BFF BANKING GROUP

2017 CONSOLIDATED ANNUAL REPORT

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

CONSOLIDATED FINANCIAL STATEMENTS AND REPORTS 2017

Contents

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 since April 7, 2017 (start date of trading of BFF shares on the MTA). Previously serving as Acting Auditor.

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

Independent Auditors

PricewaterhouseCoopers S.p.A.

Financial Reporting Officer

Carlo Maurizio Zanni

Committees

Remuneration Committee

Name	Office	Position
Elisabetta Oliveri	Independent Director	Chairperson
Giampaolo Zambeletti Rossi [1]	Independent Director	Committee Member
Luigi Sbrozzi	Non-Executive Director	Committee Member

(1) Member of the Remuneration Committee since April 7, 2017 (start date of trading of BFF shares on the MTA).

Related Party Transactions Committee

Name	Office	Position
Elisabetta Oliveri [2]	Independent Director	Chairperson
Michaela Aumann [3]	Independent Director	Committee Member
Giampaolo Zambeletti Rossi	Independent Director	Committee Member

(2) Chairperson of the Related Party Transactions Committee since April 7, 2017 (start date of trading of BFF shares on the MTA). Previously serving as Committee Member

(3) Member of the Related Party Transactions Committee since April 7, 2017 (start date of trading of BFF shares on the MTA).

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 [4]	Independent Director	Committee Member
Luigi Sbrozzi	Non-Executive Director	Committee Member

(4) Member of the Control and Risk Committee since April 7, 2017 (start date of trading of BFF shares on the MTA).

Board of Directors

Role of Board of Director's members and independence requirements

Name	Office	Executive	Non-Executive	Independence	
				PURSUANT TO CONSOLIDATED LAW ON FINANCE	PURSUANT TO CORPORATE GOVERNANCE CODE
Salvatore Messina	Chairman		✓	✓	
Luigi Sbrozzi	Vice Chairman		✓		
Massimiliano Belingheri	Chief Executive Officer	✓			
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		✓	✓	✓

01 REPORT ON OPERATIONS

Structure of the Group

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

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

Thanks to Magellan, the Banking Group operates in a position of leadership in the Polish alternative financing market (AFM) in the hospital area, where intermediaries compete with traditional bank service providers in financing healthcare entities. Other specialized operators are also active in this segment, and, in a limited manner, some traditional banks, too.
The acquisition of Magellan has made it possible to significantly develop the Group through exposure on growing markets and the creation of a platform functional to a possible gradual expansion into Eastern Europe and 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 markets in which it operates.

At December 31, 2017, the Banca Farmafactoring Banking Group included the Parent Banca Farmafactoring and the following companies:

Company name	Registered and operating office	Relationship type (1)	Investment relationship		Voting rights % (2)
			Investor	Invest. %	
COMPANIES 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.	Milan - Via Statuto 10	4	Banca Farmafactoring	0%	0%
3. BFF SPV S.r.l.	Milan - Via A. Pestalozza 12/14	4	Banca Farmafactoring	0%	0%
4. Magellan S.A.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	1	Banca Farmafactoring	100%	100%
5. MedFinance S.A.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	1	Magellan S.A.	100%	100%
6. Magellan Česká Republika S.R.O.	Prague - Roztylská 1860/1	1	Magellan S.A.	100%	100%
7. Magellan Central Europe S.R.O.	Bratislava - Mostova 2	1	Magellan S.A.	100%	100%
8. Debt-Rnt sp. Z O.O.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	1	Magellan S.A.	100%	100%
9. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw - Plac Dąbrowskiego 1	1	Magellan S.A.	100%	100%
10. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	1	Magellan S.A.	100%	100%
11. Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Magellan S.A.	99%	99%
12. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O	99%	99%

Companies in points 11 and 12 above are limited partnerships and are not consolidated, since their turnover figures are not significant.

Key:

(1) Relationship type:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = having a 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 ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.

The International Economic Scenario

The global economy appears to be growing steadily in the main advanced economies and in emerging countries, as well. According to OECD forecasts, global GDP growth is estimated at 3.6% in 2017 and slightly up, at 3.7%, in 2018. The outlook thus remains favorable in the short term, although there are still risks associated with a possible increase in financial market volatility due to the sudden intensification of geopolitical tensions - with North Korea in particular - and uncertainties regarding economic policies, which could negatively affect the confidence of households and businesses.

In the United States, the most recent data indicates sustained growth. In the UK, private consumption shows signs of recovery, and leading indicators suggest that the expansion rate in the final quarter of 2017 is in line with the average of the first three quarters. In Japan, the most recent economic data points to an acceleration of economic activity in the final quarter of last year. In emerging countries, the recovery in progress since the first half of 2017 continues: in China, growth remained stable in the last months of the year, after exceeding expectations in the previous quarters, while GDP growth accelerated in India and Brazil.

In the third quarter of 2017, global trade grew at a rate of 3.5%, with more sustained momentum in imports from the Eurozone and emerging Asian countries other than China. However, the outcome of the last meeting between countries adhering to the North American Free Trade Agreement (NAFTA), aimed at revising the same, makes the future of international trade agreements more uncertain. The effects of the tax reform approved in the United States last December 20, which envisages reduced tax rates for households and businesses, could be a stimulus for global growth.

