INTERIM CONSOLIDATED FINANCIAL REPORT AS AT 31 MARCH 2018

BANCA SISTEMA
CONTEMPORARY BANK

1INFO
DIGITAL SIGN

Banca SISTEMA Group

INTERIM CONSOLIDATED FINANCIAL REPORT AT 31 MARCH 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
	Mr.	Giorgio Barba Navaretti *(Independent)*
	Mr.	Daniele Pittatore *(Independent)*
	Ms.	Carlotta De Franceschi *(Independent)*
	Mr.	Diego De Francesco[1] *(Independent)*

Board of Statutory Auditors[2]

Chairman:	Mr.	Massimo Conigliaro
Standing Auditors:	Mr.	Biagio Verde
	Ms.	Lucia Abati[3]
Alternate Auditors:	Mr.	Marco Armarolli[4]
	Ms.	Daniela D'Ignazio

Internal Control and Risk Management Committee

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

Appointments Committee

Members:	Mr.	Diego De Francesco[5]
	Mr.	Giorgio Barba Navaretti[6]
	Ms.	Luitgard Spögler

Remuneration Committee

Chairman:	Mr.	Giorgio Barba Navaretti
Members:	Mr.	Diego De Francesco[7]
	Mr.	Giovanni Puglisi

Ethics Committee

Chairman:	Mr.	Giovanni Puglisi
Members:	Ms.	Carlotta De Franceschi[8]
	Mr.	Marco Pompeo

Supervisory Body

Chairman:	Mr.	Massimo Conigliaro[9]
Members:	Mr.	Daniele Pittatore
	Mr.	Franco Pozzi

[1] Director co-opted by the Board of Directors on 28 April 2017, effective as from 1 May 2017, replacing Mr. Andrea Zappia who tendered his resignation from the position on 14 April 2017 with effect from 1 May 2017. He was then appointed at the Shareholders' Meeting on 14 December 2017, pursuant to Article 2386 of the Italian Civil Code, and shall remain in office until the end of the Board of Directors' term.
[2] The Board of Statutory Auditors was appointed at the Shareholders' Meeting on 27 April 2017.
[3] 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.
[4] 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.
[5] Appointed to the Appointments Committee by the Board of Directors on 28 April 2017 with effect from 1 May 2017, and subsequently reappointed on 15 December 2017 following his appointment as a Di-rector at the Shareholders' Meeting on 14 December 2017.
[6] Appointed to the Appointments Committee by the Board of Directors on 15 December 2017.
[7] Appointed to the Remuneration Committee by the Board of Directors on 28 April 2017 with effect from 1 May 2017, and subsequently reappointed on 15 December 2017 following his appointment as a Director at the Shareholders' Meeting on 14 December 2017.
[8] Appointed to the Ethics Committee by the Board of Directors on 15 December 2017.
[9] Appointed Chairman of the Supervisory Body by the Board of Directors on 28 April 2017.

On 23 April 2018 the Shareholders' Meeting passed a resolution appointing the nine-member Board of Directors for the period 2018-2020 and composed of:

- Ms. Luitgard Spögler, Mr. Gianluca Garbi, Ms. Carlotta De Franceschi, Mr. Giovanni Antonino Puglisi, Mr. Claudio Pugelli and Mr. Marco Giovannini, who were elected on the majority list submitted by: Società di gestione delle partecipazioni in Banca Sistema S.r.l., owner of 23.10% of the ordinary shares; Fondazione Sicilia, owner of 7.40% of the ordinary shares; Fondazione Pisa, owner of 7.61% of the ordinary shares; Fondazione Cassa di Risparmio di Alessandria, owner of 7.91% of the ordinary shares, representing a total of 46.02% of the share capital with voting rights;
- Ms. Laura Ciambellotti, Mr. Federico Ferro-Luzzi e Mr. Francesco Galietti, elected on the minority list submitted by the following institutional investors: Aletti Gestielle SGR S.p.A. - "Fondo Gestielle Pro Italia", Mediolanum Gestione Fondi SGR S.p.A. - "Mediolanum Flessibile Futuro Italia" and "Mediolanum Flessibile Sviluppo Italia", Mediolanum International Funds Limited - Challenge Funds - Challenge Italian Equity, Planetarium Fund Anthilia Silver, Zenit SGR S.p.A. - Zenit Pianeta Italia and Zenit Multistrategy SICAV, which together own 2.55% of the ordinary share capital;
- Ms. Luitgard Spögler was appointed as Chairperson of the Board of Directors.

On 24 April 2018, the Board of Directors appointed Mr. Gianluca Garbi as Chief Executive Officer, while it will verify by the legal deadline that the members of the Board of Directors meet the prerequisites provided by law for reappointment of the Board committees.

FINANCIAL HIGHLIGHTS AT 31 MARCH 2018

Statement of financial position data (€,000)

	31 Mar 2018	31 Dec 2017	
Total Assets	2,571,680	2,309,233	11.4%
Securities Portfolio	453,501	285,610	58.8%
Loans - Factoring	1,302,277	1,285,726	1.3%
Loans - Salary-backed loans and SME	573,690	556,061	3.2%
Funding - Banks and REPOs	1,000,094	733,156	36.4%
Funding - Term Deposits	444,613	447,093	-0.6%
Funding - Current Accounts	486,044	510,349	-4.8%

Income statement data (€,000)

	31 Mar 2018	31 Mar 2017	
Net interest income	13,688	12,423	10.2%
Net fee and commission income	3,558	2,249	58.2%
Total Income	18,103	14,903	21.5%
Personnel Expenses	(4,764)	(4,274)	11.5%
Other administrative expenses (*)	(5,071)	(4,853)	4.5%
Pre-tax profit (*)	7,068	6,181	14.4%

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

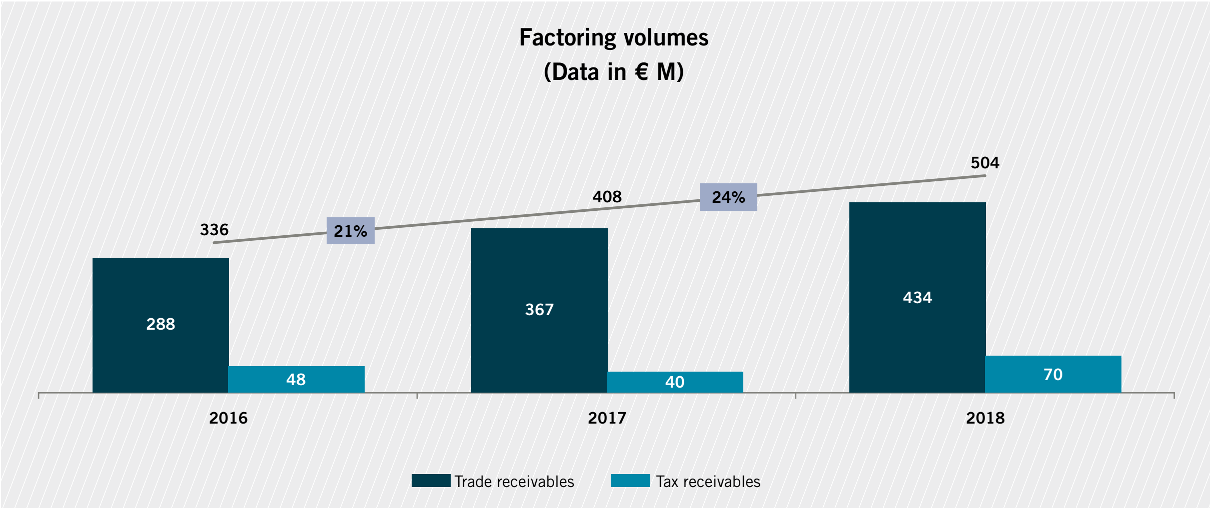
On 8 February 2018, the Board of Directors approved the Remuneration Policies Document of the Banca Sistema Group for 2018. It also acknowledged the quarterly report by the Internal Control Department as at 31 December 2017 (Risk Reporting, Tableau de Bord of the Compliance Department and Tableau de 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".

