BFF BANKING GROUP

2017 HALF- YEAR CONSOLIDATED FINANCIAL REPORT

BANCA FARMAFACTORING S.P.A.
Parent Company of the "Banca Farmafactoring S.p.A." Banking Group
Registered Office in Milan - Via Domenichino n. 5
Share Capital €130,982,698 (fully paid-in)
Milan Company Register No.,
Tax Code and VAT No. 07960110158

HALF-YEAR CONSOLIDATED FINANCIAL REPORT
at June 30, 2017

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BOARD OF DIRECTORS

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Luigi Sbrozzi
Directors	Mark John Arnold Michaela Aumann Ben Carlton Langworthy Federico Fornari Luswergh Elisabetta Oliveri Marco Riccardo Rabuffi Giampaolo Zambeletti Rossi

BOARD OF STATUTORY AUDITORS

Chairman	Marco Lori (*)
Acting Auditors	Patrizia Paleologo Oriundi Sabrina Pugliese (**)
Alternate Auditors	Alessandro Cavallaro Giancarlo De Marchi

(*) Chairman of the Board of Statutory Auditors from the date of April 7, 2017 (starting date of trading of BFF shares on the MTA). Previously an acting auditor.

(**) Acting auditor from the date of April 7, 2017 (starting date of trading of BFF shares on the MTA).

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

EXECUTIVE CHARGED WITH THE PREPARATION OF CORPORATE ACCOUNTING DOCUMENTS

Carlo Maurizio Zanni

COMMITTEE MEMBERS

REMUNERATION COMMITTEE

NAME	OFFICE	POSITION
Elisabetta Oliveri	Independent director	Chairperson
Giampaolo Zambeletti Rossi	Independent director	Committee member
Luigi Sbrozzi	Non-executive director	Committee member

RELATED PARTY TRANSACTIONS COMMITTEE

NAME	OFFICE	POSITION
Elisabetta Oliveri	Independent director	Chairperson
Michaela Aumann	Independent director	Committee member
Giampaolo Zambeletti Rossi	Independent director	Committee member

APPOINTMENTS COMMITTEE

NAME	OFFICE	POSITION
Federico Fornari Luswergh	Independent director	Chairperson
Michaela Aumann	Independent director	Committee member
Ben Carlton Langworthy	Non-executive director	Committee member

CONTROL AND RISK COMMITTEE

NAME	OFFICE	POSITION
Michaela Aumann	Independent director	Chairperson
Federico Fornari Luswergh	Independent director	Committee member
Luigi Sbrozzi	Non-executive director	Committee member

BOARD OF DIRECTORS
ROLE OF BOARD OF DIRECTOR'S MEMBERS AND INDEPENDENCE REQUIREMENTS

NAME	OFFICE	EXECUTIVE	NON EXECUTIVE	Independence	
				CONSOLIDATED LAW ON FINANCE	SELF-REGULATORY CODE
SALVATORE MESSINA	Chairman		✓	✓	
LUIGI SBROZZI	Vice Chairman		✓		
MASSIMILIANO BELINGHERI	CEO	✓			
MARK JOHN ARNOLD	Director		✓		
MICHAELA AUMANN	Director		✓	✓	✓
BEN CARLTON LANGWORTHY	Director		✓		
FEDERICO FORNARI LUSWERGH	Director		✓	✓	✓
ELISABETTA OLIVERI	Director		✓	✓	✓
MARCO RICCARDO RABUFFI	Director		✓		
GIAMPAOLO ZAMBELETTI ROSSI	Director		✓	✓	✓

Structure of the Group

The Banca Farmafactoring Banking Group is engaged mainly in the management and sale of receivables due by suppliers of the Public Administration and, more specifically, the National Healthcare Service. The Group is active in Italy and Portugal through Banca Farmafactoring, in Spain through Farmafactoring España, and in Poland, the Czech Republic and the Slovak Republic through Magellan and its companies.
Banca Farmafactoring also offers deposit products to its retail and corporate clientele in Italy, Spain and Germany.
Magellan S.A. is an independent specialized operator and leader in financial services offered to companies operating in the healthcare sector in Poland, Slovakia and the Czech Republic, acquired by Banca Farmafactoring on May 31, 2016.
Magellan's activities are mainly conducted in three areas:

- financing the working capital of suppliers of the public administration;
- financing current and future receivables;
- financing investments in the public and healthcare sectors.

As a result of the Magellan acquisition, the Banking Group operates in a position of leadership in the Polish market of alternative financing (AFM) in the hospital area, where other specialized operators also operate, and, to a limited extent, some national banks.
The addition of Magellan has made it possible to significantly develop the Group through exposure on markets experiencing growth and create a functional platform for any gradual expansion into Eastern Europe.
It also facilitates the acquisition of specific know-how for a potential expansion of the product portfolio and the range of services offered by the Group in the market in which it operates.

The scope of consolidation of the Banca Farmafactoring Group, at June 30, 2017, besides the parent Banca Farmafactoring, comprises the following companies, consolidated on a line-by-line basis.

Name of the subsidiary	Registered and operational office	Relation-ship type (1)	Investment relationship		Voting rights % (2)
			Investor company	Investment %	
CONSOLIDATED LINE-BY-LINE					
1. Farmafactoring España S.A.	Madrid - C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. Farmafactoring SPV I S.r.l.	Milano - Via Statuto 10	4	Banca Farmafactoring	0%	0%
3. Magellan S.A.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	Banca Farmafactoring	100%	100%
4. MedFinance S.A.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	Magellan S.A.	100%	100%
5. Magellan Česka Republika S.R.O.	Prague, Roztylská 1860/1	1	Magellan S.A.	100%	100%
6. Magellan Central Europe S.R.O.	Bratislava, Mostova 2	1	Magellan S.A.	100%	100%
7. Debt-Rnt sp. Z O.O.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	Magellan S.A.	100%	100%
8. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw - Plac Dąbrowskiego, 1	1	Magellan S.A.	100%	100%
9. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego, 1	1	Magellan S.A.	100%	100%
10. Kancelaria Prawnicza Karnowski I Wspólnik sp.k.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	4	Magellan S.A.	99%	99%
11. Restrukturyzacyjna Prawnicza Karnowski I Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	4	Debt-Rnt sp. Z.O.O	99%	99%

The companies in points 10 and 11 are limited partnerships (accomandita) and are not consolidated, since their figures are not material.

Key:

(1) Relationship type:

1 = having the majority of voting rights at ordinary shareholders' meetings
2 = dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control
5 = centralized management as per Article 26, paragraph 1, of Legislative Decree No. 87/92
6 = centralized management as per Article 26, paragraph 2, of Legislative Decree No. 87/92

(2) Voting rights in the ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage interest.

BFF BANKING GROUP

The International Economic Scenario

During the first part of 2017, the prospects of a global recovery were consolidated by a boost from expansive policies in the major economic areas. The conditions of the financial markets point toward optimism for stronger of international growth: share indexes increased in all the leading economies, also in the banking sector. Net flows of capital began to move again towards emerging countries, where financial conditions generally improved.
According to OECD forecasts, global growth is estimated at 3.3% in 2017 and 3.6% in 2018, compared to 3.0% in 2016. Predictions for 2017 have been reviewed in a more optimistic vein for almost all the leading advanced economies, whereas those for the emerging nations have remained virtually unchanged. The gradual recovery expected over the next two years reflects the positive nature of the most recent economic figures and the stimulus deriving from the expansive financial policies already in place (in China, for instance) or yet to be announced (as in the United States).

In the United States, domestic demand grew, thanks to private consumption and growth in investments. Employment rose more than expected and there was a greater inclination towards consumption on the part of households. In Japan, growth remained unchanged at 1.2%, and the first figures for 2017 suggest a rise in internal demand and a stronger labor market. In the United Kingdom, growth accelerated to 2.7% over the year, thanks particularly to foreign trade: exports increased considerably owing to the falling value of the British Pound, while imports decreased.

Encouraging signs of growth also arrive from the emerging economies: in China, growth is slightly higher thanks to a recovery in exports and the continuation of the effects of the fiscal and monetary stimulus policy on internal demand. In Russia, GDP began to rise again benefitting from the recovery of oil prices. In India, the GDP slowed slightly, whereas, in Brazil, the first figures for 2017 show no signs of a recovery.

In the advanced economies, during the first months of 2017, inflation rose, especially due to the increase in the prices of energy-related products. In the United States, inflation is up 2.7%, in Japan it increased to 0.3% whereas, in the United Kingdom, it rose to 2.3%. In the emerging economies, inflation fell, settling at 0.8% in China, 3.2% in India, 4.8% in Brazil and 4.6% in Russia.

However, the recovery of the global economy is still being affected by factors of uncertainty, stemming mainly from the possibility that the economic policies of the main areas may follow different trends. This is associated particularly with the fiscal expansion policies that the new U.S administration intends to adopt and uncertainty associated with Brexit.

Figures published at the start of the year seem to confirm an upturn in trade, which appears to be connected with a strengthening of investments in many economies.
In March, confirming expectations, the Federal Reserve raised the interest rate on federal funds by 25 basis points (from .75% to 1.0%), thanks especially to an improvement in the labor market and a recovery in investments.

In the Eurozone, the expansion of economic activity was consolidated, driven by domestic demand. Inflation rose, settling at 1.5%, thanks to the acceleration of the prices of fresh food and energy. However, the basic component remains modest, and is kept low by high unemployment and the continuation of low pay in many of the economies of the area.
According to the latest information, in the first quarter of 2017, growth in economic activity was in line with that of the previous period, with positive GDP growth of 0.5% on the basis of economic indicators compared to the prior period. According to estimates published by the ECB, during 2017, GDP should grow by 1.8%.

The Governing Council of the ECB has confirmed that it will continue to reinforce monetary stimulus by extending the duration of the Eurosystem securities markets program for the whole of this year and will keep it in place until it sees a lasting change in the evolution of prices, in keeping with its aims with regard to inflation.
During the first months of 2017, the exchange rates of the advanced economies registered modest fluctuations. The euro gained slightly in value against the U.S. dollar, by 0.8%, whereas it lost value against the yen (-4.7%), and remained at virtually the same rate against the British pound.

The Italian Economy in the First Half of 2017 and comments on the Economies of the Countries in which the Group operates

In Italy, in the first few months of 2017, the Italian economy continued to expand, at a slightly faster pace than in the same period of the prior year, with a growth in GDP of 0.4%. In particular, the economy benefitted from the boost in capital expenditures.
The estimated growth of GDP for the whole year is between 1.2% and 1.3%. In the first quarter of the year, inflation reached the highest level since 2013, settling at 1.3%.

After the growth observed in the final part of last year, industrial activity weakened, whereas the economic signs coming from services and the housing market, gradually improved. According to a survey conducted by the Bank of Italy in March, there has been an improvement in the opinions about the current economic situation expressed by businesses, with a growth in intentions to invest.
During the first months of 2017, the number of people employed rose by 0.1% compared to the last two months of 2016. The figures published by INPS on hirings and terminations of the working relationship also show a rise in the number of employees in the first part of 2017. The expectations of businesses are in keeping with a positive employment scenario, especially in the manufacturing sector. The unemployment rate remains high, although in January and February 2017 the figure fell from 11.9% to 11.7%.

As far as Italian banks are concerned, loans to the private sector are sustained both by the low level of interest rates and by the optimistic outlook for the economy. However, the trend in loans to businesses and the policies followed by banks in offering loans still differ depending on the sector of economic activity and the size of the business concerned. The quality of credit of Italian banks continues to benefit, albeit gradually, from the improvement in the economic situation.

During the first months of the year, the generalized rise of the sovereign spreads also affected Italian government securities. From the end of December 2016, the general index of the Italian Stock Exchange rose by 8.5%, compared to a change of 7.4% in the index of leading companies in the Eurozone. Compared to the end of the prior year, the stock prices of banks rose by 20%, albeit with significant fluctuations. Although, on the one hand, the prices were negatively affected by the increasing climate of uncertainty in the Eurozone, since the end of February, they more than compensated for the previous price falls, also benefiting from the positive outcome of a number of recapitalization operations.

With the 2017 Document of Economy and Finance, approved on April 11, the government revised its target for debt in the current year from 2.3% to 2.1% of GDP. This result will be achieved thanks to a series of additional corrective measures defined in the light of interaction with the European authorities. In 2017, the debt to GDP ratio should remain stable at a level very similar to that of the prior year.

With regard to Spain, during the last five years, the country's overall economic situation has changed radically, moving out of a long period of recession into a consolidated period of economic recovery.

After a prolonged phase in which the GDP contracted, starting in 2014, the Spanish economy began to grow, with an increase in growth of 1.4%, and continued in this vein until the latest figures, which show a consolidation of the economic recovery, with a growth in GDP of 3.2% both in 2015 and 2016, almost double the European average (1.8%).
In the first quarter of 2017, the Spanish economy again reported GDP growth of 0.8%, the positive evolution of 14 consecutively positive quarters. The trend of the year continued in the second quarter, where preliminary figures show growth of 0.7% on a quarterly basis, in line with analysts' expectations. The government in Madrid predicts that, for the third year running, the increase in GDP in 2017 will again be approximately 3%. The Spanish GDP is now just 4-tenths of one percentage away from reaching its pre-crisis levels.
The reasons behind the gains made by the Spanish economy and the recovery of competitiveness include a growth in domestic demand, an increase in investments in the construction sector and improved credit conditions for businesses and families. The Spanish Government adopted special measures to encourage loans, especially for small and medium-size businesses.

In Portugal, too, the economic recovery continues. For 2017, the Government estimates GDP growth of 1.8%, a trend confirmed by the figures for the first quarter of the year, with a debt to GDP ratio of 2%. Contributory factors to reaching this result include the positive trend of exports and private consumption, where growth of 4.8% and 1.3% is expected respectively. The rate of inflation is also projected to rise slightly, with the estimate for 2017 at +1.1%, a figure similar to the average of the European Union.
In the labor market, there are signs of an improvement, with an unemployment rate which, in the forecasts, is a continuously decreasing figure, albeit still above the average of EU countries where, in 2017, unemployment is expected to fall from 11.2% to 9.9% of the total workforce.

As far as Poland is concerned, since it joined the EU, the Polish economy has experienced a period of sustained growth. This trend remained positive even in the years of its recent economic crisis, with the result that Poland has one of the highest rates of growth in the EU.
Again, in 2017, the GDP should grow 3.6% based on the financial plans drawn up by the government to the year 2020. In 2018, the increase in GDP is expected to be 3.8%. In the current year, again, the unemployment rate should fall from 6.2% reported in 2016 to 5.7%, and again in 2018 to 5%.
The general economic trend and the dynamic Polish industrial production have had repercussions on the labor market, generating positive signs which have led to a steady decrease in the level of unemployment. The favorable economic situation has also contributed to keeping the public deficit from taking flight.

In Slovakia, the main drivers of economic growth are a strong foreign demand and the growth in household consumption. The latest forecasts of the National Bank of Slovakia (NBS), confirmed by the Ministry of Finance, forecast GDP growth of 3.3% in 2017 and 4.0% in 2018, thanks to the excellent performance of exports but, more particularly, to an increase in household consumption, encouraged by higher employment.
In 2017, inflation is forecast to rise by 1.3% and, in 2018, by 1.8%. According to the Ministry of Labor, the unemployment rate is expected to fall to 8.4% in 2017 and to 7.6% in 2018.

In the Czech Republic, GDP growth is 2.5% year-over-year, confirming the solidity of the country's macroeconomic indicators. Estimates from the Czech National Bank for 2017-2018 call for a steady level of growth of 2% - 2.5%, supported by the forecasts of the IMF for the period 2017-2020, which suggest an average growth rate of 2.3%.

The Public Debt Structure, Public Expenditures for Goods and Services in Italy and comments on the Countries in which the Group operates

According to the 2017 Document of Economy and Finance (DEF), passed by the Council of Ministers on April 11, 2017, current expenditures of the public sector in Italy for goods and services in 2016 were €138.8 billion, of which €31.5 billion was spent on current goods and services by the National Healthcare Service and €107.3 billion on current goods and services by other agencies of the Italian Public Administration.
For 2017, forecasts of public finance, set out in the 2017 DEF document estimate public expenditures for goods and services at €138.6 billion, of which €31.4 billion is for the National Healthcare Service and €107. billion is for other Italian agencies of the Public Administration.
The "2017 Budget Law" (Law No. 232 of December 11, 2016), published in the "Official Gazette" of December 21, 2016, estimates capital expenditures for 2016 at €40.9 billion, with a slight increase for 2017 (€41.1 billion).

According to the Statistical Bulletin published by the Bank of Italy last June, in April, the debt of the Public Administration settled at €2,270.4 billion, an increase of €10.1 billion compared to the prior month. The increase was due to the monthly requirements of the Public Administration of €5.5 billion.

In the figures estimated by the Ministry of Economy and Finance, in June 2017, the public sector recorded requirements of €8,200 million, compared to a surplus of €8,654 million in the same month of the prior year. This was caused by the shift of the deadline for the payment of taxes, whose revenues will be collected in July, and also the disbursement of about €4,800 million associated with the operation to protect savings in the banking sector. The requirements for the first half of the current year were €50,188 million, an increase of approximately €22,500 million compared to the period January-June 2016. Much of the increase can be attributed to the effects of the extraordinary factors described above. The result is in line with the estimates of the 2017 Document of Economy and Finance (DEF).

The "2017 Budget Law" established the level of funding for the National Healthcare Service for 2016 at €113 billion, which increases to €114 billion in 2017 and €115 billion in 2019, with a nominal increase below expected inflation.
The 2017 DEF quantifies healthcare expenditures in 2016 as €112.5 billion; the increase in healthcare expenditures should be about an average annual rate of 1.3%. In financial terms, in the case of public health, this should mean increasing the figure from the €114.1 billion estimated for 2017 to €115.1 billion in 2018 and €116.1 in 2019.
Therefore the deficit in 2016 is estimated at €0.5 billion, whereas, for 2017, it should be approximately just over €0.1 billion. In other words, funding of healthcare expenditures thus remains stable, despite the percentage of these expenditures to gross domestic product is among the lowest of the Western European nations.

Beginning January 1, 2015, as established by the "2015 Stability Law", a split payment mechanism was introduced (Article 17-ter of D.P.R 633/1972), on the basis of which the public entities, and no longer the suppliers, would pay VAT to the tax office on certain sales of goods and on services rendered to those entities. In this way, the payment of invoices would be split between the tax office, with regard to VAT, and the supplier, for the taxable amount, thus resulting in a split payment.

Following a request on the part of the Italian government, on May 6 of this year, the Governing Council of the European Union extended the deadline for the application of the split payment mechanism for VAT to June 30, 2020 (the previous deadline was December 31, 2017), extending the parties involved and the scope of application of the mechanism. Therefore, Legislative Decree No.

50/2017 sanctioned the mechanism that extends to all the activities of the Public Administration (whereas the first version only applied to activities conducted between private entities and the Public Administration), and therefore now also includes companies controlled by the Public Administration and companies listed on FTSE-MIB blue chips index of the Italian Stock Exchange. Furthermore, other transactions now included within the sphere of application of the split payment mechanism are those conducted by suppliers who are subject to withholding taxes on fees paid (for example, freelance professionals, agents, intermediaries).

Specifically, in regard to the Regions, the "2017 Budget Law" states that the Regions that obtained advances to pay for past debts due up to December 31, 2013 for amounts in excess of the payments actually made, can use the surplus funds to make payments against debts due at December 31, 2014. To that end, the administrations are required to provide formal certification of payments that were made by February 28, 2017. The funds received as advances that are not accounted for by March 31, 2017 must be returned to the State by June 30, 2017. There are no figures currently available on this effect.
Under the repayment plans, the Regions are obliged to activate fiscal levers to the maximum levels permitted by law in order to raise additional funds to cover their deficits arising from healthcare management.
Currently, the following Regions implementing this procedure are Piedmont, Apulia and Sicily, in addition to Lazio, Abruzzo, Molise, Campania and Calabria, Regions for which a Commissioner *ad acta* is also required for the continuation of the repayment plan.

On July 15, 2016, the "Official Gazette" published the June 21, 2016 Ministerial Decree adopted by the Ministry of Health together with the Ministry of the Economy and Finance regarding "repayment plans for hospitals, university hospitals, public scientific institutes for hospitalization and healthcare or other public entities". It decrees that hospitals that have a financial deficit of more than 10% between revenues and costs must adopt a repayment plan (including Local Healthcare Entities (ASL), from 2017). The "2017 Budget Law" proposes a figure of 7% of revenues or, in absolute value, €7 million (instead of the current 10% and €10 million) as the deficit between costs and revenues as the assumption for the adoption and the implementation of a repayment plan for hospitals or university hospitals and other public entities offering hospitalization and healthcare services.

Article 1, paragraph 533, of the "2017 Budget Law" passed on December 11, 2016 called for the evolution of the SIOPE (information system on transactions by public entities) data collection system into SIOPE+. The purpose is to improve the monitoring of the time taken for the Public Administration to pay trade payables by integrating the SIOPE data collected with those of the purchase invoices recorded by the PCC electronic platform and, it is hoped, to follow the entire cycle of revenues and expenses.
SIOPE+ asks all bodies of the Public Administration to:

a) request collections and payments through their treasurer or cashier using computer orders issued according to the established standard;
b) transmit the computer orders to the treasurer or cashier only and exclusively through the SIOPE infrastructure, managed by the Bank of Italy.

SIOPE is a system for the online collection of information on the cash payments and collections, made by every Public Administration treasurer and is the result of collaboration between the State General Accounting Department (Ragioneria Generale dello Stato), the Bank of Italy and the National Institute of Statistics (Istituto Nazionale di Statistica - ISTAT), in implementation of Article 28 of Law No. 289/2002, regulated by Article 14, paragraphs 6 to 11, of Law No. 196 of 2009.
SIOPE+ makes it possible to acquire information from the various entities "automatically", freeing them from the obligation to transmit the data regarding invoice payments to the PCC electronic platform. This constitutes the main failing of the current system of monitoring trade payables and payment times, which requires a communication from each entity of the Public Administration.

With regard to the situation in Spain, the size of the public debt increased slightly at the end of the first quarter of 2017, reaching €1,128 billion, compared to €1,107 billion in 2016.
With regard to what was said earlier, the public debt rose to 100.4% of GDP, compared to 100.3% reported in 2016.
As to the Spanish National Healthcare Service, the latest figures available, supplied by the Ministry of Economy and Finance in April 2017, suggest that, for the first quarter of the year, there was an increase of 2.5% in expenditures for the supply of pharmaceuticals compared to the prior period.
Payment times in the sector continue to become shorter, through extraordinary regional funding mechanisms, such as the FLA (*Fondo de Liquidez Autonómico*) and the FFF (Fondo *de Facilidad Financiera)*, reaching €20,330 billion by the end of June 2017. A further payment of €6,500 billion to the public sector is planned for the third quarter of the year.

In Portugal, in the first half of 2017, overall expenditures for goods and services of the Public Administration were €4.3 billion, fueled by expenditures for the healthcare sector of €3.7 billion.
As regards the Portuguese healthcare sector, the DGO (*Direção-Geral do Orçamento*, the body that controls the implementation of the Portuguese budget) reported an increase in revenues due to an increase in transfers from the State (approximately +5%) compared to the prior year. The Portuguese healthcare deficit amounts to €150.5 million, compared to €189.1 million in 2016.
In December 2016, the public debt amounted to €241.1 billion. The latest figures for 2017, which refer to the month of May, indicate a debt of €247.3 billion, although the debt to GDP ratio is expected to contract (from 130.4% to 128.5%). The deficit to GDP ratio is also expected to fall from 2% in 2016 to 1.8% in 2017.

With regard to Poland, overall expenditures in 2017 for goods and services for central and local entities of the Public Administration are estimated at PLN 628 billion, corresponding to €148 billion (based on the exchange rate at June 30), an increase of 10.8% over the prior year.
In Poland, the National Healthcare Service is funded by the government through the National Healthcare Fund (*Narodowy Fundusz Zdrowia* - NFZ). In 2017, expenditures for healthcare amounted to PLN 77 billion, (approximately €18 billion), whereas the costs and revenues of the NFZ should increase by 4.7% and 8% respectively compared to 2016. The deficit of the Polish National Healthcare Service for 2017 should amount to PLN 0.1 billion, compared to PLN 2.4 billion in 2016.

In Slovakia, the debt of the public administration in 2017 should be about 1.3% of GDP, which would then decrease to 0.4% in 2018 and to 0.2% in 2019.
Healthcare debt is expected to grow in 2017 by 7.5% compared to 2016, with costs estimated at €4.5 billion against lower revenues of €100 million.

As for the Czech Republic, the accounts of the public administration, for the first half of 2017, closed with a surplus of CZK 4.6 billion, or €175 million at the June 30, 2017 exchange rate, compared to CZK 62 billion (about €2.3 billion) in 2016.
Public expenditures are estimated at approximately CZK 267 billion (about €10 billion), an increase of 6.8% compared to the period year.

The Factoring Market in Italy

Banca Farmafactoring is the leader in Italy in the factoring sector and specializes in the management and the sale of trade receivables on a non-recourse basis due from supplier companies from the National Healthcare Service and the Public Administration.

Factoring, in Italy, has boosted the financial support provided to the economy and supported the economic growth of the country during a phase in which loans offered to companies by banks and financial companies have remained largely stable. While public debt and impaired loans narrow the

margin of maneuver of the state and financial intermediaries, factoring distinguishes itself because of the lower risk that is validated by a modest non-performing percentage.

The Italian factoring market, in general, maintains a steadily higher level of support to companies as compared to other types of loans, with an increase of 16.9% year-over-year at June 30, 2017.
In the first quarter of 2017, figures show that compared to the same period of 2016 the factoring market grew in terms of both turnover (+19.2%) and outstanding (+2.7%)
In this context, expectations for the second quarter of 2017 are also for an expanding market, with estimates for a growth in turnover of 12.4% and outstanding of 8% over the corresponding period of 2016.
For the entire year, the average growth of the sector is expected to be positive, with forecasts of 7.8% in turnover, 5.6% in outstanding and 5.8% in average lending. Likewise, with regard to the outlook on profitability and margins, for 2017, the profit is expected to be higher than in 2016.

In the opening months of 2017, the factoring market was characterized by receivables spread over the territory mostly in the Lombardy and Lazio regions, both in terms of the assignors and account debtors. The economic sectors representing most of the total receivables are centered in non-financial companies and the public administration.
As for receivables from the Public Administration, the greatest part of overdue receivables (which are below 40%) is represented by amounts overdue more than one year, with the territorial concentration being in the Lazio region.

At March 2017, impaired exposures for factoring (before value adjustments) were 7.1% of total gross exposures, of which 3.6% are non-performing. These two figures, both of which are slighter higher compared to December 2016, show a greater incidence of exposures with the assignor, rather than on the non-recourse factoring transactions.

Results of Operations

The consolidated condensed interim financial statements as of 30 June 2017 reflect the consolidation of the balance sheet and income statement elements of Banca Farmafactoring S.p.A. (BFF), Farmafactoring España S.A. (FFE - a wholly-owned subsidiary of Banca Farmafactoring S.p.A.), the special purpose vehicle Farmafactoring SPV I S.r.l. and the companies in the Magellan Group, acquired on May 31, 2016.

On April 4, 2017, Banca Farmafactoring successfully concluded the institutional placement of its ordinary shares, aimed at creating the floating stock necessary for listing its stock on the Mercato Telematico Azionario (MTA), organized and managed by Borsa Italiana S.p.A. On April 7, 2017, trading of the shares began on the MTA, set by order of Borsa Italiana S.p.A., as described in greater detail under "Significant events during the period".

In the first half ended June 30, 2017, the Group reported a profit of €50.7 million compared to €28.3 million in the corresponding period of the prior year, which included the profit of the Magellan Group for only the month of June 2016.

Furthermore, compared to the previous year, the first half was unfavorably affected by:

- the negative impact of higher taxes of €1 million caused by the reduction in the rate relating to ACE (Help for Economic Growth), from 4.75% for 2016 to 1.6% established for the current year by the 2017 government corrective measures. This effect is estimated at approximately €2 million in higher taxes for the entire year;
- the cost of the loans for the acquisition of Magellan of €1.2 million in the first half after taxes compared to €0.2 million in the corresponding period of 2016;

- financial expenses on the issue of the subordinated bonds in February 2017 for a net €1.5 million.

The normalized profit of the Group (to represent the results of operations of the Group net of the non-recurring expenses for the listing, non-recurring income from the change in the late-interest recovery rate and the inclusion in the first half of 2016 of the results of the Magellan Group for the entire six month period – and without including the effects mentioned above), amounts to €38.1 million compared to a normalized profit of approximately €36.4 million in the same period of 2016, an increase of €1.7 million, or 4.6%.

(in € millions)

	Half I 2017	Half I 2016
Profit for the period	**50,7**	**28,3**
One-off costs for the Magellan acquisition	-	3,8
IPO expenses	2,8	0,9
Change in estimate of the late-interest recovery percentage from 40% to 45% - one-off effect	(17,8)	0
Exchange differences covered by the reserve for translation adjustments	2,5	(0,6)
Normalized profit (including Magellan for 1 month in Half I 2016)	**38,1**	**32,4**
Magellan profit (5 months)	-	4,0
Normalized profit (including Magellan for 6 months in Half I 2016)	**38,1**	**36,4**

The normalized profit, compared to the consolidated profit, therefore, does not include:

- non-recurring expenses of €2.8 million relating to the listing process, of which €1.7 million refers to costs and €1.1 million of expenses relating to the stock options for employees upon listing. Such cost is charged to the income statement and generates an increase, before taxes, in equity.
- a one-off positive effect for Banca Farmafactoring and Farmafactoring España only, net of taxes, for a total of €17.8 million, which derives from the change, at January 1, 2017, in the late-interest recovery percentage to be included in amortized cost, to 45% instead of the previous 40%, maintaining the average collection times at an estimated 1800 days. With regard to the receivables of the parent Banca Farmafactoring and the subsidiary Farmafactoring España, in fact, the time series of data was updated with the late-interest recovery data for the year 2016. This resulted in a weighted average recovery percentage that is higher than the 40% used for the preparation of the 2014, 2015 financial statements and for the financial statements for the year ended December 31, 2016;
- the negative exchange effect of the revaluation of the loan payable in Polish zloty, used for the acquisition of Magellan and amounting to €2.5 million at June 30, net of taxes, which corresponds to a related positive effect from the revaluation of the exchange rates applied to the consolidated equity of Magellan.

