition from ordinary collection to legal collection has the consequence of extending collection times for this latter component. Accordingly, even if the amount of receivables subject to legal action remains on average below 10% of the total receivables acquired each year, the effect of delay in the Italian judicial system results in the stratification of the timetable for such receivables subject to legal action and means that 22% of outstanding receivables at the end of September 2016 consisted of receivables subject to legal action.

Until 30 June 2016, the Bank adopted a cash accounting approach for late payment interest, for reasons of prudence and in the absence of a sufficiently solid proprietary historical series. In consideration of the significant increase in the volume of the receivables acquired, the experience gained through the more systematic launch of out-of-court and judicial recovery measures for past-due receivables, the Bank is now, five years after its establishment, in possession of more complete statistical information concerning recovery times for amounts due, by way of both principal and interest, and the amounts recovered. Considering the experience gained by the Bank in recent years, as well as the international accounting principles, it therefore appeared necessary to undertake a revision of the valuation criteria for late payment interest on the basis of new qualitative and quantitative criteria.

Consequently, due to the refinement of the internal assessment methods and the greater data available, with effect from 30 June 2016 15% of the late payment interest due and accrued up to the end of the reporting period has been recognised in profit and loss, but solely for invoices subject to recovery through legal action; this average percentage of 15% (which amounts to 4.2% of total late payment interest accrued as at 30 September 2016 on invoices collected and still outstanding, a figure that may be compared with other market practices, which recognise such interest on the overall stock of loans acquired) represents the amount prudentially estimated and deemed recoverable of the total interest accrued on invoices the recovery of which has passed from ordinary recovery to legal action. Doubtful and unlikely to pay positions are excluded from this calculation.

Servicing activities

Through its network of collectors, the Group manages and reconciles the collection of invoices of third customers. As at 30 September 2016, the amount of third-party receivables managed by the Group totalled € 206 million, while the fee and commission income generated by this business segment totalled € 722 thousand.

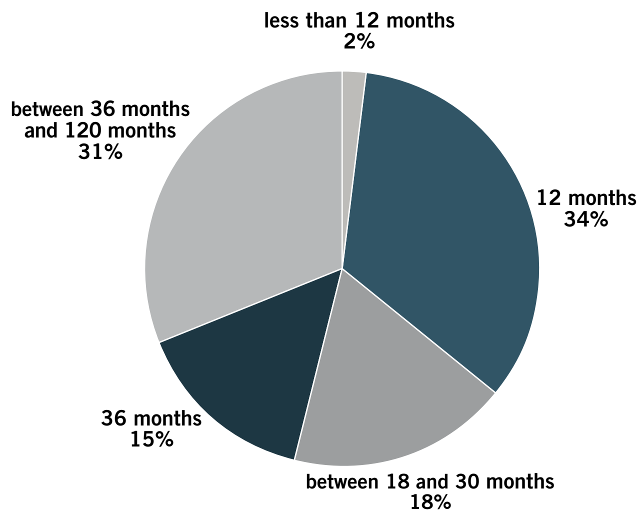
Direct funding

The funding policy of the banking division is strictly linked to changes in trade loans and market conditions. Retail funding accounts for 48% of the total and is composed of the account Si Conto! Corrente and the product SI Conto! Deposito.
Total term deposits as at 30 September 2016 amounted to € 400 million, a decrease of € 157 million compared to 31 December 2015. The decrease was due to a specific decision by the Bank, for reasons of economic expedience, since the liquidity offered by the interbank market has increased enormously, with lower costs. Requests for early redemption or withdrawals from accounts were modest (-9%), in keeping with normal performance. The Bank reduced the rates offered to customers twice, in order to achieve its objective of reducing direct retail funding. The above amount also includes total term deposits of € 83 million (obtained with the help of a partner platform) held with entities resident in Germany and Austria (accounting for 21% of total deposit funding).

There were 10,326 individual customers with term deposits as at 30 September 2016, a decline compared with the figures as at 30 September 2015 (11,467).
The average deposit was €38thousand, down compared with the figures as at 30 September 2015 (€ 45 thousand).

The breakdown of funding by term is shown below.

Breakdown of deposit accounts as at 30 September



Current accounts increased from 3,470 (as at 30 September 2015) to 4,042 in September 2016, while the current account balance as at 30 September 2016 was € 345 million, up € 19 million compared with 31 December 2015.

Indirect funding

Indirect funding from assets under administration as at 30 September 2016 totalled € 150 million (€ 364 million as at 31 December 2015).

The breakdown is as follows:

Type (€ million)	30.09.2016	31.12.2015	€ Change	% Change
Bonds	55,056	123,037	-67,981	-55.25%
Equities	85,054	232,575	-147,521	-63.43%
Warrants	66	319	-253	-79.31%
Funds	9,728	8,177	1,551	18.97%
TOTAL	**149,904**	**364,108**	**-214,204**	**-58.83%**

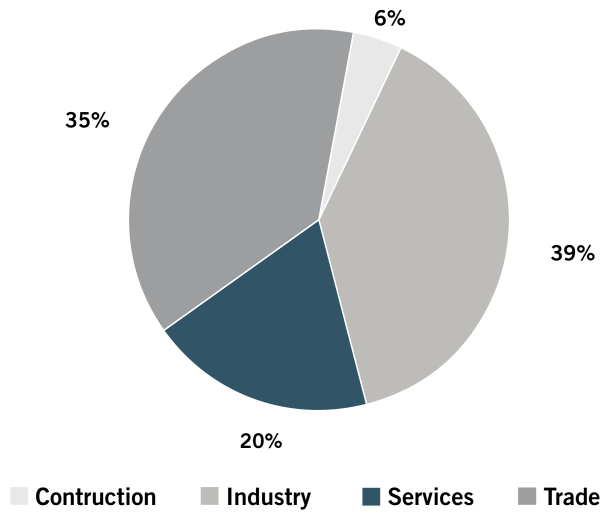
Guaranteed loans to small and medium-sized enterprises

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 30 September 2016, the Group disbursed € 20.3 million (€ 63.7 million in September 2015), with € 86 million outstanding at the end of the period.

	30.09.2016	30.09.2015	€ Change	% Change
No. of applications	64	147	(83)	-56%
Volumes disbursed	20,260	63,665	(43,405)	-68%

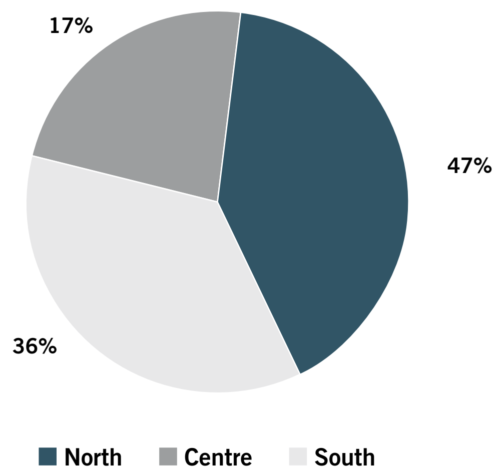
As shown in the graphs below, the geographical areas and sectors are quite varied, thus enabling the Group to benefit from a highly diversified portfolio.

Outstanding SME - Breakdown by sector



The breakdown of volumes disbursed by geographical area is shown below.

Outstanding SME - 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 and to a lesser extent, salary deductions) market in 2014, through the acquisition from other specialist intermediaries of receivables portfolios derived from this specific type of financing. As at 30 June 2016, the Bank has 5 ongoing agreements with specialist distributors in the sector.

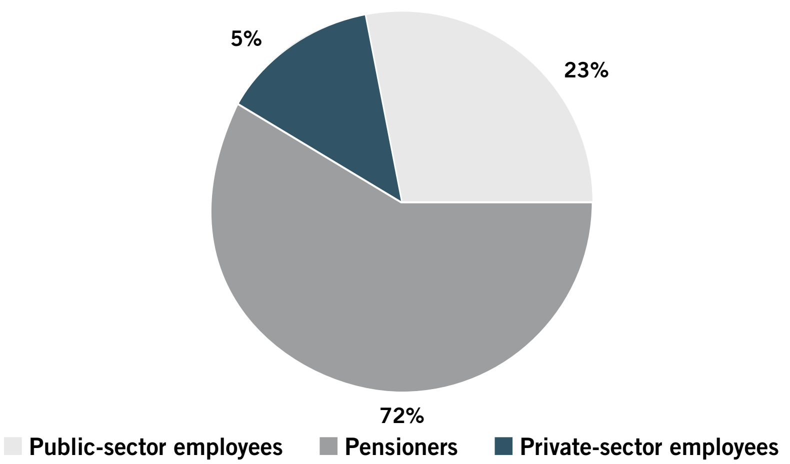
A salary-backed loan (CQS) is a consumer loan product that allows customers to allocate up to a fifth of their salaries to the payment of loan instalments.

