



**INTERIM CONSOLIDATED
FINANCIAL REPORT**

AT 30 JUNE 2023

BANCA
SISTEMA

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FINANCIAL REPORT
AT 30 JUNE 2023**

BANCA SISTEMA GROUP

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DIRECTORS' REPORT AT 30 JUNE 2023

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

BOARD OF DIRECTORS

Chairperson	Ms. Luitgard Spögl
Deputy Chairperson	Mr. Giovanni Puglisi
CEO and General Manager	Mr. Gianluca Garbi
Directors	Mr. Daniele Pittatore
	Ms. Carlotta De Franceschi (Independent)
	Mr. Daniele Bonvicini (Independent)
	Ms. Maria Leddi (Independent)
	Ms. Francesca Granata (Independent)
	Mr. Pier Angelo Taverna (Independent)

BOARD OF STATUTORY AUDITORS

Chairperson	Ms. Lucia Abati
Standing Auditors	Ms. Daniela Toscano
	Mr. Luigi Ruggieri
Alternate Auditors	Mr. Marco Armarolli
	Ms. Daniela D'Ignazio

INDEPENDENT AUDITORS

BDO Italia S.p.A.

MANAGER IN CHARGE OF FINANCIAL REPORTING

Mr. Alexander Muz

COMPOSITION OF THE INTERNAL COMMITTEES

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

Chairperson	Mr. Daniele Bonvicini
Members	Ms. Maria Leddi
	Mr. Pier Angelo Taverna
	Mr. Daniele Pittatore

APPOINTMENTS COMMITTEE

Chairperson	Ms. Carlotta De Franceschi
Members	Ms. Francesca Granata
	Mr. Pier Angelo Taverna

REMUNERATION COMMITTEE

Chairperson	Ms. Francesca Granata
Members	Mr. Giovanni Puglisi
	Ms. Carlotta De Franceschi

ETHICS COMMITTEE

Chairperson	Mr. Giovanni Puglisi
Members	Ms. Maria Leddi
	Ms. Carlotta De Franceschi

SUPERVISORY BODY

Chairperson	Ms. Lucia Abati
Members	Mr. Daniele Pittatore
	Mr. Franco Pozzi

FINANCIAL HIGHLIGHTS AT 30 JUNE 2023

The Banca Sistema Group comprises the Parent, Banca Sistema S.p.A., with registered office in Milan, the subsidiaries Kruso Kapital S.p.A., Largo Augusto Servizi e Sviluppo S.r.l., the Greek company Ready Pawn Single Member S.A. (hereinafter also referred to as ProntoPegno Greece), a wholly owned subsidiary of Kruso Kapital S.p.A., and Specialty Finance Trust Holdings Limited (a company incorporated under UK Law placed in liquidation in December 2021).

The scope of consolidation also includes the auction house Art-Rite S.r.l. (wholly owned by Kruso Kapital and outside the Banking Group), the Spanish Joint Venture EBNSistema Finance S.L. and the following special purpose securitisation vehicles whose receivables are not subject to derecognition: Quinto Sistema Sec. 2019 S.r.l., Quinto Sistema Sec. 2017 S.r.l. and BS IVA SPV S.r.l. The parent, Banca Sistema S.p.A., is a company registered in Italy, at Largo Augusto 1/A, ang. via Verziere 13 - 20122 Milan.

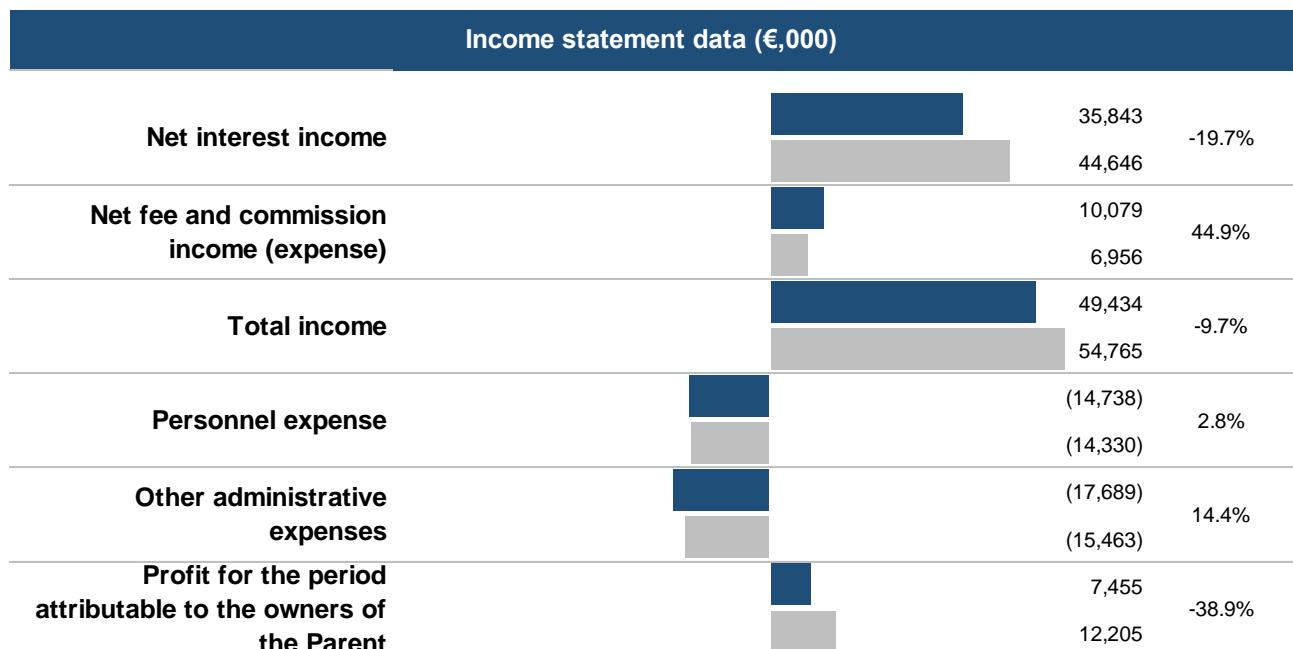
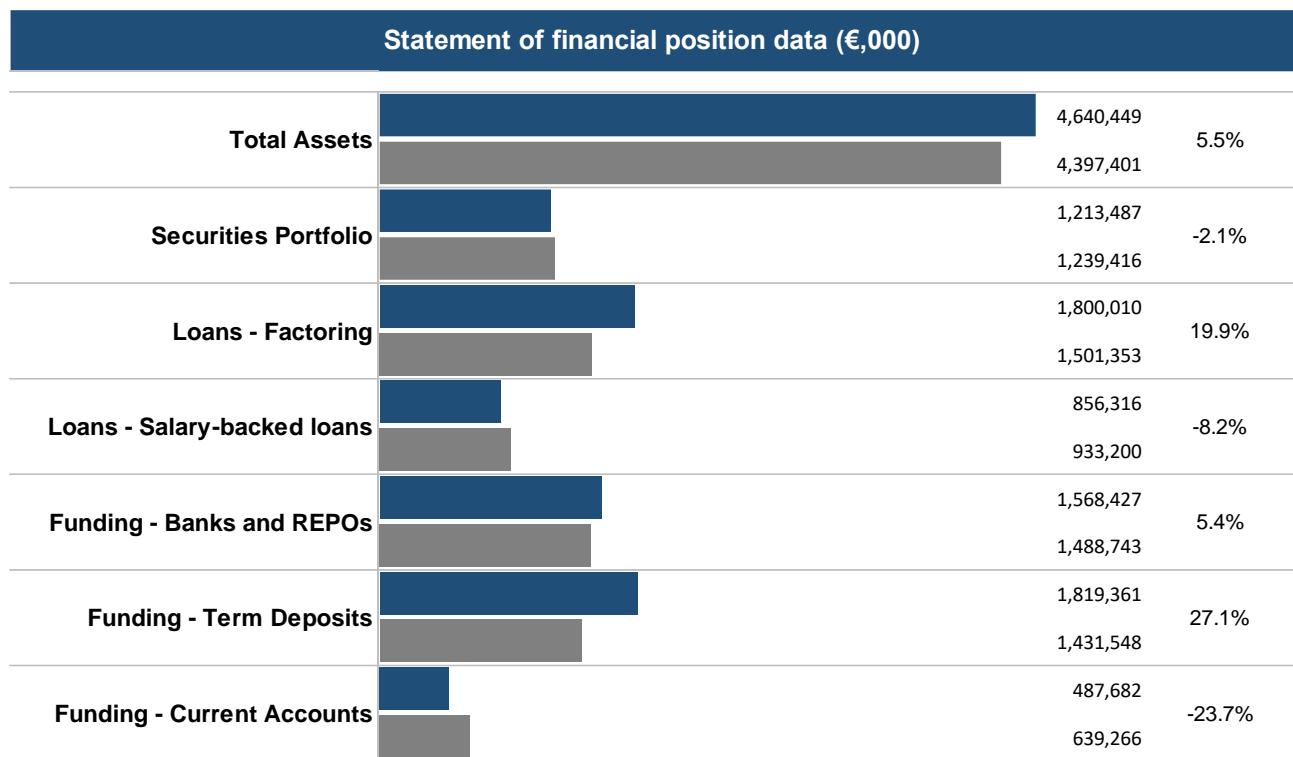
Operations are mainly carried out in the Italian market, although the Bank is also active in the Spanish, Portuguese and Greek markets, as described below, in addition to funding in Germany and Austria.

The Parent directly carries out factoring activities (mainly with the Italian public administration) and operates in the salary- and pension-backed loans segment through direct origination and through the purchase of receivables generated by other specialist operators, distributing its product through a network of single-company agents and specialised brokers located throughout Italy. Through its subsidiary Kruso Kapital S.p.A., the Group carries out collateralised lending activities in Italy through a network of branches, and in Greece through the ProntoPegno Greece subsidiary, as well as auction house activities. The Group also provides factoring services in Spain and Portugal through the joint venture EBNSistema Finance.

The Parent, Banca Sistema S.p.A., is listed on the Euronext STAR Milan segment of the Euronext Growth Milan market of Borsa Italiana.

KEY INDICATORS

30-Jun-23 31-Dec-22 30-Jun-22



SIGNIFICANT EVENTS FROM 1 JANUARY TO 30 JUNE 2023

On 18 January 2023, the Bank of Italy, following the measure of 5 May 2022, by which the Bank was notified of additional capital requirements with respect to the minimum capital ratios required by current regulations, informed the Bank not to adopt a new decision on capital as a result of the 2022 SREP (Supervisory Review and Evaluation Process) cycle.

On 27 January 2023, a member of the Internal Control and Risk Management Committee was replaced, with Mr Pier Angelo Taverna, an independent and non-executive director, being appointed to replace Ms Francesca Granata, an independent and non-executive director, who is already a member of the Appointments Committee and the Remuneration Committee.

The Board of Directors of Kruso Kapital (in which Banca Sistema holds a 75% equity interest) approved the start of the process to list the company on the Euronext Growth Market of Borsa Italiana S.p.A. The listing could take place in 2023 depending on market conditions.

On 27 February 2023, the Bank of Italy started an inspection at the Bank relating to the "Evolution of Liquidity Risk Exposure and Related Operational Safeguards", the results of which were notified on 23 June. The inspection was concluded without the opening of sanctioning procedures. The Bank, which had already acknowledged certain requests during the inspection, communicated the relevant response to the Supervisory Authority.

The Ordinary Shareholders' Meeting of Banca Sistema, which was held on single call on 28 April 2023, resolved to approve the Separate Financial Statements at 31 December 2022 and to allocate a dividend of € 5.2 million, corresponding to € 0.065 per ordinary share, paid on 10 May 2023.

FACTORING

BANCA SISTEMA AND FACTORING ACTIVITIES

Banca Sistema was one of the pioneers in the factoring of receivables from the Public Administration, initially by purchasing receivables from suppliers to the public health sector, subsequently gradually expanding the business to other sectors of this niche, to include tax receivables and receivables from the football sector. Since the project started, the Bank has been able to grow in the original factoring business with a prudent risk management, and to support businesses (from large multinationals to small and medium-sized enterprises) through the provision of financial and collection services, thus contributing to the businesses' growth and consolidation. Since December 2020, Banca Sistema has also been operating in Spain - through the company EBNSISTEMA Finance, which it owns together with the Spanish banking partner EBN Banco - mainly in the factoring segment for receivables from the Spanish Public Administration, specialising in the purchase of receivables from entities in the public health sector. At the end of the first half of 2023, EBNSISTEMA's factoring turnover in the market reached € 72 million (€ 86 million at the end of the first half of 2022).

The Bank offers SACE and MCC-guaranteed loans to its factoring customers and purchases "Eco-Sisma 110% bonus" tax credits on a marginal basis.