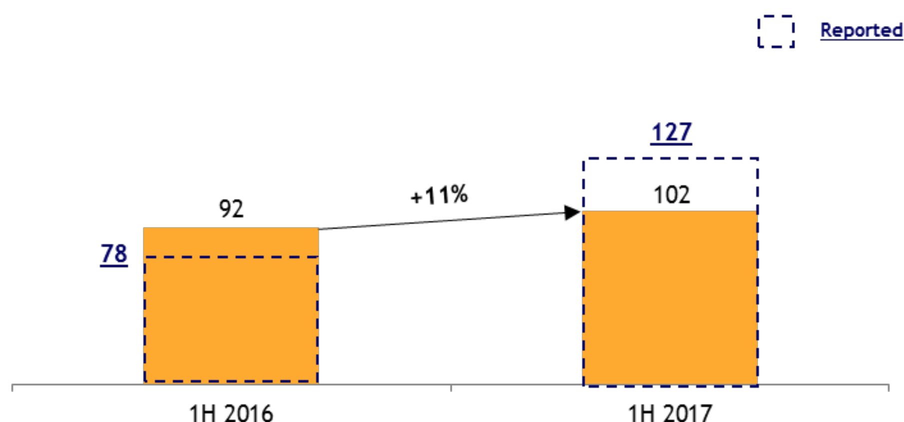
In the first half ended June 30, 2017, interest income totals €127 million compared to €78 million in the first half of the prior year (which included Magellan for one month). Normalized interest income for the first half of 2017 is €102 million compared to €92 million in the first half of 2016.
Interest income mainly includes:

- maturity commissions charged to customers;
- accrued late interest;
- gains on late interest recovered during the period compared to the percentage already included in amortized cost;
- interest on government securities in portfolio;
- interest on loans made by Magellan.

The increase in interest income is for the most part due to a higher balance of average receivables due from customers compared to the first half of 2016, improved margins owing also to a change in the recovery rate used to account for late interest, referring to Banca Farmafactoring and Farmafactoring España only, to be included in amortized cost, from 40% to 45%. It is also due to higher collections of late interest compared to the same period of 2016. Recovery rates in 2007 are lower than those realized in the prior-year period. In relative terms, gains recorded in 2017 are lower compared to the prior-year period also due to the increase in the expected recovery rate from 40% to 45%, included in amortized cost..

The following chart gives the evolution of interest income and normalized interest income. As regards the first half of 2017, the amount of the latter fell from €127 million to €102 million since no account was taken of the one-off positive effect of €25 million, before taxes, arising from the change in the estimate for the late-interest recovery percentage to be included in amortized cost from 40% to 45%, for Banca Farmafactoring and Farmafactoring Espana only.
In the 2016 normalization, the interest income of Magellan is included for six months, therefore the amount increases from €78 million a €92 million.
The increase in normalized interest income is thus equal to 11%.

Adjusted Interest Income (€m)



Collections of late interest income amount to about €57 million compared to €24 million in the first half of the prior year. Of this, €53 million was collected in Italy and €4 million in Spain. Such collections produced recovery percentages below those of the prior year and therefore generated lower percentage gains in the income statement, also because of the increase in the expected recovery rate to 45% to account for such interest on the accrual basis.

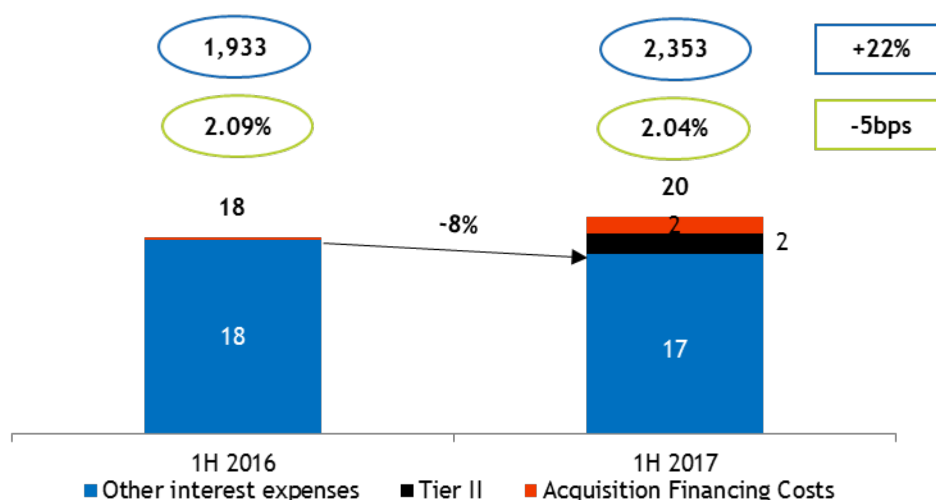
Late interest accrued on receivables purchased outright on a non-recourse basis by Banca Farmafactoring and Farmafactoring España totals about €524 million, of which approximately €46 million refers to the Spanish debtors and €15 million to receivables from Portuguese debtors. Of this late interest, a total of €179 million was recognized in the income statement in the current period and in prior years.
The cumulative amount of late interest to which Banca Farmafactoring and Farmafactoring España are entitled, and have not yet collected, on receivables purchased outright on a non-recourse basis (provision for late interest), at December 31, 2016, amounted to €516 million, of which €168 million was recognized in the income statement in the current period and in prior years.
The increase in the provision accounts for late interest between the first half of 2016 and the first half of 2017 is 2%.

The higher amount recognized in the income statement is mainly due to the change in the recovery percentage of late interest to be included in amortized cost, from 40% to 45%, referring to Banca Farmafactoring and Farmafactoring España only.
Had the 45% rate been applied in the first half of 2016, the amount not yet recorded in the income statement would total 327 million euro. Therefore, at June 30, 2017, the amount not yet recorded in the income statement would show an increase of 6% compared to June 30, 2016.

The following chart presents the trend in the cost of funding.
Interest expenses went from €12 million in the first half of 2016 (€18 million considering Magellan for six months) to €20 million in the same period of 2017. This increase, in absolute terms, is primarily due to a higher outstanding, interest expenses on the Tier 2 bonds of €1.9 million in the first half of 2017 and not present in in 2016, and the cost of funding the acquisition of Magellan of €1.6 million in the first half of 2017, compared to €0.2 million in the first half of the prior year, for one month only.

In the first half of 2017, the percentage of financial expenses to average funding lines used is 2.04% compared to 2.09% in the first half of 2016, with a reduction of 5 basis points.
The average credit lines utilized went from €1,933 million at June 30, 2016 to €2,353 million at June 30, 2017, an increase of 22%.

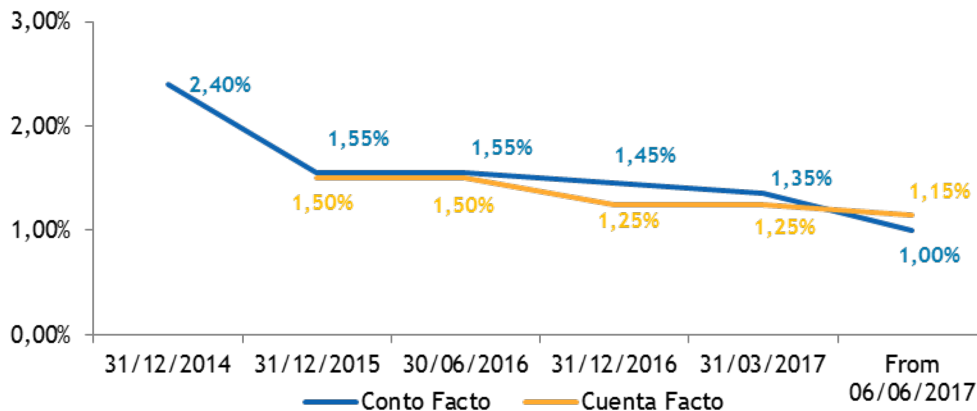
Interest expenses (BFF + Magellan €m)



The first six months of the year benefited in part by a reduction in the rates offered on the deposit accounts, which continued during the first half, particularly for the interest rates offered on the online 12-month deposit accounts that fell from 1.55% in the first half of 2016 to the current 1.00% in Italy, and from 1.50% in the first half of 2016 to the current 1.15% in Spain.
The effects of this will be felt to a greater extent in the following quarters, as customers renew their pledges. The repayment of the €300 bonds in June 2017 and the placement of the new bonds for €200 million at a lower rate than the previous ones will largely produce an effect starting from the second half.

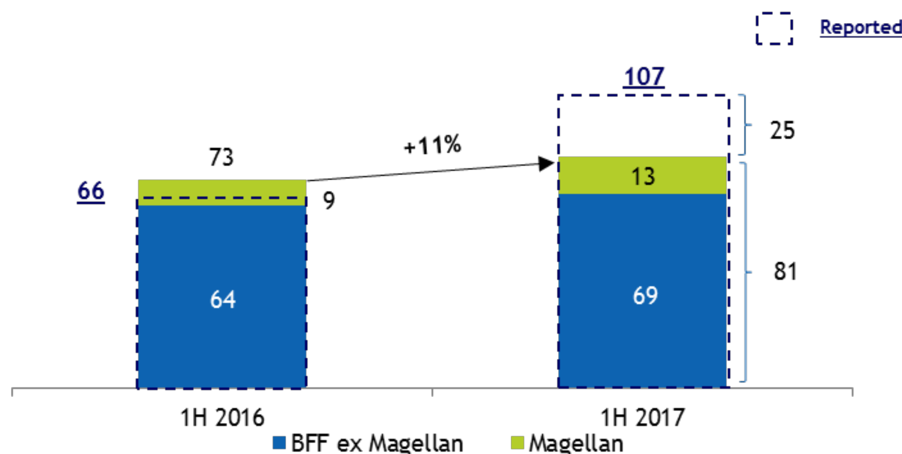
The following chart presents the trend in the interest rates offered on the online deposit accounts in Italy and Spain.

12-months Online Deposits Interest Offered to New Moneys and Deposit Renewals



Following what was mentioned earlier, the net interest margin for the first half of 2017 is €107 million compared to €66 million in the first half of 2016.
The normalized net interest margin increased by 11% and represents the difference between the normalized net interest margin totaling €73 million in the first half of 2016, which also includes Magellan for six months, compared to €81 million in the first half of 2017, which does not take into account the one-off positive impact of €25 million, before taxes, deriving from the change in the estimate of the late-interest recovery percentage to be included in amortized cost, from 40% to 45%, for Banca Farmafactoring and Farmafactoring España only.

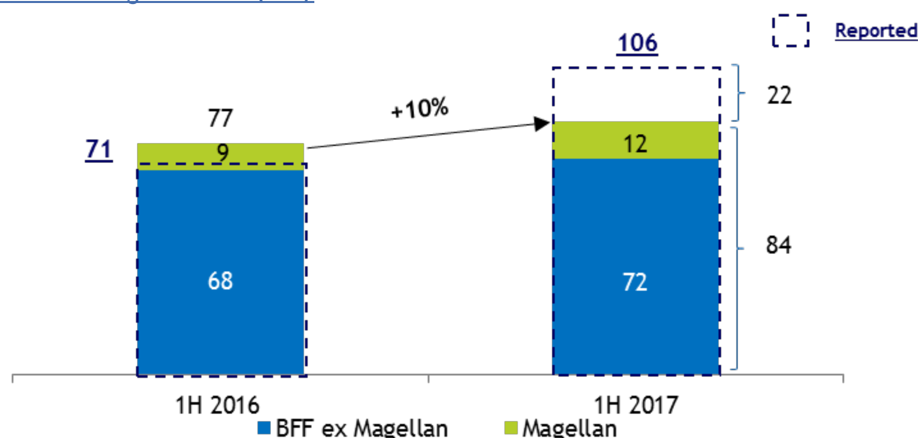
Adjusted Net Interest Income (€m)



Operating income, which, compared to the interest margin, also principally includes fees and commissions relating to the mandates for the management and collection of receivables and exchange gains and losses, totaled €105.9 million in the first half of 2017 compared to €70.6 million in the corresponding period of 2016.
Normalized operating income, as presented in the chart below, shows the increase of 10% between the figure for the first half of 2016 of €77 million, which also includes Magellan for six months, and the figure for the first half of 2017 of €84 million.
The latter figure does not consider the one-off positive impact of €25 million, before taxes, deriving from the change in the late-interest recovery percentage to be included in amortized cost, from

40% to 45% for Banca Farmafactoring and Farmafactoring España only, and the negative exchange effect arising from the revaluation of the loan payable in Polish zloty, for the acquisition of Magellan, amounting to €3.6 million.

Adjusted Net Banking Income (€m)



Over the course of the last few years, the Group has invested significantly on the structure and resources in order to support the growth in its size and operations.
The following operating costs, which comprise administrative costs, personnel costs and depreciation and amortization expenses relating to property, plant and equipment and intangible assets, amount to €35 million in the first half of 2017 compared to €32.4 million in the corresponding period of the prior year.

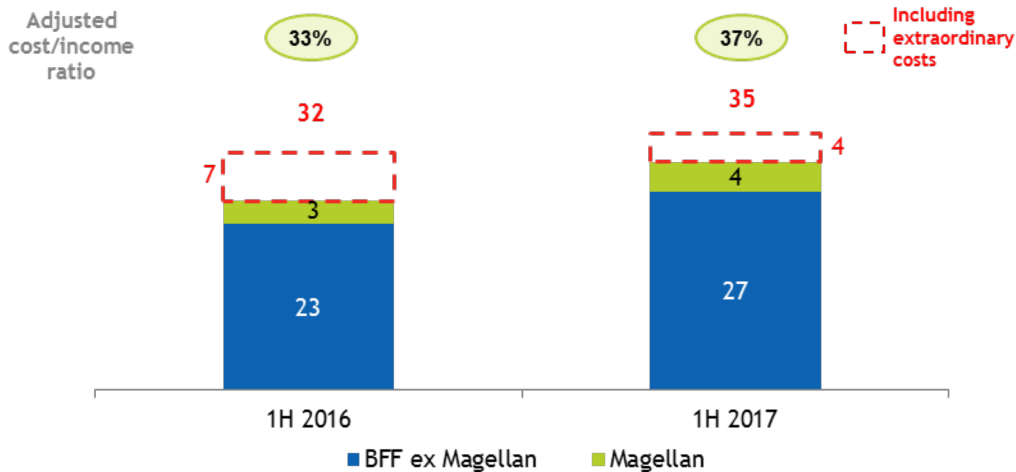
These reported costs, if normalized, would be €31.1 million in the first half of 2017 against €25.8 million in the first half of 2016.

Normalized costs in the first half of 2017 do not take into account stock options of €1.5 million and other expenses related to the listing process of €2.4 million, whereas the first half of the prior year does not consider the non-recurring expenses relating to the IPO process of €1.4 million and the acquisition of Magellan of €5.2 million.

The following chart shows the normalized operating costs and the ratio of operating costs to operating income (both normalized) at 33% for the first half of 2016 and 37% for the first half of 2017, indicating that operating efficiency was maintained at a good level. It should be noted that operating costs in the second quarter of 2017 only, amounting to €15.6 million, are in line with operating costs in the first quarter of the year, which totaled €15.5 million.

These investments, lastly, will enable the Group to sustain its growth in the future.

Operating Costs (€m)



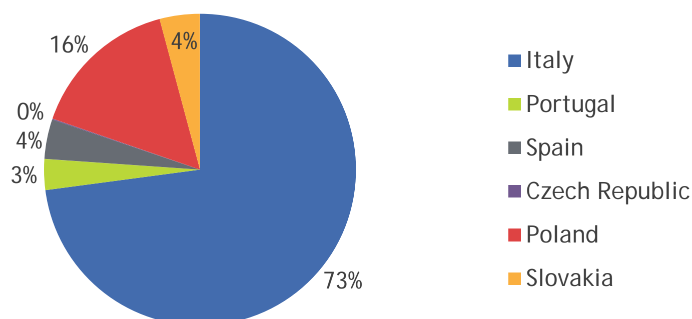
The following is a summary of receivables from customers of the BFF Group, which amount to €2,557 million at June 30, 2017, an increase of 2.3% compared to €2,499 million at December 31, 2016 and increase of 10.3% compared to €2,319 million at June 30, 2016, divided by the different product lines.

(in € millions)

	06.30.2017	12.31.2016	06.30.2016
Factoring	2,105	2,107	1,974
Loans to customers	354	317	280
Other receivables	87	68	63
Finance leases	9	7	2
Receivables from customers	**2,557**	**2,499**	**2,319**

The following chart gives a geographic breakdown of receivables from customers.

Loans breakdown by Country

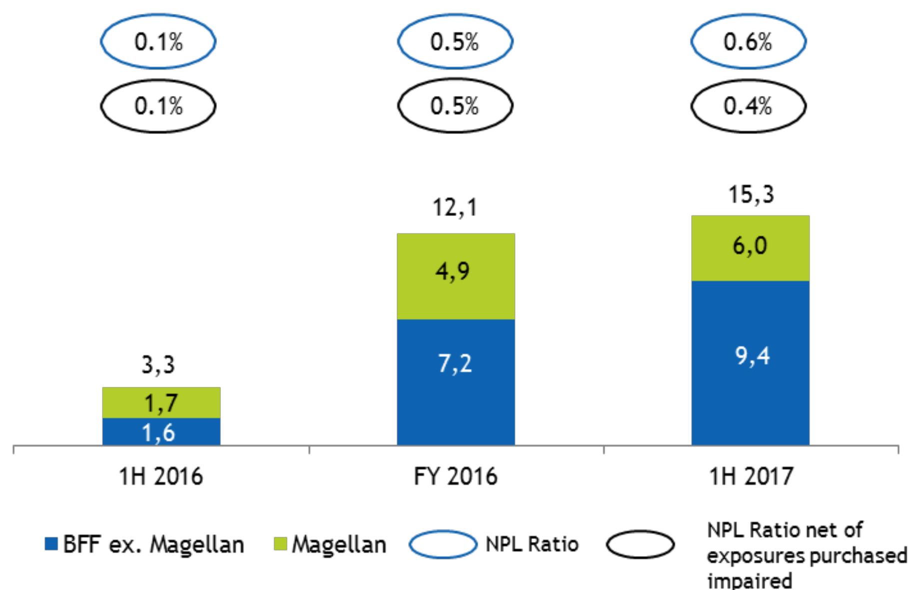


Again in 2017, the quality of credit has continued to remain good and characterized by a high degree of solvency of the counterparties: the following table shows the net impaired positions compared to December 31, 2016 and June 30, 2016:

	06.30.2017	12.31.2016	06.30.2016
Non-performing loans	**15,329**	**12,065**	**3,313**
Non-performing loans purchased performing	9,424	11,573	3,245
Non-performing loans purchased already impaired	5,905	492	68
Unlikely to pay	**3,722**	**3,614**	**55**
Past due exposures	**54,672**	**46,167**	**45,536**
Total	**73,724**	**61,847**	**48,904**

Past due exposures mainly refer to entities of the Italian Public Administration (largely territorial entities).
The following chart presents the change in non-performing receivables and the ratio of these to receivables from customers, which is equal to 0.6% and in line with the figure at December 31, 2016.
If non-performing exposures purchased already impaired are not considered, the NPL ratio at June 30, 2017 would be 0.4% compared to 0.5% at December 31, 2016.
The cost of credit for the period is 15 basis points, on an annualized basis.

Net Non Performing Loans Evolution (€m)



Owned securities, classified in the AFS (Available-For-Sale) and HTM (Held-To-Maturity) portfolios, made up almost entirely of Italian government securities, amount to €1,740 million. This is a decrease of €275 million compared to €2,014 million at December 31, 2016 and an increase of €61 million compared to €1,679 million at June 30, 2016.

The securities in the AFS portfolio are at variable rates (CCT), with residual maturities within five years, while those in the HTM portfolio are at fixed rates (BOT, BTP and CTZ), with maturities correlated to the sources of committed and unsecured funding held by the Bank in accordance with company policy. The fair value of the HTM securities at June 30, 2017 amounts to €1,278 million, with a positive difference over the carrying amount at the same date of approximately €3 million that has not been recognized in the financial statements.
AFS securities are measured at fair value and the interest calculated according to the effective interest method is recognized in the income statement. At the end of the period, the carrying amounts of the securities are compared to their fair value and the difference is recognized in equity under revaluation reserves.
At June 30, 2017, the negative reserves on the AFS government securities amount to approximately €81 thousand, net of taxes.

The average remaining contract duration, in days, of the government securities recorded in the AFS and HTM portfolios, at June 30, 2017, is 1133 and 719 days, respectively.

The Bank, during the course of the first half of the year, has continued to work for the expansion, diversification and optimization of the deposit-taking structure.
Banca Farmafactoring offers an online deposit account in the Italian market, Conto Facto, aimed at retail and corporate clientele and guaranteed by the Fondo Interbancario di Tutela dei Depositi.
The Spanish branch of BFF offers a similar online deposit account in the Spanish market, *Cuenta Facto*, also aimed at retail and corporate clientele and guaranteed by the Fondo Interbancario di Tutela dei Depositi.
Moreover, deposit-taking is also offered in Germany, under the freedom to provide services provision, by the Spanish branch of BFF, aimed exclusively at retail clientele, using the Weltsparen online platform.
At June 30, 2017, the Conto Facto and *Cuenta Facto* deposits, including the deposits taken through the German platform, total €850 million, compared to €610 million at June 30, 2016 and €817 million at December 31, 2016.

At June 30, 2017, total funding available amounts to €3,136 million (€3,152 million at December 31, 2016). It is composed of the deposit account of €850 million, the issue of bonds of €510 million, financial resources deriving from wholesale funding from banking sources to the tune of €1,691 million and securitization transactions of €85 million. Overall utilization is equal to €2,363 million net of exposures arising from repo transactions.

More specifically, during the course of the first half, the following transactions took place:

- on March 2, 2017, completion of the private placement of the first 10-year subordinated unsecured and unrated €100 million Tier 2 bond, with the right to an issuer call date in the fifth year;
- on June 12, 2017, repayment on the natural due date of the BFF issue of inaugural bonds for €300 million;
- on June 29, 2017, completion of the placement of 5-year senior unsecured and unrated €200 million bonds;
- on June 30, 2017, non-renewal of the revolving phase of the FF SPV I S.r.l. securitization, whose senior security amounts to €85 million. Therefore, in July 2017, the revolving phase ended and the SPV began to accumulate liquidity for the payment and reimbursement of the senior notes which will take place monthly at the amortization phase payment dates beginning August 25, 2017.

The equity of the Group at June 30, 2017 is €316.5 million, a decrease compared to €333.7 million at December 31, 2016, which included the profit for the year of €72.1 million that was entirely distributed on March 15, 2017.

In accordance with the provisions of Regulation (EU) No. 575/2013 (CRR), the scope of consolidation used solely for purposes of prudential supervisory reporting, discussed in the Notes in Part F, calls for BFF Luxembourg S.à r.l. as the parent.
For the purposes of the preparation of the other parts of the consolidated condensed interim financial statements and submission of so-called non-harmonized reporting, the reference will continue to be the Banking Group pursuant to the Consolidated Law on Banking.
The following tables presents the own funds of the Group pursuant to the Consolidated Law on Banking, which amount to a €351 million at June 30, 2017. the overall exposure to risks, relating to the activities carried out, is more than adequate in relation to the level of capitalization and the identified risk profile.

(in € millions)

	06.30.2017	12.31.2016
Own funds	351	235
CET 1 Capital Ratio	13.7%	16.7%
Tier 1 Capital Ratio	13.7%	16.7%
Total Capital Ratio	19.0%	16.7%

The ratios at December 31, 2016 do not take into account the downgrade of the Republic of Italy on the part of the reference ECAI, DBRS, in January 2017, which resulted in a weighting of 100% compared to the 50% adopted up to December 31, 2016 for the counterparties relating to the Italian Public Administration, other than the Government, regional and local agencies.

Had the downgrade been applied to figures at December 31, 2016, the impact would have been equal to a 3.7% reduction in equity ratios as far as CET1, Tier 1 and Total Capital Ratio are concerned.

The change in own funds and the capital ratios of the Banking Group compared to those at December 31, 2016, described in Part F of the Notes, was affected by the following main events:

- issue of Tier 2 bonds;
- appropriation to own funds of a part of the profit for the period, for €12.4 million. The amount derives from the change in the estimate of late-interest collections, to be included in the calculation of amortized cost, from 40% to 45% starting on January 1, 2017 for Banca Farmafactoring and Farmafactoring España. This resulted in a one-off effect, net of taxes, of €17.8 million, and refers to Banca Farmafactoring for €16.3 million and Farmafactoring España for €1.5 million. Deducted from this amount are non-recurring expenses, net of the tax effect, of €1.8 million relating to the costs of the stock listing process, €1.1 million referring to the stock options awarded to some beneficiaries last March and €2.5 million due to the negative exchange effect on the revaluation of the loan payable in Polish zloty used for the acquisition of Magellan and equal to €2.5 million at March 31, 2017.
- downgrade of the Republic of Italy by the ECAI of reference, DBRS, which, on January 13, 2017, lowered the unsolicited rating from "A low" to "BBB high", causing the country to be downgraded from Credit Quality Step 2 to Credit Quality Step 3. The exposures for receivables due from the Italian Public Administration, other than Government, regional and local agencies, which include those from entities belonging to the National Healthcare Service and from the Local Healthcare Entities (ASL), therefore, starting from the March 2017 supervisory reporting, have been rated in Credit Quality Step 3, with a 100% weighting, compared to 50% adopted up to December 31, 2016.

In the event the entire profit for the period is appropriated to increase the own funds of the BFF Group, the CET 1 Capital Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio would be, respectively, 15.7%, 15.7% and 21%.

With reference to the CRR Group, the CET 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio are, respectively, 10.1%, 10.8% and 15.0%

It should be noted that the majority shareholder, BFF Luxembourg, has formalized its commitment to maintain a dividend payment policy such as to preserve, over time, a total capital ratio of not less than 15% both at the level of the BFF Group and within the CRR Group.

Banca Farmafactoring and Farmafactoring España

At June 30, 2017, the pro forma consolidated profit of Banca Farmafactoring and Farmafactoring España, that is, the Group, without considering Magellan, is €45 million, of which €4.6 million refers to the Spanish subsidiary.

Overall volumes, relating to the management and purchase of non-recourse receivables realized by the two companies for the first half of 2017, were €2,868 million, higher by €78 million compared to the same period of 2016.
For Italy, the volumes total €2,646 million, up €79 million compared to €2,566 million in the corresponding period of 2016.
As for the Spanish receivables, the volumes were €149 million compared to €198 million in the first half of 2016. In Spain, following the injection of liquidity by the government, the inclination of the clientele to sell receivables also remains low in the first half of the current year.
The volumes relating to receivables of the Portuguese public sector were €71 million, a considerable increase compared to €27 million in the same period of 2016.

Total collections relating to management and non-recourse receivables amount to €3,055 million, against €3,231 million in the first half of the prior year.
For Italy, collections total €2,823 million compared to €3,026 million in the first six months of 2016.
As for Spain, collections stand at €200 million and higher than the €191 million in the first half ended June 30, 2016. In Portugal, collections total €32 million compared to €14 million in the same period of the prior year.

Total purchases of non-recourse receivables by the two companies were approximately €1,429 million, or €119 million higher than in the first half of 2016. In Italy, they amounted to €1,209 million and increased compared to €1,091 million at June 30, 2016.

In Spain, non-recourse purchases were €149 million against €192 million in the first six months of 2016. In 2017, the Magellan Group did not carried out any purchase in Spain, compared to the €12 million purchased in the first half of 2016.
In Portugal, €71 million of non-recourse purchases were made in the first half of 2017 compared to €27 million in the first half of 2016.

Magellan

The consolidated profit of Magellan for the first half ended June 30, 2017 is approximately PLN €24.3 million, equal to about €5.7 million at the average exchange rate for the period (4.2685), compared to PLN 13.5 million for the corresponding period of 2016, equal to €3.2 million using the same exchange rate, with an increase of 78%.
Volumes realized in the first half were PLN 1,015 million (about €238 million at the average rate in the first half), up 23% compared to PLN 823 million for the six months to June 30, 2016 (€192 million). Receivables from the clientele at June 30, 2017 are PLN 507 million, compared to PLN €412 million at June 30, 2016, considering the same exchange rate, with an increase of 23%.

The BFF Group is continuing the activities necessary to integrate Magellan into the Group according to the action plan developed at the time of its acquisition, including the recommendations offered by the Bank of Italy in the procedure followed for the approval of the acquisition of Magellan.
The integration project comprises various areas managed by a central project management team consisting of two integration managers, one from BFF and one from Magellan.
Certain integration activities extended into the first half of the year and it is therefore believed that the integration will be concluded during the course of the current year.

Significant Events in the Period

Banca Farmafactoring listing process

On April 4, 2017, Banca Farmafactoring successfully concluded the institutional placement of its ordinary shares, aimed at creating the floating stock necessary for listing its stock on the Mercato Telematico Azionario (MTA), organized and managed by Borsa Italiana S.p.A.
Mediobanca – Banca di Credito Finanziario S.p.A., Morgan Stanley and Deutsche Bank AG - London branch were Joint Global Coordinators and Joint Bookrunners; BNP Paribas, Jefferies International Limited and UniCredit Corporate & Investment were Joint Bookrunners; Banca Akros was Co-lead Manager.

At the conclusion, 583,000 shares were placed (58,300,000 shares after the new BFF bylaws came into effect on the starting date of trading, which envisaged the stock split of the existing shares in a ratio of 1:100), including the over-allotment option exercised for 53,000 shares (5,300,000 after the new BFF bylaws came into effect on the starting date of trading), all placed on sale by BFF Luxembourg S.à r.l.

Following the institutional placement, the capitalization of the company, calculated of the basis of the offering price, was approximately €800 million. The total proceeds of the institutional placement, to which the seller shareholder is entitled in full, referring to the offering price net of the commissions due on the institutional placement, without taking into account any exercise of the greenshoe option, was about €245 million.

On April 7, 2017, the shares began trading on the Mercato Telematico Azionario, by order of Borsa Italiana S.p.A., and the payment of the shares was fixed for the same day.

