

**CONSOLIDATED**  
**DATED**  
**FINANCIAL**  
**STATEMENTS**  
**AS AT**  
**30 JUNE**  
**2016**  
**HALF YEAR**

**BANCA**  
**SISTEMA**  
CONTEMPORARY BANK

**Banca Sistema Group**

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**CONSOLIDATED HALF-YEAR  
FINANCIAL REPORT  
AS AT 30 JUNE 2016**

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**BANCA**  
S I S T E M A



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CONSOLIDATED INTERIM  
DIRECTORS' REPORT

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## COMPOSITION OF THE PARENT COMPANY'S MANAGEMENT BODIES

### Board of Directors

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

### Board of Statutory Auditors

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

### Internal Control and Risk Management Committee

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

### Nominations Committee

Members:	Mr	Andrea Zappia
	Ms	Ilaria Bennati
	Ms	Luitgard Spögler

### Remuneration Committee

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

### Ethics Committee

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

### Surveillance Body

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

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

## HIGHLIGHTS DATA AS AT 30 JUNE 2016

Balance sheet data (€ ,000)			
Total assets		1,678,639	-30.4%
		2,411,670	
Securities portfolio		411,422	-55.5%
		925,402	
Loans - Factoring		911,543	-13.2%
		1,049,832	
Loans - Salary-backed loans and SME		266,016	30.7%
		203,466	
Funding - Banks and REPOs		620,876	-51.2%
		1,271,164	
Funding - Term deposits		457,981	-20.0%
		572,379	
Funding - Current accounts		285,037	-15.1%
		335,574	

Profit and loss data (€ ,000)			
Interest margin		34,647	19.7%
		28,951	
Net fee and commission income		4,415	-24.6%
		5,853	
Net income from banking activities		40,092	8.8%
		36,864	
Personnel expenses		(7,466)	14.4%
		(6,528)	
Other administrative expenses (*)		(10,239)	13.2%
		(9,042)	
Profit before taxes (*)		21,737	12.1%
		19,388	

Performance indicators			
Cost/income Ratio (*)		44%	2.9%
		42%	
ROAE (**)		29%	-13.5%
		34%	

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

(\*\*) The Return on Average Equity (ROAE) was calculated as the ratio of the normalised profit for the period (at 30 June 2016) to average shareholders' equity.

## SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

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

On 15 March 2016 the Board of Directors approved: (I) the "Annual report on the procedures for providing services, investment activities, ancillary services and activities related to the distribution of financial products issued by insurance companies and banks as per CONSOB decision no. 17297", (II) the "2015 Risks Division Annual Report", (III) the "2015 Compliance Department Annual Report", (IV) the "2015 Anti-Money Laundering Department Annual Report", (V) the 'Compliance Department Annual Report on complaints received by the Bank', (VI) the "Annual Report on the activities carried out by the Internal Audit Department during 2015", and (VII) the Periodic Report to the Board of Directors and Board of Statutory Auditors from the Surveillance Body concerning the application of the "Organisation, management and control model

pursuant to Legislative Decree 231/2001". The Board of Directors also approved the Report on corporate governance and ownership structure which was prepared in accordance with section 123-bis of Legislative Decree no. 58/1998, as well as the updated IT System documentation (IT Security Policy, IT Risk Summary Report, Information Technology and Communication Adequacy and Cost Summary Report).

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

On 25 March 2016, the Bank of Italy issued the authorisation provision - pursuant to Articles 77 and 78 of Regulation (EU) No. 575/2013, as well as Article 29 of Commission Delegated Regulation No. 241/2014 - for the repurchase of the Common Equity Tier 1 capital instruments issued by the Bank as resolved by the Shareholders' Meeting on 27 November 2015 for a predetermined amount not exceeding € 1,477,649.49 (amount to be deducted entirely from own funds as of the authorisation date) for the following purposes: (I) to support regular trading performance so as to avoid price movements that are not in line with the market movements and to guarantee market making (Article 29 (3) of Commission Delegated Regulation No. 241/2014); (II) to pay a portion of the variable remuneration in shares to key personnel as set out in the remuneration and incentive policies approved by the

Shareholders' Meeting (Article 29 (4) of Commission Delegated Regulation No. 241/2014); (III) provide the directors with a flexible, strategic and operational tool that will allow them to use own shares as consideration for any extraordinary transactions, such as acquisitions or investment exchanges, with other parties regarding transactions of interest to the Bank. The maximum amount available for this purpose is € 140,000 (Article 29 (5) of Commission Delegated Regulation No. 241/2014).

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

- the approval of the financial statements of Banca Sistema S.p.A. as at and for the year ended 31 December 2015;
- the allocation of the profit for 2015, with the payment of a dividend of € 0.053 per share;
- the approval of the 2016 Remuneration Policies of the Banca Sistema S.p.A. Group, with a maximum limit of the ratio of the variable component to the fixed component of remuneration of 2:1 for positions falling into the category of "key personnel";
- to acknowledge the Remuneration Report, drafted in accordance with Part One, Title IV, Chapter 2, of Bank of Italy Circular No. 285 of 17 December 2013, approved by the Board of Directors on 24 March 2016, with a favourable opinion of Section I;
- to approve the 2016 Stock Grant Plan, concerning the free assignment to beneficiaries of ordinary shares of the Company at the end of the first cycle of the 2016 Plan, contingent on the achievement of certain company and individual performance targets;
- the establishment of a specific restricted equity reserve in service of the 2016 Stock Grant Plan and the 2017-2019 plans that may in future be approved by the Shareholders' Meeting in respect of the years of accrual 2017, 2018 and 2019, designated the "Restricted reserve for capital increase in service of stock-grant plans for bonuses in 2016, 2017, 2018 and 2019", in the amount of € 1,600,000.00, to be drawn from a pre-existing free equity reserve consisting of "undistributed profits" identified in

the "Undistributed profit reserve";

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

Within the framework of the securitisation transaction approved by the Board of Directors on 5 February 2016, on 4 March 2016 an agreement was signed to sell the first portfolio of receivables relating to salary- and pension-backed loans to the special purpose vehicle Quinto Sistema Sec. 2016 S.r.l for a book value of € 119.6 million, with the subsequent issue of ABS on 29 March 2016. The SPV Quinto Sistema Sec. 2016 S.r.l. was included in the list of SPVs under no. 35253.4 on 9 March 2016. On 24 March, the bond documents for the issue of the ABS were signed, while on 29 March the OTC repo contract (structured as a sale and repurchase agreement) with Duomo Funding plc was signed. Finally, on 30 March the settlement transactions for both the issue of the ABS (subscribed by Banca Sistema) and the Repo contract with Duomo Funding plc regarding the senior tranche were concluded. The amount of the issue was €120.9million. On 23 May a new portfolio of salary-backed loans was sold to the SPV Quinto Sistema Sec. 2016 for a book value of € 24.1 million, partly financed through collection of principal from the securitised portfolio (€ 1.8 million), with the remainder funded through further payments "called up" on the ABS according to

their “partly paid” structure. Following the second sale, the total securitised portfolio reached an outstanding value of approximately € 138 million. On 23 May the OTC repo contract was renewed with Duomo Funding plc for a term of two months in the case of the senior tranche, in an amount, following the sale of the new portfolio, of € 111.9 million (rolling over the initial repo, which had a nominal value of € 93.5 million), refinanced, as in the case of the previous transaction, without a haircut at an annual interest rate of 0.503% (including commissions).

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

In addition, the Board of Directors approved the update to the Liquidity Policy and Contingency Funding Plan, the 2015 ICAAP Report, the ‘Annual report from the Internal Audit Department concerning audits conducted on the outsourced operating functions’ and the Regulations for the Coordination of the Internal Control Department. Furthermore, the Board acknowledged the

quarterly report by the Internal Control Department as at 31.3.2016 (Risk Reporting, Tableau de bord of the Compliance Department and Tableau de Bord of the Internal Audit Department), the quarterly report on Transactions with Associated Parties within the scope of the Master Resolution and the Pillar III Disclosure. Banca Sistema's first senior bond issue, approved during the session of the Board of Directors held on 29 April, was concluded on 3 May 2016. The placement in a club deal reserved for institutional investors, in the total amount of € 70 million, spread over six investors, has a term of two years, with a fixed rate and an all-inclusive cost of 200 bps. The issue is part of a plan to diversify the forms of funding, in accordance with the Funding Plan, and allows for improved asset liability management.

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

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

In the context of a new securitisation transaction approved by the Board of Directors on 10 June 2016,

the sales contracts were signed on 30 June: the Sales Contract (including the Guarantees), Servicing Contract and Corporate Servicing Contract (for the management of the SPV). The portfolio of loans sold includes 145 enforceable injunctions (status of “not opposed” and later stages) amounting to total principal of € 23.9 million, with € 7.7 million of late payment interest accrued (of which € 1.5 million relating to invoices the principal of which has been repaid and € 6.2 million of invoices that have yet to be repaid). The price was structured as “to be determined” and will be equal to the algebraic sum of the nominal value, 15% of the accrued late payment interest and accounting adjustments at 30/6/2016.

On 21 June 2016 Banca Sistema and the majority

shareholders signed an agreement with Axactor AB for the acquisition of a 90% equity interest in CS Union S.p.A., an independent leading Italian player in the field of debt recovery and the purchase of non-performing loans (NPLs).

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

## THE MACROECONOMIC SCENARIO

In the first half of 2016, the macroeconomic scenario was influenced by the Brexit referendum: on 23 June the British electorate took part in a referendum on whether the United Kingdom should leave the European Union. The positive outcome of the vote increased the volatility of financial markets and the risks for global growth prospects, already adversely influenced by the crisis in emerging economies.

In fact, in the emerging countries, the economic outlook remains weak and is contributing to increasing the risk for growth and global financial markets.

Although the tensions on the financial market that emerged in early 2016 surrounding the growth of the country's economy have subsided, China's economy continues to slow. The oil price crisis, with levels at a low early in the year, seems to have come to an end, with oil prices recovering, thanks to the decline in U.S. supply and the temporary disruption of production in important oil-exporting nations.

The British decision to leave the European Union intensified cooperation between the major central banks to combat liquidity risk for intermediaries, influenced by financial market volatility.

Cyclical expansion continues in the euro area: as

indicated in Bank of Italy's Economic Bulletin no. 3/2016 of 15 July 2016, in the first quarter of 2016 GDP increased by 0.6%, marking an increase in the growth rate to higher levels than in previous periods. The reasons for this faster growth are to be sought in increased household spending and greater investments. Imports increased as a result of greater domestic demand.

The second quarter of 2016 is expected to be marked by an increase in economic activity at a slower rate than in the previous quarters. In June, the €-coin indicator prepared by the Bank of Italy, which measures the underlying performance of the area's GDP, increased, confirming that economic activity is expanding.

Growth prospects in the area are threatened by enduring uncertainty about demand in important export markets, particularly emerging economies, the intensification of geopolitical tensions and the uncertainty spread by the outcome of the Brexit referendum.

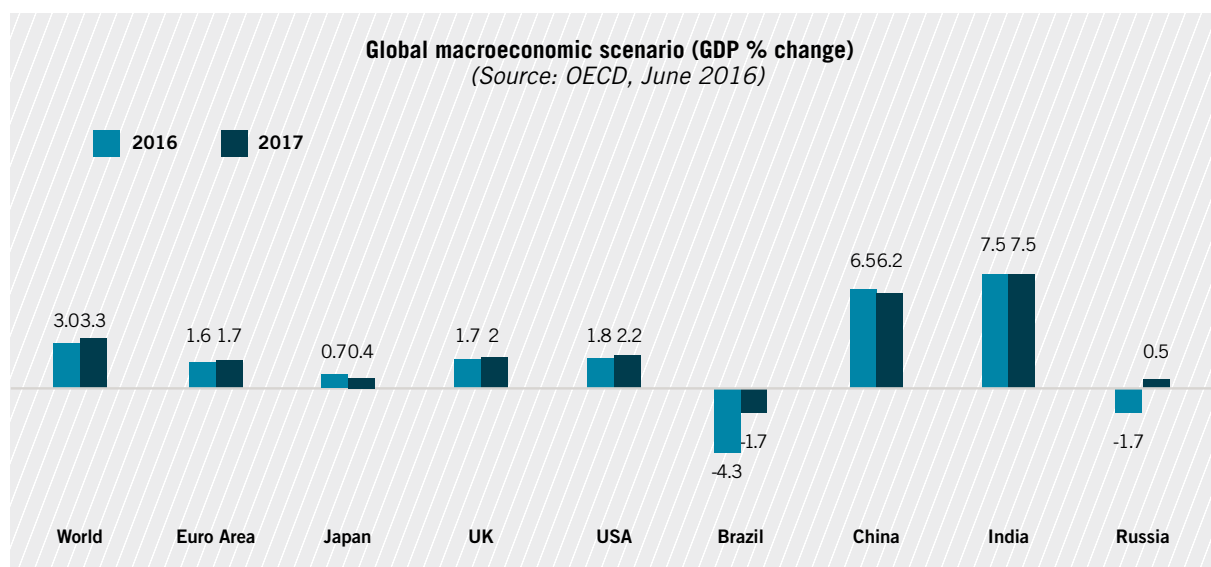
According to the statistics included in the Bulletin, in June consumer inflation amounted to 0.1%, climbing above the nil levels recorded in previous months. Estimates by experts at the ECB indicate that inflation is expected to rise to around 0.2%.

Following the outcome of the referendum, the ECB announced that it will be monitoring financial markets more closely, will prioritise contacts with other central banks and is ready to provide additional liquidity, if needed. In addition, the ECB introduced four new targeted refinancing operations with longer terms of four years and highly advantageous conditions. The first operation was launched in June, with the aim of stimulating the supply of credit and supporting economic activity and price performance in a number of channels. The credit market continued to benefit from the expansionary contribution of monetary policy measures, while suffering from the weakness of the global

macroeconomic scenario, a high level of continuing credit risk and the incomplete process of reducing financial leverage in the major sectors of the economy.

In the second quarter of 2016, loans to businesses increased at a slower rate than in the previous periods (1.2%), and the growth of loans to households gained speed (to 1.7%).

With the referendum in the United Kingdom, investors' preference for financial assets deemed more secure was intensified, leaving yields on the long-term government bond of the major economies at very modest rates. In June German government bond yields fell to below-zero values for the first time.





## ITALY

The Italian recovery continues at a modest rate: growth improved in the first quarter of 2016, due to an increase in household spending and investments, even though a decrease is expected in the second quarter. As indicated in the Economic Bulletin of the Bank of Italy, in the first quarter of 2016 GDP was up 0.3% at the quarterly level. GDP growth was slowed by foreign trade, as in the entire Euro area. In the second quarter of 2016, manufacturing activity decreased slightly, whereas services recovered and there were widespread signs of a recovery in the construction sector.

Despite the Brexit referendum, business confidence indicators remained quite high, albeit with uneven performances in the major sectors of the economy: increases were concentrated above all in the construction sector. The outlook for investment spending is improving, whereas production is deteriorating, as a result of the uncertainty surrounding the performance of international demand and geopolitical risks. Investments continue to grow, up 0.2% compared to the previous period, thanks above all to the acceleration of the plant and equipment component, driven in part by the stimulus measures for the purchases of capital goods introduced by the Stability Law. Only investments in construction declined.

In the first few months of 2016, corporate debt decreased further in proportion to GDP and the growth of bank loans to companies seems to have stabilised at nil values. In addition, in the first quarter of 2016 the net bond funding of Italian companies was negative. Household consumption continues to increase, driven by the modest recovery of disposable income and the stabilisation of real-estate prices. In the first quarter of 2016, household consumption increased by 0.3% thanks to the increase in both the goods and services components. In addition, disposable income increased (1.1%) as a result of more favourable employment conditions.