The volumes acquired from the beginning of the year until September 2016 amounted to € 99.5 million, including private-sector employees (8%), pensioners (66%) and public-sector employees (26%). Therefore, over 95% of the volumes refer to pensioners and employees of the PA, which remains the Bank's main debtor.

	30.09.2016	30.09.2015	€ Change	% Change
No. of applications	4,842	3,645	1,197	33%
Volumes disbursed	99,531	74,814	24,717	33%

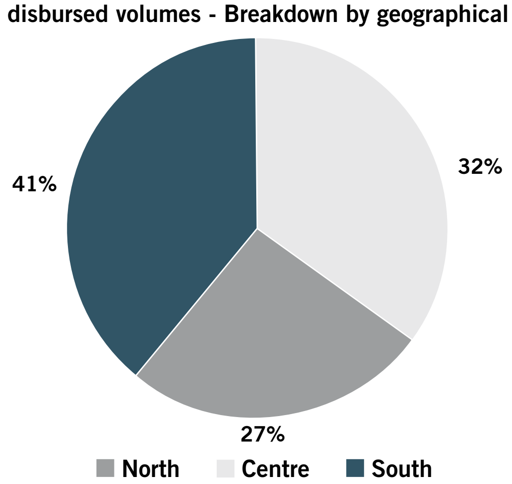
As shown in the table, the amounts disbursed in the first half of 2016 were considerably higher than in the same period in 2015 as a result of the agreements concluded by the Bank during 2015.

CQS disbursed volumes - Breakdown



The geographical breakdown of the pension- and salary-backed loan portfolio is shown below:

CQS disbursed volumes - Breakdown by geographical area



TREASURY ACTIVITIES

Treasury portfolio

A proprietary portfolio has been established in order to support liquidity commitments through short-term investment in Italian government bonds.

The balance at 30 September 2016 was gradually increased (+5% compared to 30 June 2016), in terms of both amount and duration, with the aim of restoring that investment following the considerable reduction compared to 31 December 2015 compatible with market volatility expectations resulting from the possible exit of the United Kingdom from the European Union.

The outcome of the referendum did not have particular repercussions on government bond yields thanks to the purchases undertaken by the European Central Bank, which significantly reduced volatility with its quantitative easing programme, thus bringing the yields of securities into negative territory for most maturities and most countries in the Eurozone.

The nominal value of the proprietary portfolio amounts to € 427 million compared to € 406 million as at 30 June 2016, with a duration of 11 months (5.4 months in the previous quarter).

Since the beginning of the year, transactions involving government bonds totalled € 3 billion (against € 8.8 billion traded in the same period of 2015).

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

Wholesale funding

As at 30 September 2016, wholesale funding was about 52% of the total, comprising a new bond issue, repurchase agreements traded on the MTS MMF Repo platform, inter-bank deposits and refinancing operations with the ECB (58% as at 31 December 2015).

From the beginning of the year until 30 September, trading on the MMF Repo screen-based market totalled about € 68.3 billion compared to € 71.2 billion in the same period of 2015.

Participation in the TLTRO II operation proposed by the European Central Bank was settled in the amount of € 122.85 million on 29 June, with maturity on 24 June 2020. The issue of the € 70 million senior bond maturing on 03 May 2018, placed with institutional investors, allowed diversification of the sources of funding and a significant increase in duration of the sources of funding, whereas the securitisation of salary-backed loans allowed positions to be refinanced more efficiently than the traditional types of funding.

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

Existing bank deposits amounted to € 312 million, compared to € 282 million as at 31 December 2015. In 2016 trading volumes were € 1.9 billion, compared to € 2.2 billion in the same period of 2015.

The listing of the shares of Banca Sistema on the Milan Stock Exchange permitted a sharp improvement in interbank relations, facilitating the granting of MM lines of credit. Such funding allows short-term treasury needs to be met by exploiting the extremely low level of interest rates, with the possibility of drawing funds from the interbank market in a manner useful 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)	30.09.2016	31.12.2015	Change
Cash and cash equivalents	101	104	(3)
Financial assets available for sale	435,037	925,402	(490,365)
Due from banks	34,304	2,076	32,228
Loans to customers	1,296,719	1,457,990	(161,271)
Equity investments	1,112	2,696	(1,584)
Property and equipment	23,316	1,058	22,258
Intangible assets	1,850	1,872	(22)
of which: goodwill	1,786	1,786	-
Tax assets	8,500	7,353	1,147
Other assets	10,969	13,119	(2,150)
Total assets	**1,811,908**	**2,411,670**	**(599,762)**

The third quarter of 2016 ended with total assets of approximately € 1.8 billion, down 25% on the end of 2015, mainly as a result of the decision to maintain a reduced exposure to Italian government bonds (-53%) and the changes in collections of factored receivables, which affected the stock at the end of the period (-6%). The scope of the Group's consolidated financial statements changed due to the incorporation of the vehicle Largo Augusto Servizi e Sviluppo S.r.l. (LASS), with fully paid-in capital of € 4 million. On 31 August 2016, the subsidiary, using a loan from the Parent Company, purchased for € 21.5 million a property that will be used as the Bank's new headquarters once the planned renovation work has been completed.

In addition, on 1 July 2016 the acquisition of Beta Stepstone S.p.A. (hereinafter "Beta") was finalised for provisional consideration of € 57.2 million, net of various contractual reductions and adjustments of € 3.5 million. As provided for in the contract, that provisional consideration was adjusted on the basis of Beta's shareholders' equity at 30 June 2016, which resulted in a reduction of € 632 thousand for Banca Sistema. During the acquisition process, the amount of late payment interest receivable not yet collected by Beta was placed in an escrow account, release of which to the seller is conditional solely on the collection of that late payment interest, fully securing the receivable in question.

The following is a provisional allocation of the purchase price, based on Beta's shareholders' equity at 30 June 2016, in accordance with IFRS 3.

PROVISIONAL ALLOCATION OF THE PURCHASE PRICE (€,000)

Provisional purchase price	57,254
Price adjustment based on the shareholders' equity at 30 June 2016	(632)
Elimination of Beta's shareholders' equity	(60,059)
Residual value to be allocated	**(3,437)**
Allocation to the provision for risks and charges	3,326
Credit risk adjustments	1,572
Recognition of deferred tax assets	(1,512)
Other costs borne by the seller	51
Total provisional allocation	**3,437**

The amount allocated to the provision for risks represents an estimate of possible future charges due to litigation and disputes, determined during the acquisition process, whereas credit risk adjustments have been provisionally recognised on the basis of the measurement of Beta's loan portfolio at fair value. The allocation to those captions was made gross of tax effects, with the related recognition of deferred tax assets.

The Bank's AFS (available-for-sale) securities portfolio comprises Italian government bonds with an average remaining duration of about 11 months as at 30 September 2016 (the average duration at the end of 2015 was 9 months) and is in line with the Group investment policy to retain securities with durations under 12 months. The valuation reserve for government securities was € 167 thousand as at 30 September.

The AFS portfolio also includes 200 stakes of the Bank of Italy with a value of € 5 million purchased in July 2015 and the value at 30 September of the Axactor security, which represented the part of the price paid in the form of shares within the framework of the agreement for the sale of the shares of CS Union. Since 30 June, that security's fair value increased by € 470 thousand, net of the tax effect of € 232 thousand, thus resulting in a period-end value of € 2.2 million.

The increase in the item 'due from banks' may be attributed to cash held in the ECB account for loans settled on the following day and € 14.3 million deposited in an escrow account securing late payment interest as described above.

