

Banca SISTEMA Group

INTERIM CONSOLIDATED

FINANCIAL REPORT

AT 30 SEPTEMBER 2017

BANCA
S I S T E M A

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DIRECTORS' REPORT

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

Chairperson	Ms.	Luitgard Spögler
Deputy Chairperson	Mr.	Giovanni Puglisi
CEO and General Manager	Mr.	Gianluca Garbi
Directors:	Mr.	Claudio Pugelli
	Mr.	Giorgio Barba Navaretti (<i>Independent</i>)
	Ms.	Ilaria Bennati (<i>Independent</i>) ¹
	Mr.	Daniele Pittatore (<i>Independent</i>)
	Ms.	Carlotta De Franceschi (<i>Independent</i>)
	Mr.	Diego De Francesco ² (<i>Independent</i>)

Board of Statutory Auditors³

Chairman	Mr.	Massimo Conigliaro
Standing Auditors:	Mr.	Biagio Verde
	Mr.	Marco Armarolli ⁴
Alternate Auditors:	Ms.	Daniela D'Ignazio

Internal Control and Risk Management Committee

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

Appointments Committee

Chairman:	Mr.	Diego De Francesco
Members:	Ms.	Ilaria Bennati
	Ms.	Luitgard Spögler

Remuneration Committee

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

Ethics Committee

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

Supervisory Body

Chairman:	Mr.	Massimo Conigliaro
Members:	Mr.	Daniele Pittatore
	Mr.	Franco Pozzi

¹ The CEO was confirmed at the Shareholders' Meeting held on 27 April 2017.







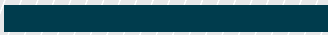










² Director co-opted by the Board of Directors on 28 April 2017, effective as from 1 May 2017, replacing Mr Andrea Zappia who tendered his resignation from the position on 14 April 2017 with effect from 1 May 2017.

³ The Board of Statutory Auditors was appointed at the Shareholders' Meeting on 27 April 2017.













⁴ Previously an Alternate Auditor, he took over as a Standing Auditor pursuant to the parent's articles of association and current regulations following the resignation of the Standing Auditor, Ms. Maria Italiano, on 25 July 2017, and shall remain in office until the next Shareholders' Meeting.

FINANCIAL HIGHLIGHTS AT 30 SEPTEMBER 2017

Statement of financial position data (€,'000)

Total Assets		2,189,571	9.5%	
		1,999,363		
Securities Portfolio		423,889	-17.7%	
		514,838		
Loans - Factoring		1,108,571	12.4%	
		986,169		
Loans - Salary-backed loans and SME		485,643	40.8%	
		344,911		
Funding - Banks and REPOs		842,373	11.8%	
		753,706		
Funding - Term Deposits		446,243	0.6%	
		443,395		
Funding - Current Accounts		468,635	7.2%	
		436,986		

Income statement data (€,'000)

Net interest income		54,131	6.5%
		50,812	
Net fee and commission income		7,352	7.2%
		6,862	
Total income		62,638	6.2%
		58,961	
Personnel Expense		(12,772)	14.6%
		(11,148)	
Other administrative expenses		(14,929)	-3.0%
		(15,398)	
Pre-tax profit		31,157	4.6%
		29,784	

Performance Indicators

Cost/income		45%	0.6%
		45%	
ROAE		23%	-7.3%
		25%	

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

The merger of Beta Stepstone S.p.A (“Beta Stepstone”) into Banca Sistema S.p.A. (“Banca Sistema” or the “Bank”) was completed with tax and legal effect beginning on 1 January 2017. Beginning on this date, in accordance with Article 2504-bis of the Italian Civil Code, Banca Sistema has therefore assumed all asset and liability relationships that previously belonged to Beta Stepstone

On 18 January 2017, the Board of Directors approved the new “MiFID Policy” which was updated to incorporate regulatory changes and developments in the Bank's operations.

On 8 February 2017, the Board of Directors approved the 2017 Remuneration Policies Document of the Banca Sistema Group, and the Activity Plan for 2017 related to the II Level Internal Control Departments, (Risk, Compliance and Anti-Money laundering) and Internal Audit Department; the Board of Directors also acknowledged the quarterly report from the Internal Control Department as at 31 December 2016 (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 Related Party Transactions within the scope of the Master Resolution, the annual Report of the Head of internal whistleblowing systems, and the Periodic Report from the Supervisory Body concerning the application of the “Organisational, management and control model pursuant to Legislative Decree no. 231/2001”. On the same date, the Board of Directors also resolved: i) to suspend the business of granting guaranteed loans to SMEs, guaranteed by the National Guarantee Fund managed by the Mediocredito Centrale S.p.A. (MCC), but still guaranteeing that loan applications received prior to that date that meet the conditions are granted; ii) to approve the opening of a new Banca Sistema branch office in Rome to house the new administrative offices that are currently located in another building in Rome, and the offices of the collateralised loan business. The Board of Directors approved the

opening of a new branch in Rome on via Campania 59/C, together with the administrative office currently located in Piazzale delle Belle Arti, 8, which will also be transferred to this new location; iii) to approve the establishment of a held-to-maturity securities portfolio through the purchase of Italian government securities.

On 8 March 2017 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 “2016 Risks Department Annual Report”, (III) the “2016 Compliance Department Annual Report”, (IV) the “2016 Anti-Money Laundering Department Annual Report”, (V) the “Compliance Department Annual Report on complaints received by the Bank”, and (VI) the “Annual Report on the activities carried out by the Internal Audit Department during 2016”. The Board of Directors also approved the Report on corporate governance and ownership structure which was prepared in accordance with art. 123-bis of Legislative Decree no. 58/1998, as well as the Remuneration Report in accordance with art. 123-ter of Legislative Decree no. 58/1998.

On 28 March 2017, the Board of Directors approved the issue of a floating rate, Tier II subordinated Bond with a maximum nominal amount of € 14 million. Settlement is to be carried out in a single tranche on 30 March 2017 and is reserved for institutional investors in private placement.

On 28 April 2017, the Board of Directors acknowledged the quarterly report by the Internal Control Department at 31 March 2017 (Risk Reporting, Tableau de Bord of the Compliance Department and Tableau de Bord of the Internal Audit Department), the quarterly report on Related Party Transactions within the scope of the Master Resolution and the Pillar III Disclosure. On the same date, the Board of Directors also approved the “Annual report from the internal audit department concerning audits conducted on outsourced operating

departments”, the update to the “MiFid Policy”, the “Complex Securities Management Policy”, the updated IT System documentation and the procedures regarding Market Abuse.

On 1 June 2017, the Board of Directors approved the 2017 Restructuring Plan in compliance with the current provision in the Consolidated Law on Banking, which was submitted to the Bank of Italy on 14 June 2017.

The Bank's Board also approved the succession plan for management functions and the corporate bodies, acknowledging the recommendations for “larger and more complex banks” introduced under EU Directive 2013/36 and the Supervisory Provisions under Bank of Italy circular 285/2013.

On 22 June 2017, an agreement was reached with Fortress for the early closing of all agreements entered into for the acquisition of Beta Stepstone related to guarantees and obligations in favour of the Bank contained within the SPA. With the early closing of the agreement, the Bank has benefited from the return of a portion of the cash that was being held in an escrow account.

Following the resolutions passed by the Shareholders of the subsidiary Axactor Italy S.p.A. (previously CS Union S.p.A.) at their extraordinary meeting held on 22 June 2017, Banca Sistema subscribed to its share (equal to 10%) of the capital increase which went from € 2,922,647.14 to € 7,500,548.58, of which € 6,000,748.74 fully paid in.

