INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2018

BANCA SISTEMA
CONTEMPORARY BANK

Banca SISTEMA Group

INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2018

BANCA
SISTEMA

CONTENTS

DIRECTORS' REPORT

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

Chairperson	Ms.	Luitgard Spögler
Deputy Chairperson	Mr.	Giovanni Puglisi
CEO and General Manager	Mr.	Gianluca Garbi
Directors	Mr.	Claudio Pugelli[1]
	Ms.	Carlotta De Franceschi (*Independent*)
	Ms.	Laura Ciambellotti (*Independent*)
	Mr.	Federico Ferro Luzzi (*Independent*)
	Mr.	Francesco Galietti (*Independent*)
	Mr.	Marco Giovannini (*Independent*)

Board of Statutory Auditors

Chairperson	Mr.	Massimo Conigliaro
Standing Auditors	Mr.	Biagio Verde
	Ms.	Lucia Abati[2]
Alternate Auditors	Mr.	Marco Armarolli[3]
	Ms.	Daniela D'Ignazio

Independent Auditors

KPMG S.p.A.

Manager in charge of financial reporting

Mr. Alexander Muz

[1] On 29 June 2018, Mr. Pugelli tendered his resignation from the position with effect from 30 June 2018.

[2] Appointed as a Standing Auditor at the Shareholders' Meeting on 14 December 2017 and shall remain in office until the end of the Board of Statutory Auditors' term.

[3] On 14 December 2017, following the appointment of the new Standing Auditor, he was once again appointed Alternate Auditor at the Shareholders' Meeting and shall remain in office until the end of the Board of Statutory Auditors' term.

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

Chairperson	Ms.	Laura Ciambellotti
Members	Ms.	Carlotta De Franceschi
	Mr.	Federico Ferro Luzzi
	Ms.	Luitgard Spögler

Appointments Committee

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

Remuneration Committee

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

Ethics Committee

Chairperson	Mr.	Giovanni Puglisi
Members	Ms.	Carlotta De Franceschi
	Mr.	Marco Pompeo

Supervisory Body

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

FINANCIAL HIGHLIGHTS AT 30 JUNE 2018

30 Jun 2018
31 Dec 2017
30 Jun 2017

Statement of financial position data (€,000)

Total Assets	3,033,066 2,309,233	31.3%
Securities Portfolio	802,807 370,989	116.4%
Loans - Factoring	1,491,649 1,285,726	16.0%
Loans - Salary-backed loans and SME	611,452 556,061	10.0%
Funding - Banks and REPOs	1,257,831 733,156	71.6%
Funding - Term Deposits	599,896 447,093	34.2%
Funding - Current Accounts	514,584 510,349	0.8%

Income statement data (€,000)

Net interest income	32,608 29,885	9.1%
Net fee and commission income	7,359 4,607	59.7%
Total Income	40,858 35,157	16.2%
Personnel Expenses	(9,560) (8,872)	7.8%
Other administrative expenses (*)	(11,005) (10,030)	9.7%
Pre-tax profit (*)	16,985 14,547	16.8%

Performance Indicators

Cost/income	50.7% 54.5%	-7.0%
ROAE	15.9% 21.5%	-26.2%

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

On 8 February 2018, the Board of Directors approved the Remuneration Policies Document of the Banca Sistema Group for 2018. It also acknowledged the quarterly report by the Internal Control Department as at 31 December 2017 (Risk Reporting, Tableau de Bord of the Compliance Department and Tableau de Bord of the Internal Audit Department), the quarterly report on Related Party Transactions within the scope of the Master Resolution, and the annual Report of the Head of internal whistleblowing systems.

On 8 March 2018, the Board of Directors approved: (i) the "2017 Risks Department Annual Report", (ii) the "2017 Compliance Department Annual Report", (iii) the "2017 Anti-Money Laundering Department Annual Report", (iv) the "Compliance Department Annual Report on complaints received by the Bank", (v) the "Annual Report on the activities carried out by the Internal Audit Department during 2017", and (vi) the Activity Plan for 2017 related to the II Level Internal Control Departments, (Risk, Compliance and Anti-Money laundering) and Internal Audit Department and the Periodic Report by the Supervisory Body concerning the application of the "Organisational, management and control model pursuant to Legislative Decree no. 231/2001". The Board of Directors also approved (i) the Report on Corporate Governance and Ownership Structure prepared in accordance with art. 123-Bis of Legislative Decree no. 58/1998 and the Remuneration Report pursuant to art. 123-Ter of Legislative Decree no. 58/1998, as well as (ii) the document "IFRS 9 - Business Model Policy".

On 09 April 2018, following the authorisations granted by the Bank of Italy, two new branches dedicated exclusively to the collateralised lending business were opened in Naples and Palermo.

On 10 April, the Board of Directors of Banca Sistema approved the 2018-2020 Strategic Plan, which was presented to analysts and investors on 11 April 2018.

On 23 April 2018, the shareholders' meeting was held during which the Board of Directors' mandate was renewed with the appointment of nine members.

Following the renewal, the Board of Directors approved the appointment of Gianluca Garbi as CEO of the Bank, conferring on him necessary operational powers.

On 11 May, the Board of Directors, having verified the integrity and professionalism of all its members, resolved to appoint Giovanni Puglisi as Deputy Chairperson, while on 24 May, having acknowledged the opinion expressed by the Appointments Committee, approved the composition of the following Board committees:

- the Internal Control and Risk Management Committee, the Remuneration Committee, and the Ethics Committee.

At the end of May, the placement of a senior bond issue was successfully completed. The placement in a club deal reserved for institutional investors that are not related parties, in the total amount of € 90 million, has a term of 3 years, with a fixed rate and an all-inclusive cost of 200 bps. The objective of the issue is consistent with the bank's strategy to diversify its sources of funding and to support the growth of the core business.

On 19 June, the Bank completed the acquisition of a 19.90% stake in the share capital of ADV Finance S.p.A. ("ADV Finance"), a registered financial intermediary (under art. 106 of the Consolidated Banking Act) that since 2010 has offered in Italy, through agents and brokers, a complete range of services related to salary- and pension-backed personal loans (CQS/CQP). The transaction, valued at € 0.6 million, is consistent with Banca Sistema's growth objective for the CQS/CQP business outlined in the 2018-2020 Strategic Plan and is aimed at reinforcing the existing commercial partnership with ADV Finance. The agreements between the shareholders of ADV Finance and Banca Sistema provide for the possibility for the latter to increase its investment by an additional 20% within the next 24 months. On 22 June, the Board of Directors approved the start of market making activities and thus allocated € 40,000 to it for the purchase and disposal of treasury shares within the scope of the authorisation granted at the Shareholders' Meeting of 27 April 2017 and in accordance with the terms authorised by the Bank of Italy on 13 September 2017. The programme will end by 27 October 2018.

On 29 June, notice was given that the shareholders Società di Gestione delle Partecipazioni in Banca Sistema S.r.l. (SGBS), Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia, in anticipation of the imminent expiry date of the Shareholders' Agreement signed on 3 June 2015 along with Fondazione Pisa, having taken note of the intention expressed by Fondazione Pisa not to join the new Shareholders' Agreement, signed a new Shareholders' Agreement which came into effect on this date until 1 July 2020. The new Shareholders' Agreement reflects a shareholding of 38.41% in Banca Sistema's share capital.

Given the above, Claudio Pugelli, a non-executive and non-independent Director of Banca Sistema, tendered his resignation from the position with effect from 30 June.

Subject to the co-opting resolution being approved by the Board of Directors of Banca Sistema, and without prejudice to the required checks to verify that all the legal requirements have been complied with, the resigning Director will be replaced by Daniele Pittatore. An abstract of the new Shareholders' Agreement, which was drafted pursuant to article 129 of the Issuers' Regulation approved by Consob Resolution no. 11971/99, and essential information pursuant to article 130 of the Issuers' Regulation have been made available on the Parent's website www.bancasistema.it and on the website of the storage mechanism authorised by Consob www.1info.it in accordance with the legal terms.

FACTORING

The Italian factoring market

Following the robust growth recorded in 2017 (+9.48%), the market slowed in the first part of the year. Based on the latest data from Assifact, in May 2018, cumulative turnover was in fact € 81.7 billion which is essentially in line with the same period of last year. There are two possible causes: on the one hand the improvement in the economic conditions (historically the sector records its greatest growth during economic crises), and on the other, the extension of the split payment to group of players which were previously excluded from the provisions.

Without recourse transactions remain by far the most used: approximately 69.7% of total turnover versus 30.3% for with recourse.

Moreover, outstanding receivables as (at 31 May 2018) and advances/consideration from assignments are growing (+2.03% and 1.47%, respectively). Lombardy and Lazio represent the areas with the greatest penetration both from the side of the assignors and debtors.

With regard to the economic sectors, businesses and Public Administration are the largest debtors (respectively 56% and 22% of factored receivables). A total of 23% of the outstanding (equal to about € 12 billion) are receivables from Public Administration (mainly from national health service entities and Central Administrations).

Average payment times, after a general improvement in the 2010-2017 period, posted a slight trend reversal. Based on the latest data from Intrum Justitia, the actual average duration in the B2B sector is 56 days (versus the average for the EU of 34 days), while in Public Administration it is 104 days (versus 40 days in the EU). In fact, Public Administration has the highest incidence of late payments with respect to those provided for by law. 30% is past due more than 90 days (of which 2/3 more than one year).

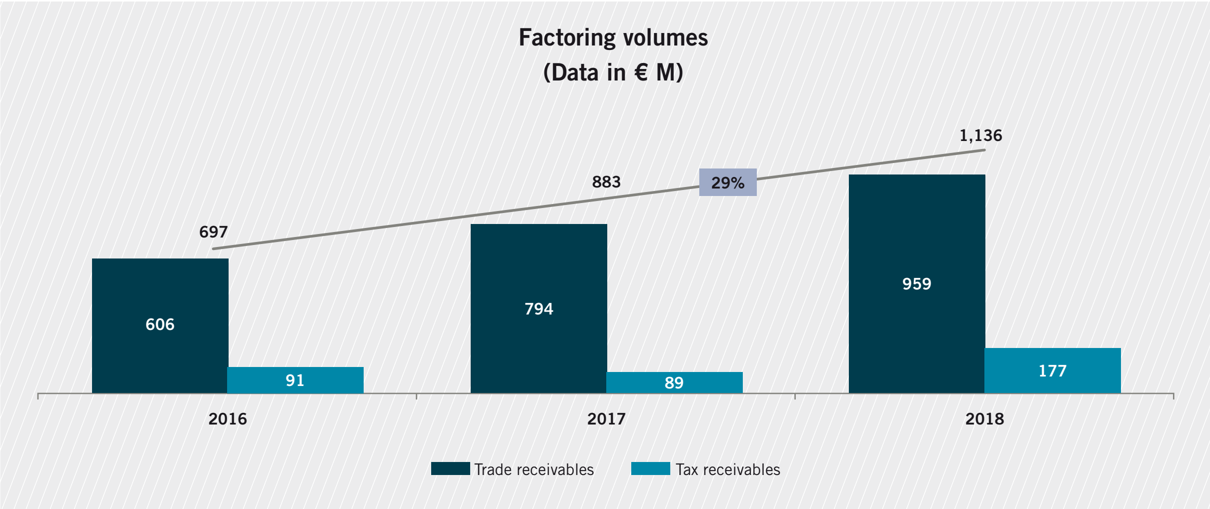
Factoring credit quality continues to be higher than other types of financing: the latest data available from Assifact at 31 May 2018 show that non-performing loans are 7.05% of the total gross exposures. Bad exposures were 3.22%, unlikely to pay 1.75%, and past due 2.08%.

Hedging rates on unlikely to pay (50.78%) and bad exposures (88.21%) are significantly higher than those in the traditional banking sector (33.90% and 64.40% respectively), evidence of the great attention and prudence of the operators in their provisioning policy at the first sign of non-performance risk.

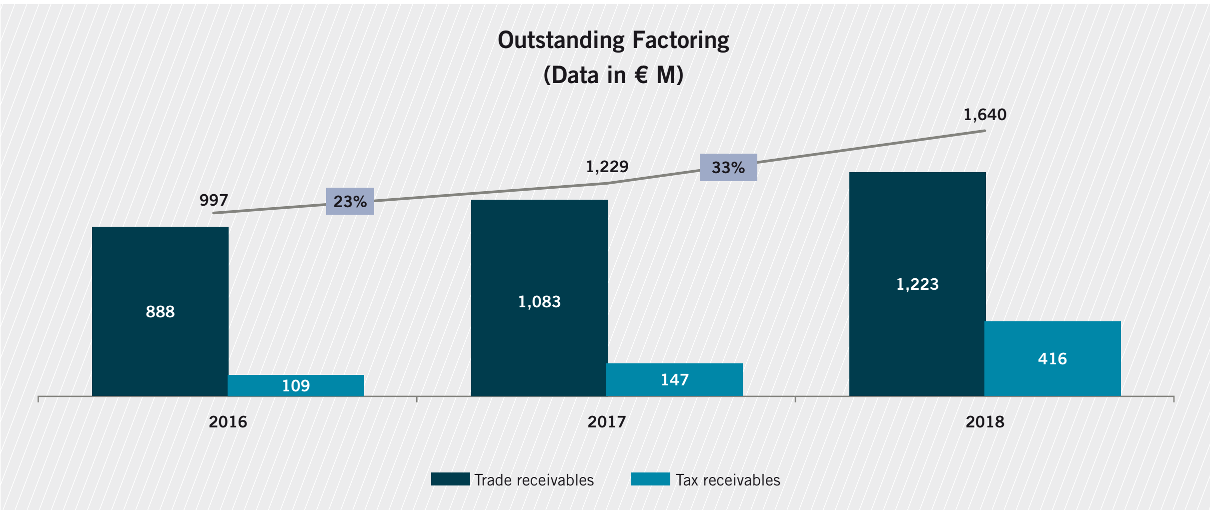
As at 31 March 2018, the latest data available, assignors totalled more than 28,000, 47.15% of which are small businesses (turnover less than € 10 million), 15.97% medium businesses (turnover between € 10 million and € 50 million) with the remainder being medium-large businesses. At the same date there were more than one million assigned debtors, thus confirming the sector's importance in commercial transactions.

Banca Sistema and factoring activities

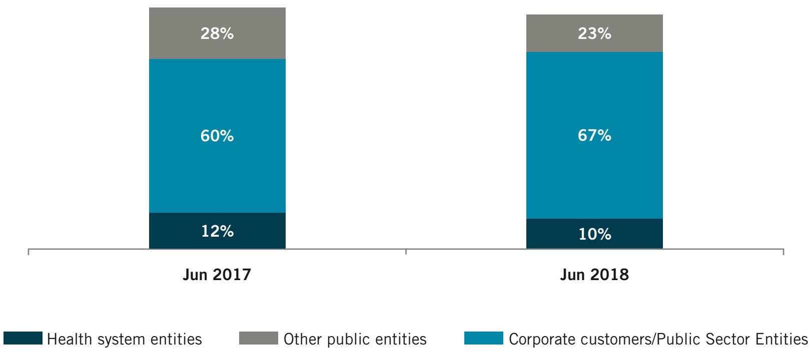
Total turnover for the period ended 30 June 2018 of the Banca Sistema Group was € 1,136 million, up 29% versus the first half of 2017, thus confirming its ability to post solid year over year growth.



Outstanding loans as at 30 June 2018 amounted to € 1,640 million, up 33% on € 1,229 million at 30 June 2017, mainly due to increased volumes acquired in the second half of 2018 compared to collections during the same period.



The chart below shows the ratio of debtors to the total exposure in the outstanding receivables portfolio at 30 June 2018 and 2017. The Group's core factoring business remains the Public Administration entities segment.



Turnover was generated through both its own internal commercial network, or through banks with which the Group has entered into distribution agreements. In June 2018, existing distribution agreements accounted for 31% of total turnover. The following table shows the factoring turnover by product type:

PRODUCT (amounts in millions of euro)	30.06.2018	30.06.2017	€ CHANGE	% CHANGE
Trade receivables	959	794	165	21%
of which, without recourse	*778*	*533*	*245*	*46%*
of which, with recourse	*181*	*261*	*(80)*	*-31%*
Tax receivables	177	89	88	99%
of which, without recourse	*173*	*82*	*91*	*111%*
of which, with recourse	*4*	*7*	*(3)*	*-43%*
TOTAL	**1,136**	**883**	**253**	**29%**

In absolute terms, the growth in turnover derives mainly from the purchase of receivables from public or similar type debtors, while in relative terms the best performance was in the tax receivables sector.

SALARY-BACKED LOANS

As at 30 June 2018, the Bank has nine ongoing agreements with specialist distributors in the sector.