LOANS TO CUSTOMERS (€ ,000)	30.09.2016	31.12.2015	€ Change	% Change
Factoring	982,915	1,049,832	(66,917)	-6.4%
Salary-/pension-backed loans (CQS/CQP)	211,556	120,356	91,200	75.8%
Loans to SME	81,319	83,110	(1,791)	-2.2%
Reverse repurchase agreements	-	177,868	(177,868)	-100.0%
Current accounts	16,324	13,906	2,418	17.4%
Compensation and Guarantee Fund	4,306	12,486	(8,180)	-65.5%
Other receivables	299	432	(133)	-30.8%
Total	**1,296,719**	**1,457,990**	**(161,271)**	**-11.1%**

"Loans to customers" mainly comprise outstanding loans for factoring receivables, down from 82% to 76% in the item. Salary- and pension-backed loans grew by 76% compared to the end of 2015 as a result of new acquired volumes equal to € 100 million, while government-backed loans to SMEs remained generally in line with 2015, as disbursements partially offset collections during the period.

As at 30 September 2016 the book value of factoring receivables is down by 6.4% on 31 December 2015, mainly as a result of the trend in collections recorded in 2016 (€ 1,142 million). In addition, outstanding loans at the end of the year were impacted considerably by the significant acquisition of receivables portfolios during Q4 2015 with a value of € 535 million. The figure includes € 60 million outstanding attributable to Beta.

The turnover of factoring receivables in the third quarter of 2016 was € 357 million (of which € 8.4 million generated by Beta), up by 30% compared to the same period of 2015.

The cumulative turnover figure at 30 September 2016 thus amounted to € 1,054 million (€ 875 million in the same period of the previous year). The number of turnover-generating customers at the end of the third quarter was 301, of which 134 were new customers in 2016.

As mentioned above, securitisation of salary-backed loans began in 2016, as projected in the business plan.

The amount of the receivables factored in three different periods was € 177.4 million (€ 167.7 million outstanding at the end of the period), compared to the ABSs of the special-purpose vehicle Quinto Sistema S.r.l., fully subscribed by the Bank, of a total € 170 million at 30 September 2016. Since the securities are completely held by the Bank, the conditions for derecognition of the loans have not been met. Therefore, the loans have been re-recorded in the accounts as assets sold and not derecognised with a balancing entry against the subscribed asset-backed securities (ABS).

The following table shows the quality of receivables in the 'loans to customers' item, without considering the amount relating to reverse REPOs during the periods in which that investment was present.

STATUS	31.12.2015	31.03.2016	30.06.2016	30.09.2016
Doubtful	20,021	23,426	29,936	36,019
Unlikely to pay	5,913	4,722	10,586	11,133
Overdue payments/defaults >180 days	65,419	64,395	64,664	96,028
Non-performing	**91,353**	**92,543**	**105,186**	**143,180**
Performing	1,172,410	1,111,123	1,085,778	1,150,176
Other loans to customers (excluding REPOs)	26,732	28,995	15,293	19,670
Total excluding REPOs	**1,290,495**	**1,232,661**	**1,206,257**	**1,313,026**
Individual adjustments	**7,137**	**8,284**	**9,969**	**12,109**
Collective adjustments	**3,233**	**3,557**	**3,531**	**4,198**
Total adjustments	**10,370**	**11,841**	**13,500**	**16,307**
Net exposure	**1,280,125**	**1,220,820**	**1,192,757**	**1,296,719**

The ratio of net non-performing loans to the total in the portfolio (net of reverse repos) is up from 7.1% as at 31 December 2015 to 10.9% as at 30 September 2016, mainly due to increase in amounts past due from the public administration. Net non-performing loans amounted to 2.0% of total loans to customers, remaining at moderate levels. The increase in doubtful loans during the quarter was mainly due to new entities in distress and new doubtful loans to SMEs: in this regard, the Government guarantee covers 80% of the exposure.

During the quarter, the provision for individual adjustments increased by € 2.4 million (of which € 0.2 million attributable to Beta) due to new allocations and decreased by € 0.5 million due to releases on positions of entities in distress, which after a thorough inquiry resulted in the identification of invoices not falling within the scope of the situation of distress.

The coverage ratio of doubtful loans is stable (30.6% as at 31 December 2015 and 26.4% as at 30 September 2016): this percentage, since it is impacted by factoring of receivables from distressed local authorities, is entirely appropriate. The loss rate was stable compared to year-end and the previous quarter at 51 bps (respectively, 50 and 51 bps in the other periods).

Compared to the end of the previous year, there were no temporary investments in reverse repurchase agreements (€ 178 million at the end of 2015). The amounts of the cash used in the Compensation and Guarantee Fund to finance transactions in repurchase agreements with bank customers decreased significantly due to the reduction of the securities portfolio.

Equity investments include the Bank's current equity stake of 10.0% in CS Union S.p.A., a company operating on the doubtful financial and commercial loans management market, as well as in the management and recovery of receivables between individuals. As previously described, in the context of the strategic collaboration agreement between Banca Sistema and Axactor, in the second quarter of 2016 the Bank finalised the sale to Axactor of the 15.8% equity interest held in CS Union, recording a capital gain of € 2.3 million. The price of sale was settled 60% in cash and the remainder in shares of Axactor.

Property and equipment include the purchase of a property located in Milan, which will primarily be used as Banca Sistema's new offices following the completion of the renovation work, scheduled for the fourth quarter of 2017. The book value of the property, inclusive of taxes paid, is € 22.4 million. Other assets include amounts being processed after the end of the reference period and advance tax payments of approximately €7.5 million.

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

LIABILITIES AND SHAREHOLDERS' EQUITY (€ ,000)	30.09.2016	31.12.2015	Change
Due to banks	435,245	362,075	73,170
Due to customers	1,101,063	1,878,339	(777,276)
Securities in issue	90,990	20,102	70,888
Tax liabilities	10,890	804	10,086
Other liabilities	57,644	55,317	2,327
Employee termination indemnities	2,096	1,303	793
Provisions for risks and charges	3,605	372	3,233
Valuation reserves	387	350	37
Reserves	79,006	65,750	13,256
Share capital	9,651	9,651	-
Treasury shares (-)	(69)	-	(69)
Profit for the period/year	21,400	17,607	3,793
Total liabilities and shareholders' equity	**1,811,908**	**2,411,670**	**(599,762)**

Wholesale funding represents about 52% of the total (58% as at 31 December 2015), down compared to the end of 2015 due to a decrease in repurchase agreements traded through the MTS platform (classified under "due to customers", since there is no direct balancing entry with banks). There was an increase in the weight of bond funding, which rose from 2% to 12% of the total wholesale funding, thanks to the private placement of a senior bond of € 70 million maturing in two years.

The amount of collections from retail customers essentially linked to the SI Conto! Deposito product is down on the previous period, in line with the financing requirements of the commercial business and against increased inter-bank funding.

DUE TO BANKS (€ ,000)	30.09.2016	31.12.2015	€ Change	% Change
Due to Central banks	122,850	80,002	42,848	53.6%
Due to banks	312,395	282,073	30,322	10.7%
Current accounts and demand deposits	299	10,328	(10,029)	-97.1%
Term deposits	312,096	271,745	40,351	14.8%
Total	**435,245**	**362,075**	**73,170**	**20.2%**

Amounts due to banks increased compared to 31 December 2015 due to the increase in refinancing operations with the ECB with retail loans as collateral, which allowed for funding of € 77.0 million to be obtained (€ 49.3 million at the end of 2015).

The Bank also participated in the TLTRO II auction for € 123 million, with a duration of four years and current expected rate of -40bps.

This potential revenue was not recognised in that it will only become certain on the maturity date; a rate of 0% was instead considered. As at 30 September 2016, there was an increase in funding on the interbank market mainly in the form of term deposits, with an average duration of two months at 30 September.

DUE TO CUSTOMERS (€ ,000)	30.09.2016	31.12.2015	€ Change	% Change
Term deposits	400,148	572,379	(172,231)	-30.1%
Funding (repurchase agreements)	286,665	909,089	(622,424)	-68.5%
Current accounts and demand deposits	345,415	335,574	9,841	2.9%
Deposits with Cassa Depositi e Prestiti	25,626	30,603	(4,977)	-16.3%
Other amounts due	43,209	30,694	12,515	40.8%
Total	**1,101,063**	**1,878,339**	**(777,276)**	**-41.4%**

The period-end stock of term deposits was down 30% on the end of 2015, thus recording net negative deposits of € 168 million (net of accruals); gross deposits from the beginning of the year until the third quarter of 2016 were € 330 million, against withdrawals caused mainly by non-renewals totalling € 498 million.