On May 5, 2017, the stabilization period, which began on April 7, 2017, ended. During this period, the stabilization transactions were carried out, as defined in Article 3, paragraph 2, letter d) of the market abuse Regulation (EU) 596/2014, in relation to the offer of the financial instruments.
Furthermore, the Joint Global Coordinators did not exercise the greenshoe option and, therefore, the Purchase Offer referred to 53,000,000 ordinary shares, equal to 31.2% of share capital.

On December 5, 2016, the BFF extraordinary shareholders' meeting approved the stock option plan for employees and members of the corporate boards, which had already been submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular No. 285. During the first half of 2017, the option rights relating to this plan were awarded only for the first tranche of the plan.
The stock option plan is described in greater detail in Part I of the Notes.

Payment of 2016 dividends and appropriation of a part of the 2017 profit to own funds

The Banking Group reported a profit for year 2016 of €72,136,499. Banca Farmafactoring recorded a statutory profit of €70,313,719 for the same year ended December 31, 2016.
The ordinary shareholders' meeting of the Bank, held on March 9, 2017, approved the payment of total dividends of €72,125,538, in line with the consolidated net profit of the Banking Group, setting aside €16,540 to the legal reserve, in order to reach the maximum provided by law, and the payment of €70,297,179 to the shareholders, together with €1,828,359 drawn from retained earnings.
The shareholders, therefore, received a dividend of €42.40 for each of the 1,701,074 shares. After this appropriation, retained earnings of the Bank are €89,543,457.

The Board of Directors' meeting of the Bank, held on May 9, 2917, after authorization from the Bank of Italy, approved the appropriation of a total amount of €12,456,871, included in the consolidated net profit for the period, to consolidated Common Equity Tier 1 (CET1) capital. The amount indicated refers to Banca Farmafactoring for €10,915,751 and Farmafactoring España for €1,541,120.

The amount derives from the change in the estimate of the late-interest recovery percentage, for Banca Farmafactoring and Farmafactoring España, to be included in the calculation of amortized cost, which increased from 40% to 45% beginning on January 1, 2017. This resulted in a one-off effect, net of taxes, of €17.8 million which refers to Banca Farmafactoring for €16.3 million and Farmafactoring España for €1.5 million. Deducted from this amount are non-recurring expenses, net of the tax effect, of €1.8 million relating to the costs for the stock listing process, €1.1 million referring to the stock options awarded to some beneficiaries last March and €2.5 million due to the negative exchange effect on the revaluation of the loan payable in Polish zloty used for the acquisition of Magellan and equal to €2.5 million at March 31, 2017, offset by the positive effect deriving from the revaluation of exchange rates in consolidated equity.

Authorization to operate in Greece

On March 28, 2017, the Bank received authorization from the Bank of Italy to conduct non-recourse factoring activities in Greece, under the freedom to provide services provision, notifying the Greek regulatory authorities, pursuant to the Bank of Italy Circular 285, Part One, Title 1, Chapter 6, Section II.

Deposit Guarantee Scheme

The Directive (EU) 2014/49 (Deposit Guarantee Schemes Directive - DGSD) introduced, in 2015, on the subject of deposit guarantee schemes, a new mixed financing mechanism, based on ordinary contributions (*ex-ante*) and special contributions (*ex-post*), anchored to the institutions' covered deposits and the degree of risk of the individual member bank.
More specifically, Article 10 of the directive, introduced by Article 24, paragraph 1 of the statutes of the Fondo Interbancario Tutela dei Depositi (FITD), establishes the start of a mandatory contribution mechanism which provides that available financial resources should be set aside up to the target level of 0.8% of total covered deposits by July 3, 2024, through ordinary annual contributions of the member banks (Mandatory Scheme).
The contributions are calculated by reference to the contribution base at September 30 of each year, so that, in the half-year condensed financial statements at June 30, 2017, an estimated amount of €325 thousand (€650 thousand for the year) was recorded in item 180 b) "other administrative expenses".

The amount of the ordinary contribution due from Banca Farmafactoring for 2016 was approximately €545 thousand that was paid in December 2016.

As concerns extraordinary contributions, Article 23 of the new FITD statutes provides that "whenever the available financial resources are insufficient to reimburse depositors, the member banks shall pay extraordinary contributions not to exceed 0.5% of the covered deposits per calendar year. In exceptional cases, and with the consent of the Bank of Italy, the FITD may ask for higher contributions".

On November 26, 2015, the shareholders' meeting of FITD members also approved a Voluntary Scheme in addition to the Mandatory Scheme, to implement interventions to support member banks in conditions of, or at the risk of, becoming insolvent and BFF is participating in the scheme.
The Voluntary Scheme has at its disposition autonomous financial resources, currently established at a total of €700 million, which the member banks commit to provide, when requested, in the case of interventions.
In May 2016, Cassa di Risparmio di Cesena asked for the intervention of the Voluntary Scheme to increase its share capital so that it could resolve the Bank's difficulties.
BFF's share was paid in September 2016 and amounted to €235 thousand. The relative fair value at December 31, 2016, communicated by FITD on January 20, 2017, was €177 thousand. This fair value corresponds to the carrying amount at June 30, 2017. In keeping with the instructions of the Bank of Italy in "Voluntary Scheme established by FITD. Questions" of October 26, 2016, the amount was recorded in item 40 under assets in the balance sheet, "Available-for-sale financial assets", under equity securities.
BFF has already communicated that it wants to withdraw from this Voluntary Scheme at the earliest possible time.

Resolution Fund

Regulation 806/2014, which regulates the Single Resolution Mechanism Regulation that came into effect on January 1, 2016, has established the European Single Resolution Fund – SRF, managed by the new European resolution Authority, the Single Resolution Board. Starting from that date, the funds of the National Resolution Fund (NRF), set up by Directive (EU) 2014/59 (Banking Recovery and Resolution Directive - BRRD), and received in 2015, became part of the new European Resolution Fund.

The Regulation establishes a financial mechanism so that over a period of eight years, that is, by December 31, 2023, the member states will provide SRF with financial resources equal to at least 1% of the amount of the covered deposits of all the authorized entities within the respective territory.
In order to achieve this objective, therefore, the contributions must be collected, at least annually, from the authorized entities within the respective territory.
The ordinary annual contribution requested of BFF in 2017, by the Bank of Italy in its Note of April 28, 2017, was approximately €1,171 thousand, recorded in full in the first quarter of 2017 and paid in May 2017.
The ordinary annual contribution requested in 2016 was €1,086 thousand, paid in June 2016.

On December 28, 2016, furthermore, the Bank of Italy, as part of the framework of the bail-in program for the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara, had requested an extraordinary contribution equal to the two ordinary annual contributions established for 2016. For BFF, this amounted to €2,179 thousand. No communications have to date been received for any extraordinary contributions for 2017.

Change in Staff Headcount

In order to support the development plans of the Banking Group and best meet the needs of the period, the number of staff has been steadily increased over the years.
At June 30, 2017, the total number of employees of the Banca Farmafactoring Group is 407.

Banca Farmafactoring and Farmafactoring España added 12 people in 2017, reaching a total of 229 resources, of whom 31 are in Spain (9 at the BFF branch in Madrid and 22 at FFE). Magellan, at June 30, 2017, has 178 staff, of whom 162 are in Poland, 13 in Slovakia and 3 in the Czech Republic.

The following table presents the composition of the Group's staff divided by the countries in which it operates:

	2016						06.30.2017					
CATEGORY	Italy	Spain	Poland	Slovakia	Czech Rep.	TOT	Italy	Spain	Poland	Slovakia	Czech Rep.	TOT
Senior executives and executives	14	1	4	-	-	19	15	1	5	-	-	21
Managers, middle managers and professionals	62	14	25	2	1	104	65	12	24	1	1	103
Specialists	117	17	141	9	2	286	118	18	133	12	2	283
Total country	**193**	**32**	**170**	**11**	**3**		**198**	**31**	**162**	**13**	**3**	
Total Group	**409**						**407**					

Related Party Transactions

As for transactions with related parties and associated parties, the Banca Farmafactoring Board of Directors, on November 11, 2016, approved the "Group Regulation of the Banca Farmafactoring Banking Group for the identification and approval of transactions with parties that may be in conflict of interest" in implementing the supervisory provisions of the Bank of Italy Circular No. 263 of December 27, 2006, Title V, Chapter 5, and the Consob Regulation on transactions with related parties, adopted through resolution no. 17221 of March 12, 2010, as subsequently amended through resolution no. 17389 of June 23, 2010, following a favorable opinion expressed by the Board of Statutory Auditors and the Related Party Committee.

The purpose of the Regulation is to oversee the risk that proximity, if any, of such parties to the Banca Farmafactoring Banking Group's decision-making centers may compromise the objectivity and impartiality of the decisions taken on transactions involving those same parties, with possible distortion in the resource allocation process, exposure of BFF to risks not adequately measured or supervised and the potential damage for the shareholders and stakeholders.

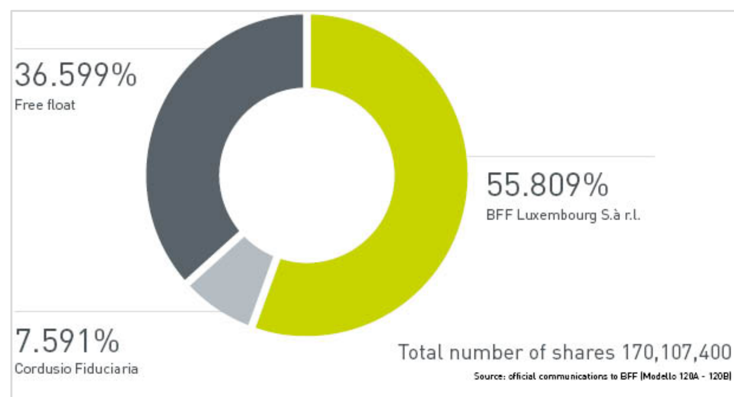
On the same date, BFF adopted "Policies on internal control adopted by the Group for the management of conflicts of interest" (so-called "Policy on the management of conflicts of interest", which disciplines the control processes aimed at ensuring the correct measurement, monitoring and management of the risks assumed by the Group with associated parties.
The Regulation for transactions with associated parties and the Policy on the management of conflicts of interest was communicated to the shareholders' meeting and the public on the BFF

website in the section Governance – procedures and regulations – transactions with associated parties.

Information on related party transactions is presented in Part H of this document.

Shareholder Structure

The following chart presents the composition of the shareholders of Banca Farmafactoring following the described listing of its shares. While the amount of share capital has remained the same (€130,982,698), the number of shares of the company went from 1,701,074 to 170,107,400 due to the 1 to 100 stock split, with a consequent implied par value per share which changed from €77 to €0.77.



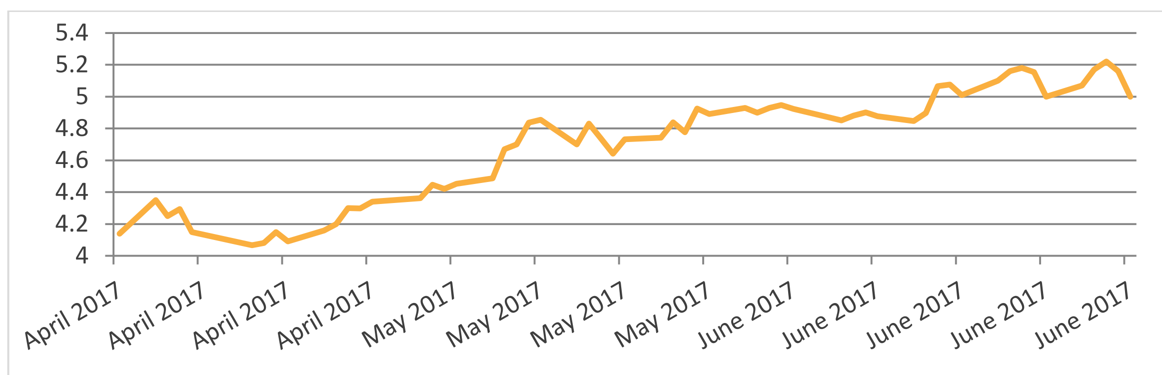
Share Performance

Banca Farmafactoring shares (ISIN Code IT0005244402) are listed on the Mercato Telematico Italiano (MTA) of the Borsa Italiana in the Blue Chips segment on the following market indexes:

- FTSE IT All Share
- FTSE IT Mid Cap

The chart below gives the price of the BFF stock since the first day of listing to June 30, 2017.

At June 30, 2017, the stock price reached €5, rising by 6.4%, compared to the listing price of €4.7 per share and compared to the increase in FTSE IT All Share of 1.5%.



Other Information

Derogation from obligations to publish disclosure documents pursuant to art. 70, para. 8 and art. 71, para. 1 bis, of the Issuers' Regulations

The Bank complied with the provisions of art. 70, para. 8 and art. 71, para. 1 bis, of the Issuers' Regulations adopted through Consob Resolution no. 11971 of May 14, 1999, as subsequently amended, and therefore derogated from the obligations to publish disclosure documents required in the event of mergers, demergers, capital increases by contribution in kind, acquisitions and disposals.

Treasury shares

The Bank does not possess treasury shares or quotas of the parent, either directly, through individuals or trustee companies.

Unusual or atypical transactions

The BFF Group did carry out any unusual or atypical transactions during the first half of the year, as reported in Consob Communication No. 6064293 of July 28, 2006.

Events subsequent to June 30, 2017

In July 2017, the private placement of a new securitization transaction was successfully concluded with the Bayerische Landesbank (BayernLB) Group for €150 million and aimed at diversifying funding activities.
The receivables with Local Healthcare Entities (ASL) and Hospital Companies (AO) are sold without recourse to a special purpose vehicle pursuant to Law No. 130/99, BFF SPV S.r.l., which financed the purchase of the receivables by issuing securities up to a total of €150 million, underwritten by Corelux, a company in the BayernLB Group, using liquidity placed at its disposal by BayernLB AG.
The securitization structure provides for a revolving period during which sales of the revolving receivables will be made against collections of the receivables to maintain the contractually stipulated collateralization ratio. The start of the revolving phase is scheduled for the issue date which is expected to take place during the month of September 2017 against the issue and payment of the senior notes.

There were no other facts or events subsequent to the end of the reporting date of the half-year condensed financial statements.

Business Outlook

According to the approved planning guidelines, the BFF Group will continue to pursue the activities undertaken in past years, developing commercial policies geared to the strengthening of its relationships with existing clientele, expanding operations for the management of receivables deriving not only from the supply of drugs or diagnostic products, but also receivables from the supply of products of other sectors, as well as those arising from services provided to the Public Administration in general, in countries of the European Union.

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

as of 30 June 2017

BFF BANKING GROUP

Consolidated Balance Sheet

(in euros)

ASSETS		06.30.2017	12.31.2016
10.	Cash and cash balances	3,724,139	149,035
20.	Financial assets held for trading	0	244,420
30.	Financial assets designated at fair value	1,225,774	3,401,129
40.	Available-for-sale financial assets	464,143,292	385,279,885
50.	Held-to-maturity financial assets	1,275,770,022	1,629,319,849
60.	Due from banks	227,953,205	144,871,367
70.	Due from customers	2,556,739,145	2,499,094,435
80.	Hedging derivatives	353,163	529,027
100.	Equity investments	175,110	301,567
120.	Property, plant and equipment	12,863,730	12,988,330
130.	Intangible assets	25,159,835	25,811,363
	of which		
	- *goodwill*	*22,146,189*	*22,146,189*
140.	Tax assets	16,157,821	25,870,072
	a) current tax assets	*11,427,333*	*21,450,987*
	b) deferred tax assets	*4,730,489*	*4,419,084*
	of which for purpose of Law 214/2011	*717,128*	*748,650*
160.	Other assets	9,730,813	7,135,948
	TOTAL ASSETS	4,593,996,051	4,734,996,427

Consolidated Balance Sheet

(in euros)

	LIABILITIES AND EQUITY	06.30.2017	12.31.2016
10.	Due to banks	665,411,551	634,806,875
20.	Due to customers	2,853,052,504	2,996,142,256
30.	Debt securities issued	591,821,126	634,282,882
40.	Financial liabilities held for trading	1,164,486	7,248
60.	Hedging derivatives	28,509	176,037
80.	Tax liabilities	69,426,588	73,658,616
	a) current tax liabilities	*15,872,357*	*24,129,771*
	b) deferred tax liabilities	*53,554,230*	*49,528,845*
100.	Other liabilities	89,541,658	54,319,925
110.	Provision for employee severance indemnities	855,927	867,129
120.	Provisions for risks and charges	6,331,020	6,989,235
	a) pension fund and similar obligations	*5,672,152*	*6,342,956*
	b) other provisions	*658,867*	*646,279*
140.	Revaluation reserves	7,010,756	4,494,859
170.	Reserves	127,715,656	126,132,168
190.	Issued capital	130,982,698	130,982,698
220.	Profit for the year	50,653,574	72,136,499
	TOTAL LIABILITIES AND EQUITY	4,593,996,051	4,734,996,427

Consolidated Income Statement

(in euros)

ITEMS		06.30.2017	06.30.2016
10.	Interest income and similar revenues	126,720,352	77,996,046
20.	Interest expense and similar expenses	(20,133,080)	(12,208,508)
30.	**Net interest margin**	**106,587,272**	**65,787,538**
40.	Fee and commission income	3,969,726	3,718,382
50.	Fee and commission expenses	(501,374)	(276,147)
60.	**Net fees and commissions**	**3,468,351**	**3,442,236**
70.	Dividends and similar income	45,684	10,001
80.	Gains (losses) on financial assets and liabilities held for trading	(4,242,848)	901,545
90.	Fair value adjustment in hedge accounting	26,955	0
100.	Gains (losses) on disposals and repurchases of:		
	b) available-for-sale financial assets	20,340	381,431
120.	**Operating income**	**105,905,755**	**70,522,750**
130.	Net losses/recoveries on impairment:		
	a) receivables	(1,905,282)	747,121
140.	**Net profit from financial activities**	**104,000,473**	**71,269,871**
170.	**Net profit from financial and insurance activities**	**104,000,473**	**71,269,871**
180.	Administrative costs:		
	a) personnel costs	(15,195,331)	(11,095,721)
	b) other administrative expenses	(18,183,992)	(17,968,123)
190.	Net provisions for risks and charges	(374,966)	(534,421)
200.	Net writeoffs/writebacks on property, plant and equipment	(724,656)	(608,202)
210.	Net writeoffs/writebacks on intangible assets	(900,884)	(752,219)
220.	Other operating income (expenses)	1,912,666	1,061,606
230.	**Operating costs**	**(33,467,162)**	**(29,897,081)**
280.	**Profit (loss) before tax from continuing operations**	**70,533,311**	**41,372,790**
290.	Income taxes on profit (loss) from continuing operations	(19,879,736)	(13,023,426)
300.	**Profit (loss) after tax from continuing operations**	**50,653,574**	**28,349,364**
320.	**Profit for the period attributable to owners of the parent**	**50,653,574**	**28,349,364**
340.	**Profit for the period attributable to owners of the parent**	**50,653,574**	**28,349,364**
	Basic Earnings Per Share (*)	0.30	0.17
	Diluted Earnings Per Share (*)	0.30	0.17

(*) Following the implementation of BFF's new Bylaws on the starting date of trading (shares were split based on 1:100 ratio), basic and diluted earnings per share at June 30, 2016 was adjusted to be comparable with the figures of the reporting period. At June 30, 2016, basic and diluted earnings per share amounted to 16.67.

Statement of Consolidated Comprehensive Income

(in euros)

ITEMS		H1 2017	H1 2016
10.	**Profit for the period**	**50,653,574**	**28,349,364**
	Other comprehensive income after tax not reclassified to profit or loss		
20.	Property, plant and equipment		
30.	Intangible assets		
40.	Defined benefit plans	(9,982)	(61,279)
50.	Non-current assets classified as held for sale		
60.	Portion of revaluation reserves from investments valued ad equity		
	Other comprehensive income after tax that may be reclassified to profit or loss		
70.	Hedges of foreign investments		
80.	Exchange differences	3,201,208	(908,269)
90.	Cash flow hedges	(123,539)	
100.	Available-for-sale financial assets	(551,791)	(505,214)
110.	Non-current assets classified as held for sale		
120.	Valuation reserves from investments accounted for using the equity method		
130.	**Total other comprehensive income**	**2,515,896**	**(1,474,762)**
140.	**Comprehensive income (Items 10+130)**	**53,169,470**	**26,874,602**
150.	Consolidated comprehensive income attributable to non-controlling interests		
160.	**Consolidated comprehensive income attributable to owners of the parent**	**53,169,470**	**26,874,602**

Consolidated Statement of Changes in Shareholders' Equity

For the period ended as of June 30, 2016

(in euros)

	At December 31, 2015	Change in opening balance	At January 1, 2016	Appropriations of profit from previous year: Reserves	Appropriations of profit from previous year: Dividends and other appropriations	Changes during the year: Changes in reserves	Equity transactions: Issue of new shares	Equity transactions: Purchases of treasury shares	Equity transactions: Distribution of extraordinary dividends	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: Stock options	Equity transactions: Changes in shareholdings interests	Comprehensive income 2016	Equity attributable to owners of the parent at June 30, 2016	Equity attributable to non-controlling interests at June 30, 2016
Issued capital:																
- ordinary shares	130,900,000		130,900,000												130,900,000	
- other shares							82,698								82,698	
Share premium																
Reserves:																
- from profits	127,409,048		127,409,048	9,131,372		(9,148,844)								(908,269)	126,483,307	
- other																
Revaluation reserves	4,183,573		4,183,573											(566,493)	3,617,080	
Equity instruments																
Treasury shares																
Profit for the year	68,790,823		68,790,823	(9,131,372)	(59,659,457)									28,349,364	28,349,358	
Total equity attributable to owners of the parent	331,283,444		331,283,444		(59,659,457)	(9,148,844)	82,698							26,874,602	289,432,443	
Equity attributable to non-controlling interests																

For the period ended as of June 30, 2017

(in euros)

	At December 31, 2016	Change in opening balance	At January 1, 2017	Appropriations of profit from previous year: Reserves	Appropriations of profit from previous year: Dividends and other appropriations	Changes during the year: Changes in reserves	Equity transactions: Issue of new shares	Equity transactions: Purchases of treasury shares	Equity transactions: Distribution of extraordinary dividends	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: Stock options	Equity transactions: Changes in shareholdings interests	Comprehensive income 2017	Equity attributable to owners of the parent at June 30, 2017	Equity attributable to non-controlling interests at June 30, 2017
Issued capital:																
- ordinary shares	130,900,000		130,900,000				82,698								130,982,698	
- other shares	82,698		82,698				(82,698)									
Share premium																
Reserves:																
- from profits	126,132,168		126,132,168	10,961		85,045						1,487,482			127,715,656	
- other																
Revaluation reserves	4,494,859		4,494,859											2,515,896	7,010,756	
Equity instruments																
Treasury shares																
Profit for the year	72,136,499		72,136,499	(10,961)	(72,125,538)									50,653,574	50,653,574	
Total equity attributable to owners of the parent	333,746,224		333,746,224		(72,125,538)	85,045						1,487,482		53,169,470	316,362,684	
Equity attributable to non-controlling interests																

Consolidated Statement of Cash Flow

Indirect Method

(in euros)

A. OPERATING ACTIVITIES	Amount	
	06.30.2017	06.30.2016
1. Operations	**55,440,471**	**28,985,689**
- profit or loss for the period (+/-)	50,653,574	28,349,365
- capital gains/losses on financial assets/liabilities held for trading and on assets/liabilities designed at fair value through profit and loss (-/+)	619,546	-
- capital gains/losses on hedging operations (-/+)	(26,955)	-
- net losses/recoveries on impairment (+/-)	1,905,281	(747,121)
- net write-offs/write-backs on tangible and intangible assets (+/-)	1,625,541	1,360,422
- provisions and other incomes/expenses (+/-)	374,966	23,022
- not cashed net premiums (-)		
- other not collected incomes and expenses from insurance activities (-/+)		
- unpaid taxes and tax credits (+/-)		
- impairment/write-backs on discontinued operations net of tax effects (-/+)		
- other adjustments (+/-)	288,518	-
2. Liquidity generated/absorbed by financial assets	**(141,767,614)**	**393,469,157**
- financial assets held for trading	(244,420)	(66,724)
- financial assets designated at fair value	(2,175,355)	-
- available-for-sale financial assets	78,863,407	(97,151,010)
- due from banks: at sight	83,081,838	11,994,343
- due from banks: other		
- due from customers	59,549,991	(33,703,897)
- other assets	(360,843,075)	512,396,445
3. Liquidity generated/absorbed by financial liabilities	**(120,497,304)**	**537,814,022**
- due to banks: at sight	30,604,676	(360,890,909)
- due to banks: other		
- due to customers	(143,089,752)	680,038,752
- debt securities issued	(42,461,756)	149,787,381
- financial liabilities held for trading	537,692	(17,583)
- financial liabilities designated at fair value		
- other liabilities	33,911,836	68,896,381
Net liquidity generated/absorbed by operating activities	**76,710,781**	**173,330,554**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	**(80,773)**	**-**
- sales of equity investments	(126,457)	-
- collected dividends on equity investments	45,684	-
- sales of held-to-maturity financial assets		
- sales of property, plant and equipment		
- sales of intangible assets		
- sales of subsidiaries and divisions		
2. Liquidity absorbed by	**(929,367)**	**(103,827,119)**
- purchases of equity investments	(256,923)	(103,195,982)

- purchases of held-to-maturity financial assets		
- purchases of property, plant and equipment	(454,940)	(370,722)
- purchases of intangible assets	(217,504)	(260,415)
- purchases of sales/purchases of subsidiaries and divisions		
Net liquidity generated/absorbed by investing activities	(1,010,140)	(103,827,119)
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity investments		
- distribution of dividends and other purposes	(72,125,538)	(68,765,000)
Net liquidity generated/absorbed by funding activities	(72,125,538)	(68,765,000)
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	3,575,104	738,435

RECONCILIATION

(in euros)

ITEM	06.30.2017	06.30.2016
Cash and cash balances at the beginning of the year	149,035	158,612
Net liquidity generated/absorbed during the period	3,575,104	738,435
Cash and cash balances: effect of exchange rate changes		
Cash and cash balances at the end of the period	3,724,139	897,047

Notes to the consolidated condensed interim financial statements

Part A - Accounting Policies

GENERAL REMARKS

Statement of compliance with the international accounting standards

The consolidated condensed interim financial statements as of 30 June 2017 have been prepared in accordance with the international accounting principles (IAS/IFRS) issued by the IASB, approved by the European Commission as established in Regulation (EC) No. 1606 of July 19, 2002, which regulates the coming into force of IAS/IFRS, as well as the relative interpretations (IFRIC), approved by the European Commission and in effect at the end of the reporting period. The consolidated condensed interim financial statements have been prepared in accordance with IAS 34.

The IFRSs have been applied by complying with the "systematic framework" for the preparation and the presentation of consolidated condensed interim financial statements with particular reference to the fundamental principle of substance over legal form and the concept of relevance or significance of the information.

The consolidated condensed interim financial statements have been prepared under the going concern assumption, as the directors have not identified, either in the trend of operations, in the financial and capital situation or in the examination of the risks to which the Group is exposed, situations that would render doubtful the Group's ability to meet its obligations in the foreseeable future.

The accounting policies adopted in the preparation of the consolidated condensed interim financial statements as of 30 June 2017, with regard to the criteria for the recognition, classification, measurement and derecognition of assets and liabilities, have been applied on a consistent basis with those adopted for the preparation of the financial statements for the year ended December 31, 2016 of the Banking Group, described under the heading "Part concerning the main items of the consolidated financial statements".

Scope and principles of consolidation

The criteria adopted by the Group to define the scope of consolidation and the corresponding consolidation principles are described below.

Subsidiaries

The subsidiaries, as presented in the introduction to the report under "Structure of the Group", are those over which the Group has control. The Group controls a company when it is exposed to the variable returns generated by the company and has the ability to affect those returns through its power over the company. Generally, control is deemed to exist when the Company holds, directly or indirectly, more than half of the voting rights, taking also into account contingent exercisable or convertible voting rights.

Subsidiaries also include special purpose entities for which the Group is actually exposed to the majority of the risks and rewards deriving from their activities, or those over which it exercises control. The existence of an equity investment in these special purpose entities is not relevant for this purpose.

All subsidiaries are consolidated line-by-line from the date when control is transferred to the Group. Conversely, they are excluded from the scope of consolidation when such control ceases.
The financial statements or accounting data, the interim reports and the accompanying notes of the companies consolidated line-by-line are prepared in accordance with IAS/IFRS for inclusion in the consolidated condensed interim financial statements.

The principles applied in line-by-line consolidation are the following:

- assets, liabilities, revenues and expenses of the entities that are fully consolidated are consolidated on a line-by-line basis, attributing to non-controlling interests, if applicable, their share of net equity and profit (loss) for the year, which are disclosed separately in equity and in the consolidated income statement;
- significant gains and losses, including the related tax effects, arising from transactions between companies consolidated line-by-line and unrealized with third parties are eliminated, except for the losses that are not eliminated when the transaction provides evidence that the transferred asset is impaired. Reciprocal receivables and payables, revenues and expenses as well as financial income and expenses are also eliminated;
- financial statements of subsidiaries expressed in a functional currency other than the euro are translated into euro as follows: assets and liabilities at the exchange rate at the close of the reporting period and income statement items at the average exchange rate for the period;
- translation differences on the conversion of the financial statements of these subsidiaries, arising from the application of the period-end rate for the balance sheet and the average rate for the period for the income statement are recognized in the revaluation reserves in equity, in addition to the translation differences on the equities of the subsidiaries.
- All translation differences are reclassified to the income statement in the period in which the investment is disposed of.

Use of estimates and assumptions in the preparation of the consolidated condensed interim financial statements

In accordance with the IFRSs, the development of estimates by management is a prerequisite for the preparation of the consolidated condensed interim financial statements as of 30 June 2017. This process involves the use of available information and the adoption of subjective judgments, also based on historical experience, in order to formulate reasonable assumptions for the recognition of operating events. These estimates and assumptions may vary from one period to the next and, consequently, the possibility cannot be excluded that, in subsequent periods, the actual results reported in the consolidated condensed interim financial statements may be significantly different, owing to changes in the subjective judgments utilized.
Estimates and assumptions are reviewed on a regular basis. Any changes resulting from such reviews are recognized in the period in which the review is carried out, provided the change refers only to that period. If the revisions refer both to current and future periods, the change is recognized both in the current and future periods accordingly.