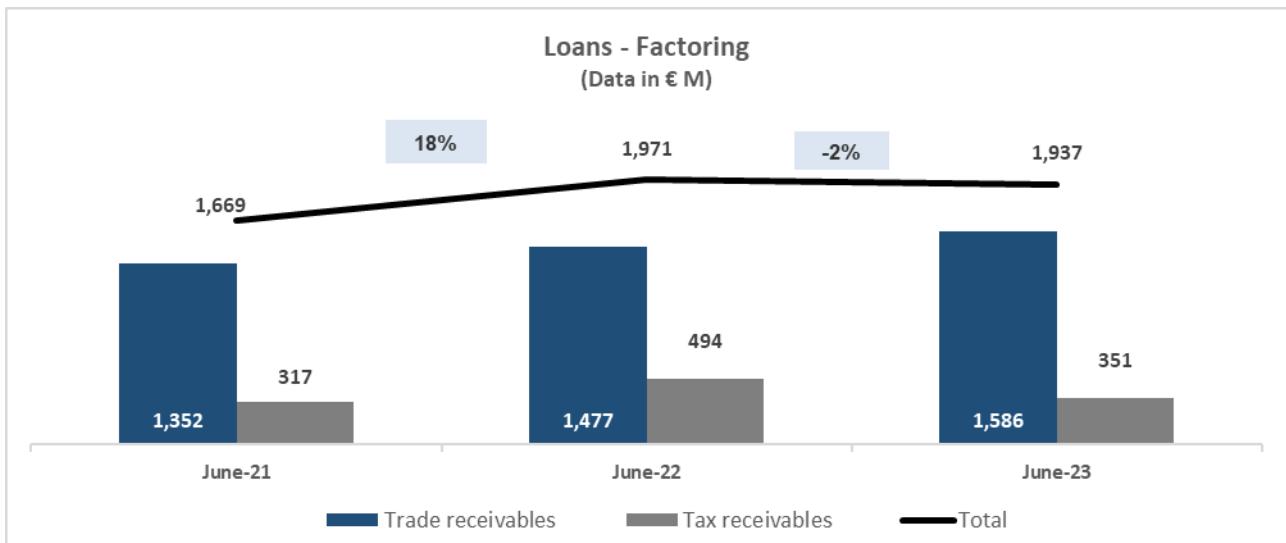
The following table shows the factoring volumes by product type:

Product (millions of Euro)	First Half of 2023	First Half of 2022	€ Change	% Change
Trade receivables	2,143	1,595	548	34.4%
<i>of which, without recourse</i>	1,645	1,169	476	40.7%
<i>of which, with recourse</i>	498	426	72	17.0%
Tax receivables	334	501	(167)	-33.4%
<i>of which, without recourse</i>	334	501	(167)	-33.4%
<i>of which, with recourse</i>	-	-	-	n.a.
Total	2,477	2,096	381	18.2%

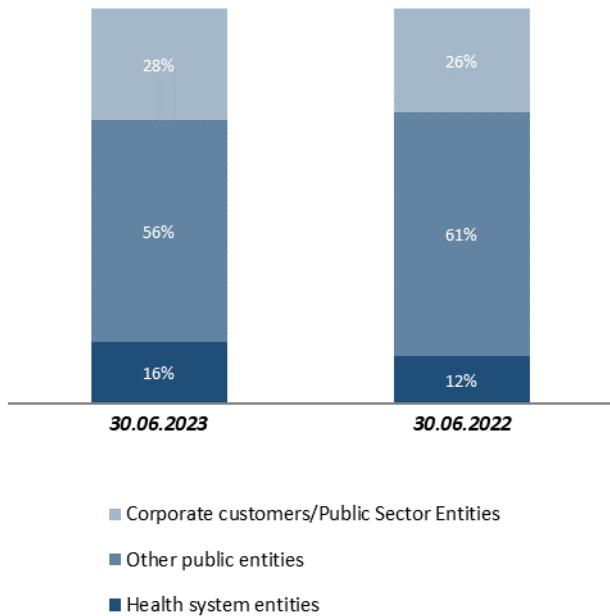
Volumes were generated through both its own internal commercial network and through other intermediaries with which the Group has entered into distribution agreements.

Factoring has proven to be the ideal tool both for small and medium-sized enterprises to finance their working capital and thus trade receivables, and for large companies, such as multinationals, to improve their net financial position, mitigate country risk and receive solid support in servicing and collection activities.

Loans amounted to € 2,477 million at 30 June 2023 (management figure), up 18.2% from € 2,096 million at 30 June 2022.



The following chart shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 30 June 2023 and 2022. The Group's core factoring business remains the Public Administration entities segment.



Volumes related to the management of third-party portfolios amounted to € 304 million (an increase compared to the € 246 million recognised in the previous year).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

The market for salary- and pension-backed loans slowed down significantly in the second quarter of 2023, contracting by more than 6% in April and 9% in May, and reverting back in June to break even overall in the first half of the year compared to last year (source: Assofin).

It is likely that the rise in rates, which, according to the quarterly survey of market Average Overall Effective Rates (AOER) published by the Bank of Italy, have increased by more than 100 bps in the last two quarters surveyed and by a total of over 140 bps since the start of the ECB's monetary policy measures, is manifesting its effects in terms of limiting the possibility of refinancing outstanding loans and reducing the amount financed in relation to the gross amount, causing consumer credit to perform erratically.

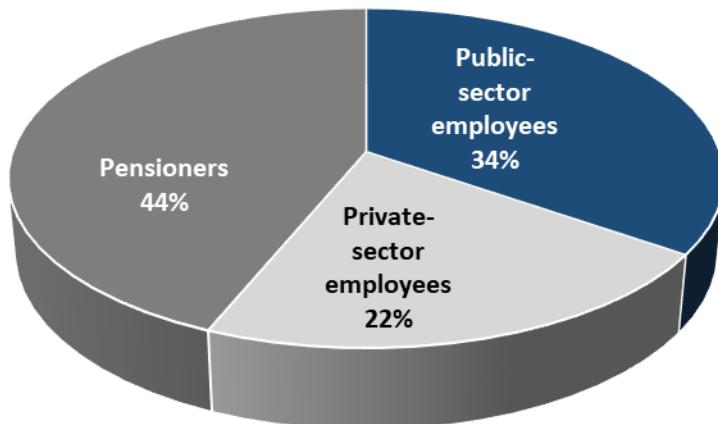
A total of € 40 million of financed capital was originated, totalling € 77 million since the beginning of the year. Disbursements are down 26% compared to last year, excluding the effect of the acquisition of the BPM portfolio in 2022. The difference is due to a more decisive and earlier-than-market approach in adjusting rates, which slowed down the flow of transactions particularly in the distribution channels most exposed to price competition (credit brokers and intermediaries operating via the telephone channel).

Outstanding capital fell from € 966 million in June 2022 to € 856 million at 30 June 2023, in line with projections that considered the reduction in the without recourse portfolio which was not replenished by new purchases in the first half of the year and the sale of a loans and receivables portfolio to a banking investor concluded during the quarter as part of the drive to optimise sources of refinancing of the Division's assets.

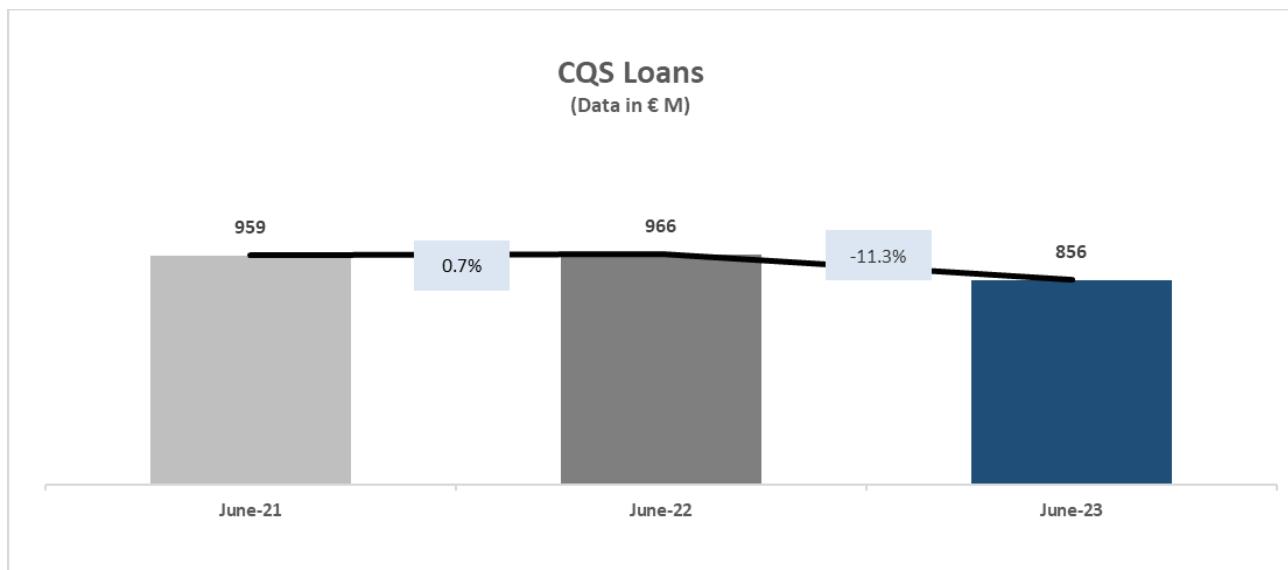
	First Half of 2023	First Half of 2022	€ Change	% Change
No. of applications (#)	3,771	13,462	(9,691)	-72.0%
<i>of which originated</i>	3,771	4,588	(817)	-17.8%
Volumes disbursed (millions of Euro)	77	215	(138)	-64.3%
<i>of which originated</i>	77	104	(27)	-26.0%

Loans are split between private-sector employees (22%), pensioners (44%) and public-sector employees (34%). Therefore, over 78% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

CQ Loans - Breakdown



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



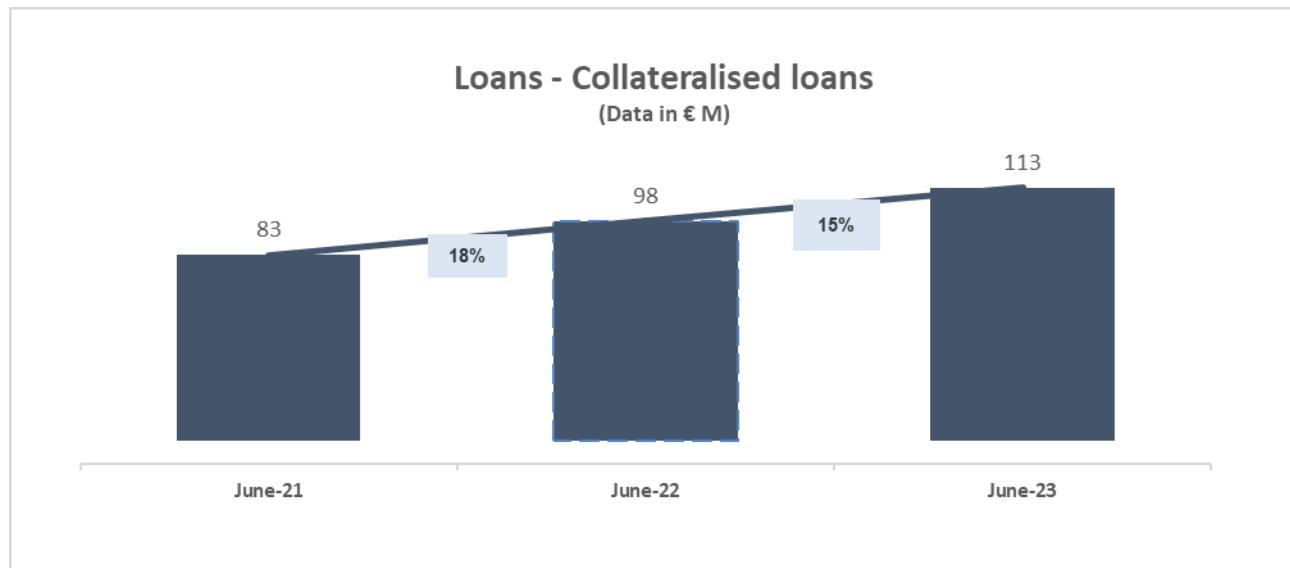
COLLATERALISED LENDING AND KRUSO KAPITAL

The first half of 2023 saw growth of 11% in business in Italy, with volumes of approximately € 98.5 million (€ 89 million in the first half of 2022), including € 49 million from renewals. At 30 June 2023, the Group had about 65.9 thousand policies, representing total loans of € 113 million, up 15% from 30 June 2022 (€ 98 million).

In the first half of 2023, 25 collateralised loan auctions were carried out in Italy.

The Group also strengthened its back-office structure thanks to the creation of a call centre aimed at processing requests for information in the shortest possible time and continued to develop digital tools, such as the activation of the "DigitalPegno" app for online renewal of pledges and online bidding for assets being sold at auction. The DigitalPegno app has been very successful and now has over 12,847 registered users, 22,104 digital bids placed at auctions and 15,553 online policy renewals.

The following chart shows the performance of outstanding loans:



The main consolidated statement of financial position and income statement aggregates of Kruso Kapital are shown below.

For the first time, the consolidated figures of the Kruso Kapital Group are shown, which consists of the following wholly and directly owned subsidiaries:

- ProntoPegno Greece, a company incorporated on 12 April 2022 (the branch began operations in the fourth quarter of 2022);
- Art-Rite S.r.l., a company acquired on 2 November 2022 and therefore included in the company scope only in the last 2 months of 2022.

Assets (€,000)	30.06.2023	31.12.2022	€ Change	% Change
Cash and cash equivalents	5,804	5,061	743	14.7%
Financial assets measured at amortised cost	112,760	106,912	5,848	5.5%
a) loans and receivables with banks	177	118	59	50.3%
b1) loans and receivables with customers - loans	112,583	106,794	5,789	5.4%
Property and equipment	4,781	5,997	(1,216)	-20.3%
Intangible assets	30,924	30,559	365	1.2%
of which: goodwill	29,606	29,606	(0)	0.0%
Tax assets	808	1,082	(274)	-25.3%
Other assets	3,590	2,817	773	27.5%
Total assets	158,668	152,428	6,240	4.1%

Liabilities and equity (€,000)	30.06.2023	31.12.2022	€ Change	% Change
Financial liabilities measured at amortised cost	107,785	101,613	6,172	6.1%
Tax liabilities	1,609	1,530	79	5.2%
Other liabilities	7,202	8,138	(936)	-11.5%
Post-employment benefits	884	857	27	3.2%
Provisions for risks and charges	650	715	(65)	-9.1%
Valuation reserves	(13)	(22)	9	-40.2%
Reserves	16,434	14,613	1,821	12.5%
Share capital	23,162	23,162	0	0.0%
Profit (loss) for the period	955	1,822	(867)	-47.6%
Total liabilities and equity	158,668	152,428	6,240	4.1%

The assets consist mainly of loans and receivables with customers related to the collateralised lending business (€ 112.6 million) and goodwill of € 29.6 million, broken down as follows:

- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020;

- goodwill of € 1.2 million, resulting from the acquisition of Art-Rite which was completed on 2 November 2022.

Collateralised loans increased by 5% yoy, reflecting an increase in the number of policies and customers.

The “financial liabilities measured at amortised cost” include the auction buyer’s premium of € 4.7 million which is up slightly compared to 31 December 2022. For 5 years, this amount is reported in the financial statements as due to customers which become a contingent asset if not collected. Based on historical information, approximately 90% of the auction buyer’s premium will become a contingent asset over the next 5 years.

The item Due to banks includes loans from Banca Sistema amounting to € 70 million (€ 79 million at 31 December 2022) and other banks amounting to € 30 million (€ 18.3 million at 31 December 2022).

The consolidated income statement of Kruso Kapital for the first half of 2023 is provided below. Please note that the comparative figures at 30 June 2022 refer to its separate financial statements.