Funding from repurchase agreements was also down, as a result of the smaller securities portfolio. Repurchase agreements also include the funding raised through the use of the senior security from the Sistema CQS 2016 retained securitisation transaction in the amount of € 132.9 million. Amounts due to customers also include funding of € 25.6 million from Cassa Depositi e Prestiti obtained against collateral consisting solely of loans to SMEs by the Bank.

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

The balance of debt securities issued increased compared to 31 December 2015 due to the new issue of bonds placed with institutional customers. The item's composition was as follows:

- Tier 2 subordinated loan of € 12 million, set to mature on 15 November 2022;
- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis);
- senior bond of € 70 million, set to mature on 3 May 2018.

The provision for risks and charges of € 3.6 million includes the amount of € 3.3 million, representing the estimated future liabilities attributable to Beta, calculated on the basis of the provisional price allocation in accordance with IFRS 3. The remainder refers to the portion of the 2015 bonus deferred to the following three years. Some service providers have recently initiated legal action seeking payment of consideration for services rendered that, in the Bank's opinion, did not require any provisions.

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

The reconciliation between the 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
Net result/Parent Company Shareholders' equity	**20,825**	**109,858**
Assumption of value of investments	-	(61,146)
Goodwill	-	-
Net result/shareholders' equity - subsidiaries	575	61,663
Consolidated shareholders' equity	**21,400**	**110,375**
Minority shareholders' equity	-	20
Group Shareholders' equity	**21,400**	**110,355**

CAPITAL ADEQUACY

Due to the acquisition of Beta and the incorporation of LASS, it is no longer possible to opt out of consolidated financial reporting. Accordingly, financial reporting will also be produced on a consolidated basis starting from the third quarter of 2016.

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	30.09.2016	30.06.2016 (*)	31.03.2016 (*)	31.12.2015 (*)
Common Equity Tier 1 (CET1)	**103,758**	**98,984**	**90,559**	**86,892**
TIER1	8,000	8,000	8,000	8,000
Additional Tier 1 capital (AT1)	**111,758**	**106,984**	**98,559**	**94,892**
TIER2	12,000	12,000	12,000	12,000
Total Own Funds (TC)	**123,578**	**118,984**	**110,559**	**106,892**
Total risk weighted assets	**836,746**	**689,614**	**656,289**	**635,658**
Ratio - CET1	12.4%	14.4%	13.8%	13.7%
Ratio - T1	13.4%	15.5%	15.0%	14.9%
Ratio - TCR	**14.8%**	**17.3%**	**16.8%**	**16.8%**

(*) Figures based on separate reporting by Banca Sistema

Total own funds were € 124 million as at 30 September 2016 and included the profit for the third quarter of 2016, net of dividends estimated on the profit for the third quarter of 2016 of € 3.0 million. The estimate was made on the basis of the average pay-out of the Parent Company for the past three years in accordance with European Commission Delegated Regulation (EU) No. 241/2014, supplementing Regulation (EU) No. 575/2013 of the European Parliament.

The increase in RWAs compared to 31 December 2015, in addition to the impact of Beta Stepstone, consolidated at 30.09.2016 (approximately € 32 million in terms of RWAs) but absent from the scope of consolidation at 31.12.2015, was primarily due to the increase in loans, particularly salary- and pension-backed loans and factoring exposures to corporate customers (which have higher average capital absorption than factoring exposures to the public administration), the increase in past-due loans to the public administration and the purchase of the property.

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 21 October 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)	23.1%
Grabifin	0.5%
Fondazione Sicilia	7.4%
Fondazione Cassa di Risparmio di Alessandria	7.4%
Fondazione Pisa	7.4%
Schroders	6.7%
Market	*47.5%*

Treasury shares

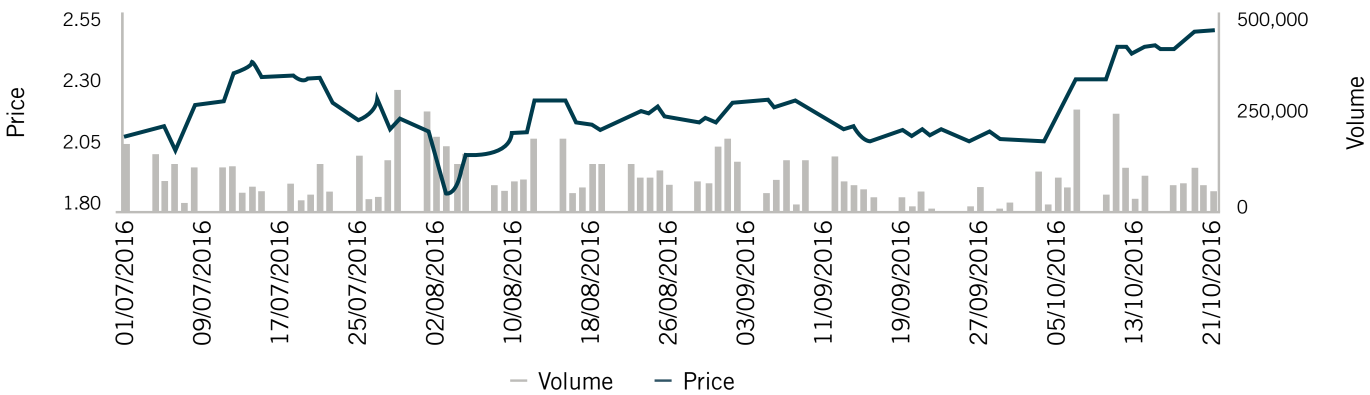
As at 30 September 2016, Banca Sistema held 25,000 treasury shares ("Treasury Shares") to service the incentive plans for the Group's key personnel, i.e. an equity interest of 0.031%.

Stock performance

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

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

The following table presents stock performance from 1 July 2016 to 21 October 2016.



Source: Bloomberg

ECONOMIC RESULTS

STATEMENT OF PROFIT AND LOSS (€ ,000)	30.09.2016	30.09.2015	Change
Interest margin	50,812	42,994	7,818
Net fee and commission income	6,862	8,308	(1,446)
Dividends and similar income	227	33	194
Profit (Loss) on trading	18	127	(109)
Profit from disposal or repurchase of financial assets	1,042	2,323	(1,281)
Net interest and other banking income	**58,961**	**53,785**	**5,176**
Net value adjustments due to loan impairment	(4,923)	(3,921)	(1,002)
Net income from banking activities	**54,038**	**49,864**	**4,174**
Personnel expenses	(11,148)	(9,708)	(1,440)
Other administrative expenses	(15,398)	(13,754)	(1,644)
Net allowance for risks and charges	69	(60)	129
Net value adjustments to property and equipment/intangible assets	(236)	(234)	(2)
Other operating income (expenses)	178	162	16
Operating expenses	**(26,535)**	**(23,594)**	**(2,941)**
Profit (loss) from equity investments	2,281	341	1,940
Profit from current operations before taxes	**29,784**	**26,611**	**3,173**
Income taxes for the period	(8,384)	(8,264)	(120)
Profit (loss) for the period	**21,400**	**18,347**	**3,053**

It should be noted that the tables for the period ended 30 September 2016 are not perfectly comparable with those for the same period of 2015, since this year the subsidiary Beta Stepstone contributed its results (€ 0.9 million) to the Group's results in the first three months after its acquisition. The third quarter of 2016 ended with a profit of € 21.4 million, up by 17% compared to the same period of 2015, with an increase in the interest margin and profit from equity investments that more than offset the increase in operating expenses. As described above, the increase in the interest margin was due in part to the recognition of € 7.2 million of late payment interest, which represents the portion of the late payment interests accrued at 30 September 2016 that may reasonably be expected to be recovered: before 30 June 2016, late payment interest was recognised on a cash basis. With effect from 30 June 2016 the Bank revised its accounting treatment of late payment interest in accordance with IFRS as a result of the experience gained and the more systematic implementation of out-of-court and judicial recovery measures for past-due receivables, transitioning from cash accounting to accrual accounting.