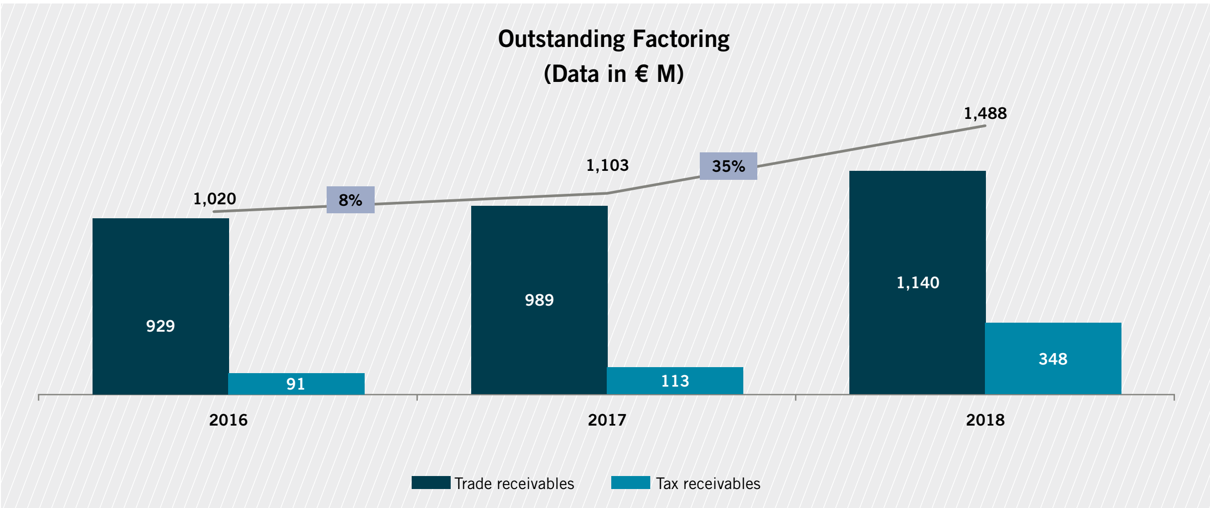
FACTORING

Banca Sistema and factoring activities

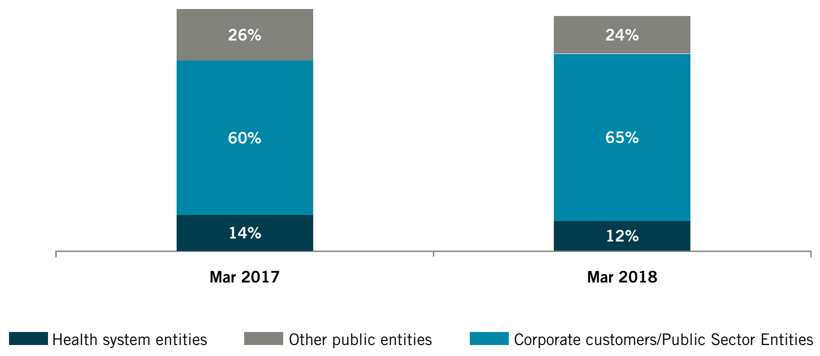
Total turnover for the period ended 31 March 2018 of the Banca Sistema Group was € 504 million, up 24% on the same period of 2017, confirming a continued growth capacity on an annual basis.



Outstanding loans as at 31 March 2018 amounted to € 1,488 million, up 35% on the € 1,103 million at 31 March 2017, mainly due to increased volumes acquired in the last quarter 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 31 March 2018 and 2017. As regards factoring, the Group's core 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 March 2018, the external networks accounted for 36% of total turnover. The following table shows the factoring turnover by product type:

PRODUCT (amounts in millions of Euro)	31.03.2018	31.03.2017	€ CHANGE	% CHANGE
Trade receivables	434	367	67	18%
of which, without recourse	*327*	*269*	*58*	*21%*
of which, with recourse	*107*	*98*	*9*	*10%*
Tax receivables	70	41	29	72%
of which, without recourse	*70*	*38*	*32*	*86%*
of which, with recourse	*0*	*3*	*(3)*	*-100%*
TOTAL	**504**	**408**	**96**	**24%**

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 recorded in the tax receivables sector.

SALARY-BACKED LOANS

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

As at 31 March 2018, the Bank has eight ongoing agreements with specialist distributors in the sector.

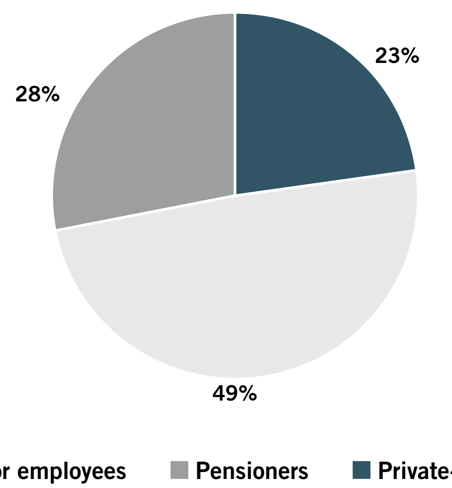
A salary- or pension-backed loan (CQS/CQP) is a consumer loan product that allows customers to allocate up to a fifth of their salaries or pensions to the payment of loan instalments.

The volumes acquired from the beginning of the year until 31 March 2018 amounted to € 40 million, including private-sector employees (23%), pensioners (28%) and public-sector employees (49%). Therefore, over 77% of the volumes refer to pensioners and employees of the Public Administration, which remains the Bank's main debtor.

	31.03.2018	31.03.2017	€ CHANGE	% CHANGE
No. of applications	1,962	2,689	(727)	-27%
Volumes disbursed (millions of Euro)	40	56	(16)	-28%

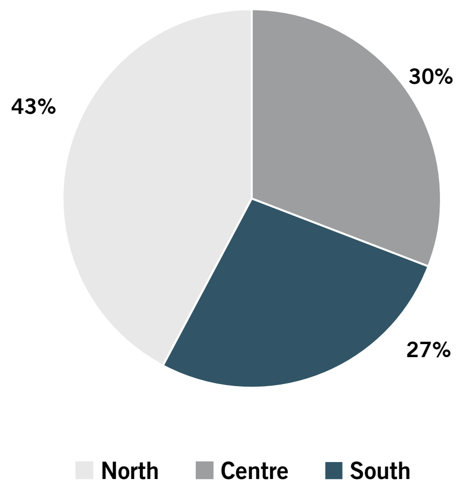
As inferred from the table, the amounts disbursed in the first quarter of 2018 are down from what was disbursed in the first quarter of 2017.