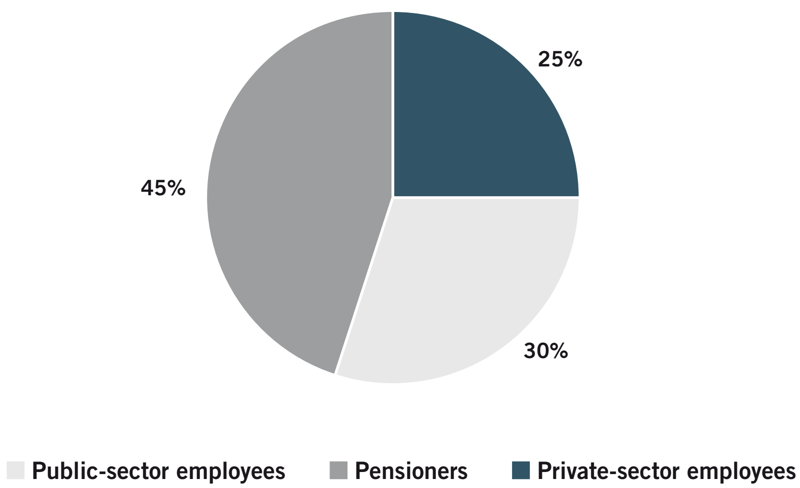
A salary- or pension-backed loan (CQS/CQP) is a consumer loan product that allows customers to allocate up to a fifth of their salaries or pensions to the payment of loan instalments.

The volumes acquired from the beginning of the year until 30 June 2018 amounted to € 97 million, including private-sector employees (25%), pensioners (45%) and public-sector employees (30%). Therefore, over 75% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

	30.06.2018	30.06.2017	€ CHANGE	% CHANGE
No. of applications	4,897	5,090	(193)	-4%
Volumes disbursed (millions of Euro)	97	105	(8)	-8%

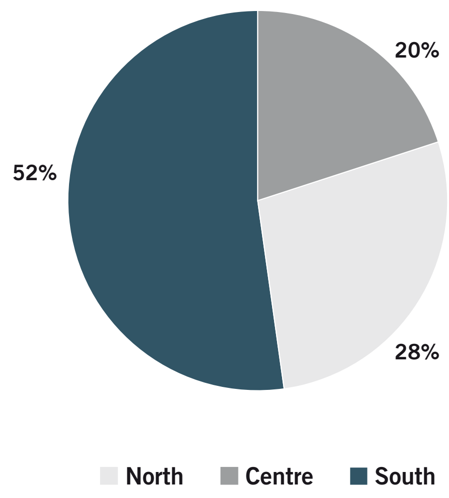
As inferred from the table, the amounts disbursed in the first half of 2018 are down from what was disbursed in the first half of 2017.

CQ disbursed volumes - Breakdown



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

CQ disbursed volumes - Breakdown by geographical area



FUNDING ACTIVITIES

Treasury portfolio

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

The balance at 30 June 2018 increased compared to 31 December 2017 and was equal to a nominal € 798.5 million (compared to € 362.5 million at 31 December 2017). The increase in the treasury portfolio allowed for optimal management of the Treasury commitments which are increasingly characterised by a concentration of transactions in very specific periods.

Beginning in May 2018, the fair value trend of the treasury portfolio has shown significant volatility, as it was affected by the downward pressure on Italian government securities that was caused mainly by the difficulty in forming a political majority and, as a consequence, a stable government in the two branches of Parliament. The renewed confidence of foreign investors in the newly formed government in the weeks that followed helped reduce tensions on the Italian securities market whose fair value still has not returned to "pre-shock" levels.

At 30 June, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounts to € 263.5 million (compared to € 279 million as at 31 December 2017) with a duration of 1 year and 5 months (7.3 months in the previous year).

During 2018 the securities at amortised cost portfolio ("HTC" or "Held to Collect") was established, made up entirely of Italian government securities. At 30 June, the HTC portfolio amounted to € 435 million with an average remaining duration of 2 years and 8 months.

The HTC ("Held to Sell") securities portfolio was also established, made up entirely of short-term Italian government securities. At 30 June, the HTS portfolio amounted to a nominal € 100 million with an average remaining duration of 9.3 months.

Wholesale funding

As at 30 June 2018, wholesale funding was about 57% of the total, mainly comprising bonds, inter-bank deposits and refinancing transactions with the ECB (51% as at 31 December 2017).

The 2017 issues of € 175 million of senior bonds maturing on 13 October 2020 and € 16.5 million of the subordinated loan maturing on 30 March 2027, placed with institutional investors, have enabled a diversification of the sources of funding and a significant increase in their duration.

The securitisation transactions of Quinto Sistema Sec. 2016 and Quinto Sistema Sec. 2017, completed with a partly-paid securities structure and "progressive growth of the securitised portfolio" (a "warehouse" structure), permitted an efficient and effective source of funding dedicated to the CQS portfolio. On 25 June, the Quinto Sistema Sec. 2017 Senior securities (Class A) and Mezzanine securities (Class B1) of the salary- and pension-backed loan (CQ) securitisation transaction were given a rating by Moody's (Aa2 and Baa3, respectively) and by DBRS (A-high and A-low, respectively) and were admitted to trading on the Luxembourg Stock Exchange. The Senior class securities may be used as collateral in Eurosystem refinancing transactions. Quinto Sistema Sec. 2017 is the second ABS transaction of salary- and pension-backed loans by Banca Sistema to be given a rating. The transaction at the end of June of approximately € 250 million (of which approximately € 191 million are Senior) could incorporate, in the coming weeks, the loan portfolio that was the subject of the first securitisation, bringing it to approximately € 400 million. A ramp up period will also follow that will end in February 2019 for a maximum total amount of € 660 million. The transaction will allow Banca Sistema to continue to grow its salary-/pension-backed loan business, thus optimising its funding structure dedicated to this same segment.

At the end of May a senior bond was successfully issued in a club deal reserved for institutional investors that are not related parties, for a total subscribed amount of € 90 million, a term of three years, with a fixed rate and an all-inclusive cost of 200 bps. This issue replaced the senior loan of 75 million which expired in May.

The Group also used the interbank deposit market both through the e-MID platform and through bilateral agreements with other banks. Existing bank deposits at 30 June 2018 totalled € 387.5 million. Such funding allows short-term treasury needs to be met by exploiting the extremely low level of interest rates and enables the diversification of funding.

Retail funding

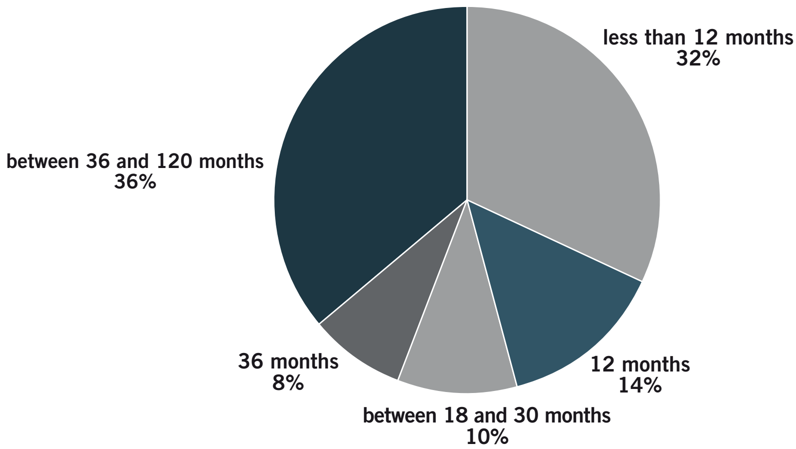
The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.

Retail funding accounts for 43% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 30 June 2018 amounted to € 600 million, an increase of 34% compared to 31 December 2017. The above-mentioned amount also includes total term deposits of € 117 million (obtained with the help of a partner platform) held with entities resident in Germany, Austria and Spain (accounting for 20% of total deposit funding), a decrease of € 2 million over the same period of the previous year.

The breakdown of funding by term is shown below. The average duration of the portfolio is 17 months.

Breakdown of deposit accounts as at 30 June



Current accounts increased from 4,374 (as at 30 June 2017) to 5,225 as at 30 June 2018, while the current account balance as at 30 June 2018 was € 515 million and in line with 2017.

In July, the Bank entered into a new partnership for funding through deposit accounts on a European scale. Thanks to this partnership Banca Sistema will be able to expand and diversify its deposit funding through new channels without having to establish a costly retail infrastructure.

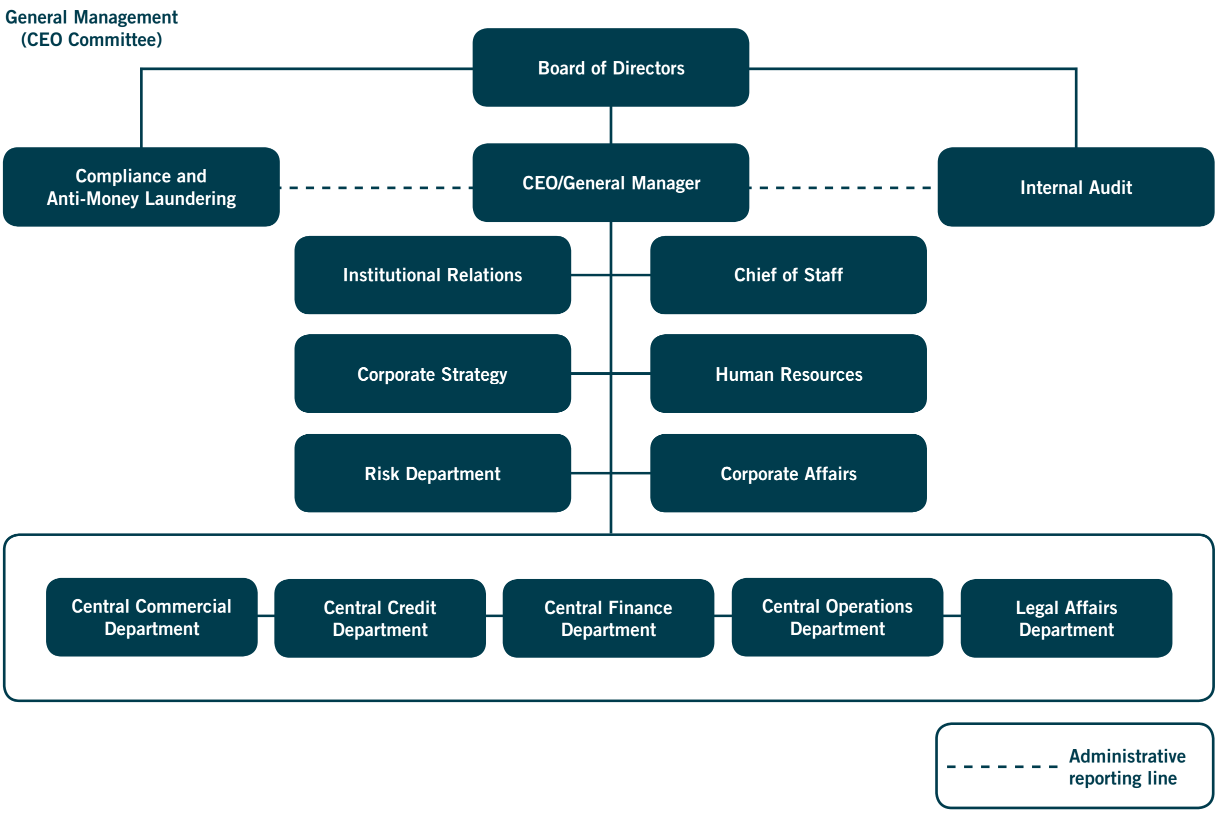
COMPOSITION AND STRUCTURE OF THE GROUP

Scope of the banking group

At 30 June 2018, the Banca Sistema Group comprised the Parent, Banca Sistema S.p.A., Specialty Finance Trust Holdings Limited, a company incorporated under U.K. Law, and Largo Augusto Servizi e Sviluppo S.r.l. (incorporated on 25 August 2016), all fully owned by the Bank.

Organisational chart

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



GENERAL MANAGEMENT

The following report to the CEO and General Manager:

- Head of Commercial Division
- Head of Finance
- Head of Credit
- Head of Operations
- Head of Legal Affairs
- Institutional Relations Manager
- Corporate Strategy Manager
- CRO
- Chief of Staff
- Human Resources Manager
- Corporate Affairs Manager

HUMAN RESOURCES

As at 30 June 2018, the Group had a staff of 176, broken down by category as follows:

FTEs	30.06.2018	31.12.2017	30.06.2017
Senior managers	21	19	21
Middle managers (QD3 and QD4)	42	39	41
Other personnel	113	98	86
Total	**176**	**156**	**148**

In the first half of the year, 24 new resources joined the Group, 8 of which were replacements and the remaining number part of the annual plan for enhancing professional and managerial skills, with particular attention being given to the Factoring, Collateral and CQS commercial structures, the Departments overseeing the credit and collection processes, and the Corporate Strategy Department.

The average age of Group employees is 41 for men and 39 for women, with women accounting for 42% of the total. These figures are similar to those reported in 2017.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	30.06.2018	30.06.2017	€ CHANGE	% CHANGE
Net interest income	32,608	29,885	2,723	9.1%
Net fee and commission income	7,359	4,607	2,752	59.7%
Dividends and similar income	227	227	-	0.0%
Net trading expense	(268)	(216)	(52)	24.1%
Gain from sales or repurchases of financial assets/liabilities	932	654	278	42.5%
Total income	**40,858**	**35,157**	**5,701**	**16.2%**
Net impairment losses on loans and receivables	(2,939)	(1,427)	(1,512)	>100%
Net financial income	**37,919**	**33,730**	**4,189**	**12.4%**
Personnel expense	(9,560)	(8,872)	(688)	7.8%
Other administrative expenses	(11,005)	(10,030)	(975)	9.7%
Net accruals to provisions for risks and charges	(51)	(58)	7	-12.1%
Net impairment losses on property and equipment/intangible assets	(141)	(153)	12	-7.8%
Other operating income (expense)	52	(38)	90	n.a.
Operating costs	**(20,705)**	**(19,151)**	**(1,554)**	**8.1%**
Losses on equity investments	(229)	(32)	(197)	>100%
Pre-tax profit	**16,985**	**14,547**	**2,438**	**16.8%**
Income taxes for the period	(5,764)	(4,564)	(1,200)	26.3%
Profit for the period attributable to the owners of the parent	**11,221**	**9,983**	**1,238**	**12.4%**

The comparative figures represent a mere restatement of the statutory figures for the six months ended 30 June 2017 in accordance with IFRS 9. Therefore, they do not represent the net amounts resulting from retrospective application of the aforementioned accounting standard and consequently are not perfectly comparable with each other.

The first half of 2018 ended with a profit of € 11.2 million, up from the same period of last year, mainly as a result of the increase in total income. When compared to the profit for the first half of 2017, this is absolutely positive, considering that the profit for the first quarter of 2017 had benefited from releases of € 3.9 million tied to bad exposures with troubled local authorities and greater tax benefits, which had a positive impact on lowering the tax rate.

NET INTEREST INCOME (€,000)	30.06.2018	30.06.2017	€ CHANGE	% CHANGE
Interest and similar income				
Loans and receivables portfolios	43,588	37,815	5,773	15.3%
Securities portfolio	76	84	(8)	-9.5%
Other	512	186	326	>100%
Financial liabilities	538	1,187	(649)	-54.7%
Total interest income	**44,714**	**39,272**	**5,442**	**13.9%**
Interest and similar expense				
Due to banks	(1,678)	(759)	(919)	>100%
Due to customers	(6,449)	(6,669)	220	-3.3%
Securities issued	(3,225)	(1,438)	(1,787)	>100%
Financial assets	(754)	(521)	(233)	44.7%
Total interest expense	**(12,106)**	**(9,387)**	**(2,719)**	**29.0%**
Net interest income	**32,608**	**29,885**	**2,723**	**9.1%**

Net interest income rose from the same period of the previous year, thanks to the combined effect of an increase in interest income resulting from the salary- and pension-backed and factoring portfolios, which was higher than the increase in interest expense.

The total contribution of the factoring portfolio amounted to € 33.5 million resulting in an increase of 10.5% versus the first half of 2017; the component related to default interest from legal actions at 30 June 2018 was € 10.7 million (€ 9.1 million in the first half of 2017):

- € 7.3 million of which from allocations (€ 6.3 million in the first half of 2017 considering the effect of closing the transaction with the previous shareholders of Beta Stepstone);
- of which € 3.5 million (€ 2.9 million in the first half of 2017) coming from net collections during the period (difference between the amount collected during the period, equal to € 7.6 million, of which € 4.4 million in the first half of 2017, and what was recognised on an accrual basis in previous periods).

The amount of the stock of default interest from legal actions accrued at 30 June 2018, relevant for the allocation model, was € 100 million (€ 81 million at the end of the first half of 2017), while the recognised receivable amounts to € 37 million.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 5.4 million to € 8.9 million, whereas interest declined on the SME portfolios, which contributed € 1.2 million to the total, following the strategic decision to discontinue this area of the business.

Beginning in 2018, the new financial statements require that the negative components of financial assets, for example securities, and the positive components of technical forms of funding be aggregated in the items interest expenses and interest income respectively according to their sign (under the items “financial assets” and “financial liabilities”). As a result, financial liabilities include the interest income from funding through REPOs.

The “other interest income” mainly includes income generated from hot money transactions and interest generated by collateral-backed loan activities which contributed € 0.1 million.