As mentioned above, the result for 2016 also includes the realised capital gain deriving from the partial sale of an interest in CS Union of € 2.3 million.

It should also be recalled that the economic results at 30 September 2015 have been normalised in order to eliminate non-recurring costs pertaining to the listing process included in personnel expenses and other administrative expenses of € 6.7 million (€ 4.9 million net of tax).

INTEREST MARGIN (€ ,000)	30.09.2016	30.09.2015	€ Change	% Change
Interest and similar income				
Credit portfolios	62,037	58,448	3,589	6.1%
Securities portfolio	(38)	733	(771)	-105.2%
Other	441	365	76	20.8%
Total interest income	**62,440**	**59,543**	**2,897**	**4.9%**
Interest expense and similar charges				
Due to banks	(1,467)	(808)	(659)	81.6%
Due to customers	(8,663)	(14,818)	6,155	-41.5%
Securities in issue	(1,498)	(923)	(575)	62.3%
Total interest expense	(11,628)	(16,549)	4,921	-29.7%
Interest margin	**50,812**	**42,994**	**7,818**	**18.2%**

The interest margin improved by 18% compared to the same period of the previous year due to a significant decrease in the cost of funding and a greater contribution deriving from the new lines of business (SME loans and salary- and pension-backed loans).

Beta also contributed positively, generating an interest margin of € 1.7 million in the three months it was included within the scope of the Group.

Starting in the second quarter of 2016, net of Beta's contribution, following the refinement of the internal assessment methods and the greater data available, 15% of the late payment interest accrued until 30 September 2016 has been recognised in profit and loss, but solely for invoices subject to recovery through legal action; this average percentage of 15% (which amounts to 4.2% of total late payment interest accrued as at 30 September 2016 on invoices collected and still outstanding) represents the amount prudentially estimated and deemed recoverable of the total interest accrued on invoices the recovery of which has passed from ordinary recovery to legal action.

Considering the gradual rise in the turnover from factoring, there was an increase in the amount of late payment interest accrued on settled and outstanding invoices, which amounted to approximately € 170.8 million at 30 September 2016 (€ 99.5 million on collected invoices).

In 2016 the late payment interest collected, primarily on portfolios acquired in previous years, amounted to €1.7 million, compared to € 2.9 million in all of 2015 (an additional € 0.4 thousand considering the collections by Beta in the third quarter).

The amount resulting from the change of accounting methods concerning the recoverability of such interest was € 7.2 million, of which € 2.2 million accrued during the period and € 5.0 million as the effect of the change of the estimation method.

The policy adopted by Banca Sistema in managing and recovering receivables claimed from the Public Administration continues to be characterised by an approach that does not normally involve legal action, which remains the only remedy in cases of voluntary non-payment or failure to reach out-of-court agreements with the assigned debtor. In particular, legal action is always initiated when it is necessary to avoid a loss for the Bank. In addition, the recovery of the late payment interest component is necessary in some cases in order to achieve the expected profitability.

Interest income from the receivables portfolio continues to be mainly composed of revenues generated by the factoring receivables portfolio, which accounts for 85% of total interest income (€ 1.7 million attributable to Beta). Due to the reduction in average collection times, profitability declined compared to the same period of the previous year, net of the late payment interest component.

The increase in the margin was also driven by the marked growth in interest on the SME and salary-backed portfolios, which collectively rose from € 4.3 million to € 9.2 million (their contribution to the interest margin on the receivables portfolio was equal to 6.7% and 7.9%, respectively). Other interest income mainly includes income generated by revenue from hot money transactions and current accounts.

Funding costs fell compared with the previous half-year following a general reduction in market rates, which has had a positive impact on wholesale funding, especially from repurchase agreements, but particularly as a result of a focus on the customer deposit policy, which allowed for the substitution of term deposit renewals with lower rates compared to those expiring. The increase in interest due to banks was primarily due to the cost of funding from other banking institutions, the exposure to which, in the third quarter of 2016, was significantly greater than in the third quarter of 2015.

As a result of the current interbank rates and ECB policies, funding through REPOs did not generate any interest expense.

COMMISSION MARGIN (€ ,000)	30.09.2016	30.09.2015	€ Change	% Change
Fee and commission income				
Collection activities	722	803	(81)	-10.1%
Factoring activities	6,970	8,255	(1,285)	-15.6%
Other	534	536	(2)	-0.4%
Total fee and commission income	**8,226**	**9,594**	**(1,368)**	**-14.3%**
Fee and commission expense				
Placement	(1,145)	(885)	(260)	29.4%
Other	(219)	(402)	183	-45.5%
Total fee and commission expense	(1,364)	(1,286)	(78)	6.1%
Net fee and commission income	**6,862**	**8,308**	**(1,446)**	**-17.4%**

Net fees and commissions, equal to € 6.9 million, were down by 17%, primarily due to lower commissions on factoring business as a result of lesser use of products with commissions.

Commissions on collection activity, related to the service of reconciliation of third-party invoices collected from the public administration, along with other fee and commission income, which primarily includes commissions on collection and payment services and the keeping and management of current accounts, declined slightly compared to the same quarter of the previous year.

The placement fees and commissions paid to third parties increased due to their close correlation with the increase in the factoring volumes disbursed. Such fees and commissions include the costs of origination of factoring receivables of € 759 thousand (up 13% on the same period of last year), while the remainder includes returns to third party intermediaries for the placement of the SI Conto! Deposito product, which grew as a result of the higher volumes placed in Germany.

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

RESULTS OF THE SECURITIES PORTFOLIO (€ ,000)	30.09.2016	30.09.2015	€ Change	% Change
Profit (Loss) on trading				
Profit (loss) realised on trading portfolio debt securities	18	127	(109)	-85.8%
Total	**18**	**127**	**(109)**	**-85.8%**
Profit (loss) from disposal or repurchase				
Profit (loss) on AFS portfolio debt securities	1,042	2,323	(1,281)	-55.1%
Total	**1,042**	**2,323**	**(1,281)**	**-55.1%**
Total profit (loss) from the securities portfolio	**1,060**	**2,450**	**(1,390)**	**-56.7%**

During 2016, profits generated by the proprietary portfolio made a smaller contribution than in same period of last year due to less favourable market performance.

Credit risk adjustments at 30 September 2016 totalled € 4.9 million (€ 3.9 million at 30 September 2015), mainly as a result of an increase in the collective adjustment percentage on the SME portfolio and new specific adjustments. In particular, the increase in analytical adjustments is mainly due to the classification of new positions of entities in distress and of new SMEs in the “doubtful” category.

The loss rate amounted to 0.51%, up compared to the previous quarter, primarily due to the increase in the cost of factoring risk.

PERSONNEL EXPENSES (€ ,000)	30.09.2016	30.09.2015	€ Change	% Change
Wages and salaries	(8,275)	(7,551)	(724)	9.6%
Social security contributions and other costs	(2,135)	(1,714)	(421)	24.5%
Directors’ and statutory auditors’ remuneration	(738)	(443)	(295)	66.7%
Total	**(11,148)**	**(9,708)**	**(1,440)**	**14.8%**

The increase in personnel expenses (considering the normalisation of € 4.4 million tied to bonuses disbursed in relation to the listing) was essentially due to the increase in wages and salaries due to the hiring of new resources (from 136 resources to 147 in the third quarter of 2016).

The figure at 30 September 2016 included Beta's personnel expenses for the third quarter of € 339 thousand. As at 30 September 2016 the item also includes total costs relating to voluntary redundancy payments of € 288 thousand, compared to € 206 thousand in the same period of the previous year.