CQS disbursed volumes - Breakdown



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

CQS disbursed volumes - Breakdown by geographical area



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 31 March 2018 decreased by 21% with respect to 31 March 2017. The nominal amount of securities in the HTCS (formerly AFS) portfolio amounts to € 447 million (compared to € 279 million as at 31 December 2017) with a duration of 5.3 months (7.3 months in the previous year).
The decrease in the securities portfolio is the result of the decline in government bonds yields, which reached negative levels, and the expectations of a gradual rise in interest rates.
During 2018, the Held to Collect (HTC) portfolio was established, made up entirely of Italian government securities. At 31 March, the HTC portfolio amounted to € 121 million with an average residual duration of 2 years and 6 months.

Wholesale funding

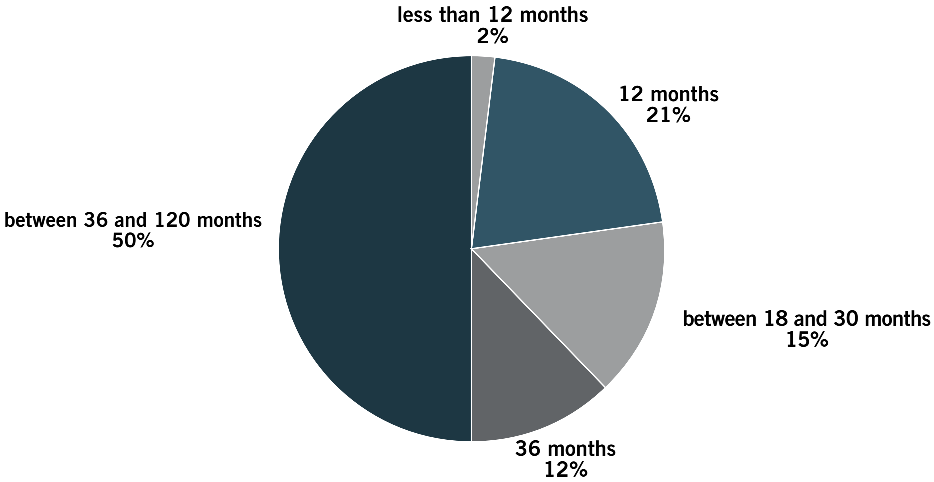
As at 31 March 2018, wholesale funding was about 57% of the total, mainly comprising bonds, repurchase agreements, inter-bank deposits and refinancing transactions with the ECB (52% as at 31 March 2017).
The 2017 issues of € 175 million of senior bonds maturing on 13 October 2020 and € 16.5 million of 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 to be maintained.
The current SPVs 2016 and 2017 are expected to be merged into a single vehicle (with rating) by the third quarter of 2018.
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 31 March 2018 totalled € 443 million. Such funding allows short-term treasury needs to be met by exploiting the extremely low level of interest rates, as well as the possibility of diversifying 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 31 March 2018 amounted to € 445 million, a decrease of 4% compared to 31 December 2017.
The above-mentioned amount also includes total term deposits of € 128 million (obtained with the help of a partner platform) held with entities resident in Germany and Austria (accounting for 30% of total deposit funding), a decrease of € 3 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 21 months.

Breakdown of deposit accounts as at 31 March



Current accounts increased from 4,298 (as at 31 March 2017) to 4,981 as at 31 March 2018, while the current account balance as at 31 March 2018 was € 486 million, up € 43 million compared with 31 March 2017.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€ ,000)	31.03.2018	31.12.2017	€ CHANGE	% CHANGE
Cash and cash equivalents	199	161	38	23.6%
Financial assets measured at fair value through profit or loss	844	1,201	(357)	-29.7%
Financial assets measured at fair value through other comprehensive income	453,501	285,610	167,891	58.8%
Financial assets measured at amortised cost	2,064,404	1,970,495	93,909	4.8%
a) loans and receivables with banks	24,652	36,027	(11,375)	-31.6%
b) loans and receivables with customers	2,039,752	1,934,468	105,284	5.4%
Equity investments	1,297	1,190	107	9.0%
Property and equipment	24,772	24,272	500	2.1%
Intangible assets	1,788	1,790	(2)	-0.1%
of which: goodwill	*1,786*	*1,786*	-	0.0%
Tax assets	8,271	10,198	(1,927)	-18.9%
Other assets	16,604	14,316	2,288	16.0%
Total assets	**2,571,680**	**2,309,233**	**262,447**	**11.4%**

The comparative data represent a mere restatement of the statutory figures at 31 December 2017 using the continuing values method with respect to the previously applicable accounting standard IAS 39. Therefore, they do not represent net amounts resulting from retroactive application of the new financial reporting standard IFRS 9. The reader is referred to the following paragraphs and explanatory notes for a description and presentation of the effects resulting from application of IFRS 9.

The first quarter of 2018 ended with total assets up 11.4% (at € 2.6 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 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 5.3 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 € 447 million at 31 March 2018 (€ 279 at 31 December 2017). The associated valuation reserve was positive at the end of the period, amounting to € 22 thousand before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million and purchased in July 2015, and the Axactor Norway shares, which at 31 March 2018 had a positive net fair value reserve of € 469 thousand, resulting in a period-end amount of €1.6 million.

The Axactor Norway stock also represents the only position in the trading book, i.e. in the item Financial assets measured at fair value through profit or loss (“HTS”).

LOANS AND RECEIVABLES WITH CUSTOMERS (€ ,000)	31.03.2018	31.12.2017	€ CHANGE	% CHANGE
Factoring	1,302,277	1,285,726	16,551	1.3%
Salary-/pension-backed loans (CQS/CQP)	526,145	500,480	25,665	5.1%
Securities	120,542	84,178	36,364	43.2%
Loans to SME	47,545	55,581	(8,036)	-14.5%
Current accounts	26,183	5,975	20,208	>100%
Pledge on receivables	2,775	1,366	1,409	>100%
Compensation and Guarantee Fund	3,732	865	2,867	>100%
Other loans and receivables	10,553	297	10,256	>100%
Total	**2,039,752**	**1,934,468**	**105,284**	**5.4%**

From 2018, the item Loans and receivables with customers in Financial assets measured at amortised cost ("HTC", "Held to Collect") includes portfolio of assets which, until 31 December 2017, were classified as "held to maturity", wholly composed of Italian government bonds having an average duration of 2.6 years and equal to € 121 million.

Outstanding loans for factoring receivables compared to the total in the item, excluding the amounts of the securities portfolio, changed from 69% to 68%. Their absolute value grew as a result of accumulated turnover in the fourth quarter of 2017. Compared with the first quarter of 2017, turnover grew by 24%, to € 504 million. Salary- and pension-backed loans grew in terms of their outstanding amount thanks to new loans, which fell by 28% compared with the same period of the previous year (the new volumes acquired in the first quarter amounted to € 40 million), while government-backed loans to SMEs fell 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, branches have been opened in Naples and Palermo, in addition to those in Milan, Rome and Pisa. This item includes the amount outstanding at the end of the quarter for a portfolio of receivables amounting to € 0.9 million acquired during the month of March 2018.

The increase in Other loans and receivables is due to a reverse repurchase agreement amounting to € 10.2 million settled with the Compensation and Guarantee Fund to close a short sale of Italian government bonds, which were recognised under "Financial liabilities held for trading".