It should be noted that from 18 October 2016 to 20 January 2017, the Bank of Italy performed an inspection regarding “governance, management and control of credit risk” that was expanded during the inspection to include other profiles, including those that are the responsibility of CONSOB. The inspection report was presented by representatives of the Bank of Italy, in the presence of the Board of Statutory Auditors, at the Board meeting that was specifically called on 4 May 2017.

The inspections did not result in any regulatory sanctions being initiated.

The results of the analysis and the assessment

conducted by the Bank of Italy identified the measures needed to correct the observed weaknesses.

The corrective actions will be periodically monitored by the corporate bodies and will be completed during the current financial year.

On 27 July 2017, the Board of Directors acknowledged the quarterly report by the Internal Control Department at 30 June 2017 (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 Related Party Transactions within the scope of the Master Resolution, for which the update was approved and the due date set for July 2018.

The Board of Directors, having acknowledged the request of an institutional investor to reopen, for € 1.5 million, the TIER II subordinated bond issued on 30 March 2017 with a 10-year maturity, six-monthly EURIBOR 6 + 450bps coupon (and early redemption option in case of a regulatory event), given the favourable market conditions, resolved to comply with the request to reopen the bond for € 1.5 million and to authorise the acceptance of additional reopening requests at market conditions, up to a maximum of an additional €13.5 million. The issue of € 1.5 million was settled on 4 August 2017.

The shareholder of the subsidiary LASS S.r.l. at their extraordinary meeting held on 27 July 2017 authorised a capital increase from € 4,000,000 to € 15,000,000 through a bonus issue of a quota with a nominal value of € 11,000,000 assigned to the company's sole shareholder. The capital increase entered into effect on 31 August 2017.

On 13 September 2017 authorisation was received from the Bank of Italy to begin purchases of treasury shares, of a confirmed total maximum amount of € 200,000.00, of which (I) € 160,000.00 for the creation of a stock of shares to be awarded to key personnel in application of the remuneration and incentive policies approved by the Shareholders' Meeting and (II) the residual amount of € 40,000.00 for market-making activity.

On 21 September 2017 the Board of Directors of Banca Sistema then resolved to launch a treasury share

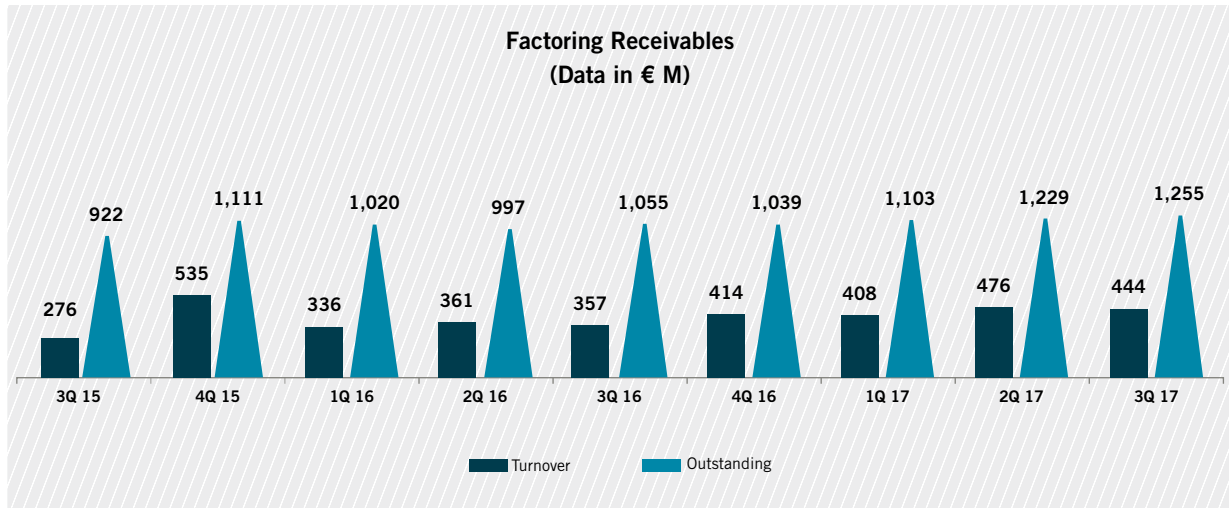
purchasing programme with the aim of creating such stock of treasury shares. Following the purchasing programme, concluded on 28 September 2017, Banca Sistema held 70,000 treasury shares representing

0.09% of the share capital.

On 21 September 2017 the Board of Directors approved the opening of two new branches for collateralised lending business in Palermo and Naples.

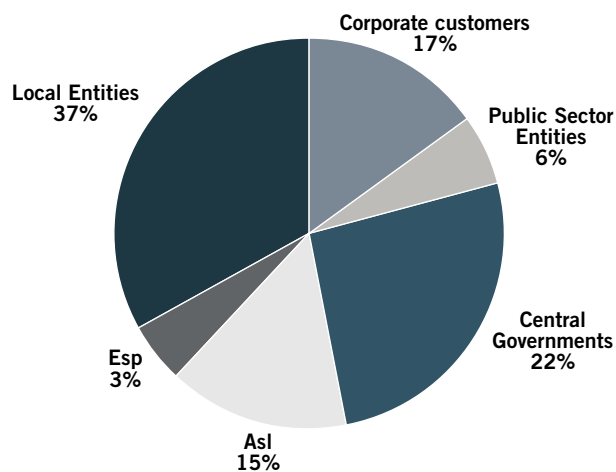
FACTORING

Total turnover for the period ended 30 September 2017 of the Banca Sistema Group was € 1,328 million, up 27% on the same period of 2016.



Outstanding loans at 30 September 2017 amounted to € 1,255 million, up 21% on the € 1,039 million at 31 December 2016 mainly due to increased volumes acquired in 2017 compared to collections during the same period.

The chart below shows the ratio of debtors to the outstanding portfolio as at 30 September 2017. 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 by product type:

PRODUCT	30.09.2017	30.09.2016	€ Change	% Change
Trade receivables	1,213	923	290	31%
<i>of which, without recourse</i>	<i>871</i>	<i>690</i>	<i>181</i>	<i>26%</i>
<i>of which, with recourse</i>	<i>342</i>	<i>233</i>	<i>109</i>	<i>47%</i>
Tax receivables	115	131	(16)	-12%
<i>of which, without recourse</i>	<i>107</i>	<i>110</i>	<i>(3)</i>	<i>-3%</i>
<i>of which, with recourse</i>	<i>8</i>	<i>21</i>	<i>(13)</i>	<i>-62%</i>
TOTAL	1,328	1,054	274	26%

The growth in turnover derives mainly from the purchase of trade receivables.

The number of turnover-generating customers for the period ended 30 September 2017 was 316 and higher

than the figure recorded at 30 September 2016 (+39), due to the extension of the sales network which began in 2015, and as a result of the agreements entered into with banks.

Collection and debt recovery activities

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

The network of freelancers used by the Bank enables an exact adjustment of the debt collection activities regarding each specific debtor or an increase in the number of operators when it becomes necessary to focus on specific areas.

For the period ended 30 September 2017, collections managed by the Bank under its credit factoring portfolios totalled € 1,087 million (down 4% on September 2016). Recovery and reconciliation of collections is divided into out-of-court recovery activity, when invoices are paid according to the internally-estimated schedule, and legal recovery activity. In particular, the policy for managing and recovering receivables claimed by Banca Sistema from the Public Administration has been characterised, since the launch of the business, by an approach that involves legal action only after an out-of-court recovery process.

Clearly, legal action, even if late is part of the ordinary collection process, 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, with the resulting collection of default interest, is initiated when it is necessary to avoid a loss for the Bank. At the end of the first half of 2016, the Bank updated its accounting treatment of default interest on the loans under legal action portfolio, transitioning from cash accounting to accruals accounting on 30 June 2016, based on the expected recovery percentages.