OTHER ADMINISTRATIVE EXPENSES (€ ,000)	30.09.2016	30.09.2015	€ Change	% Change
Servicing and collection activities	(3,188)	(4,804)	1,616	-33.6%
Resolution Fund	(654)	-	(654)	n.a.
Consultancy	(3,764)	(1,622)	(2,142)	132.1%
Computer expenses	(2,718)	(2,446)	(272)	11.1%
Rent and related fees	(1,481)	(1,281)	(200)	15.7%
Indirect taxes and duties	(960)	(1,075)	115	-10.7%
Advertising	(134)	(485)	351	-72.4%
Auditing fees	(221)	(234)	13	-5.6%
Other	(479)	(329)	(150)	45.6%
Car hire and related fees	(533)	(443)	(90)	20.3%
Expense reimbursement and entertainment	(381)	(338)	(43)	12.7%
Membership fees	(239)	(181)	(58)	32.0%
Infoprovider expenses	(269)	(173)	(96)	55.5%
Maintenance of movables and real properties	(30)	(93)	63	-67.7%
Telephone and postage expenses	(129)	(135)	6	-4.4%
Stationery and printing	(106)	(56)	(50)	89.3%
Insurance	(112)	(50)	(62)	124.0%
Discretionary payments	-	(9)	9	-100.0%
Total	**(15,398)**	**(13,754)**	**(1,644)**	**12.0%**

Other administrative expenses increased by 12% compared to the same period of the previous year, primarily due to the contribution paid to the European Resolution Fund (only allocated in the fourth quarter of 2015) and increases in consultancy costs, which exceeded the lower servicing costs and advertising costs. The figure at 30 September 2015 has been normalised and thus does not include € 2.2 million of costs tied to the listing of the Bank, whereas the figure at 30 September 2016 includes Beta's administrative expenses of € 380 thousand. In particular, costs related to collection and servicing activities decreased as a result of the internalisation of the management of some portfolios that were previously managed externally and from a reduction in the cost percentage applied to managed collections. The rise in computer expenses is linked to the increase in services provided by the outsourcer due to the increase in Group operations and IT updates on new products. Consultancy costs increased due to the fact that part of the costs of projects correlated with new initiatives in 2016 was recognised during the period. In particular, the figure at 30 September 2016 includes € 0.8 million of costs tied to the securitisation of salary-backed loans, € 1 million of due diligence and consultancy costs relating to actual and potential acquisitions of new companies (of which € 0.3 thousand related to the acquisition of Beta) and € 0.1 million of costs associated with the Beta merger and integration.

Other expenses and income primarily consist of income deriving from the refund by the National Interbank Deposit Guarantee Fund of the sum of € 290 thousand paid by the Bank for the default of Banca Tercas, following the Bank's decision not to participate in the form of voluntary contribution described below.

The item also includes € 200 thousand as the estimated 2016 contribution to the Deposit Guarantee Schemes. Profit (loss) from equity investments includes not only the capital gain on the sale of 15.8% of the interest in CS Union, but also the pro-rata loss for the period referring to the current 10% interest in CS Union.

The Group's tax rate decreased compared to the previous half-year, primarily due to the application of the participation exemption ("Pex") to the capital gain recorded on the sale of part of the interest in CS Union.

The following shows the reconciliation of the normalised and statutory statement of profit and loss for the period ended 30 September 2015.

STATEMENT OF PROFIT AND LOSS (€,000)	30.09.2015 NORMALISED	IPO COST	30.09.2015 STATUTORY
Interest margin	42,994	-	42,994
Net fee and commission income	8,308	-	8,308
Dividends and similar income	33	-	33
Profit (Loss) on trading	127	-	127
Profit from disposal or repurchase of financial assets	2,323	-	2,323
Net interest and other banking income	**53,785**	-	**53,785**
Net value adjustments due to loan impairment	(3,921)	-	(3,921)
Net income from banking activities	**49,864**	-	**49,864**
Personnel expenses	(9,708)	(4,387)	(14,095)
Other administrative expenses	(13,754)	(2,386)	(16,140)
Net allowance for risks and charges	(60)	.	(60)
Net value adjustments to property and equipment/intangible assets	(234)	.	(234)
Other operating income (expenses)	162	.	162
Operating expenses	**(23,594)**	**(6,773)**	**(30,367)**
Profit (loss) from equity investments	341	-	341
Profit from current operations before taxes	26,611	(6,773)	19,838
Income taxes for the period	(8,264)	1,919	(6,345)
Profit (loss) for the period	**18,347**	**(4,854)**	**13,493**

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.

Beta's results

This section contains commentary on the results of Beta, the Group's most significant equity investment, which have been reclassified according to the presentation for banks.

The profit and loss table includes a column with the results for the third quarter of 2016, which represents the amount contributed to the Group's profit and loss results.

STATEMENT OF FINANCIAL POSITION - ASSETS (in thousands of Euro)	30.09.2016	30.06.2016
Cash and cash equivalents	2	2
Due from banks	9,813	9,833
Loans to customers	74,548	73,949
Property and equipment	78	84
Intangible assets	16	20
Tax assets	3,261	3,306
Other assets	1,334	1,448
Total Assets	**89,053**	**88,642**

STATEMENT OF FINANCIAL POSITION - LIABILITIES (in thousands of Euro)	30.09.2016	30.06.2016
Due to banks	-	-
Due to customers	20,261	20,903
Tax liabilities	5,532	5,304
Other liabilities	1,881	1,839
Employee termination indemnities	412	537
Reserves	11,960	11,960
Share capital	47,000	47,000
Profit (loss) for the year (+/-)	2,007	1,099
Total liabilities and shareholders' equity	**89,053**	**88,642**

(in thousands of Euro)	30.09.2016	30.06.2016	01.07.2016 - 30.09.2016
Interest margin	**4,285**	**2,565**	**1,719**
Net fee and commission income	**716**	**510**	**206**
Net interest and other banking income	**5,001**	**3,075**	**1,925**
Net income from banking activities	**5,001**	**3,075**	**1,925**
Administrative expenses	(2,483)	(1,764)	(719)
Net adjustments to/recoveries on property and equipment	(18)	(12)	(6)
Net adjustments to/recoveries on intangible assets	(14)	(10)	(4)
Other operating income (expenses)	8	20	(12)
Operating expenses	**(2,506)**	**(1,766)**	**(740)**
Profit (loss) before tax from continuing operations	**2,495**	**1,309**	**1,185**
Taxes on income from continuing operations	(487)	(209)	(278)
Profit (Loss) after tax from continuing operations	**2,007**	**1,100**	**907**

The without recourse portfolio was partially reduced, while the with recourse portfolio increased (only the part financed/advanced of the latter is represented).

Late payment interest receivable decreased, since the legally established late payment interest accrued during the period (€ 2.5 million) was less than the amounts collected. Late payment interest continued to be subject to the 20% prudential adjustment applied in the past, although the Company does not normally enter into settlements with debtors.

The interest margin remained at essentially the same level as in the first half of the year thanks to the stability of the overall portfolio, since the receivables acquired during the period largely offset those collected and the lack of change in the cost of funding. Late payment interest accounts for 44% of total interest income. In fact, the company adopts a strategy aimed at full recovery of interest on late payments, which over the years has resulted in a recovery rate of over 95% of the amounts due.

Fixed costs declined considerably compared to the previous year due to the reduction of the headcount.

RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

The "Risk Management System" is monitored by the Risk 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 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 Bank 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 entrusted the Internal Control Committee with the task of coordinating the second and third level Control Departments; to that end, the Committee allows the integration and interaction between these Departments, encouraging synergy, reducing overlaps and supervising operations.

The Bank adopts an integrated reference framework both to identify its own risk appetite and for the internal process of determining capital adequacy.

This system is the Risk Appetite Framework (RAF), designed to make sure that the growth and development aims of the 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 ICAAP (the Internal Capital Adequacy Assessment Process) allows the Bank to conduct ongoing tests of its structure for determining risks and to update the related safeguards included in its RAF.

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

In order to measure "Pillar 1 risks", the Bank has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes.

In order to evaluate "Pillar 2" 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 with operations comparable to those of the Bank are assessed.

NEW REGULATORY AND TAX PROVISIONS

BRRD (Bank Recovery and Resolution Directive - 2014/59/EU)

The BRRD (the Bank Recovery and Resolution Directive - 2014/59/EU) established new resolution rules, applicable from 1 January 2015 to all banks in the European Union, and its measures are financed, with effect from 1 January 2015, by the National Resolution Fund, which, with effect from 1 January 2016, was merged into the Single Resolution Fund (SRF).