Income statement (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Total income	8,956	7,046	1,910	27.1%
Net impairment losses on loans and receivables	(39)	(42)	3	-7.1%
Net financial income (expense)	8,917	7,004	1,913	27.3%
Personnel expense	(3,543)	(3,044)	(499)	16.4%
Other administrative expenses	(3,203)	(1,975)	(1,228)	62.2%
Net impairment losses on property and equipment/intangible assets	(784)	(702)	(82)	11.7%
Other operating income (expense)	185	267	(82)	-30.7%
Operating costs	(7,345)	(5,454)	(1,891)	34.7%
Pre-tax profit from continuing operations	1,572	1,550	22	1.4%
Income taxes for the period	(617)	(458)	(159)	34.7%
Profit (loss) for the period of Kruso Kapital Group	955	1,092	(137)	-12.6%

The first half of 2023 ended with a consolidated net profit of € 955 thousand. For an accurate comparison with 2022, it is important to consider that the impact of the subsidiaries (ProntoPegno Greece and Art-Rite, the latter included in the scope of consolidation from the fourth quarter) was not material in the first half of 2022. ProntoPegno Greece reported a loss of € 223 thousand for the period ended 30 June 2023 (€ 100 thousand in the first half of 2022), while Art-Rite reported a loss of € 98 thousand. Kruso Kapital reported net profit for the first half of the year of € 1,338 thousand, an increase of 23% yoy.

Total income in the first half of 2023, which amounted to € 9 million, was up 27% yoy, mainly due to the collateralised lending business, whose contribution amounted to € 8.7 million (€ 7 million in the first half of 2022), which rose due to increased lending and higher margins. A large part of the remaining contribution to Total income in the first half of 2023 comes from Art-Rite's auction business.

Operating costs increased by 34.7% yoy (23% for Kruso Kapital alone), partly due to the contribution of the two subsidiaries for the full six months of 2023. Personnel expense increased yoy, not only due to the effect

of consolidation, but also due to the increased number of Group employees which went from 79 at 30 June 2022 to a total of 92 employees at 30 June 2023, broken down as follows:

- Kruso Kapital went from 78 to 80 employees at 30 June 2023;
- ProntoPegno Greece went from 1 to 3 employees at 30 June 2023;
- Art-Rite, not yet included in the first half of 2022, contributed 9 employees in 2023.

Other administrative expenses (+62% yoy), apart from the consolidation effect, also increased only at Kruso Kapital, largely due to the allocation of costs related to new one-off projects (accounting for 60% of the yoy increase for Kruso Kapital) and to a lesser extent due to higher expenses for branches.

Pre-tax profit increased by 1% yoy, considering that the two subsidiaries, ProntoPegno Greece and Art-Rite, are in the start-up and development phase of their businesses.

FUNDING AND TREASURY ACTIVITIES

TREASURY PORTFOLIO

A treasury portfolio has been established to support the Bank's liquidity commitments almost exclusively through investment in Italian government bonds.

The balance at 30 June 2023 was equal to a nominal € 1,252 million (in line with the € 1,286 million at 31 December 2022).

The treasury portfolio allowed for optimal management of the Treasury commitments, which are characterised by a concentration of transactions in specific periods.

At 30 June 2023, the nominal amount of securities in the HTCS portfolio amounted to € 586 million (in line with the € 586 million reported at 31 December 2022) with a duration of 19.8 months (25.6 months at 31 December 2022).

At 30 June 2023, the HTC portfolio amounted to € 666 million with a duration of 11.6 months (in line with the € 700 million at 31 December 2022, which had a duration of 12.3 months). At 30 June 2023, the HTC portfolio had a market value of € 2.9 million.

WHOLESALE FUNDING

At 30 June 2023, wholesale funding was about 43% of the total (45% at 31 December 2022), mainly comprising refinancing transactions with the ECB.

Securitisations with salary- and pension-backed loans as collateral completed with a partly-paid securities structure continue to allow Banca Sistema to efficiently refinance its CQS/CQP portfolio and to continue to grow its salary- and pension-backed loan business, whose funding structure is optimised by the securitisations. The Bank also continues to adhere to the ABACO procedure introduced by the Bank of Italy which was expanded to include consumer credit during the Covid-19 emergency.

In terms of customer deposits, the Bank continued its strategy of reducing deposits from corporate customers, which are known to be less stable and more concentrated, in order to achieve greater diversification and focus on the more stable sources.

At 30 June 2023, the LCR stood at 478%, compared to 271% at 31 December 2022.

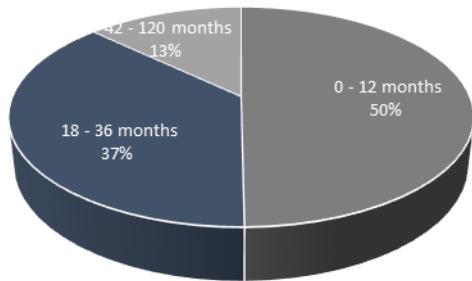
RETAIL FUNDING

Retail funding accounts for 57% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 30 June 2023 amounted to € 1,819 million, an increase of 27.1% compared to 31 December 2022. The above-mentioned amount also includes total term deposits of € 1,251 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria, and Spain (accounting for 69% of total deposit funding), an increase of € 641 million over the same period of the previous year.

The breakdown of funding by term is shown below.

Breakdown of deposit accounts as at 30 June 2023

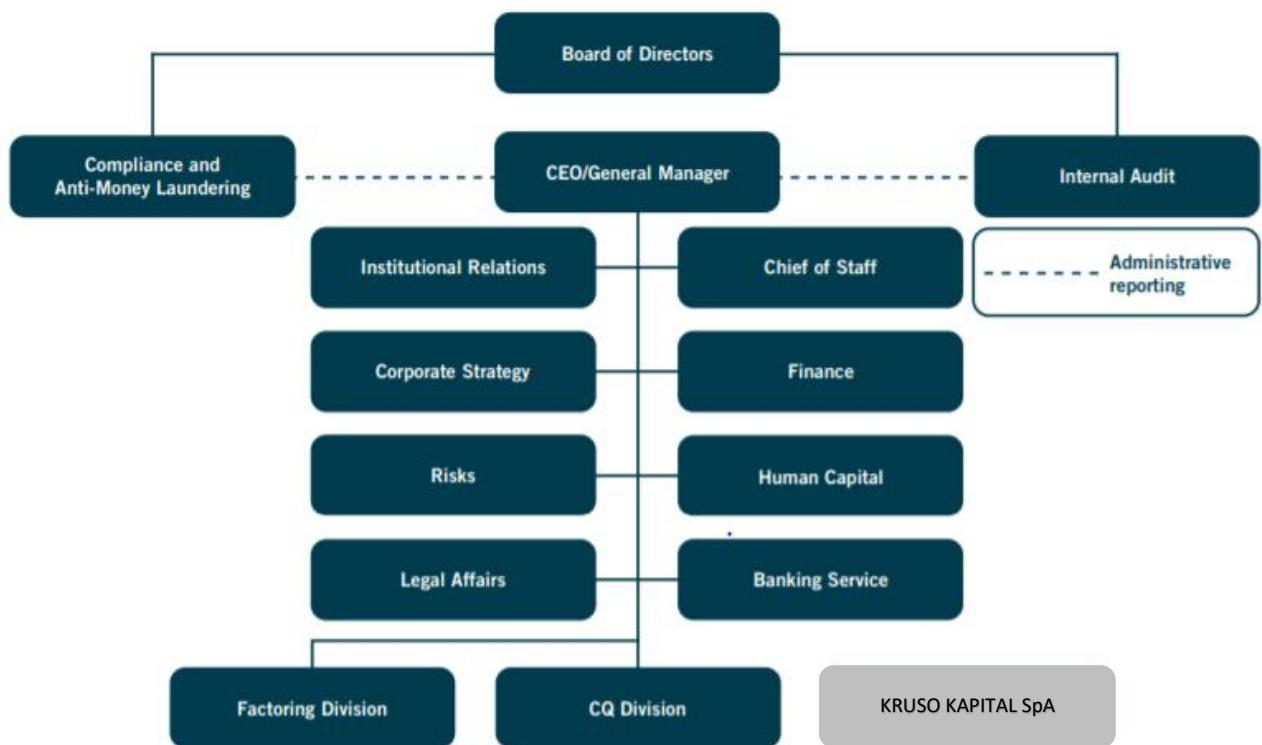


The average residual life is 15 months compared to 9 months in the first half of 2022.

COMPOSITION AND STRUCTURE OF THE GROUP

Organisational chart

Since 2020, the Bank's organisational structure has been based on the divisional organisational model which assigns specific powers and autonomy in terms of lending, sales and operations to each of the Factoring and CQ businesses, and more specifically, also allows the divisional organisational structures to evolve according to their respective needs and objectives. With these objectives in mind, during the first half of 2021, two separate Commercial Departments, respectively named Outbound/B2B Commercial Department and Network Commercial Department, were set up within the CQ Division, the former focusing on managing the indirect channel (B2B for the purchase of portfolios originated by third parties) and the outbound channel (acquisition of customers through the portal and the Division's direct sales initiatives), and the latter focusing on monitoring the network and organised geographically. The organisational chart in force since 1 February 2020 is as follows:



HUMAN RESOURCES

As at 30 June 2023, the Group had a staff of 297, broken down by category as follows:

FTES	30.06.2023	31.12.2022	30.06.2022
Senior managers	25	24	24
Middle managers (QD3 and QD4)	67	62	63
Other personnel	205	204	193
Total	297	290	280

The Group continues to provide flexible working arrangements with middle managers and employees in the professional areas having the possibility of working remotely in accordance with the law and through individual agreements signed with those requesting it. Bank employees who perform all their work in-person at the various locations will receive a special welfare credit in 2023 to compensate for the increased transport and meal costs they incur over time.

During the first half of 2023, 18 people were selected and hired, more than 87% of which with permanent contracts and mainly in the Factoring Division and at the Corporate Centre. Staff turnover due to voluntary resignations alone was 12%, an increase over recent years due to the upturn in the market following the pandemic.

In terms of skills development, the Bank is in the process of identifying professional and technical training needs on legal and regulatory issues affecting the Bank, particularly with regard to anti-money laundering, privacy, transparency, Mifid II, cybersecurity, related party transactions, and the improvement of English and Spanish language skills.

The Remuneration Policies for 2023 have been published and within these, the variable incentive system for 2023 has been prepared for all key personnel. To strengthen and disseminate the performance culture, the operational procedure was updated to accurately determine the processes, responsibilities and methods for calculating the bonus pool actually payable and the bonuses earned by market risk takers.

The average age of Group employees is 47.4 for men and 43.3 for women. The breakdown by gender is essentially balanced with men accounting for 54.2% of the total.

INCOME STATEMENT RESULTS

Income statement (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Net interest income	35,843	44,646	(8,803)	-19.7%
Net fee and commission income (expense)	10,079	6,956	3,123	44.9%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	(34)	(1,201)	1,167	-97.2%
Net hedging result	30	-	30	n.a.
Gain from sales or repurchases of financial assets/liabilities	3,289	4,137	(848)	-20.5%
Total income	49,434	54,765	(5,331)	-9.7%
Net impairment losses on loans and receivables	(2,837)	(5,056)	2,219	-43.9%
Gains/losses from contract amendments without derecognition	(1)	-	(1)	n.a.
Net financial income (expense)	46,596	49,709	(3,113)	-6.3%
Personnel expense	(14,738)	(14,330)	(408)	2.8%
Other administrative expenses	(17,689)	(15,463)	(2,226)	14.4%
Net accruals to provisions for risks and charges	(2,197)	(1,053)	(1,144)	>100%
Net impairment losses on property and equipment/intangible assets	(1,579)	(1,499)	(80)	5.3%
Other operating income (expense)	1,232	1,013	219	21.6%
Operating costs	(34,971)	(31,332)	(3,639)	11.6%
Gains (losses) on equity investments	(16)	(51)	35	-68.6%
Pre-tax profit from continuing operations	11,609	18,326	(6,717)	-36.7%
Income taxes for the period	(3,915)	(5,850)	1,935	-33.1%
Post-tax profit for the period	7,694	12,476	(4,782)	-38.3%
Post-tax profit (loss) from discontinued operations	-	(23)	23	-100.0%
Profit for the period	7,694	12,453	(4,759)	-38.2%
Profit (loss) attributable to non-controlling interests	(239)	(248)	9	-3.6%
Profit for the period attributable to the owners of the parent	7,455	12,205	(4,750)	-38.9%

The first half of 2023 ended with a profit of € 7.5 million, down compared to the same period of the previous year, due to a decrease in net interest income caused by an increase in the cost of funding due to market conditions that was not counterbalanced by loan yields from fixed-rate portfolios related to the salary- and pension-backed loan (CQ) business acquired in the past.

Operating costs increased slightly and were mainly driven by higher provisions for risks and higher administrative expenses for new projects.

Net interest income (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	67,827	45,061	22,766	50.5%
Factoring	46,131	27,350	18,781	68.7%
CQ	10,458	11,053	(595)	-5.4%
Collateralised lending	5,014	3,598	1,416	39.4%
Government-backed loans to SMEs	6,224	3,060	3,164	>100%
Securities portfolio	13,198	1,318	11,880	>100%
Other	2,362	101	2,261	>100%
Financial liabilities	-	4,078	(4,078)	-100.0%
Total interest income	83,387	50,558	32,829	64.9%
Interest and similar expense				
Due to banks	(9,099)	(50)	(9,049)	>100%
Due to customers	(35,071)	(5,612)	(29,459)	>100%
Securities issued	(3,374)	(188)	(3,186)	>100%
Financial assets	-	(62)	62	-100.0%
Total interest expense	(47,544)	(5,912)	(41,632)	>100%
Net interest income	35,843	44,646	(8,803)	-19.7%

Interest income was higher compared with the same period of the previous year, reflecting the good performance of the Factoring Division (which includes revenue from "factoring" and "Government-backed loans to SMEs"), which offset the increase in the cost of funding allocated to the Division. Interest expense, which continued to benefit from the low cost of funding throughout 2022, increased as a result of the ECB rate hikes, although the average cost of funding is still below the ECB rate.

The total contribution of the Factoring Division to interest income was € 52.3 million, equal to 77% of the entire loans and receivables portfolio, to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The item also includes the interest component tied to the amortised cost of eco-bonus loans amounting to € 1.2 million.

The component owed for late payments pursuant to Legislative Decree 231/02 (consisting of default interest and compensation) legally enforced at 30 June 2023 amounted to € 19.9 million (€ 6.8 million in the first half of 2022):

- of which € 4.2 million recorded following the increases in benchmark rates (ECB) in 2022, which led to an increase in the "Legislative Decree No. 231 of 9 October 2002" rate (decree implementing European legislation on late payments) from 8% to 10.5% from 1 January 2023 and to 12% from 1 July 2023. Following subsequent rate increases by the European Central Bank in the first months of 2023, which will lead to an adjustment of the "Legislative Decree

No. 231 of 9 October 2002" rate from 1 July 2023, there will be additional positive effects in the coming quarters;

- of which € 10.4 million resulting from the current recovery estimates (€ 3 million in the first half of 2022);
- of which € 3.6 million (€ 3.8 million in the first half of 2022) coming from the difference between the amount collected during the period, equal to € 5.8 million (€ 5.8 million in the first half of 2022), and that recognised on an accruals basis in previous years;
- of which € 1.7 million resulting from the current estimates for the recovery of the € 40 component of the compensation claims pursuant to Article 6 of Legislative Decree No. 231/02.