The expected recovery percentages estimated at 30 June 2017 (65% for the national health system and 15% for other Public Administration debtors) were updated, and will continue to be updated in the future, based on the progressive consolidation of data series for the non-health segment, where recovery percentages higher than 80% have been confirmed with reference to the sample under examination. Accordingly, the estimated probability of collection of default interest for the non-health segment changed compared to both 31 December 2016 and 30 June 2017, rising from 15% to 31%, whereas the probability for the health segment remained essentially unchanged.

At 30 September 2017, on a weighted average default interest was charged in 38% of total cases, which was nevertheless lower than the percentage of actual collection. The revision of these recovery estimates led to the recognition of € 9 million of greater interest income during

the period ended 30 September 2017, of which € 3.7 million attributable to previous financial years.

At 30 September 2017 receivables subject to legal action amounted to € 348 million (of which € 268 million relating to non-health entities), corresponding to total interest accrued of € 109 million, whereas total

interest accrued not subject to legal action stood at € 89 million. These estimates, as required by relevant legislation, will be reviewed and adjusted if necessary if there is a change in the circumstances upon which the estimates were formed, or if there is new information or more experience.

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 50% of the total and is composed of the account Si Conto! Corrente and the product Si Conto! Deposito.

Total term deposits as at 30 September 2017 amounted to € 446 million, an increase of 1% compared to 31 December 2016.

There were 10,099 individual customers with term deposits as at 30 September 2017, a decline compared with the figures as at 30 September 2016 (10,326). The average deposit was € 43 thousand, an increase

The above-mentioned amount also includes total term deposits of € 118 million (obtained with the help of a partner platform) held with entities resident in Germany and Austria (accounting for 27% of total deposit funding), an increase of € 35 million over the same period of the previous year.

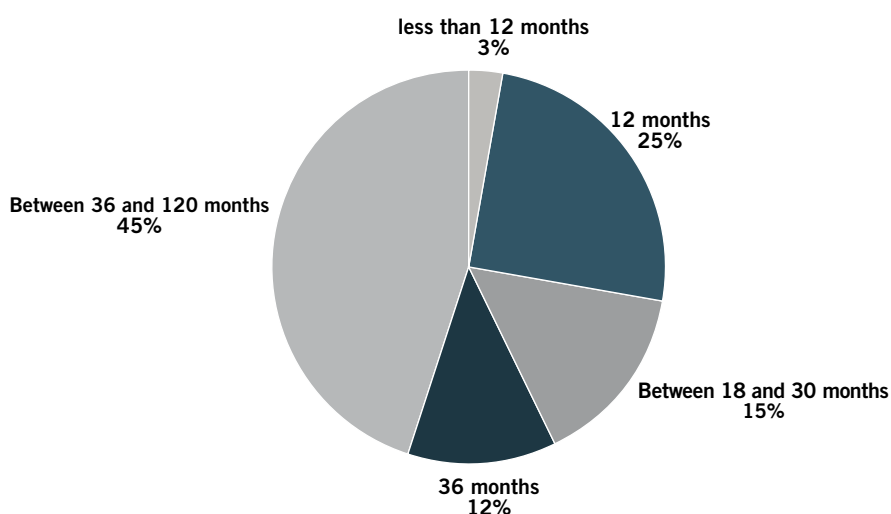
The increase benefited from the increase in interest rates in Germany over the course of the year.

compared with the figures as at 30 September 2016 (€ 38 thousand).

The breakdown of funding by term is shown below.

The average duration of the portfolio is 21 months.

Breakdown of deposit accounts as at 30 September



Current accounts increased from 4,042 (as at 30 September 2016) to 4,492 as at 30 September 2017, while the current

account balance as at 30 September 2017 was € 469 million, up € 30 million compared with 31 December 2016.

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 loans and receivables portfolios derived from this specific type of financing. As at 30 September 2017, the Bank has seven ongoing agreements with specialist distributors in the sector.

A salary- or pension-backed loan (CQS/CQP) is a

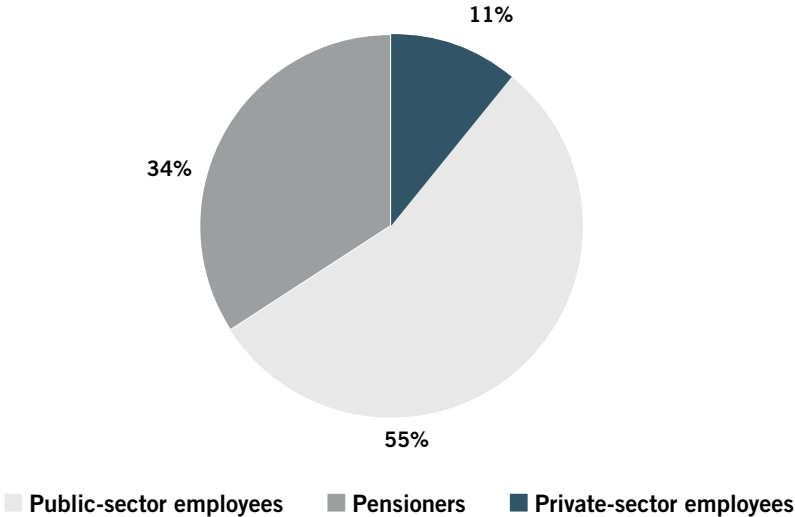
consumer loan product that allows customers to allocate up to a fifth of their salaries or pensions to the payment of loan instalments.

The volumes acquired in the period ended 30 September 2017 amounted to € 175.6 million, including private-sector employees (11%), pensioners (34%) and public-sector employees (55%). Therefore, over 89% of the volumes refer to pensioners and employees of the Public Administration, which remains the Bank's main debtor.

	30.09.2017	30.09.2016	€ Change	% Change
No. of applications	8,743	4,842	3,901	81%
Volumes disbursed	175,584	99,531	76,053	76%

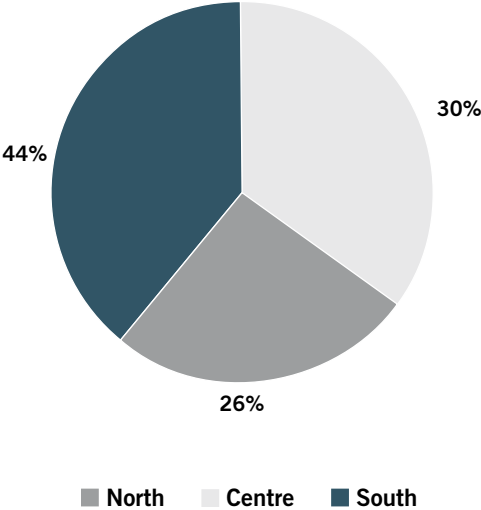
As shown in the table, the amounts disbursed in the period ended 30 September 2017 were considerably higher than in the same period in 2016 as a result of the agreements concluded by the Bank during 2017.