Italian household debt decreased slightly in proportion to disposable income (62.0%), remaining below the average for the euro area (95% at the end of December). Interest rates on new loans decreased further.

In the first quarter of 2016, exports of goods and services

decreased compared to the previous period (-0.5% by volume). The reasons are to be sought in the weakness and unevenness of the recovery of global trade and the uncertain outlook of international sales.

The decline affected non-EU markets above all and all sectors, with the exception of vehicles.

Imports also decreased (-0.9% by volume), but at a slower rate. In particular, there was a decrease in imports of goods in the commodities, electronics and textiles/apparel sectors, whereas there were increases in imports of refined petroleum products, vehicles and mechanical products. The Brexit referendum also had an adverse impact on the outlook for foreign trade, but to a less pronounced extent in Italy than in the other countries. The current account surplus continued to improve, rising to € 9.6 billion in the first four months of 2016 (€ 4.1 billion in the same period of the previous year), thanks above all to the strong performance of the trade surplus, due to the decreased expenditure on energy products.

Foreign purchases of Italian government bonds decreased compared to the previous period: in 2016 net foreign investments in Italian bonds amounted to €15.9 billion, due above all to the redemption of bonds not offset by new issues. Investments in foreign securities by Italian residents continued to increase. There was further increase in the number of the employed in the first quarter of 2016, which was up by 0.3% compared to the previous period.

Credit to the private sector is growing at a moderate rate: growth is concentrated above all in loans to manufacturing companies. Credit quality continues to improve, while remaining high.

At the beginning of the year, the Italian financial markets were also affected by the turbulence caused by the deterioration of the global macroeconomic scenario and the emergence of new concerns relating to the profitability and asset quality of European banks. Market conditions began to ease once again, thanks to the enhancement of expansionary monetary policy measures, while remaining volatile.

The effects of the outcome of the referendum on the United

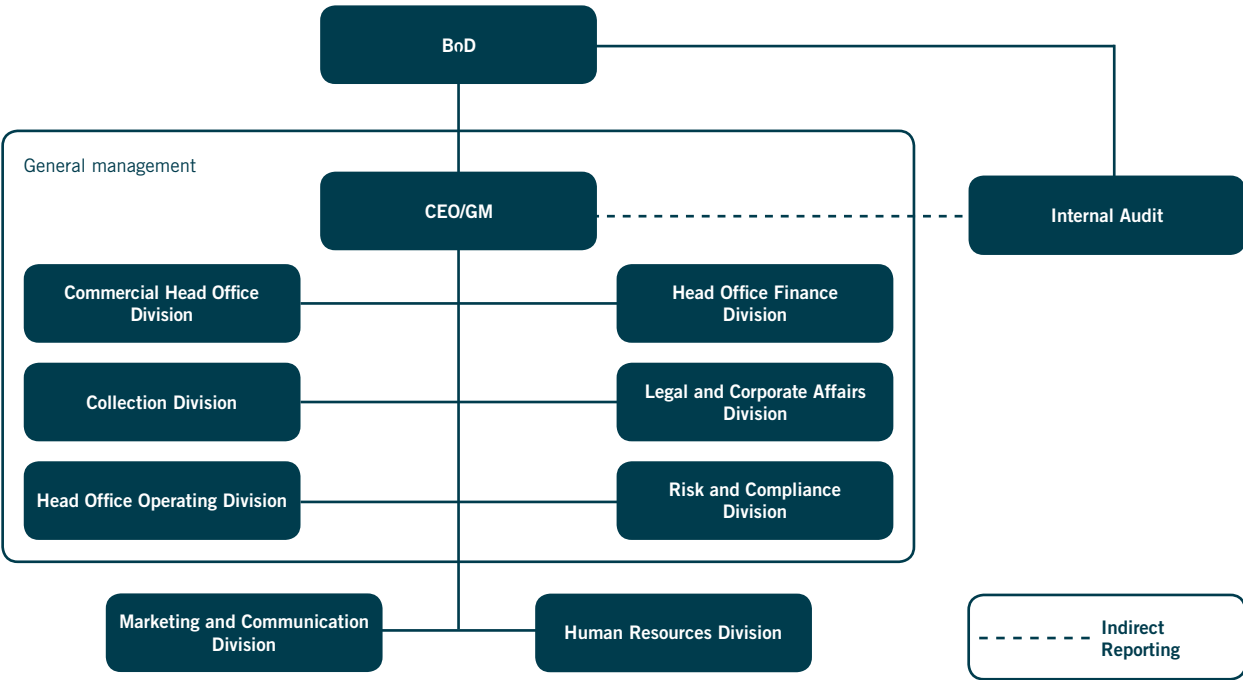
Kingdom's departure from the European Union remain difficult to assess and could spread to Italy through trade or changes of investment plans by companies operating on the British market.

## COMPOSITION AND ORGANISATIONAL STRUCTURE OF THE GROUP

On 30 June 2016, the Banca Sistema Group comprised the Parent Company, Banca Sistema S.p.A., and Specialty Finance Trust Holding Limited, a company incorporated under U.K. law and fully controlled by the Bank.

### ORGANISATIONAL CHART

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



## GENERAL MANAGEMENT

The following report to the CEO and General Manager:

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

## REGISTERED OFFICES AND BRANCHES OF THE BANCA SISTEMA GROUP

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

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

## HUMAN RESOURCES

As at 30 June 2016, the Group had a staff of 131, broken down by category as follows:

FTEs	30.06.2016	31.12.2015	30.06.2015
Senior managers	16	15	14
Middle managers (QD3 and QD4)	36	33	32
Other personnel	79	82	83
<b>Total</b>	<b>131</b>	<b>130</b>	<b>129</b>

In the first half of the year, ten eleven new employees joined the group, and nine employees from the banking, commercial and risk areas left the group. In addition, one employee was promoted to senior manager in the commercial area and four employees were promoted to middle managers in the commercial, marketing, operations and collection areas.

The new employees include four resources in the

operations area, where a Middle Office has been set up to handle application reviews and controls for both SMEs and salary-backed loans. In addition, the collection area was enhanced.

The average age of Group employees is 40 for men and 38 for women, with women accounting for 41% of the total. These figures are similar to those reported in 2015.

### The Italian factoring market

The market situation, which was already clear at the end of the previous year and continued in the first half of 2016, is characterised by overall growth of the sector in accordance with the forecasts published by the most important specialised observers. This further bears out the validity of debtor financing, and factoring in general, from various points of view.

Factoring, as an opportunity for diversification of access to sources of financing for the business world - as in the specific case small and medium enterprises - which is often subject to considerable credit restrictions imposed by the traditional banking industry, has contributed productively to providing financial support for business continuity and growth.

Credit management services, with the constantly expanding skillset possessed by factoring companies, permit considerable simplification of relationships between the participants in the system, which, in the absence of structural changes in Italy, promote a virtuous process aimed at ensuring better performance in the monetisation of the expected cash flows of suppliers.

In addition, for large companies, factoring services, in particular according to the without recourse formula, are of strategic importance due to their significant contribution to improving net financial position.

This first clear advantage is accompanied by the possibility, through servicing, of receiving full support in solving critical issues in relations with debtors - consider, for example, the public administration - thanks to the specialisation and far-reaching local monitoring ability assured by the most well organised operators.

These elements bear witness to the flexibility of an instrument that has shown its suitability and adaptability in the recent phases of development of the economic system, by both limiting the negative effects of critical phases of the economic cycle and encouraging development potential during this delicate and often contradictory time of emergence from the recent crisis years.

The subjects indicated above are borne out further by the growth trend of the last two years, during which the cumulative turnover rose from €178 billion in 2014 to approximately €185 billion in 2015; the figures for 2016 indicate a further increase in turnover, already in the first half of the year, of more than 2% compared to June 2015, projected to rise to around 4% by the end of the year.

The analysis of the data provided by ASSIFACT further emphasises that, from the players' perspective, the Italian market still appears quite concentrated: with over 59% of turnover in 2015 (compared to 61.5% at the end of 2014), market share is solidly in the hands of the top three factoring companies.

Specialised companies providing factoring services for business with the public administration - a category that includes Banca Sistema - also appear well positioned, with sound growth compared to the previous year. Their cumulative turnover in 2015 increased to 7.8% of the total (compared to 6.6% at the end of 2014).

In the first quarter of 2016, the figures appear to confirm the balance seen in previous years: despite a small decline, the top three factoring companies still account for over 58% of total turnover; companies specialising in the public administration represent 7.7% of the total.

It should be recalled that 2015 was characterised by the split payment initiative, which impeded market volume growth, with an effect that may be estimated at approximately 12%.

It may be stated that in the Italian market, one of the world's most important markets, the demand for factoring services involving the public administration represents an area of development with strong potential; the importance of this situation is also emphasised by the lack of structural political responses that would complete the brief reversal of the trend represented by the several legislative initiatives of recent years (Law Decree 35/2013 and Law Decree 66/2014).

In this regard, mention is quite frequently made in the Italian press of the constant difficulties in relations

between suppliers and government entities, as a result of which Italy is still today the worst payer in Europe, with average payment delays of approximately 40 days.

In the interest of completeness, it should be noted that, while there are still considerable difficulties in properly identifying actual values, there is agreement concerning the figures for the stock of outstanding, unpaid receivables, estimated at approximately € 61 billion, with average payment times that, while shorter than several years ago, in Italy still remain far from the European average and continue to exceed 130 days.

If a particular segment of the public administration is considered, namely goods and services provided to Italy's National Health Service, the average payment times reach and exceed 150 days (according to Assobiomedica).

From a geographical standpoint, according to the same sources cited above, regional payment performance is rather well defined and may be broken down into three different groups:

Up to 100 days of delay: Valle d'Aosta, Friuli Venezia Giulia, Trentino Alto Adige, Lombardy, Marche, Liguria and Veneto.

Up to 180 days of delay: Emilia Romagna, Umbria, Basilicata, Abruzzo, Puglia, Tuscany, Lazio and Piedmont.

Over 180 days of delay: Sardinia, Sicily, Campania, Calabria and Molise.

In addition, in 2015 the regions with the greatest density of companies remained those in which factoring was most common (Lombardy, Lazio and Piedmont).

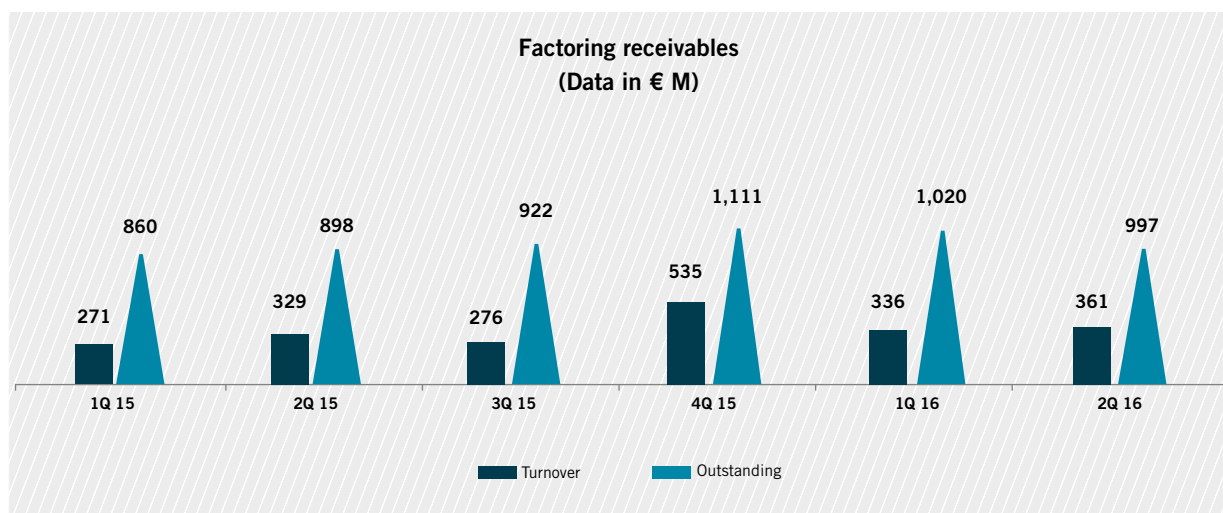
The various entrepreneurial trade associations have once again expressed their conviction that there is a greater need for overall reform of the system with the primary goal of designing and implementing a new legislative framework - laws, control systems and bureaucratic streamlining - aimed at favouring a consistent reduction

of the scope of the problem. One recent example of this, in the area of bureaucratic streamlining, comes from Confartigianato, which, in the context of the tax obligations to which member firms are subject, estimated 269 hours per year for such activities, compared to an OECD average of approximately 92 fewer hours.

In Italy's current political and economic situation, there is still not a full understanding of the necessity of making a priority of considering the need for reorganisation with the aim of fostering fairer relationships between all stakeholders involved. The timid first steps in the reform process, towards heightened transparency and oversight of spending, risks being undermined by the inertia of the government entities in question, which have failed to adapt their operating processes to the new rules: consider, for example, the difficulties experienced in implementing the electronic invoicing system and the unsatisfactory participation in the Ministry of the Economy and Finance's Receivable Certification Portal, which, slightly more than two years after its entry into effect, continues to be treated with considerable indifference, if not outright resistance. The significant growth of factoring in recent decades bears witness to the strategic value of this service in supporting the economic system, in that it represents a true alternative method of access to credit for companies. In the light of recent developments in the European political situation, the sector's prospects remain stably tied to aspects of development (factoring of tax credits, export factoring, etc.) capable of guaranteeing further margins of volume growth and extension to new services. With regard to the public administration, what are needed are both a radical cultural change and constant improvement of bureaucratic and administrative practices, the absence of which risks undermining all political initiatives aimed at comprehensive reform of the sector.

## The Banca Sistema Group and factoring activities

Turnover in the first half of 2016 for the Banca Sistema Group was € 697 million, up 16.2% on the same period in 2015. Considering the third party receivables managed, total volumes came to €849 million as at 30 June 2016.

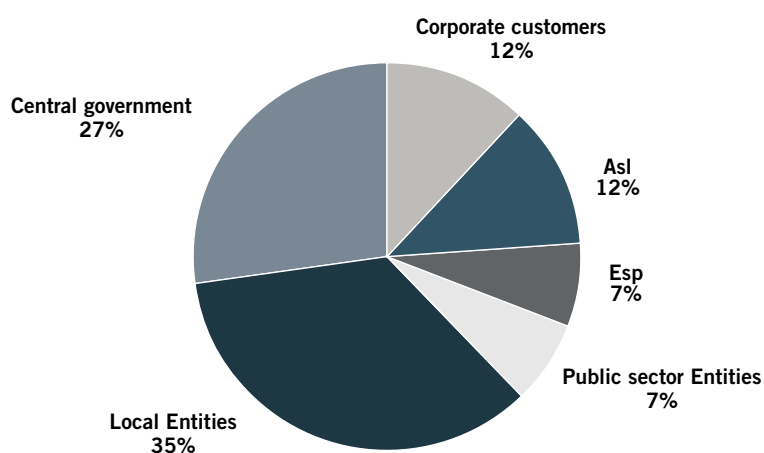


Outstanding loans as at 30 June 2016 amounted to € 997 million, impacted by the trend in turnover in 2016 and by collections in the period, up 11% on the € 898 million reported in the first half of 2015, but down 10% on the € 1,111 million recorded at 31 December 2015, mainly due to the collection trend during the first quarter of 2016, which was higher than receivable portfolios acquired during the same

period.