In fact, with effect from that date, the national funds of all countries belonging to the monetary union, instituted in 2015 in accordance with the BRRD, were merged into the Single Resolution Fund. On 29 April 2016, with subsequent ratification on 27 May 2016, the Bank of Italy, as the resolution authority, gave notice of the ordinary contribution due for 2016, calculated in accordance with Commission Delegated Regulations 2015/63 and 2015/81. As at 30 June 2016, in application of IFRIC 21 Levies, the Bank recognised the full contribution of € 655 thousand (€ 617 thousand in 2015) in profit and loss, under other administrative expenses.

DGS (Deposit Guarantee Schemes) Directive (former National Interbank Deposit Guarantee Fund)

The publication in the *Official Journal of the Italian Republic* no. 56 of 8 March 2016 of Legislative Decree No. 30 of 15 February 2016 marked the transposition of the DGS Directive (Deposit Guarantee Schemes - 2014/49/EU), aimed at increasing the protection of depositors and harmonising the regulatory framework at the European level. The calculation criteria, and thus the amount of the contribution for 2016, have yet to be defined.

As at 31 December 2015, an additional mechanism beyond that governed by the DGS Directive was in place on a voluntary basis (the "Voluntary Scheme"), with the aim of supporting banks under receivership or in distress, in which the Group elected not to participate. The Bank began to operate in late 2011 and thus decided not to contribute to losses deriving from events that occurred prior to the Bank's existence. Accordingly, on 26 April 2016 the National Interbank Deposit Guarantee Fund gave notice of the refund of the contribution previously paid for Banca Tercas (which the European Commission considered as "state aid") of € 290 thousand, recognised in profit and loss under other operating income. During the quarter, in the absence of notice of the amount owed to the DGS for 2016, the Bank allocated € 200 thousand to other operating expenses as the estimated amount of the provision for the year.

New Contracting Code

The text of the new Contracting Code (Legislative Decree No. 50 of 18 April 2016) was published in Italy's *Official Journal* on 19 April 2016. Article 106 (13) of the Code reads as follows: “13. The provisions of Law No. 52 of 21 February 1991 shall apply. To be enforceable on contracting authorities, the assignment of receivables must be witnessed by a public deed or authenticated private agreement and the debtor administrations must be notified. Without prejudice to the observance of traceability obligations, assignment of receivables deriving from consideration for tenders, concessions and planning competitions is valid and binding on contracting authorities that are public administrations if such administrations do not reject them with notice to be served on the assignor and assignee within 45 days of notice of assignment. In the contract entered into or in a concurrent separate agreement, public administrations may accept in advance the assignment by the performing party of all or part of the receivables that have yet to accrue. In any event, the entity that has been notified of the assignment may raise all objections against the assignee that were available to the assignor under the contract governing works, services, the supply of goods or design entered into with the latter." The new statute does not substantially modify the rules previously set out in Article 117 of the repealed Contracting Code (Legislative Decree No. 163/2006).

OTHER INFORMATION

Research and Development Activities

No research and development activity was carried out in the third quarter of 2016.

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

ATYPICAL OR UNUSUAL TRANSACTIONS

During the third quarter of 2016, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

On 10 October 2016, authorisation was received from the Bank of Italy pursuant to Art. 57 of the Consolidated Law on Banking for the merger of incorporation of Beta Stepstone S.p.A. into Banca Sistema.

On 19 October 2016, ratings were assigned to the securitisation of the portfolio of salary- and pension-backed loans (CQS and CQP), which has a total value of € 170 million. Moody's and DBRS assigned the senior class (€ 133 million) ratings of Aa2 and A, respectively, and the mezzanine class (€ 16 million) ratings of A3 and BBB, respectively. Those securities will be listed on the Luxembourg Stock Exchange.

The junior class of € 21 million is unrated.

The senior notes, to date used by Banca Sistema for refinancing operations with institutional investors, will thus be eligible for refinancing operations with the ECB. The deal is in line with the strategy to diversify funding sources and will enable the Bank to pursue its growth targets in this business segment. It should also be noted that an inspection by the Bank of Italy began in October. There were no additional significant events after the end of the period to be mentioned.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The third half of 2016 ended with continuing growth in line with the previous period in the factoring sector and in terms of salary-backed loans (CQS).

The new strategic commercial and framework agreements entered into in 2015 are already contributing to the Group's growth and product diversification process.

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

The objective for the last quarter of 2016 is still that of pursuing growth through the strengthening and consolidation of the core factoring business, growth in the new business lines introduced in 2014 and through the identification of new opportunities, including through strategic acquisitions.

Milan, 28 October 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	30.09.2016	31.12.2015
10.	Cash and cash equivalents	101	104
40.	Financial assets available for sale	435,037	925,402
60.	Due from banks	34,304	2,076
70.	Loans to customers	1,296,719	1,457,990
100.	Equity investments	1,112	2,696
120.	Property and equipment	23,316	1,058
130.	Intangible assets	1,850	1,872
	of which goodwill	1,786	1,786
140.	Tax assets	8,500	7,353
	a) current	998	3,537
	b) deferred	7,502	3,816
	b1) as specified in Law 214/2011	3,984	2,658
160.	Other assets	10,969	13,119
	Total assets	**1,811,908**	**2,411,670**

(Amounts in thousands of Euro)

	Liabilities and shareholders' equity	30.09.2016	31.12.2015
10.	Due to banks	435,245	362,075
20.	Due to customers	1,101,063	1,878,339
30.	Securities in issue	90,990	20,102
80.	Tax liabilities	10,890	804
	a) current	3,338	0
100.	b) deferred	7,552	804
110.	Other liabilities	57,644	55,317
120.	Employee termination indemnities	2,096	1,303
	Provisions for risks and charges	3,605	372
	b) other provisions	3,605	372
140.	Valuation reserves	387	350
170.	Reserves	39,613	26,314
180.	Share premium reserve	39,373	39,436
190.	Share capital	9,651	9,651
200.	Treasury shares (-)	(69)	-
210.	Minority interests	20	-
220.	Profit (loss) for the period/year	21,400	17,607
	Total liabilities and shareholders' equity	**1,811,908**	**2,411,670**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(Amounts in thousands of Euro)

	Items	30.09.2016	30.09.2015
10.	Interest and similar income	62,440	59,543
20.	Interest expense and similar charges	(11,628)	(16,549)
30.	**Interest margin**	**50,812**	**42,994**
40.	Fee and commission income	8,226	9,594
50.	Fee and commission expense	(1,364)	(1,286)
60.	**Net fee and commission income**	**6,862**	**8,308**
70.	Dividends and similar income	227	33
80.	Profit (Loss) on trading	18	127
100.	Profit (loss) from disposal or repurchase of:	1,042	2,323
	a) receivables		-
	b) financial assets available for sale	1,042	2,323
	c) held to maturity financial assets	-	-
	d) financial liabilities	-	-
120.	**Net interest and other banking income**	**58,961**	**53,785**
130.	Net value adjustments/write-backs due to impairment of:	(4,923)	(3,921)
	a) receivables	(4,923)	(3,921)
140.	**Net income from banking activities**	**54,038**	**49,864**
180.	Administrative expenses:	(26,546)	(30,235)
	a) personnel expenses	(11,148)	(14,095)
	b) other administrative expenses	(15,398)	(16,140)
190.	Net allowance for risks and charges	69	(60)
200.	Net adjustments to/recoveries on property and equipment	(194)	(188)
210.	Net adjustments to/recoveries on intangible assets	(42)	(46)
220.	Other operating income (expenses)	178	162
230.	**Operating expenses**	**-26,535**	**-30,367**
240.	Profit (loss) from equity investments	2,281	341
270.	Profit (Loss) from disposal of investments	-	-
280.	**Profit (loss) before tax from continuing operations**	**29,784**	**19,838**
290.	Taxes on income from continuing operations	(8,384)	(6,345)
300.	**Profit (loss) after tax from continuing operations**	**21,400**	**13,493**
320.	**Profit (loss) for the period**	**21,400**	**13,493**
340.	**Parent company profit for the period**	**21,400**	**13,493**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		30.09.2016	30.09.2015
10.	**Profit (loss) for the period**	**21,400**	**13,493**
	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	(182)	44
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	219	(23)
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)**	37	21
140.	**Comprehensive income (Items 10+130)**	**21,437**	**13,514**
150.	**Total consolidated comprehensive income pertaining to minority interests**	**-**	**-**
160.	**Total consolidated comprehensive income pertaining to the Parent Company**	**21,437**	**13,514**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AS AT 30.09.2016