The cost of funding increased compared to the same period of the previous year following the increase in interest on securities issued that was strictly related to the new bond issues, and therefore to higher stock compared to the same period of the previous year, which allowed for greater diversification in the forms of funding and a duration greater than the previous funding mix.

The cost of funding also includes reversal of the positive component coming from the previously expected rate of -40 bps on the amount resulting from participation in the TLTRO II auction (for € 123 million in June 2016), equal to € 0.8 million as previously recognised.

Financial assets at 30 June 2018 were largely composed of the negative yield on Italian government bonds and the above par acquisition of a loan portfolio consisting of collateral-backed loans.

NET FEE AND COMMISSION INCOME (€,000)	30.06.2018	30.06.2017	€ CHANGE	% CHANGE
Fee and commission income				
Collection activities	543	511	32	6.3%
Factoring activities	7,478	4,945	2,533	51.2%
Other	410	286	124	43.4%
Total fee and commission income	**8,431**	**5,742**	**2,689**	**46.8%**
Fee and commission expense				
Placement	(827)	(909)	82	-9.0%
Other	(245)	(226)	(19)	8.4%
Total fee and commission expense	**(1,072)**	**(1,135)**	**63**	**-5.6%**
Net fee and commission income	**7,359**	**4,607**	**2,752**	**59.7%**

Net fee and commission income of € 7.4 million increased by 60% due to the greater commissions from factoring. These should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the same period of the previous year, while other fee and commission income, which primarily includes commissions and fees from collection and payment services, the keeping and management of current accounts, and fees related to the collateral-backed loan business, amounting to € 58 thousand, have increased.

The placement fees and commissions paid to third parties increased due to their close correlation with the increase in the factoring volumes disbursed. Fee and commission expense includes the origination costs of factoring receivables of € 582 thousand (€ 613 thousand in the same period of the previous year) while the remainder includes returns to third party intermediaries for the placement of the SI Conto! Deposito product on volumes placed in Germany, Austria and Spain.

Other commission expense includes commissions for trading third-party securities and for interbank collections and payment services.

RESULTS OF THE SECURITIES PORTFOLIO (€,000)	30.06.2018	30.06.2017	€ CHANGE	% CHANGE
Net trading income (expense)				
Realised gains	14	1	13	>100%
Valuation loss/gain	(282)	(217)	(65)	30.0%
Total	**(268)**	**(216)**	**(52)**	**24.1%**
Gain (loss) from sales or repurchases				**n.a.**
Gains from HTCS portfolio debt instruments	932	654	278	42.5%
Total	**932**	**654**	**278**	**42.5%**
Total profit from the securities portfolio	**664**	**438**	**226**	**51.6%**

Net trading income (expense) is mainly generated by the market value of the Italian government bonds included in the trading portfolio that have suffered a decrease in fair value as a result of the tensions in the financial markets following the Italian elections. The remaining duration of the securities in the portfolio at 30 June 2018 was 9.3 months. Therefore, in the short term the temporary loss from market valuation will be fully recovered, even if only as a result of the reduction in the remaining duration. The gain generated by the proprietary HTCS portfolio made a greater contribution than in same period of the previous year.

Impairment losses on loans and receivables at 30 June 2018 amounted to € 2.9 million and were up on the same period of the previous year, inasmuch as 2017 had been influenced by releases of € 3.9 million tied to bad exposures with troubled local authorities; on the other hand, even though not significant, the new method resulting from the application of IFRS 9 based on an "expected loss" model versus the previously used "incurred loss" model resulted in an increase in impairment losses on performing loans classified in stage 2. The loss rate at 30 June 2018 amounts to 29 bps.

PERSONNEL EXPENSE (€,000)	30.06.2018	30.06.2017	€ CHANGE	% CHANGE
Wages and salaries	(8,927)	(8,345)	(582)	7.0%
Social security contributions and other costs	(156)	(159)	3	-1.9%
Directors' and statutory auditors' remuneration	(477)	(368)	(109)	29.6%
Total	**(9,560)**	**(8,872)**	**(688)**	**7.8%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 145 to 169, an increase in gross annual salaries, and an additional cost component related to some non-compete agreements.

Other administrative expenses rose by 9.7% on the same period in the previous year due to the expense items described as follows.

OTHER ADMINISTRATIVE EXPENSES (€,000)	30.06.2018	30.06.2017	€ CHANGE	% CHANGE
IT expenses	(2,304)	(2,105)	(199)	9.5%
Consultancy	(1,737)	(2,126)	389	-18.3%
Servicing and collection activities	(1,539)	(1,381)	(158)	11.4%
Rent and related fees	(1,034)	(952)	(82)	8.6%
Indirect taxes and duties	(1,158)	(661)	(497)	75.2%
Resolution Fund	(942)	(807)	(135)	16.7%
Car hire and related fees	(425)	(389)	(36)	9.3%
Expense reimbursement and entertainment	(352)	(394)	42	-10.7%
Other	(400)	(297)	(103)	34.7%
Expenses related to management of the SPVs	(240)	(168)	(72)	42.9%
Insurance	(194)	(158)	(36)	22.8%
Advertising	(199)	(135)	(64)	47.4%
Audit fees	(160)	(137)	(23)	16.8%
Infoprovider expenses	(135)	(147)	12	-8.2%
Stationery and printing	(29)	(37)	8	-21.6%
Telephone and postage expenses	(101)	(89)	(12)	13.5%
Maintenance of movables and real properties	(56)	(47)	(9)	19.1%
Total	**(11,005)**	**(10,030)**	**(975)**	**9.7%**

The costs for collection and servicing activities rose due to the higher collections during the period, while the percentage cost applied to the managed collections is held constant.

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

The increase in indirect taxes and duties is mainly due to the increase in contributions paid for the enforceable injunctions deposited with public administration.

Contributions to the Resolution Fund, up again versus the same period of the previous year, amounted to € 942 thousand.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€,000)	30.06.2018	31.12.2017	€ CHANGE	% CHANGE
Cash and cash equivalents	288	161	127	78.9%
Financial assets measured at fair value through profit or loss	100,027	1,201	98,826	>100%
Financial assets measured at fair value through other comprehensive income	267,281	285,610	(18,329)	-6.4%
Financial assets measured at amortised cost	2,615,584	1,970,495	645,089	32.7%
a) loans and receivables with banks	22,119	36,027	(13,908)	-38.6%
b) loans and receivables with customers - loans	2,157,966	1,850,290	307,676	16.6%
c) loans and receivables with customers - debt instruments	435,499	84,178	351,321	>100%
Equity investments	2,205	1,190	1,015	85.3%
Property and equipment	26,075	24,272	1,803	7.4%
Intangible assets	1,787	1,790	(3)	-0.2%
of which: goodwill	*1,786*	*1,786*	-	*0.0%*
Tax assets	6,203	10,198	(3,995)	-39.2%
Other assets	13,616	14,316	(700)	-4.9%
Total assets	**3,033,066**	**2,309,233**	**723,833**	**31.3%**

The comparative data represent a mere restatement of the statutory figures at 31 December 2017 in continuity with respect to the previously applicable accounting standard IAS 39. Therefore, they do not represent net amounts resulting from retrospective application of the new accounting standard IFRS 9. The reader is referred to the following paragraphs and notes to the condensed interim consolidated financial statements for a description and presentation of the effects resulting from application of IFRS 9.

The first half of 2018 ended with total assets up 31.3% (at € 3 billion) on the end of 2017, mainly due to the effect of the increase in the portfolios of receivables with customers and the securities portfolio.

The item Financial assets measured at fair value through profit or loss ("HTS") includes the short-term portion (equal to 9.3 months) of the Bank's government securities portfolio and is managed for trading purposes. At 30 June, the portfolio, which was established in 2018, was impacted by the decrease in the value of Italian government securities which were the subject of market tension resulting from the uncertainty following the recent general elections in Italy. At 30 June, the portfolio reported a valuation loss of € 0.3 million.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS" or "Held to collect and Sale") of the Group is mainly comprised of Italian government bonds with an average remaining duration of about 1 year and 5 months (the remaining average duration at the end of 2017 was 7.3 months). This is consistent with the Group investment policy. The government securities portfolio amounted to € 261 million at 30 June 2018 (€ 279 million at 31 December 2017). The associated valuation reserve was negative at the end of the period, amounting to € 2.9 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million and purchased in July 2015, and the Axactor Norway shares, which at 30 June 2018 had a positive net fair value reserve of € 418 thousand, resulting in a period-end amount of € 1.6 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	30.06.2018	31.12.2017	€ CHANGE	% CHANGE
Factoring	1,491,649	1,285,726	205,923	16.0%
Salary-/pension-backed loans (CQS/CQP)	571,087	500,480	70,607	14.1%
Loans to SME	40,365	55,581	(15,216)	-27.4%
Current accounts	24,670	5,975	18,695	>100%
Pledge on receivables	3,422	1,366	2,056	>100%
Compensation and Guarantee Fund	26,624	865	25,759	>100%
Other loans and receivables	149	297	(148)	-49.8%
Total loans	**2,157,966**	**1,850,290**	**307,676**	**16.6%**
Securities	435,499	84,178	351,321	>100%
Total loans and receivables with customers	**2,593,465**	**1,934,468**	**658,997**	**34.1%**

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or "Held to Collect"), is composed of loan receivables with customers and, beginning in 2018, the securities portfolios that were classified separately until 31 December 2017 in the line "held-to-maturity securities".

Outstanding loans for factoring receivables compared to the total in the item, excluding the amounts of the securities portfolio, were unchanged from the end of 2017 at 69%. Their absolute value grew as a result of accumulated turnover in the last three quarters. Compared with the first half of 2017, turnover grew by 29%, to € 1,136 million (€ 883 million at the end of the first half of 2017). Salary- and pension-backed loans grew in terms of their outstanding amount thanks to new loans, which fell by 8% compared with the same period of the previous year (the new volumes acquired in the first half amounted to € 97 million), while government-backed loans to SMEs fell, which is in line with the strategic decision to discontinue this line of business.

At the end of 2016, the Parent began developing the collateralised loan business. Accordingly, in addition to the Milan, Rome and Pisa branches, branches in Naples and Palermo were opened. Outstanding volumes at the end of the first half, totalling € 3.4 million, are the result of loans granted during the year of € 3.2 million, which includes the acquisition of one portfolio of third party receivables amounting to € 0.9 million.

The increase in exposure to the Compensation and Guarantee Fund is due to the increase in the number of repurchase agreements as well as to the increased volatility of the underlying securities.

Securities are composed entirely of Italian government securities with an average duration of 2.6 years for an amount of € 435 million.

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

STATUS	30.06.2017	30.09.2017	31.12.2017	31.03.2018	30.06.2018
Bad exposures	38,004	39,799	44,577	44,867	53,412
Unlikely to pay	29,677	24,083	24,061	37,621	30,765
Past due	78,735	89,145	74,690	76,626	89,355
Non-performing	**146,416**	**153,027**	**143,328**	**159,114**	**173,532**
Performing	1,380,481	1,480,346	1,734,845	1,788,833	2,016,559
Stage 2				73,131	67,260
Stage 1				1,715,702	1,949,299
Total loans and receivables with customers	**1,526,897**	**1,633,373**	**1,878,173**	**1,947,947**	**2,190,091**
Individual impairment losses	**17,707**	**19,864**	**22,293**	**23,413**	**26,629**
Collective impairment losses	**6,040**	**5,703**	**5,590**	**5,324**	**5,496**
Stage 2				**454**	**437**
Stage 1				**4,870**	**5,059**
Total impairment losses	**23,747**	**25,567**	**27,883**	**28,737**	**32,125**
Net exposure	**1,503,150**	**1,607,806**	**1,850,290**	**1,919,210**	**2,157,966**

The ratio of gross non-performing loans to the total portfolio went from 7.6% at 31 December 2017 to 8.0% at the end of the first half of 2018. The increase in the absolute value of non-performing loans compared to 31 December 2017 is mainly tied to new factoring positions that moved to the bad exposures category. The amount of past due loans is attributed to factoring receivables without recourse from Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.

Net bad exposures remained at moderate levels and amounted to 1.6% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 15.1%.

Equity investments include the Bank's current equity investment of 10% in Axactor Italy S.p.A., a company operating on the bad financial and commercial exposures management market, as well as in the management and recovery of receivables between individuals. The increase during the period is mainly attributed to the pro-quota capital increase of € 624 thousand subscribed by Banca Sistema, partially offset by its loss for the period. Equity investments also include the acquisition of a 19.90% stake in the share capital of ADV Finance S.p.A. ("ADV Finance"), a registered financial intermediary (under art. 106 of the Consolidated Banking Act) that since 2010 has offered in Italy, through agents and brokers, a complete range of services related to salary- and pension-backed personal loans (CQS/CQP). The transaction, valued at € 0.6 million, is consistent with Banca Sistema's growth objective for the CQS/CQP business outlined in the 2018-2020 Strategic Plan and is aimed at reinforcing the existing commercial partnership with ADV Finance. The agreements between the shareholders of ADV Finance and Banca Sistema provide for the possibility for the latter to increase its investment by an additional 20% within the next 24 months.

Property and equipment includes the property located in Milan, which will also be used as Banca Sistema's new offices following the completion of the renovation work. Its current carrying amount is € 25.2 million. The other capitalised costs include furniture, fittings and IT devices and equipment.

Intangible assets refer essentially to the goodwill generated by the acquisition of the former subsidiary Solvi S.r.l. that was subsequently merged into the Parent.

Other assets include amounts being processed after the end of the period and advance tax payments of approximately € 6.3 million.

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

LIABILITIES AND EQUITY (€,000)	30.06.2018	31.12.2017	€ CHANGE	% CHANGE
Financial liabilities measured at amortised cost	2,793,421	2,083,435	709,986	34.1%
a) due to banks	561,181	517,533	43,648	8.4%
b) due to customers	1,926,056	1,284,132	641,924	50.0%
c) securities issued	306,184	281,770	24,414	8.7%
Tax liabilities	10,358	10,118	240	2.4%
Other liabilities	82,819	71,996	10,823	15.0%
Post-employment benefits	2,329	2,172	157	7.2%
Provisions for risks and charges	7,401	6,745	656	9.7%
Valuation reserves	(1,853)	367	(2,220)	n.a.
Reserves	117,865	98,105	19,760	20.1%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(146)	(149)	3	-2.0%
Profit for the period/year	11,221	26,793	(15,572)	-58.1%
Total liabilities and equity	**3,033,066**	**2,309,233**	**723,833**	**31.3%**

The comparative data represent a mere restatement of the statutory figures at 31 December 2017 in continuity with respect to the previously applicable accounting standard IAS 39. Therefore, they do not represent net amounts resulting from retrospective application of the new accounting standard IFRS 9.

Wholesale funding, which represents about 57% (51% at 31 December 2017) of the total, rose from the end of 2017 following an increase in funding through REPOs, and in part an increase in customer deposits. The contribution of bond funding to total wholesale funding was 23.8% (36.5% at 31 December 2017).

DUE TO BANKS (€,000)	30.06.2018	31.12.2017	€ CHANGE	% CHANGE
Due to Central banks	172,850	192,064	(19,214)	-10.0%
Due to banks	388,331	325,469	62,862	19.3%
Current accounts and demand deposits	*520*	*13,696*	*(13,176)*	*-96.2%*
Term deposits	*387,811*	*311,773*	*76,038*	*24.4%*
Total	**561,181**	**517,533**	**43,648**	**8.4%**

The sub-item due to banks grew by 8.4% compared to 31 December 2017 with an increase in interbank funding with an average duration of 2.5 months. The collateral for ECB refinancing operations are mainly ABS from the securitisation of salary- and pension-backed loans.

DUE TO CUSTOMERS (€,000)	30.06.2018	31.12.2017	€ CHANGE	% CHANGE
Term deposits	599,896	447,093	152,803	34.2%
Financing (repurchase agreements)	696,650	215,623	481,027	>100%
Current accounts	514,584	510,349	4,235	0.8%
Deposits with Cassa Depositi e Prestiti	26,937	38,959	(12,022)	-30.9%
Due to assignors	87,989	72,108	15,881	22.0%
Total	**1,926,056**	**1,284,132**	**641,924**	**50.0%**

Customer deposits increased compared to the end of the year, mainly due to an increase in financing from repurchase agreements, as a result of an increase in the securities portfolio. The collateral for the repurchase agreements is represented by government securities and ABS. The period-end amount of term deposits increased by 34% compared to the end of 2017, reflecting net positive deposits (net of interest accrued) of € 153 million; gross deposits from the beginning of the year were € 285 million, against withdrawals caused mainly by non-renewals totalling € 132 million.

Due to customers also includes financing of € 27 million from Cassa Depositi e Prestiti obtained against collateral consisting solely of loans to SMEs by the Bank.