Collections as at 30 June 2016 stood at €790 million, up 29% on collections as at 30 June 2015.

The chart below shows the ratio of debtors to the outstanding portfolio as at 30 June 2016. The Group's core business remains the Public Administration entities segment.



The Group works through both direct assignments by companies and within the framework of regional agreements for restructuring or re-organising public entity debts.

These transactions include traditional factoring

agreements, as well as reverse factoring agreements with highly reliable public entities, which are seeking to use factoring with their suppliers in their role as debtors.

The following table shows the factoring turnover per product type:

PRODUCT	30.06.2016	30.06.2015	€ Change	% Change
Trade receivables	606	543	63	11%
<i>of which, without recourse</i>	<i>463</i>	<i>451</i>	<i>12</i>	<i>2%</i>
<i>of which, with recourse</i>	<i>143</i>	<i>92</i>	<i>51</i>	<i>56%</i>
Tax receivables	91	56	35	62%
<i>of which, without recourse</i>	<i>81</i>	<i>45</i>	<i>36</i>	<i>80%</i>
<i>of which, with recourse</i>	<i>10</i>	<i>11</i>	<i>(1)</i>	<i>-10%</i>
<b>TOTAL</b>	<b>697</b>	<b>600</b>	<b>97</b>	<b>16%</b>

Tax receivables (VAT) as at 30 June 2016 increased (+62%), partly due to the introduction of split payments in 2015, and include VAT credits from insolvency proceedings, a business that was launched at the end of 2014 with the support of a market specialist.

#### Collection and debt recovery activities

For the purposes of its debt recovery activities, the Group uses both its own internal structures, and a network of external operators and companies specialised in debt recovery that are active across the entire country. The network of freelancers used by the Bank enables an exact adjustment of the debt collection activities with regard to each specific debtor or an increase in the number of operators when it becomes necessary to focus on specific areas.

In the first half of 2016, collections managed by the Bank under its credit factoring portfolios totalled €790 (up 29% on 2015).

Recovery and reconciliation of collections has always been divided into ordinary recovery activity, when invoices are paid according to the internally estimated schedule, and legal recovery activity. In particular, the policy for managing and recovering receivables claimed by

The number of customers in the first half of 2016 increased to 223, up 35% on the first half of 2015 due to the strengthening of indirect factoring for the PA and private debtors, the extension of the sales network which began in 2015, and as a result of the agreements entered into with banks.

Banca Sistema from the public administration has been characterised, since the launch of the business, by an approach that, normally, does not involve legal actions.

Clearly, legal action remains the sole remedy available in the event of voluntary non-payment or failure to reach out-of-court agreements with the factored debtor. In particular, legal action is initiated when it is necessary to avoid a loss for the Bank. In addition, the recovery of the late payment interest component is necessary in some cases in order to achieve the expected profitability.

It should be noted that, due to an inefficient judicial system, as often remarked in many institutional settings, the transition from ordinary collection to legal collection has the consequence of extending collection times for this latter component. Accordingly, even if the amount of receivables subject to legal action remains on average below 10% of the total receivables acquired each year, the

effect of delay in the Italian judicial system results in the stratification of the timetable for such receivables subject to legal action and means that 21% of outstanding receivables at the end of the first half of the year consisted of receivables subject to legal action.

The Bank has thus far adopted a cash accounting approach for late payment interest, for reasons of prudence and in the absence of a sufficiently solid proprietary historical series. Consequently, until now late payment interest has only been recognised when actually collected. In consideration of the significant increase in the volume of the receivables acquired, the experience gained through the more systematic launch of out-of-court and judicial recovery measures for past-due receivables, the Bank is now, five years after its establishment, in possession of more complete statistical information concerning recovery times for amounts due, by way of both principal and interest, and the amounts recovered. Considering the experience gained by the Bank in recent years, as well as the international accounting principles, it therefore appeared necessary to undertake a revision of the assessment criteria for late payment interest on the basis

of new qualitative and quantitative criteria.

Consequently, following the refinement of the internal assessment methods and the greater data available, 15% of the late payment interest due at the end of the first half of the year has been recognised in profit and loss, but solely for invoices subject to recovery through legal action; this average percentage of 15% (which amounts to 4.3% of total late payment interest accrued as at 30 June 2016 on invoices collected and still outstanding, a figure that may be compared with other market practices, which recognise such interest on the overall stock of loans acquired) represents the amount prudentially estimated and deemed recoverable of the total interest accrued on invoices the recovery of which has passed from ordinary recovery to legal action. Doubtful and unlikely to pay positions are excluded from this calculation. In contrast with other operators, since the Bank's attitude in debt recovery remains oriented towards a conciliatory approach to public sector debtors, the recognition of the aforementioned portion of interest is postponed until legal action begins, which occurs some time after when the receivables are required.

### **Servicing activities**

Through its network of collectors, the Group manages and reconciles the collection of invoices of third customers.

As at 30 June 2016, the amount of third-party receivables

managed by the Group totalled € 152 million, while the fee and commission income generated by this business segment totalled € 493 thousand.



## BANKING

### Direct funding

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

Retail funding accounts for 51% 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 2016 amounted to € 458 million, a decrease of € 110 million compared to 31 December 2015. The decrease was due to a specific decision by the Bank, for reasons of economic expedience, since the liquidity offered by the interbank

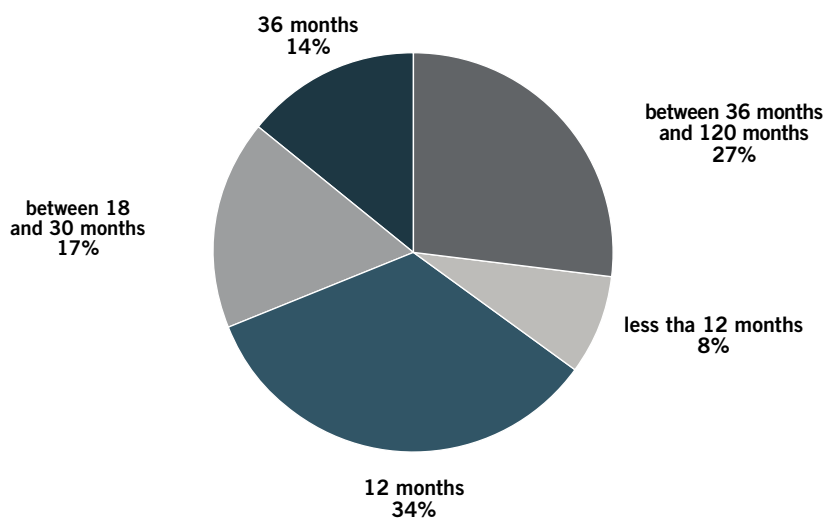
market has increased enormously, with lower costs. Requests for early redemption or withdrawals from accounts were modest (-8%), in keeping with normal performance. The Bank reduced the rates offered to customers twice, in order to achieve its objective of reducing direct retail funding. The above amount also includes total term deposits of € 98 million (obtained with the help of a partner platform) held with entities resident in Germany and Austria (accounting for 22% of total deposit funding).

Individual customers with positive term deposit balances as at 30 June 2016 amounted to 11,039, up compared to 30 June 2015 (10,983). The average deposit was € 41

thousand, down compared with the figures as at 30 June 2015 (€ 49 thousand).

The breakdown of funding by term is shown below.

**Breakdown of deposit accounts as at 30 June**



Current accounts increased from 3,280 (as at 30 June 2015) to 3,874 at the end of the first half of the year, while the current account balance as at 30 June 2016

was € 285 million, down € 50 million compared with 31 December 2015.

## Indirect funding

Indirect funding from assets under administration as at 30 June 2016 totalled € 152 million (€ 364 million as at 31 December 2015).

The breakdown is as follows:

Type (€ million)	30.06.2016	31.12.2015	€ Change	% Change
Bonds	59,118	123,037	-63,919	-51.95%
Equities	84,202	232,575	-148,373	-63.80%
Warrants	65	319	-254	-79.62%
Funds	9,098	8,177	921	11.26%
<b>TOTAL</b>	<b>152,483</b>	<b>364,108</b>	<b>-211,625</b>	<b>-58.12%</b>

## Guaranteed loans to small and medium-sized enterprises

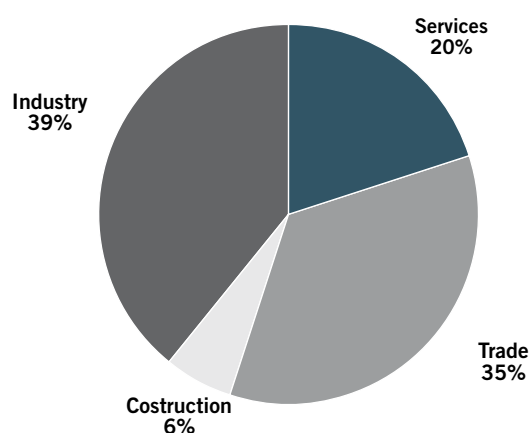
In 2014, the Banca Sistema Group started granting loans to SMEs, guaranteed by the Guarantee fund of the Ministry of Economic Development (Law 662/96). This instrument enables companies to access secured credit, and the Group to grant riskier loans with low

impact on the capital in view of the State guarantee (up to 80%); the average guarantee coverage for the Group is 80%. As at 30 June 2016, the Group disbursed € 16.3 million (€ 46.5 million in the first half of 2015), with € 84 million outstanding at the end of the period.

	30.06.2016	30.06.2015	€ Change	% Change
No. of applications	46	103	(57)	-55%
Volumes disbursed	16,260	46,480	(30,220)	-65%

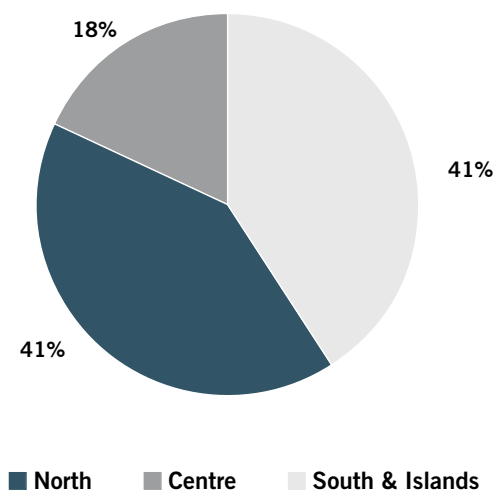
As shown in the graphs below, the geographical areas and sectors are quite varied, thus enabling the Group to benefit from a highly diversified portfolio.

**Outstanding SME - Breakdown by sector**



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

**Disbursed volumes - Breakdown by geographical area**



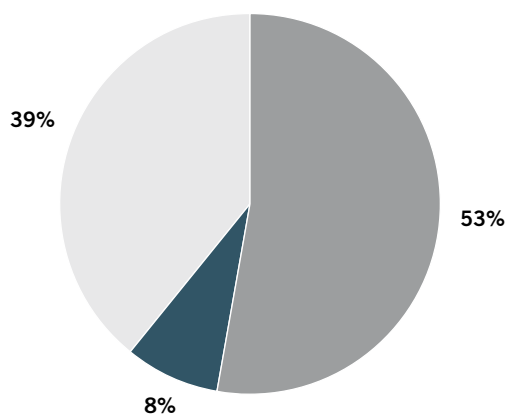
**Salary-backed loans (CQS) and Pension-backed loans (CQP)**

The Banca Sistema Group entered the salary- and pension-backed loan (CQS/CQP and to a lesser extent, salary deductions) market in 2014, through the acquisition from other specialist intermediaries of receivables portfolios derived from this specific type of financing. As at 30 June 2016, the Bank has 5 ongoing agreements with specialist distributors in the sector. A salary-backed loan (CQS) is a consumer loan product

that allows customers to allocate up to a fifth of their salaries to the payment of loan instalments. The volumes acquired in the first half of 2016 amounted to € 65.1 million, including private-sector employees (8%), pensioners (53%) and public-sector employees (39%). Therefore, over 92% of the volumes refer to pensioners and employees of the PA, which remains the Bank's main debtor.

	30.06.2016	30.06.2015	€ Change	% Change
No. of applications	3,132	2,623	509	19%
Volumes disbursed	65,138	53,560	11,578	22%

#### CQS disbursed volumes - Breakdown

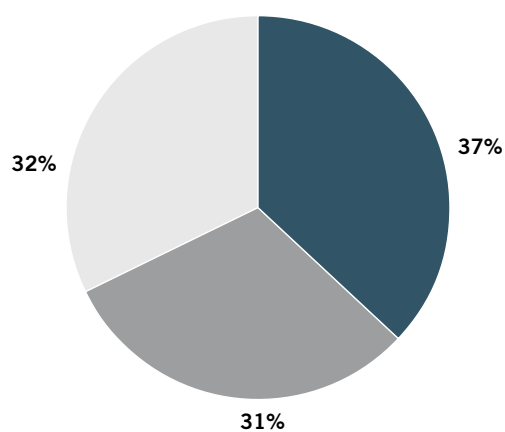


■ Public-sector employees ■ Pensioners ■ Private-sector employees

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

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

#### CQS disbursed volumes - Breakdown by geographical area



■ North ■ Centre ■ South & Islands

## TREASURY ACTIVITIES

### Treasury portfolio

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

Volumes as at 30 June 2016 were down considerably (-55.5% compared to the end of 2015) by both amount and duration, primarily in view of better management of the volatility resulting from the Brexit referendum. The outcome of the referendum did not have particular repercussions on government bond yields thanks to the purchases undertaken in the segment by the European Central Bank, which significantly reduced volatility with its quantitative easing programme, thus bringing the yields of securities into negative territory for most

maturities and most countries in the Eurozone.

The nominal value of the proprietary portfolio amounted to €406 million compared to € 920 million as at 31 March 2016, with a duration of 5.4 months (11.7 months in the previous quarter).

During the first half of 2016, transactions involving government bonds totalled € 2.28 billion (against € 7.198 billion traded in the first half of 2015).

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

### Wholesale funding

As at 30 June 2016, wholesale funding was about 49% of the total, mainly comprising repurchase agreements traded on the MTS MMF Repo platform, inter-bank deposits and refinancing operations with the ECB (58% as at 31 December 2015). These transactions were carried out during the period using proprietary portfolio Italian Government securities as underlying assets, along with eligible trade receivables from Public Administration entities arising from factoring activities and loans to SMEs used as collateral with the ECB through the ABACO platform.

During the first half of the year, trading on the MMF Repo screen-based market totalled about € 52.3 billion compared to € 43.2 billion in the same period of 2015. Participation in the TLTRO II operation proposed by the European Central Bank was settled in the amount of € 122.85 million on 29 June, with maturity on 24 June 2020.

The issue of € 70 million of senior bonds maturing on 03/05/2018, placed with institutional investors, enabled

a diversification of the sources of funding and a significant increase in their duration.

Securitisation of salary-backed loans allowed positions to be refinanced more efficiently than the traditional types of funding.

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

Existing bank deposits amounted to € 225 million, compared to €282 million as at 31 December 2015. In 2016 trading volumes were € 1,250.00 million, compared to € 1,347.00 million in the same period of 2015.

The listing of the shares of Banca Sistema on the Milan Stock Exchange permitted a sharp improvement in interbank relations, facilitating the granting of MM lines of credit. Such funding allows short-term treasury needs to be met by exploiting the extremely low level of interest rates, with the possibility of drawing funds from the interbank market in a manner useful to diversifying funding.