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

STATUS	31.03.2017	30.06.2017	30.09.2017	31.12.2017	31.03.2018
Bad exposures	40,643	38,004	39,799	44,577	44,867
Unlikely to pay	17,676	29,677	24,083	24,061	37,621
Past due/overdrawn>180 days	85,828	78,735	89,145	74,690	76,626
Total non-performing	**144,147**	**146,416**	**153,027**	**143,328**	**159,114**
Performing - Stage 1	-	-	-	-	1,715,702
Performing - Stage 2	-	-	-	-	73,131
Total performing	**1,291,896**	**1,380,481**	**1,480,346**	**1,734,845**	**1,788,833**
Total loans and receivables with customers	**1,436,043**	**1,526,897**	**1,633,373**	**1,878,173**	**1,947,947**
Individual impairment losses	16,329	17,707	19,864	22,293	23,413
Collective impairment losses	5,502	6,040	5,703	5,590	5,324
of which stage 1	-	-	-	-	4,870
of which stage 2	-	-	-	-	454
Total impairment losses	**21,831**	**23,747**	**25,567**	**27,883**	**28,737**
Carrying amount	**1,414,212**	**1,503,150**	**1,607,806**	**1,850,300**	**1,919,211**

The ratio of gross non-performing loans to the total portfolio is up from 7.6% at 31 December 2017 to 8.2% at the end of the first quarter of 12018. The increase in the absolute value of non-performing loans compared to 31 December 2017 is mainly tied to new factoring positions that have moved to the unlikely to pay category. The amount of past due loans is attributed to factoring receivables without recourse from the 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 equal to 1.7% of total loans and receivables with customers, remaining at moderate levels, while the coverage ratio of non-performing loans is 14.7%.

Equity investments include the Bank's current equity investment of 10.0% 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 € 150 thousand subscribed by Banca Sistema, partially offset by its loss for the period.

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 € 23.9 million.

The other capitalised costs include furniture, fittings and IT devices and equipment.

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

Other assets include amounts being processed after the end of the year and advance tax payments of approximately € 8.6 million.

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

LIABILITIES AND EQUITY (€ ,000)	31.03.2018	31.12.2017	€ CHANGE	% CHANGE
Financial liabilities measured at amortised cost	2,326,279	2,083,435	242,844	11.7%
a) due to banks	566,194	517,533	48,661	9.4%
b) due to customers	1,477,072	1,284,132	192,940	15.0%
c) securities issued	283,013	281,770	1,243	0.4%
Financial liabilities held for trading	10,219	-	10,219	n.a.
Tax liabilities	10,331	10,118	213	2.1%
Other liabilities	76,660	71,996	4,665	6.5%
Post-employment benefits	2,237	2,172	65	3.0%
Provisions for risks and charges	6,863	6,745	118	1.7%
Valuation reserves	214	367	(153)	-41.7%
Reserves	124,655	98,105	26,550	27.1%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(146)	(149)	3	-2.0%
Profit for the period/year	4,717	26,793	(22,076)	-82.4%
Total liabilities and equity	**2,571,680**	**2,309,233**	**262,448**	**11.4%**

The comparative data represent a mere restatement of the statutory figures at 31 December 2017 using the continuing values method with respect to the previously applicable accounting standard IAS 39. Therefore, they do not represent net amounts resulting from retroactive application of the financial reporting 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. Conversely, customer deposits remained stable, while the contribution of bond funding to total wholesale funding was 27.2% (36.5% at 31 December 2017).

DUE TO BANKS (€ ,000)	31.03.2018	31.12.2017	€ CHANGE	% CHANGE
Due to Central banks	122,850	192,064	(69,214)	-36.0%
Due to banks	443,344	325,469	117,875	36.2%
Current accounts and demand deposits	*344*	*13,969*	*(13,625)*	*-97.5%*
Term deposits	*443,000*	*311,500*	*131,500*	*42.2%*
Total	**566,194**	**517,533**	**48,661**	**9.4%**

The sub-item due to banks grew by 9.4% compared to 31 December 2017 with an increase in interbank funding with an average duration of 2.9 months.

The collateral for ECB refinancing operations are mainly ABS from the securitisation of salary- and pension-backed loans.

DUE TO CUSTOMERS (€ ,000)	31.03.2018	31.12.2017	€ CHANGE	% CHANGE
Term deposits	444,613	447,093	(2,480)	-0.6%
Financing (repurchase agreements)	433,900	215,623	218,277	>100%
Current accounts	486,044	510,349	(24,305)	-4.8%
Deposits with Cassa Depositi e Prestiti	38,987	38,959	28	0.1%
Due to assignors	73,528	72,108	1,420	2.0%
Total	**1,477,072**	**1,284,132**	**192,940**	**15.0%**

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. Half of the collateral for repurchase agreements is represented by ABS from the securitisation of 2017 salary- and pension-backed loans.

The period-end amount of term deposits decreased slightly, down 0.6% on the end of 2017, reflecting net negative deposits (net of interest accrued) of € 3 million; gross deposits from the beginning of the year were € 58 million, against withdrawals caused mainly by non-renewals totalling € 61 million.

Due to customers also includes financing of € 39 million from Cassa Depositi e Prestiti obtained against collateral consisting solely of loans to SMEs granted by the Bank.

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

SECURITIES ISSUED (€ ,000)	31.03.2018	31.12.2017	€ CHANGE	% CHANGE
Bond - Tier I	8,154	8,017	137	1.7%
Bond - Tier II	28,683	28,703	(20)	-0.1%
Bonds - other	246,176	245,050	1,126	0.5%
Total	**283,013**	**281,770**	**1,243**	**0.4%**

The nominal value of securities issued at 31 March 2018 is broken down as follows:

- TIER 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and fixed rate at 7% until 18 December 2022;
- TIER 2 subordinated loan of € 12 million, set to mature on 15 November 2022 and with floating rate equal to the 6-month Euribor + 5.5%;
- TIER 2 subordinated loan of €16.5 million, set to mature on 30 March 2027 and with floating rate equal to the 6-month Euribor + 4.5%;
- Senior bonds (private placement) of € 70 million, set to mature on 3 May 2018 and with fixed rate at 2%;
- Senior bonds (market placement) of € 175 million, set to mature on 13 October 2020 and with fixed rate at 1.8%.

The provision for risks and charges of € 6.9 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 related to lawsuits and likely lawsuits with personnel who are no longer active within the company.

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.

Group equity still includes the dividend of € 6.9 million, which was distributed in May after approval by the Shareholders' Meeting on 23 April 2018. The dividend was € 0.086 per share, as proposed by the Board of Directors of Banca Sistema S.p.A. on 8 March. Its ex coupon date was 7 May 2018 and 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	**4,880**	**140,575**
Assumption of value of investments	-	(15,075)
Consolidated loss/equity	(163)	13,591
Consolidated equity	**4,717**	**139,091**
Equity attributable to non-controlling interests	-	(30)
Group equity	**4,717**	**139,061**

CAPITAL ADEQUACY

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

OWN FUNDS (€ ,000) AND CAPITAL RATIOS	31.03.2018	31.12.2017
Common Equity Tier 1 (CET1)	**129,082**	**125,767**
ADDITIONAL TIER 1	8,000	8,000
Additional Tier 1 capital (T1)	**137,082**	**133,767**
TIER 2	27,606	28,239
Total Own Funds (TC)	**164,688**	**162,006**
Total risk weighted assets	**1,097,112**	**1,058,017**
of which, credit risk	946,082	909,012
of which, operational risk	143,487	143,487
of which, market risk	3,916	2,402
of which, CVA	3,626	3,116
Ratio - CET1	11.8%	11.9%
Ratio - AT1	12.5%	12.6%
Ratio - TCR	15.0%	15.3%