Amounts in thousands of Euro

	Balance at 31.12.2015	Change in opening balances	Balance at 1.1.2016	Allocation of net result from previous year		Changes during the year								Comprehensive income as at 30.09.2016	Group shareholders' equity at 30.09.2016	Minority shareholders' equity at 30.09.2016
							Operations on shareholders' equity									
				Reserves	Dividends and other allocations	Changes in reserves	Is-sue of new shares	Purchase of treasury shares	Extraordinary dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options	Variazioni interessenze partecipative			
Share capital:																
a) ordinary shares	**9,651**	-	9,651		-	-	-	-	-	-	-	-	-	-	**9,651**	**20**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	
Share premium reserve	**39,436**	-	39,436	-	-	(63)	-	-	-	-	-	-	-	-	**39,373**	
Reserves	**26,314**	-	26,314	13,345	-	(46)	-	-	-	-	-	-	-	-	**39,612**	
a) retained earnings	**26,573**	-	26,573	13,345			-	-			-	-	-	-	**39,918**	
b) other	**(259)**	-	(260)		-	-	-	-			-	-	-	-	**(306)**	
Valuation reserves	**350**	-	350	-	-	(46)	-	-			-	-	-	37	**387**	
Equity instruments	**-**	-	-	-	-	-	-	-			-	-	-	-	**-**	
Treasury shares	**-**	-	-	-	-	-	-	(69)			-	-	-		**(69)**	
Profit (loss) for the period	**17,607**	-	17,607	(13,345)	(4,262)	-	-	-			-	-	-	21,400	**21,400**	
Group shareholders' equity	**93,358**	-	**93,358**	-	(4,262)	**(109)**	-	(69)	-	-	-	-	-	**21,437**	**110,355**	
Minority shareholders' equity	**-**		**-**	-	-	**20**	-								**-**	**20**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AS AT 30.09.2015

Amounts in thousands of Euro

				Allocation of net result from previous year		Changes during the year									
							Operations on shareholders' equity								
	Balance at 31.12.2014	Change in opening balances	Balance at 1.1.2015	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 as 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	-	-	-	35,254	-	-	-	-	-	-	-	**39,579**
Reserves	**8,734**	-	8,734	17,567	-	(15)	-	-	-	-	-	-	-	-	**26,287**
a) retained earnings	**9,006**	-	9,006	17,567	-	-	-	-			-	-	-	-	**26,573**
b) other	**(272)**	-	(272)		-	(15)	-	-			-	-	-		**(287)**
Valuation reserves	**2**	-	2	-	-	-	-	-			-	-	-	(21)	**(19)**
Equity instruments	**-**	-	-	-	-	-	-	-			-	-	-	-	**-**
Treasury shares	**-**	-	-	-	-	-	-	-			-	-	-	-	**-**
Profit (loss) for the period	**19,539**	-	19,539	(17,567)	(1,972)	-	-	-			-	-	-	13,493	**13,493**
Shareholders' equity	**41,051**	-	**41,051**	-	**(1,972)**	**(15)**	**36,454**	-	-	-	-	-	-	**13,472**	**88,991**

CONSOLIDATED STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	30.09.2016	30.09.2015
A. OPERATING ACTIVITIES		
1. Operations	**26,892**	**17,944**
▪ interest income collected	62,440	59,543
▪ interest expense paid	(11,628)	(16,549)
▪ net fees and commissions	6,862	8,308
▪ personnel expenses	(9,297)	(12,634)
▪ other expenses	(15,151)	(16,040)
▪ taxes and duties	(6,334)	(4,684)
2. Cash flows generated by (used in) financial assets	**616,012**	**(209,127)**
▪ financial assets held for trading	18	190
▪ financial assets available for sale	491,444	(61,921)
▪ loans to customers	156,348	(147,481)
▪ due from banks: on demand	(32,208)	7,310
▪ other assets	410	(7,225)
3. Cash flows generated by (used in) financial liabilities	**(618,629)**	**156,686**
▪ due to banks: on demand	73,170	(549,697)
▪ due to customers	(777,276)	707,755
▪ securities issued	70,888	301
▪ other liabilities	14,589	(1,673)
Net cash flow generated by (used in) operating activities	**24,275**	**(34,496)**
B. INVESTMENT ACTIVITIES		
1. Cash flows from	**2,524**	**33**
▪ sales of equity investments	2,297	-
▪ dividends collected on equity investments	227	33
2. Cash flows used in	**(22,472)**	**(133)**
▪ purchases of property and equipment	(22,452)	(105)
▪ purchases of intangible assets	(20)	(28)
▪ purchases of subsidiaries and business lines	-	-
Net cash flow generated by (used in) investment activities	(19,948)	(100)
C. FINANCING ACTIVITIES		
▪ issues/purchases of treasury shares	(69)	36,588
▪ issues/purchases of equity instruments	-	-
▪ dividend distribution and other	(4,261)	(1,972)
Net cash flow generated by (used in) financing activities	**(4,330)**	**34,616**
NET CASH FLOW GENERATED/USED DURING THE YEAR	**(3)**	**20**

RECONCILIATION - ITEMS		
Cash and cash equivalents at the beginning of the year	104	66
Total net cash flow generated/used during the year	(3)	20
Cash and cash equivalents at balance sheet date	101	86

ACCOUNTING POLICIES

GENERAL BASIS OF PREPARATION

This Consolidated Interim Financial Report as at 30 September 2016 has been prepared in accordance with Art. 154-ter of Legislative Decree no. 58 of 24 February 1998 and Legislative Decree No. 38 of 28 February 2005, according to the IAS/IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission, as established by Regulation (EC) No 1606 of 19 July 2002, from which there were no derogations.

The specific accounting standards adopted have been applied consistently with regard to the financial statements as at 31 December 2015.

The Consolidated Interim Financial Report as at 30 September 2016 comprises the Statement of financial position, Statement of profit and loss, Statement of other comprehensive income, Statement of changes in equity, Statement of cash flows and these Notes and is accompanied by a Directors' Report on management performance, the financial results achieved and the financial position of the Banca Sistema Group.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38/2005, the financial statements use the Euro as the currency for accounting purposes.

The amounts in the Accounting statements and Notes to the financial statements are expressed (unless expressly specified) in thousands of Euro.

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

This Consolidated Interim Financial Report includes Banca Sistema S.p.A. and its direct and indirect subsidiaries or associates. Compared to the situation as at 31 December 2015, the scope of consolidation changed due to the inclusion of Beta Stepstone S.p.A. and Largo Augusto Servizi e Sviluppo S.r.l.

The accounting policies adopted for the drafting of the Consolidated Interim Financial Report, with reference to the classification, recording, valuation and derecognition criteria for the various assets and liabilities, like the guidelines for recognising costs and revenues, have remained unchanged compared with those adopted in the separate and consolidated financial statements as at 31 December 2015, to which reference is made.

This Interim Financial Report at 30 September 2016 is accompanied by certification by the manager responsible for drafting the company accounting documents, pursuant to Art. 154-bis of the Consolidated Law on Finance, and the consolidated financial statements have been subject to a limited audit.

Events after the reporting date

No events that would have required the adjustment of the data presented in the Consolidated Interim Financial Report have occurred since the reporting date.

Other aspects

The Consolidated Interim Financial Report was approved on 28 October 2016 by the Board of Directors, which authorised its disclosure to the public in accordance with IAS 10.

CERTIFICATION OF THE DESIGNATED MANAGER RESPONSIBLE FOR DRAFTING THE COMPANY ACCOUNTING DOCUMENTS

The undersigned, Margherita Mapelli, in her capacity as Designated manager responsible for drafting the company accounting documents of Banca Sistema S.p.A., in accordance with paragraph 2 of Art. 154-bis of Legislative Decree no. 58 of 24 February 1998, hereby certifies that the accounting information presented in this Consolidated Interim Financial Report as at 30 September 2016 matches the accounting documents, books and records.

Milan, 28 October 2016

Margherita Mapelli

Designated manager responsible for drafting
the company accounting documents

CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 30 SEPTEMBER 2016

BANCA
SISTEMA
CONTEMPORARY BANK