## THE MAIN BALANCE SHEET AGGREGATES

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

ASSETS (€ ,000)	30.06.2016	31.12.2015	€ Change
Cash and cash equivalents	90	104	(14)
Financial assets available for sale	411,422	925,402	(513,980)
Due from banks	49,701	2,076	47,625
Loans to customers	1,192,757	1,457,990	(265,233)
Equity investments	990	2,696	(1,706)
Property and equipment	938	1,058	(120)
Intangible assets	1,846	1,872	(26)
<i>of which: goodwill</i>	<i>1,786</i>	<i>1,786</i>	-
Tax assets	3,679	7,353	(3,674)
Other assets	17,216	13,119	4,097
<b>Total assets</b>	<b>1,678,639</b>	<b>2,411,670</b>	<b>(733,031)</b>

The first half of 2016 ended with total assets of approximately € 1.7 billion, down 30% on the end of 2015, mainly as a result of the decision to maintain a reduced exposure to Italian government bonds (-56%) and the changes in collections of factored receivables (13%).

The Bank's AFS (available-for-sale) securities portfolio comprises Italian government bonds with an average remaining duration of about 5 months as at 30 June 2016 (the average duration at the end of 2015 was 9 months) and is in line with the Group investment policy to retain

securities with durations under 12 months. The choice to reduce the duration and position in government bonds was taken one month prior to the British referendum in the light of possible market uncertainty concerning the outcome of the referendum. The valuation reserve was € 239 thousand as at 30 June. The AFS portfolio also includes 200 stakes of the Bank of Italy purchased in July 2015 and valued at € 5 million.

The increase in 'Due to banks' may be attributed to cash held with the ECB for financing that was settled on the following day.

<b>LOANS TO CUSTOMERS (€ ,000)</b>	<b>30.06.2016</b>	<b>31.12.2015</b>	<b>€ Change</b>	<b>% Change</b>
Factoring	911,543	1,049,832	(138,289)	-13.2%
Salary-/pension-backed loans (CQS/CQP)	181,614	120,356	61,258	50.9%
Loans to SME	84,307	83,110	1,197	1.4%
Reverse repurchase agreements	-	177,868	(177,868)	-100.0%
Current accounts	13,373	13,906	(533)	-3.8%
Compensation and Guarantee Fund	1,709	12,486	(10,777)	-86.3%
Other receivables	211	432	(221)	-51.2%
<b>Total</b>	<b>1,192,757</b>	<b>1,457,990</b>	<b>(265,233)</b>	<b>-18.2%</b>

“Loans to customers” mainly comprise outstanding loans for factoring receivables without recourse from the Public Administration, down from 82% to 76% in the item. Salary- and pension-backed loans grew by 51% compared to the end of 2015 as a result of new acquired volumes equal to € 65 million, while government-backed loans to SMEs remained generally in line with 2015, as disbursements offset collections during the period.

As at 30 June 2016 the book value of factoring receivables is down by 13.2% on 31 December 2015, mainly as a result of the trend in collections recorded during the first half of 2016 (€ 790 million). In addition, outstanding loans at the end of the year were impacted considerably by the significant acquisition of receivables portfolios during Q4 2015 with a value of € 535 million. Turnover from factoring receivables during the first half of 2016 was € 697 million, up 16% on the same period in 2015, when it stood at € 600 million.

The number of turnover-generating customers during the first quarter was 223, of which 96 were new customers in 2016.

As mentioned previously, in 2016 and in line with the business plan, a securitisation transaction of salary-backed loans (CQS) was launched with the first sale of € 119.6 million at the beginning of March and a subsequent sale of € 24.1 million at the end of May. In March, the special purpose vehicle Quinto Sistema S.r.l. (the “SPV”) issued three classes of asset-backed securities (ABS), entirely subscribed by the Bank, with a total value of € 120.9 million, subsequently increased by the new sale to € 141.9 million. Since the securities are completely held by the Bank, the conditions for derecognition of the loans have not been met. Therefore, the loans have been re-recorded in the accounts as assets sold and not derecognised with a balancing entry against the subscribed asset-backed securities (ABS).

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

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

The ratio of net non-performing loans to the total in the portfolio (net of reverse repos) is up from 7.1% as at 31 December 2015 to 8.7% as at 30 June 2016.

The ratio of net doubtful loans to the total of loans to customers, net of reverse repos, was stable at 1.8% as in the same period of last year, thus remaining at reasonable levels. The increase in doubtful loans during the period is mainly due to new entities in insolvency proceedings and in distress, new doubtful loans to SMEs and to the reclassification of some "unlikely to pay" loans to SMEs to the "doubtful" category: in this regard, the Government guarantee covers 80% of the exposure. The coverage ratio of doubtful loans is stable (30.6% as at 31 December 2015 and 29.80% as at 30 June 2016): this percentage, since it is impacted by factoring of receivables from distressed local authorities, is entirely appropriate. The loss rate was stable compared to year-end and the previous quarter at 51 bps (respectively, 50 and 47 bps).

Compared to the end of the previous year, there were no temporary investments in reverse repurchase agreements (€ 178 million at the end of 2015). The amounts of the cash used in the Compensation and Guarantee Fund to finance transactions in repurchase

agreements with bank customers decreased significantly due to the reduction of the securities portfolio.

Equity investments include the Bank's current equity stake of 10.00% in CS Union S.p.A., a company operating on the doubtful financial and commercial loans management market, as well as in the management and recovery of receivables between individuals. As previously described, in the context of the strategic collaboration agreement between Banca Sistema and Axactor, in the second quarter of 2016 the Bank finalised the sale to Axactor of the 15.8% equity interest held in CS Union, recording a capital gain of € 2.3 million. The price of sale was settled 60% in cash and the remainder in shares of Axactor.

Other assets include amounts being processed after the end of the reference period and trade invoices to be issued and mainly attributable to collection. The item reflects normal business and the increase compared to the previous year is primarily tied to the down payment of € 2 million for a non-investment property and the € 1.5 million that represents the value of the Axactor securities, still to be received as at 30 June 2016, as the portion of the price paid in shares.



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

<b>LIABILITIES AND SHAREHOLDERS' EQUITY (€ ,000)</b>	<b>30.06.2016</b>	<b>31.12.2015</b>	<b>€ Change</b>
Due to banks	352,713	362,075	(9,362)
Due to customers	1,069,141	1,878,339	(809,198)
Securities in issue	90,325	20,102	70,223
Tax liabilities	3,067	804	2,263
Other liabilities	57,291	55,317	1,974
Employee termination indemnities	1,464	1,303	161
Provisions for risks and charges	279	372	(93)
Valuation reserves	66	350	(284)
Reserves	79,022	65,750	13,272
Share capital	9,651	9,651	-
Treasury shares (-)	(65)	-	(65)
Profit for the period/year	15,685	17,607	(1,922)
<b>Total liabilities and shareholders' equity</b>	<b>1,678,639</b>	<b>2,411,670</b>	<b>(733,031)</b>

Wholesale funding represents about 49% of the total (58% as at 31 December 2015), down compared to the end of 2015 due to a decrease in repurchase agreements traded through the MTS platform (classified under 'due to customers', since there is no direct balancing entry with banks). There was an increase in the weight of bond funding, which rose from 2% to 14% of the total

wholesale funding, thanks to the private placement of a senior bond of € 70 million maturing in two years. The amount of collections from retail customers essentially linked to the SI Conto! Deposito product is down on the previous period, in line with the financing requirements of the commercial business and against increased inter-bank funding.

<b>DUE TO BANKS (€,'000)</b>	<b>30.06.2016</b>	<b>31.12.2015</b>	<b>€ Change</b>	<b>% Change</b>
Due to Central banks	127,850	80,002	47,848	59.8%
Due to banks	224,863	282,073	(57,210)	-20.3%
Current accounts and demand deposits	21	10,328	(10,307)	-99%
Term deposits	224,842	271,745	(49,903)	-17.3%
<b>Total</b>	<b>352,713</b>	<b>362,075</b>	<b>(9,362)</b>	<b>-2.6%</b>

Amounts due to banks increased compared to 31 December 2015 due to the increase in refinancing operations with the ECB with retail loans as collateral, which allowed for funding of € 94.3 million to be obtained (€ 49.3 million at the end of 2015). The Bank also participated in the TLTRO 2 auction for € 123 million, with a duration of four years and current

expected rate of -40bps.

This potential revenue was not recognised in that it will only become certain on the maturity date; a rate of 0% was instead considered. As at 30 June 2016, there was a decrease in funding on the interbank market mainly in the form of term deposits with an average duration of 2 months at 30 June.

<b>DUE TO CUSTOMERS (€,'000)</b>	<b>30.06.2016</b>	<b>31.12.2015</b>	<b>€ Change</b>	<b>% Change</b>
Term deposits	457,981	572,379	(114,398)	-20.0%
Funding (repurchase agreements)	268,163	909,089	(640,926)	-70.5%
Current accounts and demand deposits	285,037	335,574	(50,537)	-15.1%
Deposits with Cassa Depositi e Prestiti	25,270	30,603	(5,333)	-17.4%
Other amounts due	32,690	30,694	1,996	6.5%
<b>Total</b>	<b>1,069,141</b>	<b>1,878,339</b>	<b>(809,198)</b>	<b>-43.1%</b>

The period-end stock of term deposits was down 20% on the end of 2015, thus recording net negative deposits of € 110 million (net of accruals); gross deposits in the first half of 2016 were € 283 million, against withdrawals caused mainly by non-renewals totalling € 392 million.

Funding from repurchase agreements was also down, as a result of the smaller securities portfolio. Repurchase agreements also include the funding raised through the use of the senior security from the Sistema CQS 2016 retained securitisation transaction in the amount of € 111.9 million. Amounts due to customers also include funding of € 25.3 million from Cassa Depositi e Prestiti obtained against collateral consisting solely of loans to SMEs by the Bank. Other amounts due include payables related to receivables acquired but not funded.

The balance of debt securities issued increased compared

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

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

The provisions of risks and charges of € 279 thousand includes the allocation of the deferred portion of the 2015 bonus recognised in the previous year.

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

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

(€ ,000)	NET RESULT	SHAREHOLDERS' EQUITY
<b>Parent Company Shareholders' equity</b>	<b>16,002</b>	<b>104,744</b>
Assumption of value of investments	-	-
Goodwill	-	-
Profit (loss)/shareholders' equity - subsidiaries	(317)	(395)
<b>Consolidated Shareholders' equity</b>	<b>15,685</b>	<b>104,349</b>
Minority shareholders	-	10
<b>Group Shareholders' equity</b>	<b>15,685</b>	<b>104,359</b>

## CAPITAL ADEQUACY

By means of a letter dated 05 May 2014, the Parent Company informed the Bank of Italy of its intention to exercise its option to be exempt from filing consolidated reports (an option laid down in

paragraph 1.4 of circular 115 'Instructions for preparing banks' supervisory reports on a consolidated basis'). Provisional information concerning the regulatory capital and capital adequacy of Banca Sistema is show below.

OWN FUNDS (€ ,000) AND CAPITAL RATIOS	30.06.2016	31.03.2016	31.12.2015
<b>Common Equity Tier 1 (CET1)</b>	<b>98,984</b>	<b>90,559</b>	<b>86,892</b>
TIER1	8,000	8,000	8,000
<b>Additional Tier 1 capital (AT1)</b>	<b>106,984</b>	<b>98,559</b>	<b>94,892</b>
TIER2	12,000	12,000	12,000
<b>Total Own Funds (TC)</b>	<b>118,984</b>	<b>110,559</b>	<b>106,892</b>
<b>Total risk weighted assets</b>	<b>689,614</b>	<b>656,289</b>	<b>635,658</b>
<b>of which, credit risk</b>	589,149	555,825	535,194
<b>of which, operational risk</b>	100,464	100,464	100,464
Ratio - CET1	14.4%	13.8%	13.7%
Ratio - T1	15.5%	15.0%	14.9%
Ratio - TCR	17.3%	16.8%	16.8%

Total own funds were € 119 million as at 30 June 2016 and included the profit for the first half of 2016, net of dividends estimated on the profit for the first half of 2016 of € 2.3 million. The estimate was made on the basis of the average pay-out for the past three years in accordance with European Commission Delegated Regulation (EU)

No. 241/2014, supplementing Regulation (EU) No. 575/2013 of the European Parliament.

The increase in RWA compared to 31 December 2015 is due to the increase in salary-backed loans (CQS) and factoring to companies, which absorbs assets more than factoring to the public administration.

## CAPITAL AND SHARES

### Capital and ownership structure

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

Based on evidence from the Shareholders' Register and

more recent information available, as at 20 July 2016 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee company and Consob, were as follows:

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

### Treasury shares

As at 30 June 2016, Banca Sistema held 25,000 treasury shares ("Treasury Shares") to service the incentive plans for the Group's key personnel.

Following the launch on 13 May 2016 of a treasury share

purchasing plan in support of the liquidity of the stock, on 30 June 2016 Banca Sistema held 39,899 shares.

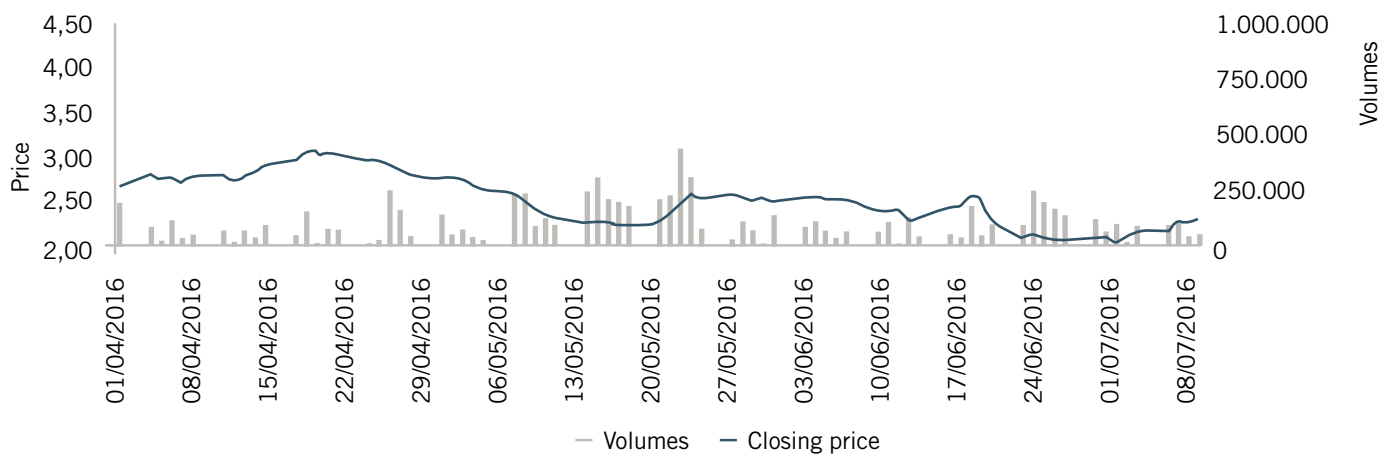
Overall, as at 30 June 2016 Banca Sistema held 64,899 treasury shares, i.e. an equity interest of 0.08%.

## Stock performance

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

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

The following table presents stock performance from 1 April 2016 to 14 July 2016.