Total own funds were € 164.7 million at 31 March 2018 and included the profit for the period, net of dividends estimated on the profit for the year, 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.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€ ,000)	Period ended 31.03.2018	Period ended 31.03.2017	€ CHANGE	% CHANGE
Net interest income	13,688	12,423	1,265	10.2%
Net fee and commission income	3,558	2,249	1,309	58.2%
Net trading income (expense)	(4)	(149)	145	n.a.
Gain from sales or repurchases of financial assets/liabilities	861	380	481	126.6%
Total income	**18,103**	**14,903**	**3,200**	**21.5%**
Net impairment losses on loans and receivables	(1,087)	488	(1,575)	-322.7%
Net financial income	**17,016**	**15,391**	**1,625**	**10.6%**
Personnel expense	(4,764)	(4,274)	(490)	11.5%
Other administrative expenses	(5,071)	(4,853)	(218)	4.5%
Net impairment losses on property and equipment/intangible assets	(74)	(77)	3	-3.9%
Other operating income (expense)	4	(6)	10	n.a.
Operating costs	**(9,905)**	**(9,210)**	**(695)**	**7.5%**
Gains (losses) on equity investments	(43)	-	(43)	n.a.
Pre-tax profit	**7,068**	**6,181**	**887**	**14.4%**
Income taxes for the year	(2,351)	(1,783)	(568)	31.9%
Profit for the period/year attributable to the owners of the parent	**4,717**	**4,398**	**319**	**7,3%**

The comparative figures represent a mere restatement of the statutory figures at 31 March 2017 in accordance with IFRS 9. Therefore, they do not represent the net amounts resulting from retroactive application of the aforementioned accounting standard and consequently are not perfectly comparable with each other.

The first quarter of 2018 ended with a profit of €4.7 million, up from the previous year, mainly as a result of the increase in net interest income. This result 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)	Period ended 31.03.2018	Period ended 31.03.2017	€ CHANGE	% CHANGE
Interest and similar income				
Loans and receivables portfolios	19,763	16,485	3,278	19.9%
Securities portfolio	-	26	(26)	-100.0%
Other	204	94	110	>100%
Financial liabilities	75	368	(293)	-79.6%
Total interest income	**20,042**	**16,973**	**3,069**	**18.1%**
Interest and similar expense				
Due to banks	(1,233)	(380)	(853)	>100%
Due to customers	(3,203)	(3,290)	87	-2.6%
Securities issued	(1,592)	(640)	(952)	>100%
Financial assets	(326)	(240)	(86)	35.8%
Total interest expense	**(6,354)**	**(4,550)**	**(1,804)**	**39.6%**
Net interest income	**13,688**	**12,423**	**1,265**	**10.2%**

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 factoring portfolios, which was higher than the increase in interest expenses.

Net of default interest from legal actions, the factoring contribution to interest income is higher than in the same period of the previous year. The profitability of factoring in the presence of higher average volumes is lower than in the same period of the previous year. The decrease in profitability is due to the increased competition which began in the previous year and the greater weight of tax receivables during the period. However, also this market was subject to greater competition.

The total contribution in terms of income of default interest from legal action at 31 March 2018 was € 4.8 million (€ 3.1 million in the first quarter of 2017):

- of which € 2.9 million deriving from allocations (2.0 million in the first quarter of 2017);
- of which € 1.9 million (€ 1.1 million in the first quarter of 2017) arising from the difference between the amount already collected in the period, equal to € 3 million (€ 1.7 million in the first quarter of 2017) and what had already been recognised on an accruals basis in previous years.

The amount of the stock of default interest from legal actions accrued at 31 March 2018, relevant for the allocation model, was € 98 million (€ 77 million at the end of the first quarter of 2017). Overall, the estimated amount of default interest accrued on the portfolio subject to legal action by the Bank at 31 March 2018 (including the portion for which a provision of € 98 million has been allocated), was € 138 million.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 2.6 million to € 4.1 million, whereas interest declined on the SME portfolios, which contributed € 0.6 million to the total, following the strategic decision to stop developing 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, vice-versa, interest income according to their sign, under the items "financial assets" and "financial liabilities", respectively.

Financial liabilities include the interest income from funding through REPOs.

Other interest income mainly includes income generated from hot money transactions and current accounts.

The cost of funding increased compared to 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 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 current expected rate of -40bps 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 31 March 2018 were largely composed of the negative yield on Italian government bonds.

NET FEE AND COMMISSION INCOME (€ ,000)	Period ended 31.03.2018	Period ended 31.03.2017	€ CHANGE	% CHANGE
Fee and commission income				
Collection activities	251	217	34	15.7%
Factoring activities	3,679	2,367	1,312	55.4%
Other	254	176	79	44.3%
Total fee and commission income	**4,184**	**2,760**	**1,424**	**51.6%**
Fee and commission expense				
Placement	(491)	(425)	(66)	15.5%
Other	(135)	(86)	(49)	57.0%
Total fee and commission expense	**(626)**	**(511)**	**(115)**	**22.5%**
Net fee and commission income	**3,558**	**2,249**	**1,309**	**58.2%**

Net fee and commission income of € 3.6 million increased by 58% due to the greater commissions from factoring. These should be considered together with interest income, since it makes no difference, under a management perspective, whether profit is taken in the interest area or under fee and commission income.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from the Public Administration are in line with the same period of the previous year, while other fee and commission income, which primarily includes commissions on collection and payment services and the keeping and management of current accounts, has decreased.

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 € 352 thousand (€ 261 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 and Austria.

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

RESULTS OF THE SECURITIES PORTFOLIO (€ ,000)	Period ended 31.03.2018	Period ended 31.03.2017	€ CHANGE	% CHANGE
Net trading income (expense)				
Realised gains (losses)	(4)	1	(5)	<100%
Valuation loss/gain	-	(150)	150	-100%
Total	**(4)**	**(149)**	**145**	**-97.3%**
Gain (loss) from sales or repurchases	**-**	**-**	**-**	**n.a.**
Gains from HTCS portfolio debt instruments	861	380	481	>100%
Total	**861**	**380**	**481**	**>100%**
Total profit from the securities portfolio	**857**	**231**	**626**	**>100%**

The profits generated by the proprietary portfolio made a greater contribution than in same period of the previous year due to the performance of market rates. Impairment losses on loans and receivables at 31 March 2018 amounted to € 1.1 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, although not material, the new method used upon adoption of IFRS 9, which is based on an "expected loss" model as opposed to the previously used "incurred loss" model, caused an increase in impairment losses on performing loans classified in stage 2.

The loss rate amounted to 22 bps.

PERSONNEL EXPENSE (€,000)	Period ended 31.03.2018	Period ended 31.03.2017	€ CHANGE	% CHANGE
Wages and salaries	(4,477)	(4,003)	(474)	11.8%
Social security contributions and other costs	(74)	(69)	(5)	7.2%
Directors' and statutory auditors' remuneration	(213)	(202)	(11)	5.4%
Total	**(4,764)**	**(4,274)**	**(490)**	**11.5%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 144 a 162, an increase in gross annual salaries, and an additional cost component related to the signed non-compete agreement.