With reference to compensation claims, it should be noted that the recent ruling of the Court of Justice of the European Union of 20 October 2022, which is also binding for national courts in all Member States, confirmed and clarified the right to recover at least € 40 to be calculated for each overdue invoice to the Public Administration as compensation for the costs of recovering the debt.

Based on this binding clarification, which put an end to often inconsistent and varying application in the courts, the Bank has decided to start including these amounts in its cash flow calculations for recognising the amount receivable using the amortised cost method, in the same way that it does for default interest.

The recognition was based on the same time series and models that are already being used today to recognise default interest, whose model continues to show increasingly higher collection percentages over the years compared to what has been recorded as a receivable. To date, the scope only includes injunctions issued from April 2021, the period from which the Bank began to systematically request them. The Bank will move to claim these amounts for all invoices paid late, provided that the injunction has not been closed with a settlement and the right to claim has not lapsed, as even a failure to claim is not the legal equivalent of a waiver. Therefore, the scope over which the amortised cost will be calculated by including the € 40 amount may be expanded over time.

As mentioned above, at 30 June 2023, based on the current scope, the Group recognised one-off revenue of € 1.7 million against a gross receivable of € 3.2 million.

The amount of the stock of default interest from legal actions accrued at 30 June 2023, relevant for the allocation model, was € 119 million (€ 104 million at the end of 2022), which becomes € 212 million when including default interest related to positions with troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements amount to € 69 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 143 million.

The contribution from interest on salary- and pension-backed portfolios amounted to € 10.5 million, down from the same period of the previous year due to lower lending and non-recurring revenue recognised in 2022 related to the purchase of a portfolio from Banco BPM. The segment is benefiting from the reduced impact of portfolio prepayment, along with a greater contribution from new loans originated at higher rates, although the lower yield compared to the current market environment on portfolios purchased in previous years remains significant.

The sustained growth of the Collateralised Lending Division was confirmed, whose contribution to the income statement amounted to € 5.0 million, compared to € 3.6 million in the first half of 2022.

The interest component from government-backed loans also had a positive and significant impact.

The increased contribution of the securities portfolio, which grew by € 11.9 million over the same period of the previous year, is related to the growth in average yield, achieved thanks to purchases of securities at better market conditions, and is commensurate with the higher costs of financing the repo portfolio which are included within interest expense.

The growth in interest expense is entirely due to the series of rate hikes by the ECB; however, the Bank's cost of funding is still below the ECB rate on average.

Net fee and commission income (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Fee and commission income				
Factoring activities	6,336	6,172	164	2.7%
Fee and commission income - off-premises CQ	3,930	5,084	(1,154)	-22.7%
Collateralised loans (fee and commission income)	5,319	3,809	1,510	39.6%
Collection activities	797	499	298	59.7%
Other fee and commission income	481	180	301	>100%
Total fee and commission income	16,863	15,744	1,119	7.1%
Fee and commission expense				
Factoring portfolio placement	(524)	(602)	78	-13.0%
Placement of other financial products	(1,498)	(973)	(525)	54.0%
Fees - off-premises CQ	(3,800)	(6,546)	2,746	-41.9%
Other fee and commission expense	(962)	(667)	(295)	44.2%
Total fee and commission expense	(6,784)	(8,788)	2,004	-22.8%
Net fee and commission income	10,079	6,956	3,123	44.9%

Net fee and commission income, amounting to € 10.1 million, increased by 44.9%, due to a change in the method of accounting, starting from September 2022, for the bonuses to be paid to the agent network, which, in order to better reflect net interest income and to improve the correlation between costs and revenues, have been deferred over the expected life of the loans and receivables, resulting in a decrease in the amount of the item Fees - off-premises.

Fee and commission income from factoring should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Fee and commission income from the collateral-backed loans business grew by € 1.5 million compared to the same period of the previous year thanks to the continuing growth of the business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from the Public Administration are up 59.7% compared to the first half of 2022.

Other fee and commission income includes commissions and fees from collection and payment services, and the keeping and management of current accounts.

Fee and commission income - off-premises CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 3.9 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 3.8 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product.

Fees and commissions for the placement of financial products paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime, whereas the fee and commission expense of placing the factoring portfolios is linked to the origination costs of factoring receivables, which remained in line with those reported in the same period of the previous year.

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

Gain (loss) from sales or repurchases (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Gains from HTCS portfolio debt instruments	543	1,086	(543)	-50.0%
Gains from HTC portfolio debt instruments	774	248	526	>100%
Gains from receivables (Factoring portfolio)	872	1,274	(402)	-31.6%
Gains from receivables (CQ portfolio)	1,100	1,529	(429)	-28.1%
Total	3,289	4,137	(848)	-20.5%

The item Gain (loss) from sales or repurchases includes net realised gains from the securities portfolio and factoring receivables, the revenue from which derives from the sale of factoring portfolios to private-sector assignors, and the sale of CQ loans and receivables portfolios.

Impairment losses on loans and receivables at 30 June 2023 amounted to € 2.8 million (€ 5.1 million at 30 June 2022). The loss rate decreased to 0.19% at 30 June 2023 from 0.29% in 2022.

Personnel expense (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Wages and salaries	(11,526)	(11,130)	(396)	3.6%
Social security contributions and other costs	(2,422)	(2,443)	21	-0.9%
Directors' and statutory auditors' remuneration	(790)	(757)	(33)	4.4%
Total	(14,738)	(14,330)	(408)	2.8%

The increase in personnel expense compared to the same period of the previous year is related to the release in the first quarter of 2022 of the estimated variable component of remuneration accrued in 2021 resulting from the application of the remuneration policies (which had an impact of € 1 million compared to € 0.1 million in 2023), as well as an increase in the average number of staff from 278 to 293.

Other administrative expenses (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Consultancy	(3,600)	(2,613)	(987)	37.8%
IT expenses	(3,555)	(3,060)	(495)	16.2%
Servicing and collection activities	(971)	(1,415)	444	-31.4%
Indirect taxes and duties	(1,558)	(1,721)	163	-9.5%
Insurance	(586)	(425)	(161)	37.9%
Other	(615)	(457)	(158)	34.6%
Expenses related to management of the SPVs	(283)	(478)	195	-40.8%
Outsourcing and consultancy expenses	(245)	(232)	(13)	5.6%
Car hire and related fees	(375)	(295)	(80)	27.1%
Advertising and communications	(1,463)	(403)	(1,060)	263.0%
Expenses related to property management and logistics	(1,349)	(1,246)	(103)	8.3%
Personnel-related expenses	(56)	(36)	(20)	55.6%
Entertainment and expense reimbursement	(357)	(221)	(136)	61.5%
Infoprovider expenses	(379)	(294)	(85)	28.9%
Membership fees	(227)	(192)	(35)	18.2%
Audit fees	(190)	(185)	(5)	2.7%
Telephone and postage expenses	(253)	(197)	(56)	28.4%
Stationery and printing	(59)	(73)	14	-19.2%
Total operating expenses	(16,121)	(13,543)	(2,578)	19.0%
Resolution Fund	(1,568)	(1,920)	352	-18.3%
Total	(17,689)	(15,463)	(2,226)	14.4%

Administrative expenses increased over the same period of the previous year, due to higher advertising costs and higher charges for factoring receivables being collected through legal action.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure, which are increasing due to higher investments related to the digitalisation project of the pawn product.

Consultancy expenses consist mainly of costs incurred for legal expenses related to pending legal claims made and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

Expenses for indirect taxes and duties increased as a result of higher contributions paid for enforceable injunctions against public administration debtors.

The increase in Advertising expenses relates to costs incurred for advertising campaigns to promote the Bank's funding products.

Servicing and collection activities decreased due to the reduction in costs for the collection of factoring receivables.

Net impairment losses on property and equipment/intangible assets (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Depreciation of buildings used for operations	(410)	(327)	(83)	25.4%
Depreciation of furniture and equipment	(191)	(155)	(36)	23.2%
Amortisation of value in use	(738)	(866)	128	-14.8%
Amortisation of software	(219)	(140)	(79)	56.4%
Amortisation of other intangible assets	(21)	(11)	(10)	90.9%
Total	(1,579)	(1,499)	(80)	5.3%

The impairment losses on property and equipment/intangible assets are the result of higher depreciation and amortisation for property used for business purposes, as well as the depreciation of the “right-of-use” asset following the application of IFRS 16.

Other operating income (expense) (€,000)	First Half of 2023	First Half of 2022	€ Change	% Change
Auction buyer's premiums	308	342	(34)	-9.9%
Recovery of expenses and taxes	523	563	(40)	-7.1%
Amortisation of multiple-year improvement costs	(297)	(150)	(147)	98.0%
Other income (expense)	96	100	(4)	-4.0%
Contingent assets and liabilities	602	158	444	>100%
Total	1,232	1,013	219	21.6%

The total of the item increased as a result of higher income from contingent assets.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

Assets (€,000)	30.06.2023	31.12.2022	€ Change	% Change
Cash and cash equivalents	171,170	126,589	44,581	35.2%
Financial assets measured at fair value through other comprehensive income	562,574	558,384	4,190	0.8%
Financial assets measured at amortised cost	3,719,276	3,530,678	188,598	5.3%
a) loans and receivables with banks	1,000	34,917	(33,917)	-97.1%
b1) loans and receivables with customers - loans	3,067,363	2,814,729	252,634	9.0%
b2) loans and receivables with customers - debt instruments	650,913	681,032	(30,119)	-4.4%
Hedging derivatives	415	-	415	n.a.
Changes in fair value of portfolio hedged items (+/-)	(385)	-	(385)	n.a.
Equity investments	954	970	(16)	-1.6%
Property and equipment	41,693	43,374	(1,681)	-3.9%
Intangible assets	34,870	34,516	354	1.0%
<i>of which: goodwill</i>	33,526	33,526	-	0.0%
Tax assets	33,910	24,861	9,049	36.4%
Non-current assets held for sale and disposal groups	65	40	25	62.5%
Other assets	75,907	77,989	(2,082)	-2.7%
Total assets	4,640,449	4,397,401	243,048	5.5%

The half year ended 30 June 2023 closed with total assets up on the end of 2022 and equal to € 4.6 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS") of the Group continues to be mainly comprised of Italian government bonds with an average duration of about 19.8 months (the average remaining duration at the end of 2022 was 25.6 months). The nominal amount of the government bonds held in the HTCS portfolio amounted to € 586 million at 30 June 2023 (€ 586 million at 31 December 2022). The associated valuation reserve was negative at the end of the period, amounting to € 32 million before the tax effect.

Loans and receivables with customers (€,000)	30.06.2023	31.12.2022	€ Change	% Change
Factoring receivables	1,800,010	1,501,353	298,657	19.9%
Salary-/pension-backed loans (CQS/CQP)	856,316	933,200	(76,884)	-8.2%
Collateralised loans	112,463	106,749	5,714	5.4%
Loans to SMEs	249,307	196,909	52,398	26.6%
Current accounts	520	289	231	79.9%
Compensation and Guarantee Fund	45,044	72,510	(27,466)	-37.9%
Other loans and receivables	3,703	3,719	(16)	-0.4%
Total loans	3,067,363	2,814,729	252,634	9.0%
Securities	650,913	681,032	(30,119)	-4.4%
Total loans and receivables with customers	3,718,276	3,495,761	222,515	6.4%

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or “Held to Collect”), is composed of loan receivables with customers and the “held-to-maturity securities” portfolio.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 59% (53% at the end of 2022). The volumes generated during the period amounted to € 2,477 million (€ 2,096 million at 30 June 2022).

Salary- and pension-backed loans were largely unchanged from the end of the previous year, with volumes disbursed directly by the agent network amounting to € 77 million (€ 104 million at the end of the first half of 2022).

Government-backed loans to small and medium-sized enterprises increased to € 249 million as a result of fewer new loans being disbursed.

The collateralised lending business, which is conducted through the Kruso Kapital subsidiary, remained stable, with loans granted at 30 June 2023 amounting to € 112.6 million.

HTC Securities are composed entirely of Italian government securities with an average duration of 11.6 months for an amount of € 666 million. The mark-to-market valuation of the securities at 30 June 2022 shows a pre-tax unrealised gain of € 2.9 million.

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

Status	30/06/2022	30/09/2022	31/12/2022	31/03/2023	30/06/2023
Bad exposures - gross	166,825	167,047	170,369	173,944	173,412
Unlikely to pay - gross	46,845	33,743	32,999	34,474	63,081
Past due - gross	77,507	90,948	81,449	67,432	61,857
Non-performing - gross	291,177	291,738	284,817	275,850	298,350
Performing - gross	2,727,798	2,732,517	2,598,125	2,686,758	2,838,474
Stage 2 - gross	115,021	112,285	112,799	109,587	94,497
Stage 1 - gross	2,612,777	2,620,232	2,485,326	2,577,171	2,743,977
Total loans and receivables with customers	3,018,975	3,024,255	2,882,942	2,962,608	3,136,824
Individual impairment losses	61,581	60,410	61,727	62,203	63,654
Bad exposures	47,758	46,205	47,079	47,334	48,218
Unlikely to pay	13,201	13,379	13,750	13,780	14,186
Past due	622	826	898	1,089	1,250
Collective impairment losses	7,872	6,175	6,486	5,538	5,808
Stage 2	626	1,600	1,993	689	607
Stage 1	7,246	4,575	4,493	4,849	5,201
Total impairment losses	69,453	66,585	68,213	67,741	69,462
Net exposure	2,949,522	2,957,670	2,814,729	2,894,867	3,067,362

The ratio of gross non-performing loans to the total portfolio decreased to 9.5% compared to 9.9% at 31 December 2022, following the decrease in past due loans, which remain high because of the entry into force of the new definition of default on 1 January 2021 ("New DoD"). Past due loans are associated with factoring receivables without recourse from Public Administration and are considered normal for the sector. Despite the new technical rules used to report past due loans for regulatory purposes, this continues not to pose particular problems in terms of credit quality and probability of collection.

The coverage ratio for non-performing loans is 21.3%, down slightly from 21.7% on 31 December 2022; excluding the component relating to municipalities in financial difficulty, which for regulatory purposes is classified as bad debt, although both principal and default interest are in fact recoverable, the coverage ratio is 90.2%.