Source: Bloomberg

## ECONOMIC RESULTS

STATEMENT OF PROFIT AND LOSS (€,'000)	30.06.2016	30.06.2015	€ Change
Interest margin	34,647	28,951	5,696
Net fee and commission income	4,415	5,853	(1,438)
Dividends and similar income	227	-	227
Profit (Loss) on trading	1	109	(108)
Profit from disposal or repurchase of financial assets	802	1,951	(1,149)
<b>Net interest and other banking income</b>	<b>40,092</b>	<b>36,864</b>	<b>3,228</b>
Net value adjustments due to loan impairment	(3,130)	(2,091)	(1,039)
<b>Net income from banking activities</b>	<b>36,962</b>	<b>34,773</b>	<b>2,189</b>
Personnel expenses	(7,466)	(6,528)	(938)
Other administrative expenses	(10,239)	(9,042)	(1,197)
Net allowance for risks and charges	69	(10)	79
Net value adjustments to property and equipment/intangible assets	(151)	(154)	3
Other operating income (expenses)	321	128	193
<b>Operating expenses</b>	<b>(17,466)</b>	<b>(15,606)</b>	<b>(1,860)</b>
Profit (loss) from equity investments	2,241	221	2,020
<b>Profit from current operations before taxes</b>	<b>21,737</b>	<b>19,388</b>	<b>2,349</b>
Income taxes for the period	(6,052)	(6,029)	(23)
<b>Profit (loss) for the period</b>	<b>15,685</b>	<b>13,359</b>	<b>2,326</b>

The first half of 2016 ended with a profit of €15.7 million, up by 17% compared to the same period of 2015, with an increase in the interest margin. As described above, the increase in the interest margin in the first half of 2016 was due in part to the recognition of € 6.9 million of late payment interest, which represents the portion of the late payment interests accrued at 30 June 2016 that may reasonably be expected to be recovered: in previous periods, late payment interest was recognised on a cash basis. As described above, with effect from 30 June 2016 the Bank has revised its accounting treatment of late payment interest, in accordance with the IFRS,

in consideration of the experience gained and the more systematic implementation of out-of-court and judicial recovery measures for past-due receivables, transitioning from cash accounting to accrual accounting.

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

Please note that the economic results at 30 June 2015 have been normalised in order to eliminate non-recurring costs pertaining to the listing process included in personnel expenses and other administrative expenses of € 6.6 million (€ 4.7 million net of tax).

INTEREST MARGIN (€,'000)	30.06.2016	30.06.2015	€ Change	% Change
<b>Interest and similar income</b>				
Credit portfolios	42,276	39,656	2,620	6.6%
Securities portfolio	34	616	(582)	-94.5%
Other	278	231	47	20.3%
<b>Total interest income</b>	<b>42,588</b>	<b>40,500</b>	<b>2,088</b>	<b>5.2%</b>
<b>Interest expense and similar charges</b>				
Due to banks	(1,029)	(498)	(531)	106.6%
Due to customers	(6,080)	(10,435)	4,134	-39.6%
Securities in issue	(832)	(616)	5	-0.8%
<b>Total interest expense</b>	<b>(7,941)</b>	<b>(11,549)</b>	<b>3,608</b>	<b>-31.2%</b>
<b>Interest margin</b>	<b>34,647</b>	<b>28,951</b>	<b>5,696</b>	<b>19.7%</b>

The interest margin improved by 20% compared to the previous half-year due to a significant decrease in the cost of funding and a greater contribution deriving from the new lines of business (SME loans and salary and pension-backed loans).

Starting in the second quarter of 2016, following the refinement of the internal assessment methods and the greater data available, 15% of the late payment interest accrued until the end of the period has been recognised in profit and loss, but solely for invoices subject to recovery through legal action; this average percentage of 15% (which amounts to 4.3% of total late payment interest accrued as at 30 June 2016 on invoices collected and still outstanding) represents the amount prudentially estimated and deemed recoverable of the total interest accrued on invoices the recovery of which has passed from ordinary recovery to legal action. Considering the gradual rise in the turnover from factoring, there was an increase in the amount of late payment interest accrued on settled and outstanding invoices, which amounted to approximately € 160.7 million at 30 June 2016 (€ 94.2 million on collected invoices).

In 2016 the late payment interest collected, primarily on portfolios acquired in previous years, amounted to € 1.2 million, compared to € 2.9 million in all of 2015. The amount resulting from the change of the methods to estimate the recoverability of such interest was

€ 6.9 million, 1.9 million of which for the period and 5.0 million as a result of the change in the assessment method.

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

Interest income from the credit portfolio continues to be mainly composed of revenues generated by the factoring receivables portfolio, representing 88% of total interest income.

The increase in the margin was also driven by the marked growth in interest on the SME and salary-backed portfolios, which collectively rose from € 2.3 million to € 5.9 million (their contribution to the interest margin on the credit portfolio was equal to 6.9% and 7.3%, respectively).

Other interest income mainly includes income generated by revenue from hot money transactions and current accounts. Funding costs fell compared with the previous half-year following a general reduction in market rates,

which has had a positive impact on wholesale funding, especially from repurchase agreements, but particularly as a result of a focus on the customer deposit policy, which allowed for the substitution of term deposit renewals with lower rates compared to those expiring. The increase in interest due to banks was primarily due

to the cost of funding from other banking institutions, the exposure to which, in the first half of 2016, was significantly greater than in the first half of 2015.

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

<b>COMMISSION MARGIN (€,000)</b>	<b>30.06.2016</b>	<b>30.06.2015</b>	<b>€ Change</b>	<b>% Change</b>
<b>Fee and commission income</b>				
Collection activities	493	506	(13)	-2.6%
Factoring activities	4,564	5,834	(1,270)	-21.8%
Other	355	326	29	8.9%
<b>Total fee and commission income</b>	<b>5,412</b>	<b>6,666</b>	<b>(1,254)</b>	<b>-18.8%</b>
<b>Fee and commission expense</b>				
Placement	(838)	(528)	(310)	58.7%
Other	(159)	(286)	127	-44.4%
<b>Total fee and commission expense</b>	<b>(997)</b>	<b>(813)</b>	<b>(184)</b>	<b>22.6%</b>
<b>Net fee and commission income</b>	<b>4,415</b>	<b>5,853</b>	<b>(1,438)</b>	<b>-24.6%</b>

Net fees and commissions, equal to € 4.4 million, were down by 25%, primarily due to lower commissions on factoring business as a result of lesser use of products with commissions. Commissions on collection activity, related to the service of reconciliation of third-party invoices collected from the public administration, along with other fee and commission income, which primarily includes commissions on collection and payment services and the keeping and management of current accounts, were stable compared to the previous half-year.

The placement fees and commissions paid to third parties

increased due to their close correlation with the increase in the factoring volumes disbursed. Such fees and commissions include the costs of origination of factoring receivables of € 513 thousand (up 17% on the same period of last year) while the remainder includes returns to third party intermediaries for the placement of the SI Conto! Deposito product, which grew as a result of the higher volumes placed in Germany.

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



<b>RESULTS OF THE SECURITIES PORTFOLIO (€,'000)</b>	<b>30.06.2016</b>	<b>30.06.2015</b>	<b>€ Change</b>	<b>% Change</b>
<b>Profit (Loss) on trading</b>				
Profit (loss) realised on trading portfolio debt securities	1	109	(108)	-99.1%
<b>Total</b>	<b>1</b>	<b>109</b>	<b>(108)</b>	<b>-99.1%</b>
<b>Profit (loss) from disposal or repurchase</b>				
Profit (loss) on AFS portfolio debt securities	802	1,951	(1,149)	-58.9%
<b>Total</b>	<b>802</b>	<b>1,951</b>	<b>(1,149)</b>	<b>-58.9%</b>
<b>Total profit (loss) from the securities portfolio</b>	<b>803</b>	<b>2,060</b>	<b>(1,257)</b>	<b>-61.0%</b>

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

Credit risk adjustments in the first half of 2016 amounted to a total of € 3.1 million (€ 2.1 million in the first half of 2015), mainly as a result of an increase in the collective adjustment percentage on the SME portfolio and new

specific adjustments.

In particular, the increase in analytical adjustments is mainly due to the classification of new positions of entities and of new SMEs in the "doubtful" category.

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

<b>PERSONNEL EXPENSES (€,'000)</b>	<b>30.06.2016</b>	<b>30.06.2015</b>	<b>€ Change</b>	<b>% Change</b>
Wages and salaries	(5,673)	(5,004)	(669)	13.4%
Social security contributions and other costs	(1,371)	(1,258)	(112)	8.9%
Directors' and statutory auditors' remuneration	(422)	(266)	(157)	58.9%
<b>Total</b>	<b>(7,466)</b>	<b>(6,528)</b>	<b>(938)</b>	<b>14.4%</b>

The increase in personnel expenses (considering the normalisation of € 4.4 million tied to bonuses disbursed in relation to the listing) was essentially due to the increase in wages and salaries due to the hiring of new resources (from 124 resources to 131 in the

first half of 2016).

As at 30 June 2016 the item also includes total costs relating to voluntary redundancy payments of € 287 thousand, compared to € 206 thousand in the same period of the previous year.

<b>OTHER ADMINISTRATIVE EXPENSES</b> (€,000)	<b>30.06.2016</b>	<b>30.06.2015</b>	<b>€ Change</b>	<b>% Change</b>
Servicing and collection activities	(2,379)	(3,329)	950	-28.5%
Resolution Fund	(654)	-	(654)	n.a.
Consultancy	(2,072)	(1,077)	(995)	92.4%
Computer expenses	(1,696)	(1,521)	(175)	11.5%
Rent and related fees	(942)	(794)	(148)	18.6%
Indirect taxes and duties	(720)	(735)	15	-2.0%
Advertising	(88)	(369)	281	-76.2%
Auditing fees	(158)	(123)	(35)	28.5%
Other	(327)	(100)	(227)	227.0%
Car hire and related fees	(351)	(291)	(60)	20.6%
Expense reimbursement and entertainment	(279)	(225)	(54)	24.0%
Membership fees	(169)	(127)	(42)	33.1%
Infoprovider expenses	(194)	(140)	(54)	38.6%
Maintenance of movables and real properties	(25)	(37)	12	-32.4%
Telephone and postage expenses	(84)	(87)	3	-3.4%
Stationery and printing	(65)	(46)	(19)	41.3%
Insurance	(36)	(32)	(4)	12.5%
Discretionary payments	-	(9)	9	-100.0%
<b>Total</b>	<b>(10,239)</b>	<b>(9,042)</b>	<b>(1,197)</b>	<b>13.2%</b>

Other administrative expenses increased by 13% compared to the previous half-year, primarily due to the contribution paid into the European Resolution Fund (only allocated in the fourth quarter of 2015), while the lower servicing and advertising costs more than offset the increase in IT consultancy costs. The figure as at 30 June 2015 has been normalised, and thus does not include the € 2.2 million of costs relating to the Bank's listing. In particular, costs related to collection and servicing activities decreased as a result of the internalisation of the management of some portfolios that were previously managed externally and from a reduction in the cost percentage applied to managed collections.

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

Consultancy costs increased due to the fact that part of the costs of projects correlated with new initiatives not included in the previous half-year was recognised during

the period. In particular, the first half of the year includes €660 thousand of costs tied to the securitisation of salary-backed loans and € 279 thousand of due diligence and consultancy costs relating to actual and potential acquisitions of new companies.

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

In addition to the capital gain on the sale of 15.8% of CS Union, the item "Profit (loss) from equity investments" includes the share of the loss for the period attributable to the current 10% interest in CS Union.

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

## RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

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

The ‘Risk Management System’ is monitored by the Risk and Compliance Division, which ensures that capital adequacy and the degree of solvency with respect to its business are kept under constant control. Management continuously analyses the Bank’s operations to fully identify the risks the Bank is exposed to (risk map). In order to reinforce its ability to manage corporate risks, the Bank has set up a Risk Management Committee, which helps the Bank define strategies, risk policies and profitability targets.

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

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

The Bank adopts an integrated reference framework both

to identify its own risk appetite and for the internal process of determining capital adequacy. This system is the Risk Appetite Framework (RAF) designed to make sure that the growth and development aims of the Bank are compatible with capital and financial solidity. The RAF comprises monitoring and alert mechanisms and related processes to take action in order to promptly intervene in the event of discrepancies with defined targets. The framework is subject to annual review in light of strategic guidelines and regulatory changes.

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

The annual assessment for 2015 was sent to the Supervisory Authority in April 2016 through the ICAAP Annual Report for 2015.

It should also be noted that in accordance with the obligations imposed by the applicable regulations, on the basis of its 2015 results the Bank published its report on capital adequacy, risk exposure and the general characteristics of the systems for identifying, measuring and managing risks.

The report is available on the website [www.bancasistema.it](http://www.bancasistema.it) in the Investor Relations section.

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

In order to evaluate “Pillar 2” risks, the Bank adopts - where possible - the methods set out in the Regulatory framework or those established by trade associations. If there are no such indications, standard market practices by operators working at a level of complexity and with operations comparable to those of the Bank are assessed.

## **New regulatory and tax provisions**

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

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

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

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

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

As at 31 December 2015 an additional mechanism beyond that governed by the DGS Directive was in place on a voluntary basis (the "Voluntary Scheme"), with the aim of supporting banks under receivership or in distress, in which the Group elected not to participate. The Bank began to operate in late 2011 and thus

decided not to contribute to losses deriving from events that occurred prior to the Bank's existence. Accordingly, on 26 April 2016 the National Interbank Deposit Guarantee Fund gave notice of the refund of the contribution previously paid for Banca Tercas (which the European Commission considered as "state aid") of € 290 thousand, recognised in profit and loss under other operating income.

### **New Contracting Code**

The text of the new Contracting Code (Legislative Decree No. 50 of 18 April 2016) was published in Italy's Official Journal on 19 April 2016. Article 106 (13) of the Code reads as follows: "13. The provisions of Law No. 52 of 21 February 1991 shall apply. To be enforceable on contracting authorities, the assignment of receivables must be witnessed by a public deed or authenticated private agreement and the debtor administrations must be notified.

Without prejudice to the observance of traceability obligations, assignment of receivables deriving from consideration for tenders, concessions and planning competitions is valid and binding on contracting authorities that are public administrations if such administrations do not reject them with notice to be served on the assignor and assignee within 45 days of notice of assignment. In the contract entered into or in a concurrent separate agreement, public administrations may accept in advance the assignment by the performing party of all or part of the receivables that have yet to accrue. In any event, the entity that has been notified of the assignment may raise all objections against the assignee that were available to the assignor under the contract governing works, services, the supply of goods or design entered into with the latter." The new statute does not substantially modify the rules previously set out in Article 117 of the repealed Contracting Code (Legislative Decree No. 163/2006).

## OTHER INFORMATION

### Research and Development Activities

No research and development activity was carried out in the first half of 2016.

## TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties and connected parties, including the relative authorisation and disclosure procedures, are governed by the 'Procedure governing transactions with associated parties' approved by the Board of Directors and published on the internet site of the Parent Company, Banca Sistema S.p.A.

Transactions between the Group companies and related parties or connected parties were carried out in the interests of the Company, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any

event, on the basis of mutual financial advantage and in compliance with all procedures.

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

## ATYPICAL OR UNUSUAL TRANSACTIONS

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

## SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

After having signed an agreement with Stepstone Financial Holdings on 4 February 2016 for the acquisition of a 100% interest in Beta Stepstone S.p.A. and having received notice of authorisation from the Bank of Italy on 24 June 2016, on 1 July 2016 the acquisition was finalised for consideration of € 57.2 million (compared to the previously agreed € 60.8 million, which was corrected on the basis of shareholders' equity at the closing of the transaction, net of several contractual reductions and adjustments). The acquisition price includes a share of late payment interest not yet collected by Beta of

approximately € 16.3 million; an identical amount was paid as a security deposit and will be released to the seller only after the collection of the aforementioned late payment interest. The purchase is in line with the strategic plan of Banca Sistema as notified in July 2015 during the IPO. The purchase strengthens the Bank's presence in the factoring market for healthcare operators in Central and Southern Italy.