The following table shows the number of staff members:

FTE	31.03.2018	31.12.2017	31.03.2017
Senior managers	19	19	19
Middle managers (QD3 and QD4)	40	39	43
Other personnel	110	98	82
Total	**169**	**156**	**144**

OTHER ADMINISTRATIVE EXPENSES (€ ,000)	Period ended 31.03.2018	Period ended 31.03.2017	€ CHANGE	% CHANGE
IT expenses	(1,185)	(1,121)	(64)	5.7%
Consultancy	(551)	(762)	211	-27.7%
Servicing and collection activities	(625)	(431)	(194)	45.0%
Rent and related fees	(579)	(478)	(101)	21.1%
Indirect taxes and duties	(398)	(329)	(69)	21.0%
Resolution Fund	(685)	(655)	(30)	4.6%
Car hire and related fees	(203)	(202)	(1)	0.5%
Expense reimbursement and entertainment	(169)	(197)	28	-14.2%
Other	(136)	(187)	51	-27.3%
Vehicle expenses	(93)	(57)	(36)	63.2%
Insurance	(91)	(85)	(6)	7.1%
Advertising	(96)	(86)	(10)	11.6%
Audit fees	(78)	(70)	(8)	11.4%
Infoprovider expenses	(65)	(72)	7	-9.7%
Stationery and printing	(40)	(45)	5	-11.1%
Telephone and postage expenses	(50)	(54)	4	-7.4%
Maintenance of movables and real properties	(27)	(22)	(5)	22.7%
Total	**(5,071)**	**(4,853)**	**(218)**	**4.5%**

Other administrative expenses rose by 4.5% on the same period in the previous year due to the expense items described as follows.

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.

Consultancy costs include a portion of the project costs correlated with new initiatives in 2017 and legal expenses net of recovery costs for credit collection activities through enforceable injunctions. The decrease in this item was mainly due to the costs relating to the rating process for the ABS issued in the previous year's securitisation.

Accounting reconciliation of the reclassified figures at 31 December 2017

Following below is the table reconciling the financial statements published in the consolidated financial statements at 31 December 2017 and the financial statement templates according to the new Bank of Italy Circular 262. Therefore, they do not show the net amounts resulting from retroactive application of the new financial reporting 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	-	-	-	-	-	-	-	-	-	-	-	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**

An equity reconciliation statement is shown below with a description of the impact from application of IFRS 9:

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 million (€ 224 million 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.

RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

- suitable supervision by relevant group 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.

Management 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 monitor 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 Committee and Risk Management 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 Management 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.

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

With regard to protecting against credit risk, along with the well-established second level controls and the periodic monitoring put in place by the Risk Management Department, a specific project has been implemented related to the introduction of the new IFRS 9 "Financial Instruments" which will be mandatory starting from 1 January 2018. The objective of this initiative is to determine the qualitative and quantitative impact on the financial statements, and identify and implement the necessary organisational, internal policy and applicable IT system changes.

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

Two new branches were opened in Naples and Palermo on 9 April 2018, dedicated exclusively to the collateralised lending business.

After the resolution passed by the Board of Directors on 27 July 2017, which authorised reopening of the TIER II subordinated bond issued on 30 March 2017 with a 10-year maturity, six-month EURIBOR + 450bps coupon (and early redemption option in case of a regulatory event), its reopening was settled for € 3 million on 16 April. When added to the previous reopening events, this brings the issue to a total of € 19.5 million.

On 10 April, the Board of Directors of Banca Sistema approved the 2018-2020 Strategic Plan. The three-year plan is built on solid foundations represented by the core business and, at the same time, calls for the development of new income flows consistent with the overall risk appetite of the Bank. The Plan is based on the following three pillars: 1) shaping the core factoring business to drive further growth, including through initiatives to support delivery of more innovative, tailor-made transactions; 2) consolidating growth in consumer credit, in particular salary- and pension-backed loans (CQS/CQP), as a parallel core business line; and 3) implement a divisional model.

The Ordinary Shareholders' Meeting of Banca Sistema, held on 23 April 2018, resolved to approve the separate Financial Statements at 31 December 2017 of Banca Sistema and pay a dividend of € 0.086 per share for 2017.

After the reporting date of this condensed interim consolidated financial report, 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.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

Lending continued to grow at the beginning 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, 11 May 2018

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31.03.2018	31.12.2017 (*)
10.	Cash and cash equivalents	199	161
20.	Financial assets measured at fair value through profit or loss	844	1,201
	a) financial assets held for trading	*844*	*1,201*
30.	Financial assets measured at fair value through other comprehensive income	453,501	285,610
40.	Financial assets measured at amortised cost	2,064,404	1,970,495
	a) loans and receivables with banks	*24,652*	*36,027*
	b) loans and receivables with customers	*2,039,752*	*1,934,468*
70.	Equity investments	1,297	1,190
90.	Property and equipment	24,772	24,272
100.	Intangible assets	1,788	1,790
	of which:		
	goodwill	*1,786*	*1,786*
110.	Tax assets	8,271	10,198
	a) current	*1,571*	*3,471*
	b) deferred	*6,700*	*6,727*
130.	Other assets	16,604	14,316
	Total Assets	**2,571,680**	**2,309,233**

(*) Restatement of the net amounts of the consolidated financial statements at 31 December 2017 in compliance with the new Bank of Italy Circular 262.

	Liabilities and equity	31.03.2018	31.12.2017 (*)
10.	Financial liabilities measured at amortised cost	2,326,279	2,083,435
	a) due to banks	*566,194*	*517,533*
	b) due to customers	*1,477,072*	*1,284,132*
	c) securities issued	*283,013*	*281,770*
20.	Financial liabilities held for trading	10,219	-
60.	Tax liabilities	10,331	10,118
	b) deferred	*10,331*	*10,118*
80.	Other liabilities	76,660	71,996
90.	Post-employment benefits	2,237	2,172
100.	Provisions for risks and charges:	6,863	6,745
	c) other provisions for risks and charges	*6,863*	*6,745*
120.	Valuation reserves	214	367
150.	Reserves	85,378	58,807
160.	Share premium	39,247	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	4,717	26,793
	Total liabilities and equity	**2,571,680**	**2,309,233**

(*) Restatement of the net amounts of the consolidated financial statements at 31 December 2017 in compliance with the new Bank of Italy Circular 262.

INCOME STATEMENT

(Amounts in thousands of Euro)

	Items	Period ended 31.03.2018	Period ended 31.03.2017 (*)
10.	Interest and similar income	20,042	16,973
	of which: interest income calculated with the effective interest method	20,042	16,973
20.	Interest and similar expense	(6,354)	(4,550)
30.	**Net interest income**	**13,688**	**12,423**
40.	Fee and commission income	4,184	2,760
50.	Fee and commission expense	(626)	(511)
60.	**Net fee and commission income**	**3,558**	**2,249**
80.	Net trading income (expense)	(4)	(149)
100.	Gain from sales or repurchases of:	861	380
	b) financial assets measured at fair value through other comprehensive income	*861*	*380*
120.	**Total income**	**18,103**	**14,903**
130.	Net impairment losses on:	(1,087)	488
	a) financial assets measured at amortised cost	*(1,087)*	*488*
150.	**Net financial income**	**17,016**	**15,391**
190.	Administrative expenses	(9,835)	(9,127)
	a) personnel expense	*(4,764)*	*(4,274)*
	b) other administrative expenses	*(5,071)*	*(4,853)*
210.	Net impairment losses on property and equipment	(72)	(65)
220.	Net impairment losses on intangible assets	(2)	(12)
230.	Other operating income (expense)	4	(6)
240.	**Operating costs**	**(9,905)**	**(9,210)**
250.	Gains (losses) on equity investments	(43)	-
290.	**Pre-tax profit from continuing operations**	**7,068**	**6,181**
300.	Income taxes	(2,351)	(1,783)
310.	**Post-tax profit (loss) from continuing operations**	**4,717**	**4,398**
330.	**Profit for the period**	**4,717**	**4,398**
350.	**Profit for the period attributable to the owners of the parent**	**4,717**	**4,398**

(*) Restatement of the net amounts of the consolidated financial statements at 31 December 2017 in compliance with the new Bank of Italy Circular 262.