The risk of uncertainty in estimates is essentially inherent in the measurement of:

- the degree of recoverability and estimated collection times for late interest on receivables purchased on a non-recourse basis, to which the Group is entitled, based on an analysis of historical company data;
- impairment losses on receivables and other financial assets in general;
- the fair value of financial instruments used for financial statement disclosure purposes;
- the fair value of financial instruments not traded on active markets determined with valuation models;

- expenses recorded on the basis of provisional values when the initial accounting for the business combination is incomplete;
- any impairment of equity investments and recorded goodwill;
- employee benefit provisions based on actuarial assumptions and provisions for risks and charges;
- the recoverability of deferred tax assets.

With reference to the estimate of the amount of late interest which is expected to be collected by Banca Farmafactoring and Farmafactoring España, the time series of data was updated with the late-interest collection data for the year 2016. This resulted in a weighted average collection percentage that is more than the 40% used for the preparation of the 2014, 2015 financial statements and for the financial statements for the year ended December 31, 2016.
The Bank and Farmafactoring España, starting on January 1, 2017, have applied a collection percentage for late interest to be included in amortized cost of 45%, in lieu of the previous 40%, keeping the average collection times unchanged at an estimated 1800 days.
Consequently, as established by IAS 39 (AG8), since certain changes in the estimate of expected cash flows have occurred, the Bank has recalculated the present value of these expected cash flows at the original effective interest rate, recording the effects of such change in the income statement for the first half of 2017. Account was also taken of the provisions of IAS 8 with regard to changes in accounting estimates.
The total effect of such change in accounting estimate amounts to €17.8 million net of tax, and refers to BFF for €16.3 million and FFE for €1.5 million.
The description of the accounting policies adopted for the main aggregates of the consolidated condensed interim financial statements as of 30 June 2017 provides the information needed to identify the major assumptions and subjective judgments used in preparing it.

Independent Audit

The May 3, 2012 shareholders' meeting of Farmafactoring S.p.A. appointed PricewaterhouseCoopers S.p.A. to audit the financial statements for nine years, from 2012 to 2020, pursuant to the provisions of Article 2409-*bis* of the Italian Civil Code and Legislative Decree No. 39/2010. A limited review is performed by the auditors on the consolidated condensed interim financial statements prepared in accordance with IAS 34.

New accounting principles

New IFRS standards and interpretations issued, in effect from January 1, 2018

- *IFRS 15 - Revenue from Contracts with Customers, adopted with Commission Regulation (EU) 2016/1905*

The new standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes* and introduces a model for the recognition of revenues that no longer refers to the characteristics of the goods, services, interest, royalties, etc. exchanged with the client, but to the distinction between a performance obligation satisfied at a point in time or a performance obligation satisfied over time.
In the case of a performance obligation satisfied at a point in time, revenues are recognized only when total "control" of the goods or services exchanged has transferred to the client. Factors that may indicate the point in time in which control is passed are not only the significant risks and benefits related to ownership of the goods or services, but also physical possession, acceptance by the client and the existence of related legal rights etc.

In the case of a performance obligation satisfied over time, the measurement and recording of the revenues reflects, virtually, the progress made towards the level of satisfaction of the client; in effect, the entity applies an accounting method based on the progress of the production or costs incurred. The standard provides a specific guideline for companies to choose the most appropriate method.
Finally, the new standard states that every single performance obligation assumed by the seller must be measured separately, even if provided within a single contractual or commercial context.
As a result of this approach, the measurement and the time of recognition of the sales revenues could be different than those identified in accordance with provisions of IAS 18.

- *IFRS 9 – Financial Instruments, adopted with Commission Regulation (EU) 2067/2016*

The new standard is applicable from January 1, 2018 and mostly replaces the current IAS 39 – *Financial Instruments: Recognition and Measurement*. It introduces better financial disclosure on financial instruments with the intent of taking into account the concerns expressed following the financial crisis, also introducing an accounting model aimed at promptly reflecting expected losses on financial assets.
The standard introduces new requirements that can be summarized in the following three areas:

i) Classification and measurement of financial assets, based on both the entity's business model formalized by management for managing financial assets and the cash flow characteristics of the financial assets. The new standard calls for three different categories of financial assets in lieu of the four established by the current IAS 39:
Amortized cost: financial assets held to collect contractual cash flows represented exclusively by the payment of principal and interest;
Fair value through other comprehensive income (FVOCI): financial assets held to collect both contractual cash flows, represented exclusively by the payment of principal and interest, and cash flows realized on the sale of financial assets;
Fair value through profit or loss (FVPL): a residual category for all other financial assets not falling into the previous categories.

ii) *Impairment:* based on the new expected credit losses impairment model, assuming a prospective vision of expected credit losses over the lifetime of the financial instrument, recognition of expected credit losses is provided immediately without waiting for a trigger event as required by the current incurred losses model. IFRS 9 requires entities to account for expected credit losses within 12 months (stage 1) from the initial recognition of the financial instrument. The time frame for calculation of expected credit losses becomes, instead, over the entire remaining lifetime of the asset, where there has been a significant increase in credit risk since initial recognition (stage 2) or objective evidence of impairment at the reporting date (stage 3).

iii) *General hedge accounting*; partially modified compared to the provisions of IAS 39. IFRS 9 introduces an increase in the hedged items eligible for hedge accounting; the test of the effectiveness of the hedge, only prospectively; the introduction of the right to change the hedging relationship without interrupting the previous relationship (rebalancing).

IFRS 9 includes requirements for the classification, measurement and impairment of Financial Instruments. It will come into effect on the 1 January 2018. In anticipation of its implementation, BFF has initiated a project in order to manage the impacts of the new standard.

The project, which includes each legal entity of the Group, is divided into two parts – 1. Classification & Measurement and 2. Impairment – which are then sub-divided into three stages: Assessment, Design and Implementation.

The Assessment stage consists of estimating the implementation effects of the new standard, both at individual and aggregate levels, in order to assess the size of the impact and identify the actions needed to be taken to better manage the new accounting principle. At this stage, no significant deviations have been identified in terms of economic impacts and IT applications between the new model based on the "expected losses" and the current model used based on the "incurred losses".

The Design phase, which is still in progress, is intended to support each Group entity in the identification and formalisation of the requisites that, in the subsequent phase of Implementation, will lead to the formalisation of the new accounting policies and organisational procedures and the creation of the new IT applications.

With reference to the Classification & Measurement workstream, the SPPI Test phase, in which the various types of contracts for each entity of the Group are identified and analysed, has been completed. The SPPI Test has not identified any financial assets or liabilities that must be assessed as fair value.

PART RELATING TO THE MAIN ITEMS OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

Information about the accounting principles adopted in the preparation of the consolidated condensed interim financial statements as of 30 June 2017, with regard to the criteria for the recognition, classification, measurement and derecognition of the various assets and liabilities and the recognition of revenues and expenses, is provided below.

Financial assets held for trading

Recognition criteria

Financial assets held for trading are initially recognized at their fair value on the settlement date, which generally corresponds to the consideration paid, excluding transaction costs and income, which are immediately recognized in profit or loss even if they are directly attributable to the financial assets. Trading derivatives are recognized as of the trade date.

Classification criteria

Financial assets held for trading include financial instruments executed to hedge interest rate risk, which do not have the requisites necessary to qualify for hedge accounting.
In particular, the financial instruments recorded in this category are derivative contracts executed to hedge fluctuations in the exchange rates between the forward exchange rate and the spot exchange rate. These financial derivative contracts are recognized as assets/liabilities held for trading in accordance with the provisions of IAS 39, even though at the operational level they are treated as instruments hedging risks.
Specifically, with regard to Magellan, foreign exchange swap agreements have been executed to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros), from the fair value changes arising from fluctuations in the exchange rates.

- Derivative instruments also included any derivative embedded in other complex financial instruments and separated from the host contract, since: the economic characteristic and risks of the embedded derivative are not closely related to those of the primary contract;
- the embedded instruments, even if separated, would meet the definition of a derivative;
- the entire hybrid instrument is not measured at fair value with changes in fair value recognized in the income statement.

Measurement criteria

Financial assets held for trading are adjusted to the corresponding fair value with recognition of the changes in the income statement under item 80 "Gains (losses) on financial assets and liabilities held for trading".
Quoted market prices are used to determine the fair value of quoted financial instruments in an active market.
By active market is meant a market where the quotations, that reflect normal market transactions, are readily and normally available through stock exchanges, brokers, sector companies, listing services or authorized entities and express the price of actual and regular market transactions arising over a normal period of reference.
For instruments for which a price quoted in an active market is not available, their fair value is determined using estimating methods and valuation models that take into account all of the risk factors related to the instruments and are based on observable market data, when available. Therefore, considering that the inputs used to measure financial assets held for trading are different from quoted prices but are observable directly or indirectly in the market, in accordance with Bank of Italy Circular No. 262, the fair value valuation hierarchy is "Level 2".

Derecognition criteria

Financial assets held for trading are derecognized upon the expiration of the contractual rights and when, as a result of the sale, substantially all of the risks and benefits relating to the financial assets are transferred.

Available-for-sale financial assets

Recognition criteria

Available-for-sale financial assets are initially recognized at their fair value on the settlement date, which usually corresponds to the consideration paid, including transaction costs and income directly attributable to the instrument.

Classification criteria

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity financial assets or financial assets measured at fair value. These assets are held for an indefinite period and can fulfill the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.
Money market securities, other debt instruments (including the host contract of hybrid instruments after the bifurcation of the embedded derivative) and equity securities can be classified as available-for-sale financial investments. Shares held as minority investments that do not constitute controlling interests, joint control or associate interests can also be included in this category.
The main components of the instruments classified in the available-for-sale category include government securities and the investment in Nomisma S.p.A., since this company is not subject to significant influence.

Measurement criteria

With regard to debt securities, these assets are subsequently measured at fair value, with the interest recognized at amortized cost in the income statement under item 10 "Interest income and similar revenues". Gains and losses arising from changes in fair value are recognized in equity under item 140 "Revaluation reserves" - except for impairment losses and exchange rate gains or losses on monetary items (debt securities), which are recognized under item 130 b) "Net losses on/recoveries on impairment of available-for-sale financial assets" and item 80 "Gains (losses) on financial assets

and liabilities held for trading," respectively, until the financial asset is sold, at which time the cumulative gains and losses are recognized in the income statement under item 100 b) "Gains (losses) on disposal and repurchase of available-for-sale financial assets".
Fair value changes recognized under item 140 "Revaluation reserves" are also reported in the statement of comprehensive income.
Equity instruments (shares) not traded in an active market, the fair value of which cannot be determined reliably due to the lack or unreliability of the information needed for fair value measurement, are measured at cost, which corresponds to their last reliably measured fair value.
For debt instruments, any circumstances indicating that the borrower or issuer is experiencing financial difficulties, such as to prejudice the collection of the principal or interest, constitute evidence of an impairment loss.
If there is objective evidence of an impairment of an available-for-sale financial asset, the cumulative loss that was recognized initially in equity under item 140 "Revaluation reserves" is then transferred to the income statement under item 130 b) "Net losses on/recoveries on impairment of available-for-sale financial assets". The amount transferred to the income statement is equal to the difference between the asset's carrying amount (value at initial recognition net of any previous impairment losses already recognized in the income statement) and its current fair value.

If the fair value of a debt instrument increases and the increase can be objectively correlated with an event such as an improvement in the debtor's creditworthiness in a period following the period when the impairment loss was recognized in the income statement, the impairment loss is reversed and the amount of the reversal is recognized in the same income statement item. However, this is not applied to equity securities.
The reinstatement cannot result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized.

Derecognition criteria

Available-for-sale financial assets are derecognized when the contractual rights expire and when, following a sale, substantially all of the risks and benefits relating to the financial asset are transferred. The profit or loss from the sale of available-for-sale financial assets is recognized in the income statement under item 100 "Gains (losses) on disposals and repurchases of: b) available-for-sale financial assets".

Held-to-maturity financial assets

Recognition criteria

Held-to-maturity financial assets are initially recognized at fair value at the settlement date, which usually corresponds to the consideration paid, including transaction costs and income directly attributable to the acquisition or provision of the financial asset.

Classification criteria

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which there is a demonstrable intention and ability to hold them to maturity. This type of instruments can be used for reverse repos, loans or other temporary refinancing transactions.
Pursuant to IAS 39, a financial asset cannot be classified as held-to-maturity if, during the current year or during the two preceding years, held-to-maturity investments representing more than an insignificant amount are sold or reclassified before maturity.

Measurement criteria

After initial recognition at fair value, these assets are measured at amortized cost using the effective interest method. The interest income or expense arising from the application of this method is recognized in the income statement under item 10 "Interest income and similar revenues".
If there is objective evidence that an asset is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognized in profit and loss under item 130 c) "Net losses on/recoveries on impairment of held-to-maturity financial assets".
If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be objectively correlated with an event such as an improvement in the debtor's creditworthiness occurring after recognition of the impairment loss, the previously recognized impairment loss is reversed. The reinstatement cannot result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized. The amount of the reinstatement is recognized in the same item of the income statement.

Investments included in this category may be hedged only for the credit risk.

Derecognition criteria

Held-to-maturity financial assets are derecognized when the contractual rights expire and when, following a disposal, substantially all of the risks and benefits relating to the financial asset are transferred. If, during the year, held-to-maturity investments representing more than an insignificant amount are sold or reclassified before maturity, the remaining held-to-maturity financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as held-to-maturity investments for the two following years, unless the sales or reclassifications:

- are so close to the financial asset's maturity or call date that changes in the market interest rate would not have a material impact on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the reporting entity's control, is nonrecurring and could not have been reasonably anticipated.

In the event of a sale or elimination, the difference between the carrying amount and the amount received is recorded in the income statement under item 100 "Gains (losses) on disposals and repurchases of: held-to-maturity financial assets".

Receivables

Recognition criteria

Receivables include loans and unlisted financial assets with customers and banks either made directly or acquired from third parties, with fixed or determinable payments.
Receivables are recognized initially at fair value, which usually corresponds to the consideration paid plus transaction costs and income which are directly attributable to the acquisition or provision of the financial asset, even though not yet settled.

Non-recourse receivables:

a) purchased on a non-recourse basis, with the transfer of substantially all risks and benefits, are initially recognized at fair value, represented by the face value of the receivable net of fees and commissions charged to the assignor;

b) purchased for amounts below face value, recognized for the amount actually paid at the time of purchase.

Receivables include finance lease transactions, meaning contracts that transfer all the risks and rewards of ownership of the asset to the lessee. At the end of the contract, the title to the asset is not necessarily transferred to the lessee.

Classification criteria

The amounts due from banks mainly refer to current account transactions generated by liquidity from amounts collected in the closing days of the period, pending clearance, relating both to "receivables management" and "management of receivables purchased outright on a non-recourse basis".
Receivables due from customers are primarily comprised of receivables from debtors relating to factoring activities and late interest, computed on receivables purchased outright on a non-recourse basis, determined in accordance with existing laws (Legislative Decree No. 231/2002 "Implementation of Directive No. 2000/35/EC on combating late payments in commercial transactions").

All purchases of non-recourse receivables refer to factoring transactions executed pursuant to Law No. 52/91.

This item also includes the value of credit disbursed, that is, the assets used under finance lease contracts, even though the legal title remains with the lessor, net of the principal portion of the lease installments due and paid by the lessee.

Measurement criteria

After initial recognition, receivables are measured at amortized cost, equal to the original amount, less repayment of principal and impairment losses, and increased by any reinstatement of value and amortization, calculated using the effective interest method, of the difference between the amount disbursed and repayable when due, including ancillary costs/income recorded directly against the individual receivable.
For short-term receivables and revocable loans, amortized cost is not conventionally adopted, owing to the minor effects arising from the application of this method.
Receivables purchased outright on a non-recourse basis, specifically with reference to the factoring activities carried out by the Group companies, are measured at amortized cost, determined based on the present value of estimated future cash flows, both with reference to the principal amount and the late interest that accrue from the due date of the receivable.
The new maturity date of such receivables is their expected collection date determined at the time of pricing and finalized with the assignor in the sales contract.

Pursuant to IAS 18, interest income (including late interest) should be recognized in the income statement only if it is probable that positive cash flows will be generated for the entity and their amount can be measured reliably. In the case in question, consistently with what was confirmed in the "Bank of Italy/Consob/Ivass Document No. 7 of November 9, 2016" discussing the "Treatment in financial statements of late interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables", the Group also included the estimate of late interest in the calculation of amortized cost, taking into account that:

- the Group's business model and organizational structure envisage that the systematic recovery of late interest on non-impaired receivables purchased on a non- recourse basis represents a structural element of the ordinary business activities for the management of such receivables;

- such late interest, due to the effect on the composition of the Group's results, does not constitute an auxiliary element of non-recourse purchase transactions and has been considered for a complete analysis of the prospective profitability profiles.

The Group also has a time series of data concerning the collection percentages and times of collection of late interest, acquired through analysis tools, enabling it to judge that the estimate of late interest included in the calculation of amortized cost is sufficiently reliable and such as to satisfy the recognition requirements established by IAS 18. Such time series of data are updated on an annual basis when the financial statements are prepared, in order to determine the recovery percentages and time of collection to be used to calculate late interest. The change in collections is then analyzed on a quarterly basis to confirm such percentages in periodic reporting.

With regard to the receivables of the parent Banca Farmafactoring and the subsidiary Farmafactoring España, the times series of data that was updated with the 2016 late-interest collections data resulted in an average collection percentage for the year of more than 40%. This percentage, used for the preparation of the 2014, 2015 and 2016 financial statements, was increased to 45% starting on January 1, 2017.

With reference to Magellan, the group acquired in 2016, notwithstanding the minor significance of late interest to the total of Magellan receivables, as part of the activities to complete the integration of the Group's processes, which also includes synchronizing the time series of data and the analysis instruments with those used by Banca Farmafactoring, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm a substantially integral recovery of the late interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

Late-interest accrued on overdue trade receivables is recognized when there is reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or when decided by a court of law.

Performing receivables include receivables due from customers which, while more than 90 days past due from the face due date, show no objective indication of impairment at an individual level.
Although the receivables are owed almost entirely by the Public Administration, as in previous years, when preparing its annual financial statements or interim reports, the Bank, as required by IAS 39, carries out a collective assessment (impairment test) of its performing receivables in order to correctly monitor the intrinsic risk of the portfolio even in the absence of individual impairment indicators.

This assessment is performed using, as a basis, the risk parameters of Probability of Default (PD) and Loss Given Default (LGD) and applying them to the exposures not classified as non- performing (EAD).
The assessment of the "Probability of Default" (PD) was performed by assigning to the debtors (ASLs/AOs) a rating corresponding to the credit rating assigned by the major rating agencies to the particular Region to which the debtors belong.
To determine the "Loss Given Default" (LGD), the Bank used the value recommended in the "Basel Accord Framework" for non-collateralized receivables owed by sovereign states, companies and banks, equal to 45%.

Magellan and its subsidiaries applied the provisions of IAS 39 even before the acquisition by Banca Farmafactoring, performing a collective assessment. However, the composition of Magellan's portfolio is different from Banca Farmafactoring's portfolio mainly because the most important exposures are with private debtors. Consequently, the assessment of receivables is made by applying a percentage to the receivables' purchase value that varies in relation to the type of counterparty to which the exposure refers.

As required by IAS 39, the Bank assesses the financial assets classified under receivables to identify any objective impairment of individual positions that require an analytical assessment.
Such "non-performing" receivables, which were assigned an impaired, doubtful or restructured status in accordance with existing prudential regulations, consistent with the IAS standards currently in effect, are measured at their estimated realizable value by recognizing any impairment losses determined on an individual basis, equal to the difference between the carrying amount of the receivable at the time of measurement (amortized cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate. The estimated future cash flows take into account:

- estimated recovery time;
- estimated realizable value of any guarantees;
- costs that it is believed will be incurred to recover the receivable;
- any reinstatements.

Magellan assesses whether to record individual impairments by analyzing the profit and financial situation of the debtor and the actual possibility of recovering the receivable. A specific analysis is therefore carried out based on quantitative indicators (for example, profitability and liquidity indexes) and qualitative indicators (for example, market, client or supplier dependence) or ratings by recognized rating agencies.
Cash flows from receivables that are expected to be recovered over the short term (within 12 months – short-term receivables) are not discounted to present value.
A receivable that was written down is subsequently reinstated to its amortized cost when the reasons for the impairment no longer exist.

Derecognition criteria

Receivables are derecognized when they are considered uncollectible.
Receivables sold are derecognized only if the sale transferred all of the risks and benefits relating to such receivables.
On the other hand, if the risks and benefits are retained, the receivables sold will continue to be recorded on the asset side of the financial statements until, legally, title to the receivables is effectively transferred.

Financial assets designated at fair value

Recognition criteria

Upon initial recognition financial assets are recognized at fair value, based on the amount paid, without considering any income or transaction costs that are directly attributable to the instrument itself, through profit or loss.

Classification criteria

The IAS/IFRS endorsed by the European Commission allow the classification in such category, with a contra entry to profit or loss, of any financial asset defined as such at acquisition, for the cases envisaged by the regulations of reference and not held for trading.
Reclassification to other financial assets categories is not allowed.

Measurement criteria

Subsequent to initial recognition, these assets are measured at fair value with the impacts of the application of such criteria recognized in the income statement.

Derecognition criteria

Financial assets designated at fair value are derecognized when the contractual rights to cash flows expire or when the financial assets are transferred with the transfer of substantially all the risks and rewards deriving from the ownership of the assets. The result of the transfer of financial assets designated at fair value is recorded in the income statement under item 110 "Gains (losses) on financial assets/liabilities at fair value through profit or loss".

Hedging derivatives

Recognition criteria

By hedging transaction is meant the designation of a financial instrument to offset, in whole or in part, the profit or loss deriving from changes in the fair value or fluctuations in the cash flows of the hedged item. The intent of the hedge must be formally designated, not retroactive and consistent with the risk hedging strategy stated by management of the Bank. Hedge accounting (accounting for derivatives as hedging instruments) is permitted by IAS 39 only under certain circumstances provided that the hedging relationship is:

- clearly designated and documented;
- reliably measured;
- highly effective.

Derivative financial instruments designated as hedges are initially recognized at their fair value.

Classification criteria

Hedging transactions are designed to neutralize potential losses attributable to specific types of risks.

The possible types of hedges are the following:
• fair value hedges, which hedge the exposure to changes in the fair value of financial statement items;
• cash flow hedges, which hedge the exposure to fluctuations in future cash flows attributable to specific financial statement items;
• hedge of a net investment in a foreign operation.
Instruments that can be used for hedging purposes comprise derivatives (including purchased options) and non-derivative financial instruments, exclusively to hedge foreign exchange risk. Hedging derivatives are classified in the statement of financial position in assets under item 80 "Hedging derivatives" or in liabilities under item 60 "Hedging derivatives", respectively, according to whether their fair value is positive or negative on the reporting date.

At June 30, 2017, the Bank has the following types of hedges:

- fair value hedge: foreign exchange swap contracts executed to hedge intragroup loans (between Banca Farmafactoring and the subsidiaries of Magellan), in the Czech currency (koruna), from changes in fair value arising from fluctuations in the euro-koruna exchange rates.
- cash flow hedge: interest rate swap contract with a notional amount in Polish currency (zloty) executed to hedge a variable rate medium-term loan in Polish currency from changes in future cash flows arising from fluctuations in market interest rates (Wibor). The risk component of the loan, attributable, instead, to changes in the euro-zloty exchange rate is not hedged.

Pursuant to IAS 39, paragraph 80, these transactions in derivatives referring to intragroup loans are recognized in both in the separate financial statements of the Bank and in the consolidated financial statements of the Group, due to the fact that all the changes in the value of the loans arising from euro-zloty and euro-koruna exchange rate fluctuations, recognized in the income statement of the separate financial statements of the Bank, also remain in the consolidated financial statements of the Group, even after the elimination on consolidation of intragroup transactions that are hedged.

Measurement criteria

Derivative hedging instruments are recognized and measured at their fair value.
When a financial instrument is designated as a hedge, the Group, as indicated above, formally documents the relationship between the hedging instrument and the hedged item. Consequently, the Group verifies the hedging instrument's effectiveness, both at inception and during its life, in offsetting the exposure to changes in the hedged item's fair value or cash flows. A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value.
Consequently, the hedge's effectiveness is assessed by a comparison of the above changes, taking into account the objective pursued by the entity when the hedge was put into place. It is effective (within a range of 80-125%) when the estimated and effective changes in the fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item, for the element of risk hedged. The hedge's effectiveness is assessed each year at the closing of the annual financial statements or the interim financial reports using:

- prospective tests, which justify the application of hedge accounting, since they confirm the hedge's expected effectiveness;
- retrospective tests, which indicate the degree of effectiveness of the hedge achieved in the period to which they refer. In other words, they measure to what extent actual results diverged from those of a perfect hedge.

Gains and losses arising from fair value changes are accounted for differently depending on the type of hedge:
- fair value hedge: changes in the fair value of the hedged item attributable exclusively to the hedged risk are recognized in profit and loss, the same as the fair value change of the derivative; any difference, which represents the partial ineffectiveness of the hedge, consequently corresponds to the net gain or loss;
- cash flow hedge: changes in the fair value of the derivative are recognized in equity, for the effective portion of the hedge, and are recognized in profit and loss only when, with regard to the hedged item, there is a fluctuation in the cash flows that needs to be offset or the hedge is ineffective.
- hedge of a net investment in a foreign operation: the accounting treatment for this type of hedge is the same as for a cash flow hedge.
- The allocation of gains or losses to the pertinent items of the income statement is made in accordance with the following guidelines:
- differences accrued on the derivative instruments hedging interest rate risk (in addition to the interest of the hedged positions) are allocated under item 10 "Interest income and similar revenues" or under item 20 "Interest expense and similar expenses" depending on whether they are gains or losses;
- gains and losses arising from the measurement of hedging derivatives designated as a fair value hedge and the hedged positions are allocated to the item 90 "Fair value adjustments in hedge accounting";
- gains and losses arising from the measurement of derivatives designated as a cash flow hedge, for the effective portion, are allocated to a specific equity revaluation reserve called "Cash flow hedge reserve", net of the deferred tax effect. For the ineffective

portion, the gains and losses are recorded in the income statement under item 90 "Fair value adjustments in hedge accounting".

Derecognition criteria

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or is repaid; c) early revocation of the designation; d) the hedging instrument expires or is sold, terminated or exercised.
If the hedge is not effective, the portion of the derivative contract no longer hedged (over hedging) is reclassified to trading instruments. If the interruption in the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be hedged and is again measured in the portfolio to which it belongs.

The hedging financial assets and liabilities are eliminated when there are no longer any contractual rights (e.g., expiration of the contract, early closing exercised according to the contractual clauses – unwinding) to receive cash flows from the hedged financial instruments, hedged assets/liabilities and/or the derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and benefits connected thereto.

Property, plant and equipment

Recognition criteria

Property, plant and equipment is recognized initially at cost, including all directly attributable costs to bring the asset into use (transaction costs, professional fees, direct transportation costs incurred to bring the asset to the assigned location, installation costs, dismantling costs).
Costs incurred subsequently are added to the asset's carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured (e.g. extraordinary maintenance work). Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized in the period incurred in the income statement under item 180 b) "Other administrative expenses," if they refer to assets used in the Group's business activities.
This item also includes assets used as the lessor in finance lease agreements, that is, those contracted as the lessor in operating lease agreements.

Classification criteria

Property, plant and equipment includes movable property and industrial buildings, plant and other machinery and equipment held for use by the Group, for more than one period.

Measurement criteria

Subsequent to initial recognition, property, plant and equipment is carried at cost, net of accumulated depreciation and any impairment losses.
With regard to the Group, such assets are depreciated over their estimated useful lives, being the period of time over which it is expected that the assets will be used by the company, and adopting the straight-line basis as the depreciation policy, with depreciation rates as follows:

- buildings: maximum 34 years;
- furniture: maximum 9 years;
- plant: maximum 14 years;
- office machines: maximum 3 years;
- other: maximum 11 years.

Land and buildings are treated separately for accounting purposes, even if purchased together. Land is not depreciated since, as a rule, it has an indefinite useful life.
The estimated useful life of property, plant and equipment is reviewed at the end of each reporting period, taking into account the conditions of use of the assets, maintenance conditions, expected obsolescence etc. and, if expectations differ from previous estimates, the depreciation expense for the current and subsequent periods is adjusted.
At the date of IFRS first-time adoption (January 1, 2005), the Group-owned buildings used by the Group in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.

If there is objective evidence that an individual asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value, less costs to sell, and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 200 "Impairment/write-backs on property, plant and equipment".
If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

Derecognition criteria

A tangible asset is derecognized upon its disposal or when no further future economic benefits are expected from its use or sale and any difference between the sales proceeds or the recoverable amount and the carrying amount is recognized in the income statement under item 270 "Gains (losses) on disposal of investments".

Intangible assets

Recognition criteria

Intangible assets are recognized at acquisition cost, including direct costs incurred to bring the asset into use, and increased by subsequent expenditures that extend the initial expected future economic benefits, less accumulated amortization and any impairment losses recorded.

Intangible assets also include goodwill, being the positive difference between the acquisition cost and the fair value of the assets and liabilities of the acquired company, representative of the investment's capacity to produce future profit (goodwill). If this difference is negative (badwill) or under the assumption that the goodwill in the investee company no longer has future economic benefits, the difference is recognized directly in the income statement.
At the date of this document, as set out in the provisions of IFRS 3, the Purchase Price Allocation (PPA) process has been completed. It is confirmed that the entire acquisition cost is allocated to goodwill, recorded when the acquisition of the Magellan Group was initially recognized and reflected in the BFF consolidated financial statements at December 31, 2016, since, during the measurement period for the adjustment of the provisional amounts (PPA) recognized at the acquisition date, no additional assets were identified to which the purchase cost of the investment could have been allocated with certainty.

Classification criteria

Intangible assets are identifiable non-monetary assets without physical substance that are expected to be used for more than one year, controlled by the Group and from which future economic benefits are likely to flow.
In the absence of the above characteristics, expenditures to acquire intangible assets or to generate them internally are recognized as expenses in the year incurred.

Intangible assets consist mainly of software which benefits more than one year and goodwill.