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

SECURITIES ISSUED (€,000)	30.06.2018	31.12.2017	€ CHANGE	% CHANGE
Bond - Tier I	8,015	8,017	(2)	0.0%
Bond - Tier II	31,556	28,703	2,853	9.9%
Bonds - other	266,613	245,050	21,563	8.8%
Total	**306,184**	**281,770**	**24,414**	**8.7%**

The nominal amount of securities issued at 30 June 2018 is broken down as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 December 2022 at 7%;
- Tier 2 subordinated loan of € 12 million, set to mature on 15 November 2022 and with a variable coupon equal to 6-month Euribor + 5.5%;
- Tier 2 subordinated loan of € 19.5 million, set to mature on 30 March 2027 and with a variable coupon equal to 6-month Euribor + 4.5%;
- Senior bonds (market placement) of € 175 million, set to mature on 13 October 2020 and with a fixed coupon of 1.75%;
- Senior bonds (private placement) of € 90 million, set to mature on 31 May 2021 and with a fixed coupon of 2%.

At the end of May a senior bond was successfully issued in a club deal reserved for institutional investors that are not related parties, for a total subscribed amount of € 90 million, a term of three years, with a fixed rate and an all-inclusive cost of 200 bps. This issue replaced the senior loan of 75 million which expired in May.

The provision for risks and charges of € 7.4 million includes the amount of € 3 million, representing the estimated future liabilities attributable to Beta. The remaining balance refers to the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the update to the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to legal actions within the framework of a lending transaction in which the end borrower is under deed of arrangement with its creditors, and the estimated charges for lawsuits and legal disputes. 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.

In May, after approval at the Shareholders' Meeting held on 23 April 2018, a dividend was distributed, as was proposed on 8 March by the Board of Directors of Banca Sistema S.p.A., equal to € 0.086 per share. The ex coupon date was 7 May 2018 and the record date 8 May 2018.

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

(€ ,000)	PROFIT (LOSS)	EQUITY
Profit/equity of the parent	**11,777**	**138,616**
Assumption of value of investments	-	(15,261)
Consolidated loss/equity	(556)	13,383
Equity attributable to the owners of the parent	**11,221**	**136,738**
Equity attributable to non-controlling interests	-	(30)
Group equity	**11,221**	**136,708**

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	30.06.2018	31.12.2017
Common Equity Tier 1 (CET1)	**131,922**	**125,767**
ADDITIONAL TIER 1	8,000	8,000
Additional Tier 1 capital (T1)	**139,922**	**133,767**
TIER2	30,009	28,239
Total Own Funds (TC)	**169,931**	**162,006**
Total risk weighted assets	**1,200,933**	**1,058,017**
of which, credit risk	1,045,846	909,012
of which, operational risk	143,487	143,487
of which, market risk	8,752	2,402
of which, CVA	2,848	3,116
Ratio - CET1	11.0%	11.9%
Ratio - AT1	11.7%	12.6%
Ratio - TCR	14.1%	15.3%

Total own funds were € 169.9 million at 30 June 2018 and included the profit for the period, net of dividends estimated on the profit for the period, which were equal to a pay-out of 25% of the Parent's profit.

The increase in RWAs compared to 31 December 2017 was primarily due to the increase in loans, particularly salary- and pension-backed loans and non-performing loans.

Banca Sistema received notice of the Bank of Italy's decision regarding the consolidated capitalisation requirements that came into effect on 1 January 2018 following the outcome of the Supervisory Review and Evaluation Process (SREP). The capitalisation requirements, according to the transitory criteria, are as follows:

- CET1 ratio of 7.125% + additional +0.75% above the minimum regulatory requirement;
- TIER1 ratio of 8.875% + additional +1.0% above the minimum regulatory requirement;
- Total capital ratio of 11.225% + additional +1.35% above the minimum regulatory requirement.

CAPITAL AND SHARES

Capital and ownership structure

The share capital of Banca Sistema is composed by 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.

Based on evidence from the Shareholders' Register and more recent information available, as at 30 June 2018 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Finance Act) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS (Management Company)	23.10%
Garbifin	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Fondazione Pisa	7.61%
Schroders	5.22%
Market	*48.25%*

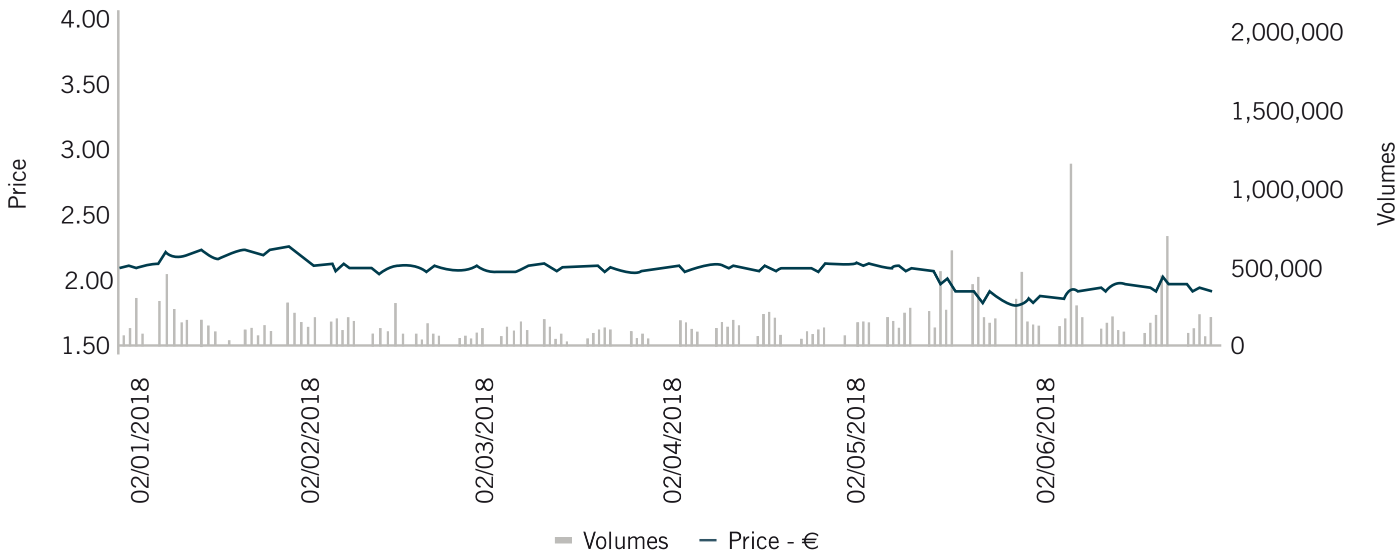
Treasury shares

On 22 June, the Board of Directors approved the start of liquidity provider activities and allocated a maximum € 40,000 for the acquisition of treasury shares. This activity began during the month of July. Part of the shares acquired at 30 June may be used to service the incentive plan for the Group's key personnel.

Stock performance

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

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


Price
4.00
3.50
3.00
2.50
2.00
1.50
2,000,000
1,500,000
1,000,000
500,000
0
Volumes
02/01/2018
02/02/2018
02/03/2018
02/04/2018
02/05/2018
02/06/2018
Volumes
Price - €

Reclassification reconciliation statement as at 31 December 2017

Below is a reconciliation statement between the approved financial statements at 31 December 2017, and the financial statements in accordance with the new Circular no. 262 from the Bank of Italy. Therefore, it does not represent net amounts resulting from retrospective application of the new accounting standard IFRS 9.

Statement of financial position - Assets (in thousands of Euro)	31.12.2017	Cash and cash equivalents	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Equity investments	Property and equipment	Intangible assets	Tax assets	Other assets	Total
Cash and cash equivalents	161	161	-	-	-	-	-	-	-	-	-	-	161
Financial assets measured at fair value through profit or loss	1,201	-	1,201	-	-	-	-	-	-	-	-	-	1,201
Financial assets measured at fair value through other comprehensive income	285,610	-	-	285,610	-	-	-	-	-	-	-	-	285,610
Financial assets measured at amortised cost	1,970,495	-	-	-	84,178	36,027	1,850,290	-	-	-	-	-	1,970,495
a) loans and receivables with banks	*36,027*	-	-	-	-	*36,027*	-	-	-	-	-	-	*36,027*
b) loans and receivables with customers	*1,934,468*	-	-	-	*84,178*	-	*1,850,290*	-	-	-	-	-	*1,934,468*
Equity investments	1,190	-	-	-	-	-	-	1,190	-	-	-	-	1,190
Property and equipment	24,272	-	-	-	-	-	-	-	24,272	-	-	-	24,272
Intangible assets	1,790	-	-	-	-	-	-	-	-	1,790	-	-	1,790
Tax assets	10,198	-	-	-	-	-	-	-	-	-	10,198	-	10,198
Other assets	14,316	-	-	-	-	-	-	-	-	-	-	14,316	14,316
Total Assets	**2,309,233**	**161**	**1,201**	**285,610**	**84,178**	**36,027**	**1,850,290**	**1,190**	**24,272**	**1,790**	**10,198**	**14,316**	**2,309,233**

Statement of financial position - Liabilities (in thousands of Euro)	31.12.2017	Due to banks	Due to customers	Securities issued	Tax liabilities	Other liabilities	Post-employment benefits	Provisions for risks and charges	Equity	Total
Financial liabilities measured at amortised cost	2,083,435	517,533	1,284,132	281,770	-	-	-	-	-	2,083,435
a) due to banks	*517,533*	*517,533*	-	-	-	-	-	-	-	*517,533*
b) due to customers	*1,284,132*	-	*1,284,132*	-	-	-	-	-	-	*1,284,132*
c) securities issued	*281,770*	-	-	*281,770*	-	-	-	-	-	*281,770*
Tax liabilities	10,118	-	-	-	10,118	-	-	-	-	10,118
Other liabilities	71,996	-	-	-	-	71,996	-	-	-	71,996
Post-employment benefits	2,172	-	-	-	-	-	2,172	-	-	2,172
Provisions for risks and charges:	6,745	-	-	-	-	-	-	6,745	-	6,745
Equity	134,767	-	-	-	-	-	-	-	134,767	134,767
Total liabilities and equity	**2,309,233**	**517,533**	**1,284,132**	**281,770**	**10,118**	**71,996**	**2,172**	**6,745**	**134,767**	**2,309,233**

An equity reconciliation statement is shown below with a description of the impact from application of IFRS 9. Additional details are provided in the Accounting policies section.

Book equity at 31 December 2017 (IAS 39)	**134,767**
FTA reserve	**(224)**
Application of the new impairment model	**(224)**
Performing loans (stages 1 and 2)	(273)
Non-performing loans (stage 3)	-
Debt instruments	(61)
Tax effect	110
Classification and measurement effects	**527**
Adjustment of carrying amount of financial assets deriving from application of the Business Model as a balancing entry for the valuation reserve	787
Tax effect	(260)
Total effects of transition to IFRS 9	**303**
Book equity at 1 January 2018 (IFRS 9)	**135,070**

Application of the new impairment rules ("expected credit losses") has resulted in:

- greater impairment losses on performing loans by € 334 thousand (€ 224 thousand net of the tax effect), substantially related to the portion of the performing portfolio in Stage 2, based on the defined stage allocation criteria, with the consequent need to calculate the expected loss for the entire residual lifetime of the financial assets;
- greater impairment losses on performing securities by € 61 thousand (€ 50 thousand net of tax effect), mainly related to inclusion in the calculation of expected losses of new parameters set by the standard.

No additional impairment losses have been recognised on non-performing loans.

The impact deriving from first-time adoption of IFRS 9 on the CET 1 ratio of the Group is 2.1bps. Therefore, the Bank has decided to allocate this impact in full to Equity.

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 bank bodies and departments;
- suitable policies and procedures to manage risks (including, in particular, credit risk);
- suitable methods and instruments to identify, monitor and manage risks, with suitable measuring techniques;
- thorough internal controls and independent audit.

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

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

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

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

Pursuant to the eleventh amendment of Bank of Italy Circular 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 and Risk Management Committee with the task of coordinating the second and third level Control Departments; to that end, the Committee allows the integration and interaction between these Departments, encouraging cooperation, reducing overlaps and supervising operations.

During the year, the Bank strengthened the organisational structures of the second level business units, increasing the headcount of the Compliance and Anti-money Laundering Department and Risk Department which were previously separated from an organisational perspective.

With reference to the risk management framework, 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 based on the strategic guidelines and regulatory changes.

With reference to ICAAP (Internal Capital Adequacy Assessment Process), the model used for determining capital adequacy, and ILAAP (Internal Liquidity Adequacy Assessment Process), the model used for determining adequacy in terms of liquidity, this framework allows the Bank to conduct ongoing tests of its structure for determining risks and to update the related safeguards included in its RAF.

Regarding the monitoring of credit risk, the Bank, with the goal of attaining greater operating synergies, has established the Central Credit Department, which oversees the Underwriting Department and the Legal Collection and Out-of-Court Collection Departments. This Department reports directly to the CEO.

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

In order to measure "Pillar 1 risks", the 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.

OTHER INFORMATION

Research and Development Activities

No research and development activities were carried out in 2018.

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A..

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

ATYPICAL OR UNUSUAL TRANSACTIONS

During 2018, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

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

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The growth trend in lending continued in the first half of 2018. Further consolidation in the factoring and salary- and pension-backed loans (CQS/CQP) business will be one of the main objectives in 2018. The approved Business Plan highlights the Group's guidelines for growth over the following years.

Milan, 26 July 2018

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AT 30 JUNE 2018

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	30.06.2018	31.12.2017 (*)
10.	Cash and cash equivalents	288	161
20.	Financial assets measured at fair value through profit or loss	100,027	1,201
	a) financial assets held for trading	*100,027*	*1,201*
30.	Financial assets measured at fair value through other comprehensive income	267,281	285,610
40.	Financial assets measured at amortised cost	2,615,584	1,970,495
	a) loans and receivables with banks	*22,119*	*36,027*
	b) loans and receivables with customers	*2,593,465*	*1,934,468*
70.	Equity investments	2,205	1,190
90.	Property and equipment	26,075	24,272
100.	Intangible assets	1,787	1,790
	of which:		
110.	*goodwill*	*1,786*	*1,786*
	Tax assets	6,203	10,198
	a) current	-	*3,471*
	b) deferred	*6,203*	*6,727*
130.	Other assets	13,616	14,316
	Total Assets	**3,033,066**	**2,309,233**

(Amounts in thousands of Euro)

	Liabilities and equity	30.06.2018	31.12.2017 (*)
10.	Financial liabilities measured at amortised cost	2,793,421	2,083,435
	a) due to banks	*561,181*	*517,533*
	b) due to customers	*1,926,056*	*1,284,132*
	c) securities issued	*306,184*	*281,770*
60.	Tax liabilities	10,358	10,118
	a) current	*658*	-
	b) deferred	*9,700*	*10,118*
80.	Other liabilities	82,819	71,996
90.	Post-employment benefits	2,329	2,172
100.	Provisions for risks and charges:	7,401	6,745
	c) other provisions for risks and charges	*7,401*	*6,745*
120.	Valuation reserves	(1,853)	367
150.	Reserves	78,609	58,807
160.	Share premium	39,226	39,268
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(146)	(149)
190.	Equity attributable to non-controlling interests (+/-)	30	30
200.	Profit for the period/year	11,221	26,793
	Total liabilities and equity	**3,033,066**	**2,309,233**

(*) Restatement of the net amounts of the consolidated financial statements at 31 December 2017 in compliance with the new Circular no. 262 issued by the Bank of Italy.

INCOME STATEMENT

(Amounts in thousands of Euro)

		30.06.2018	30.06.2017
10.	Interest and similar income	44,714	39,272
	of which: interest income calculated with the effective interest method	44,177	39,272
20.	Interest and similar expense	(12,106)	(9,387)
30.	**Net interest income**	**32,608**	**29,885**
40.	Fee and commission income	8,431	5,742
50.	Fee and commission expense	(1,072)	(1,135)
60.	**Net fee and commission income**	**7,359**	**4,607**
70.	Dividends and similar income	227	227
80.	Net trading expense	(268)	(216)
100.	Gain from sales or repurchases of:	932	654
	b) financial assets measured at fair value through other comprehensive income	*932*	*654*
120.	**Total income**	**40,858**	**35,157**
130.	Net impairment losses related to:	(2,939)	(1,427)
	a) financial assets measured at amortised cost	*(2,939)*	*(1,427)*
150.	**Net financial income**	**37,919**	**33,730**
190.	Administrative expenses	(20,565)	(18,902)
	a) personnel expense	*(9,560)*	*(8,872)*
	b) other administrative expenses	*(11,005)*	*(10,030)*
200.	Net accruals to provisions for risks and charges	(51)	(58)
	b) other net accruals	*(51)*	*(58)*
210.	Net impairment losses on property and equipment	(138)	(132)
220.	Net impairment losses on intangible assets	(3)	(21)
230.	Other operating income (expense)	52	(38)
240.	**Operating costs**	**(20,705)**	**(19,151)**
250.	Losses on equity investments	(229)	(32)
290.	**Pre-tax profit from continuing operations**	**16,985**	**14,547**
300.	Income taxes	(5,764)	(4,564)
310.	**Post-tax profit from continuing operations**	**11,221**	**9,983**
330.	**Profit for the period**	**11,221**	**9,983**
350.	**Profit for the period attributable to the owners of the parent**	**11,221**	**9,983**

(*) Restatement of the net amounts of the consolidated financial statements at 30 June 2017 in compliance with the new Circular no. 262 issued by the Bank of Italy.