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

## BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

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

Based on current market conditions, the interest margin will continue to benefit from a reduction in funding costs and diversification through new sources of funding. In this regard, the Bank completed its first securitisation transaction of salary-backed loans (CQS) within the established time frame, from which it expects to benefit as a result of the reduced cost of funding.

The new strategic commercial and framework agreements

entered into in 2015 are already contributing to the Group's growth and product diversification process.

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

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

Milan, 29 July 2016

On behalf of the Board of Directors

*The Chairman*

Luitgard Spögler



*The CEO*

Gianluca Garbi



CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

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AS AT 30 JUNE 2016

# CONSOLIDATED FINANCIAL STATEMENTS





## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

Assets		30.06.2016	31.12.2015
10.	Cash and cash equivalents	90	104
20.	Financial assets held for trading	-	-
40.	Financial assets available for sale	411,422	925,402
60.	Due from banks	49,701	2,076
70.	Loans to customers	1,192,757	1,457,990
100.	Equity investments	990	2,696
120.	Property and equipment	938	1,058
130.	Intangible assets	1,846	1,872
	of which goodwill	1,786	1,786
140.	Tax assets	3,679	7,353
	a) current	31	3,537
	b) deferred	3,648	3,816
	b1) as specified in Law 214/2011	2,606	2,658
160.	Other assets	17,216	13,119
	<b>Total assets</b>	<b>1,678,639</b>	<b>2,411,670</b>

(Amounts in thousands of Euro)

Liabilities and shareholders' equity		30.06.2016	31.12.2015
10.	Due to banks	352,713	362,075
20.	Due to customers	1,069,141	1,878,339
30.	Securities in issue	90,325	20,102
80.	Tax liabilities	3,067	804
	a) current	628	-
	b) deferred	2,439	804
100.	Other liabilities	57,291	55,317
110.	Employee termination indemnities	1,464	1,303
120.	Provisions for risks and charges	279	372
	b) other provisions	279	372
140.	Valuation reserves	66	350
170.	Reserves	39,618	26,314
180.	Share premiums	39,394	39,436
190.	Share capital	9,651	9,651
200.	Treasury shares (-)	(65)	-
210.	Minority interests	10	-
220.	Profit (loss) for the period/year	15,685	17,607
	<b>Total liabilities and shareholders' equity</b>	<b>1,678,639</b>	<b>2,411,670</b>

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS

(Amounts in thousands of Euro)

Items	30.06.2016	30.06.2015
10. Interest and similar income	42,588	40,500
20. Interest expense and similar charges	(7,941)	(11,549)
30. <b>Interest margin</b>	<b>34,647</b>	<b>28,951</b>
40. Fee and commission income	5,412	6,666
50. Fee and commission expense	(997)	(813)
60. <b>Net fee and commission income</b>	<b>4,415</b>	<b>5,853</b>
70. Dividends and similar income	227	-
80. Profit (Loss) on trading	1	109
100. Profit (loss) from disposal or repurchase of:	802	1,951
b) financial assets available for sale	802	1,951
120. <b>Net interest and other banking income</b>	<b>40,092</b>	<b>36,864</b>
130. Net value adjustments/write-backs due to impairment of:	(3,130)	(2,091)
a) receivables	(3,130)	(2,091)
140. <b>Net income from banking activities</b>	<b>36,962</b>	<b>34,773</b>
180. Administrative expenses:	(17,705)	(22,177)
a) personnel expenses	(7,466)	(10,917)
b) other administrative expenses	(10,239)	(11,260)
190. Net allowance for risks and charges	69	(10)
200. Net adjustments to/recoveries on property and equipment	(125)	(123)
210. Net adjustments to/recoveries on intangible assets	(26)	(31)
220. Other operating income (expenses)	321	128
230. <b>Operating expenses</b>	<b>(17,466)</b>	<b>(22,213)</b>
240. Profit (loss) from equity investments	2,241	221
280. <b>Profit (loss) before tax from continuing operations</b>	<b>21,737</b>	<b>12,781</b>
290. Taxes on income from continuing operations	(6,052)	(4,165)
300. <b>Profit (loss) after tax from continuing operations</b>	<b>15,685</b>	<b>8,616</b>
320. <b>Profit (loss) for the period</b>	<b>15,685</b>	<b>8,616</b>
340. <b>Parent company profit for the period</b>	<b>15,685</b>	<b>8,616</b>

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

Items	30.06.2016	30.06.2015
10. <b>Profit (Loss) for the year/period</b>	<b>15,685</b>	<b>8,616</b>
<b>Other income items net of taxes without reversal to the statement of profit and loss</b>		
40. Defined benefit plans	(106)	10
50. Non-current assets held for sale	-	-
<b>Other income items net of taxes with reversal to the statement of profit and loss</b>	<b>-</b>	<b>-</b>
100. Financial assets available for sale	(178)	864
130. <b>Total other comprehensive income (net of tax)</b>	<b>(284)</b>	<b>874</b>
140. <b>Comprehensive income (Items 10+130)</b>	<b>15,401</b>	<b>9,490</b>
150. <b>Total consolidated comprehensive income pertaining to minority interests</b>	<b>-</b>	<b>-</b>
160. <b>Total consolidated comprehensive income pertaining to the Parent Company</b>	<b>15,401</b>	<b>9,490</b>

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AS AT 30.06.2016

Amounts in thousands of Euro

	Balance at 31.12.2015	Change in opening balances	Balance at 1.01.2016	Allocation of net result from previous year		Changes during the year							Group shareholders' equity as at 30.06.2016	Minority shareholders' equity at 30.06.2016			
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options			Changes in equity investments	Comprehensive income as at 30.06.2016	
Share capital:																	
a) ordinary shares	9,651	-	9,651	-	-	-	10	-	-	-	-	-	-	-	-	9,651	10
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	39,436	-	39,436	-	-	(42)	-	-	-	-	-	-	-	-	-	39,394	-
Reserves	26,314	-	26,314	13,345	-	(41)	-	-	-	-	-	-	-	-	-	39,618	-
a) retained earnings	26,573	-	26,573	-	-	-	-	-	-	-	-	-	-	-	-	39,918	-
b) other	(259)	-	(259)	13,345	-	(41)	-	-	-	-	-	-	-	-	-	(300)	-
Valuation reserves	350	-	350	-	-	-	-	-	-	-	-	-	-	-	(284)	66	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	(65)	-	-	-	-	-	-	-	(65)	-
Profit (loss) for the period	17,607	-	17,607	(13,345)	(4,262)	-	-	-	-	-	-	-	-	-	15,685	15,685	-
<b>Group shareholders' equity</b>	<b>93,358</b>	-	<b>93,358</b>	-	(4,262)	(83)	-	(65)	-	-	-	-	-	-	<b>15,401</b>	<b>104,349</b>	<b>X</b>
<b>Minority shareholders' equity</b>	<b>-</b>	-	<b>-</b>	-	-	-	10	-	-	-	-	-	-	-	<b>X</b>	<b>10</b>	<b>10</b>

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AS AT 30.06.2015

Amounts in thousands of Euro

	Balance at 31.12.2014	Change in opening balances	Balance at 1.01.2015	Allocation of net result from previous year		Changes during the year							Comprehensive income as at 30.06.2015	Group shareholders' equity as at 30.06.2015		
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividends	Changes in equity instruments	Derivatives on treasury shares	Stock Options			Changes in equity investments	
																Operations on shareholders' equity
Share capital:																
a) ordinary shares	8,451	-	8,451	-	-	-	-	-	-	-	-	-	-	-	-	8,451
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	4,325	-	4,325	-	-	-	-	-	-	-	-	-	-	-	-	4,325
Reserves	8,734	-	8,734	17,567	-	36,470	-	-	-	-	-	-	-	-	-	62,771
a) retained earnings	9,006	-	9,006	17,567	-	-	-	-	-	-	-	-	-	-	-	26,573
b) other	(272)	-	(272)	-	-	36,470	-	-	-	-	-	-	-	-	-	36,198
Valuation reserves	2	-	2	-	-	-	-	-	-	-	-	-	-	(874)	-	(872)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the period	19,539	-	19,539	(17,567)	(1,972)	-	-	-	-	-	-	-	-	-	8,616	8,616
<b>Shareholders' equity</b>	<b>41,051</b>	<b>-</b>	<b>41,051</b>	<b>-</b>	<b>(1,972)</b>	<b>36,470</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,742</b>	<b>83,291</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	30.06.2016	30.06.2015
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>	<b>17,154</b>	<b>2,426</b>
▪ interest income collected	42,588	40,500
▪ interest expense paid	(7,941)	(11,549)
▪ net fees and commissions	4,415	5,853
▪ personnel expenses	(5,617)	(16,552)
▪ other expenses	(16,573)	(11,142)
▪ taxes and duties	282	(4,684)
<b>2. Cash flows generated by (used in) financial assets</b>	<b>730,388</b>	<b>(227,697)</b>
▪ financial assets held for trading	1	172
▪ financial assets available for sale	514,498	(58,131)
▪ loans to customers	262,103	(134,740)
▪ due from banks: on demand	(47,625)	(29,331)
▪ other assets	1,411	(5,667)
<b>3. Cash flows generated by (used in) financial liabilities</b>	<b>(745,880)</b>	<b>190,800</b>
▪ due to banks: on demand	(9,362)	(654,869)
▪ due to customers	(809,198)	837,707
▪ securities issued	70,223	(5)
▪ other liabilities	2,457	7,967
<b>Net cash flow generated by (used in) operating activities</b>	<b>1,662</b>	<b>(34,471)</b>
<b>B. INVESTMENT ACTIVITIES</b>		
<b>1. Cash flows from</b>	<b>2,524</b>	<b>0</b>
▪ sales of equity investments	2,297	-
▪ dividends collected on equity investments	227	-
<b>2. Cash flows used in</b>	<b>(5)</b>	<b>(89)</b>
▪ purchases of property and equipment	(5)	(71)
▪ purchases of intangible assets	-	(18)
<b>Net cash flow generated by (used in) investment activities</b>	<b>2,519</b>	<b>(89)</b>
<b>C. FINANCING ACTIVITIES</b>		
▪ issues/purchases of treasury shares	65	36,551
▪ dividend distribution and other	(4,261)	(1,972)
<b>Net cash flow generated by (used in) financing activities</b>	<b>(4,196)</b>	<b>34,579</b>
<b>NET CASH FLOW GENERATED/USED DURING THE YEAR</b>	<b>(14)</b>	<b>19</b>

### RECONCILIATION - ITEMS

Cash and cash equivalents at the beginning of the year	104	66
Total net cash flow generated/used during the year	(14)	19
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at balance sheet date	90	85

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## ACCOUNTING POLICIES

### Statement of compliance with international accounting standards

This condensed consolidated half-year report was drafted in accordance with Legislative Decree no. 38 of 28 February 2005, pursuant to the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) as authorised and in force on 30 June 2015, 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. These standards were used to prepare the comparative data and opening balances as at 01 January 2015.

In preparing the condensed consolidated half-year report, 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 update of 15 December 2015 and the clarification notes, supplemented by the general provisions of the Italian Civil Code and other relevant legislative and regulatory provisions.

The condensed consolidated half-year report was drafted in summary form and in accordance with IAS 34, with specific reference to the arrangements for disclosing financial information, supplemented by the other relevant legislative and regulatory standards.

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

There were no derogations to the application of the IAS/IFRS accounting standards.

The condensed consolidated half-year report was subject to a limited audit by KPMG S.p.A..

### General basis of preparation

The condensed consolidated half-year report comprises the Statement of financial position, Statement of profit and loss, Statement of comprehensive income, Statement of changes in shareholders' equity, Cash flow statement and Notes to the financial statements and is accompanied by a Directors' Report on management performance, the financial results achieved and the financial position of the Banca Sistema Group.

The financial statements, drawn up in accordance with the general guidelines laid down by the IAS, show the data for the period compared with the data from the previous financial year or corresponding period of the previous financial year as regards balance sheet 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 Accounting statements and Notes to the financial statements are expressed (unless expressly specified) in thousands of Euro.

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

The Directors' Report and Notes to the financial statements provide the information required by international accounting standards, 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.

### Scope and methods of consolidation

The consolidated financial statements include the Parent Company Banca Sistema S.p.A. and the companies directly or indirectly controlled by or connected with it. Compared with the situation as at 31 December 2015,

no changes to the scope of consolidation have been reported. The following statement shows the investments included within the scope of consolidation of the condensed consolidated half-year report.

COMPANY NAMES	REGISTERED OFFICE	TYPE OF RELATIONSHIP (1)	INVESTMENT		
			INVESTING COMPANY	% HELD	% OF VOTES AVAILABLE (2)
Companies					
Companies subject to full consolidation			<b>Banca Sistema</b>		
1 S.F. Trust Holdings Ltd	London	1		100%	100%
Consolidated at equity			<b>Banca Sistema</b>		
2 CS Union S.p.A.	Italy	4		10%	10%

### Changes in the scope of consolidation

Compared to the previous year, the percent interest in CS Union decreased from 25.80% to the current 10.00%.

### **Full consolidation method**

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

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

- the book value of the investments held by the Parent Company and the corresponding part of the shareholders' equity are eliminated;
- the portion of shareholders' equity and profit or loss for the year is shown in a specific caption.

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item '130 Intangible Assets' on the date of initial consolidation. The resulting differences, if negative, are recognised in the statement

of profit and loss. Intra-group balances and transactions, including revenue, 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 transactions and similar events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for transactions and events in similar circumstances, adjustments are made to the accounting position for consolidation purposes. Detailed information with reference to Art. 89 of Directive 2013/36/EU of the European Parliament and Council (CRD IV) are published at the link [www.bancasistema.it/pillar3](http://www.bancasistema.it/pillar3).

### **Consolidation with the equity method**

Associated companies are consolidated with the equity method.

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

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

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

The relevant share of the annual results of the subsidiary is shown in a specific item of the consolidated statement of profit and loss.

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

### **Events after the reference date of the half-year financial report**

After the reference date of the condensed consolidated half-year report, there were no events worthy of mention in the Notes to the financial statements which would have had an impact on the statement of financial position, statement of profit and loss and statement of cash flows of the Bank and Group.

### **Information on the main financial statement items**

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

### **INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS**

There were no financial assets transferred between portfolios.

### **INFORMATION ON FAIR VALUE**

Qualitative information

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

There were no deviations from the valuation guidelines and techniques in use as at 31 December 2015.

#### **Processes and sensitivity of valuations**

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

#### **Fair value hierarchy**

The following fair value hierarchy was used in order to prepare the consolidated half-year report:

Level 1- Effective market quotes The measurement is the market price of said financial instrument subject to valuation, obtained on the basis of prices present in an active market.

Level 2 - Comparable Approach

Level 3 - Mark-to-Model Approach

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

Nothing to report.

### **INFORMATION CONCERNING 'DAY ONE PROFIT/LOSS'**

Nothing to report.