CQS disbursed volumes - Breakdown



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

CQS disbursed volumes - Breakdown by geographical segment



THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€,000)	30.09.2017	31.12.2016	€ Change	% Change
Cash and cash equivalents	168	98	70	71.4%
Financial assets held for trading	475	996	(521)	-52.3%
Available-for-sale financial assets	423,889	514,838	(90,949)	-17.7%
Held-to-maturity investments	84,143	-	84,143	n.a.
Loans and receivables with banks	24,247	83,493	(59,246)	-71.0%
Loans and receivables with customers	1,607,806	1,348,329	259,477	19.2%
Equity investments	1,268	1,030	238	23.1%
Property and equipment	23,975	23,313	662	2.8%
Intangible assets	1,795	1,835	(40)	-2.2%
<i>of which: goodwill</i>	<i>1,786</i>	<i>1,786</i>	<i>-</i>	<i>0.0%</i>
Tax assets	8,011	10,528	(2,517)	-23.9%
Other assets	13,794	14,903	(1,109)	-7.4%
Total assets	2,189,571	1,999,363	190,208	9.5%

The third quarter of 2017 ended with total assets of approximately € 2.2 billion, up 9.5% on the end of 2016, mainly because of an increase in turnover in the factoring and salary- and pension-backed loans (CQS/CQP) portfolios. The merger of Beta Stepstone into the Parent became effective on 1 January 2017. For accounting purposes, since this is a restructuring transaction within the group, in accordance with OPI 2 it was excluded from the scope of application of IFRS 3, and the principle of continuity was applied; as a result, the entry in the separate financial statements of the merging company of the equity from the merged company did not lead to the issue of current amounts higher than those expressed in the consolidated financial statements.

The Group's AFS (available-for-sale) securities portfolio is mainly comprised of Italian government bonds with an average remaining duration of about 8 months as at 30 September 2017 (the average duration at the end

of 2016 was 7 months) and is in line with the Group investment policy to retain securities with durations of under 12 months. The government bond portfolio amounted to € 416 million at 30 September 2017 (€ 508 million as at 31 December 2016). The valuation reserve for government securities at the end of the period was € 115 thousand gross of tax. The AFS portfolio, in addition to government securities, also includes 200 shares of the Bank of Italy amounting to € 5 million purchased in July 2015 and the Axactor shares, which represented the part of the price paid in the form of shares within the framework of the agreement for the sale of the shares of Axactor Italy. At 30 September, the net fair value reserve for these securities was positive at € 478 thousand, resulting in a period-end amount of € 1.9 million. During 2017, a held-to-maturity securities portfolio was established made up entirely of Italian government securities with an average duration of 2 years and amounting to € 84 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,'000)	30.09.2017	31.12.2016	€ Change	% Change
Factoring	1,108,571	986,169	122,402	12.4%
Salary-/pension-backed loans (CQS/CQP)	423,416	265,935	157,481	59.2%
Loans to SME	62,227	78,975	(16,748)	-21.2%
Current accounts	6,409	12,255	(5,846)	-47.7%
Compensation and Guarantee Fund	6,122	4,684	1,438	30.7%
Other loans and receivables	1,061	311	750	241.2%
Total	1,607,806	1,348,329	259,477	19.2%

“Loans and receivables with customers” mainly comprise outstanding loans for factoring receivables, down from 73% to 69% of the caption. The cumulative turnover figure for the period ended 30 September 2017 amounted to € 1,328 million (up +26% on the same period of the previous year). Salary- and pension-backed loans grew by 59% compared to the end of 2016 as a result of new volumes acquired in 2017 equal to € 176 million, while government-backed loans to SMEs fell as a result of marginal disbursement volumes and in line with the strategic decisions dictated by the changes in regulations regarding State guarantees and the pursuit of new lines of business. In particular, at the end of last year the Parent began developing the gold collateralised loan business. To this end, a new branch dedicated to this type of business was opened in Milan during the first quarter, and another in Rome during the second quarter, in addition to the expansion of this type of business at the existing Pisa branch. At 30 September € 795 thousand had been granted.

During 2017, the salary- and pension-backed loan factoring programme to the special purpose vehicle Quinto Sistema 2016 was terminated and a new securitisation began through the SPV Quinto Sistema 2017 S.r.l..

The associated sale of the ABS, which was expected to be made by the end of June 2017 in view of capital enhancement, was not completed because satisfactory levels of return were not reached for the senior securities despite the fact that the orders for the securities were three times greater than the offering. Although the failure to proceed with the sale did not allow a gain to be realised in 2017, it will permit greater interest income to be earned also in future years.

Since the securities of both special purpose vehicles (2016 and 2017) 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 as a balancing entry to the subscribed asset-backed securities (ABS).

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

STATUS	31.12.2016	31.03.2017	30.06.2017	30.09.2017
Doubtful	35,231	40,643	38,004	39,799
Unlikely to pay	20,189	17,676	29,677	24,083
Overdue payments/defaults>180 days	68,342	85,828	78,735	89,145
Non-performing	123,762	144,147	146,416	153,027
Performing	1,242,832	1,272,618	1,362,811	1,480,346
Other loans and receivables with customers (excluding REPOs)	4,033	19,278	17,670	0
Total excluding REPOs	1,370,628	1,436,043	1,526,897	1,633,373
Individual impairment losses	16,457	16,329	17,707	19,864
Collective impairment losses	5,842	5,502	6,040	5,703
Total impairment losses	22,299	21,831	23,747	25,567
Net exposure	1,348,329	1,414,212	1,503,150	1,607,806

The ratio of gross non-performing loans to the total portfolio is down from 9% at 31 December 2016 to 8.3% at the end of the third quarter of 2017, mainly due to the increase in outstanding volumes. The increase in non-performing loans compared to 31 December 2016 is primarily tied to the increase in past due loans.

Net doubtful loans amounted to 1.8% of total loans and receivables with customers, remaining at moderate levels. The amount of past due loans is attributed to factoring receivables without recourse from the Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.

Within the scope of reviewing the model for expected losses and the related recovery times for doubtful receivables from Public Administration debtors, the amounts prudently allocated in previous years were reviewed. Part of this exercise also included a thorough recalculation of the estimated value adjustments on the “unlikely to pay” category.

The coverage ratio of non-performing loans remained unchanged at 13% at 30 September 2017, compared to

13.3% at 31 December 2016.

Equity investments include the Bank's current equity investment of 10.0% in Axactor Italy 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. The increase during the period is mainly attributed to the pro-quota capital increase of € 300 thousand subscribed by Banca Sistema.

Property and equipment includes the property located in Milan, which will primarily be used as Banca Sistema's new offices following the completion of the renovation work. Its current book value is € 23.1 million.

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

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

Other assets include amounts being processed after the end of the reference period and advance tax payments of approximately € 6 million.

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

LIABILITIES AND EQUITY (€,'000)	30.09.2017	31.12.2016	€ Change	% Change
Due to banks	522,679	458,126	64,553	14.1%
Due to customers	1,343,218	1,262,123	81,095	6.4%
Securities issued	106,753	90,330	16,423	18.2%
Tax liabilities	11,605	8,539	3,066	35.9%
Other liabilities	65,621	59,825	5,796	9.7%
Post-employment benefits	2,082	1,998	84	4.2%
Provisions for risks and charges	7,767	4,105	3,662	89.2%
Valuation reserves	365	425	(60)	-14.1%
Reserves	98,131	78,980	19,151	24.2%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(149)	(52)	(97)	186.5%
Profit for the period/year	21,848	25,313	(3,465)	-13.7%
Total liabilities and equity	2,189,571	1,999,363	190,208	9.5%

Wholesale funding represents about 50% of the total (49% as at 31 December 2016) and is in line with the end of 2016. The contribution of bond funding increased

from 11.4% to 12.1% of the total wholesale funding thanks to the placement of a new bond included in TIER 2 equal to € 15.5 million.