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		Period ended 31.03.2018	31.12.2017
10.	**Profit (loss) for the period**	**4,717**	**26,793**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
20.	Equity instruments measured at fair value through other comprehensive income	-	-
30.	Financial liabilities measured at fair value through profit and loss (changes in own credit rating)	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	28	37
80.	Non-current assets held for sale	-	-
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	(256)	(95)
150.	Non-current assets held for sale	-	-
160.	Share of valuation reserves of equity-accounted investments:	-	-
170.	**Total other comprehensive income (expense), net of income tax**	**(228)**	**(58)**
180.	**Comprehensive income (Items 10+170)**	**4,489**	**26,735**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**4,489**	**26,735**

STATEMENTS OF CHANGES IN EQUITY AS AT 31/03/2018

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the year										
							Operations on shareholders' 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 for the year ended 31.03.2018	**Equity attributable to the owners of the parent at 31.03.2018**	**Equity attributable to non-controlling interests at 31.03.2018**
Share capital:																
a) ordinary shares	**9,651**	-	9,651		-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,268**	-	39,268	-	-	(21)	-	-	-	-	-	-	-	-	**39,247**	-
Reserves	**58,807**	-	58,807	19,877	6,916	(222)	-	-	-	-	-	-	-	-	**85,378**	-
a) income-related	**59,133**	-	59,133	19,877	6,916	(213)	-	-	-	-	-	-	-	-	**85,713**	-
b) other	**(326)**	-	(326)	-	-	(9)	-	-	-	-	-	-	-	-	**(335)**	-
Valuation reserves	**367**	-	367	-	-	75	-	-	-	-	-	-	-	(228)	**214**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(149)**	-	(149)	-	-	3	-	-	-	-	-	-	-	-	**(146)**	-
Profit for the period	**26,793**	-	26,793	(19,877)	(6,916)	-	-	-	-	-	-	-	-	4,717	**4,717**	-
Equity attributable to the owners of the parent	**134,737**	-	**134,737**	**-**	-	**(165)**	-	-	-	-	-	-	-	**4,489**	**139,061**	**-**
Equity attributable to non-controlling interests	**30**	-	**30**	**-**	-	-	-	-	-	-	-	-	-	**-**	**-**	**30**

Group equity still includes the dividend of € 6,916 thousand, which was distributed in May 2018.

STATEMENT OF CHANGES IN EQUITY AS AT 31/03/2017

Amounts in thousands of Euro

	Balance at 31.12.2016	Change in opening balances	Balance at 1.1.2017	Allocation of prior year profit: Reserves	Allocation of prior year profit: Dividends and other allocations	Changes during the year: Changes in reserves	Operations on shareholders' equity: Issue of new shares	Operations on shareholders' equity: Repurchase of treasury shares	Operations on shareholders' equity: Extraordinary dividend distribution	Operations on shareholders' equity: Change in equity instruments	Operations on shareholders' equity: Derivatives on treasury shares	Operations on shareholders' equity: Stock Options	Operations on shareholders' equity: Changes in equity investments	Comprehensive income for the year ended 31.03.2017	**Equity attributable to the owners of the parent at 31.03.2017**	**Equity attributable to non-controlling interests at 31.03.2017**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	**20**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium	**39,352**	-	39,352	-	-	(21)	-	-	-	-	-	-	-	-	**39,331**	-
Reserves	**39,608**	-	39,608	19,201	6,112	(5)	-	-	-	-	-	-	-	-	**64,916**	-
a) income-related	**39,918**	-	39,918	19,201	6,112	(5)	-	-	-	-	-	-	-	-	**65,226**	-
b) other	**(310)**	-	(310)	-	-	-	-	-	-	-	-	-	-	-	**(310)**	-
Valuation reserves	**425**	-	425	-	-	-	-	-	-	-	-	-	-	(117)	**307**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(52)**	-	(52)	-	-	-	-	(10)	-	-	-	-	-	-	**(42)**	-
Profit for the period	**25,313**	-	25,313	(19,201)	(6,112)	-	-	-	-	-	-	-	-	4,398	**4,398**	-
Equity attributable to the owners of the parent	**114,296**	-	**114,296**	**-**	-	**(26)**	-	**(10)**	-	-	-	-	-	**4,188**	**118,561**	-
Equity attributable to non-controlling interests	**20**	-	**20**	**-**	-	**-**	-	**-**	-	-	-	-	-	**-**	**-**	**20**

STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	30.03.2018	31.03.2017
A. OPERATING ACTIVITIES		
1. Operations	**(3,564)**	**(2,607)**
▪ interest income collected	20,042	16,355
▪ interest expense paid	(6,354)	(3,932)
▪ net fees and commissions	3,558	2,250
▪ personnel expense	468	(2,322)
▪ other expenses	(5,068)	(4,859)
▪ taxes and duties	(16,210)	(10,099)
2. Cash flows generated by (used for) financial assets	**(248,567)**	**(193,620)**
▪ financial assets held for trading	353	(47)
▪ financial assets measured at fair value through other comprehensive income	(167,182)	(56,680)
▪ financial assets measured at amortised cost	(94,996)	(146,104)
▪ other assets	13,258	9,211
3. Cash flows generated by (used for) financial liabilities	**252,891**	**196,673**
▪ financial liabilities measured at amortised cost	242,844	174,703
▪ financial liabilities held for trading	-	-
▪ financial liabilities measured at fair value through profit and loss	10,219	14,641
▪ other liabilities	(172)	7,329
Net cash flows generated by operating activities	**760**	**446**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**46**
▪ sales of equity investments	-	33
▪ dividends from equity investments	-	13
▪ sales of property and equipment	-	-
▪ sales of intangible assets	-	-
▪ sales of subsidiaries and business lines	-	-
2. Cash flows used in	**(722)**	**(458)**
▪ purchases of equity investments	(150)	-
▪ purchases of property and equipment	(572)	(458)
▪ purchases of intangible assets	-	-
▪ sales of subsidiaries and business lines	-	-
Net cash flows used in investing activities	**(722)**	**(412)**
C. FINANCING ACTIVITIES		
▪ issues/repurchases of treasury shares	-	10
▪ issues/repurchases of equity instruments	-	-
▪ dividend and other distributions	-	-
▪ acquisitions and disposals of subsidiaries and other business units	-	-
Net cash flows used in financing activities	**-**	**10**
NET CASH FLOWS FOR THE PERIOD	**38**	**44**

RECONCILIATION - ITEMS		
Cash and cash equivalents at the beginning of the year	161	98
Total net cash flows for the period	38	44
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	199	142

ACCOUNTING POLICIES

GENERAL BASIS OF PREPARATION

This interim consolidated financial report at 31 March 2018 was drawn up in accordance with art. 154-ter of Legislative Decree no. 58 of 24 February 1998 and Legislative Decree No. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission, as established by Regulation (EC) No 1606 of 19 July 2002, from which there were no derogations.