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		30.06.2018	30.06.2017
10.	**Profit for the period**	**11,221**	**26,793**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	**-**	**-**
20.	Equity instruments designated at fair value through other comprehensive income	-	-
30.	Financial liabilities measured at fair value through profit or loss (changes in own credit rating)	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	13	37
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
100.	Hedges of foreign investments	-	-
110.	Exchange rate gains (losses)	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated elements)	-	-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(2,760)	(95)
150.	Non-current assets held for sale and disposal groups	-	-
160.	Share of valuation reserves of equity-accounted investments:	-	-
170.	**Total other comprehensive expense, net of income tax**	**(2,747)**	**(58)**
180.	**Comprehensive income (Items 10+170)**	**8,474**	**26,735**
190.	Comprehensive income attributable to non-controlling interests	-	
200.	**Comprehensive income attributable to the owners of the parent**	**8,474**	**26,735**

STATEMENTS OF CHANGES IN EQUITY AS AT 30.06.2018

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the period										
							Transactions on equity									
	Balance at 31.12.2017	Change in opening balances	Balance at 1.1.2018	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income at 30.06.2018	**Equity attributable to the owners of the parent at 30.06.2018**	**Equity attributable to non-controlling interests at 30.06.2018**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,268**	-	39,268	-	-	(42)	-	-	-	-	-	-	-	-	**39,226**	-
Reserves	**58,807**	(224)	58,583	19,877	-	149	-	-	-	-	-	-	-	-	**78,609**	-
a) income-related	**59,133**	(224)	59,909	19,877	-	6	-	-	-	-	-	-	-	-	**78,792**	-
b) other	**(326)**	-	(326)	-	-	143	-	-	-	-	-	-	-	-	**(183)**	-
Valuation reserves	**367**	527	894	-	-		-	-	-	-	-	-	-	(2,747)	**(1,853)**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(149)**	-	(149)	-	-	3	-	-	-	-	-	-	-	-	**(146)**	-
Profit for the year/period	**26,793**	-	26,793	(19,877)	(6.916)	-	-	-	-	-	-	-	-	11,221	**11,221**	-
Equity attributable to the owners of the parent	**134,737**	303	**135,040**	**-**	**(6.916)**	**(110)**	-	-	-	-	-	-	-	**8,474**	**136,708**	**-**
Equity attributable to non-controlling interests	**30**	-	**30**	**-**	**-**	**-**	-	-	-	-	-	-	-	-	**-**	**30**

STATEMENT OF CHANGES IN EQUITY AS AT 30.06.2017

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the period										
							Transactions on equity									
	Balance at 31.12.2016	Change in opening balances	Balance at 1.1.2017	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income at 30.06.2017	**Equity attributable to the owners of the parent at 30.06.2017**	**Equity attributable to non-controlling interests at 30.06.2017**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**39,352**	-	39,352	-	-	(42)	-	-	-	-	-	-	-	-	**39,310**	-
Reserves	**39,608**	-	39,608	19,201	-	8	-	-	-	-	-	-	-	-	**58,817**	-
a) income-related	**39,918**	-	39,918	19,201	-	14	-	-	-	-	-	-	-	-	**59,133**	-
b) other	**(310)**	-	(310)	-	-	(6)	-	-	-	-	-	-	-	-	**(316)**	-
Valuation reserves	**425**	-	425	-	-	-	-	-	-	-	-	-	-	(367)	**58**	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(52)**	-	(52)	-	-	52	-	-	-	-	-	-	-	-	-	-
Profit for the year/period	**25,313**	-	25,313	(19,201)	(6,112)	-	-	-	-	-	-	-	-	9,983	**9,983**	-
Equity attributable to the owners of the parent	**114,296**	-	**114,296**	**(19,201)**	**(6,112)**	**18**	-	-	-	-	-	-	-	**9,616**	**117,819**	-
Equity attributable to non-controlling interests	**20**		**20**	-	-	**10**	-	-	-	-	-	-	-	-	-	**30**

STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	30.06.2018	30.06.2017
A. OPERATING ACTIVITIES		
1. Operations	**18,609**	**12,619**
▪ interest income collected	44,714	37,564
▪ interest expense paid	(12,106)	(7,679)
▪ dividends and similar income	227	227
▪ net fees and commissions	7,359	4,607
▪ personnel expense	(4,585)	(5,612)
▪ other expenses	(10,953)	(10,068)
▪ other income	-	-
▪ taxes and duties	(6,047)	(6,420)
2. Cash flows used for financial assets	**(725,217)**	**(37,901)**
▪ financial assets held for trading	(99,094)	(47)
▪ financial assets designated at fair value through profit or loss	-	-
▪ financial assets measured at fair value through profit or loss	-	-
▪ financial assets measured at fair value through other comprehensive income	17,041	151,452
▪ financial assets measured at amortised cost	(648,028)	(192,393)
▪ other assets	4,864	3,087
3. Cash flows generated by financial liabilities	**716,836**	**32,386**
▪ financial liabilities measured at amortised cost	709,986	43,319
▪ financial liabilities held for trading	-	-
▪ financial liabilities designated at fair value through profit or loss	-	-
▪ other liabilities	6,850	(10,933)
Net cash flows generated by operating activities	**10,228**	**7,104**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**-**
▪ sales of equity investments	-	-
▪ dividends from equity investments	-	-
▪ sales of property and equipment	-	-
▪ sales of intangible assets	-	-
▪ sales of subsidiaries and business units	-	-
2. Cash flows used in	**(3,185)**	**(899)**
▪ purchases of equity investments	(1,244)	(300)
▪ purchases of property and equipment	(1,941)	(610)
▪ purchases of intangible assets	-	11
▪ sales of subsidiaries and business units	-	-
Net cash flows used in investing activities	**(3,185)**	**(899)**
C. FINANCING ACTIVITIES		
▪ issues/repurchases of treasury shares	-	-
▪ issues/repurchases of equity instruments	-	-
▪ dividend and other distributions	(6,916)	(6,112)
▪ acquisitions and disposals of subsidiaries and other business units	-	-
Net cash flows used in financing activities	**(6,916)**	**(6,112)**
NET CASH FLOWS FOR THE PERIOD	**127**	**93**

RECONCILIATION

Cash and cash equivalents at the beginning of the period	161	98
Total net cash flows for the period	127	93
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	288	191

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Statement of compliance with International Financial Reporting Standards

These condensed interim consolidated financial statements were drafted in accordance with Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) as endorsed and in force on 30 June 2018, including the interpretation documents (SIC) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by EU Regulation no. 1606 of 19 July 2002.

In preparing the condensed interim consolidated financial statements, the Bank followed the instructions concerning financial statements issued by the Bank of Italy in its Regulation of 22 December 2005, the simultaneous Circular no. 262/05, the amendments and clarification notes, supplemented by the general provisions of the Italian Civil Code and other relevant legislative and regulatory provisions.

The condensed interim consolidated financial statements were drafted in summary form in accordance with IAS 34, with specific reference to the arrangements for disclosing financial information, supplemented by the other relevant legislative and regulatory standards.

The specific accounting standards adopted have been amended compared to the financial statements at 31 December 2017 following the introduction as of 1 January 2018 of the new accounting standards IFRS 9 and IFRS 15.

The condensed interim consolidated financial statements were reviewed by KPMG S.p.A..

General basis of preparation

The condensed interim consolidated financial statements comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the condensed interim consolidated financial statements and are accompanied by a Directors' Report on the performance, the financial results achieved and the financial position of the Banca Sistema Group.

The condensed interim consolidated financial statements, drawn up in accordance with the general guidelines laid down by IFRS, show the data for the period compared with the data from the previous financial year end or corresponding period of the previous financial year as regards statement of financial position and income statement figures, respectively.

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

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

The Directors' Report and notes to the condensed interim consolidated financial statements provide the information required by the IFRS, the Law and Bank of Italy, along with other non-mandatory information deemed equally necessary for giving a true and fair view of the consolidated position.

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

- the measurements are made considering that the bank will continue as a going concern guaranteed by the financial support of the Shareholders;
- costs and income are accounted for on an accruals basis;
- to ensure the comparability of the data and information in the financial statements and the notes to the

financial statements, the methods of presentation and classification are kept constant over time unless they are changed to present the data more appropriately;

- each material class of similar items is presented separately in the statement of financial position and income statement; items of a dissimilar nature or function are presented separately unless they are considered immaterial;
- items that have nil balances at period end or for the period or for the same period of the previous year are not indicated in the statement of financial position or the income statement;
- if an asset or liability comes under several items in the statement of financial position, the notes to the financial statements make reference to the other items under which it is recognised if it is necessary for a better understanding of the financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an IFRS or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of materiality and significance of the information;
- comparative data for the previous period are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous period, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; they were not presented if they were not applicable to the bank's business.

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

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

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank's main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate;
- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

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

Scope and methods of consolidation

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

Compared with the situation as at 31 December 2017, no changes to the scope of consolidation have been reported. The following statement shows the investments included within the scope of consolidation of the condensed interim consolidated financial statements.

COMPANY NAMES	REGISTERED OFFICE	TYPE OF RELATIONSHIP (1)	INVESTMENT		% OF VOTES AVAILABLE (2)
			INVESTING COMPANY	% HELD	
Companies					
Companies subject to full consolidation					
S.F. Trust Holdings Ltd	UK	1	**Banca Sistema**	100%	100%
Largo Augusto Servizi e Sviluppo S.r.l.	Italy	1	**Banca Sistema**	100%	100%
Consolidated at equity					
Axactor Italy S.p.A.	Italy	4	**Banca Sistema**	10%	10%

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

(2) Available voting rights at the ordinary Shareholders' Meeting, with separate indication of effective and potential rights

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

- Quinto Sistema Sec. 2016 S.r.l.
- Quinto Sistema Sec. 2017 S.r.l.
- Atlantis SPV S.r.l.

Changes in the scope of consolidation

Compared to the situation as at 31 December 2017, the scope of consolidation has not changed.

Full consolidation method

The investments in subsidiaries are consolidated using the full consolidation method. The concept of control goes beyond owning a majority of the percentage of stakes in the share capital of the subsidiary and is defined as the power of determining the management and financial policies of the said subsidiary to obtain benefits from its business.

Full consolidation provides for line-by-line aggregation of the statement of financial position and income statement aggregates from the accounts of the subsidiaries. To this end, the following adjustments were made:

a the carrying amount of the investments held by the Parent and the corresponding part of the equity are eliminated;

b the portion of equity and profit or loss for the period is shown in a specific caption.

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item "130 Intangible Assets" on the date of initial consolidation. The resulting differences, if negative, are recognised in the income statement. Intra-group balances and transactions, including income, costs and dividends, are entirely eliminated. The financial results of a subsidiary acquired during the period are included in the consolidated financial statements from the date of acquisition. At the same time, the financial results of a transferred subsidiary are included in the consolidated financial statements up to the date on which the subsidiary is transferred. The accounts used in the preparation of the consolidated financial statements are drafted on the same date. The consolidated financial statements were drafted using consistent accounting standards for transactions and similar events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for transactions and events in similar circumstances, adjustments are made to the financial position for consolidation purposes. Detailed information with reference to art. 89 of Directive 2013/36/EU of the European Parliament and Council (CRD IV) is published at the link www.bancasistema.it/pillar3.

Consolidation at equity

Associates are consolidated at equity.

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

The differences between the value of the equity investment and the equity of the relevant investee are included in the carrying amount of the investee.

In the valuation of the relevant share, any potential voting rights are not taken into consideration.

The relevant share of the annual results of the investee is shown in a specific item of the consolidated income statement.

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment.

Subsequent events

After the reporting date of the condensed interim consolidated financial statements, there were no events worthy of mention in the notes thereto which would have had an impact on the financial position, results of operations and cash flows of the Bank and Group.

Information on the main items of the consolidated financial statements

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

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

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

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank's main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate;
- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

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

The transition to financial reporting standard IFRS 9

Regulatory provisions

The new financial reporting standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No. 2067/2016, replaced IAS 39 effective as of 1 January 2018.

IFRS 9 has introduced significant changes, particularly in regard to the following aspects:

- Classification and measurement of financial instruments;
- Impairment;
- Hedge Accounting.

The new international financial reporting standard "IFRS 9 - Financial Instruments" (the "Standard"), in force since 1 January 2018, replaces accounting standard "IAS 39 - Financial Instruments: Recognition and Measurement" for the measurement and recognition of financial instruments.

The Standard imposes new rules for classifying financial assets in the following categories:

- Amortised Cost - "AC": this category implies use of the amortised cost measurement method.
- Fair Value through Other Comprehensive Income - "FVOCI": this classification entails measurement at fair value, with recognition of the changes in fair value in a special equity reserve. This reserve is transferred to profit or loss when the financial instrument is sold/redeemed.
- Fair Value through Profit or Loss - "FVTPL": this

class governs the measurement of instruments at fair value, with recognition of changes in profit or loss. The FVTPL category is defined by the Standard as a residual category, in which the financial instruments that cannot be classified in the preceding categories are classified based on the Business Model or the results of the test on the characteristics of contractual cash flows (SPPI test).

The classification is then made according to the Business Model that the Bank has associated with each of the identified portfolios and the characteristics of the contractual cash flows of the financial instrument.

The classification and measurement of financial assets represented by loans and receivables and instruments are based on a two-step approach:

- association of the Business Model with the identified uniform portfolios, where the aggregation by uniform portfolios is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective;
- analysis of the characteristics of the contractual cash flows of the instrument carried out on the individual assets at the origination date.

Thus, the Business Model represents the way in which the Bank manages its financial assets, i.e. with which it intends to realise the cash flows of the debt instruments. It reflects the way in which groups of financial assets are managed together to achieve a particular business objective. It does not depend on management intentions concerning an individual instrument but is decided at a higher level of aggregation.

The possible Business Models delineated by the Standard are as follows:

- “Held to collect (HTC)”: this requires the realisation of contractually agreed cash flows. This Business Model is associated with assets that will presumably be held until maturity (IFRS 9 - B4.1.2C);
- “Held to Collect and Sell (HTCS)”: this calls for the realisation of cash flows as contractually agreed or through sale of the instrument. This Business Model is associated with assets that may be held until maturity, but also sold (IFRS 9 – B4.1.4);
- “Other”: this calls for the realisation of cash flows through disposal of the instrument. This Business Model is associated with assets whose cash flows will be realised through trading (IFRS 9 - B4.1.5).

As regards impairment, the new financial reporting standard requires:

- the introduction of a model for expected loss on loans and debt instruments recognised at Amortised Cost or FVTOCI;
- inclusion of Irrevocable Commitments and Guarantees Issued in the scope;
- introduction of the 3-stage portfolio classification according to the deterioration of the credit risk, i.e. stage 1 for performing loans, stage 2 for under-performing loans, and stage 3 for non-performing loans;
- a calculation of expected credit losses (“ECLs”) for either a “lifetime” or on a 12-month horizon according to the stage;
- the need to incorporate forward-looking information tied, among other things, to the developments in the macroeconomic scenario.

When calculating impairment losses on loans and receivables classified in stage 1, the expected loss in the first year is considered, while for the loans classified in stages 2 and 3, the expected losses are calculated on a lifetime basis.

Adoption of IFRS 9

In regard to the methods used to present the effects of first-time adoption of the Standard, the Bank has exercised the option envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards". According to those rules – without prejudice to retrospective application of the new measurement and presentation rules prescribed by the Standard – there is no obligation to restate the comparative data in the financial statements on a uniform basis in the financial statements prepared upon first-time adoption of the new standard. The Bank decided to provide a reconciliation statement showing the method used and reconciling the data of the last approved financial statements with the first financial statements prepared in accordance with the new rules. Moreover, the form and contents of that disclosure will depend on the autonomous choices of the delegated corporate bodies.

The main areas of impact as previously defined are briefly examined as follows.

The effects of first-time adoption (FTA) of IFRS 9

Classification and measurement of financial instruments

Application of the new classification and measurement methods introduced by IFRS 9 has resulted in reclassification of the securities held in the HTM portfolio pursuant to IAS 39 among financial assets measured at amortised cost. No other effects deriving from definition of the business models and the SPPI test have been recognised.

Impairment

Application of the new impairment rules ("expected credit losses") has resulted in:

- greater impairment losses on performing loans by € 273 thousand (€ 183 thousand net of the tax effect), substantially related to the portion of the performing portfolio in Stage 2, based on the defined stage allocation criteria, with the consequent need to calculate the expected loss for the entire residual lifetime of the financial assets;
- greater impairment losses on performing securities by € 61 thousand (€ 41 thousand net of tax effect), mainly related to inclusion in the calculation of expected losses of new parameters set by the standard.

No additional impairment losses have been recognised on non-performing loans.