DUE TO BANKS (€,'000)	30.09.2017	31.12.2016	€ Change	% Change
Due to Central banks	192,188	192,850	(662)	-0.3%
Due to banks	330,491	265,276	65,215	24.6%
<i>Current accounts and demand deposits</i>	404	20,276	(19,872)	-98.0%
<i>Term deposits</i>	330,087	245,000	85,087	34.7%
Total	522,679	458,126	64,553	14.1%

Due to banks grew by 14% compared to 31 December 2016 with an increase in interbank funding with an average duration of 2.8 months. The collateral for ECB refinancing are mainly ABS from the securitisation of salary- and pension-backed securities and retail loans

for the remaining amount. The Bank also participated in the TLTRO II auction for € 123 million, with a duration of four years and current expected rate of -40bps, the interest from which has been accrued from the second half of 2017.

DUE TO CUSTOMERS (€,'000)	30.09.2017	31.12.2016	€ Change	% Change
Term deposits	446,243	443,396	2,847	0.6%
Funding (repurchase agreements)	319,694	295,581	24,113	8.2%
Current accounts and demand deposits	468,635	436,986	31,649	7.2%
Deposits with Cassa Depositi e Prestiti	42,614	35,615	6,999	19.7%
Due to assignors	66,032	50,547	15,485	30.6%
Total	1,343,218	1,262,123	81,095	6.4%

Customer deposits increased compared to the end of the year, mainly due to an increase in funding from current accounts and funding from repurchase agreements, mainly as a result of a decrease in the securities portfolio. The period-end amount of term deposits increased slightly, up 0.6% on the end of 2016, reflecting net positive deposits (net of interest accrued) of € 1 million; gross deposits from the beginning of the year were € 201 million, against withdrawals caused mainly by non-renewals totalling € 200 million.

Due to customers also include funding of € 42.6 million from Cassa Depositi e Prestiti obtained against collateral consisting solely of loans to SMEs by the Bank.

“Due to assignors” include payables related to receivables acquired but not funded.

The balance of debt instruments issued increased compared to 31 December 2016 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 2 subordinated loan of € 15.5 million, set to mature on 30 March 2027;
- 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 Tier 2 bond issued on 30 March 2017 was reopened for € 1 million on 10 October. This reopening was in addition to the previous reopening of € 1.5 million (already announced on 27 July 2017) and the reopening of € 14 million placed on 30 March 2017.

In addition, on 9 October 2017 the Bank successfully concluded the placement of its first public bond offering for institutional investors. This senior unsecured bond has a total amount of € 175 million and a maturity of

three years.

The provision for risks and charges of € 7.8 million includes the amount of € 3 million, representing the estimated future liabilities attributable to Beta, calculated based on the price allocation in accordance with IFRS 3, along with a settlement in the tax dispute that the Italian Revenue Office had filed against Beta: this amount was fully covered by the previous controlling shareholder as part of the early closing of the purchase agreement.

The remaining amount refers to the portion of the bonus

deferred to future periods and the estimate related to the non-compete agreement.

The provision also includes an estimate of the charges relating to legal actions within the framework of a lending transaction in which the end borrower is in voluntary arrangement with its creditors.

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

(€,000)	PROFIT (LOSS)	EQUITY
Profit/equity of the parent	22,426	130,978
Assumption of value of investments	-	(14,954)
Consolidated loss/equity	(578)	13,821
Equity attributable to the owners of the parent	21,848	129,845
Equity attributable to non-controlling interests	-	30
Group equity	21,848	129,815

CAPITAL ADEQUACY

Due to the incorporation of LASS, it is no longer possible to opt out of consolidated financial reporting. Accordingly, financial reporting was prepared on a consolidated basis starting from the third quarter of

2016.

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

OWN FUNDS (€,'000) AND CAPITAL RATIOS	30.09.2017	31.12.2016
Common Equity Tier 1 (CET1)	122,228	104,621
ADDITIONAL TIER 1	8,000	8,000
Additional Tier 1 capital (T1)	130,228	112,621
TIER2	27,548	12,092
Total Own Funds (TC)	157,776	124,713
Total risk weighted assets	982,978	788,041
of which, credit risk	851,582	652,999
of which, operational risk	130,447	130,447
of which, market risk	949	4,595
Ratio - CET1	12.4%	13.3%
Ratio - AT1	13.2%	14.3%
Ratio - TCR	16.1%	15.8%

Total own funds were € 158 million at 30 September 2017 and included the profit for the period, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit.

The increase in RWAs compared to 31 December 2016 was primarily due to the increase in loans, particularly salary- and pension-backed loans, and the increase in past-due loans to Public Administration.

In compliance with the EBA and Guidelines on common

SREP (Supervisory Review and Evaluation Process), the Bank of Italy requested that the following minimum requirements be maintained:

- CET1 ratio of 7.2% + additional 0.2% above the minimum regulatory requirement;
- TIER1 ratio of 9.6% + additional 1.1% above the minimum regulatory requirement;
- Total capital ratio of 12.9% + additional 2.4% above the minimum regulatory requirement.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,'000)	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016	€ Change	% Change
Net interest income	54,131	50,812	3,319	6.5%
Net fee and commission income	7,352	6,862	490	7.1%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	70	18	52	n.a.
Gain from sales or repurchases of financial assets	858	1,042	(184)	-17.7%
Total income	62,638	58,961	3,677	6.2%
Net impairment losses on loans and receivables	(3,057)	(4,923)	1,866	-37.9%
Net financial income	59,581	54,038	5,543	10.3%
Personnel expense	(12,772)	(11,148)	(1,624)	14.6%
Other administrative expenses	(14,929)	(15,398)	469	-3.0%
Net accruals to provisions for risks and charges	(82)	69	(151)	n.a.
Net impairment losses on property and equipment/intangible assets	(229)	(236)	7	-3.0%
Other operating income (expense)	(350)	178	(528)	n.a.
Operating costs	(28,362)	(26,535)	(1,827)	6.9%
Gains (losses) on equity investments	(62)	2,281	(2,343)	n.a.
Gains (losses) on sales of investments	-	-	-	n.a.
Pre-tax profit	31,157	29,784	1,373	4.6%
Income taxes	(9,309)	(8,384)	(925)	11.0%
Profit for the period attributable to the owners of the parent	21,848	21,400	448	2.1%

Following the acquisition of Beta Stepstone on 1 July 2016, the consolidated results for the period ended 30 September 2016 include the contribution of the merged Beta Stepstone for a single quarter. Therefore, the results for the period ended 30 September 2016 are not completely comparable.

Profit in the first nine months of 2017 was € 21.8 million, up compared to the same period of the previous year, due - as mentioned above and in application of the pertinent accounting standards - to the change of the estimated probability of collection of default interest in

the non-health business, which had an impact of € 9 million, of which € 3.7 million accrued in the previous financial years.

In application of IAS 8, concerning accounting estimates, estimated recovery percentages will be periodically revised based on the updated data series for collection figures.

Also contributing to the results reported during the first half of 2016 was the realised capital gain deriving from the partial sale of an interest in Axactor Italy of € 2.2 million.

NET INTEREST INCOME (€,'000)	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	66,360	61,289	5,071	8.3%
Securities portfolio	(796)	(38)	(758)	n.a.
Other	374	1,192	(818)	-68.6%
Total interest income	65,938	62,440	3,498	5.6%
Interest and similar expense				
Due to banks	(552)	(1,467)	915	-62.4%
Due to customers	(8,999)	(8,663)	(336)	3.9%
Securities issued	(2,256)	(1,498)	(758)	50.6%
Total interest expense	(11,807)	(11,628)	(179)	1.5%
Net interest income	54,131	50,812	3,319	6.5%

Net interest income increased by 6.5% compared to the same period of the previous year, mainly due to the update of the estimation and recognition method of default interest described above and the higher income on the salary- and pension-backed loan portfolios.

The amount of default interest on the factoring portfolio under legal action at 30 September 2017 was € 19.1 million, of which € 13.7 million allocated on an accrual basis. The impact on the income statement of the collection of this default interest was € 5.4 million, net of the amount allocated in 2016, compared to € 1.7 million recorded in the same period of 2016.