Property and equipment includes the property located in Milan, which is also being used as Banca Sistema's offices, and the building in Rome. The carrying amount of the properties, including capitalised items, is € 35.0 million after accumulated depreciation. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments of the branches and company cars.

Intangible assets refer to goodwill of € 33.5 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020;
- provisional goodwill of € 1.2 million, resulting from the acquisition of ArtRite which was completed on 2 November 2022.

The investment recognised in the financial statements relates to the 50/50 joint venture with EBN Banco de Negocios S.A. in EBNSISTEMA. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave the Bank a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business in the Iberian peninsula, with its core business being the purchase of healthcare receivables. At the end of the first half of 2023, EBNSISTEMA originated € 72 million in loans and receivables, compared to € 86 million at the end of the first half of 2022.

Non-current assets held for sale and disposal groups include the assets of SF Trust Holding, which was put into liquidation in December 2021.

Other assets mainly include amounts being processed after the end of the period and advance tax payments. The item includes tax credits from the "Eco-Sisma bonus 110" amounting to € 49.1 million at 30 June 2023.

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

Liabilities and equity (€,000)	30.06.2023	31.12.2022	€ Change	% Change
Financial liabilities measured at amortised cost	4,133,925	3,916,974	216,951	5.5%
a) due to banks	942,288	622,865	319,423	51.3%
b) due to customers	3,016,835	3,056,210	(39,375)	-1.3%
c) securities issued	174,802	237,899	(63,097)	-26.5%
Tax liabilities	21,010	17,023	3,987	23.4%
Liabilities associated with disposal groups	38	13	25	>100%
Other liabilities	186,122	166,896	19,226	11.5%
Post-employment benefits	4,406	4,107	299	7.3%
Provisions for risks and charges	34,895	36,492	(1,597)	-4.4%
Valuation reserves	(21,615)	(24,891)	3,276	-13.2%
Reserves	209,138	194,137	15,001	7.7%
Equity instruments	45,500	45,500	-	0.0%
Equity attributable to non-controlling interests	10,279	10,024	255	2.5%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(355)	(559)	204	-36.5%
Profit for the period	7,455	22,034	(14,579)	-66.2%
Total liabilities and equity	4,640,449	4,397,401	243,048	5.5%

Wholesale funding, which represents about 43% of the total (45% at 31 December 2022), remained stable in absolute terms compared to the end of 2022, but declined as a percentage of the total as a result of the increase in funding from term deposits.

Due to banks (€,000)	30.06.2023	31.12.2022	€ Change	% Change
Due to Central banks	545,388	537,883	7,505	1.4%
Due to banks	396,900	84,982	311,918	>100%
Current accounts with other banks	78,802	68,983	9,819	14.2%
Deposits with banks (repurchase agreements)	294,098	-	294,098	n.a.
Financing from other banks	24,000	15,999	8,001	50.0%
Total	942,288	622,865	319,423	51.3%

The item "Due to banks" increased by 51.3% compared to 31 December 2022, as a result of an increase in borrowing from the interbank deposit market and repurchase agreements with bank counterparties compared to 31 December 2022.

Due to customers (€,000)	30.06.2023	31.12.2022	€ Change	% Change
Term deposits	1,819,361	1,431,548	387,813	27.1%
Financing (repurchase agreements)	626,139	865,878	(239,739)	-27.7%
Financing - other	26,155	66,166	(40,011)	-60.5%
Customer current accounts	487,682	639,266	(151,584)	-23.7%
Due to assignors	52,758	48,542	4,216	8.7%
Other payables	4,740	4,810	(70)	-1.5%
Total	3,016,835	3,056,210	(39,375)	-1.3%

The item "Due to customers" decreased compared to the end of the previous year reflecting a decrease in funding from bank accounts. The period-end amount of term deposits increased from the end of 2022 (+27.1%), reflecting net positive funding (net of interest accrued) of € 380 million; gross deposits from the beginning of the year were € 1,222 million.

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

Bonds issued (€,000)	30.06.2023	31.12.2022	€ Change	% Change
Bond - AT1	45,500	45,500	-	0.0%
Bond - Tier II	-	-	-	n.a.
Bonds - other	174,802	192,399	(17,597)	-9.1%

The value of bonds issued decreased compared to 31 December 2022 due to the repayments of the senior shares of the ABS financed by third-party investors.

Bonds issued at 30 June 2023 are as follows:

- AT1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 June 2023 at 7% issued on 18 December 2012 and 18 December 2013 (reopening date);

- AT1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

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

All AT1 instruments, based on their main characteristics, are classified under equity item 140 "Equity instruments".

The provision for risks and charges of € 35.1 million includes the provision for possible liabilities attributable to past acquisitions of € 1.1 million, the estimated amount of personnel-related charges mainly for the portion of the bonus for the period, the deferred portion of the bonus accrued in previous years, and the estimates related to the non-compete agreement and the 2022 retention plan, totalling € 3.8 million (the item includes the estimated variable and deferred components, accrued but not paid). The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled and other estimated charges for ongoing lawsuits and legal disputes amounting to € 13.8 million. With reference to the CQ portfolio (Salary- and Pension-Backed Loans), there is also a provision for claims, a provision for the estimated negative effect of possible early repayments on existing portfolios and portfolios sold, as well as repayments related to the Lexitor ruling amounting to € 13.4 million.

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

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 (loss)/equity of the parent	6,671	248,829
Assumption of value of investments	-	(45,193)
Consolidated profit (loss)/equity	1,009	56,417
Gain (loss) on equity investments	14	-
Adjustment to profit (loss) from discontinued operations	-	-
Equity attributable to the owners of the parent	7,694	260,053
Equity attributable to non-controlling interests	(239)	(10,279)
Profit (loss)/equity of the Group	7,455	249,774

CAPITAL ADEQUACY

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

Own funds (€,000) and capital ratios	30.06.2023	31.12.2022 Transitional	31.12.2022 Fully loaded
Common Equity Tier 1 (CET1)	172,077	174,974	164,238
ADDITIONAL TIER 1	45,500	45,500	45,500
Tier 1 capital (T1)	217,577	220,474	209,738
TIER2	207	194	194
Total Own Funds (TC)	217,784	220,668	209,931
Total risk-weighted assets	1,448,027	1,385,244	1,382,804
of which, credit risk	1,259,214	1,196,431	1,193,991
of which, operational risk	188,813	188,813	188,813
Ratio - CET1	11.9%	12.6%	11.9%
Ratio - T1	15.0%	15.9%	15.2%
Ratio - TCR	15.0%	15.9%	15.2%

Total regulatory own funds were € 218 million at 30 June 2023 and included the profit, net of dividends estimated on the profit for the period which were equal to a pay-out of 25% of the Parent's profit. For comparison purposes, this figure is to be compared with the fully loaded figure, meaning without applying the mitigating measure provided for under Article 468 of the Capital Requirements Regulation (CRR). In this regard, the neutralisation of all or part of the reserve (HTCS) on government bonds was approved by the European Trilogue. This change will enter into force with its publication in the Official Journal most likely by the end of 2023.

The CET1 ratio decreased compared to the fully loaded ratio at 31 December 2022 due to more capital being allocated to private entities.

The Group's new consolidated capital requirements, which came into effect on 30 June 2022, are as follows:

- CET1 ratio of 9.00%;
- TIER1 ratio of 10.55%;
- Total Capital Ratio of 12.50%.

The reconciliation of equity and CET1 is provided below:

	30.06.2023	31.12.2022 Fully loaded
Share capital	9,651	9,651
Equity instruments	45,500	45,500
Income-related and share premium reserve	209,138	194,137
Treasury shares (-)	(355)	(559)
Valuation reserves	(21,615)	(24,891)
Profit	7,455	22,034
Equity attributable to the owners of the parent	249,774	245,872
Dividends distributed and other foreseeable expenses	(1,668)	(5,227)
Equity assuming dividends are distributed to shareholders	248,106	240,645
Regulatory adjustments	(38,685)	(28,905)
Eligible equity attributable to non-controlling interests	8,156	8,734
Equity instruments not eligible for inclusion in CET1	(45,500)	(45,500)
Common Equity Tier 1 (CET1)	172,077	174,974

CAPITAL AND SHARES

Capital and ownership structure

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

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

Person at the top of the chain of ownership	Shareholder	No. of shares	% of ordinary share capital	% of the voting capital
Gianluca Garbi	SGBS Srl	18,578,900	23.10%	22.53%
	Garbifin Srl	530,453	0.66%	0.64%
	Gianluca Garbi	819,199	1.02%	0.99%
Le Cassa di Risparmio di Alessandria	Fondazione Cassa di Risparmio di Alessandria	6,361,731	7.91%	7.71%
	Chandler	6,013,000	7.48%	7.29%
Le Sicilia	Fondazione Sicilia	5,950,104	7.40%	7.21%
	Fondazione Cassa di Risparmio di Cuneo	4,685,158	5.83%	5.68%
	Azioni proprie	168,004	0.21%	nm
MARKET		37,314,503	46.40%	
TOTAL SHARES		80,421,052	100%	

For the most recent available information, please refer to the Bank's website. Moreover, pursuant to Article 85-bis of the Issuers' Regulation adopted with Consob resolution no. 11971, and pursuant to Article 2.6.2 of the Regulation of the Markets Organised and Managed by Borsa Italiana S.p.A. and Article IA2.3.4 of the related Instructions, voting rights changed with respect to the percentage share capital held, following the increase in voting rights that took place. Please refer to the Bank's website for details of the most recent changes.

Stock performance

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

FTSE Italia All-Share Capped;

FTSE Italia All-Share;

FTSE Italia STAR;

FTSE Italia Banche;

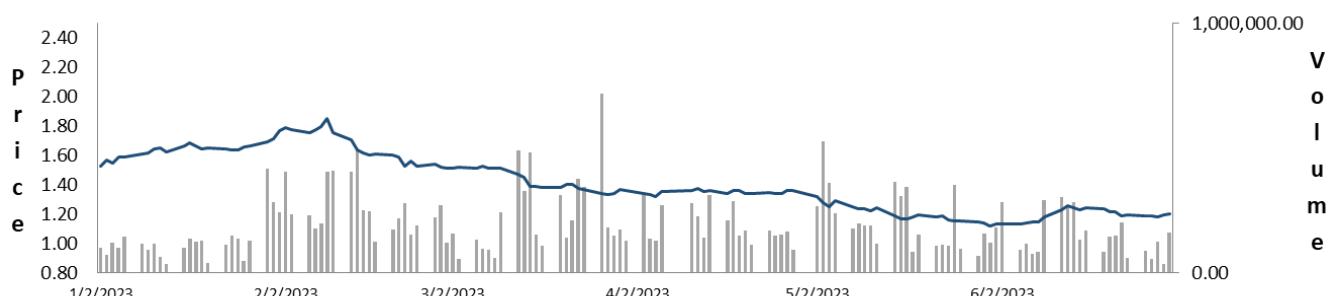
FTSE Italia Finanza;

FTSE Italia Small Cap.

In the first half of 2023, a period with high volatility but growth compared to 2022, the share price of the stock fluctuated in a range between a minimum closing price of € 1.13 and a maximum closing price of € 1.85.

The price dropped 21% compared to the last trading day of 2022.

Average daily volumes were just over 196,000 shares during 2023.



RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

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

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

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

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

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

Pursuant to the eleventh amendment of Bank of Italy Circular no. 285/13, within the framework of the Internal Control System (Part I, Section IV, Chapter 3, Subsection II, Paragraph 5) the Parent entrusted the Internal Control and Risk Management Committee with the task of coordinating the second and third level Control Departments; to that end, the Committee allows the integration and interaction between these Departments, encouraging cooperation, reducing overlaps and supervising operations.

With reference to the risk management framework, the Group 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 Group 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) and ILAAP (Internal Liquidity Adequacy Assessment Process) allow the Group 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 Department, functional requirements were implemented to allow the Group to be compliant with the new definition of default introduced starting on 1 January 2021.

Regarding the monitoring of credit risk, in February 2020 the Group, with the goal of attaining greater operating synergies, moved from a functional organisational structure to a divisional structure which aims to maximise the value of each individual line of business, making it easily comparable with its respective specialist peers.

It should also be noted that, in accordance with the obligations imposed by the applicable regulations, each year the Group 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 Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes. In order to evaluate "Pillar 2 risks", the Group 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 Group are assessed.

During the Covid-19 pandemic and in line with the indications provided by the EBA, ECB, Consob and ESMA, the Banca Sistema Group decided not to apply automated classifications for moratoria introduced in connection with the related support programmes provided for by law, agreements with trade associations or similar voluntary initiatives adopted by individual companies.

The Group has developed and quickly planned suitable procedures, within the specific sector of activity and the related product portfolio, to respond to the provisions set forth in the decrees to support households and businesses by implementing the provisions of the "Cura Italia" and "Liquidity" decrees. The Group has also revised its risk objectives within the RAF, which was prepared in a manner consistent with the annual budgeting process for the 2020 financial year and includes the economic impacts of the Covid-19 pandemic crisis.

Regarding the factoring business, a cap was set for the granting of medium-term loans guaranteed by SACE and the National Guarantee Fund to support business factoring customers during this period.

Other interventions concerned credit strategies and policies that considered the change in the macroeconomic environment and the results of sector analyses for identifying the most vulnerable sectors which were then grouped into clusters. For those sectors deemed to be most impacted by the pandemic, a more stringent underwriting process for factoring was introduced. For salary- and pension-backed loans (CQ), monitoring of employers (ATCs) within the cluster most affected by Covid-19 was strengthened.

OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITIES

No research and development activities were carried out in 2023.

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 2023, 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

On 21 July, the Bank's Board of Directors resolved to sell all or part of the government bonds in the HTC portfolio by 31 December 2023, depending on market conditions and also in several stages. The sale of the portfolio will allow the Bank to achieve higher liquidity buffers in relation to the value of the assets, while generating a positive result given the current performance of the market.

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

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The gradual and steady increase in the cost of funding, compared with previous quarters, as a result of the rise in market rates and also from repositioning to more stable and/or long-term forms of funding, will continue in the coming quarters.

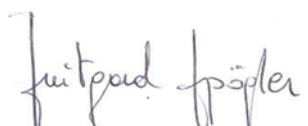
While the Factoring Division, Kruso Kapital and the new salary- and pension-backed loan (CQ) disbursements will be able to reflect the higher cost of funding attributed to them in a higher yield on loans in the financial statements, the stock of CQ loans, due to a longer maturity, will continue to be negatively impacted by the (fixed rate) yield of loans originated in previous years, which are significantly lower than current market rates. Although the salary- and pension-backed loan (CQ) business is less impacted by the prepayment of portfolios and can benefit from a higher yield on newly originated loans, the relative size of the old portfolio is such that the net interest income from CQ will be negative at least throughout 2023.