Details are provided in the table below:

STATUS	31.12.2017	FTA	01.01.2018
Bad exposures	44,577	-	44,577
Unlikely to pay	24,061	-	24,061
Past due/overdrawn	74,690	-	74,690
Gross non-performing loans - Stage 3	**143,328**	**-**	**143,328**
Individual impairment losses	(22,293)	-	(22,293)
Total net non-performing loans	**121,035**	**-**	**121,035**
Gross performing loans	**1,734,845**	**-**	**1,734,845**
Performing - Stage 1	-	1,619,590	1,619,590
Performing - Stage 2	-	115,255	115,255
Collective impairment losses	**(5,590)**	**(241)**	**(5,831)**
of which Stage 1	(5,152)	(49)	(5,201)
of which Stage 2	(438)	(192)	(630)
Total net performing loans	**1,729,255**	**-**	**3,463,859**
Gross exposure on securities	363,025	-	363,025
Impairment losses on securities	-	(61)	(61)
Net exposure	**363,025**	**-**	**362,964**
Gross off-balance sheet exposures	645	-	645
Impairment losses on endorsement credit	-	(23)	(23)
Net exposure	**645**	**-**	**622**
Gross exposure on loans and receivables with banks	-	-	-
Impairment losses on endorsement credit	-	(9)	(9)
Net exposure	**-**	**-**	**(9)**

The following tables show the reconciliation between the net balances on the statement of financial position at 31 December 2017 (under IAS 39) and the opening balances at 1 January 2018, which include the effect of first-time adoption of IFRS 9.

Reconciliation between the statement of financial position at 31 December 2017 (under IAS 39) and the statement of financial position at 1 January 2018 (IFRS 9).

STATEMENT OF FINANCIAL POSITION - ASSETS (in thousands of Euro)	30.06.2018	31.12.2017 (A)	Classification and measurement impact of IFRS 9 (B)	Impairment impact of IFRS 9 (C)	01.01.2018 (A+B+C)
Cash and cash equivalents	288	161	-	-	161
Financial assets measured at fair value through profit or loss	100,027	1,201	-	-	1,201
Financial assets measured at fair value through other comprehensive income	267,281	285,610	84,965	(61)	370,514
Financial assets measured at amortised cost	2,615,584	1,970,495	(84,178)	(273)	1,886,044
a) loans and receivables with banks	*22,119*	*36,027*	-	-	*36,027*
b) loans and receivables with customers	*2,593,465*	*1,934,468*	*(84,178)*	*(273)*	*1,850,017*
Equity investments	2,205	1,190	-	-	1,190
Property and equipment	26,075	24,272	-	-	24,272
Intangible assets	1,787	1,790	-	-	1,790
Tax assets	6,203	10,198	-	110	10,308
Other assets	13,616	14,316	-	-	14,316
Total Assets	**3,033,066**	**2,309,233**	**787**	**(224)**	**2,309,796**

STATEMENT OF FINANCIAL POSITION - LIABILITIES (in thousands of Euro)	30.06.2018	31.12.2017 (A)	Classification and measurement impact of IFRS 9 (B)	Impairment impact of IFRS 9 (C)	01.01.2018 (A+B+C)
Financial liabilities measured at amortised cost	2,793,421	2,083,435	-	-	2,083,435
a) due to banks	*561,181*	*517,533*	-	-	*517,533*
b) due to customers	*1,926,056*	*1,284,132*	-	-	*1,284,132*
c) securities issued	*306,184*	*281,770*	-	-	*281,770*
Tax liabilities	10,358	10,118	260	-	10,378
Other liabilities	82,819	71,996	-	-	71,996
Post-employment benefits	2,329	2,172	-	-	2,172
Provisions for risks and charges	7,401	6,745	-	-	6,745
Valuation reserves	(1,853)	367	527	-	894
Reserves	78,609	58,807	-	(224)	58,583
Share premium	39,226	39,268	-	-	39,268
Share capital	9,651	9,651	-	-	9,651
Treasury shares (-)	(146)	(149)	-	-	(149)
Equity attributable to non-controlling interests (+/-)	30	30	-	-	30
Profit for the period/year (+/-)	11,221	26,793	-	-	26,793
Total liabilities and equity	**3,033,066**	**2,309,233**	**787**	**(224)**	**2,309,796**

Finally, in the Statement of "Reconciliation between equity calculated under IAS 39 and equity calculated under IFRS 9", shown below, a quantitative disclosure is provided on the principal effects on Consolidated Equity.

Below is the statement of reconciliation between equity calculated under IAS 39 and equity under IFRS 9, with a description of the principal effects deriving from the adoption of the new financial reporting standard:

Book equity at 31 December 2017 (IAS 39)	**134,767**
FTA reserve	**(224)**
Application of the new impairment model	**(224)**
Performing loans (stages 1 and 2)	(273)
Non-performing loans (stage 3)	-
Debt instruments	(61)
Tax effect	110
Classification and measurement effects	**527**
Adjustment of carrying amount of financial assets deriving from application of the Business Model as a balancing entry for the valuation reserve	787
Tax effect	(260)
Total effects of transition to IFRS 9	**303**
Book equity at 1 January 2018 (IFRS 9)	**135,070**

The impact deriving from first-time adoption of IFRS 9 on the CET 1 ratio of the Group is 2.1bps. Therefore, the Bank has decided to allocate this impact in full to Equity.

IFRS 15

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" whose adoption is mandatory beginning on 1 January 2018.

This standard sets a new revenue recognition model based on five steps that will be applied to all contracts entered into with customers except for:

- lease contracts that fall under the scope of IAS 17;
- insurance contracts that fall under the scope of IFRS 4;
- financial instruments and other rights and obligations that fall under the scope of IFRS 9, IFRS 10, IFRS 11, IAS 27 and IAS 28, respectively.

The five steps necessary for recognising revenue according to the new model are:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations;
- recognise revenue when (or as) each performance obligation is satisfied.

Based on an analysis of the regulatory provisions of the standard, as well as the main types of contracts that fall within them, no quantitative impacts were identified.

Other aspects

The interim consolidated financial report was approved on 26 July 2018 by the Board of Directors, which authorised its disclosure to the public in accordance with IAS 10.

Financial assets measured at fair value through profit or loss

Classification criteria

Financial assets other than those classified as Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost are classified in this category. In particular, this item includes:

- financial assets held for trading;
- equity instruments, except for the possibility of their being classified in the new category Financial assets measured at fair value through other comprehensive income, excluding the possibility of subsequent reclassification to profit or loss;
- the financial assets mandatorily measured at fair value, and which have not met the requirements to be measured at amortised cost;
- the financial assets that are not held under a Hold to Collect (or "HTC") business model or as part of a mixed business model, whose aim is achieved by collecting the contractual cash flows of financial assets held in the Bank's portfolio or also through their sale, when this is an integral part of the strategy ("Hold to Collect and Sell" business model);
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. For this type of financial assets, upon recognition an entity may irrevocably recognise a financial asset as measured at fair value through profit or loss only if this eliminates or significantly reduces a measurement inconsistency;
- derivative instruments, which shall be recognised as financial assets held for trading if their fair value is positive and as liabilities if their fair value is negative. Positive and negative values may be offset only for transactions executed with the same counterparty if the holder currently holds the right to offset the amounts recognised in the books and it is decided to settle the offset positions on a net basis. Derivatives also include those embedded in complex financial contracts – where the host contract is a financial liability which has been recognised separately.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

Recognition criteria

Initial recognition of financial assets occurs at the settlement date for debt instruments and equity instruments, at the disbursement date for loans and at the subscription date for derivative contracts.
On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument.

Measurement and recognition criteria for income components

After initial recognition, the financial assets measured at fair value through profit or loss are recognised at fair value. The effects of the application of this measurement criterion are recognised in the income statement. For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and measurement techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: measurement of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equity and derivative instruments that have equity instrument assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

In particular, this item includes:

- debt instruments held for trading;
- equity instruments held for trading.

For more details on the methods of calculating the fair value please refer to the paragraph below "Criteria for determining the fair value of financial instruments".

Derecognition criteria

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

Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria

This category includes the financial assets that meet both the following conditions:

- financial assets that are held under a business model whose aim is achieved both through the collection of contractual cash flows and through sale ("Hold to Collect and Sell" business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

This item also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this item includes:

- debt instruments that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss).

Recognition criteria

Initial recognition of the financial assets is at the date of disbursement, based on their fair value including the transaction costs/income directly attributable to the acquisition of the financial instrument. Costs/income

having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components

Following initial recognition, financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost recognised in a specific equity reserve recognised in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recognised.
For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for determining the fair value of financial instruments".
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold (the so-called OCI exemption). The only component related to these equity instruments that is recognised through profit or loss is their dividends. Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
Financial assets measured at fair value through other comprehensive income are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, with the consequent recognition through profit or loss of an impairment loss to cover the expected losses.

Derecognition criteria

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

Financial assets measured at amortised cost

Classification criteria

This category includes the financial assets that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

In particular, this item includes:

- loans and receivables with banks;
- loans and receivables with customers;
- debt instruments.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

Recognition criteria

Initial recognition of a receivable is at the date of disbursement based on its fair value including the costs/income of the transaction directly attributable to the acquisition of the receivable.
Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial instrument is usually equivalent to the amount granted or the cost incurred by the acquisition.

Measurement and recognition criteria for income components

Following initial recognition, loans and receivables with customers are stated at amortised cost, equal to the initial recognition amount reduced/increased by principal repayments, by impairment losses/gains and the amortisation - calculated on the basis of the effective interest rate - of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.
The effective interest rate is the rate that discounts future payments estimated for the expected duration of the loan, in order to obtain the exact carrying amount at the time of initial recognition, which includes both the directly attributable transaction costs/income and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.
The measurement criteria are strictly connected with the stage to which the receivable is assigned, where stage 1 contains performing loans, stage 2 consists of under-performing loans, i.e. loans that have undergone a significant increase in credit risk ("significant deterioration") since the initial recognition of the instrument, and stage 3 consists of non-performing loans, i.e. the loans that show objective evidence of impairment. The impairment losses recognised in profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss). The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historic series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

Derecognition criteria

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

Hedging transactions

At the reporting date, the Group had not made any "Hedging transactions".

Equity investments

Classification criteria

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

Recognition criteria

Equity investments are recognised in the consolidated financial statements at purchase cost plus any related charges.

Measurement criteria

In the consolidated financial statements, equity investments in subsidiaries are consolidated using the full line-by-line method. Equity investments in associates and joint ventures are both measured at equity. At the end of each financial year or interim report date, an assessment is performed to determine if any objective evidence exists that an investment has been impaired. The recoverable value is then calculated taking into account the present value of the future cash flows that the investment will be able to generate, including the final disposal value of the investment. Any lower value, compared to the carrying amount, resulting from this calculation is charged to the income statement under "240 Gains (losses) on equity investments". The item also includes any future impairment gains where the reasons for the previous impairment losses no longer apply.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards. Gains and losses on the sale of equity investments are charged to the income statement under the item "240 Gains (losses) on equity investments "; gains and losses on the sale of investments other than those measured at equity are charged to the income statement under the item "270 Gains (losses) on sales of investments".

Property and equipment

Classification criteria

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

They also include leasehold improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recognised under "other assets" and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under "Other operating income (expense)".

Property and equipment also include payments on account for the purchase and restructuring of assets not yet part of the production process and therefore not yet subject to depreciation.

"Operating" property and equipment are represented by assets held for the provision of services or for administrative purposes, while property and equipment held for "investment purposes" are those held to collect lease instalments and/or held for capital appreciation.

Recognition criteria

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

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

Measurement and recognition criteria for income components

Following initial recognition, "operating" property and equipment are recognised at cost, less accumulated depreciation, and any impairment losses, in line with the "cost model" illustrated in paragraph 30 of IAS 16. More specifically, property and equipment are systematically depreciated each year based on their estimated useful life, using the straight-line basis method apart from:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated;
- works of art, which are not depreciated as their useful life cannot be estimated and their value typically appreciates over time;
- investment property which is recognised at fair value in accordance with IAS 40.

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

At the end of each period, if there is any evidence that property or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable value, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the present value of future cash flows expected from the asset. Any impairment losses are recognised in the income statement under "net impairment losses on property and equipment".

If the reasons that led to recognition of the impairment loss cease to apply, an impairment gain is recognised that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

For investment property, which comes within the scope of application of IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recognised in the income statement under the item "fair value gains (losses) on property, equipment and intangible assets".

Derecognition criteria

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

Intangible assets

Classification criteria

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

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

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recognised as a cost in the year in which it was incurred.

Intangible assets include software to be used over several years and other identifiable assets generated by legal or contractual rights.

Goodwill is also included under this item, representing the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination. Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the assets and liabilities acquired, it is recognised directly in the income statement.

Measurement criteria

Intangible assets are systematically amortised from the time of their input into the production process.

With reference to the goodwill, on an annual basis (or when impairment is detected), an assessment test is carried out on the adequacy of its carrying amount. For this purpose, the cash-generating unit to which the goodwill is attributed, is identified. The amount of any impairment is determined by the difference between the goodwill carrying amount and its recoverable value, if lower. This recoverable value is equal to the higher amount between the fair value of the cash-generating unit, net of any costs to sell, and its value in use. As stated above, any consequent impairment losses are recognised in the income statement.

Derecognition criteria

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

Non-current assets classified as held for sale

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

Financial liabilities measured at amortised cost

Classification criteria

This item includes Due to banks, Due to customers and Securities issued.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt instruments are issued. Initial recognition is based on the fair value of the liabilities, increased by the costs/income of the transaction directly attributable to the acquisition of the financial instrument.
Costs/income having the previously mentioned characteristics that will be repaid by the creditor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial liability is usually equivalent to the amount collected.

Measurement and recognition criteria for income components

After the initial recognition, the previously mentioned financial liabilities are measured at amortised cost with the effective interest rate method.

Derecognition criteria

The above financial liabilities are derecognised from the statement of financial position when they expire or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the carrying amount of the extinguished liability and the amount paid is recognised in the income statement, under "Gain (loss) from sales or repurchases of: financial liabilities".
If the Group, subsequent to the repurchase, re-places its own securities on the market, said transaction is considered a new issue and the liability is recognised at the new placement price.

Financial liabilities held for trading

Classification and recognition criteria

In particular, this category of liabilities includes the liabilities originating from technical exposures deriving from security trading activities.
Financial instruments are recognised at the date of their subscription or issue at a value equal to their fair value, without including any transaction costs or income directly attributable to the instruments themselves.

Measurement and recognition criteria for income components

The financial instruments are measured at fair value with recognition of the measurement results in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights on the related cash flows expire or when the financial liability is sold with a substantial transfer of all risks and rewards related to the liabilities.

Financial liabilities designated at fair value through profit or loss

At the reporting date, the Group did not hold any "Financial liabilities designated at fair value through profit or loss".

Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement based on the accruals criteria, in accordance with the recognition in the financial statements of the costs and income that generated them, apart from those referring to the items recognised directly in equity, where the recognition of the tax is made to equity in order to be consistent.

Income taxes are provided for on the basis of a prudential estimate of the current and deferred taxes. More specifically, deferred taxes are determined on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax assets are recognised in the financial statements to the extent that it is probable that they will be recovered based on the Group's ability to continue to generate positive taxable income.

Deferred tax assets and liabilities are accounted for at equity level with open balances and without offsetting entries, recognising the former under "Tax assets" and the latter under "Tax liabilities".

With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under "current tax assets" or "current tax liabilities" depending on whether it is positive or negative.

Provisions for risks and charges

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

The provisions are reviewed at the reporting date of the annual financial statements and the interim financial statements and adjusted to reflect the current best estimate. These are recognised under their own items in the income statement in accordance with a cost classification approach based on the "nature" of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under "personnel expense". The provisions that refer to risks and charges of a tax nature are reported as "income taxes", whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement are recognised as "net accruals to provisions for risks and charges".

Post-employment benefits

According to the IFRIC, the post-employment benefits can be equated with a post-employment benefit of the "defined-benefit plan" type which, based on IAS 19, is to be calculated via actuarial methods. Consequentially, the end of the year measurement of the item in question is made based on the accrued benefits method using the Projected Unit Credit Method.

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

The actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the obligation at year end, are recognised in equity.

An independent actuary assesses the post-employment benefits in compliance with the method indicated above.

Repurchase agreements

"Repurchase agreements" that oblige the party selling the relevant assets (for example securities) to repurchase them in the future and the "securities lending" transactions where the guarantee is represented by cash, are considered equivalent to swap transactions and, therefore, the amounts received and disbursed appear in the financial statements as payables and receivables. In particular, the previously mentioned "repurchase agreements" and "securities lending" transactions are recognised in the financial statements as payables for the spot price received, while those for investments are recognised as receivables for the spot price paid. Such transactions do not result in changes in the securities portfolio. Consistently, the cost of funds and the income from the investments, consisting of accrued dividends on the securities and of the difference between the spot price and the forward price thereof, are recognised for the accrual period under interest in the income statement.

Criteria for determining the fair value of financial instruments

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

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

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

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

cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

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

- **Level 1** - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- **Level 2** - the measurement is not based on prices of the same financial instrument subject to measurement, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model). The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to measurement.

  The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretional parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.
- **Level 3** - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

Business combinations

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

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

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

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

If the business combination is carried out through several transfers

- the cost of the combination is the overall cost of the individual transactions;
- the exchange date is the date of each exchange

transaction (namely the date on which each investment is recognised in the acquiring company's financial statements), whereas the acquisition date is the one on which control is obtained over the acquired company.

The cost of a business combination is assigned by recognising the assets, liabilities and potential liabilities that are identifiable in the acquired company, at the relevant fair values at the date of acquisition.