The amount of default interest accrued on settled and outstanding invoices, net of the amount already subject to legal action, amounted to approximately €89 million (€ 104.3 million at 31 December 2016).

It should be noted that the early closing of the guarantee agreement provided by the former shareholder of Beta Stepstone (following its acquisition by Banca Sistema) regarding the collection of default interest on receivables from entities in the healthcare sector, resulted in higher accrued default interest being recorded in the second quarter of 2017. This should be viewed within the context of the Bank's strategy to evaluate transactions related to default interest on a case-by-case basis as was previously done in the fourth quarter of 2016. Sale and purchase transactions regarding default interest may become more frequent even in the future.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 5 million to € 9.1 million, whereas interest declined on the SME portfolios, which contributed € 3 million to the total, following the strategic decision to stop developing this area of the business. Pro-forma net interest income is presented at the end of this section.

The negative performance of the securities portfolio, a result of the ECB's interest rate policy, should be linked to the funding cost which was positive. Overall, the carry trade remains positive.

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

The cost of funding was essentially unchanged compared to the same period of the previous year, in line with the general decrease in market rates, and thanks to a continued and careful funding diversification policy and retail funding management.

The increase in interest on issued securities is strictly related to the new bond issues and therefore to higher stock compared to the previous year.

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

The cost of funding also includes the positive component coming from the current expected rate of -40bps on

the amount resulting from participation in the TLTRO II auction (for € 123 million as at 30 June 2016), equal to € 660 thousand, of which € 295 thousand related to 2016.

NET FEE AND COMMISSION INCOME (€,'000)	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016	€ Change	% Change
Fee and commission income				
Collection activities	746	722	24	3.3%
Factoring activities	7,972	6,970	1,002	14.4%
Other	452	534	(82)	-15.4%
Total fee and commission income	9,170	8,226	944	11.5%
Fee and commission expense				
Placement	(1,468)	(1,145)	(323)	28.2%
Other	(350)	(219)	(131)	59.8%
Total fee and commission expense	(1,818)	(1,364)	(454)	33.3%
Net fee and commission income	7,352	6,862	490	7.1%

Net fee and commission income of € 7.4 million increased by 7%, primarily due to the greater commissions from factoring. These should be considered together with interest income, since in factoring business it makes no difference whatsoever whether profit is taken in one area or the other.

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

decreased.

The placement fees and commissions paid to third parties increased due to their close correlation with the increase in the factoring volumes disbursed. Fee and commission expense includes the origination costs of factoring receivables of € 1.1 million (up 47% 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 on volumes placed in Germany and Austria.

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

RESULTS OF THE SECURITIES PORTFOLIO (€,'000)	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016	€ Change	% Change
Net trading income (expense)				
Realised gains	66	18	48	266.7%
Valuation loss/gain	4	-	4	n.a.
Total	70	18	52	n.a.
Gain (loss) from sales or repurchases				
Gain (loss) from AFS portfolio debt instruments	858	1.042	(184)	-17.7%
Total	858	1.042	(184)	-17.7%
Total profit (loss) from the securities portfolio	928	1.060	(132)	-12.5%

The profits generated by the proprietary portfolio made a smaller contribution than in same period of the previous year due to the performance of market rates. Impairment losses on loans and receivables at 30 September 2017 amounted to € 3 million considering the impact of releases tied to doubtful loans to troubled local authorities, the higher allowances on

the SME portfolio and an increase in the collective value adjustment percentage on the SME portfolio. An impairment on a single transferor who filed an application for voluntary arrangement had a particular impact on the first nine months of 2017. The loss rate, following that illustrated above, amounted to 28 bps.

PERSONNEL EXPENSE (€,'000)	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016	€ Change	% Change
Wages and salaries	(9,986)	(8,631)	(1,355)	15.7%
Social security contributions and other costs	(2,181)	(1,779)	(402)	22.6%
Directors' and statutory auditors' remuneration	(605)	(738)	133	-18.0%
Total	(12,772)	(11,148)	(1,624)	14.6%

The increase in personnel expense is mainly due to the increase in the average number of employees from 130 to 147, an increase in gross annual salaries and an additional cost component in 2017 related to the non-compete agreement signed in 2017.

For the period ended 30 September 2017 the item also includes total costs relating to voluntary redundancy payments of € 278 thousand, compared to € 290 thousand in the same period of the previous year.

At 30 September 2017, the Group had a staff of 153 (average of 147), broken down by category as follows:

FTEs	30.09.2017	31.12.2016	30.09.2016
Senior managers	20	19	18
Middle managers (QD3 and QD4)	40	43	43
Other personnel	93	82	82
Total	153	144	143

OTHER ADMINISTRATIVE EXPENSES (€ ,000)	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016	€ Change	% Change
IT expenses	(3,292)	(2,718)	(574)	21.1%
Consultancy	(2,741)	(3,764)	1,023	-27.2%
Servicing and collection activities	(2,105)	(3,188)	1,083	-34.0%
Rent and related fees	(1,474)	(1,482)	8	-0.5%
Indirect taxes and duties	(953)	(965)	12	-1.2%
Resolution Fund	(807)	(654)	(153)	23.4%
Car hire and related fees	(649)	(533)	(116)	21.8%
Expense reimbursement and entertainment	(568)	(381)	(187)	49.1%
Other	(468)	(408)	(60)	14.7%
Vehicle expenses	(291)	(70)	(221)	315.7%
Membership fees	(273)	(239)	(34)	14.2%
Insurance	(269)	(107)	(162)	151.4%
Advertising	(231)	(134)	(97)	72.4%
Auditing fees	(219)	(221)	2	n.a.
Infoprovider expenses	(218)	(269)	51	n.a.
Stationery and printing	(152)	(106)	(46)	43.4%
Telephone and postage expenses	(129)	(129)	-	0.0%
Maintenance of movables and real properties	(89)	(30)	(59)	n.a.
Discretionary payments	(1)	-	(1)	n.a.
Total	(14,929)	(15,398)	469	-3.0%

Other administrative expenses decreased by 3% compared to the same period of the previous year, primarily due to the combined effect of a reduction in servicing and consultancy costs, which more than offset the increases in other costs. Also, the Group's contribution to the European Bank Resolution Fund was up by € 153 thousand.

Costs related to servicing and collection activities decreased as a result of the insourcing 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 IT expenses is linked to the increase in services provided by the outsourcer due to the increase in Group operations and IT updates on new products.

Consultancy costs include a portion of the project costs correlated with new initiatives in 2017 and legal expenses net of recovery costs for credit collection

activities through enforceable injunctions.

The decrease was mainly due to the costs relating to the rating process for the ABS issued in the previous year's securitisation.

Other expenses also include € 300 thousand as the estimated 2017 contribution to the Deposit Guarantee

Schemes.

Other expenses and income in 2016 included income deriving from the refund by the National Interbank Deposit Guarantee Fund of the sum of € 290 thousand paid by the Bank in 2014 for the default of Banca Tercas and later returned.

Pro-forma total income

PRO-FORMA TOTAL INCOME (€,000)	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016
Net interest income	54,131	50,812
Change in % expected recovery of default interest	(3,745)	(1,312)
Pro-forma net interest income	50,386	49,500
Net fee and commission income	7,352	6,862
Dividends and similar income	227	227
Net trading income (expense)	70	18
Gain from sales or repurchases of financial assets	858	1,042
Pro-forma total income	58,893	57,649

The figures for the periods ended 30 September 2016 and 2017 set out above have been restated to emphasise and ensure the comparability of the accounting impact of the change in the estimate of the expected recovery of default

interest.