Milan, 28 July 2023

On behalf of the Board of Directors

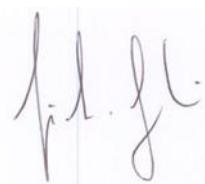
The Chairperson

Luitgard Spögler



The CEO

Gianluca Garbi



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT 30 JUNE 2023**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

Assets	30.06.2023	31.12.2022
10. Cash and cash equivalents	171,170	126,589
30. Financial assets measured at fair value through other comprehensive income	562,574	558,384
40. Financial assets measured at amortised cost	3,719,276	3,530,678
a) loans and receivables with banks	1,000	34,917
b) loans and receivables with customers	3,718,276	3,495,761
50. Hedging derivatives	415	-
60. Changes in fair value of portfolio hedged items (+/-)	(385)	-
70. Equity investments	954	970
90. Property and equipment	41,693	43,374
100. Intangible assets	34,870	34,516
of which:	-	-
goodwill	33,526	33,526
110. Tax assets	33,910	24,861
a) current	13,304	2,136
b) deferred	20,606	22,725
120. Non-current assets held for sale and disposal groups	65	40
130. Other assets	75,907	77,989
Total Assets	4,640,449	4,397,401

Liabilities and equity		30.06.2023	31.12.2022
10.	Financial liabilities measured at amortised cost	4,133,925	3,916,974
riso banche	a) due to banks	942,288	622,865
riso banche	b) due to customers	3,016,835	3,056,210
riso banche	c) securities issued	174,802	237,899
60.	Tax liabilities	21,010	17,023
riso banche	a) current	54	236
riso banche	b) deferred	20,956	16,787
70.	Liabilities associated with disposal groups	38	13
80.	Other liabilities	186,122	166,896
90.	Post-employment benefits	4,406	4,107
100.	Provisions for risks and charges:	34,895	36,492
riso banche	a) commitments and guarantees issued	33	24
riso banche	c) other provisions for risks and charges	34,862	36,468
120.	Valuation reserves	(21,615)	(24,891)
140.	Equity instruments	45,500	45,500
150.	Reserves	170,038	155,037
160.	Share premium	39,100	39,100
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(355)	(559)
190.	Equity attributable to non-controlling interests (+/-)	10,279	10,024
200.	Profit for the period/year	7,455	22,034
riso banche	Total liabilities and equity	4,640,449	4,397,401

INCOME STATEMENT

(Amounts in thousands of Euro)

		First Half of 2023	First Half of 2022
10.	Interest and similar income	83,387	50,558
tivi calcolati	of which: interest income calculated with the effective interest method	78,374	45,750
20.	Interest and similar expense	(47,544)	(5,912)
30.	Net interest income	35,843	44,646
40.	Fee and commission income	16,863	15,744
50.	Fee and commission expense	(6,784)	(8,788)
60.	Net fee and commission income (expense)	10,079	6,956
70.	Dividends and similar income	227	227
80.	Net trading income (expense)	(34)	(1,201)
90.	Net gains (losses) on hedge accounting	30	-
100.	Gain (loss) from sales or repurchases of:	3,289	4,137
arie valuta	a) financial assets measured at amortised cost	2,746	3,051
	b) financial assets measured at fair value through other comprehensive income	543	1,086
120.	Total income	49,434	54,765
130.	Net impairment losses/gains on:	(2,837)	(5,056)
arie valuta	a) financial assets measured at amortised cost	(2,837)	(5,000)
	b) financial assets measured at fair value through other comprehensive income	-	(56)
140.	Gains/losses from contract amendments without derecognition	(1)	-
150.	Net financial income (expense)	46,596	49,709
190.	Administrative expenses	(32,427)	(29,793)
amministrativi	a) personnel expense	(14,738)	(14,330)
	b) other administrative expenses	(17,689)	(15,463)
200.	Net accruals to provisions for risks and charges	(2,197)	(1,053)
ranzie rilasci	a) commitments and guarantees issued	(9)	-
	b) other net accruals	(2,188)	(1,053)
210.	Net impairment losses on property and equipment	(1,339)	(1,348)
220.	Net impairment losses on intangible assets	(240)	(151)
230.	Other operating income (expense)	1,232	1,013
240.	Operating costs	(34,971)	(31,332)
250.	Gains (losses) on equity investments	(16)	(51)
290.	Pre-tax profit (loss) from continuing operations	11,609	18,326
300.	Income taxes	(3,915)	(5,850)
310.	Post-tax profit from continuing operations	7,694	12,476
320.	Post-tax profit (loss) from discontinued operations	-	(23)
330.	Profit for the period	7,694	12,453
340.	Profit (Loss) for the period attributable to non-controlling interests	(239)	(248)
350.	Profit for the period attributable to the owners of the parent	7,455	12,205

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		First Half of 2023	First Half of 2022
10. Profit (loss) for the period		7,455	12,205
Items, net of tax, that will not be reclassified subsequently to profit or loss		-	-
70. Defined benefit plans		(85)	293
Items, net of tax, that will be reclassified subsequently to profit or loss		-	-
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income		3,361	(13,080)
170. Total other comprehensive income (expense), net of income tax		3,276	(12,787)
180. Comprehensive income (Items 10+170)		10,731	(582)
190. Comprehensive income attributable to non-controlling interests		-	-
200. Comprehensive income attributable to the owners of the parent		10,731	(582)

STATEMENT OF CHANGES IN EQUITY AT 30/06/2023

Amounts in thousands of Euro

Balance at 31.12.2022	Change in opening balances	Balance at 1.1.2023	Allocation of prior year profit	Changes during the year							Equity attributable to the owners of the parent at 30.06.2023				
				Reserves	Dividends and other allocations	Transactions on equity									
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	Stock options	Changes in equity investments	Derivatives on treasury shares			
Share capital:															
a) ordinary shares	9,651											9,651			
b) other shares															
Share premium	39,100											39,100			
Reserves	155,037											170,038			
a) income-related	153,332											168,705			
b) other	1,705											1,333			
Valuation reserves	(24,891)											3,276 (21,615)			
Equity instruments	45,500											45,500			
Treasury shares	(559)											(355)			
Profit (loss) for the year	22,034											7,455 7,455			
Equity attributable to the owners of	245,872											10,731 249,774			
Equity attributable to non-controlling	10,024											255 10,279			

STATEMENT OF CHANGES IN EQUITY AT 30/06/2022

Amounts in thousands of Euro

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

Amounts in thousands of Euro

	Amount	
	First Half of 2023	First Half of 2022
A. OPERATING ACTIVITIES		
1. Operations	9,095	34,435
Profit (loss) for the year (+/-)	7,455	12,205
Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)		
Gains/losses on hedging activities (-/+)		
Net impairment losses/gains due to credit risk (+/-)	2,837	5,000
Net impairment losses/gains on property and equipment and intangible assets (+/-)	1,579	1,499
Net accruals to provisions for risks and charges and other costs/income (+/-)	2,197	1,053
Taxes, duties and tax assets not yet paid (+/-)	(8,052)	1,552
Other adjustments (+/-)	3,079	13,126
2. Cash flows generated by (used for) financial assets	(170,502)	(244,243)
Financial assets held for trading		
Financial assets designated at fair value through profit or loss		
Other assets mandatorily measured at fair value through profit or loss		
Financial assets measured at fair value through other comprehensive income	(2,792)	(120,339)
Financial assets measured at amortised cost	(176,878)	(91,953)
Other assets	9,168	(31,951)
3. Cash flows generated by (used for) financial liabilities	211,718	111,032
Financial liabilities measured at amortised cost	203,423	132,271
Financial liabilities held for trading		
Financial liabilities designated at fair value through profit or loss		
Other liabilities	8,295	(21,239)
Net cash flows generated by (used for) operating activities	50,311	(98,776)
B. INVESTING ACTIVITIES		
1. Cash flows generated by	-	47
Sales of equity investments		
Dividends from equity investments		
Sales of property and equipment		
Sales of intangible assets		47
Sales of business units		
2. Cash flows used in	(718)	(826)
Purchases of equity investments		(25)
Purchases of property and equipment		(124)
Purchases of intangible assets		(594)
Purchases of business units		(608)
Net cash flows generated by (used in) investing activities	(718)	(779)
C. FINANCING ACTIVITIES		
Issues/repurchases of treasury shares	204	(559)
Issues/repurchases of equity instruments		
Dividend and other distributions	(5,216)	(5,768)
Net cash flows generated by (used in) financing activities	(5,012)	(6,327)
NET CASH FLOWS FOR THE PERIOD	44,581	(105,882)
Cash and cash equivalents at the beginning of the year	126,589	175,835
Total net cash flows for the year	44,581	(105,882)
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at the end of the period	171,170	69,953

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards

These condensed interim consolidated financial statements were drafted in accordance with Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) as endorsed and in force on 30 June 2023, including the interpretation documents (SIC) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by EU Regulation no. 1606 of 19 July 2002.

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

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

The specific accounting standards adopted have not been amended compared to the financial statements at 31 December 2022.

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

General basis of preparation

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

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

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

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

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

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

- the measurements are made considering that the bank will continue as a going concern guaranteed by the financial support of the Shareholders;
- costs and income are accounted for on an accruals basis;
- to ensure the comparability of the data and information in the financial statements and the notes to the financial statements, the methods of presentation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each material class of similar items is presented separately in the statement of financial position and income statement; items of a dissimilar nature or function are presented separately unless they are considered immaterial;
- items that have nil balances at year end or for the financial year or for the previous year are not indicated in the statement of financial position or the income statement;
- if an asset or liability comes under several items in the statement of financial position, the notes to the financial statements make reference to the other items under which it is recognised if it is necessary for a better understanding of the financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an IFRS or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the financial statements are drafted by favouring substance over form and in accordance with the principle of materiality and significance of the information;
- comparative data for the previous financial year are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the financial statements; the tables included in this layout were not presented if they were not applicable to the bank's business.

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

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

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank's main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and

the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate;

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

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

The accounting policies adopted for the drafting of the financial statements, with reference to the classification, recognition, valuation and derecognition criteria for the various assets and liabilities, like the guidelines for recognising costs and revenue, have remained unchanged compared with those adopted in the separate and consolidated financial statements at 31 December 2022, to which reference is made.

Scope and methods of consolidation

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

The following statement shows the investments included within the scope of consolidation.

Company Names	Registered office	Type of Relationship (1)	Investment		% of votes available (2)
			Investing company	% held	
Companies					
Subject to full consolidation					
S.F. Trust Holdings Ltd	UK	1	Banca Sistema	100%	100%
Largo Augusto Servizi e Sviluppo S.r.l.	Italy	1	Banca Sistema	100%	100%
Kruso Kapital S.p.A.	Italy	1	Banca Sistema	75%	75%
ProntoPegno Greece	Greece	1	Kruso Kapital	75%	75%
Art-Rite S.r.l.	Italy	1	Kruso Kapital	75%	75%
EBNSISTEMA Finance S.L.	Spain	7	Banca Sistema	50%	50%

Key:

(1) Type of relationship.

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

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

Quinto Sistema Sec. 2019 S.r.l.

Quinto Sistema Sec. 2017 S.r.l.

BS IVA SPV S.r.l.

Changes in the scope of consolidation

Compared to the situation as at 31 December 2022, the scope of consolidation has not changed.

Full consolidation method

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

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

- (a) the carrying amount of the investments held by the Parent and the corresponding part of the equity are eliminated;
- (b) the portion of equity and profit or loss for the year is shown in a specific caption.

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item "130 Intangible Assets" on the date of initial consolidation. The resulting differences, if negative, are recognised in the income statement. Intra-group balances and transactions, including income, costs and dividends, are entirely eliminated. The financial results of a subsidiary acquired during the financial year are included in the consolidated financial statements from the date of acquisition. At the same time, the financial results of a transferred subsidiary are included in the consolidated financial statements up to the date on which the subsidiary is transferred. The accounts used in the preparation of the consolidated financial statements are drafted on the same date. The consolidated financial statements were drafted using consistent accounting standards for similar transactions and events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for similar transactions and events in similar circumstances, adjustments are made to the financial position for

consolidation purposes. Detailed information with reference to art. 89 of Directive 2013/36/EU of the European Parliament and Council (CRD IV) is published at the link www.bancasistema.it/pillar3.

Consolidation at equity

Associates are consolidated at equity.

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

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

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

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

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

Events after the reporting date

After the reporting date, there were no events worthy of mention in the notes to the condensed interim consolidated financial statements 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 condensed interim consolidated financial statements were prepared by applying IFRS and valuation criteria on a going concern basis, and in accordance with the principles of accruals and materiality of information, as well as the general principle of the precedence of economic substance over legal form.

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

Other aspects

The condensed interim consolidated financial statements were approved on 28 July 2023 by the Board of Directors, which authorised their disclosure to the public in accordance with IAS 10.

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

A.3.1 *Reclassified financial assets: change in business model, carrying amount and interest income*

No financial instruments were transferred between portfolios.

A.3.2 *Reclassified financial assets: change in business model, fair value and effects on comprehensive income*

No financial assets were reclassified.

A.3.3 *Reclassified financial assets: change in business model and effective interest rate*

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

Qualitative disclosure

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

Please refer to the accounting policies.

A.4.2 *Processes and sensitivity of measurements*

The carrying amount of financial assets and liabilities due within one year has been assumed to be a reasonable approximation of fair value, while for those due beyond one year, the fair value is calculated taking into account both interest rate risk and credit risk.

A.4.3 *Fair value hierarchy*

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

Level 1- Effective market quotes

The valuation is the market price of said financial instrument subject to valuation, obtained on the basis of quotes expressed by an active market.

Level 2 - Comparable Approach

Level 3 - Mark-to-Model Approach

A.4.4 *Other Information*

The item is not applicable for the Group.