The assets, liabilities and potential liabilities that can be identified in the acquired company are recognised separately on the acquisition date only if, on this date, they meet the following criteria:

- if an asset is not an intangible asset, it is probable that any future connected economic benefits will flow to the acquiring company and it is possible to assess its fair value reliably;
- if a liability is not a potential liability, it is probable that, in order to extinguish the obligation, investment in resources will be required to produce economic benefits and it is possible to assess the fair value reliably;
- in the case of an intangible asset or a potential liability, the relevant fair value may be assessed reliably.

The positive difference between the cost of the business combination and the acquiring company's profit sharing at the fair value net of the assets, liabilities and identifiable potential liabilities, must be accounted for as goodwill.

After the initial recognition, the goodwill acquired in a business combination is measured at the relevant cost and is submitted to an impairment test at least once a year.

If the difference is negative, a new measurement is made. This negative difference, if confirmed, is recognised immediately as income in the income statement.

DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

There were no financial assets transferred between portfolios.

FAIR VALUE DISCLOSURE

Qualitative disclosure

Fair value levels 2 and 3: valuation techniques and inputs used

There were no deviations from the valuation guidelines and techniques in use as at 31 December 2017.

Processes and sensitivity of measurements

The portfolio of financial instruments classified at level 3 has no significant impact on the Bank's financial statements.

Fair value hierarchy

The following fair value hierarchy was used in order to prepare the condensed interim consolidated financial statements:

Level 1 - Effective market quotes: the valuation is the market price of said financial instrument subject to valuation, obtained on the basis of quotes expressed by an active market.

Level 2 - Comparable Approach

Level 3 - Mark-to-Model Approach

Transfer of assets and liabilities measured at fair value (levels 1 and 2) (levels 2 and 3)

Nothing to report.

DISCLOSURE CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

ASSETS

Cash and cash equivalents - Item 10

Cash and cash equivalents: breakdown

	30.06.2018	31.12.2017
a. Cash	288	161
b. Demand deposits with Central Banks	-	-
TOTAL	**288**	**161**

Financial assets measured at fair value through profit or loss - Item 20

Financial assets held for trading: breakdown by product

Items / Amounts	30.06.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt instruments	100,027	-	-	-	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	100,027	-	-	-	-	-
2. Equity instruments	-	-	-	1,201	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL A	**100,027**	-	-	**1,201**	-	-
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	-	-	-	-	-	-
1.1 Trading	-	-	-	-	-	-
1.2 Associated with fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
TOTAL B	-	-	-	-	-	-
TOTAL (A+B)	**100,027**	-	-	**1,201**	-	-

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

Financial assets measured at fair value through other comprehensive income - Item 30

Financial assets measured at fair value through other comprehensive income: breakdown by product

	30.06.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**260,735**	**-**	**-**	**278,847**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	260,735	-	-	278,847	-	-
2. Equity instruments	**1,546**	**-**	**5,000**	**1,763**	**-**	**5,000**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**262,281**	**-**	**5,000**	**280,610**	**-**	**5,000**

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

Financial assets measured at amortised cost - Item 40

Financial assets measured at amortised cost: breakdown by product of the loans and receivables with banks

	30.06.2018						31.12.2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: acquired or originated impaired	L1	L2	L3	First and second stage	Third stage	of which: acquired or originated impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**8,058**	**-**	**-**	x	x	**8,058**	**18,534**	**-**	**-**	**-**	**-**	**18,534**
1. Term deposits	-	-	-	x	x	X	-	-	-	x	x	X
2. Minimum reserve	7,991	-	-	x	x	X	18,534	-	-	x	x	X
3. Reverse repurchase agreements	-	-	-	x	x	X	-	-	-	x	x	X
4. Other	67	-	-	-	-	X	-	-	-	x	x	X
B. Loans and receivables with banks	**14,061**	**-**	**-**	-	-	**14,061**	**17,493**	**-**	**-**	**-**	**-**	**17,493**
1. Financing	**14,061**	**-**	**-**	x	x	**14,061**	**17,493**	**-**	**-**	**-**	**-**	**17,493**
1.1 Current accounts and demand deposits	13,891	-	-	x	x	X	17,470	-	-	x	x	X
1.2. Term deposits	-	-	-	x	x	X	-	-	-	x	x	X
1.3. Other financing:	170	-	-	x	x	X	23	-	-	x	x	X
- Reverse repurchase agreements	-	-	-	x	x	X	-	-	-	x	x	X
- Finance leases	-	-	-	x	x	X	-	-	-	x	x	X
- Other	170	-	-	-	-	X	23	-	-	x	x	X
2. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	**22,119**	**-**	**-**	**-**	**-**	**22,119**	**36,027**	**-**	**-**	**-**	**-**	**36,027**

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

Financial assets measured at amortised cost: breakdown by product of the loans and receivables with customers

	30.06.2018						31.12.2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: acquired or originated impaired	L1	L2	L3	First and second stage	Third stage	of which: acquired or originated impaired	L1	L2	L3
Financing	**2,011,063**	**146,903**	**17,420**	**-**	**-**	**2,157,966**	**1,729,254**	**121,036**	**1,103**	**-**	**-**	**1,850,290**
1.1. Current accounts	24,532	210	-	X	X	X	6,409	57	-	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Loans	40,526	1,968	-	X	X	X	54,768	1,993	-	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	551,727	419	-	X	X	X	481,160	1	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	914,965	127,999	17,420	X	X	X	837,181	102,815	1,103	X	X	X
1.7. Other financing	479,313	16,307	-	X	X	X	349,736	16,170	-	X	X	X
Debt instruments	**435,499**	**-**	**-**	**424,442**	**-**	**-**	**84,178**	**-**	**-**	**84,178**	**-**	**-**
1.1. Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Other debt instruments	435,499	-	-	424,442	-	-	84,178	-	-	-	-	-
TOTAL	**2,446,562**	**146,903**	**17,420**	**424,442**	**-**	**2,157,966**	**1,813,432**	**121,036**	**1,103**	**-**	**-**	**1,850,290**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets measured at amortised cost: breakdown by debtor/issuer of the loans and receivables with customers

	30.06.2018			31.12.2017		
	First and second stage	Third stage	of which: acquired or originated impaired assets	First and second stage	Third stage	of which: acquired or originated impaired assets
1. Debt instruments	**435,499**	**-**	**-**	**84,178**	**-**	**-**
a) Public administrations	435,499	-	-	84,178	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,011,063**	**146,903**	**17,420**	**1,729,254**	**121,036**	**1,103**
a) Public administrations	1,100,020	89,337	17,420	947,535	83,131	1,103
b) Other financial companies	53,232	1	-	7,578	13	-
of which: insurance companies	11,467	1	-	3		-
c) Non-financial companies	260,237	54,537	-	238,642	35,369	-
d) Households	597,574	3,028	-	535,499	2,523	-
TOTAL	**2,446,562**	**146,903**	**17,420**	**1,813,432**	**121,036**	**1,103**

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

	Gross amount				Total impairment losses			Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt instruments	435,572	-	-	-	73	-	-	-
Financing	1,949,299	-	67,260	173,532	5,058	438	26,629	-
Total at 31/12/2018	**2,384,871**	**-**	**67,260**	**173,532**	**5,131**	**438**	**26,629**	**-**
Total at 31/12/2017	**1,703,767**	**-**	**115,255**	**143,328**	**5,152**	**438**	**22,292**	**-**
of which: acquired or originated impaired financial assets	X	X	-	17,677	X	-	257	-

Equity investments - Item 70

Equity investments: information on investment relationships

Names	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	London	100%	100%
2. Largo Augusto Servizi e Sviluppo S.r.l.	Milan	100%	100%
C. Companies under significant influence			
1. Axactor Italy S.p.A.	Cuneo, Italy	10%	10%

Equity investments: changes

	30.06.2018	31.12.2017
A. Opening balance	**1,190**	**1,030**
B. Increases	**1,244**	**300**
B.1 Purchases	620	-
B.2 Impairment gains	-	-
B.3 Revaluations	-	-
B.4 Other changes	624	300
C. Decreases	**229**	**140**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Other changes	229	140
D. Closing balance	**2,205**	**1,190**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

Property and equipment - Item 90

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

	30.06.2018	31.12.2017
1. Owned	**26,075**	**24,272**
a) land	8,416	8,416
b) buildings	16,786	15,042
c) furniture	266	251
d) electronic equipment	525	538
e) other	82	25
2. Under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
TOTAL	**26,075**	**24,272**
of which: obtained from the enforcement of guarantees received		

Intangible assets - Item 100

Intangible assets: breakdown by type of asset

	30.06.2018		31.12.2017	
	FINITE USEFUL LIFE	INDEFINITE USEFUL LIFE	FINITE USEFUL LIFE	INDEFINITE USEFUL LIFE
A.1 Goodwill	**-**	**1,786**	**X**	**1,786**
A.2 Other intangible assets	**1**	-	**4**	-
A.2.1 Assets measured at cost:	1	-	4	-
a) Internally developed assets	-	-	-	-
b) Other	1	-	4	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally developed assets	-	-	-	-
b) Other	-	-	-	-
TOTAL	**1**	**1,786**	**4**	**1,786**

Other assets - Item 130

	30.06.2018	31.12.2017
Tax advances	6,328	8,563
Other	2,954	3,477
Prepayments not related to a specific item	1,757	630
Work in progress	1,731	995
Trade receivables	493	410
Leasehold improvements	268	156
Security deposits	85	85
TOTAL	**13,616**	**14,316**

LIABILITIES

Financial liabilities measured at amortised cost - Item 10

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

	30.06.2018				31.12.2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**172,850**	**X**	**X**	**X**	**192,064**	**X**	**X**	**X**
2. Due to banks	**388,331**	**X**	**X**	**X**	**325,469**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	510	X	X	X	13,969	X	X	X
2.2 Term deposits	387,811	X	X	X	311,500	X	X	X
2.3 Financing	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X		X	X	X
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	10	X	X	X	-	X	X	X
TOTAL	**561,181**	**-**	**-**	**561,181**	**517,533**	**-**	**-**	**517,533**

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

	30.06.2018				31.12.2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	514,492	**X**	**X**	**X**	510,349	**X**	**X**	**X**
2. Term deposits	599,540	**X**	**X**	**X**	447,093	**X**	**X**	**X**
3. Financing	811,933	X	X	X	326,690	X	X	X
3.1 Repurchase agreements	696,650	X	X	X	215,623	X	X	X
3.2 Other	115,283	X	X	X	111,067	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other payables	91	X	X	X	-	X	X	X
TOTAL	**1,926,056**	**-**	**-**	**1,926,056**	**1,284,132**	**-**	**-**	**1,284,132**

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

Financial liabilities at amortised cost: breakdown by product of the securities issued

	30.06.2018				31.12.2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**306,184**	**172,695**	**90,171**	**39,574**	**281,770**	-	-	**281,770**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	306,184	172,695	90,171	39,574	281,770	-	-	281,770
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-		-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**306,184**	**172,695**	**90,171**	**39,574**	**281,770**	**-**	**-**	**281,770**

Breakdown of subordinated securities

	ISSUER	TYPE OF ISSUE	COUPON	MATURITY DATE	NOMINAL AMOUNT	IFRS AMOUNT
Tier 1 Capital	Banca Sistema S.p.A.	Innovative equity instruments: mixed rate -	Until 13 June 2023, fixed rate at 7%	Perpetual	8,000	8,015
Tier 2 Capital	Banca Sistema S.p.A.	Subordinate ordinary loans (Tier 2): ISIN IT0004869712	6-month Euribor + 5.5%	15.11.2022	12,000	12,081
Tier 2 Capital	Banca Sistema S.p.A.	Subordinate ordinary loans (Tier 2): ISIN IT0005247397	6-month Euribor + 4.5%	30.03.2027	19,500	19,475
TOTAL					**39,500**	**39,571**

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

Other liabilities - Item 80

Other liabilities: breakdown

	30.06.2018	31.12.2017
Payments received in the reconciliation phase	57,977	43,912
Tax liabilities with the Tax Authority and other tax authorities	6,755	10,292
Work in progress	6,072	7,177
Trade payables	5,202	5,657
Accrued expenses	3,586	3,429
Due to employees	1,512	756
Other	1,276	114
Pension repayments	439	659
TOTAL	**82,819**	**71,996**

Post-employment benefits - Item 90

Post-employment benefits: changes

	30.06.2018	31.12.2017
A. Opening balance	**2,172**	**1,640**
B. Increases	**242**	**770**
B.1 Accruals	240	412
B.2 Other increases	2	358
C. Decreases	**85**	**238**
C.1 Payments	67	222
C.2 Other decreases	18	16
D. Closing balance	**2,329**	**2,172**
TOTAL	**2,329**	**2,172**

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

Annual discount rate	1.45%
Annual inflation rate	1.50% for 2018
Annual post-employment benefits increase rate	2.625% for 2018
Annual real salary increase rate	1.00%

Provisions for risks and charges - Item 100

Provisions for risks and charges: breakdown

	30.06.2018	31.12.2017
1. Provisions for credit risk related to commitments and financial guarantees issued	-	-
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	7,401	6,745
4.1 legal and tax disputes	3,383	3,008
4.2 personnel expense	4,008	3,737
4.3 other	10	-
TOTAL	**7,401**	**6,745**

Provisions for risks and charges: changes

	PROVISIONS FOR OTHER COMMITMENTS AND OTHER GUARANTEES ISSUED	PENSION FUNDS	OTHER PROVISIONS	TOTAL
A. Opening balance	-	-	**6,745**	**6,745**
B. Increases	-	-	**1,809**	-
B.1 Accruals	-	-	1,809	-
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases	-	-	**1,153**	-
C.1 Utilisations	-	-	1,153	-
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	-	-
D. Closing balance	-	-	**7,401**	**7,401**

The discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month.
To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

Equity attributable to the owners of the parent - Items 120, 130, 140, 150, 160, 170 and 180

"Share capital" and "Treasury shares": breakdown

The share capital of Banca Sistema is composed by 80,421,052 ordinary shares with a nominal amount of € 0.12 for a total paid-in share capital of € 9,651 thousand. All outstanding shares have regular dividend entitlement from 1 January. Based on evidence from the Shareholders' Register and more recent information available, as at 2 July 2015 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Finance Act) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS (Management Company)	23.10%
Garbifin	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Fondazione Pisa	7.61%
Schroders	5.22%
Market	*48.25%*

The Group does not hold treasury shares of the ultimate parent.

The breakdown of equity attributable to the owners of the parent is shown below:

	30.06.2018	31.12.2017
1. Share capital	9,651	9,651
2. Share premium	39,226	39,268
3. Reserves	78,609	58,807
4. (Treasury shares)	(146)	(149)
5. Valuation reserves	(1,853)	367
6. Equity attributable to non-controlling interests	30	30
7. Profit for the period/year	11,221	26,793
TOTAL	**136,738**	**134,767**

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

Equity attributable to non-controlling interests - Item 190

Breakdown of item 210 "Equity attributable to non-controlling interests"

Quinto Sistema 2016 S.r.l.	30.06.2018
Equity investments in consolidated companies with significant non-controlling interests	
1. Quota capital	10
TOTAL	**10**

Quinto Sistema 2017 S.r.l.	30.06.2018
Equity investments in consolidated companies with significant non-controlling interests	
1. Quota capital	10
TOTAL	**10**

Atlantis Spv S.r.l.	30.06.2018
Equity investments in consolidated companies with significant non-controlling interests	
1. Quota capital	10
TOTAL	**10**

INCOME STATEMENT

Interest - Items 10 and 20

Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	30.06.2018	30.06.2017
1. Financial assets measured at fair value through profit or loss:	**76**	**-**	**-**	**76**	**84**
1.1 Financial assets held for trading	76	-	-	76	84
1.2 Financial assets designated at fair value through profit or loss	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**X**	**-**	**-**
3. Financial assets measured at amortised cost:	**-**	**44,100**		**44,100**	**38,001**
3.1 Loans and receivables with banks	-	18	X	18	14
3.2 Loans and receivables with customers	-	44,082	X	44,082	37,987
4. Hedging derivatives	**X**	**X**	-	-	-
5. Other assets	**X**	**X**	-	-	-
6. Financial liabilities	**X**	**X**	**X**	**538**	**1,187**
TOTAL	**76**	**44,100**	**-**	**44,714**	**39,272**

Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	30.06.2018	30.06.2017
1. Financial liabilities measured at amortised cost	**8,128**	**3,225**	-	**11,353**	**8,866**
1.1 Due to Central banks	-	X	-		
1.2 Due to banks	1,678	X	-	1,678	759
1.3 Due to customers	6,450	X	-	6,450	6,669
1.4 Securities issued	X	3,225	-	3,225	1,438
2. Financial liabilities held for trading	-		-	-	-
3. Financial liabilities designated at fair value through profit or loss	-		-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	753	521
TOTAL	**8,128**	**3,225**	**-**	**12,106**	**9,387**