## DETAILED TABLES

### ASSETS

#### CASH AND CASH EQUIVALENTS - ITEM 10

##### 1.1 Cash and cash equivalents: breakdown

Items/Values	30.06.2016	31.12.2015
a) Cash	90	104
b) Demand deposits with Central Banks	-	-
<b>Total</b>	<b>90</b>	<b>104</b>

#### FINANCIAL ASSETS AVAILABLE FOR SALE - ITEM 40

##### Financial assets available for sale: breakdown by type

Items/Values	30.06.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	406,422	-	-	920,402	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	406,422	-	-	920,402	-	-
2. Equity securities	-	-	5,000	-	-	5,000
2.1 Measured at fair value	-	-	5,000	-	-	5,000
2.2 Measured at cost	-	-	-	-	-	-
3. Units of UCI	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
<b>TOTAL</b>	<b>406,422</b>	<b>-</b>	<b>5,000</b>	<b>920,402</b>	<b>-</b>	<b>5,000</b>

**DUE FROM BANKS - ITEM 60**

**Due from banks: breakdown by type**

Type of transactions/Values	30.06.2016				31.12.2015			
	BV	FV Level 1	FV Level 2	FV Level 3	BV	FV Level 1	FV Level 2	FV Level 3
<b>A. Due from Central Banks</b>	<b>49,100</b>				<b>1,909</b>			
1. Term deposits	-	X	X	X	-	X	X	X
2. Compulsory reserve	49,100	X	X	X	1,909	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
<b>B. Due from banks</b>	<b>601</b>				<b>167</b>			
<b>1. Loans</b>	<b>601</b>			X	<b>167</b>			
1.1 Current accounts and demand deposits	601	X	X	X	167	X	X	X
1.2. Term deposits	-	X	X	X	-	X	X	X
1.3. Other loans:	-				-			
- Reverse repurchase agreements	-	X	X	X	-	X	X	X
- Financial leases	-	X	X	X	-	X	X	X
- Others	-	X	X	X	-	X	X	X
<b>2. Debt securities</b>	-				-			
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	-	X	X	X	-	X	X	X
<b>TOTAL</b>	<b>49,701</b>	-	-	<b>49,701</b>	<b>2,076</b>	-	-	<b>2,076</b>

**Key:**

FV = fair value  
BV = book value

**RECEIVABLES DUE FROM CUSTOMERS - ITEM 70**

**Receivables due from customers: breakdown by type**

Type of transactions / Values	30.06.2016						31.12.2015					
	Book value			Fair value			Book value			Fair value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
	Purchased	Other					Purchased	Other				
<b>Loans</b>	<b>1,104,545</b>	<b>3,667</b>	<b>84,545</b>			<b>1,192,757</b>	<b>1,373,774</b>	<b>2,216</b>	<b>82,000</b>			<b>1,457,990</b>
1. Current accounts	13,366	-	7	x	x	X	13,878	-	28	x	x	X
3. Mortgage loans	73,133	-	11,174	x	x	X	74,894	-	8,216	x	x	X
4. Credit cards, personal loans and salary- or pension-backed loans	179,183	-	60	x	x	X	119,850	-	938	x	x	X
5. Financial leases		-	-	x	x	X		-	-	x	x	X
6. Factoring	719,783	3,667	69,617	x	x	X	861,507	<b>2,216</b>	72,795	x	x	X
7. Other loans	119,080	-	3,686	x	x	X	125,777	-	23	x	x	X
<b>Debt securities</b>		-	-					-	-			
8. Structured securities		-	-	x	x	X		-	-	x	x	X
9. Other debt securities		-	-	x	x	X		-	-	x	x	X
<b>TOTAL (book value)</b>	<b>1,104,545</b>	<b>3,667</b>	<b>84,544</b>	-	-	<b>1,192,757</b>	<b>1,373,774</b>	<b>2,216</b>	<b>82,000</b>	-	-	<b>1,457,990</b>

**On- and off-balance sheet credit exposures to customers: gross and net values**

Type of transactions/Values	30.06.2016		
	Book Value		
	Performing	Non-performing	
	Purchased	Other	
<b>1. Debt securities:</b>			
a) Governments			
b) Other Public institutions			
c) Other issuers			
- non-financial companies			
- financial companies			
- insurance companies			
- other			
<b>2. Loans to:</b>	<b>1,104,545</b>	<b>3,667</b>	<b>84,545</b>
a) Governments	250,775	-	348
b) Other Public institutions	374,369	3,667	61,444
c) Other parties	479,401		22,753
- non-financial companies	282,761	-	20,727
- financial companies	13,063	-	1
- insurance companies	1	-	1
- other	183,576	-	2,024
<b>TOTAL (book value)</b>	<b>1,104,545</b>	<b>3,667</b>	<b>84,545</b>



**EQUITY INVESTMENTS - ITEM 100**

	30.06.2016	31.12.2015
<b>A. OPENING BALANCE</b>	<b>2,696</b>	<b>2,448</b>
<b>B. INCREASES</b>		<b>248</b>
B.1 Purchases		
B.2 Write-backs		
B.3 Revaluations		
B.4 Other changes		248
<b>C. DECREASES</b>	<b>1,706</b>	
C.1 Sales	1,697	
C.2 Impairment losses		
C.3 Other changes	9	
<b>D. CLOSING BALANCE</b>	<b>990</b>	<b>2,696</b>
<b>E. TOTAL REVALUATIONS</b>		
<b>F. TOTAL IMPAIRMENT LOSSES</b>		

**PROPERTY AND EQUIPMENT - ITEM 120**

Property and equipment used in operations: breakdown of the assets valued at cost

Assets/Values	30.06.2016	31.12.2015
<b>1.1 PROPERTY AND EQUIPMENT OWNED</b>	<b>938</b>	<b>1,058</b>
a) land	-	-
b) buildings	-	-
c) furniture	265	282
d) electronic equipment	595	766
e) other	78	10
<b>1.2 PROPERTY AND EQUIPMENT ACQUIRED UNDER FINANCE LEASE</b>		
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
<b>TOTAL</b>	<b>938</b>	<b>1.058</b>

## INTANGIBLE ASSETS - ITEM 130

### Intangible assets: breakdown by type of activity

Assets/Values	30.06.2016		31.12.2015	
	FINITE USEFUL LIFE	INDEFINITE USEFUL LIFE	FINITE USEFUL LIFE	INDEFINITE USEFUL LIFE
<b>A.1 GOODWILL</b>		<b>1,786</b>		<b>1,786</b>
<b>A.2 OTHER INTANGIBLE ASSETS</b>	<b>60</b>	-	<b>86</b>	-
A.2.1 Assets measured at cost:	60	-	86	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	60	-	86	-
A.2.2 Assets measured at fair value	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
<b>TOTAL</b>	<b>60</b>	<b>1,786</b>	<b>86</b>	<b>1,786</b>

## OTHER ASSETS - ITEM 160

### Other assets: breakdown

	30.06.2016	31.12.2015
Tax advances	7,490	10,179
Other	4,666	997
Items under processing	3,334	1,038
Prepayments not related to a specific item	1,215	266
Leasehold improvements	444	572
Security deposits	67	67
<b>TOTAL</b>	<b>17,216</b>	<b>13,119</b>

## LIABILITIES

### DUE TO BANKS - ITEM 10

#### Due to banks: breakdown by type

Type of transactions/Values	30.06.2016	31.12.2015
<b>1. Due to Central banks</b>	<b>127,850</b>	<b>80,002</b>
<b>2. Due to banks</b>	<b>224,863</b>	<b>282,073</b>
2.1 Current accounts and demand deposits	21	10,328
2.2 Term deposits	224,842	271,745
2.3 Loans	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Debts for commitments to repurchase own equity instruments	-	-
2.5 Other payables	-	-
<b>TOTAL</b>	<b>352,713</b>	<b>362,075</b>
Fair value - Level 1	-	-
Fair value - Level 2	-	-
Fair value - Level 3	<b>352,713</b>	<b>362,075</b>
Fair value	<b>352,713</b>	<b>362,075</b>

### DUE TO CUSTOMERS - ITEM 20

#### Due to customers: breakdown by type

Type of transactions/Values	30.06.2016	31.12.2015
1. Current accounts and demand deposits	285,037	335,541
2. Term deposits	457,980	572,379
3. Loans	25,270	909,089
3.1 Repurchase agreements	268,162	909,089
3.2 Other		
4. Debts for commitments to repurchase own equity instruments		
5. Other payables	32,692	61,330
<b>TOTAL</b>	<b>1,069,141</b>	<b>1,878,339</b>
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	1,069,141	1,878,339
Fair value	<b>1,069,141</b>	<b>1,878,339</b>

**SECURITIES ISSUED - ITEM 30**
**Securities issued: breakdown by type**

Type of securities/Values	30.06.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. SECURITIES</b>								
1. Bonds	90,325			90,325	20,102			20,102
1.1 structured								
1.2 other	90,325			90,325	20,102			20,102
2. Other securities								
2.1 structured								
2.2 other								
<b>TOTAL</b>	<b>90,325</b>			<b>90,325</b>	<b>20,102</b>			<b>20,102</b>

**Details of item 30 "Securities issued": subordinated securities**

	ISSUER	TYPE OF ISSUE	COUPON	MATURITY DATE	NOMINAL VALUE	IAS VALUE
Tier 1 capital	Banca Sistema S.p.A.	Innovative equity instruments: mixed rate ISIN IT0004881444	Until June 2023, rate fixed at 7% From June 2023, floating rate 6-month Euribor + 5.5%	Perpetual	8,000	8,015
Tier 2 capital	Banca Sistema S.p.A.	Subordinate ordinary loans (Lower Tier 2): ISIN IT0004869712	6-month Euribor + 5.5%	15.11.2022	12,000	12,088
<b>TOTAL</b>					<b>20,000</b>	<b>20,103</b>

**OTHER LIABILITIES - ITEM 100****Other liabilities: breakdown**

	30.06.2016	31.12.2015
Items under processing	36,868	32,785
Tax payables to the Revenue Agency and other tax authorities	7,297	12,007
Accrued expenses	5,229	4,298
Payments in the reconciliation phase	1,907	1,823
Trade payables	3,543	2,260
Due to employees	1,920	1,423
Pension repayments	348	562
Other	179	159
<b>TOTAL</b>	<b>57,291</b>	<b>55,317</b>

**EMPLOYEE TERMINATION INDEMNITIES - ITEM 110****Employee termination indemnities: annual changes**

	30.06.2016	31.12.2015
<b>A. OPENING BALANCE</b>	<b>1,303</b>	<b>1,173</b>
<b>B. INCREASES</b>	<b>344</b>	<b>562</b>
B.1 Allowances of the year	198	524
B.2 Other changes	146	38
<b>C. DECREASES</b>	<b>183</b>	<b>432</b>
C.1 Benefits paid	149	347
C.2 Other changes	34	85
<b>D. CLOSING BALANCE</b>	<b>1,464</b>	<b>1,303</b>
<b>TOTAL</b>	<b>1,464</b>	<b>1,303</b>

The increase in “Other changes” refers to the actuarial adjustment amount accounted for as at 30/06/2016.

The other decreases mainly refer to employee termination indemnities paid in the first half of the year.

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

Annual discount rate	2.03%
Annual inflation rate	1.500% for 2016
	1.800% for 2017
	1.700% for 2018
	1.600% for 2019
	2.000% from 2020 onwards
Annual employment indemnities rate increase	2.625% for 2016
	2.850% for 2017
	2.775% for 2018
	2.700% for 2019
	3.000% from 2020 onwards
Annual real salary increase rate	1.00%

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

**PROVISIONS FOR RISKS AND CHARGES - ITEM 120**

**Provisions for risks and charges: breakdown**

Items / Values	30.06.2016	31.12.2015
1. Post-employment Benefits	-	-
2. Other provisions for risks and charges	279	372
2.1 Legal disputes	-	-
2.2 Personnel charges	279	302
2.3 Other	-	70
<b>TOTAL</b>	<b>279</b>	<b>372</b>

**Provisions for risks and charges: annual changes**

	PROVISION FOR PENSIONS	OTHER PROVISIONS	TOTAL
<b>A. OPENING BALANCE</b>	-	<b>372</b>	<b>372</b>
<b>B. INCREASES</b>	-	-	-
B.1 Allowances of the year	-	-	-
B.2 Time value changes	-	-	-
B.3 Changes due to discount rate changes	-	-	-
B.4 Other changes	-	-	-
<b>C. DECREASES</b>	-	<b>93</b>	<b>93</b>
C.1 Uses in the year	-	23	23
C.2 Changes due to discount rate changes	-	-	-
C.3 Other changes	-	70	70
<b>D. CLOSING BALANCE</b>	-	<b>279</b>	<b>279</b>

## GROUP SHAREHOLDERS' EQUITY - ITEMS 140, 160, 170, 180, 190, 200 and 220

### “Share capital” and “Treasury shares”: breakdown

The share capital of Banca Sistema is divided into 80,421,052 ordinary shares having a par value of Euro 0.12. for total paid-in share capital of € 9,651 thousand. All outstanding shares have regular dividend entitlement from 1 January. Based on evidence from the Shareholders' Register and more recent information available, as at 02 July 2015 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee company and Consob, were as follows:

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

The Group holds treasury shares of the parent company with a value of € 64,899.

The following shows the shareholder's equity of the parent company:

Items / Values	AMOUNT 30.06.2016	AMOUNT 31.12.2015
1. Share capital	9,651	9,651
2. Share premiums	39,394	39,436
3. Reserves	39,618	26,314
4. (Treasury shares)	(65)	-
5. Valuation reserves	66	350
6. Capital instruments	-	-
7. Operating profit	15,685	17,607
<b>TOTAL</b>	<b>104,349</b>	<b>93,358</b>

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

## MINORITY INTERESTS - ITEM 210

### Breakdown of item 210 “Minority interests”

Quinto Sistema Srl	30.06.2016
Equity investments in consolidated companies with significant minority interests	
1. Share capital	10
<b>TOTAL</b>	<b>10</b>



## STATEMENT OF PROFIT AND LOSS

### INTEREST - ITEMS 10 AND 20

#### Interest and similar income: breakdown

Items / Technical forms	Debt securities	Loans	Other transactions	30.06.2016	30.06.2015
1. Held-for-trading financial assets	-	-	-	-	-
2. Financial assets available for sale	30	-	-	30	616
3. Held-to-maturity financial assets	-	-	-	-	-
4. Due from banks	-	8	-	8	2,273
5. Loans to customers	-	42,550	-	42,550	37,611
6. Financial assets measured at fair value	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
<b>TOTAL</b>	<b>30</b>	<b>42,558</b>	<b>-</b>	<b>42,558</b>	<b>40,500</b>

#### Interest expense and similar charges: breakdown

Items / Technical forms	Payables	Securities	Other transactions	30.06.2016	30.06.2015
1. Due to Central banks	7	-	-	7	68
2. Due to banks	1,022	-	-	1,022	430
3. Due to customers	6,080	-	-	6,080	10,435
4. Securities issued	-	832	-	832	616
5. Held-for-trading financial assets	-	-	-	-	-
6. Financial liabilities measured at fair value	-	-	-	-	-
7. Other liabilities and provisions	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
<b>TOTAL</b>	<b>7,109</b>	<b>832</b>	<b>-</b>	<b>7,941</b>	<b>11,549</b>

## FEES AND COMMISSIONS - ITEMS 40 AND 50

### Fee and commission income: breakdown

Type of services / Values	30.06.2016	30.06.2015
a) guarantees given	-	3
b) credit derivatives	-	-
c) management, dealing and consultancy services:	105	204
1. trading in financial instruments	21	-
2. currency trading	-	-
3. portfolio management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and administration of securities	-	7
5. depositary bank	-	-
6. placement of securities	22	21
7. income from reception and transmission of orders	23	46
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structure	-	-
9. distribution of third party services	39	176
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	39	176
9.3. other products	-	-
d) collection and payment services	45	19
e) servicing related to securitisations	-	-
f) services related to factoring	4,564	5,834
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) management of current accounts	36	37
j) other services	662	569
<b>TOTAL</b>	<b>5,412</b>	<b>6,666</b>