Measurement criteria

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives, for the entire Group, usually as follows:

software: maximum 4 years;
other intangible assets: maximum 6 years

If there is objective evidence that an individual asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value, less costs to sell, and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 210 "Impairment/write-backs on intangible assets".
If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss been recognized in prior years.

Goodwill is included in intangible assets. Goodwill can be recognized, in a business combination, when the positive difference between the consideration transferred and any recognition at fair value of the non-controlling interests and the fair value of the balance sheet items acquired is representative of the investment's ability to produce future profit (goodwill).

Assets with an indefinite life, such as goodwill, are not amortized but are tested for impairment annually or more frequently whenever there are indications that it might be impaired and, the cash generating unit to which the goodwill should be allocated is identified for this purpose.
An impairment loss is determined as the difference between the carrying amount and the recoverable amount, if lower, and recognized in the income statement in item 260 "Impairment of goodwill". The recoverable amount is the higher of the fair value of the cash-generating unit less costs to sell, and its value in use, represented by the fair value of estimated future cash flows of a cash-generating unit discounted to present value. The recognition of any reversal of an impairment loss is not allowed.
At June 30, 2017, the Group, following the results of the impairment test of the goodwill recorded in the financial statements relating to the allocation of the acquisition cost of the Magellan Group, did not recognize any impairment of such goodwill.
Derecognition criteria

An intangible asset is derecognized upon its disposal or when no further future economic benefits are expected from its use or sale in the future and any difference between the sale proceeds or recoverable amount and the carrying amount is recognized in the income statement under item 270 "Gains/losses on disposal of investments".

Current and deferred taxes

Recognition and measurement criteria

Income taxes are computed in accordance with enacted tax legislation.
The tax charge consists of the total amount of current and deferred income taxes included in arriving at the result for the period.
Current income taxes correspond to the amount of income taxes due on the taxable income for the period.
Deferred tax liabilities correspond to the amount of income taxes due in future years on taxable temporary differences. Deferred tax assets correspond to the amount of income taxes recoverable in future years and refer to deductible temporary differences.

The tax amount of an asset or a liability is the value attributed to that asset or liability according to enacted tax legislation.
A deferred tax liability is recognized on all taxable temporary differences in accordance with IAS 12. A deferred tax asset is recognized on all deductible temporary differences, in accordance with IAS 12, only to the extent that it is probable that there will be future taxable income against which the deductible temporary difference can be offset.
Deferred tax assets are recorded in assets under item 140 b) and Deferred tax liabilities are recognized in liabilities under item 80 b) and represent the tax expense corresponding to all the taxable temporary differences existing at the end of the period. Deferred tax assets and deferred tax liabilities are monitored on a continuous basis and are recognized by applying the tax rates expected to be in effect in the year in which the tax asset is recovered or the tax liability settled, according to the enacted tax rates and tax legislation in force. The contra entry to current and deferred tax assets and liabilities is generally in the income statement under item 290 "Income taxes on profit (loss) from continuing operations".
The tax liability is also adjusted for expenses that could arise as a result of assessments received or disputes with the tax authorities.

Provisions for risks and charges

Recognition and measurement criteria

Provisions for risks and charges cover costs and expenses of a determinate nature, the existence of which is certain or probable, which, at the end of the reporting period are uncertain as to amount or date when they will arise.
Accruals to the provisions for risks and charges are recognized only when:

- there is a present obligation as a result of a past event;
- upon its manifestation, the obligation is onerous;
- the amount of the obligation can be estimated reliably.

As required by IAS 19, the provisions for risks and charges include the measurement of post-employment benefit obligations.
The measurement of such obligations in the balance sheet is made based on actuarial calculations when necessary, by determining the charge at the measurement date based on demographic and financial assumptions.

Derecognition criteria

Derecognition occurs when the obligation or contingent liability that generated the recognition of a provision is extinguished.

Payables and debt securities issued

Recognition criteria

Payables and debt securities issued are recognized on the settlement date initially at fair value, which normally corresponds to the consideration received less transaction costs directly attributable to the financial liability. Structured securities are separated into their parts and recorded separately when the derivative components implicit in them have different economic characteristics and risks and can be structured as separate derivative instruments.

Classification criteria

Financial instruments (other than trading liabilities and those measured at fair value) representing the different forms of third-party funding are allocated under the items "Due to banks," "Due to customers" and "Debt securities issued".
The interest expenses are recorded in the income statement under item 20 "Interest expense and similar expenses".

Measurement criteria

The amounts due to banks and customers are measured at their face value since they are generally liabilities due within 18 months and in consideration of the fact that the effect of applying the amortized cost method would be negligible.
Debt securities issued are measured at amortized cost using the effective interest method.

Derecognition criteria

Financial liabilities are derecognized when the obligation specified in the contract is extinguished or following a substantial change in the contractual terms of the liability.
The derecognition of debt securities issued occurs also in the event of the repurchase of securities previously issued, even if they are destined for subsequent resale. The gains and losses on the recognition of the repurchase as an extinguishment are recognized in the income statement when the repurchase price of the bonds is higher or lower than their carrying amount. Subsequent disposals of own bonds on the market is treated as the placement of new debt.

Financial liabilities held for trading

Recognition criteria

Financial liabilities held for trading are initially recognized at their fair value at the settlement date, which generally corresponds to the consideration paid, excluding transaction costs and income, which are immediately recognized in profit or loss even if they are directly attributable to financial liabilities. Trading derivatives are recognized as of the trade date.

Classification criteria

Financial liabilities held for trading include financial instruments executed to hedge interest rate risk that show a negative fair value, which do not have the requisites necessary to qualify for hedge accounting.
Additional details are provided under "Financial assets held for trading".

Measurement criteria

Financial liabilities held for trading are adjusted to the corresponding fair value with recognition of the changes in the income statement under item 80 "Gains (losses) on financial assets and liabilities held for trading".
Additional details are provided under "Financial assets held for trading".

Derecognition criteria

Financial liabilities held for trading are derecognized upon the expiration of the contractual rights and when, as a result of the sale, substantially all of the risks and benefits relating to the financial liabilities are transferred.

Other information

Business combinations

The accounting standard for business combinations is IFRS 3.
The transfer of the control of a business (or an integrated set of assets and activities, conducted and managed to provide a return, lower costs or other economic benefits directly to investors constitutes a business combination transaction

In accordance with IFRS 3, each business combination requires the identification of the acquirer as the entity which acquired control over another business entity or group of assets.
The acquisition, and therefore the first-time consolidation of the acquired entity, is accounted for on the date in which the acquirer obtains effective control of the company or the assets acquired.
When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.
The consideration transferred in a business combination is measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control.
The costs related to the acquisition are the expenses incurred by the acquirer to achieve the business combination. The costs related to the acquisition are recorded in the income statement in the period in which such costs were incurred and the services were received, except for the costs of any issue of equity shares or debt securities, which must be recognized in accordance with IAS 32 and IAS 39.
Business combinations are accounted for by applying the acquisition method. Under this method the identifiable assets acquired (including any intangible assets not previously recognized by the acquired company) and the identifiable liabilities assumed (including contingent liabilities) must be recognized at acquisition-date fair value.
The accounting for a business combination can be made for provisional amounts if the accounting is incomplete by the end of the reporting period in which the combination occurs but must be perfected within 12 months of the acquisition date.

On May 31, 2016, the Magellan Group was acquired through the Polish vehicle Mediona. The Group is fully controlled by Banca Farmafactoring. On December 16, 2016, Mediona was merged into Magellan.

At the date of this document, as set out in the provisions of IFRS 3, the Purchase Price Allocation PPA process is complete. It is confirmed that the entire acquisition cost is allocated to goodwill, recorded when the acquisition of the Magellan Group was initially recognized and reflected in the BFF consolidated financial statements at December 31, 2016, since, during the measurement period for the adjustment of the provisional amounts recognized at the acquisition date, there were no additional assets and liabilities to which the purchase cost of the investment could have been allocated with certainty.

Mergers fall within the scope of business combinations and true mergers are the most complete business combinations since they involve both the legal and economic unification of the parties involved.

Whether mergers are formed by the creation of a new legal subject or with and into another already existing company they are treated according to the criteria described above. Specifically:

- if the transaction results in the transfer of the control of the company, it is treated as a business combination in accordance with IFRS 3;
- if the transaction does not result in the transfer of control, it is accounted for as an acquisition.

Employee severance indemnities

Recognition and measurement criteria

As a result of the legislative framework introduced by Law No. 296 of 2006, the computation of employee severance benefits vested up to June 30, 2017 (which remains with the Company), presented in the liabilities under item 110, is computed by estimating the remaining length of the employment relationship, for individual persons or homogeneous groups, based on demographic assumptions:

- by projecting the already vested employee severance benefits, using demographic assumptions to estimate the time of termination of the employment relationship;
- by discounting to present value, at the measurement date, the amount of the vested benefits at June 30, 2017, based on financial assumptions.

IAS 19 revised no longer allows the deferral of actuarial gains and losses under the corridor method, now requiring their immediate recognition in comprehensive income for the year to which they are attributable.
Because the employee severance benefits that vested starting on January 1, 2007 had to be transferred to the Italian social security administration (INPS) or to supplemental pension funds, they qualify as a "defined contribution plan" since the employer's obligation ceases once payment is made and the contribution is recorded in the income statement on the accrual basis.
The plan service costs are recorded in personnel costs under item 180 "Administrative costs – a) personnel costs" for the net amount of contributions paid, for contributions referring to prior years not yet recorded, interest accrued, estimated income from the assets servicing the plan. The actuarial gains and losses, as established by IAS 19, are recorded in a valuation reserve.

Share-based compensation agreements with BFF employees

In 2016, the Bank granted an award, through a bonus increase in share capital, that is one-time and not linked to performance targets, of special shares to each of the employees of the Group to motivate them, reward their loyalty and strengthen their sense of belonging to the Group, and align their interests with those of the shareholders through a Stock Grant Plan. The bonus award of the special shares was made by allocating the capital reserves with the same accounting value as the ordinary shares of BFF. The special shares were converted into ordinary shares, after the 1:100 stock split, from April 7, 2017, start date of the trading of the Bank's shares on the Mercato Telematico Azionario Exchange (the "listing").

On December 5, 2016, the BFF extraordinary shareholders' meeting approved the stock option plan for employees and members of the corporate boards, which had already been submitted for examination to the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular No. 285. During the first half of 2017, the option rights to this plan were granted for the first tranche only, and are subject to the share price.

Employee share-based stock option plans are accounted for as set out in IFRS 2. They are recorded by a charge to the income statement with a corresponding increase in equity, for a cost determined

on the basis of the fair value of the financial instruments awarded at the grant date, over the vesting period. With options, the fair value is calculated using a model that considers not only information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, expected dividends and the risk-free interest rate, but also the specific characteristics of the plan in effect. In the measurement model, the option and the probability of realizing the conditions on the basis of which the options were granted are measured separately. The combination of the two values gives the fair value of the instruments granted. Any reduction in the number of financial instruments granted is recorded as a forfeiture of a part of the instruments.

Revenue recognition criterion

The general criterion for the recognition of revenue components is the accrual basis. More specifically:

- fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenues and are therefore part of the effective return on the receivable recorded at amortized cost;
- pursuant to IAS 18, interest income (including late interest) should be recognized in the income statement only if it is probable that positive cash flows will be generated for the entity and their amount can be measured reliably. In the case in question, consistently with what was confirmed in the "Bank of Italy/Consob/Ivass Document No. 7 of November 9, 2016" discussing the "Treatment in financial statements of late interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables", Banca Farmafactoring and Farmafactoring España also included the estimate of late interest in the calculation of amortized cost.
  Banca Farmafactoring and Farmafactoring España, in fact, also have a time series of data concerning the collection percentages and times of collection of late interest, acquired through analysis tools, enabling it to judge whether the estimate of late interest included in the calculation of amortized cost is sufficiently reliable and such as to satisfy the recognition requirements established by IAS 18. Such time series of data are updated on an annual basis when the financial statements are prepared, in order to determine the collection percentages and time of collection to be used to calculate late interest. The change in collections is then analyzed on a quarterly basis to confirm such percentages in periodic reporting. With regard to the receivables of the parent Banca Farmafactoring and the subsidiary Farmafactoring España, the times series of data that was updated with the 2016 late-interest collections resulted in an average collection percentage for the year of more than 40%. This percentage was used for the preparation of the 2014, 2015 and 2016 financial statements and raised to 45% starting from January 1, 2017.

  With reference to Magellan, the group acquired in 2016, notwithstanding the minor significance of late interest to the total of Magellan receivables, as part of the activities to complete the integration of the Group's processes, which also includes synchronizing the time series of data and the analysis instruments with those used by Banca Farmafactoring, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm a substantially integral recovery of the late interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

  Late interest accrued on overdue trade receivables are recognized when there is reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or when decided by a court of law.

- Interest income on securities classified in the available-for-sale and held-to-maturity portfolios and interest expense on securities issued by the Bank, are recognized at amortized cost, i.e., by applying to the face value of the securities the effective interest

rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount.
The interest thus computed is recognized in the income statement pro-rated over the duration of the financial asset or liability;

- Fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:
  - when the receivables are entrusted for management (fees and commissions on acceptance and handling expenses);
  - when the receivables are collected (collection fees and commissions).

FAIR VALUE DISCLOSURE

Qualitative information

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

Financial assets/liabilities held for trading, available-for-sale (investment in the FITD Voluntary Scheme) and hedging derivatives, recognized at June 30, 2017, are classified as Level 2, as the measurements were made using inputs other than the quoted prices used in Level 1 and observable directly or indirectly for the assets and liabilities.
The financial assets classified as Level 3 represent mainly the value of the certificates purchased by Magellan in an investment fund which invests in the receivables of Polish public hospitals and, without observable evaluations, the value approximates cost.

Valuation processes and sensitivities

These financial instruments are used to hedge fluctuations in market rates and exchange rates connected with the financial assets and liabilities recorded in the financial statements.
At June 30, 2017, the amount recognized corresponds to the fair value of the instrument. The fair value change in such financial assets/liabilities compared to December 31, 2016 required the recognition in the income statement of a net gain/loss (+/-) on financial assets and liabilities held for trading.

Fair value hierarchy

At June 30, 2017, as in 2016, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information

All amounts are stated in thousands of euros

Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

ASSETS/LIABILITIES MEASURED AT FAIR VALUE	06.30.2017			12.31.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading		0			244	
2. Financial assets designated at fair value			1,226			3,401
3. Available-for-sale financial assets	463,949	177	17	385,086	177	17
4. Hedging derivatives		353			529	
5. Property, plant and equipment						
6. Intangible assets						
Total	463,949	530	1,243	385,086	950	3,418
1. Financial liabilities held for trading		1164			7	
2. Financial liabilities designated at fair value						
3. Hedging derivative		29			176	
Total		1,193			183	

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	06.30.2017				12.31.2016			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity financial assets	1,275,770	1,278,727			1,629,320	1,632,899		
2. Due from banks	227,953			227,953	144,871			144,871
3. Due from customers	2,556,739			2,556,739	2,499,094			2,499,094
4. Property, plant and equipment held for investment purposes								
5. Non-current assets and disposal groups of assets held for sale								
Total	4,060,462	1,278,727		2,784,692	4,273,286	1,632,899		2,643,966
1. Due to banks	665,412			665,412	635,629			635,629
2. Due to customers	2,853,052			2,853,052	2,996,142			2,996,142
3. Debt securities issued	591,821	447,972	145,819		634,283	447,578	180,944	
4. Liabilities associated with assets held for sale								
Total	4,110,285	447,972	145,819	3,518,464	4,266,054	447,578	180,944	3,631,771

Key:
CA = Carrying Amount
L1= Level 1: quoted prices (without adjustments) recognized in active markets according to the definition of IFRS 13.
L2= Level 2: inputs other than quoted market prices included within Level 1 that are observable directly (prices) or indirectly (derived from the prices) in the market.
L3= Level 3: inputs that are not based on observable market data.

INFORMATION ON DAY ONE PROFIT/LOSS

The Group does not hold nor has it held financial assets to which this disclosure is applicable, pursuant to IFRS 7, paragraph 28.

Part B - Consolidated Balance Sheet

All amounts are stated in thousands of euros

ASSETS

Section 1 - Cash and cash balances - Item 10
€3,724 thousand

1.1 Cash and cash balances: breakdown

The balance represents the cash on hand at the different Group companies and unrestricted deposits with the Bank of Italy, that amount to €3,719 thousand.

(in € thousands)

	06.30.2017	12.31.2016
a) Cash	5	6
b) Unrestricted deposits with central banks	3,719	143
Total	**3,724**	**149**

Section 2 - Financial assets held for trading - Item 20
€0

Financial assets held for trading, at June 30, 2017, show a nil balance compared to €244 thousand at December 31, 2016.
The financial instruments recorded in this category refer to derivative contracts executed for the purpose of hedging the change in exchange rates through the forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they are considered risk hedging instruments.
Specifically, these items referred to the recognition at fair value of foreign exchange derivative contracts executed by Magellan to hedge the principal and interest on the bonds issued by Magellan (to be repaid in euros) from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

2.1 Financial assets held for trading: breakdown by type

(in € thousands)

ITEMS/AMOUNTS	06.30.2017			12.31.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance sheet assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in investment funds						
4. Loans						
4.1 Reverse repos						
4.2 Other						
Total A	-	-	-	-	-	-
B. Derivative instruments						
1. Financial derivatives:						
1.1 Trading		-			244	
1.2 Related to fair value option						
1.3 Other						
2. Credit derivatives:						
2.1 Trading						
2.2 Related to fair value option						
2.3 Other						
Total B	-	-	-	-	244	-
Total (A+B)	-	-	-	-	244	-

Section 3 – Financial assets at designated fair value - Item 30

€1,226

The amount refers to the value of the certificates purchased by Magellan in an investment fund which invests in the receivables of Polish public hospitals.
During the first half of the year, Magellan sold part of the certificates for a total of approximately PLN 10 million (€2.2 million).

3.1 Financial assets at fair value: breakdown by type

(in € thousands)

ITEMS/AMOUNTS	06.30.2017			12.31.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in investment funds			1,226			3,401
4. Loans						
4.1 Structured						
4.2 Other						
Total			1,226			3,401
Cost						

Section 4 – Available-for-sale financial assets – Item 40

€464,143 thousand

The balance mainly represents government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €455 million.
These securities earn interest at variable rates (CCT) and have residual maturity dates up to five years.

The securities are classified in the AFS portfolio and, therefore, measured at fair value. The interest earned is recorded in the income statement according to the effective rate of return.
At the end of the period, the value of the securities is compared to their fair value and the fair value adjustment is recognized in equity under revaluation reserves.
At June 30, 2017, the fair value reserves on available-for-sale securities amount to about €81 thousand net of the tax effect.

The item also includes:

- Banca Farmafactoring's share as a member of the Voluntary Scheme established by the FITD for interventions to support Cassa di Risparmio di Cesena, for €177 thousand (fair value).

- Banca Farmafactoring's investment in Nomisma S.p.A. - Società di Studi Economici, equal to €17 thousand, valued at cost, in the absence of other measurement inputs.

4.1 Available-for-sale financial assets: breakdown by type

(in € thousands)

ITEMS/AMOUNTS	06.30.2017			12.31.2016		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities	463,949			385,086		
2. Equity securities						
2.1 Measured at fair value		177			177	
2.2 Carried at cost			17			17
3. Units in investment funds						
4. Loans						
Total	463,949	177	17	385,086	177	17

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

(in € thousands)

ITEMS/AMOUNTS	06.30.2017	12.31.2016
1. Debt securities		
a) Governments and Central Banks	463,949	385,086
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies	17	17
- other	177	177
3. Units in investment funds		
4. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total	464,143	385,280

Section 5 – Held-to-maturity financial assets - Item 50

€1,275,770 thousand

The amount consists entirely of purchases of government securities, classified in the HTM portfolio, to hedge against liquidity risk and to optimize the cost of money, for a total face amount of €1,231.5 million.
These securities are at a fixed rate (BOT, BTP and CTZ), with maturity dates related to the sources of committed and unsecured funding. Such securities are therefore classified in the HTM portfolio and measured at amortized cost. The interest earned is recorded in the income statement according to the effective rate of return.

The HTM portfolio includes financial assets which the Bank intends to hold until the maturity date set in the contract, for the collection of fixed and determinable amounts. In accordance with IAS 39, an entity may not classify any financial assets as held-to-maturity if, in the current year or in the preceding two financial years, the entity has sold or reclassified in the current year more than an insignificant amount of HTM investments before maturity.
The fair value of these securities at June 30, 2017 is €1,278,727 thousand, with a positive fair value change, compared to the carrying amount at the same date, of about €3 million, which has not been recognized in the financial statements.

5.1 Held-to-maturity financial assets: breakdown by type

(in € thousands)

	Total 06.30.2017				Total 12.31.2016			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities								
- structured								
- other	1,275,770	1,278,727			1,629,320	1,632,899		
2. Loans								

Key:
FV = fair value
CA = carrying amount

5.2 Held-to-maturity financial assets: debtor/issuer

(in € thousands)

TYPES OF TRANSACTIONS/AMOUNTS	06.30.2017	12.31.2016
1. Debt securities		
a) Governments and Central Banks	1,275,770	1,629,320
b) Other public entities		
c) Banks		
d) Other issuers		
2. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total	1,275,770	1,629,320
Total fair value	1,278,727	1,632,899

Section 6 – Due from banks - Item 60

€227,953 thousand

The amounts due from banks refer mainly to Banca Farmafactoring and derive from the liquidity on current account transactions generated by amounts collected in the closing days of the year.

6.1 Due from banks: breakdown by type

(in € thousands)

TYPES OF TRANSACTIONS/AMOUNTS	Total 06.30.2017				Total 12.31.2016			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks								
1. Restricted deposits								
2. Mandatory reserve								
3. Reverse repos								
4. Other								
B. Due from banks								
1. Loans								
1.1. Current accounts and demand deposits	218,385			218,385	137,045			137,045
1.2. Restricted deposits	9,569			9,569	7,826			7,826
1.3. Other loans:								
- Reverse repos								
- Finance leases								
- Other								
2. Debt securities								
2.1. Structured securities								
2.2. Other debt securities								
Total	227,953			227,953	144,871			144,871

Key:
FV = fair value
CA = carrying amount

The increase in this item compared to December 31, 2016 is basically due to the issue of bonds by Banca Farmafactoring in the last few days of June. This generated an increase in overall liquidity of approximately €200 million that was absorbed only in the first decade of July.
The restricted deposits mainly include €5,776 thousand in the mandatory reserve deposit with ICBPI, as Banca Farmafactoring is indirectly a participant in that system, and €2,793 thousand deposited in the CRM (Coeficiente de Reservas Mínimas with Banco de España, for the deposit-taking activities carried out the Spanish branch of the Bank through *Cuenta Facto*.
"Current accounts and demand deposits" include €6,434 thousand referring to Magellan group.
There are no impaired assets in this item.

Section 7 – Due from customers – Item 70

€2,556,739 thousand

This item mainly includes receivables from debtors relating to factoring transactions.

Receivables due from customers of the Banking Group are measured at amortized cost, determined based on the present value of estimated future cash flows.
Receivables purchased outright on a non-recourse basis of Banca Farmafactoring and Farmafactoring España refer to both principal and late interest that accrues from the due date of the receivable.
In order to compute amortized cost, including late interest recognized on the accrual basis, Banca Farmafactoring updates the time series of data regarding the percentages and recovery times of late interest on an annual basis, when the financial statements are prepared.

At the conclusion of this analysis, the update of the time series of data with the late-interest recovery data for the year 2016 resulted in a weighted average recovery percentage that was higher than the 40% used for the preparation of the 2014, 2015 financial statements and for the financial statements for the year ended December 31, 2016. Therefore, starting on January 1, 2017, the percentage for the estimate of the recovery of late interest was increased from 40% to 45%, maintaining the average collection times unchanged.

With regard to receivables purchased by Farmafactoring España, the average recovery percentage for late interest observed tends to be equal to 100% and, on average, is collected in less time than the receivables from the Italian National Healthcare Service. However, since the sample observed was relatively small, a conservative decision was made to opt for the utilization of the same recovery rate, from January 1, 2017, of 45%, and the same collection time of 1800 days as used by Banca Farmafactoring.

For Magellan, receivables "due from customers" represent mainly loans and factoring transactions and, to a limited extent, lease transactions.

As far as impaired loans are concerned, the Group's total net amount was €73.7 million, of which €15.3 million referring to non-performing loans (€5.9 million were purchased already impaired) and €3.7 million referring to unlikely to pay. Overdue exposures amounted to €54.7 million euro, 83% of which referring to counterparties of the Italian Public Administration and public sector companies. Measurement of these exposures is carried out on a portfolio basis, since no objective loss is recognized individually

7.1 Due from customers: breakdown by type

A breakdown of "Due from customers" referring to Banca Farmafactoring and Farmafactoring España is presented below:

- "performing" receivables purchased outright on a non-recourse basis, recorded in the name of the account debtor, which meet the conditions for derecognition and are measured at amortized cost, have a balance of €1,809.2 million, of which €93.3 million refers to the subsidiary Farmafactoring España.
  The receivables purchased outright on a non-recourse basis, already past due at the time of purchase, and the principal portion of the receivables were deemed collectible. The right to the late interest, accrued or accruing, is acquired at the same time the receivables are purchased.
  These receivables include receivables sold, totaling €135.6 million, but not derecognized as the sales transaction did not meet the derecognition requirements for the transfer of the risks and rewards associated with such receivables. The amount refers to one transaction for the securitization of healthcare receivables.

- "Impaired assets" total €55.7 million. They include:
  - Non-performing exposures: consisting of exposures with parties that are in a state of insolvency or in basically similar situations, irrespective of any loss projections developed by the company.
    Non-performing receivables thus include all receivables where the collection is doubtful, net of writedowns for estimated impairment losses on receivables and reinstatements, if any.
    At June 30, 2017, total non-performing receivables, net of writedowns for estimated impairment losses, are €9.4 million.
    Of this amount, €5.9 million refers to local government entities (municipalities and provinces) that were already distressed when the receivables were purchased.
    Gross non-performing exposures of the Bank, including the portion of the provision for late interest relating to non-performing positions, recognized when the estimate was changed, in 2014, entirely written off for €13.6 million, amount to €25.8 million and the relative impairment losses total €16.4 million.
    Of these, approximately €1.7 million has been entirely written off by the provision account and consequently shows a net amount of zero.
    The remaining positions referring to the Bank are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress, for which no provisions were recognized as the distressed condition is expected to be remedied resulting in the collection 100% of the receivables. The portion of late interest relating to non-performing positions, completely written off, mainly refers to exposures with Fondazione Centro San Raffaele del Monte Tabor in liquidation and a composition with creditors
    In non-performing positions, on June 21, 2017, collections of approximately €1.6 million were received for the fourth distribution in the composition agreement with creditors of Fondazione Monte Tabor on which a position outstanding for a net residual amount of €0.9 million was still due, relating only to principal. The collection, therefore, was allocated to cover the entire amount of principal still outstanding at the date of payment, thus confirming the Bank's past predictions regarding the total recovery of the amount of principal due from Fondazione Monte Tabor. The remaining amount of that collection, together with the forecast of further collections arising from the settlement proposals, for a total of €1.4 million, was credited to the income statement as interest income.
  - Probable defaults (unlikely to pay concept): are expositions that reflect the judgment made by the intermediary about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts or installments.

    For Banca Farmafactoring and Farmafactoring España these amount to €0.1 million and refer to exposures with three invoice sellers (one Italian and two Spanish) for a total gross amount of €1.2 million, which has been almost entirely written off.
  - Past due exposures of €46.2 million mainly refer to amounts relating to counterparties of the Italian Public Administration and public sector companies (98%), past due over 90 days at June 30, 2017.

    Specifically, exposures with central administrations and central banks, public sector entities and territorial entities are deemed to be past due when the debtor has not made any payment on any of the debt positions owed to the financial intermediary for more than 90 days.

- Other loans due from customers amount to €185.5 million and mainly include:
  - earned late interest of about €100.4 million, including €84.1 million relating to Banca Farmafactoring and €16.3 million relating to the Spanish subsidiary;

– margins paid as collateral with Cassa di Compensazione e Garanzia for reverse repo transactions of €68.7 million.

Receivables from customers of the Magellan Group are represented as follows:

- performing finance leases of €8.5 million;
- performing factoring transaction with and without recourse of €137.2 million;
- performing other loans of €341.2 million;
- debt securities of €1.4 million issued by the Polish Public Administration;
- impaired assets totaling €18 million and include:

  - Non-performing exposures: the total, net of writedowns for estimated impairment losses on receivables of €2.9 million, amounts to €6 million for a consequent gross value of €8.9 million.
  – Probable defaults: at June 30, 2017, the net and gross exposures classified as unlikely to pay are equal to €3.6 million.
  – Past due exposures: net past due exposures total €8.5 million at June 30, 2017, whereas the gross value is €8.7 million.

TYPES OF TRANSACTIONS/AMOUNTS	06.30.2017						12.31.2016					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans												
1. Current accounts	0			X	X	X				X	X	X
2. Reverse repos				X	X	X				X	X	X
3. Mortgages				X	X	X				X	X	X
4. Credit cards, personal loans, garnishment of wages				X	X	X				X	X	X
5. Finance leases	8,468		110	X	X	X	6,817		111	X	X	X
6. Factoring	1,946,362	5,905	52,422	X	X	X	1,950,685	492	54,467	X	X	X
7. Other loans	526,747		15,287	X	X	X	478,370		6,776	X	X	X
Debt securities												
8. Structured securities				X	X	X				X	X	X
9. Other debt securities	1,438			X	X	X	1,376			X	X	X
Total (carrying amount)	2,483,016	5,905	67,819				2,437,248	492	61,354			

Fair value

Due from customers mainly refers to receivables purchased outright on a non-recourse basis for which an active and liquid market is not available. They mainly consist of past due receivables from the Public Administration for which the price in a hypothetically independent transaction cannot be easily determined, partly due to difficulties in arriving at a reasonable assessment of the liquidity risk that would be accepted by the market for such transactions.
Consequently, the carrying amount (determined based on "amortized cost" and taking into account any individual and collective impairment losses) and in relation to the nature, type, duration and collection projections of such assets was deemed to be substantially representative of the fair value of these receivables on the reporting date.