DETAILED TABLES

ASSETS

Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	30.06.2023	31.12.2022
a) Cash	1,528	1,667
b) current accounts and demand deposits with Central Banks	119,350	66,133
c) Current and deposit accounts with banks	50,292	58,789
Total	171,170	126,589

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

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

	30.06.2023			31.12.2022		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	557,311			553,046		
1.1 Structured instruments						
1.2 Other debt instruments	557,311			553,046		
2. Equity instruments	263			338		
3. Financing						
Total	557,574			5,000	553,384	
						5,000

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets measured at amortised cost - Item 40

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

	30.06.2023						31.12.2022					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	23					23	17,617					17,617
1. Term deposits				X	X	X				X	X	X
2. Minimum reserve				X	X	X	16,308			X	X	X
3. Reverse repurchase agreements				X	X	X				X	X	X
4. Other	23			X	X	X	1,309			X	X	X
B. Loans and receivables with banks	976	1		977	17,289	11						17,300
1. Financing	976	1		977	17,289	11						17,300
1.1 Current accounts and demand deposits				X	X	X				X	X	X
1.2. Term deposits	1			X	X	X	15,000			X	X	X
1.3. Other financing:	975	1		X	X	X	2,289	11		X	X	X
- Reverse repurchase agreements				X	X	X				X	X	X
- Finance leases				X	X	X				X	X	X
- Other	975	1		X	X	X	2,289	11		X	X	X
2. Debt instruments												
2.1 Structured instruments												
2.2 Other debt instruments												
Total	999	1		1,000	34,906	11						34,917

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

	30.06.2023						31.12.2022					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	Purchased or originated credit-impaired	L1	L2	L3
Financing	2,834,027	233,250	86		3,080,892		2,591,634	223,005	84		2,916,532	
1.1. Current accounts	648	54		X	X	X	319	153		X	X	X
1.2. Reverse repurchase agreements				X	X	X				X	X	X
1.3. Loans	226,583	23,842		X	X	X	195,790	1,966		X	X	X
1.4. Credit cards, personal loans and salary- and pension-backed loans	822,154	14,265		X	X	X	899,411	15,411		X	X	X
1.5. Finance leases				X	X	X				X	X	X
1.6. Factoring	1,190,241	181,859	86	X	X	X	1,083,395	190,501	84	X	X	X
1.7. Other financing	594,401	13,230		X	X	X	412,719	14,974		X	X	X
Debt instruments	650,913			654,182			681,038			672,384		
1.1. Structured instruments												
1.2. Other debt instruments	650,913			654,182	-		681,038			672,384		-
Total	3,484,940	233,250	86	654,182	3,080,892		3,272,672	223,005	84	672,384	2,916,532	

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

	30.06.2023			31.12.2022		
	First and second stage	Third stage	Purchased or originated credit- impaired	First and second stage	Third stage	Purchased or originated credit- impaired
1. Debt securities	650,913			681,032		
a) General governments	650,913			681,032		
b) Other financial corporations						
of which: insurance companies						
c) Non-financial corporations						
2. Financing to:	2,834,026	233,251	86	2,591,640	223,005	84
a) General governments	1,232,656	156,422	86	1,024,613	172,132	84
b) Other financial corporations	48,881	210		78,653	2,225	
of which: insurance companies	3,463	209		256	2,223	
c) Non-financial corporations	575,517	60,539		457,290	31,264	
d) Households	976,972	16,080		1,031,084	17,384	
Total	3,484,939	233,251	86	3,272,672	223,005	84

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

	Gross amount				Total impairment losses				Overall partial write-offs (*)
	First stage	Second stage	Third stage	Purchased or originated credit-impaired	First stage	Second stage	Third stage	Purchased or originated credit-impaired	
Debt securities	651,265	651,265			352				
Financing	2,744,645	1,117,857	96,275	296,820	86	5,271	624	63,568	
Total 30.06.2023	3,395,910	1,769,122	96,275	296,820	86	5,623	624	63,568	-
Total 31.12.2022	3,201,639	1,635,040	112,795	284,744	84	4,863	1,993	61,728	

Hedging derivatives - Item 50

5.1 Hedging derivatives: breakdown by type of hedge and level

	30.06.2023			31.12.2022			
	Fair value			Notional amount	Fair value		Notional amount
	L1	L2	L3		L1	L2	
A) Financial derivatives							
1) Fair value							
2) Cash flows							
3) Net investment in foreign subsidiaries							
B) Credit derivatives	415			103,000			
1) Fair value				415			103,000
2) Cash flows							
Total	415			103,000			

Value adjustment of hedged assets - Item 60

6.1 Value adjustment of hedged assets: breakdown by hedged portfolio

CHANGES TO HEDGED ASSETS/GROUP COMPONENTS	30.06.2023	31.12.2022
1. Positive changes		
1.1 Of specific portfolios:		
a) Financial assets at amortised cost		
b) Financial assets at fair value through other comprehensive income		
1.2 Overall		
2. Negative changes		(385)
2.1 Of specific portfolios:		(385)
a) Financial assets at amortised cost		(385)
b) Financial assets at fair value through other comprehensive income		
1.2 Overall		
Total		(385)

Equity investments - Item 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	Votes available %
A. Fully-controlled companies			
S.F. Trust Holdings Ltd	London	100%	100%
Largo Augusto Servizi e Sviluppo S.r.l.	Milan	100%	100%
Kruso Kapital S.p.A.	Milan	75%	75%
ProntoPegno Greece	Athens	75%	75%
Art-Rite S.r.l.	Milan	75%	75%
B. Joint ventures			
EBNSISTEMA Finance S.L.	Madrid	50%	50%

Section 9 – Property and equipment – Item 90

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

	30.06.2023	31.12.2022
1 Owned	36,693	37,217
a) land	10,897	10,897
b) buildings	24,108	24,512
c) furniture	567	576
d) electronic equipment	1,074	1,232
e) other	47	-
2 Right-of-use assets acquired under finance lease	5,000	6,157
a) land		
b) buildings	4,450	5,546
c) furniture		
d) electronic equipment		
e) other	550	611
Total	41,693	43,374
of which: obtained from the enforcement of guarantees received		

Property and equipment are recognised in the financial statements in accordance with the general acquisition cost criteria, including the related charges and any other expenses incurred to place the assets in conditions useful for the Bank, in addition to indirect costs for the portion reasonably attributable to assets that refer to the costs incurred, as at the end of the year.

Depreciation rates:

- Office furniture: 12%
- Furnishings: 15%
- Electronic machinery and miscellaneous equipment: 20%
- Assets less than Euro 516: 100%

Intangible assets - Item 100

10.1 Intangible assets: breakdown by type of asset

	30.06.2023	31.12.2022			
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill		x	33,526	x	33,526
A.2 Other intangible assets	1,344			990	
of which software	1,189			829	
A.2.1 Assets measured at cost:	1,344			990	
a) Internally developed assets	184			193	
b) Other	1,160			797	
A.2.2 Assets measured at fair value:					
a) Internally developed assets					
b) Other					
Total	1,344		33,526	990	33,526

Other assets - Item 130

13.1 Other assets: breakdown

	30.06.2023	31.12.2022
Ecobonus 110% tax assets	49,064	54,914
Tax advances	4,714	7,560
Work in progress	7,743	6,045
Prepayments not related to a specific item	6,996	4,730
Trade receivables	1,064	917
Other	3,515	999
Leasehold improvements	2,624	2,632
Security deposits	187	192
Total	75,907	77,989

LIABILITIES

Financial liabilities measured at amortised cost - Item 10

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

	Carrying amount	30.06.2023			31.12.2022			
		L1	L2	L3	Carrying amount	L1	L2	L3
1. Due to Central banks	545,388	X	X	X	537,883	X	X	X
2. Due to banks	396,900	X	X	X	84,983	X	X	X
2.1 Current accounts and demand deposits	42,146	X	X	X	2,336	X	X	X
2.2 Term deposits	60,127	X	X	X	65,084	X	X	X
2.3 Financing	294,097	X	X	X	16,627	X	X	X
2.3.1 Repurchase agreements	294,097	X	X	X		X	X	X
2.3.2 Other		X	X	X	16,627	X	X	X
2.4 Commitments to repurchase own equity instruments		X	X	X		X	X	X
2.5 Lease liabilities		X	X	X		X	X	X
2.6 Other payables	530	X	X	X	936	X	X	X
Total	942,288				942,288	622,866		622,866

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

	Carrying amount	30.06.2023			31.12.2022			
		L1	L2	L3	Carrying amount	L1	L2	L3
1. Current accounts and demand deposits	487,689	X	X	X	639,184	X	X	X
2. Term deposits	1,819,057	X	X	X	1,431,435	X	X	X
3. Financing	701,897	X	X	X	978,636	X	X	X
3.1 Repurchase agreements	626,139	X	X	X	865,878	X	X	X
3.2 Other	75,758	X	X	X	112,758	X	X	X
4. Commitments to repurchase own equity instruments		X	X	X		X	X	X
5. Lease liabilities		X	X	X		X	X	X
6. Other payables	8,192	X	X	X	6,955	X	X	X
Total	3,016,835				3,016,835	3,056,210		3,056,210

CA = carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Section 8 - Other Liabilities - Item 80

8.1 Other liabilities: breakdown

	30.06.2023	31.12.2022
Payments received in the reconciliation phase	132,115	103,512
Accrued expenses	17,148	18,814
Work in progress	16,408	19,245
Trade payables	6,532	7,257
Tax liabilities with the Tax Authority and other tax authorities	5,886	9,194
Finance lease liabilities	4,595	5,776
Due to employees	2,684	1,868
Pension repayments	558	939
Other	196	291
Total	186,122	166,896

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: changes

	30.06.2023	31.12.2022
A. Opening balance	4,107	4,311
B. Increases	625	1,127
B.1 Accruals	495	1,121
B.2 Other increases	130	-
B.3 Business combination transactions	-	6
C. Decreases	326	1,331
C.1 Payments	171	297
C.2 Other decreases	155	1,034
D. Closing balance	4,406	4,107

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

Annual discount rate	3.77%
Annual inflation rate	2.30%
Annual post-employment benefits increase rate	3.225%
Annual real salary increase rate	1.00%

Provisions for risks and charges - Item 100

Provisions for risks and charges: breakdown

	30.06.2023	31.12.2022
1. Provisions for credit risk related to commitments and financial guarantees issued	33	24
2. Provisions for other commitments and other guarantees issued		
3. Internal pension funds		
4. Other provisions for risks and charges	34,862	36,468
4.1 legal and tax disputes	14,887	12,818
4.2 personnel expense	3,777	5,411
4.3 other	16,198	18,239
Total	34,895	36,492

Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. Opening balance	24		36,468	36,492
B. Increases	9		6,387	6,396
B.1 Accruals	9		3,978	3,987
B.2 Discounting			-	-
B.3 Changes due to discount rate changes			-	-
B.4 Other increases			2,410	2,410
C. Decreases	-	-	7,993	7,993
C.1 Utilisations			6,191	6,191
C.2 Changes due to discount rate changes			-	-
C.3 Other decreases			1,802	1,802
D. Closing balance	33	-	34,862	34,895

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

“Share capital” and “Treasury shares”: breakdown

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

With regard to the disclosure of the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, please refer to the Directors’ Report, paragraph “CAPITAL AND SHARES”.

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

	Amount	Amount
	30.06.2023	31.12.2022
1. Share capital	9,651	9,651
2. Share premium	39,100	39,100
3. Reserves	170,038	155,037
4. Equity instruments	45,500	45,500
5. (Treasury shares)	(355)	(559)
6. Valuation reserves	(21,615)	(24,891)
7. Equity attributable to non-controlling interests	10,279	10,024
8. Profit	7,455	22,034
Total	260,053	255,896

Equity attributable to non-controlling interests - Item 190

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

	30.06.2023	31.12.2022
Equity investments in consolidated companies with significant non-controlling interests		
Kruso Kapital S.p.A.	10,344	10,084
ProntoPegno Greece	(71)	(91)
Art-Rite	(25)	-
Quinto Sistema 2019 S.r.l.	12	12
Quinto Sistema 2017 S.r.l.	9	9
BS IVA S.r.l.	10	10
Total	10,279	10,024

INCOME STATEMENT

Interest - Items 10 and 20

Interest and similar income: breakdown

Items/Technical forms	Debt instruments	Financing	Other transactions	First Half of 2023	First Half of 2022
1. Financial assets measured at fair value through profit or loss:	122			122	22
1.1 Financial assets held for trading	122	-		122	22
1.2 Financial assets designated at fair value through profit or loss					-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-				-
2. Financial assets measured at fair value through other comprehensive income	962		X	962	-
3. Financial assets measured at amortised cost:	12,169	68,895		81,064	46,458
3.1 Loans and receivables with banks		1,264	X	1,264	30
3.2 Loans and receivables with customers	12,169	67,631	X	79,800	46,428
4. Hedging derivatives	X	X			
5. Other assets	X	X	1,239	1,239	-
6. Financial liabilities	X	X	X		4,078
Total	13,253	68,895	1,239	83,387	50,558
of which: interest income on impaired assets					
of which: interest income on finance leases	X		X		

Interest and similar expense: breakdown

Items/Technical forms	Liabilities	Securities	Other transactions	First Half of 2023	First Half of 2022
1. Financial liabilities measured at amortised cost	43,991	3,374		47,365	5,635
1.1 Due to Central banks		X			-
1.2 Due to banks	11,373	X		11,373	50
1.3 Due to customers	32,618	X		32,618	5,518
1.4 Securities issued	X	3,374		3,374	67
2. Financial liabilities held for trading			156	156	-
3. Financial liabilities designated at fair value through profit or loss			22	22	-
4. Other liabilities and provisions	X	X			
5. Hedging derivatives	X	X			
6. Financial assets	X	X	X		277
Total	43,991	3,374	178	47,544	5,912
of which: interest expense related to lease liabilities	28	X	X	28	26

Net fee and commission income - Items 40 and 50

Fee and commission income: breakdown

	First Half of 2023	First Half of 2022
a) Financial instruments	80	63
1. Placement of securities	55	41
1.1 Underwritten and/or on a firm commitment basis	55	41
1.2 Without a firm commitment basis	-	-
2. Order collection and transmission, and execution of orders on behalf of customers	19	16
2.1 Order collection and transmission for one or more financial instruments	19	16
2.2 Execution of orders on behalf of customers	-	-
3. Other fees associated with activities related to financial instruments	6	6
of which: dealing on own account	-	-
of which: individual asset management	6	6
b) Corporate Finance	-	-
c) Investment advisory activities	-	-
d) Clearing and settlement	-	-
e) Custody and administration	-	-
f) Central administrative services for collective asset management	-	-
g) Fiduciary activities	-	-
h) Payment services	71	69
1. Current accounts	36	35
2. Credit cards	-	-
3. Debit and other payment cards	13	2
4. Bank transfers and other payment orders	-	-
5. Other fees related to payment services	22	32
i) Distribution of third party services	5	-
2. Insurance products	5	-
j) Structured finance	-	-
k) Servicing of securitisations	-	-
l) Commitments to disburse funds	-	-
m) Financial guarantees issued	51	32
n) Financing transactions	7,132	6,172
o) Foreign currency transactions	-	-
p) Commodities	-	-
q) Other fee and commission income	9,524	9,408
Total	16,863	15,744