In particular, total income has been restated as if the current probability of collection of default interest had also been applied in the previous periods.

OTHER INFORMATION

Research and Development Activities

No research and development activities were carried out during the period ended 30 September 2017.

RELATED PARTY TRANSACTIONS

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

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

advantage and in compliance with all procedures.

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

ATYPICAL OR UNUSUAL TRANSACTIONS

During the period ended 30 September 2017, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

The Tier 2 bond issued on 30 March 2017 was reopened for € 1 million on 10 October. This reopening was in addition to the previous reopening of € 1.5 million (already announced on 27 July 2017) and the reopening of € 14 million placed on 30 March 2017.

In addition, on 9 October 2017 the Bank successfully concluded the placement of its first public bond offering for institutional investors. This senior unsecured bond has a total amount of € 175 million and a maturity of three years.

Within the framework of its commercial agreements with originators, Banca Sistema also entered into an agreement governing the acquisition of a 19.90% interest in ADV Finance S.p.A. (“ADV Finance”) for € 0.6 million

and for the acquisition of a 19.90% interest in Procredit S.r.l., in which ADV Finance also holds an interest, for approximately € 0.2 million.

The conclusion of the transaction is contingent, among other conditions, on authorisation from the competent authorities. Pending authorisation of its registration in the register governed by Art. 106 of the Consolidated Law on Banking, ADV Finance conducts salary- and pension-backed personal lending business throughout Italy. An origination partnership has also been signed with the above company, in addition to the seven such agreements already in place.

There were no additional significant events after the reporting date to be mentioned.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The first nine months of 2017 ended with continuing growth in volumes in the factoring sector and in terms of salary- and pension-backed loans.

Particularly in factoring, the commercial agreements contributed to the Group's growth, and product and customer diversification process, much like the way

the Beta acquisition is providing an increased ability to manage Collection/ Servicing of loans under legal actions at Group level. The objective for this year is to consolidate growth in the core factoring business and to take advantage of additional growth opportunities in salary- and pension-backed loans (CQS/CQP).

Milano, 27 October 2017

On behalf of the Board of Directors

The Chairman

Luitgard Spögler



The CEO

Gianluca Garbi



INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

Assets		30.09.2017	31.12.2016
10.	Cash and cash equivalents	168	98
20.	Financial assets held for trading	475	996
40.	Available-for-sale financial assets	423,889	514,838
50.	Held-to-maturity investments	84,143	-
60.	Loans and receivables with banks	24,247	83,493
70.	Loans and receivables with customers	1,607,806	1,348,329
100.	Equity investments	1,268	1,030
120.	Property and equipment	23,975	23,313
130.	Intangible assets	1,795	1,835
	of which goodwill	1,786	1,786
140.	Tax assets	8,011	10,528
	a) current	1,367	3,034
	b) deferred	6,644	7,494
	b1) of which as per Law no. 214/2011	3,505	3,984
160.	Other assets	13,794	14,903
	Total assets	2,189,571	1,999,363

(Amounts in thousands of Euro)

Liabilities and equity		30.09.2017	31.12.2016
10.	Due to banks	522,679	458,126
20.	Due to customers	1,343,218	1,262,123
30.	Securities issued	106,753	90,330
80.	Tax liabilities	11,605	8,539
	a) current	2,068	1,076
	b) deferred	9,537	7,463
100.	Other liabilities	65,621	59,825
110.	Post-employment benefits	2,082	1,998
120.	Provisions for risks and charges	7,767	4,105
	b) other provisions	7,767	4,105
140.	Valuation reserves	365	425
170.	Reserves	58,812	39,608
180.	Share premium reserve	39,289	39,352
190.	Share capital	9,651	9,651
200.	Treasury shares (-)	(149)	(52)
210.	Equity attributable to non-controlling interests	30	20
220.	Profit for the period/year	21,848	25,313
	Total liabilities and equity	2,189,571	1,999,363

INCOME STATEMENT

(Amounts in thousands of Euro)

Items	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016
10. Interest and similar income	65,938	62,440
20. Interest and similar expense	(11,807)	(11,628)
30. Net interest income	54,131	50,812
40. Fee and commission income	9,170	8,226
50. Fee and commission expense	(1,818)	(1,364)
60. Net fee and commission income	7,352	6,862
70. Dividends and similar income	227	227
80. Net trading income (expense)	70	18
100. Gain from sales or repurchases of:	858	1,042
b) Available-for-sale financial assets	858	1,042
120. Total income	62,638	58,961
130. Net impairment losses on:	(3,057)	(4,923)
a) receivables	(3,057)	(4,923)
140. Net financial income	59,581	54,038
180. Administrative expenses:	(27,701)	(26,546)
a) personnel expense	(12,772)	(11,148)
b) other administrative expenses	(14,929)	(15,398)
190. Net accruals to provisions for risks and charges	(82)	69
200. Net impairment losses on property and equipment	(201)	(194)
210. Net impairment losses on intangible assets	(28)	(42)
220. Other operating income (expense)	(350)	178
230. Operating costs	(28,362)	(26,535)
240. Gains (losses) on equity investments	(62)	2,281
270. Gains (losses) on sales of investments	-	0
280. Pre-tax profit from continuing operations	31,157	29,784
290. Income taxes	(9,309)	(8,384)
300. Post-tax profit from continuing operations	21,848	21,400
320. Profit for the period	21,848	21,400
340. Profit for the period attributable to the owners of the parent	21,848	21,400

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016
Profit (loss) for the period	21,848	21,400
Items, net of tax, that will not be reclassified subsequently to profit or loss		
Defined benefit plans	65	(182)
Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
Available-for-sale financial assets	(125)	219
Total other comprehensive income (expense), net of income tax	(60)	37
Comprehensive income (Items 10+130)	21,788	21,437
Comprehensive income attributable to non-controlling interests	-	-
Comprehensive income attributable to the owners of the parent	21,788	21,437

STATEMENTS OF CHANGES IN EQUITY AS AT 30.09.2017

Amounts in thousands of Euro

	Balance at 31.12.2016	Change in opening balances	Balance at 1.1.2017	Allocation of net result from previous year		Changes during the year							Equity attributable to the owners of the parent at 30.09.2017	Equity attributable to non-controlling interests at 30.09.2017		
				Reserves	Dividends and other allocations	Changes in reserves	Operations on shareholders' equity								Comprehensive income for the period ended 30.09.2017	
							Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options				Changes in equity investments
Share capital:																
a) ordinary shares	9,651	-	9,651	-	-	-	-	-	-	-	-	-	-	-	9,651	
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Share premium reserve	39,352	-	39,352	-	(63)	-	-	-	-	-	-	-	-	-	39,289	
Reserves	39,608	-	39,608	19,201	-	3	-	-	-	-	-	-	-	-	58,812	
a) income-related	39,918	-	39,918	19,201	-	14	-	-	-	-	-	-	-	-	59,133	
b) other	(310)	-	(310)	-	-	(11)	-	-	-	-	-	-	-	-	(321)	
Valuation reserves	425	-	425	-	-	-	-	-	-	-	-	-	(60)	-	365	
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Treasury shares	(52)	-	(52)	-	-	52	-	(149)	-	-	-	-	-	-	(149)	
Profit for the period	25,313	-	25,313	(19,201)	(6,112)	-	-	-	-	-	-	-	21,848	-	21,848	
Equity attributable to the owners of the parent	114,296	-	114,296	(19,201)	(6,112)	(8)	-	-	-	-	-	-	21,788	-	129,816	
Equity attributable to non-controlling interests	20	-	20	-	-	10	-	-	-	-	-	-	-	-	30	