Net fee and commission income - Items 40 and 50

Fee and commission income: breakdown

	30.06.2018	30.06.2017
a) guarantees given	17	12
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	96	40
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. individual asset management	-	-
4. securities custody and administration	-	-
5. depositary services	-	-
6. placement of securities	53	14
7. order collection and transmission	43	26
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	153	149
e) services for securitisations	-	-
f) services for factoring	7,478	4,945
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) keeping and management of current accounts	55	63
j) other services	632	533
TOTAL	**8,431**	**5,742**

Fee and commission expense: breakdown

	30.06.2018	30.06.2017
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and brokerage services:	282	343
1. trading in financial instruments	37	47
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	-	-
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	245	296
d) collection and payment services	73	68
e) other services	717	724
TOTAL	**1,072**	**1,135**

Dividends and similar income - Item 70

Dividend and similar income: breakdown

	30.06.2018		30.06.2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	227	-	227	-
D. Equity investments	-	-	-	-
TOTAL	**227**	**-**	**227**	**-**

Net trading expense - Item 80

Net trading expense: breakdown

	GAINS (A)	TRADING INCOME (B)	LOSSES (C)	TRADING LOSSES (D)	NET TRADING INCOME (EXPENSE) [(A+B) - (C+D)]
1. Financial assets held for trading		**76**	**(282)**	**(62)**	**(268)**
1.1 Debt instruments		29	(282)	(62)	(315)
1.2 Equity instruments		47	-	-	47
1.3 OEIC units		-	-	-	-
1.4 Financing		-	-	-	-
1.5 Other		-	-	-	-
2. Financial liabilities held for trading					
2.1 Debt instruments		-	-	-	-
2.2 Payables		-	-	-	-
2.3 Other		-	-	-	-
3. Other financial assets and liabilities: exchange rate losses	**X**	**X**	**X**	**X**	**-**
4. Derivatives					
4.1 Financial derivatives:		-	-	-	-
- On debt instruments and interest rates		-	-	-	-
- On equity instruments and equity indexes		-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other		-	-	-	-
4.2 Credit derivatives		-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	
TOTAL		**76**	**(282)**	**(62)**	**(268)**

Gain from sales or repurchases - Item 100

Gain from sales or repurchases: breakdown

	30.06.2018			30.06.2017		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**1,252**	**(320)**	**932**	**792**	**(138)**	**654**
1. Financial assets measured at amortised cost:	-	-	-	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	1,252	(320)	932	792	(138)	654
2.1 Debt instruments	1,252	(320)	932	792	(138)	654
2.4 Financing	-	-	-	-	-	-
Total assets	**1,252**	**(320)**	**932**	**792**	**(138)**	**654**
B. Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-		-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

Net impairment losses due to credit risk - Item 130

Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown

	Impairment losses (1)			Impairment gains (2)		30.06.2018	30.06.2017
		Third stage					
	First and second stage	Write-offs	Other	First and second stage	Third stage		
A. Loans and receivables with banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- financing	-	-	-	-	-	-	-
- debt instruments	-	-	-	-	-	-	-
Of which: acquired or originated impaired loans and receivables	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**561**	**-**	**3,269**	**891**	**-**	**2,939**	**1,427**
- financing	502	-	3,269	891	-	2,880	1,427
- debt instruments	59	-	-	-	-	59	-
Of which: acquired or originated impaired loans and receivables	-	-	-	-	-	-	-
C. Total	**561**	-	**3,269**	**891**	-	**2,939**	**1,427**

Administrative expenses - Item 190

Personnel expense: breakdown

	30.06.2018	30.06.2017
1) Employees	8,910	8,343
a) wages and salaries	5,479	4,782
b) social security charges	1,317	1,379
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	323	289
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	-	-
- defined contribution plans	156	159
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	1,635	1,734
2) Other personnel	173	161
3) Directors and statutory auditors	477	368
4) Retired personnel	-	-
5) Recovery of costs for employees of the Bank seconded to other entities	-	-
6) Reimbursement of costs for employees of other entities seconded to the Bank	-	-
TOTAL	**9,560**	**8,872**

Other administrative expenses: breakdown

	30.06.2018	30.06.2017
IT expenses	2,304	2,105
Consultancy	1,737	2,126
Servicing and collection activities	1,539	1,381
Rent and related fees	1,034	952
Indirect taxes and duties	1,158	661
Resolution Fund	942	807
Car hire and related fees	425	389
Expense reimbursement and entertainment	352	394
Other	400	297
Expenses related to management of the SPVs	240	168
Insurance	194	158
Advertising	199	135
Audit fees	160	137
Infoprovider expenses	135	147
Stationery and printing	29	37
Telephone and postage expenses	101	89
Maintenance of movables and real properties	56	47
TOTAL	**11,005**	**10,030**

Income taxes - Item 300

Income taxes: breakdown

		30.06.2018	30.06.2017
1.	Current taxes (-)	(4,453)	(4,837)
2.	Changes in current taxes of previous years (+/-)	(26)	141
3.	Decrease in current taxes for the year (+)	-	-
3.bis	Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	(468)	656
5.	Changes in deferred tax liabilities (+/-)	(817)	(524)
6.	Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(5,764)	(4,564)

Earnings per share

Earnings per share (EPS)	30.06.2018
Parent's profit for the year (thousands of Euro)	11,777
Average number of outstanding shares	80,352,313
Basic earnings per share (basic EPS) (in Euro)	0.147
Diluted earnings per share (diluted EPS) (in Euro)	0.147

Other dividend information

In May, after approval at the Shareholders' Meeting held on 23 April 2018, a dividend was distributed, as was proposed on 8 March by the Board of Directors of Banca Sistema S.p.A., equal to € 0.086 per share.
The ex coupon date was 7 May 2018 and the record date 8 May 2018.

INFORMATION CONCERNING THE PARENT'S EQUITY

Own funds and capital ratios

Own funds
Quantitative disclosure

	30.06.2018
A. COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS	**133,709**
of which CET 1 instruments covered by transitional measures	-
B. CET1 PRUDENTIAL FILTERS (+/-)	**-**
C. CET1 INCLUDING ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME (A+/-B)	**133,709**
D. ITEMS TO BE DEDUCTED FROM CET1	**1,787**
E. TRANSITIONAL REGIME - IMPACT ON CET (+/-)	**-**
F. TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)	**131,922**
G. ADDITIONAL TIER1 (AT1) INCLUDING ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME	**8,000**
of which AT1 instruments covered by transitional measures	-
H. ITEMS TO BE DEDUCTED FROM AT1	**-**
I. TRANSITIONAL REGIME - IMPACT ON AT1 (+/-)	**-**
L. TOTAL ADDITIONAL TIER 1 (AT1) (G-H+/-I)	**8,000**
M. TIER2 (T2) INCLUDING ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME	**30,009**
of which T2 instruments covered by transitional measures	-
N. ITEMS TO BE DEDUCTED FROM T2	**-**
O. TRANSITIONAL REGIME - IMPACT ON T2 (+/-)	**-**
P. TOTAL TIER 2 (T2) (M-N+/-O)	**30,009**
Q. TOTAL OWN FUNDS (F+L+P)	**169,931**

Capital adequacy

Quantitative disclosure

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	30.06.2018	**31.12.2017**	**30.06.2018**	**31.12.2017**
A. EXPOSURES				
A.1 Credit and counterparty risk	**3,816,354**	**2,743,813**	**1,045,846**	**909,012**
1. Standardised approach	3,816,354	2,743,813	1,045,846	909,012
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**83,668**	**72,721**
B.2 Credit assessment adjustment risk			**228**	**249**
B.3 Regulation risk			-	-
B.4 Market risk			**700**	**192**
1. Standard approach			700	192
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**11,479**	**11,479**
1. Basic indicator approach			11,479	11,479
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			**96,075**	**84,641**
C. EXPOSURES AND CAPITAL RATIOS			**1,200,933**	**1,058,017**
C.1 Risk-weighted assets			1,200,933	1,058,017
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			11.0%	11.9%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			11.7%	12.6%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			14.1%	15.3%

INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

Large exposures

As at 30 June 2018, the Parent's large exposures are as follows:

a) Carrying amount € 2,045,479 (in thousands)

b) Weighted amount € 177,484 (in thousands)

c) No. of positions 16.

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A..

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who exercise management and control functions in accordance with art. 136 of the Consolidated Banking Act, they are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

Pursuant to IAS 24, the related parties of Banca Sistema include:

- shareholders with significant influence;
- companies belonging to the banking Group;
- companies subject to significant influence;
- key management personnel;
- the close relatives of key management personnel and the companies controlled by (or connected with) such personnel or their close relatives.

Disclosure on the remuneration of key management personnel

The following data show the remuneration of key management personnel, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, which requires the inclusion of the members of the Board of Statutory Auditors.

in thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	30.06.2018
Remuneration to Board of Directors and Board of Statutory Auditors	933	41	-	**974**
Short-term benefits for employees	-	-	654	**654**
Post-employment benefits	32	-	46	**78**
Other long-term benefits	187	-	13	**200**
Termination benefits	-	-	-	**0**
Share-based payments	-	-	-	**0**
Total	**1,152**	**41**	**713**	**1,906**

Disclosure on related party transactions

The following table shows the assets, liabilities, guarantees and commitments as at 30 June 2018, differentiated by type of related party with an indication of the impact on each individual caption.

in thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	12,845	284	23,569	1.4%
Due to customers	-	1,043	53,962	2.9%
Securities issued	-	-	20,096	6.6%
Other liabilities	303	-	-	0.4%

The following table indicates the costs and income for the first half of 2018, differentiated by type of related party.

in thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	88	-	81	0.4%
Interest expense	746	49	-	6.6%
Other administrative expenses	-	-	100	0.9%

The following table sets forth the details of each related party.

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
ASSETS	**36,320**	**1.20%**
Loans and receivables with customers		
Axactor Italy S.p.A.	23,474	0.91%
Speciality Finance Trust Holdings Ltd	1,675	0.06%
Largo Augusto Servizi e Sviluppo S.r.l.	11,171	0.43%
LIABILITIES	**66,057**	**2.18%**
Due to customers		
Shareholders - SGBS	1,646	0.09%
Shareholders - Fondazione Pisa	42,159	2.19%
Shareholders - Fondazione CR Alessandria	1,243	0.06%
Shareholders - Fondazione Sicilia	610	0.03%
Other liabilities		
Speciality Finance Trust Holdings Ltd	231	0.28%
Largo Augusto Servizi e Sviluppo S.r.l.	72	0.09%
Securities issued		
Shareholders - Fondazione Pisa	20,096	6.56%

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
INCOME	**170**	**0.38%**
Interest income		
Axactor Italy S.p.A.	88	0.20%
Speciality Finance Trust Holdings Ltd	32	0.07%
Largo Augusto Servizi e Sviluppo S.r.l.	50	0.11%
COSTS	**800**	**3.46%**
Interest expense		
Shareholders - SGBS	1	0.01%
Shareholders - Fondazione Sicilia	2	0.02%
Shareholders - Fondazione Pisa	693	5.73%
Shareholders - Fondazione CR Alessandria	4	0.03%
other administrative expenses		
Largo Augusto Servizi e Sviluppo S.r.l.	100	0.91%

SEGMENT REPORTING

For the purposes of segment reporting as per IFRS 8, the income statement is broken down by segment as follows.

Breakdown by segment: income statement data for the first half of 2018

	30.06.2018			
Amounts in thousands of Euro	FACTORING	BANKING	CORPORATE	CONSOLIDATED TOTAL
Net interest income	26,078	7,324	(794)	**32,608**
Net fee and commission income (expense)	7,439	(58)	(22)	**7,359**
Other costs/income	-	-	891	**891**
Total income	**33,517**	**7,266**	**75**	**40,858**
Net impairment losses on loans and receivables	(2,077)	(862)	-	**(2,939)**
Net financial income	**31,440**	**6,404**	**75**	**37,919**

Breakdown by segment: statement of financial position data as at 30 June 2018

	30.06.2018			
Amounts in thousands of Euro	FACTORING	BANKING	CORPORATE	CONSOLIDATED TOTAL
Financial assets (HTS and HTCS)	-	-	367,308	**367,308**
Loans and receivables with banks	-	-	22,119	**22,119**
Loans and receivables with customers	1,491,649	611,601	490,215	**2,593,465**
Due to banks	-	-	561,181	**561,181**
Due to customers	87,989	-	1,838,067	**1,926,056**

The Factoring segment includes the business segment related to the origination of trade and tax receivables with and without recourse. In addition, the division includes the business segment related to the management and recovery of receivables on behalf of third parties.

The Banking segment includes the business segment related to guaranteed loans to small and medium-sized enterprises, purchases of pension- and salary-backed loan portfolios and costs/income from assets under administration and the placement of third-party products.

The Corporate segment includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. Moreover, this segment includes all the consolidation entries, as well as all the interbank eliminations.

The secondary disclosure by geographical segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

1. The undersigned, Gianluca Garbi, in his capacity as CEO, and Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A. hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of legislative decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the group and
   - the effective application of the administrative and accounting procedures for the drafting of the condensed interim consolidated financial statements, during the first half of 2018.
2. The suitability and effective application of the administrative and accounting process for the drafting of the condensed interim consolidated financial statements at 30 June 2018 was verified based on internally defined methods, in accordance with the provisions of the reference standards for the internal audit system generally accepted on an international level.
3. Moreover, the undersigned hereby state that

   3.1 the condensed interim consolidated financial statements.

   a) were drafted in accordance with the applicable International Financial Reporting Standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 o the European Parliament and of the Council of 19 July 2002;

   b) match the accounting books and records;

   c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer and all the companies included in the scope of consolidation.

   3.2 The directors' report includes a reliable analysis of the important events which occurred during the first half of the year and their impact on the condensed interim consolidated financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The directors' report includes, moreover, a reliable analysis of the information concerning significant related party transactions.

Milan, 26 July 2018

Gianluca Garbi
Chief Executive Officer

Alexander Muz
Manager in charge of financial reporting

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

To the shareholders of
Banca Sistema S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the Banca Sistema Group, comprising the statement of financial position as at 30 June 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the six months then ended and notes thereto. The directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Banca Sistema Group as at and for the six months ended 30 June 2018 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 2 August 2018

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

ANNEX

Following below are the tables reconciling the items of the financial statements at 31 December 2017 and the new items introduced by the Bank of Italy since the adoption of IFRS 9. This is a mere restatement of the data, carried out in continuity with respect to the previously applicable IAS 39.

Statement of financial position - Assets (in thousands of Euro)	31.12.2017	Cash and cash equivalents	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Equity investments	Property and equipment	Intangible assets	Tax assets	Other assets	Total
Cash and cash equivalents	161	161	-	-	-	-	-	-	-	-	-	-	161
Financial assets measured at fair value through profit or loss	1,201	-	1,201	-	-	-	-	-	-	-	-	-	1,201
Financial assets measured at fair value through other comprehensive income	285,610	-	-	285,610	-	-	-	-	-	-	-	-	285,610
Financial assets measured at amortised cost	1,970,495	-	-	-	-	-	-	-	-	-	-	-	1,970,495
a) loans and receivables with banks	*36,027*	-	-	-	-	*36,027*	-	-	-	-	-	-	*36,027*
b) loans and receivables with customers	*1,934,468*	-	-	-	*84,178*	-	*1,850,290*	-	-	-	-	-	*1,934,468*
Equity investments	1,190	-	-	-	-	-	-	1,190	-	-	-	-	1,190
Property and equipment	24,272	-	-	-	-	-	-	-	24,272	-	-	-	24,272
Intangible assets	1,790	-	-	-	-	-	-	-	-	1,790	-	-	1,790
Tax assets	10,198	-	-	-	-	-	-	-	-	-	10,198	-	10,198
Other assets	14,316	-	-	-	-	-	-	-	-	-	-	14,316	14,316
Total Assets	**2,309,233**	**161**	**1,201**	**285,610**	**84,178**	**36,027**	**1,850,290**	**1,190**	**24,272**	**1,790**	**10,198**	**14,316**	**2,309,233**

Statement of financial position - Liabilities (in thousands of Euro)	31.12.2017	Due to banks	Due to customers	Securities issued	Tax liabilities	Other liabilities	Post-employment benefits	Provisions for risks and charges	Equity	Total
Financial liabilities measured at amortised cost	2,083,435	-	-	-	-	-	-	-	-	2,083,435
a) due to banks	*517,533*	*517,533*	-	-	-	-	-	-	-	*517,533*
b) due to customers	*1,284,132*	-	*1,284,132*	-	-	-	-	-	-	*1,284,132*
c) securities issued	*281,770*	-	-	*281,770*	-	-	-	-	-	*281,770*
Tax liabilities	10,118	-	-	-	10,118	-	-	-	-	10,118
Other liabilities	71,996	-	-	-	-	71,996	-	-	-	71,996
Post-employment benefits	2,172	-	-	-	-	-	2,172	-	-	2,172
Provisions for risks and charges	6,745	-	-	-	-	-	-	6,745	-	6,745
Equity	134,767	-	-	-	-	-	-	-	134,767	134,767
Total liabilities and equity	**2,309,233**	**517,533**	**1,284,132**	**281,770**	**10,118**	**71,996**	**2,172**	**6,745**	**134,767**	**2,309,233**

INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2018

BANCA SISTEMA
CONTEMPORARY BANK