Section 8 – Hedging derivatives - Item 80
€353 thousand

8.1 Hedging derivatives: breakdown by type of hedge and by level

(in € thousands)

	FV 06.30.2017			NA	12.31.2016			NA
	L1	L2	L3	06.30.2017	L1	L2	L3	12.31.2016
A. Financial derivatives								
1) Fair value	-			-	2			1,110
2) Cash flows	353			84,021	527			80,508
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total	**353**			**84,021**	**529**			**81,619**

Key
FV= Fair Value
NA= Notional amount

The positive fair value at June 30, 2017 refers to an interest rate swap contract with a notional amount in Polish currency (zloty) executed to hedge a variable rate medium-term loan, obtained in 2016 in Polish currency, from changes in future cash flows arising from fluctuations in market interest rates (Wibor).

Section 10 – Equity investments - Item 100
€175 thousand

The amount represents the value of the investment in two legal firms in which Magellan is a managing partner.

10.1 Equity investments: information on investment relationships

NAME	Head office	Location of operations	Investment holding %	Voting rights %
A. Companies controlled exclusively				
1. Kancelaria Prawnica Karnowski I Wspolnik sp.K.	Lodz (Poland)	Lodz (Poland)	99%	99%
2. Restrukturyzacyna Prawnica Karnowski I Wspolnik sp.K.	Lodz (Poland)	Lodz (Poland)	99%	99%
B. Jointly controlled companies				
C. Companies over which significant influence is exercised				

Section 12 - Property, plant and equipment - Item 120
€12,864 thousand

12.1 Property, plant and equipment used for business activities: breakdown of assets carried at cost

(in € thousands)

ASSETS/AMOUNTS	06.30.2017	12.31.2016
1. Owned assets		
a) land	3,685	3,685
b) buildings	6,984	7,145
c) furniture and fixtures	247	275
d) electronic systems	879	904
e) other	1,069	980
2. Leased assets acquired under finance leases		
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other		
Total	12,864	12,988

At the date of IFRS first-time adoption (January 1, 2005), buildings owned by Banca Farmafactoring and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.
The measurement at first-time adoption resulted in a revaluation of the buildings for about €4 million, from about €5 million to about €9 million.
In the financial statements, the land and building owned in Milan (at Via Domenichino 5) were valued separately based on an appraisal conducted by the same company that determined their value. The land on which the Rome building sits was not separated because Banca Farmafactoring is not the owner of the entire building.
Property, plant and equipment of the Magellan Group amount to €666 thousand.

Section 13 - Intangible assets – Item 130
€25,160 thousand

13.1 Intangible assets: breakdown by type of asset

(in € thousands)

ASSETS/AMOUNTS	06.30.2017		12.31.2016	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill				
A.1.1 attributable to the owners of the parent		22,146		22,146
A.1.2 attributable to non-controlling interests				
A.2 Other intangible assets				
A.2.1 Assets measured at cost:				
a) intangible assets generated internally				
b) other	3,014		3,665	
A.2.2 Assets measured at fair value:				
a) intangible assets generated internally				
b) other				
Total	3,014	22,146	3,665	22,146

Goodwill refers entirely to the acquisition of the Magellan Group by the Banca Farmafactoring Group.
Pursuant to IFRS 3, within 12 months of the acquisition date, the provisional amounts adopted when the investment was recognized must be reviewed and checked for the consistency of the purchase price allocation (PPA) of the balance sheet components.
A comparison between the acquisition price of the business combination of €103.2 million and the equity resulting from the balance sheet data at May 31, 2016, expressed at fair value, of Magellan, equal to €81.0 million, resulted in a purchase price difference (PPA) to be allocated of €22.1 million.
The Bank decided to confirm the allocation of the purchase price entirely to the goodwill recorded when the acquisition of the Magellan Group was initially recognized and reflected in the BFF consolidated financial statements at December 31, 2016, since, during the measurement period for the adjustment of the provisional amounts (PPA) recognized at the acquisition date, no additional assets were identified to which the acquisition cost of the investment could have been allocated with certainty.

Goodwill on the acquisition of Magellan, since it is an intangible asset with an indefinite life, is not subject to amortization but is tested for impairment.
This test is carried out annually, or more frequently, whenever there are indications of an impairment. It is carried out by a comparison of the carrying amount of goodwill and the recoverable amount of the cash-generating unit (CGU) to which the goodwill is allocated, where the "CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets".
The Bank, for the impairment test, has considered Magellan itself as the CGU and measured this investment as a whole in order to determine the recoverable amount of goodwill recognized in the financial statements.

The impairment test conducted on June 30, 2017 did not indicate an impairment of the investment, or, at the same time, of the recorded goodwill.

In accordance with the information required by IAS 38, paragraph 118, letter a), a statement is made to the effect that the amortization rates applied are based on the estimated useful lives of the intangible assets.

Section 14 - Tax assets and liabilities – Item 140 of assets and Item 80 of liabilities

Current tax assets amount to €11,427 thousand and mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring for the 2017 tax period.
Current tax liabilities amount to €15,872 thousand and include the liability for income taxes of the companies in the Banking Group for the first half of the year 2017.

14.1 Deferred tax assets: breakdown

€4,730 thousand

The main components of deferred tax assets include the portion of amounts deductible in future years, relating to impairment charges on receivables, the accrual on deferred employee benefit obligations, and depreciation and amortization whose recognition is deferred for tax purposes.

14.2 Deferred tax liabilities: breakdown

€53,554 thousand

Deferred tax liabilities mainly refer to the taxes on late interest recognized in the financial statements on an accrual basis but which will form part of the taxable income for IRES taxes in future years when the interest is collected, in accordance with Article 109, Section 7, of Presidential Decree No. 917 of 1986.

Section 16 - Other assets - Item 160

€9,731 thousand

16.1 Other assets: breakdown

(in € thousands)

DETAILS	06.30.2017	12.31.2016
Security deposits	309	37
Inventories	932	224
Other receivables	5,981	4,678
Accrued income and prepaid expenses	2,508	2,196
Total	9,731	7,135

Other receivables refer primarily to non-commercial receivables from sundry debtors, pending items and legal expenses to be recovered.
Accrued income and prepaid expenses refer mainly to the difference in timing of costs relating to administrative expenses.

Inventories, as defined by IAS 2, refer to the purchase of medical vehicles and equipment by the Polish company Medfinance intended for sale or lease in the short term.

LIABILITIES AND EQUITY

Section 1 - Due to banks - Item 10

€665,412 thousand

1.1 Due to banks: breakdown by type

(in € thousands)

TYPES OF TRANSACTIONS/GROUP COMPONENTS	06.30.2017	12.31.2016
1. Due to Central Banks		
2. Due to banks		
2.1 Current accounts and demand deposits	35,078	4,485
2.2 Restricted deposits	593,817	553,346
2.3 Loans		
2.3.1 repos		
2.3.2 other	36,287	26,976
2.4 Payables in respect of commitments to repurchase treasury shares		
2.5 Other payables	230	0
Total	665,412	584,807
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	665,412	584,807
Total fair value	665,412	584,807

"Due to banks" refers primarily to revocable and term financing facilities obtained from the banking system at market rates.

The item also includes the loan contract used to acquire Magellan S.A. entered into with the Unicredit Group, amounting to 355 million zloty (equivalent to € 84 million).

Section 2 – Due to customers – Item 20

€2,853,053 thousand

2.1 Due to customers: breakdown by type

(in € thousands)

TYPES OF TRANSACTIONS/ GROUP COMPONENTS	6/30/2017	12/31/2016
1. Current accounts and demand deposits	48,038	78,454
2. Restricted deposits	804,579	743,984
3. Loans		
3.1 repos	1,618,429	1,809,044
3.2 other	321,015	288,653
4. Payables in respect of commitments to repurchase treasury shares		
5. Other payables	60,991	76,007
Total	2,853,053	2,996,142
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	2,853,053	2,996,142
Total fair value	2,853,053	2,996,142

"Due to customers" includes €852.6 million for online deposit accounts offered in Italy, Spain and Germany in restricted deposits and current accounts, compared to €822.4 million at December 31, 2016.
The counterparty in the reverse repurchase agreements, amounting to €1,618.4 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

"Other loans" refer to amounts due to financial institutions, for a total of €321 million.

"Other payables" principally refer to collections of managed receivables due to the sellers.

Section 3 - Debt securities issued - Item 30

€591,821 thousand

3.1 Debt securities issued: breakdown by type

(in € thousands)

	Total 06.30.2017				Total 12.31.2016			
	Carrying amount	*Fair value*			Carrying amount	*Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds								
1.1 structured								
1.2 other	591,821	447,972	145,819		634,283	447,578	180,944	
2. other securities								
2.1 structured								
2.2 other								
Total	**591,821**	**447,972**	**145,819**		**634,283**	**447,578**	**180,944**	

On March 2, 2017, the placement of €100 million subordinated unsecured and unrated Tier 2 bonds (ISIN XS1572408380) was successfully concluded. The 10-year bonds have a final maturity date in March 2017 and the right to an issuer call date in the fifth year in March 2022. The bonds pay an annual fixed coupon of 5.875%.

On June 12, 2017, the bonds issued by Banca Farmafactoring in June 2014 (ISIN XS1075173085), for €300 million, were repaid in full.

On June 29, 2017, Banca Farmafactoring placed new €200 million senior unsecured and unrated bonds (ISIN XS1639097747), due 2022. The bonds pay an annual fixed coupon of 2%.

The item also includes:

- bonds issued in June 2016 for €150 million, maturing June 2, 2021 (ISIN XS1435298275);
- the existing securitization transaction with the Deutsche Bank Group for €85 million. The receivables were sold to vehicle companies and were not derecognized from the assets of Banca Farmafactoring since the sale did not transfer the risks and rewards. The transaction is following the amortization plan;
- bonds issued by the subsidiary Magellan for PLN 175 million (€41.4 million) and €19.4 million. The total amount in euro is €60.8 million.

The bonds are measured at amortized cost using the effective interest method.

Section 4 – Financial liabilities held for trading - Item 40

€1,164 thousand

4.1 Financial liabilities held for trading: breakdown by type

(in € thousands)

TYPES OF TRANSACTIONS/GROUP COMPONENTS	06.30.2017					12.31.2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Balance sheet liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivative instruments										
1. Financial derivatives										
1.1 Trading			1,164					7		
1.2 Related to fair value option										
1.3 Other										
2. Credit derivatives										
2.1 Trading										
2.2 Related to fair value option										
2.3 Other										
Total B			**1,164**					**7**		
Total (A + B)			**1,164**					**7**		

The amount refers to derivative foreign exchange swap contracts executed by Magellan during 2016 to hedge the principal and interest on bonds issued by them (to be repaid in euros), from the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Section 6 – Hedging derivatives - Item 60

€29 thousand

6.1 Hedging derivatives: breakdown by type of hedge and by level

(in € thousands)

	Fair value 06.30.2017			NV 06.30.2017	Fair value 12.31.2016			NV 12/31/2016
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value								
2) Cash flows		29		2,634		176		74,598
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total	0	29	0	2,634	0	176	0	74,598

Section 8 – Tax liabilities – Item 80

See "*Section 14 – Tax assets and liabilities*" under assets in the balance sheet.

Section 10 – Other liabilities – Item 100

€89,542 thousand

10.1 Other liabilities: breakdown

(in € thousands)

DETAILS	Total 06.30.2017	Total 12.31.2016
Payables to suppliers	1,123	2,747
Invoices to be received	4,118	7,278
Payables to the tax authorities	2,356	3,763
Payables to social security agencies	346	566
Payables to employees	4,036	4,900
Payables for receivables management	1,071	1,687
Collections pending allocation	29,214	14,529
Other payables	43,567	18,334
Accrued liabilities and deferred income	3,710	517
Total	89,542	54,320

"Payables to suppliers" and "Invoices to be received" refer to purchases of goods and the performance of services.

"Collections pending allocation" refer to payments received by June 30, 2017 but still outstanding since they had not been cleared and recorded by that date.

"Payables to the tax authorities" relate largely to unpaid withholding taxes on the online deposit accounts and on employee earnings from employment.

"Other payables" include portions of collections not yet transferred, stamp duties payable, payables to directors and other pending items.

Section 11 – Provision for employee severance indemnities – Item 110
€856 thousand

11.1 Provision for employee severance indemnities: year-over-year change

(in € thousands)

	06.30.2017	12.31.2016
A. Beginning balance	**867**	**883**
B. Increases		
B.1 Provision for the period	202	417
B.2 Other increases	142	49
C. Decreases		
C.1 Payments made	(162)	(120)
C.2 Other decreases	(193)	(361)
D. Ending balance	**856**	**867**
Total	**856**	**867**

The liability recognized in the financial statements at June 30, 2017 represents the present value of the obligation estimated by an independent actuarial firm.
"Other decreases" include differences resulting from actuarial measurement recognized directly in equity.
Specifically, IAS 19 no longer allows the option of using the corridor method, which was used to defer actuarial gains and losses, requiring instead their immediate recognition in comprehensive income for the year to which they are attributable.
The results of the actuarial measurement reflect the impact of the provisions of Law No. 296/2006 and the computation, for IAS 19 purposes, refers solely to vested employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.

BFF BANKING GROUP

Section 12 – Provisions for risks and charges – Item 120
€6,331 thousand

12.1 Provisions for risks and charges: breakdown

(in € thousands)

ITEMS/AMOUNTS	06.30.2017	12.31.2016
1. Pension funds and similar obligations	5,672	6,343
2. Other provisions		
2.1 Legal disputes		
2.2 Personnel expenses		
2.3 Other	659	646
Total	**6,331**	**6,989**

The pension fund refers to non-compete agreements signed by executives of the Banking Group.

Section 15 – Equity – Items 140, 160, 170, 180, 190, 200 and 220
€316,502

15.1 "Issued capital" and "Treasury shares": breakdown
€130,983 thousand

(in € thousands)

TYPES	Amount
1. Issued capital	**130,983**
1.1 Ordinary shares	130,983
1.2 Other shares	

15.2 Share capital - Number of shares of the parent: year-over-year change

(number)

ITEMS/TYPES	Ordinary shares	Other
A. Shares at beginning of the year		
- fully paid	170,107,400	
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares outstanding: beginning balance	**170,107,400**	
B. Increases		
B.1 New issues		
- against payment:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- free:		
- to employees		
- to directors		
- other		
B.2 Sales of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Transactions for sale of companies		
C.4 Other changes		
D. Shares outstanding: ending balance	**170,107,400**	
D.1 Treasury shares (+)		
D.2 Shares outstanding at end of period		
- fully paid	170,107,400	
- not fully paid		

15.4 Earnings reserves: other information

In accordance with the provisions of Article 2427, Section 7-*bis*, of the Italian Civil Code, the tables that follow provide a breakdown of the individual components of equity according to their utilization option, the amount available for distribution and past utilization in the three years previous to the date of the preparation of these financial statements.

(in € thousands)

	06.30.2017	Possibility of use (a)	Amount available	Summary of use in the last three years	
				For absorption of losses	For other reasons
Share capital	**130,983**				
Reserves	**127,716**				
- Legal reserve	27,417	*B*			
- Extraordinary reserve	89	*A, B, C*	89		
- Retained earnings	98,723	*A, B, C*	98,723		(*) 83
- Stock option reserve	1,487				
Revaluation reserves	**7,011**				
- Available-for-sale securities	(81)	*A, B, C*	(81)		
- Other	7,092	*A, B, C*	7,092		
Total share capital and reserves	**265,709**		**105,822**		

(a) Possibility of use: *A*=for share capital increases; *B*=for absorption of losses; *C*=for distribution to shareholders.
(*) In 2016, retained earnings, in the amount of €83 thousand, were used to increase share capital following the bonus award of shares to employees.

Changes in reserves are as follows:

(in € thousands)

	Legal reserve	Retained earnings	Other reserves	Total
A. Beginning balance	**27,400**	**98,643**	**89**	**126,132**
B. Increases				
B.1 Appropriation of profit	17			17
B.2 Other changes		1,908	1,487	3,396
C. Decreases				
C.1 Uses				
- absorption of losses				
- distribution		(1,828)		(1,828)
- transfer to share capital				
C.2 Other changes				
D. Ending balance	**27,417**	**98,723**	**1,577**	**127,716**

The increase of €17 thousand is due to the appropriation of part of the profit for the year ended December 31, 2016, to reach the maximum allowed by law, in accordance with the resolution approved by the ordinary shareholders' meeting on March 9, 2017.
The decrease of €1,828 thousand is due to the appropriation of retained earnings to the shareholders, in accordance with the resolution approved by the ordinary shareholders meeting on March 9, 2017.
The increase of other reserves is due to the stock options for employees upon listing. Such cost is charged to the income statement and generates an increase, before taxes, in equity
Revaluation reserves at June 30, 2017 total €7,011 thousand and mainly include the reserve for translation adjustments and the first-time adoption reserve arising from the revaluation of owned buildings when the transition was made to international reporting standards.

Part C - Consolidated Income Statement

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar revenues: breakdown
€126,720 thousand

(in € thousands)

ITEMS/TYPES	Debt securities	Loans	Other transactions	Half I 2017	Half I 2016
1. Financial assets held for trading					
2. Financial assets designated at fair value					
3. Available-for-sale financial assets	115			115	314
4. Held-to-maturity financial assets	1,705			1,705	1,752
5. Due from banks	0	17	62	79	2,557
6. Due from customers	51	117,065	7,661	124,777	73,372
7. Hedging derivatives			43	43	0
8. Other assets					
Total	1,872	117,082	7,766	126,720	77,996

1.3 Interest income and similar revenues: other information

Interest income on “Available-for-sale financial assets” of €115 thousand and on “Held-to-maturity financial assets” of €1,705 thousand, was generated by government securities purchased by Banca Farmafactoring to hedge liquidity risk and optimize the cost of money.
Interest income is recognized by the amortized cost method, according to which the income generated by such assets is recognized in relation to the return deriving from the expected cash flows.

Interest income on “Due from banks” refers to credit balances on current accounts of the Group with the banking system.

Interest income on “Due from customers” for loans amounts to €124,777 thousand and mostly consists of maturity commissions charged to the assignors for the purchase of receivables outright on a non-recourse and late interest for the year, relating to Banca Farmafactoring and Farmafactoring España.
This amount includes a one-off positive effect for Banca Farmafactoring and Farmafactoring España, net of taxes, of €17.8 million, which derives from the change, at January 1, 2017, in the late-interest recovery percentage to be included in amortized cost, to 45% instead of the previous 40%, maintaining the average collection times at an estimated 1800 days.
As for the receivables of the parent Banca Farmafactoring and the subsidiary Farmafactoring España, in fact, the time series of data was updated with the late-interest recovery data for the year 2016. This resulted in a weighted average recovery percentage that is higher than the 40% used for the preparation of the 2014, 2015 financial statements and for the financial statements for the year ended December 31, 2016.

With regard to the receivables purchased by Farmafactoring España, the average recovery percentage for late interest observed tends to be equal to 100% and, on average, is collected in less time than the receivables due from the Italian National Healthcare Service. However, since the

sample observed was relatively small, a prudent decision was made to consider the use of the same 45% recovery percentage, from January 1, 2017, and the same collection time, 1800 days, as used by Banca Farmafactoring.
The amount also includes interest income calculated according to the amortized cost criterion, generated by the Magellan portfolio, for a total amount of €20.3 million.

1.4 Interest expense and similar expenses: breakdown
€20,133

(in € thousands)

ITEMS/TYPES	Payables	Securities issued	Other transactions	Half I 2017	Half I 2016
1. Due to central banks	0			0	14
2. Due to banks	4,348		25	4,373	2,731
3. Due to customers	4,684		769	5,453	4,151
4. Debt securities issued		9,508		9,508	5,312
5. Financial liabilities held for trading			798	798	0
6. Financial liabilities at fair value through profit or loss					
7. Other liabilities and provisions			1	1	0
8. Hedging derivatives					
Total	9,032	9,508	1,593	20,133	12,209

Interest expenses went from €12.2 million in the first half of 2016 (€18.3 million when considering Magellan for six months) to €20.1 million in the corresponding period of 2017.
This increase, in absolute terms, is principally due to the higher outstanding, interest expenses on the Tier 2 bonds of €1.9 million in the first half of 2017 and not present in 2016, and the costs incurred on the loan for the acquisition of Magellan, which amount to €1.6 million in the first half of 2017 compared to €0.2 million in the same period of the prior year, which referred to only one month.

The interest expense on "Due to banks - Payables" refers to loans obtained from the banking system.

Interest expense on "Due to customers - Payables" mainly refers to the interest expense on the online deposit accounts of Banca Farmafactoring: specifically, €3,477 thousand for Conto Facto, offered in Italy, and €3,031 thousand for *Cuenta Facto*, offered in Spain by the Spanish branch of Banca Farmafactoring.
The first half benefited from the reduction in rates offered on the deposit accounts, especially those offered on the 12-month online deposit account, which decreased from 1.55% in the first half of 2016 to the current 1% in Italy, and from 1.50% in the first half of 2016 to the current 1.15% in Spain.

The balance also includes interest expenses of €116 thousand on the loans secured from other factoring companies and interest income of €3,895 thousand on repurchase agreements.

Section 2 – Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown
€3,970 thousand

(in € thousands)

TYPES OF SERVICES/AMOUNTS	Half I 2017	Half I 2016
a) guarantees provided		
b) credit derivatives		
c) management, brokerage and consulting services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management		
3.1 individual		
3.2 collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. receipt and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third-party services		
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other products		
d) collection and payment services	3,970	3,697
e) securitization servicing		
f) factoring services		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services		21
Total	3,970	3,718

The balance mainly refers to commissions relating to the mandates for the management and collection of receivables.

2.2 Fee and commission expenses: breakdown
€501 thousand

(in € thousands)

TYPES OF SERVICES/AMOUNTS	Half I 2017	Half I 2016
a) guarantees received		
b) credit derivatives		
c) management and brokerage services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities		
5. placement of financial instruments		
6. off-site distribution of financial instruments, products and services		
d) collection and payment services		
e) other services	501	276
Total	501	276

The item mainly refers to expenses on existing banking relationships.

Section 3 - Dividends and similar income - Item 70
€46 thousand

3.1 Dividends and similar income: breakdown

(in € thousands)

ITEMS/INCOME	Half I 2017		Half I 2016	
	Dividends	Units in investment funds	Dividends	Units in investment funds
A. Financial assets held for trading				
B. Available-for-sale financial assets				
C. Financial assets designated at fair value	0	46	0	10
D. Equity investments				
Total	0	46	0	10

Dividends and similar income refer to the income from two legal firms in which Magellan has investments.

Section 4 - Gains (losses) on financial assets and liabilities held for trading - Item 80

€4,243 thousand

4.1 Gains (losses) on financial assets and liabilities held for trading: breakdown

(in € thousands)

Transactions/Income components	Gains (A)	Gains on trading (B)	Losses (C)	Losses on trading (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other assets					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Liabilities					
2.3 Other liabilities					
3. Financial assets and liabilities: exchange differences	X	X	X	X	(3,623)
4. Derivative financial instruments				**(144)**	**(620)**
4.1 Financial derivatives:				(144)	(620)
- on debt securities and interest rates					
- on equity instruments and share indexes					
- on currency and gold	X	X	X	X	(476)
- other				(144)	(144)
4.2 Credit derivatives					
Total				**(144)**	**(4,243)**

Gains (losses) on financial assets and liabilities held for trading mainly arise from the negative exchange effect on the income statement deriving from the revaluation of the loan payable in Polish zloty secured for the acquisition of Magellan, equal to €3.6 million, before f taxes, for the first half of 2017. This corresponds to a related positive effect deriving from the revaluation of the exchange rates applied to the equity of Magellan in consolidated equity. The item also includes the effect of the measurement of the financial derivatives of Magellan.

Section 5 – Fair value adjustments in hedging accounting – Item 90

€27 thousand

5.1 Fair value adjustments in hedge accounting: breakdown

(in € thousands)

INCOME COMPONENTS/AMOUNTS	Total Half I 2017	Total Half I 2016
A. Income from:		
A.1 Fair value hedge derivatives		
A.2 Hedged financial assets (fair value)		
A.3 Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives	111	-
A.5 Assets and liabilities denominated in currency		
Total income from hedging activities (A)	111	-
B. Charges related to:		
B.1 Fair value hedge derivatives		
B.2 Hedged financial assets (fair value)		
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives	(84)	-
B.5 Assets and liabilities denominated in currency		
Total charges from hedging activities (B)	(84)	-
C. Net fair value adjustments in hedge accounting (A - B)	27	-

At June 30, 2017, the Bank has hedging transactions in place as described in detail in the Notes in Part B.

Section 6 - Gains (losses) on disposals and repurchases - Item 100

€20 thousand

6.1 Gains (losses) on disposals and repurchases: breakdown

(in € thousands)

ITEMS/INCOME COMPONENTS	Half I 2017			Half I 2016		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial gains						
1. Due from banks						
2. Due from customers						
3. Available-for-sale financial assets	66	(45)	20	559	(178)	381
3,1 Debt securities	66	(45)	20	559	(178)	381
3,2 Equity securities						
3,3 Units in investment funds						
3,4 Loans						
4. Held-to-maturity financial assets						
Total assets	66	(45)	20	559	(178)	381
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities issued						
Total liabilities						

The amount refers to the sale of government securities in the AFS portfolio during the first half, resulting in a net gain of €20 thousand, before the tax effect.

Section 8 – Net losses/recoveries on impairment – Item 130
€1,905 thousand

8.1 Net losses/recoveries on impairment: breakdown

(in € thousands)

TRANSACTIONS/ INCOME COMPONENTS	Impairment losses			Writebacks				Half I 2017	Half I 2016
	Specific		Portfolio	Specific		Portfolio			
	Writebacks	Other		A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Due from customers	(15)	(2,211)	(431)				751	**(1,905)**	**747**
Impaired receivables purchased									
- Loans									
- Debt securities									
Other receivables	(15)	(2,211)	(431)				751	**(1,905)**	**747**
- Loans	(15)	(2,211)	(431)				751	**(1,905)**	**747**
- Debt securities									
C. Total	**(15)**	**(2,211)**	(431)				**751**	**(1,905)**	**747**

Key:
A = From interest
B = Other writebacks

The impairment losses in the first half of June 30, 2017 mainly consist of the writedown of an Italian assignor and positions relating to Magellan.

Section 11 – Administrative costs – Item 180
€33,379 thousand

11.1 Personnel costs: breakdown
€15,195 thousand

(in € thousands)

TYPE OF EXPENSE/SECTORS	Half I 2017	Half I 2016
1. Employees		
a) wages and salaries	9,142	7,446
b) social security contributions	2,359	1,672
c) employee severance indemnity expenses		
d) pension expenses		
e) provision for employee severance indemnity	202	183
f) provision for pension and similar obligations:		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds:		
- defined contribution	87	68
- defined benefit		
h) costs of share-based payment agreements		
i) other employee benefits	2,211	639
2. Other employees in service	278	197
3. Directors and statutory auditors	917	890
4. Early retirement costs		
Total	15,195	11,096

The increase in the costs of employees largely refers to the effect of Magellan, for six months in 2017 and one month in 2016.
The amount also includes expenses for employee stock options at listing, for €1.5 million, before taxes. This cost generates an increase, before taxes, in equity.

11.5 Other administrative expenses: breakdown
€18,184 thousand

(in € thousands)

DETAILS	Half I 2017	Half I 2016
Legal fees	1,264	1,521
Data processing services	1,162	1,068
External credit management services	602	693
Supervisory Body fees	22	21
Legal fees for receivables under management	280	179
Notary fees	438	417
Notary fees to be recovered	91	35
Entertainment expenses and donations	477	341
Maintenance expenses	579	460
Non-deductible VAT	1,773	2,190
Other taxes	1,030	324
Consulting fees	4,176	5,625
Head office operating expenses	803	627
Resolution Fund and FITD	1,507	1,499
Other expenses	3,980	2,968
Total	18,184	17,968

Other administrative expenses for the first half ended June 30, 2017 amount to €18.1 million, in line with the same period of the prior year.

Furthermore, with regard to the Deposit Guarantee Scheme, a cost, before taxes, was recorded of €1.5 million, which comes from the €1.2 million that was already paid, as the annual contribution, for the Resolution Fund, and €0.3 million from the monthly estimate for the contribution to be paid to the Fondo Interbancario Tutela Depositi, which will be calculated on the figures at September 2017. These amounts are recorded under other administrative expenses, as indicated in the Bank of Italy note of January 19, 2016 "Contributions to Resolution Funds: treatment in the financial statements and in regulatory reporting".

Section 12 - Net provisions for risks and charges - Item 190
€375 thousand

12.1 Net provisions for risks and charges: breakdown

(in € thousands)

DETAILS	Half I 2017	Half I 2016
Pension fund and similar obligations	374	531
Other provisions	1	3
Total	375	534

The provision to "Pension fund and similar obligations" refers to deferred employee benefits.

Section 13 - Net writeoffs /writebacks on property, plant and equipment - Item 200
€725 thousand

13.1 Net writeoffs/writebacks on property, plant and equipment: breakdown

(in € thousands)

ASSETS/INCOME COMPONENTS	Depreciation (a)	Impairment losses (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Property plant and equipment				
A.1 Owned assets				
- used in the business	725			725
- held for investment				
A.2 Purchased under finance leases				
- used in the business				
- held for investment				
Total	725	0	0	725

Section 14 – Net writeoffs/writebacks on intangible assets – Item 210
€901 thousand

14.1 Net writeoffs/writebacks on intangible assets: breakdown

(in € thousands)

ASSETS/INCOME COMPONENTS	Amortization (a)	Impairment losses (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Intangible assets				
A.1 Owned assets				
- generated internally				
- other	901			901
A.2 Purchased under finance leases				
Total	901			901

Section 15 – Other operating income (expenses) – Item 220
€1,913 thousand

15.1 Other operating expenses: breakdown

(in € thousands)

DETAILS	Half I 2017	Half I 2016
Prior period expenses		
Rounding off and allowance expenses	(50)	(43)
Other expenses	(242)	(149)
Guarantee fund expenses	0	0
Registration tax expenses		
Total	(292)	(192)

15.2 Other operating income: breakdown

(in € thousands)

DETAILS	Half I 2017	Half I 2016
Recovery of legal fees for purchases of non-recourse receivables	282	349
Recovery of operational legal fees	280	179
Receivables realized at other than face value	0	1
Prior period income	954	101
Recovery of assignor notary expenses	138	44
Other income	551	580
Total	2,205	1,254

Section 20 – Income taxes on profit from continuing operations – Item 290
€19,880 thousand

20.1 Income taxes on profit from continuing operations: breakdown

(in € thousands)

INCOME COMPONENTS/SECTORS	Half I 2017	Half I 2016
1. Current taxes (-)	15,825	9,503
2. Adjustment to current taxes of prior years (+/-)	0	0
3. Decrease in current taxes for the period (+)	0	0
3.bis Reduction in taxes for the period due to tax credit under Law 214/2011 (+)	0	0
4. Change in deferred tax assets (+/-)	36	(292)
5. Change in deferred tax liabilities (+/-)	4,018	3,812
Income taxes for the period	19,880	13,023

Following the reduction in the ACE (*Aiuto alla Crescita Economica*, Aid for Economic Growth) rate, from 4.75% in 2016 to 1.6% in 2017 pursuant to the relevant Government provisions, current taxes included higher taxes to the tune of €1 million at June 30, 2017.