The specific financial reporting standards adopted have been modified compared with the consolidated financial statements at 31 December 2017, following the adoption of the new IFRS 9 and IFRS 15 as of 1 January 2018.

The interim consolidated financial report at 31 March 2018 comprises the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the interim consolidated financial report and are accompanied by a Directors' Report on management performance, the financial results achieved and the financial position of the Banca Sistema Group.

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

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

This interim consolidated financial report includes Banca Sistema S.p.A. and the companies directly or indirectly controlled or connected with it. Compared with the situation as at 31 December 2017, no changes to the scope of consolidation have been reported.

This interim consolidated financial report at 31 March 2018 is accompanied by a statement by the manager in charge of financial reporting, pursuant to art. 154-bis of the Consolidated Law on Finance. The consolidated financial statements have been subject to review.

Subsequent events

After the reporting date of this condensed interim consolidated financial report, there were no events worthy of mention in the Accounting Policies 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 relevance of information, as well as the general principle of the precedence of economic substance over legal form.

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

The use of estimates is essential to preparing the consolidated 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 historic data for collections, expected cash flows and the related expected recovery times, the existence of signs 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 consolidated 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 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" ("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 and 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 realize 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 in the scope of Irrevocable Commitments and Guarantees Issued;
- 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, it is required that for the loans and receivables classified in stage 1, they consider the expected losses at 1 year, 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. According to the instructions given in the report accompanying issuance of Circular no. 262 "Bank financial statements: forms and drafting rules" - version 5 of 22 December 2017, the banks that claim exemption from the obligation to restate their comparative values will nonetheless have to include, in the first financial statements prepared pursuant to the update to Circular no. 262, a reconciliation statement showing the method used and provide a reconciliation between the data of the last approved financial statements and 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 million (€ 183 million 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.

A detailed table is provided 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 loans - Stage 1	-	1,619,590	1,619,590
Performing loans - 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 exposures to 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 credits	-	(23)	(23)
Net exposure	**645**	**-**	**622**
Gross exposures for loans and receivables with banks	-	-	-
Impairment losses on endorsement credits	-	(9)	(9)
Net exposure	**-**	**-**	**(9)**

The following tables shows 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)	31.03.2018	31.12.2017 (A)	IFRS 9 impact from classification and measurement (B)	IFRS 9 impact from impairment (C)	01.01.2018 (A+B+C)
Cash and cash equivalents	199	161	-	-	161
Financial assets measured at fair value through profit or loss	844	1,201	-	-	1,201
Financial assets measured at fair value through other comprehensive income	453,501	285,610	84,965	(61)	370,514
Financial assets measured at amortised cost	2,064,404	1,970,495	(84,178)	(273)	1,886,044
a) loans and receivables with banks	*24,652*	*36,027*	-	-	*36,027*
b) loans and receivables with customers	*2,039,752*	*1,934,468*	*(84,178)*	*(273)*	*1,850,017*
Equity investments	1,297	1,190	-	-	1,190
Property and equipment	24,772	24,272	-	-	24,272
Intangible assets	*1,788*	*1,790*	-	-	*1,790*
Tax assets	8,271	10,198	-	110	10,308
Other assets	16,604	14,316	-	-	14,316
Total Assets	**2,571,680**	**2,309,233**	**787**	**(224)**	**2,309,796**

STATEMENT OF FINANCIAL POSITION - LIABILITIES (in thousands of Euro)	31.03.2018	31.12.2017 (A)	IFRS 9 impact from classification and measurement (B)	IFRS 9 impact from impairment (C)	01.01.2018 (A+B+C)
Financial liabilities measured at amortised cost	2,326,279	2,083,435	-	-	2,083,435
a) due to banks	*566,194*	*517,533*	-	-	*517,533*
b) due to customers	*1,477,072*	*1,284,132*	-	-	*1,284,132*
c) securities issued	*283,013*	*281,770*	-	-	*281,770*
Financial liabilities held for trading	10,219	-	-	-	-
Tax liabilities	10,331	10,118	260	-	10,378
Other liabilities	76,660	71,996	-	-	71,996
Post-employment benefits	2,237	2,172	-	-	2,172
Provisions for risks and charges	6,863	6,745	-	-	6,745
Valuation reserves	214	367	527	-	894
Reserves	85,378	58,807	-	(224)	58,583
Share premium	39,247	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 (loss) for the period (+/-)	4,717	26,793	-	-	26,793
Total liabilities and equity	**2,571,680**	**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 Net 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.

Other aspects

The interim consolidated financial report was approved on 11 May 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 designate 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 settlement date for debt securities and equity instruments, at disbursement date for loans and at trade 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 revenues 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 recorded at fair value.

The effects of the application of this measurement criterion are recorded 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 valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equities and derivative instruments that have equities as underlying 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 securities 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 net income (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 (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 a value adjustment 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/reversals of impairment losses 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 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 adjustments recognised in profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while the performing loans in stage 2 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 non-performing 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. Non-performing assets include financial instruments classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/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 registration of impairment, reversals are recorded in the income statement. The reversal of impairment losses may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Reversals of impairment losses with time value effects are recognised in net interest income.

Derecognition criteria

Loans and receivables are derecognised from the consolidated 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 reversals of impairment losses 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 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 financial year, depreciation is calculated on a daily basis until the date of transfer and/or disposal.

At the end of each year, if there is any evidence that property 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 to 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, a reversal of impairment losses 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 the 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 equity components acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the equity elements acquired, it is recognised directly to the income statement.

Measurement criteria

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 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 amounts Due to banks, amounts 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 revenue 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

Held-for-trading financial liabilities are derecognised when the contractual rights on the related financial 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 measured at fair value through profit and loss

At the reporting date, the Group did not hold any

"Financial liabilities measured at fair value through profit and 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 consolidated 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 in the statement of financial position, 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 the "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 reports 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 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 year-end 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 consolidated financial statements as payables and receivables. In particular, the previously mentioned "repurchase agreements" and "securities lending" transactions are recognised in the consolidated financial statements as payables for the spot price received, while that 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 from 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-type transactions. Underlying the definition of fair value in fact is the presumption that the company is in operation, and that it has no intention or need to liquidate, significantly reduce the volume of its assets, or engage in a transaction at unfavourable terms.
In the case of financial instruments listed in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is considered to be listed in an active market if the quoted prices are readily and regularly available from a price list, trader, intermediary, industrial sector, agencies that determine prices, or regulatory authority and said prices represent actual market transactions that regularly take place in normal dealings.
In the absence of an active market, the fair value is determined using measurement techniques generally accepted in financial practice, aimed at establishing what price the financial instrument would have had, on the valuation date, in a free exchange between knowledgeable and willing parties. Such measurement techniques require, in the hierarchical order in which they are presented, the use:

- 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 valuation is not based on prices of the same financial instrument subject to valuation, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model).

  The use of this approach translates into the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to valuation.

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

The acquisition date is the date on which control 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 operations;
- 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 body'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.

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The undersigned, Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby states, having taken into account the provisions of art. 154-bis, paragraph 2, of Legislative decree no. 58 of 24 February 1998, that the accounting information in this interim consolidated financial report at 31 March 2018 is consistent with the company documents, books and accounting records.

Milan, 11 May 2018

Alexander Muz

Manager in charge of financial reporting

ATTACHMENT

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 using the continuing values method 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**

CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 31 MARCH 2018

BANCA SISTEMA
CONTEMPORARY BANK