## Fee and commission expenses: breakdown

Services / Values	30.06.2016		30.06.2015	
a) guarantees received	11	-		
b) credit derivatives	-	63		
c) management, dealing and consultancy services:	358	164		
1. trading in financial instruments	33	73		
2. currency trading	-	-		
3. portfolio management	-	-		
3.1 own portfolio	-	-		
3.2 third party portfolios	-	-		
4. custody and administration of securities	-	-		
5. placement of financial instruments	-	91		
6. 'out-of-branch' sale of financial instruments, products and services	325	-		
d) collection and payment services	68	61		
e) other services	560	525		
<b>TOTAL</b>	<b>997</b>	<b>813</b>		

## PROFIT (LOSS) FROM DISPOSAL/REPURCHASE - ITEM 100

### Profit (loss) from disposal/repurchase: breakdown

Items / Income components	30.06.2016			30.06.2015		
	Profits	Losses	Net profit (loss)	Profits	Losses	Net profit (loss)
<b>Financial assets</b>						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	938	(136)	802	2,088	(137)	1,951
3.1 Debt securities	938	(136)	802	2,088	(137)	1,951
3.2 Equities	-	-	-	-	-	-
3.3 Units of UCI	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
<b>Total assets</b>	<b>938</b>	<b>(136)</b>	<b>802</b>	<b>2,088</b>	<b>(137)</b>	<b>1,951</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

### Net value adjustments due to loan impairment: breakdown

Items / Income components	Impairment losses (1)			Write-backs (2)				30.06.2016	30.06.2015
	Individual		Collective	Individual		Collective			
	Write-offs	Other		A	B	A	B		
<b>A. DUE FROM BANKS:</b>	-	-	-	-	-	-	-	-	-
- loans	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
<b>B. LOANS TO CUSTOMERS:</b>	-	(2,670)	(460)	-	-	-	-	(3,130)	(2,091)
Non-performing loans purchased	-	-	-	-	-	-	-	-	-
- loans	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
<b>Other receivables</b>	-	(2,670)	(460)	-	-	-	-	(3,130)	(2,091)
- loans	-	(2,670)	(460)	-	-	-	-	(3,130)	(2,091)
- debt securities	-	-	-	-	-	-	-	-	-
<b>C. TOTAL</b>	-	<b>(2,670)</b>	<b>(460)</b>	-	-	-	-	<b>(3,130)</b>	<b>(2,091)</b>

## ADMINISTRATIVE EXPENSES - ITEM 180

### Personnel expenses: breakdown

Type of expenditure / Values	30.06.2016	30.06.2015
1) Employees	<b>7,036</b>	<b>10,585</b>
A) Wages and salaries	4,485	4,092
B) Social security charges	1,044	941
C) Termination indemnities	-	-
D) Supplementary benefits	-	-
E) Allowance to the provision for employee termination indemnities	210	210
F) Allowance to the provision for pensions and similar obligations:	-	107
- Defined contribution plans	-	107
- Defined benefit plans	-	-
G) Payments to external pension funds:	117	-
- Defined contribution plans	117	-
- Defined benefit plans	-	-
H) Costs from share-based payments	-	-
I) Other benefits in favour of employees	1,180	5,235
2) Other personnel	2	35
3) Directors and statutory auditors	422	266
4) Early retirement costs	-	-
5) Recovery of expenses for employees of the bank seconded to other entities	-	-
6) Reimbursement of expenses for employees of other entities seconded to the bank	6	31
<b>TOTAL</b>	<b>7,466</b>	<b>10,917</b>

**Other administrative expenses: breakdown**

Type of expenditure / Values	30.06.2016	30.06.2015
Discretionary payments	-	9
Servicing and collection activities	2,379	3,329
Consultancy	2,072	3,243
Computer expenses	1,696	1,521
Rent and related fees	942	794
Indirect taxes and duties	720	735
Resolution Fund	654	-
Car hire and related fees	351	291
Other	327	100
Expense reimbursement and entertainment	279	225
Infoprovder expenses	194	140
Membership fees	169	127
Auditing fees	158	123
Advertising	88	369
Telephone and postage expenses	84	87
Stationery and printing	65	45
Insurance	36	32
Maintenance of movables and real properties	25	90
<b>TOTAL</b>	<b>10,239</b>	<b>11,260</b>

**Taxes on income from continuing operations: breakdown**

Item / Values	30.06.2016	30.06.2015
Current taxes (-)	(4,268)	(4,154)
Changes in current taxes of previous years (+/-)	95	-
Reduction in current taxes of the year (+)	-	-
Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
Changes in deferred tax assets (+/-)	(156)	(11)
Changes in deferred tax liabilities (+/-)	(1,723)	-
Income tax for the year (-) (-1+/-2+3+/-4+/-5)	(6,052)	(4,165)

## INFORMATION ON THE CONSOLIDATED SHAREHOLDERS' EQUITY

### OWN FUNDS AND CAPITAL RATIOS

#### Own funds

#### Quantitative information

	TOTAL 30.06.2016
<b>A. COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS</b>	<b>100.999</b>
of which CET 1 instruments subject to transitional provisions	(170)
<b>B. CET1 PRUDENTIAL FILTERS (+/-)</b>	-
<b>C. CET1 INCLUDING ELEMENTS TO BE DEDUCTED AND OF THE EFFECTS OF THE TRANSITIONAL PROVISIONS (A+/-B)</b>	<b>100.999</b>
<b>D. ITEMS TO BE DEDUCTED FROM CET1</b>	<b>(1.846)</b>
<b>E. TRANSITIONAL PROVISIONS - IMPACT ON CET (+/-)</b>	<b>(170)</b>
<b>F. TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)</b>	<b>98.984</b>
<b>G. ADDITIONAL TIER1 (AT1) INCLUDING ELEMENTS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL PROVISIONS</b>	<b>8.000</b>
of which AT1 instruments subject to transitional provisions	-
<b>H. ITEMS TO BE DEDUCTED FROM AT1</b>	-
<b>I. TRANSITIONAL PROVISIONS - IMPACT ON AT1 (+/-)</b>	-
<b>L. TOTAL ADDITIONAL TIER 1 (AT1) (G-H+/-I)</b>	<b>8.000</b>
<b>M. TIER2 (T2) INCLUDING ELEMENTS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL PROVISIONS</b>	<b>12.000</b>
of which T2 instruments subject to transitional provisions	-
<b>N. ITEMS TO BE DEDUCTED FROM T2</b>	-
<b>O. TRANSITIONAL PROVISIONS - IMPACT ON T2 (+/-)</b>	-
<b>P. TOTAL TIER 2 (T2) (M-N+/-O)</b>	<b>12.000</b>
<b>Q. TOTAL OWN FUNDS (F+L+P)</b>	<b>118.984</b>

## CAPITAL ADEQUACY

### Quantitative information

Categories / Values	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ CAPITAL RATIOS	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015
<b>A. RISK ASSETS</b>				
A.1 Credit and counterparty risk	<b>1,876,096</b>	<b>2,234,170</b>	<b>589,149</b>	<b>535,194</b>
1. Standardised approach	1,876,096	2,234,170	589,149	535,194
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitised debt	-	-	-	-
<b>B. MINIMUM REGULATORY REQUIREMENTS</b>				
B.1 Credit and counterparty risk			<b>47,132</b>	<b>42,815</b>
B.2 Credit assessment adjustment risk			0	0
B.3 Settlement risk			0	0
B.4 Market risk			0	0
1. Standard approach			0	0
2. Internal models			0	0
3. Concentration risk			0	0
B.5 Operational risk			<b>8,037</b>	<b>8,037</b>
1. Basic indicator approach			8,037	8,037
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			0	0
B.7 Total capital requirements i			<b>55,169</b>	<b>50,853</b>
<b>C. RISK ASSETS AND REGULATORY WEIGHTINGS</b>			<b>689,614</b>	<b>635,658</b>
C.1 Risk-weighted assets			689,614	635,658
C.2 CET1 capital/risk-weighted assets (CET1 capital ratio)			14.35%	13.67%
C.3 Tier1 capital/risk-weighted assets (Tier 1 capital ratio)			15.51%	14.93%
C.4 Total own funds/risk-weighted assets (Total Capital Ratio)			17.25%	16.82%

### INFORMATION CONCERNING RISKS AND RELATIVE HEDGING POLICIES

#### Significant exposures

As at 30 June 2016, the Parent Company's major risks are as follows:

- Exposure Value = 1,040,319,994
- Weighted Value (Value of the exposure after CRM and exemptions pursuant to art. 400 of CRR) = 83,742,167
- No. of positions 16.

## TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties and connected parties, including the relative authorisation and disclosure procedures, are governed by the 'Procedure governing transactions with associated parties' approved by the Board of Directors and published on the internet site of the Parent Company, Banca Sistema S.p.A.

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

With respect to transactions with parties who exercise management and control functions in accordance with article 136 of the Consolidated Law on Banking, they

are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the Statutory Auditors, subject to compliance with the obligations provided under the Civil Code with respect to matters relating to the conflict of interest of directors.

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 compensation of key management personnel

The following data show the compensation of key managers, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated,

which requires the inclusion of the members of the Board of Statutory Auditors.

### Disclosure on transactions with related parties

The following table shows the assets, liabilities, guarantees and commitments as at 30 June 2016,

differentiated by type of related party with an indication of the impact on each individual caption.

Values in thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	30.06.2016
Directors and Statutory Auditors' remuneration	105	40	-	145
Short-term benefits for employees	636	14	1,003	1,653
Post-employment benefits	31	-	104	136
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	-	-	-	-
<b>TOTAL</b>	<b>772</b>	<b>53</b>	<b>1,107</b>	<b>1,933</b>



Values in thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGERS	OTHER RELATED PARTIES	% OF CAPTION
Loans to customers	997	1,763	6,106	0.74%
Due to customers	-	1,321	15,542	1.58%
Securities in issue	-	-	20,103	22.26%
Other assets	-	-	96	0.58%
Other liabilities	107	-	27	0.23%

Values in thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGERS	OTHER RELATED PARTIES	% OF CAPTION
Interest income	22	8	133	0.38%
Interest expenses	-	12	646	8.28%
Other administrative expenses	343	-	53	3.80%
Fee and commission income	-	-	30	0.55%

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

	AMOUNT (THOUSANDS OF EURO)	PERCENTAGE (%)
<b>ASSETS</b>	<b>1,678,639</b>	<b>0.43%</b>
<b>Loans to customers</b>		
CS Union S.p.A.	6,106	0.51%
Speciality Finance Trust Holdings Ltd	997	0.08%
<b>Other assets</b>		
Quinto Sistema srl	20	0.12%
CS Union S.p.A.	76	0.44%
<b>LIABILITIES</b>	<b>1,678,639</b>	<b>2.11%</b>
<b>Due to customers</b>		
CS Union S.p.A.	-	0.00%
Shareholders - SGBS	535	0.05%
Shareholders - Fondazione Pisa	13,997	1.31%
Shareholders - Fondazione CR Alessandria	610	0.06%
Shareholders - Fondazione Sicilia	79	0.01%
<b>Other liabilities</b>		
CS Union S.p.A.	27	0.05%
Speciality Finance Trust Holdings Ltd	107	0.19%
<b>Securities in issue</b>		
Shareholders - Fondazione Pisa	<b>20,103</b>	<b>22.26%</b>

	AMOUNT (THOUSANDS OF EURO)	PERCENTAGE (%)
<b>REVENUES</b>	<b>51,661</b>	<b>0.36%</b>
<b>Interest income</b>		
CS Union S.p.A.	133	0.31%
Speciality Finance Trust Holdings Ltd	22	0.05%
<b>Fee and commission income</b>		
Shareholders - Fondazione Pisa	30	0.55%
<b>COSTS</b>	<b>29,924</b>	<b>2.32%</b>
<b>Interest expenses</b>		
CS Union S.p.A.	-	0.00%
Shareholders - SGBS	-	
Shareholders - Fondazione Pisa	639	8.05%
Shareholders - Fondazione CR Alessandria	1	0.01%
Shareholders - Fondazione Sicilia	1	0.01%
<b>Other administrative expenses</b>		
CS Union S.p.A.	53	0.30%

## SEGMENT REPORTING

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

### Breakdown by segment: profit and loss data at 30 June 2016

Items	30 June 2016			
	FACTORING	BANKING	CORPORATE	CONSOLIDATED TOTAL
<i>Values in thousands of Euro</i>				
Interest margin	30,357	4,000	291	<b>34,647</b>
Net fee and commission income	4,051	256	108	<b>4,415</b>
Other costs/revenue			1,030	<b>1,030</b>
<b>Net interest and other banking income</b>	<b>34,407</b>	<b>4,256</b>	<b>1,429</b>	<b>40,092</b>
Net value adjustments for loan impairment	(1,493)	(1,637)	-	<b>(3,130)</b>
<b>Operating income</b>	<b>32,914</b>	<b>2,619</b>	<b>1,429</b>	<b>36,962</b>

### Breakdown by segment: balance sheet data as at 30 June 2016

Items	30 June 2016			
	FACTORING	BANKING	CORPORATE	CONSOLIDATED TOTAL
<i>Values in thousands of Euro</i>				
Financial assets	-	-	411,422	<b>411,422</b>
Due from banks	-	-	49,701	<b>49,701</b>
Due to banks	-	-	352,713	<b>352,713</b>
Loans to customers	911,543	266,132	15,082	<b>1,192,757</b>
Due to customers	32,692	-	1,036,449	<b>1,069,141</b>

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

The Banking segment includes the business area related to the origination of guaranteed loans to small and medium-sized enterprises, pension- and salary-backed loan portfolios and costs/income from assets under

administration and the placement of third-party products. The Corporate segment includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. Moreover, this segment includes all the consolidation entries, as well as all the inter-company cancellations. The secondary disclosure by geographic area has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

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

### CERTIFICATION OF THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL REPORT IN ACCORDANCE WITH ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned, Gianluca Garbi, in his capacity as CEO, and Margherita Mapelli, in her capacity as Manager responsible for drafting the company accounting documents of Banca Sistema S.p.A. hereby certify, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of legislative decree no. 58 of 24 February 1998:
  - the suitability as regards the characteristics of the company, and
  - the effective implementation of the administrative and accounting procedures for the drafting of the condensed consolidated half-year financial report, during the first half of 2016.
2. The suitability and effective application of the administrative and accounting process for the drafting of the condensed consolidated half-year financial report as at 30 June 2016 was verified based on internally defined methods, in accordance with the provisions of the reference standards for the internal audit system generally accepted on an international level.
3. Moreover, the undersigned hereby certify that:
  - 3.1 the condensed consolidated half-year financial report
    - a) was drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
    - b) corresponds to the results of the accounting books and records;
    - c) is suitable for providing a true and fair view of the financial position of the issuer and all the companies included in the scope of consolidation.
  - 3.2 The interim 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 consolidated half-year financial report, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim directors' report includes, moreover, a reliable analysis of the information concerning major transactions with related parties.

Milan, 29 July 2016

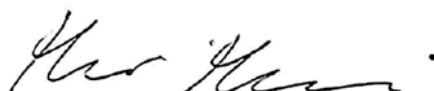
Gianluca Garbi

CEO



Margherita Mapelli

*Designated manager responsible for drafting the company accounting documents*





KPMG S.p.A.  
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(Translation from the Italian original which remains the definitive version)

## Report on review of condensed interim consolidated financial statements

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

### Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Banca Sistema Group comprising the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of other comprehensive income, statement of changes in consolidated equity, consolidated statement of cash flows and notes thereto, as at and for the six months ended 30 June 2016. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

### Scope of Review

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



**Banca Sistema Group**  
*Independent auditors' report*  
30 June 2016

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of Banca Sistema Group as at and for the six months ended 30 June 2016 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 4 August 2016

KPMG S.p.A.

(signed on the original)

Bruno Verona  
Director of Audit