STATEMENT OF CHANGES IN EQUITY AS AT 30.09.2016

Amounts in thousands of Euro

	Balance at 31.12.2015	Change in opening balances	Balance at 1.1.2016	Allocation of net result from previous year		Changes during the year										Equity attributable to the owners of the parent at 30.09.2016	Equity attributable to non-controlling interests at 30.09.2016	
				Reserves	Dividends and other allocations	Operations on shareholders' equity		Comprehensive income for the period ended 30.09.2016										
Share capital:																		
a) ordinary shares	9,651	-	9,651														9,651	20
b) other shares	-	-	-														-	-
Share premium reserve	39,436	-	39,436														39,373	-
Reserves	26,314	-	26,314	13,345	-	-	-	-	-	-	-	-	-	-	-	-	39,612	-
a) Income-related	26,573	-	26,573	13,345													39,918	-
b) other	(259)	-	(260)														(306)	-
Valuation reserves	350	-	350														387	-
Equity instruments	-	-	-														-	-
Treasury shares	-	-	-							(69)							(69)	-
Profit for the period	17,607	-	17,607	(13,345)	(4,262)	-	-	-	-	-	-	-	-	-	-	-	21,400	21,400
Equity attributable to the owners of the parent	93,358	-	93,358	-	-	(109)											21,437	110,355
Equity attributable to non-controlling interests	-	-	-			20											-	20

STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	PERIOD ENDED 30.09.2017	PERIOD ENDED 30.09.2016
A. OPERATING ACTIVITIES		
1. Operations	30,629	26,892
▪ interest income collected	65,938	62,440
▪ interest expense paid	(11,807)	(11,628)
▪ dividends and similar income	227	-
▪ net fees and commissions	7,352	6,862
▪ personnel expense	(9,372)	(9,297)
▪ other expenses	(15,279)	(15,151)
▪ taxes and duties	(6,430)	(6,334)
2. Cash flows generated by (used for) financial assets	(110,350)	616,012
▪ financial assets held for trading	591	18
▪ available-for-sale financial assets	91,747	491,444
▪ loans and receivables with customers	(262,534)	156,348
▪ loans and receivables with banks: on demand	59,256	(32,208)
▪ other assets	590	410
3. Cash flows generated by (used for) financial liabilities	171,197	(618,629)
▪ due to banks: on demand	64,553	73,170
▪ due to customers	81,095	(777,276)
▪ securities issued	16,423	70,888
▪ other liabilities	9,126	14,589
Net cash flows generated by operating activities	91,476	24,275
B. INVESTING ACTIVITIES		
1. Cash flows generated by	-	2,524
▪ sales of equity investments	-	2,297
▪ dividends from equity investments	-	227
▪ sales of intangible assets	-	-
2. Cash flows used in	(85,294)	(22,472)
▪ purchases of equity investments	(300)	-
▪ purchases of held-to-maturity investments	(84,143)	-
▪ purchases of property and equipment	(863)	(22,452)
▪ purchases of intangible assets	12	(20)
Net cash flows used in investing activities	(85,294)	(19,948)
C. FINANCING ACTIVITIES		
▪ issues/repurchases of treasury shares	-	(69)
▪ dividend and other distributions	(6,112)	(4,261)
Net cash flows used in financing activities	(6,112)	(4,330)
NET CASH FLOWS FOR THE YEAR	70	(3)

RECONCILIATION - ITEMS

Cash and cash equivalents at the beginning of the period	98	104
Total net cash flows for (used in) the period	70	(3)
Cash and cash equivalents at the end of the period	168	101

GENERAL BASIS OF PREPARATION

This interim consolidated financial report at 30 September 2017 was drafted in accordance with Art. 154-ter of Legislative Decree no. 58 of 24 February 1998 and Legislative Decree No. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission, as established by Regulation (EC) No 1606 of 19 July 2002, from which there were no derogations. The specific accounting standards adopted have been applied consistently with regard to the financial statements at 31 December 2016.

The interim consolidated financial report at 30 September 2017 comprises the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the interim consolidated financial report and are accompanied by a Directors' Report on management performance, the financial results achieved and the financial position of the Banca Sistema Group. Pursuant to the provisions of art. 5 of Legislative Decree

Events after the reporting date

The Tier 2 bond issued on 30 March 2017 was reopened for € 1 million on 10 October.

This reopening was in addition to the previous reopening of € 1.5 million (already announced on 27 July 2017) and the reopening of € 14 million placed on 30 March 2017.

In addition, on 9 October 2017 the Bank successfully concluded the placement of its first public bond

Information on the main financial statement items

The accounting policies adopted for the drafting of this interim consolidated financial report, with reference to the classification, recognition, 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 consolidated financial statements at 31 December 2016, to which reference is made. The

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

The financial statements were 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 interim consolidated financial report includes Banca Sistema S.p.A. and the companies directly or indirectly controlled or connected with it. Compared with the situation as at 31 December 2016, no changes to the scope of consolidation have been reported.

The interim consolidated financial report at 30 September 2017 is accompanied by a statement by the manager in charge of financial reporting, pursuant to art. 154-bis of the Consolidated Law on Finance, and the consolidated financial statements have been subject to a limited audit.

offering for institutional investors.

This senior unsecured bond has a total amount of € 175 million and a maturity of three years.

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

interim consolidated financial report was prepared by applying IFRS and valuation criteria on a going concern basis, and in accordance with the accruals and relevance of information principles, as well as the general principle of the precedence of economic substance over legal form. The application of these principles at times involves the adoption of estimates and assumptions that can have a significant impact on the amounts recognised in the

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

- the recording of default interest in the financial statements based on the expected percentage of recovery and their collection times;
- the identification and quantification of potential losses on loans and receivables recognised in the financial statements;
- the estimate related to the possible impairment losses

IFRS 9 Project

On 24 July 2014, the IASB completed its review of IAS 39 by issuing IFRS 9 “Financial Instruments”, which must be applied beginning on 1 January 2018.

At the beginning of 2017, the Bank initiated a project aimed at determining the qualitative and quantitative impact on the financial statements, as well as to identify and then implement the necessary changes at organisational, internal policy and IT system levels.

IFRS 9, which will replace the current IAS 39 “Financial Instruments: Recognition and Measurement”, introduces important new requirements with regard to:

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

Other aspects

The interim consolidated financial report was approved on 27 October 2017 by the Board of Directors, which

on goodwill and equity investments recognised in the financial statements;

- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

It should be noted that an estimate may be adjusted following a change in the circumstances upon which it was formed, or if there is new information or more experience.

Any changes in estimates are applied prospectively and therefore will have an impact on the income statement for the period in which the change takes place.

With regard to classification and measurement, the Bank has ended its detailed review of the cash flow characteristics of the financial instruments classified at amortised cost under IAS 39. As of today, no financial assets have been identified that must be measured at their fair value since the SPPI (Solely Payments of Principal and Interest) test was passed in all cases that were analysed.

In an early assessment, the expected impacts identified thus far at a financial position/results and organisational level from implementing the new impairment model based on the expected loss concept compared to the current incurred loss model were not critical with respect to the current capitalisation and regulatory levels. Please note that the balancing entry of the final impact will be recognised in equity upon first-time adoption.

authorised its disclosure to the public in accordance with IAS 10.

STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The undersigned, Margherita Mapelli, in her capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby states, having taken into account the provisions of Art. 154-bis, paragraph 2, of Legislative

decree no. 58 of 24 February 1998, that the accounting information in this interim consolidated financial report at 30 September 2017 is consistent with the company documents, books and accounting records.

Milano, 27 October 2017

Margherita Mapelli

Manager in charge of financial reporting