Section 24 – Earnings per share

At the reporting date, outstanding stock options did not have any dilutive effect on earnings per share, since the average stock price was lower than the relevant exercise price. Since there were no potentially dilutive shares, the basic and diluted earnings per share coincided and amounted to 0.30.

BFF BANKING GROUP

Part D - Consolidated Comprehensive Income

Analytical Statement of Consolidated Comprehensive Income

(in euros)

Items		Gross amount	Income tax	Net amount
10.	**Profit for the period**	X	X	50,653,574
	Other comprehensive income that will not be reclassified subsequently to the income statement			
20.	Property, plant and equipment			
30.	Intangible assets			
40.	Defined benefit plans	(13,768)	3,786	(9,982)
50.	Non-currents assets classified as held for sale			
60.	Portion of valuation reserves from investments valued at equity			
	Other comprehensive income that will be reclassified subsequently to the income statement			
70.	**Hedges of foreign investments:**			
	a) fair value changes			
	b) reclassification to income statement			
	c) other changes			
80.	**Exchange differences:**			
	a) fair value changes			
	b) reclassification to income statement			
	c) other changes	3,340,159	(138,95167)	3,201.208
90.	**Hedges of cash flows:**			
	a) fair value changes	(184,579)	61,040	(123,539)
	b) reclassification to income statement			
	c) other changes			
100.	**Available-for-sale financial assets:**			
	a) fair value changes	(824,431)	272,639	(551,791)
	b) reclassification to income statement			
	- impairment adjustments			
	- capital gains (losses)			
	c) other changes			
110.	**Non-current assets classified as held for sale:**			
	a) fair value changes			
	b) reclassification to income statement			
	c) other changes			
120.	**Portion of valuation reserves from investments accounted for using the equity method:**			
	a) fair value changes			
	b) reclassification to income statement			
	- impairment adjustments			
	- capital gains (losses)			
	c) other changes			
130.	**Total other comprehensive income**	2,317,381	198,515	2,515,896
140.	**Comprehensive income (Item 10+130)**	2,317,381	198,515	53,169,470
150.	Total comprehensive income attributable to non-controlling interests			
160.	**Consolidated comprehensive income attributable to owners of the parent**	2,317,381	198,515	53,169,470

Part E - Risks and related Risk Management Policies

Foreword

The Banca Farmafactoring Banking Group adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed.
These safeguards are part of the governance of the organization and of the system of internal controls, aimed at ensuring management practices grounded in the canons of efficiency, effectiveness and fairness, covering every type of business risk consistent with the characteristics, dimensions and complexity of the business activities carried out by the Group.
With this in mind, the Group formalized its risk management policies and periodically reviews them to ensure their effectiveness over time and constantly monitors the specific functioning of the risk management and control processes.

These policies define:

- the governance of the risks and responsibilities of the organizational units involved in the management process;
- the mapping of the risks to which the Group is exposed, the measuring and stress testing methods and the information flows that summarize the monitoring activities;
- the annual assessment process on the adequacy of internal capital;
- the activities for the assessment of the prospective adequacy of capital associated with the strategic planning process.

The corporate governance bodies of the Bank, as the Group's parent company, define the risk governance and management model at the Group level, taking into account the specific types of operations and the related risk profiles characterizing the entire Group, with the aim of creating an integrated and consistent risk management policy. Within this framework, BFF's corporate governance bodies perform the functions entrusted to them not only with regard to its specific business activities but also taking into account the Group's operations as a whole and the risks to which it is exposed and involving, as appropriate, the governance bodies of the subsidiary in the decisions made regarding risk management procedures and policies.

At the Group level, the Risk Management Function cooperates in the process of defining and implementing the risk governance policies through an adequate risk management process. The person in charge is not involved in the operating activities that he/she is asked to control, and his/her duties, and the relative responsibilities, are governed by a specific internal regulation.

In addition to other tasks, the Risk Management Function is responsible for:

- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of the risks of the Group (Risk Appetite Framework);

- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;

- providing an assessment of the capital absorbed, also under stress conditions, and the relative adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes;

- overseeing the implementation of the risk management process and ascertaining that it is being complied with;

- monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system;

- submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

It should be noted that the CRR Group, inclusive of the Banking Group and BFF Luxembourg S.à r.l., the latter as the parent company for purposes of the scope of consolidation for prudential supervisory purposes only, has marginal exposures with BFF Luxembourg S.à r.l. which do not change the risk profile of the Banking Group. As a consequence, the reference made to one of the two scopes of consolidation, for prudential supervisory purposes only, does not alter the overall risk profile.

Section 1 – Banking Group Risks

1.1 - Credit risks

Qualitative information

1. General remarks

The principal activity of the Banking Group is factoring, disciplined, in Italy, by the Italian Civil Code (Book IV – Chapter V, Articles 1260-1267) and Law No. 52 of February 21, 1991 and subsequent laws, and which consists of a plurality of financial services that can be structured in various ways mainly through the sale of trade receivables.
Moreover, for the purpose of diversifying its business and its geographical presence, the Group comprises the company Magellan S.A., which carries out activities that provide financial services to companies operating in the healthcare sector in the countries in which it operates.

At this time, non-recourse factoring represents approximately 82% of all the exposures of the Group.

2. Credit risk management policies

2.1 Organizational issues

The assessment of a transaction for the different products offered by the Banking Group must be conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial transaction underlying the credit quality and from the reimbursement ability of the customer.
The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on September 10, 2015. A further organizational safeguard against credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the "Credit Regulation".
Credit risk is therefore adequately safeguarded at various levels within the framework of the multiple operating processes.

2.2 Management, measurement and control systems

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending.
With this in mind, the Group uses the "standardized" approach to measure credit risk, as regulated by Regulation (EU) No. 575/2013 (CRR) and adopted by the Bank of Italy Circular No. 285 "*Oversight provisions for banks*" and Circular No. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*," both dated December 17, 2013, and subsequent updates. This approach involves the classification of exposures into different classes (portfolios), depending on the type of counterparty and the application of diversified weighted ratios to each portfolio.

In particular, the Banking Group applies the following weighting factors:

- 0% for receivables from central administrations and central banks with offices in a European Union member state and financed in the local currency;
- 20% for receivables from territorial entities located in a European Union member state, denominated and financed in the local currency, and for receivables from the Public Administration of countries in Credit Quality Step 1.
    - The non-recourse receivables from the Spanish Healthcare Service fall into this category because the counterparties of these exposures are represented by the "Comunidad" (the Regions);
- 50% for receivables from the Public Administration of countries in Credit Quality Step 2, which include the exposures with entities of the Polish and Slovakian public sector. For exposures with an original duration of three months or less, a weighting of 20% is applied.
- 100% for countries in Credit Quality Step 3 (Portugal and, starting in 2017, Italy). For exposures with an original duration of three months or less, a weighting of 20% is applied.
- 50% or 100% for receivables from supervised intermediaries according to the Credit Quality Step of the country in which they have their offices, except for exposures with an original duration of three months or less, for which a weighting of 20% is applied;
- 75% for receivables from retail and small business counterparties;
- 100% for receivables from private debtors;
- 100% for property, plant and equipment, equity investments, investment funds and other assets;
- 150% for past due loans;
- 100% for past due loans, if the specific value adjustments are 20% or more of the non-collateralized portion, before value adjustments.

Banca Farmafactoring adopted the ECAI of references, Dominion Bond Rating Service (DBRS). The unsolicited rating assigned to the Republic of Italy by DBRS, on January 13, 2017, went from "A low" to "BBB high" and, consequently, the country was downgraded from Credit Quality Step 2 to Credit Quality Step 3. The exposures for receivables due from the Italian Public Administration, which include those from entities belonging to the National Healthcare Service and from the Local Healthcare Entities (ASL), therefore, starting from the March 2017 supervisory reporting, have been rated in Credit Quality Step 3, with a 100% weighting, compared to 50% adopted up to December 31, 2016.
The Group has already taken steps to generate capital to meet the capital requirement needs deriving from the impacts of the aforementioned downgrade.

The exposures of the Banking Group principally represent exposures with counterparties of the Public Administration or healthcare entities of the countries in which the Group operates.

The Banking Group constantly maintains, as a capital requirement covering credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposures for credit risk. The Risk Weighted Amount (RWA) is determined by the sum of the risk weighted assets of the various classes.

Based on the method described above, the capital requirement covering credit risk at June 30, 2017 is equal to €118,420 thousand.

The Group has an internal regulation that describes the phases that in sector regulations are identified as components of the credit process:

- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

In order to identify the most important risk factors, the main activities carried out by the Group are described as follows:

- receivables management only;
- non-recourse factoring.

In the "receivables management only" service the credit risk is considerably reduced because it is limited to the Group's exposure with the customer for payment of the stipulated fees and commissions, or the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process even when the credit line can be approved by a single-person body.
"Non-recourse factoring" by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line application is carried out with the utmost care and the decision-making power is reserved for designate approval bodies.
"Recourse factoring" is a marginal activity for the Banking Group since this type of factoring is only included in the Magellan product portfolio.
Consequently, the credit risk management process, in addition to following the internal company regulation, must also abide by external regulations (CRR, Bank of Italy Circulars No. 285 "*Oversight provisions for banks*" and No. 286 "*Instructions for the preparation of regulatory reporting by banks and securities intermediaries*" and subsequent updates) regarding risk concentration.

More specifically:

- a "large exposure" is defined as any position equal to or greater than 10% of the eligible capital, as defined in the CRR (sum of Class 1 Capital and Class 2 Capital equal to or lower than one-third of Class 1 Capital);

- for banking groups and banks not belonging to a banking group, each risk position must not be greater than 25% of eligible capital.

In view of the fact that the Group has an exposure that is almost completely comprised of receivables due from the Public Administration, the portfolio risk is thought to be limited.

Furthermore, the Bank files a monthly report with the "Central Credit Register" (Bank of Italy Circular No. 139 of February 11, 1991, and subsequent updates, "*Central Credit Register. Instructions for Credit Intermediaries*") providing information on the financial debt trend of the debtor over the course of time and on the available/utilized ratio (which shows the financial obligations of the company and its debt margins vis-à-vis the system).

Qualitative assessment of receivables

The Group performs an impairment test on the receivables portfolio in order to identify any impairment of its assets.

This analysis makes it possible to differentiate between performing and non-performing receivables, including in the latter category financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing receivables

The assessment of performing receivables applies to those receivables from customers that, while more than 90 days past due, show no objective indication of impairment at the individual level.

Even though the receivables are owed almost exclusively by the Public Administration, as in previous years, when preparing its annual financial statements or interim reports, the company, in accordance with the provisions of IAS 39, carries out a collective impairment test of performing receivables in order to monitor the quantitative content.

In order to determine the Loss Given Default (LGD), BFF assumed the value proposed by the "Basel Accord Framework" for unsecured receivables from sovereign states, companies and banks, equal to 45% of the Probability of Default (PD) found.
The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs/AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong. This product was then applied to the exposures not classified as non-performing Exposures At Default (EAD).
At June 30, 2017, the impairment test produced an impairment loss of about €2.5 million.

As regards Magellan, the collective impairment is calculated, at this time, exclusively on the private counterparties. In this case, Magellan carries out a writedown of the portfolio by applying to the receivable's purchase value a percentage that varies according to the type of counterparty to which the exposure refers. Magellan also assesses whether to record individual impairments by analyzing the economic and financial situation of the debtor and the actual possibility of recovering the receivable.
As regards the impairment policies adopted, Magellan submits specific periodic reports to the parent so that the corresponding functions of the parent can report on the activities conducted in this area and perform a check on the correctness of the conclusions.

Non-performing receivables

As required by IAS 39 and for purposes of an analytical assessment, the Group carried out a review of the assets classified as non-performing receivables in order to identify any objective impairment of individual positions.

Non-performing receivables of the Banking Group, net of individual impairment losses, amount to €15.3 million, including those of Magellan of €6 million.

2.3 Credit risk mitigation techniques

In order to render receivables purchased outright on a non-recourse basis compatible with the derecognition principle, the risk mitigation clauses that could in some way invalidate the effective transfer of risks and benefits were eliminated from the respective contracts.

2.4 Impaired financial assets

On July 24, 2014, the European Banking Authority (EBA) published the "Final draft implementing technical standards on supervisory reporting of forbearance and nonperforming exposures"

(EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for impaired assets and forbearance measures.

These definitions, which were adopted by the Bank of Italy with the seventh update to Circular No. 272 of January 20, 2015, call for impaired assets to be classified into the following categories:

- Non-performing exposures, for a net value of €15.3 million;
- Unlikely to pay, for a net value of €3.7 million;
- Past-due exposures, impaired for a net value of €54.7 million.

Non-performing exposures

These are exposure with parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.

At June 30, 2017, total non-performing exposures of the Banking Group, net of writedowns for impairment losses, amount to €15.3 million, of which €5.9 million was purchased already non-performing. Gross non-performing exposures, including the portion of the provision for late interest relating to non-performing positions, recognized when the estimate was changed, in 2014, entirely written off for €13.6 million, amount to €34.7 million and the relative impairment losses total €19.4 million.

With reference to the Bank, total non-performing receivables, net of writedowns for estimated impairment losses, are €9.4 million at June 30, 2017.
Of this amount, €5.9 thousand refers to local government entities (municipalities, provinces) that were already distressed at the time of purchase and purchased at specific conditions.
Gross non-performing exposures of the Bank, including the portion of the provision for late interest relating to non-performing positions, recognized when the estimate was changed, in 2014, entirely written off for €13.6 million, amount to €25.8 million and the relative impairment losses total €16.4 million.
Of these, approximately €1.7 million has been entirely written off by the provision account and consequently shows a net amount of zero.
The remaining positions, referring to the Bank are written down based only on the time value, as they consist of positions secured by sureties and exposures with local government entities in distress, for which no provisions were recognized as the distressed condition is expected to be remedied resulting in the collection 100% of the receivables.
The portion of late interest relating to non-performing positions, completely written off, mainly refers to exposures with Fondazione Centro San Raffaele del Monte Tabor in liquidation and a composition with creditors.

It should be noted that on June 21, 2017, collections of approximately €1.6 million were received for the fourth distribution in the composition agreement with creditors of Fondazione Monte Tabor on which a position outstanding for a net residual amount of €0.9 million was still due, relating only to principal. The collection, therefore, was allocated to cover the entire amount of principal still outstanding at the date of payment, thus confirming the Bank's past predictions regarding the total recovery of the amount of principal due from Fondazione Monte Tabor. The remaining amount of that collection, together with the forecast of further collections arising from the settlement proposals, for a total of €1.4 million, was credited to the income statement as interest income.
Gross non-performing receivables relating to Magellan amount to €8.9 million, written down by €3 million. Net non-performing receivables of Magellan at June 30, 2017 are therefore equal to €5.9 million.

Probable defaults

The "unlikely to pay" concept reflects the judgment made by the intermediary about the likelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment is arrived at independently of the existence

of any past due and unpaid amounts or installments. Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g. failure to repay) when there are factors that signal a default risk situation for the debtor. Exposures with retail customers can be classified in this probable default category at the individual transaction level, provided the intermediary believes that the conditions for classifying in this category the entire amount of exposures with same debtor cannot be met.
At June 30, 2017, net exposures classified as unlikely to pay total €3.7 million, of which €0.1 million refers to Banca Farmafactoring and €3.6 million to the Magellan portfolio.

Past due exposures, impaired
These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies that, at June 30, 2017, were more than 90 days past due.
More specifically, exposures with central administrations and central banks, public sector entities and territorial entities, are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Unlike the considerations made for non-performing and unlikely to pay positions, the valuation of past due exposures is carried out at the portfolio level, since these positions do not display objective indications of individual impairment losses.

At June 30, 2017, total net past due exposures amounted to €54.7 million for the whole Group, of which 83% referring to the Italian Public Administration and to public sector companies. With regard to Banca Farmafactoring, these exposures amount to €46,219 thousand. Of these, €38.3 million refer to entities of the Italian Public Administration (largely territorial entities) compared to €38.8 million at December 31, 2016. The amount relating to public companies is €6.2 million. Magellan Group's net overdue exposures amounted to €8.5 million, mainly referring to private counterparties.

Quantitative information

A. Credit quality

A.1 Impaired and not impaired exposures: amounts, impairment losses, changes, breakdown by business activity and region.

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amounts)

(in € thousands)

PORTFOLIO/QUALITY	Non-performing purchased performing	Non-performing already purchased non-performing	Unlikely to pay	Past due exposures impaired	Past due exposures not impaired	Assets not impaired	Total
1. Available-for-sale financial assets						463,949	463,949
2. Held-to-maturity financial assets						1,275,770	1,275,770
3. Due from banks						227,953	227,953
4. Due from customers	9,424	5,905	3,722	54,672	478,119	2,004,896	2,556,739
5. Financial assets designated at fair value						1,226	1,226
6. Financial assets held for sale							0
Total 06.30.2017	9,424	5,905	3,722	54,672	478,119	3,973,794	4,525,637
Total 12.31.2016	11,573	492	3,614	46,167	398,204	4,201,722	4,661,772

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)

(in € thousands)

PORTFOLIO/QUALITY	Impaired assets			Not impaired assets			Total (net exposure)
	Gross Exposure	Specific impair. loss	Net Exposure	Gross Exposure	Specific impair. loss	Net Exposure	
1. Available-for-sale financial assets				463,949		463,949	463,949
2. Held-to-maturity financial assets				1,275,770		1,275,770	1,275,770
3. Due from banks				227,953		227,953	227,953
4. Due from customers	80,919	7,195	73,724	2,487,969	4,953	2,483,016	2,556,739
5. Financial assets designated at fair value				1,226		1,226	1,226
6. Financial assets held for sale							
Total 06.30.2017	80,919	7,195	73,724	4,456,867	4,953	4,451,913	4,525,637
Total 12.31.2016	66,372	4,526	61,846	4,605,687	5,761	4,599,926	4,661,772

1.2 – Banking Group - *Market risks*

1.2.1 Interest rate risk and price risk – trading portfolio

Qualitative information

1. General remarks

The interest rate risk is represented by the risk that fluctuations in the level of market interest rates may generate adverse effects on the company's income statement. The Group's lending activities deriving from the factoring activities of the Bank, represented by receivables purchased outright on a non-recourse basis, are in part at fixed rates and, for the late interest component, for which, for Banca Farmafactoring and Farmafactoring España only, a 45% recovery estimate is included in amortized cost, at variable rates, whereas funding activities are generally at variable rates. The exposure is given by the amount of financing subject to this risk.
The amount of derivative instruments executed to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be changed to fixed rates, correlating the amount of the hedging to the portion of funding used to finance the lending made at fixed rates. In this sense, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the fees and commissions and the correlated exposure flows, so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contractual rate on all derivative transactions.

1.2.2 Interest rate risk and price risk - Banking portfolio

Qualitative information

A. General remarks, operational procedures and methods for measuring interest rate risk and price risk

For assessing interest rate risk, the Group follows the method set forth in the prudential regulations (Annex C – Bank of Italy Circular No. 285). This method is applied monthly, in order to detect on a timely and ongoing basis any loss resulting from a market shock determined based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the first percentile (reduction) or the 99th percentile (increase) and ensuring that rates are not negative.

The sensitivity analysis of the interest rate requires the construction of a management framework that makes it possible to highlight the exposure through the use of a specific method. The method used calls for:

- classification of the assets and liabilities into different periods: the allocation to different periods is made, for fixed-rate assets and liabilities, based on their residual lives; for variable-rate assets and liabilities, based on the interest rate renegotiation date;
- weighting of the net exposures within each period: asset positions and liability positions within each period are offset, obtaining a net position. Each net position, for each period, is multiplied by the weighting factors, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period;
- sum of the weighted exposures of the different periods: the weighted exposures of the different periods are added, obtaining a total weighted exposure.

The total weighted exposure represents the change in the present value of cash flows, generated by the hypothetical interest rate scenario.

The assumption of interest rate risk in connection with BFF's funding activity can only occur in compliance with the policies and limits set by the Board of Directors. It is governed by specific powers delegated in this area, which set autonomy limitations for the parties authorized to operate in the Finance Department and in deposit accounts.

The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance Department, the Risk Management Function and senior management, which annually submits to the Board of Directors proposals for lending and funding policies and interest rate risk management and recommends, if necessary, any opportune actions to ensure that business is carried out consistently with the risk management policies approved by Banca Farmafactoring.

The interest rate risk position is reported on a quarterly basis to BFF's senior management and Board of Directors of the Bank, in accordance with the procedures established by the Risk Management Function for senior management.

Furthermore, at the operational level, on a monthly basis, the Finance Department monitors the interest rate risk, as well its management, through specific reporting.

1.2.3 Exchange rate risk

Qualitative information

A. General remarks, operational processes and methods for measuring exchange rate risk and price risk

Exchange rate risk is represented by the Banking Group's exposure to fluctuations in exchange rates, considering both positions in foreign currency and those that call for indexation clauses linked to changes in the exchange rate of a specific currency.

The Group's asset portfolio at June 30, 2017 is denominated as follows:

- euro;
- Polish zloty;
- Czech koruna.

The Group therefore manages and monitors the risk connected with fluctuations in exchange rates. The Group has a specific internal regulation for the management of exchange risk referring to exposures from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency and any other type of transaction in a currency other than the reference currency. More to the point, the Group uses specific hedging instruments in order to mitigate exchange rate risk.
With regard to the acquisition of Magellan, the exchange risk arising from the acquisition of the investment in Polish zloty is hedged by a loan contract secured from the Unicredit Group so that the asset and liability positions offset each other and, consequently, there is an open position in currency that is practically nil (natural hedging).
The relative effect in currency, recognized in the income statement, arising from the revaluation of the zloty loan payable, corresponds to a related effect with the opposite sign in consolidated equity, under translation adjustments, which comes from the revaluation of the exchange rates applied to the equity of Magellan.

1.3 – Banking Group – Liquidity risk

Qualitative information

1. General remarks, operational processes and methods for measuring liquidity risk

Liquidity risk is represented by the possibility that the Group may not be able to fulfil its payment obligations due to the inability to access funding in the financial markets, or because of restrictions on the disposal of assets. This risk is also represented by the inability to raise adequate new financial resources, in terms of amount and cost, according to operating needs, which would force the Group to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profitability of its operations.

The Group, also as required by the provisions of the prudential supervision regulation issued by the Bank of Italy, adopted a Group "Risk Management Regulation" and a Group "Treasury and Finance Regulation" aimed at maintaining a high degree of diversification, in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.

To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

- separation of the processes for the management of liquidity and processes for the control of liquidity risk;
- development of processes to manage and control liquidity risk, consistent with the Group's hierarchical structure and through a process for the delegation of powers;
- sharing of the decisions and clarity of responsibilities among management, control and operational entities;
- making liquidity risk management and monitoring processes consistent with prudential supervisory guidelines.

Liquidity risk stress tests were performed for assessing the potential impact of stress scenarios on the Group's solvency conditions.

The LCR (Liquidity Coverage Ratio) and the NSFR (Net Stabile Funding Ratio) of the Banking Group, at June 30, 2017, are equal, respectively, to 153% and 120%, **compared to** 321% and 126% **at** June **30,** 2016.

1.4 – Banking Group - Operational risk

Qualitative information

1. General remarks, operational processes and methods for measuring operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk but not strategic and reputational risks.

Operational risk therefore refers to various types of events that would not be significant individually unless analyzed together and quantified for the entire risk category.

With regard to the Banking Group, exposure to this category of risk is generated predominately by failures in work processes and in organization and governance—human errors, computer software

malfunctions, inadequate organization and control safeguards—as well as any loss of human resources in key corporate management positions. Exposure to operational risks deriving from external sources appears to be of negligible importance, partly due to the mitigation tools adopted to address such adverse events (such as, by way of example: the business continuity plan, data storage processes, back up tools, insurance policies, etc.).

The process adopted by the Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives, with the aim of fostering the adoption of professional and responsible behavior at all operational levels, as well as the design, implementation and management of an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted is of the "mixed" type, meaning a model based both on qualitative assessments, linked to the mapping of the processes and to at-risk activities and the corresponding controls adopted, and on quantitative assessments, using the methodologies specified by the Bank of Italy.

For computing capital requirements for operational risk, the Banking Group uses the Basic Indicator Approach - BIA, according to which capital requirements are computed by applying a regulatory coefficient to an indicator of the volume of business activity (Relevant Indicator).

The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems and mitigates the consequence of any operational risk that may arise through the preventive involvement of the corporate control functions and the definition of specific policies and regulations on various subjects and topics.

In addition, to control the abovementioned risks, the Group adopts specific organizational models for the management of the risks regarding money laundering, occupational health and safety and information security.

Based on the above method, the capital requirement in respect of operational risk, at June 30, 2017, is €29,775 thousand.

With regard to the calculation of operational risk at December 31, 2017, it should be noted that the Relevant Indicator used to compute the capital requirement will no longer take into account non-recurring income, recognized in the 2014 income statement of the Banking Group under interest income, amounting to €113,396 thousand, and deriving from the change in the method used to estimate the provision for late interest, carried out in that year. It is estimated that such change will result in a reduction of about €38 million in RWA at December 31, 2017 and about €3 million in the relative capital requirement.

Part F - Consolidated Equity

In accordance with the provisions of Regulation (EU) No. 575/2013 (CRR), the scope of consolidation used solely for purposes of prudential supervisory reporting includes the companies of the Group and calls for BFF Luxembourg S.à r.l. as the parent.
For the purposes of the preparation of the other parts of the Half-year Consolidated Financial Report and the submission of so-called non-harmonized reporting, the reference is the Banking Group pursuant to the Consolidated Law on Banking.
As for this Part F, therefore, Section 1 reports the data of the Banking Group under the Consolidated Law on Banking, while Section 2 refers to the scope of consolidation envisaged by the CRR for prudential supervisory purposes, unless otherwise indicated.

Section 1 – Consolidated equity

A. Qualitative information

The equity of the Banking Group under the Consolidated Law on Banking represents the aggregate of share capital, reserves, revaluation reserves and profit for the period of the companies in the Group.

B. Quantitative information

B.1 Consolidated equity: breakdown by type of company

ITEMS OF EQUITY	Banking Group	Insurance companies	Other companies	Consolidation eliminations and adjustments	Total
Share capital	130,983				130,983
Share premium					
Reserves	127,716				127,716
Equity instruments					
(Treasury shares)					
Revaluation reserves:					
- Available-for-sale financial assets	(81)				(81)
- Property, plant and equipment					
- Intangible assets					
- Hedges of foreign investments					
- Cash flow hedges	222				222
- Exchange differences	3,201				3,201
- Non-current assets held for sale					
- Actuarial gains/losses relating to defined benefit plans	(154)				(154)
- Share of revaluation reserves of equity accounted investees					
- Special revaluation laws	3,823				3,823
Profit for the year attributable to the parent and non-controlling interests	50,654				50,654
Equity	316,363				316,363

Section 2: Own funds and banking regulatory ratios

2.1 Scope of implementation of the regulation

Own funds are computed, starting from January 1, 2014, in accordance with Bank of Italy Circular No. 285 "*Oversight provisions for banks*" and Circular No. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*", both dated December 17, 2013, Regulation (EU) No. 575/2013, relative to the new regulations harmonized for banks and investment companies, contained in the EU Capital Requirements Regulation (CRR) and in the EU Capital Requirements Directive (CRD IV) of June 26, 2013.

These regulations incorporate the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 Framework), the implementation of which, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways with which the discretionary authority attributed by EU laws to national authorities may be exercised.

In keeping with the requirements of Regulation (EU) No. 575/2013 (CRR), in the scope of consolidation used exclusively for prudential supervision purposes, BFF Luxembourg S.à r.l. is the parent company.

2.2 Own funds

A. Qualitative information

Own funds represent the first line of defense against risks associated with the complexity of financial activities and constitute the main parameter of reference for the assessment of the capital adequacy of the Group.
The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum obligatory capitalization in relation to the risks assumed.

The Group constantly assesses its capital structure, developing and employing techniques for monitoring and managing regulated risks, also through a Control and Risk Committee with responsibility within the Board of Directors.

Own funds are the sum of Common Equity Tier 1 Capital (CET1), Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2), net of items to be deducted and IAS/IFRS prudential filters.
The main components of the Group's own funds are computed in Common Equity Tier 1 (CET1), and are the following:

- paid-in share capital;
- reserves (legal reserve, extraordinary reserve, retained earnings);
- undistributed portion of the profit for the year;
- revaluation reserves: actuarial gains (losses) relating to defined benefit plans;
- revaluation reserves: special revaluation laws;
- any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets, including goodwill, if any, are deducted from the above.

As regards the prudential treatment of unrealized gains or losses relating to exposures with the central administrations classified in the "'Available-for-sale" portfolio", the CRR requires banks to include such reserves in the own funds.
On January 24, 2014, the BFF Board of Directors decided to exercise the option permitted by the Bank of Italy Circular No. 285 of December 17, 2013 – Section II, paragraph 2, last sentence, wherein it is stated that banks have the option of "not including in any component of own funds unrealized gains or losses relating to exposures with the central administrations classified in the "Available-for-

sale" category of IAS 39, as approved by the EU" (option allowed also under Supervisory Bulletin No. 12 of December 2013, in the paragraph relating to "Own Funds Regulations").
Therefore, as reasserted by the Bank of Italy Communication No. 90517/17 of January 24, 2017, and until the end of the transition period, that is, until the adoption of IFRS 9 (now January 1, 2018), the companies in the Group will not include in own funds unrealized profit or loss relative to the above exposures.

Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2) include exclusively the non-controlling interests given recognition to in consolidated own funds, in accordance with the CRR, Part 2 – Title II "Non-controlling interests and additional Tier 1 and Tier 2 capital and equity instruments issued by affiliates.
In relation to the determination of non-controlling interests in additional Tier 1 Capital and in Tier 2 Capital, account is taken, as reported in the Bank of Italy Circular No. 285, of the transitory factor applicable pursuant to Article 480, paragraphs 2 and 3 of the CRR, equal to 0.8 for the current year.

Own funds of the Banking Group, pursuant to the Consolidated Law on Banking, amount to amount to €351 million compared to €235 million at December 31, 2016. The change in own funds was affected by the following main events:

- Issue of Tier 2 bonds for €98.2 million.
- Appropriation to own funds of a part of the profit for the period, for €12.4 million. The amount derives from the change in the estimate of late-interest collections, for Banca Farmafactoring and Farmafactoring España, to be included in the calculation of amortized cost, from 40% to 45% starting on January 1, 2017. This resulted in a one-off effect, net of taxes, of €17.8 million, and refers to Banca Farmafactoring for €16.3 million and Farmafactoring España for €1.5 million. Deducted from this amount were non-recurring expenses, net of the tax effect, of €1.8 million relating to the costs of the stock listing process, €1.1 million referring to the stock options awarded to some beneficiaries last March and €2.5 million for the negative exchange effect arising from the revaluation of the loan payable in Polish zloty used for the acquisition of Magellan and equal to €2.5 million at March 31, 2017.

BFF BANKING GROUP

B. Quantitative information

Own funds of the Banking Group pursuant to the Consolidated Law on Banking are presented as follows

ITEMS/AMOUNTS	TOTAL 06.30.2017	TOTAL 12.31.2016
A. Common Equity Tier 1 - CET1 before the application of prudential filters	278,247	261,139
CET1 instruments subject to transitory provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitory regime effects (A +/- B)	278,247	261,139
D. Elements to be deducted from CET1	(25,160)	(25,795)
E. Transitory regime - Impact on CET1 (+/-), including minority interests subject to transition requirements		
F. Total Common Equity Tier 1 - CET1 capital (C - D +/- E)	253,087	235,345
G. Additional Tier1 - AT 1 capital gross of items to be deducted and of the transitory regime effects		
AT1 instruments subject to transitory provisions		
H. Elements to be deducted from AT 1		
I. Transitory regime - Impact on AT 1 (+/-), including instruments issued by subsidiaries and included in AT 1 due to transitional provisions		
L. Total Additional Tier1 - AT 1 capital (G - H +/- I))		
M. Tier2 - T2 capital gross of items to be deducted and of the transitory regime effects		
T2 instruments subject to transitory provisions		
N. Elements to be deducted from T2		
O. Transitory regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions	98,224	
P. Total Tier 2 - T2 capital (M - N +/- O)	*98,224*	
Q. Total Own Funds (F + L + P)	351,311	235,345

Own funds relating to the scope of consolidation used for prudential supervisory purposes, with BFF Luxembourg S.à r.l. at the head of the Group, is presented in the following table.

ITEMS/AMOUNTS	Total 06.30.2017	Total 12.31.2016
A. Common Equity Tier 1 - CET1 before the application of prudential filters	330,647	470,535
CET1 instruments subject to transitory provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitory regime effects (A +/- B)	330,647	470,535
D. Elements to be deducted from CET1	-153,105	-241,744
E. Transitory regime - Impact on CET1 (+/-), including minority interests subject to transition requirements	11,642	3,073
F. Total Common Equity Tier 1 - CET1 capital (C - D +/- E)	189,185	231,864
G. Additional Tier1 - AT 1 capital gross of items to be deducted and of the transitory regime effects	14,738	2,047
AT1 instruments subject to transitory provisions		
H. Elements to be deducted from AT 1		
I. Transitory regime - Impact on AT 1 (+/-), including instruments issued by subsidiaries and included in AT 1 due to transitional provisions	-2,948	-819
L. Total Additional Tier1 - AT 1 capital (G - H +/- I))	11,791	1,228
M. Tier2 - T2 capital gross of items to be deducted and of the transitory regime effects	19,651	2,620
T2 instruments subject to transitory provisions		
N. Elements to be deducted from T2		
O. Transitory regime - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions	59,569	-1,048
P. Total Tier 2 - T2 capital (M - N +/- O)	79,220	1,572
Q. Total Own Funds (F + L + P)	280,195	234,664

The change in the own funds of the CRR Group, apart from what was already noted about the Group pursuant to the Consolidated Law on Banking, was also affected by the listing of Banca Farmafactoring on the Mercato Telematico Azionario, with a reduction in the majority interest held by the main shareholder to 55.809% of capital and with the consequent application of the treatment established by the CRR on the contribution to own funds by the minority shareholders of the Banking Group. At the CRR Group level, in fact, the increase in non-controlling interests in equity, which cannot be computed entirely in own funds but only in proportion to the risks sustained, results in a reduction of the non-controlling interests compared to the situation previous to the listing.

2.3 Capital adequacy

A. Qualitative information

Compliance with capital adequacy limits for the CET 1 Capital Ratio and Tier 1 Capital Ratio and also for the Total Capital Ratio, is constantly monitored by the relevant corporate bodies.

The CET 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to the amount of Risk-Weighted Assets.

The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to the amount of Risk-Weighted Asset.

The Total Capital Ratio is the ratio of own funds to the amount of Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005 – "*Bank financial statements: presentation format and preparation rules*," and subsequent updates, the amount of risk-weighted assets is determined as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).
The Group's total exposure to risks at June 30, 2017, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

With regard to the Banking Group, the CET1 Capital Ratio is 13.7%, the Tier 1 Capital Ratio is 13.7% and the Total Capital Ratio is 19.0%.
With regard to the CRR Group, the CET1 Capital Ratio is 10.1%, the Tier 1 Capital Ratio is 10.8% and the Total Capital Ratio is 15.8%.
These ratios take into account the impact on own funds, described in the preceding paragraph 2.2, and the downgrade of the Republic of Italy on the part of the reference ECAI, DBRS, which, on January 13, 2017, lowered the unsolicited rating from "A low" to "BBB high", causing the country to be downgraded from Credit Quality Step 2 to Credit Quality Step 3. The exposures with the Italian Public Administration, which include those with the entities belonging to the National Healthcare Service and the Local Healthcare Entities (ASL), starting from the March 2017 supervisory reporting, therefore, are weighted 100%, compared to 50% adopted up to December 31, 2016.

Pillar I - Capital adequacy to meet the typical risks associated with financial liabilities

From the standpoint of operations, the absorption of risks is calculated using various methods:

- credit risk using the "Standardized approach";
- counterparty risk using the "Standardized approach";
- operational risk using the "Basic approach";
- market risk using the "Standardized approach".

Credit risk

This risk is described in Part E of this report.

Counterparty risk

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.
For Banca Farmafactoring, the counterparty risk can be generated by repurchase agreements having as a counterparty Cassa Compensazione e Garanzia. Counterparty risk is measured using the standardized method.

Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk but not strategic and reputational risks.
Operational risk therefore refers to various types of events that would not be significant individually unless analyzed together and quantified for the entire risk category.
The Group measures operational risk using the "Basic" approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statements items of the last three years, in accordance with Regulation (EU) No. 575/2013.

Market risk

Market risk is the risk relating to positions held for trading, that is, positions intentionally destined for sale in the short term, assumed in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.
The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading book. The Group measures market risk using the "Standardized" method.

Pillar II -The ICAAP Summary

The supervisory regulation requires intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Regulatory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, to take appropriate corrective action.

The Banking Group submitted the "ICAAP Summary 2016", to the Bank of Italy, updating the risk management system aimed at the determination of the adequacy of capital.

B. Quantitative information

The following table gives the capital requirements, for the dates indicated, relative to the scope of consolidation of the Banking Group pursuant to the Consolidated Law on Banking.

CATEGORIES/AMOUNTS	Unweighted assets		Weighted assets/requirements	
	06.30.2017	12.31.2016	06.30.2017	12.31.2016
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	4,624,671	4,736,264	1,480,247	1,037,483
2. Internal rating based approach				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			118,420	82,998
B.2 Credit valuation adjustment risk			33	76
B.3 Settlement risk				
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			29,775	29,775
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			**148,227**	**112,849**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,852,843	1,410,612
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio) (%)			13.7%	16.7%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			13.7%	16.7%
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			19.0%	16.7%

The increase in the requirement for credit risk is largely determined by the downgrade of the Republic of Italy by the reference ECAI, DBRS, which, on January 13, 2017, lowered the unsolicited rating from "A low" to "BBB high", causing the country to be downgraded from Credit Quality Step 2 to Credit Quality Step 3. The exposures with the Italian Public Administration, other than Government, regional and local agencies, which include those with the entities belonging to the National Healthcare Service and the Local Healthcare Entities (ASL), starting from the March 2017 supervisory reporting, therefore, are weighted 100%, compared to 50% adopted up to December 31, 2016. Had the downgrade been applied to figures at December 31, 2016, a 3.7% decrease on CET1, Tier 1 and Total Capital ratio would have been recognized.

The following table presents the capital adequacy relating to the scope of consolidation, used for prudential supervisory purposes only, which calls for BFF Luxembourg S.à r.l. as the parent.

CATEGORIES/AMOUNTS	Unweighted amounts		Weighted amounts/Requirements	
	06.30.2017	12.31.2016	06.30.2017	12.31.2016
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	4,692,957	4,767,310	1,493,913	1,043,698
2. Internal rating based approach				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			119,513	83,496
B.2 Credit valuation adjustment risk			33	76
B.3 Settlement risk				
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			29,775	29,775
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total capital requirements			149,321	113,347
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,866,509	1,416,833
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET1 capital ratio) (%)			10.1%	16.4%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			10.8%	16.5%
C.4 Total own funds/ Risk-weighted assets (Total capital ratio) (%)			15.0%	16.6%

Part G – Business Combinations

Section 1 – Transactions closed during the year

During the first half of the year, there were no transactions for business combinations.

At the date of this document, as set out in the provisions of IFRS 3, the Purchase Price Allocation (PPA) process has been completed. It is confirmed that the entire acquisition cost is allocated to the goodwill, recorded when the acquisition of the Magellan Group was initially recognized and reflected in the BFF consolidated financial statements at December 31, 2016, since, during the measurement period for the adjustment of the provisional amounts (PPA) recognized at the acquisition date, no additional assets were identified to which the acquisition cost of the investment could have been allocated with certainty.

Part H - Related Party Transactions

The types of related parties, as defined by IAS 24, refer to:
- the parent company;
- subsidiaries;
- directors and executives with key management responsibilities and close family.

The following table gives the effect of related party transactions on the consolidated balance sheet and income statement items at the date of June 30 2017, and the percentage to the item total, by type of related party pursuant to IAS 24.

(in € thousand)

	Parent company	Directors and executives with key management responsibilities (1)	Total related parties	Financial statement item	% of total financial statement item
Impact of transactions on the consolidated balance sheet					
Other assets					
At June 30, 2017	5	-	5	9,731	0.1%
Due to customers					
At June 30, 2017	-	(207)	(207)	(2,853,053)	0.0%
Provisions for risks and charges: a) pension funds and similar obligations					
At June 30, 2017		(883)	(883)	(5,672)	15.6%
Other liabilities					
At June 30, 2017	-	(236)	(236)	(89,542)	0.3%
Impact of transactions on consolidated income statement					
Interest expense and similar expenses					
First half of 2017	-	(2)	(2)	(20,133)	0.0%
Administrative expenses a) personnel costs					
First half of 2017	-	(810)	(810)	(15,195)	5.3%
Net provisions for risks and charges					
At June 30, 2017		(177)	(177)	(375)	47.1%
Other operating income (costs)					
First half of 2017	5	-	5	1,913	0.3%

(1) Includes members of the Board of Directors and the CEO of Banca Farmafactoring.

Option rights relating to the stock option plan granted to directors and executives with strategic responsibilities amounted to 2,066,400 (considering the first tranche only).
The number of Banca Farmafactoring shares held by directors and executives with strategic responsibilities amounted to 9,662,361.

In order to optimize the funding of the Group, BFF has entered into intercompany loan contracts with the subsidiaries at conditions based on standard market terms.
More specifically, the balances of the intercompany positions at June 30, 2017 are the following:

- Farmafactoring España (through Banca Farmafactoring Sucursal en España) for €88 million;
- Magellan S.A., for €1 million;
- Magellan S.A., for PLN 488 million;
- Magellan Central Europe, for €88 million;
- Magellan Ceska Republic, for CZK 69 million;
- MedFinance S.A., for PLN 10 million.

There is a license agreement between Banca Farmafactoring and Farmafactoring España S.A. covering the use, under license, of the software, organizational methods and communication lines of Banca Farmafactoring referred to as IT rights, as well as the assistance, maintenance and monitoring of the IT rights. The consideration is represented by the royalty which at June 30, 2017 is estimated at about €341 thousand.
During the year 2016, Farmafactoring España purchased Italian healthcare receivables from the parent for about €82 million. These receivables have already been collected at the reporting date for about €78 million (of which €67 million in 2016 and €11 million in the first half of 2017), with an outstanding balance of about €4 million.
It should be noted that Banca Farmafactoring carries out:

- administrative support services provided to the parent BFF Luxembourg S.à r.l. for the preparation of CRR Group consolidated reporting. The consideration under the service agreement is €10,500 per year;
- audit activities provided to the subsidiary Farmafactoring España, for €6,400 per year;
- administrative support services supplied to Fondazione Farmafactoring, for consideration of €15 thousand per year.

The Group also has factoring and mandate arrangements for the management and collection of receivables with its shareholder companies, conducted at standard market terms.
Lastly, it should be noted that the conditions of deposit accounts held with Group's directors and other Group's related parties correspond to those recorded in the relevant Prospectus at the time the accounts were opened.

Part I - Share-based Payments

A. Qualitative information

1. Description of the share-based payment agreements

a) Stock Grant Plan

On November 27, 2015, the BFF Board of Directors approved, and on December 21, 2015 updated, a "Report on proposed amendments to the by-laws", drawn up in accordance with Article 2, Section II, Chapter 1, Title III of Prudential Instructions for Banks. The Report was initially submitted on December 23, 2015, and subsequently in the integrated version on January 19, 2016, to the Bank of Italy, for issue of the authorization pursuant to Article 56 of the Consolidated Law on Banking.
The proposed amendments to the by-laws stem from BFF's intention to grant, through a bonus increase in share capital, an award that is one-time and not linked to performance targets, of special shares to each of the employees of the Group to motivate them, reward their loyalty and strengthen their sense of belonging to the Group, and align their interests with those of the shareholders through a Stock Grant Plan.

On April 6, 2016, BFF received Bank of Italy's authorization, issued pursuant to Article 56 of the Consolidated Law on Banking, regarding the amendments to the by-laws contained in the above Report.
Consequently, on May 18, 2016, both the ordinary and extraordinary shareholders' meeting of the Bank passed resolutions to approve:

(i) the Stock Grant Plan,
(ii) a bonus increase in share capital, pursuant to Article 2349 of the Italian Civil Code, up to a maximum of €134,750.00, corresponding to a maximum number of 1,750 special shares, through the conversion of retained earnings, as shown in the most recently approved financial statements, in a one-time award to be made by June 30, 2016; and
(iii) the amendments to the by-laws necessary for implementing the Stock Grant Plan.

The bonus increase in share capital was registered in the Milan Company Register on June 22, 2016 and 6 bonus special shares were issued, as of the date of May 31, 2016, to each employee of the Group with a permanent work contract (including those with a part time contract) having the following requisites:

(i) an employee against whom there are no disciplinary proceedings pending that may result in the resolution of work relationship, or, alternatively
(ii) an employee against whom there is no sentence at first instance in a legal proceeding connected with work that may result in the resolution of the work relationship or in any case connected with violations of the principles of the Group's Code of Ethics.

The bonus award of the special shares was made by charging the equity reserves with the same accounting value as the Bank's ordinary shares.
Special shares were converted into ordinary shares, after a 1:100 ratio split, starting from April 7, 2017, when trading of the Bank's shares on the MTA (*Mercato Telematico Azionario*) began (referred to as the "listing").

b) Stock Option Plan

On December 5, 2016, the BFF extraordinary shareholders' meeting approved the stock option plan for employees and members of the corporate boards, which had been already submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular No. 285. The plan has the following features:

- *purpose*: the plans calls for the award of a total of 8,960,000 options in three tranches, each of which attributes to the beneficiary the right to subscribe to one new issue ordinary share of the Bank, that is, to purchase one ordinary share (with regular dividend right, without par value) in the portfolio of the company when the option is exercised (taking into accounting the split in the number of shares);
- During the first half of 2017, option rights to the stock option plan were awarded, but only for the first tranche, which corresponds to 3.75% of fully diluted capital, or 6,720,000 shares awarded;
- *beneficiaries*: the identification of the beneficiaries and the attribution of the options are decided by:
    a) the Board of Directors, after consulting with the Remuneration Committee, with reference to executives and directors;
    b) the CEO in the other cases, with the understanding that the CEO may award, within the limits of his powers and the amount established by the Board of Directors for those categories, the options, if any, not awarded by the Board of Directors to beneficiaries that are not executives or directors;
- *operation of the plan*: the stock option plan provides that the Board of Directors shall fix, as proposed by the Remuneration Committee, the operating criteria (including establishing

the exercise price of the options on the basis of the formula indicated in the stock option plan) under the remuneration and incentive policy for members of the key supervision, management and control boards, and personnel of the Banking Group, and in accordance with the law;

With regard to the award, the number of options awarded in each tranche to each beneficiary must be in 2:1 ratio between the variable and fixed component of remuneration for the risk takers in the Group with the exception of those in charge of Control Functions (as defined by the Bank of Italy) for whom there is a 35% cap, pursuant to the bylaws. The variable component of remuneration will be calculated by taking into account the option value when awarded and every other component of variable remuneration – except for discretional pension benefits, if any – to which the beneficiary is entitled in the same year.
As for each of the beneficiaries identified as a risk taker, the value of the option award should be such that the variable component of remuneration paid in financial instruments (calculated by taking into account the option value when awarded and every other financial instrument attributed as variable remuneration) is equal to at least 50% of total variable remuneration of the beneficiary. The component of variable remuneration to be paid in financial instruments to the risk taker beneficiaries cannot be, in each year, less than 50% of the total variable remuneration of the same beneficiary. If this is not the case, when the variable remuneration for that year is decided, the Board of Directors should convert a part of the variable remuneration paid in cash to treasury shares of the Bank or (at the discretion of the Board of Directors) in subordinated Tier 2 debt instruments. The award of the options is without cost or against payment. Inclusion in the plan will be communicated in writing to each beneficiary with indication of:

a) the number of options awarded and the tranche to which they refer;

b) the method used to determine the exercise price;

c) the exercise period.

The inclusion of the beneficiary in one tranche of the plan does not ensure the automatic inclusion in the next tranche;

- *vesting*: the options awarded in each tranche will vest starting from the twelfth month following the award, in turn subject to a series of conditions detailed in the plan, which assumes: (a) continuation of the working relationship with the Group and/or office on the Board of Directors; and (b) levels of balance sheet resources and liquidity needed to meet the activities undertaken and compliance with other specific parameters, including those of a regulatory nature. In addition, the verification, before each vesting date (as defined in the plan), of one of the malus and clawback events indicated in the same plan will result in the loss, to the beneficiary, of all the options awarded and not yet vested;
- *malus and clawback*: the options are subject to *ex post* correction mechanisms (malus and/or clawback) which, when the pre-set circumstances arise, result in the loss and/or the restitution of the rights attributed by the plan.

BFF BANKING GROUP

Part L - Segment Reporting

At June 30, 2017, the Group is composed of Banca Farmafactoring S.p.A., the parent company, and the subsidiaries Farmafactoring España and Magellan.

Banca Farmafactoring, as well as its subsidiary Farmafactoring España S.A., is engaged in the management and sale of receivables due from the National Healthcare Service and other sectors of the Public Administration in Italy and in Spain.
Banca Farmafactoring also operates under the freedom to provide services provision in Portugal.
The two companies provide financial and management support to leading Italian and international companies operating in various sectors (primarily drugs and biomedical) through non-recourse factoring.
The clientele consists mainly of multinational companies in the pharmaceutical and biomedical sectors which generate receivables from their activities with the National Healthcare Service or the Public Administration. Banca Farmafactoring is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table includes the breakdown of turnover, receivables due from customers and recevaibles purchased broken down by debtor and geographical area, relating to Banca Farmafactoring and the subsidiary Farmafactoring España at both June 30, 2017 and June 30, 2016. At June 30, 2017, receivables due from Banca Farmafactoring and Farmafactoring España amounted to €2,050 million, compared to €1,927 million at June 30, 2016, thus increasing by 10%..

(In € thousands)

	At June 30, 2017			At June 30, 2016		
	Turnover managed	Due from customers	Receivables purchased	Turnover managed	Due from customers	Receivables purchased
Italy	**2,645,668**	**1,863,515**	**1,209,161**	**2,566,320**	**1,681,043**	**1,090;728**
National Healthcare Service	2,159,993	771,333	832,478	2,184,621	910,837	775,288
Public Administrations	424,884	970,155	350,204	336,397	685,426	299,639
Other	60,790	122,027	26,479	45,301	84,780	15,801
Spain	**148,594**	**104,628**	**148,594**	**198,193**	**203,999**	**192,480**
National Healthcare Service	53,882	100,455	53,882	143,401	151,070	137,689
Public Administrations	94,713	3,577	94,713	54,792	52,897	54,792
Other		596			32	
Portugal	**71,496**	**82,221**	**71,496**	**26,583**	**42,178**	**26,583**
National Healthcare Service	71,496	82,187	71,496	26,583	42,178	26,583
Other		34				
Total	**2,865,758**	**2,050,364**	**1,429,251**	**2,791,096**	**1,927,221**	**1,309,791**

Magellan S.A. is an independent specialized operator and a leader in the market for financial services offered to companies operating in the healthcare sector in Poland.
In the European Union, Magellan also has a significant presence in Slovakia and the Czech Republic.
Magellan's business covers three main sectors:

- financing the working capital of suppliers of the public administration;
- financing present and future receivables;
- financing investments in the public and healthcare sectors.

Magellan Group's receivables due from customers in the first half of 2017 amounted to €506 million (at the exchange rate recorded on June 30, 2017), up by 29% compared to €392 million at June 30, 2016. The Magellan Group's new business relating to the first half of 2017 amounted to €238 million (based on the average exchange rate recorded in the first six months), up by 34% compared to €177 million at June 30, 2016.

The breakdown due from customers and new business by geographical region is presented below:

(in € millions)

	06.30.2017		06.30.2016	
	Due from customers	New Business	Due from customers	New business
Poland	397	208	311	152
Slovakia	107	28	73	21
Czech Republic	3	2	3	3
Spain	0	0	5	0
Total	**506**	**238**	**392**	**177**

STATUTORY FINANCIAL STATEMENTS OF BANCA FARMAFACTORING

Balance Sheet

(in euros)

ASSETS	06.30.2017	12.31.2016
10. Cash and cash balances	3,720,637	145,477
20. Financial assets held for trading	0	110,869
40. Available-for-sale financial assets	464,143,292	385,279,885
50. Held-to-maturity financial assets	1,275,770,022	1,629,319,849
60. Due from banks	218,580,802	136,684,930
70. Due from customers	2,241,471,141	2,197,704,207
80. Hedging derivatives	353,163	529,027
100. Equity investments	115,487,012	115,487,012
110. Property, plant and equipment	11,931,570	12,152,236
120. Intangible assets	2,572,304	3,313,889
of which		
- goodwill	*0*	*0*
130. Tax assets	14,186,832	24,487,905
a) current tax assets	*10,440,485*	*20,749,196*
b) deferred tax assets	*3,746,347*	*3,738,709*
of which for purpose of Law 214/2011	*717,128*	*748,650*
150. Other assets	7,384,226	4,367,201
TOTAL ASSETS	4,355,601,001	4,509,582,487

BFF BANKING GROUP

Balance Sheet

(in euros)

LIABILITIES AND EQUITY	06.30.2017	12.31.2016
10. Due to banks	594,057,759	603,346,026
20. Due to customers	2,864,488,030	3,007,682,965
30. Debt securities issued	446,002,365	453,338,615
40. Financial liabilities held for trading	0	6,568
60. Hedging derivatives	28,509	176,037
80. Tax liabilities	65,479,839	71,212,011
a) current tax liabilities	*12,651,180*	*22,306,933*
b) deferred tax liabilities	*52,828,659*	*48,905,078*
100. Other liabilities	86,300,538	42,993,236
110. Provision for employee severance indemnities	855,927	867,129
120. Provisions for risks and charges	5,886,169	6,527,722
a) pension fund and similar obligations	*5,513,868*	*6,156,254*
b) other provisions	*372,301*	*371,468*
130. Revaluation reserves	3,809,547	4,494,859
160. Reserves	117,316,565	117,640,902
180. Issued capital	130,982,698	130,982,698
200. Profit for the year	40,393,055	70,313,719
TOTAL LIABILITIES AND EQUITY	4,355,601,001	4,509,582,487

BFF BANKING GROUP

Income Statement

(in euros)

ITEMS		06.30.2017	06.30.2016
10.	Interest income and similar revenues	101,099,130	71,361,288
20.	Interest expense and similar expenses	(15,759,114)	(11,151,257)
30.	**Net interest margin**	**85,340,016**	**60,210,031**
40.	Fee and commission income	3,969,413	3,979,817
50.	Fee and commission expenses	(460,727)	(254,024)
60.	**Net fees and commissions**	**3,508,686**	**3,725,793**
70.	Dividends and similar income	0	8,021,500
80.	Gains (losses) on financial assets and liabilities held for trading	(3,767,267)	960,414
90.	Fair value adjustment in hedge accounting	26,955	0
100.	Gains (losses) on disposals and repurchases of:		
	b) available-for-sale financial assets	20,340	381,431
120.	**Operating income**	**85,128,730**	**73,299,169**
130.	Net losses/recoveries on impairment:		
	a) receivables	(689,688)	947,140
140.	**Net profit from financial activities**	**84,439,042**	**74,246,309**
150.	Administrative costs:		
	a) personnel costs	(12,536,888)	(9,411,673)
	b) other administrative expenses	(15,330,257)	(15,868,394)
160.	Net provisions for risks and charges	(403,383)	(528,451)
170.	Net writeoffs/writebacks on property, plant and equipment	(579,587)	(574,963)
180.	Net writeoffs/writebacks on intangible assets	(884,205)	(750,128)
190.	Other operating income (expenses)	2,359,682	1,656,677
200.	**Operating costs**	**(27,374,638)**	**(25,476,932)**
250.	**Profit (loss) before tax from continuing operations**	**57,064,404**	**48,769,377**
260.	Income taxes on profit (loss) from continuing operations	(16.671.349)	(12.625.384)
270.	**Profit (loss) after tax from continuing operations**	**40,393,055**	**36,143,993**
290.	**Profit for the period**	**40,393,055**	**36,143,993**
	Basic Earnings Per Share	**0.24**	**0.21**
	Diluted Earnings Per Share	**0.24**	**0.21**

Statement of Comprehensive Income

(in euros)

	ITEMS	06.30.2017	06.30.2016
10.	Profit for the period	40,393,055	36,143,993
	Other comprehensive income after tax not reclassified to profit or loss		
20.	Property, plant and equipment		
30.	Intangible assets		
40.	Defined benefit plans	(9,982)	(61,279)
50.	Non-current assets classified as held for sale		
60.	Portion of revaluation reserves from investments valued at equity		
	Other comprehensive income after tax that may be reclassified to profit or loss		
70.	Hedges of foreign investments		
80.	Exchange differences		
90.	Cash flow hedges	(123,539)	0
100.	Available-for-sale financial assets	(551,791)	(505,214)
110.	Non-current assets classified as held for sale		
120.	Valuation reserves from investments accounted for using the equity method		
130.	Total other comprehensive income, net of taxes	(685,312)	(566,493)
140.	Comprehensive income (Items 10 + 130)	39,707,743	35,577,500

ATTESTATION BY THE FINANCIAL REPORTING OFFICER WITH THE PREPARATION OF CORPORATE ACCOUNTING DOCUMENTS

CERTIFICATION OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE. 81-TER OF CONSOB REGULATION N. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned
   - Massimiliano Belingheri, in his capacity as CEO;
   - Carlo Zanni, as Financial reporting officer of Banca Farmafactoring S.p.A., hereby certify, having taken into account the provisions of art. 154-bis, paragraphs 3 e 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 2017.

2. The suitability and effective application of the administrative and accounting process for the drafting of the consolidated condensed interim financial statements as of 30 June 2017 was verified based on internally defined method adopted by Banca Farmafactoring S.p.A., in accordance with the Internal Control - *Integrated Framework* model issued by *Committee of Sponsoring Organizations of Tradeway Commission (COSO)* 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 consolidated condensed interim financial statements as of 30 June 2017
   a) were 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) correspond to the results of the accounting books and records;
   c) are 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 half-year consolidated financial report includes a reliable analysis of the important events which occurred during the first half of the year and their impact on the consolidated condensed interim financial statements, 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.

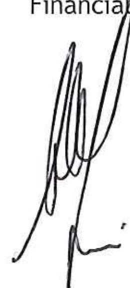
Milan, 02 august 2017

MASSIMILIANO BELINGHERI

Chief Executive Officer

CARLO ZANNI

Financial reporting officer



INDEPENDENT AUDITORS' REPORT

REVIEW REPORT ON CONSOLIDATED CONDENSED
INTERIM FINANCIAL STATEMENTS
AS OF 30 JUNE 2017

BANCA FARMAFACTORING SPA

REVIEW REPORT ON CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2017

To the shareholders of
Banca Farmafactoring SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Banca Farmafactoring SpA and its subsidiaries (the Banca Farmafactoring Group) as of 30 June 2017, comprising the consolidated balance sheet, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows and related notes. The directors of Banca Farmafactoring SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope 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 consolidated condensed interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of the Banca Farmafactoring Group as of 30 June 2017 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 2 August 2017

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

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