Fee and commission expense: breakdown

Services/Amounts	First Half of 2023	First Half of 2022
a) Financial instruments	41	37
of which: trading in financial instruments	41	37
of which: placement of financial instruments	-	-
of which: individual asset management	-	-
- Proprietary	-	-
- Delegated to third parties	-	-
b) Clearing and settlement	-	-
c) Custody and administration	-	-
d) Collection and payment services	177	108
of which: credit cards, debit cards and other payment cards	-	-
e) Servicing of securitisations	-	-
f) Commitments to receive funds	-	-
g) Financial guarantees received	682	435
of which: credit derivatives	-	-
h) Off-premises distribution of securities, products and services	5,846	8,151
i) Foreign currency transactions	-	-
j) Other fee and commission expense	38	57
Total	6,784	8,788

Dividends and similar income - Item 70*Dividends and similar income: breakdown*

Items/Income	First Half of 2023		First Half of 2022	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading				
B. Other financial assets mandatorily measured at fair value through profit or loss				
C. Financial assets measured at fair value through other comprehensive income	227		227	
D. Equity investments				
Total	227		227	

Net trading income (expense) – Item 80

Net trading income (expense): breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets held for trading		265		(299)	(34)
1.1 Debt instruments		265		(297)	(32)
1.2 Equity instruments					
1.3 OEIC units					
1.4 Financing					
1.5 Other			-		(2) (2)
2. Financial liabilities held for trading					
2.1 Debt instruments					
2.2 Payables					
2.3 Other					
3. Other financial assets and liabilities: exchange rate gains (losses)	X		X	X	X
4. Derivatives					
4.1 Financial derivatives:					
- On debt instruments and interest rates					
- On equity instruments and equity indexes					
- On currencies and gold	X		X	X	X
- Other					
4.2 Credit derivatives					
of which: natural hedges connected to the fair value option	X		X	X	X
Total		265		(299)	(34)

Net hedging income (expense) – Item 90

Net hedging income (expense): breakdown

	First half of 2023	First half of 2022
A. Income related to:		
A.1 Fair value hedging derivatives	415	
A.2 Hedged financial assets (fair value)		
A.3 Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives		
A.5 Foreign currency assets and liabilities		
Total hedging income (A)	415	
B. Expense related to:		
B.1 Fair value hedging derivatives		
B.2 Hedged financial assets (fair value)	(385)	
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives		
B.5 Foreign currency assets and liabilities		
Total hedging expense (B)	(385)	
C. Net hedging income (expense) (A - B)	30	
of which: income (expense) from hedges of net positions		

Gain from sales or repurchases – Item 100

Gain from sales or repurchases: breakdown

	First Half of 2023			First Half of 2022		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets						
1. Financial assets measured at amortised cost:	2,746		2,746	3,051		3,051
1.1 Loans and receivables with banks						
1.2 Loans and receivables with customers	2,746		2,746	3,051		3,051
2. Financial assets measured at fair value through other comprehensive income	543		543	3,292	(2,206)	1,086
2.1 Debt instruments	543		543	3,292	(2,206)	1,086
2.4 Financing						
Total assets (A)	3,289		3,289	6,343	(2,206)	4,137
B. Financial liabilities measured at amortised cost						
1. Due to banks						
2. Due to customers						
3. Securities issued						
Total liabilities						

Net impairment losses/gains due to credit risk – Item 130

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

	Impairment losses (1)						Impairment gains (2)				First Half of 2023	First Half of 2022		
	First stage	Second stage	Third stage		Purchased or originated credit- impaired		First stage	Second stage	Third stage					
			Write-offs	Other	Write-offs	Other			Third stage	Purchased or originated credit-impaired				
A. Loans and receivables with banks							(3)				(3)	(40)		
- financing							(3)				(3)	(40)		
- debt instruments												-		
B. Loans and receivables with customers:	232		9	3,396			(774)		(23)		2,840	5,040		
- financing	232		9	3,396			(759)		(23)		2,855	5,083		
- debt instruments							(15)				(15)	(43)		
C. Total	232		9	3,396			(777)		(23)		2,837	5,000		

Net impairment losses due to credit risk related to financial assets measured at fair value through other comprehensive income: breakdown

	Impairment losses (1)						Impairment gains (2)				First Half of 2023	First Half of 2022		
	First stage	Second stage	Third stage		Purchased or originated credit- impaired		First stage	Second stage	Third stage					
			Write-offs	Other	Write-offs	Other			Third stage	originated credit- impaired				
A. Debt instruments												-		
B. Financing														
- To customers												-		
- To banks												-		
Total												56		

Administrative expenses – Item 190

Personnel expense: breakdown

Personnel Expense	First Half of 2023	First Half of 2022
1) Employees	13,765	13,366
a) wages and salaries	8,907	8,577
b) social security charges	2,252	2,219
c) post-employment benefits		
d) pension costs		
e) accrual for post-employment benefits	577	473
f) accrual for pension and similar provisions:		-
- defined contribution plans		
- defined benefit plans		
g) payments to external supplementary pension funds:	170	224
- defined contribution plans	170	224
- defined benefit plans		
h) costs of share-based payment plans		
i) other employee benefits	1,859	1,873
2) Other personnel	189	207
3) Directors and statutory auditors	784	757
4) Retired personnel		
5) Recovery of costs for employees of the Bank seconded to other entities		
6) Reimbursement of costs for employees of other entities seconded to the Bank		-
Total	14,738	14,330

Other administrative expenses: breakdown

Other administrative expenses	First Half of 2023	First Half of 2022
Consultancy	3,600	2,613
IT expenses	3,555	3,060
Servicing and collection activities	971	1,415
Indirect taxes and duties	1,558	1,721
Insurance	586	425
Other	615	457
Expenses related to management of the SPVs	283	478
Outsourcing and consultancy expenses	245	232
Car hire and related fees	375	295
Advertising and communications	1,463	403
Expenses related to property management and logistics	1,349	1,246
Personnel-related expenses	56	36
Entertainment and expense reimbursement	357	221
Infoprovider expenses	379	294
Membership fees	227	192
Audit fees	190	185
Telephone and postage expenses	253	197
Stationery and printing	59	73
Total operating expenses	16,121	13,543
Resolution Fund	1,568	1,920
Total	17,689	15,463

Income taxes – Item 300

Income taxes: breakdown

	First Half of 2023	First Half of 2022
1. Current taxes (-)	792	(5,390)
2. Changes in current taxes of previous years (+/-)	(62)	-
3. Decrease in current taxes for the year (+)		
3bis. Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)		
4. Changes in deferred tax assets (+/-)	(464)	82
5. Changes in deferred tax liabilities (+/-)	(4,180)	(542)
6. Tax expense for the year (-) (-1+-2+3+-4+-5)	(3,915)	(5,850)

Earnings per share

Earnings per share (EPS)	First Half of 2023	First Half of 2022
Profit for the period (thousands of Euro)	6,671	11,739
Average number of outstanding shares	80,180,616	80,096,043
Basic earnings per share (basic EPS) (in Euro)	0.083	0.147
Diluted earnings per share (diluted EPS) (in Euro)	0.083	0.147

EPS is calculated by dividing the profit attributable to holders of ordinary shares of Banca Sistema (numerator) by the weighted average number of ordinary shares (denominator) outstanding during the year.

INFORMATION CONCERNING THE GROUP'S EQUITY

OWN FUNDS AND CAPITAL RATIOS

Own funds

Quantitative disclosure

	30.06.2023
A. Common Equity Tier 1 (CET1) before application of prudential filters	201,578
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	8,156
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	209,734
D. Items to be deducted from CET1	37,657
E. Transitional regime - Impact on CET (+/-)	-
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	172,077
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	45,500
of which AT1 instruments covered by transitional measures	-
H. Items to be deducted from AT1	-
I. Transitional regime - Impact on AT1 (+/-)	-
L. Total Additional Tier 1 (AT1) (G-H+/-I)	45,500
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	207
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P. Total Tier 2 (T2) (M-N+/-O)	207
Q. Total Own Funds (F+L+P)	217,784

Capital adequacy

Quantitative disclosure

	Unweighted amounts		Weighted amounts/requirements	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022
A. EXPOSURES				
A.1 Credit and counterparty risk	7,624,909	6,461,152	1,259,152	1,194,472
1. Standardised approach	7,624,909	6,461,152	1,259,152	1,194,472
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk	-	-	100,732	95,558
B.2 Credit valuation adjustment risk	-	-	5	157
B.3 Settlement risk	-	-	-	-
B.4 Market risk	-	-	-	-
1. Standard approach	-	-	-	-
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.5 Operational risk	-	-	15,105	15,105
1. Standard approach	-	-	15,105	15,105
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.6 Other calculation elements	-	-	-	-
B.7 Total prudential requirements	-	-	115,842	110,820
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets	-	-	1,448,027	1,385,244
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)	-	-	11.9%	12.6%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)	-	-	15.0%	15.9%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)	-	-	15.0%	15.9%

Large exposures

As at 30 June 2023, the Group's large exposures are as follows:

- a) Nominal amount € 4,641,763 (in thousands)
- b) Weighted amount € 503,575 (in thousands)
- c) No. of positions 26.

RELATED PARTY TRANSACTIONS

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

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

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

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

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

Disclosure on the remuneration of key management personnel

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

In thousands of Euro	Board of Directors	Board of Statutory Auditors	Other managers	30.06.2023
Remuneration to Board of Directors and Board of Statutory Auditors	1,717	119	-	1,837
Short-term benefits for employees	-	-	1,917	1,917
Post-employment benefits	97	-	167	264
Other long-term benefits	270	-	88	358
Termination benefits	-	-	-	-
Share-based payments	286	-	55	341
Total	2,371	119	2,226	4,716

Disclosure on related party transactions

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

In thousands of Euro	Directors, Board of Statutory Auditors and key management personnel	Other related parties	% of caption
Loans and receivables with customers	256	10,665	0.3%
Due to customers	2,331	73,066	2.5%

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

In thousands of Euro	Directors, Board of Statutory Auditors and key management personnel	Other related parties	% of caption
Interest income	2	0	0.0%
Interest expense	28	115	0.3%

Details are provided below for each of the following related parties that are shareholders exceeding the 5% stake threshold in individual Group companies.

In thousands of Euro	Amount (Thousands of Euro)	Percentage (%)
LIABILITIES	4,091	0.1%
Due to customers	-	0.0%
Shareholders - SGBS	1,233	0.0%
Shareholders - Fondazione CR Alessandria	2,801	0.1%
Shareholders - Fondazione Sicilia	57	0.0%

SEGMENT REPORTING

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

Breakdown by segment as at 30 June 2023

Income statement (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	Group Total
Net interest income	33,143	(746)	3,437	9	35,843
Net fee and commission income (expense)	4,718	(157)	5,518	0	10,079
Dividends and similar income	153	74	-	-	227
Net trading income (expense)	(25)	(9)	-	-	(34)
Gain from sales or repurchases of financial assets/liabilities	1,762	1,527	-	-	3,289
Total income	39,751	688	8,955	9	49,404
Net impairment losses on loans and receivables	(2,536)	177	(39)	(440)	(2,837)
Net financial income (expense)	37,215	866	8,917	(431)	46,566

Statement of Financial Position (€,000)	Factoring Division	CQ Division	Collateralised Lending Division	Corporate Centre	Group Total
Cash and cash equivalents	115,647	55,522	-	-	171,170
Financial assets (HTS and HTCS)	380,092	182,482	-	-	562,574
Loans and receivables with banks	667	333	-	-	1,000
Loans and receivables with customers	2,520,803	1,083,434	112,582	1,457	3,718,276
Loans and receivables with customers - loans	2,081,026	872,297	112,582	1,457	3,067,363
Loans and receivables with customers - debt instruments	439,777	211,137	-	-	650,913
Due to banks	-	-	-	942,288	942,288
Due to customers	52,758	-	-	2,964,077	3,016,835

This segment reporting includes the following divisions:

- Factoring Division, which includes the business segment related to the origination of trade and tax receivables with and without recourse and the management and recovery of default interest. In addition, the division includes the business segment related to the origination of state-guaranteed loans to SMEs disbursed to factoring customers and the management and recovery of receivables on behalf of third parties;
- CQ Division, which includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios and salary- and pension-backed loans disbursed through the direct channel;

- Collateralised Lending Division, which includes the business segment related to collateral-backed loans;
- Corporate Division, which includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. In particular, the cost of funding managed in the central treasury pool is allocated to the divisions via an internal transfer rate ("ITR"), while income from the management of the securities portfolio and income from liquidity management (the result of asset and liability management activities) is allocated entirely to the business divisions through a pre-defined set of drivers. The division also includes income from the management of SME loan run-offs.

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

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

1. The undersigned, Gianluca Garbi, CEO, and Alexander Muz, Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- the suitability as regards the characteristics of the bank and
- the effective application of the administrative and accounting procedures for the drafting of the condensed interim financial statements, during the first half of 2023.

2. Reference model

The suitability of the administrative and accounting process for the drafting of the condensed interim financial statements at 30 June 2023 was assessed based on an internal model defined by Banca Sistema S.p.A. that was designed in a manner consistent with the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (CoSO), which represents the reference standards for the internal control system generally accepted on an international level.

3. Moreover, the undersigned hereby state that:

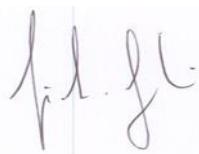
3.1 the condensed interim financial statements:

- a) were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) match the accounting books and records;
- c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer and all the companies included in the scope of consolidation.

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

Milan, 28 July 2023

Gianluca Garbi
Chief Executive Officer



Alexander Muz
Manager in charge of financial reporting



INDEPENDENT AUDITORS' REPORT

Banca Sistema S.p.A.

Auditor's review report on interim
condensed consolidated financial
statements

This report has been translated into English language solely for the convenience of international readers

Auditor's review report on interim condensed consolidated financial statements (Translation from the original Italian text)

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements, comprising the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes, of Banca Sistema Group as of June 30, 2023.

Directors are responsible for the preparation of the interim condensed consolidated financial statements in compliance with International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution No. 10867 of July 31, 1997. A review of an interim condensed consolidated financial statements consists of making enquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Sistema Group as of June 30, 2023 are not prepared, in all material respects, in accordance with International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 4, 2023

BDO Italia S.p.A.

Signed in the original
by Andrea Mezzadra
Partner

This report has been translated into English language solely for the convenience of international readers