Since the end of September 2017, oil prices have continued to rise, driven by strong global demand, continued agreement among the main oil producing countries on supply control, and the increase in geopolitical tensions in the Middle East and Venezuela. Nevertheless, futures prices forecast a slight decline in oil prices in the medium term.

As expected, at the meeting on December 13, 2017, the Federal Reserve increased the target federal funds rate by 25 basis points, to 1.25-1.50%. The Bank of England adopted a more restrictive monetary policy, bringing the official rate back up to 0.5%, after reducing it following the outcome of the Brexit referendum. In China, the central bank gradually tightened monetary conditions, favoring a further increase in interbank rates, and introduced new prudential measures in the banking and asset management sector.

Inflation remains contained in the major advanced economies: it stands at slightly above 2% in the United States, where the consumption deflator (1.8%), however, is two-tenths of a percentage point below the Federal Reserve target; it is around 0.5% in Japan. The UK continues to be an exception, with a 3% price increase, also due to the depreciation of the pound. Inflation remains moderate also in the main emerging economies.

Growth forecasts also improved in the Eurozone: gross domestic product is expected to expand by 2.4% in 2017 and by 2.3% in 2018, driven by foreign demand and consumption. Inflation remains low, equal to 1.4% in December 2017: core inflation continues to be weak, curbed by still modest wage growth in many euro area economies. The ECB Governing Council reiterated, at its meeting on October 26, 2017, its orientation towards expansive monetary conditions, necessary to secure a sustained return of inflation to levels below but close to 2%.

The Governing Council also confirmed this stance at its meeting on December 14, 2017, stating that official rates will remain at current levels for a prolonged period of time and well beyond the horizon of net purchases of securities.
On the basis of the available data, in the last quarter of the year the growth in loans to non-financial companies in the Eurozone accelerated (5.2% in 2017), while loans to households grew in all major countries, with the exception of Spain (2.7% in the area).

Despite reaching an agreement on the first phase of negotiations for the exit of the UK from the European Union, uncertainty over the configuration of relations between the two economies remains high.

International financial market conditions continue to remain relatively stable: long-term interest rates in the major advanced economies increased compared to the low levels recorded at the end of September, and sovereign risk premiums decreased significantly in the Eurozone, benefiting from strengthened growth in the countries of the area as well as the favorable reaction of market operators to the reformulation of the purchase program announced by the ECB. Stock prices stand at historical highs, albeit with differentiated trends.
The Euro strengthened against main currencies, with further appreciation expected in the short term: at the end of September it grew by 3.6% against the dollar, 1.9% against the yen and 0.8% against the pound.

The Italian Economy in 2017 and Comments on the Economies of the Countries in which the Group Operates

In Italy the economy continued to expand in 2017, although less than the European average. The latest available estimates of the International Monetary Fund expect Italian GDP to increase by 1.5%/1.6% in 2017, with an improvement compared to the autumn forecasts, confirming government and ISTAT estimates and forecasting a slowdown in 2018 (+1.4% growth) and 2019 (+1.1%).
The International Monetary Fund also predicts risks regarding the implementation of reforms and the continuation of on-going economic recovery that may result from the uncertainty following the March 4 Italian general election.

GDP growth, mainly in the services and industry sector, was driven by domestic demand, stimulated by investments in capital goods, and trade with foreign countries in particular, with a marked increase in exports compared to imports.
During the autumn months, business confidence indexes continued to improve, signaling the return of confidence to pre-recession levels, also confirmed by the acceleration in investment spending recorded in the second half of the year. According to the quarterly survey conducted in December by the Bank of Italy in collaboration with "Il Sole 24 Ore", opinions on the general economic situation, although slightly down, remain widely positive, and feedback on investment conditions was largely favorable.
In the third quarter, total business debt as a percentage of GDP decreased, while the demand for bank loans continued to be held back by lower external financing needs, also met through corporate bond issues.
Household spending also continued to increase, especially in durable goods, with improved con-

sumer confidence, which suggests a continuation of consumption growth in the final quarter of 2017. As confirmation of this positive scenario, Italian household debt in relation to disposable income decreased in the third quarter (from 61.3% to 61%), well below the Eurozone average (94.1% at the end of September).
Employment continued to rise both in the third quarter and, according to the latest information, in the final months of 2017. Unemployment stood at 11% in November, compared to 11.7% at the end of 2016, the lowest level in the last 5 years. Wage growth remains moderate despite some signs of recovery on the basis of employment contracts renewed in the second half of last year.
Inflation is still weak in Italy, coming in at 1.3% in 2017 and expected to drop to 1.1% in 2018, as the effect of the increase in energy and food prices at the start of 2017 begins to fade. In the next two years prices should return to rise by 1.5%, reflecting the gradual strengthening of wage growth.

The quality of bank loans also continued to improve in 2017, favored by consolidated growth. The ratio of impaired loans to total loans decreased (for significant groups, from 8.2% to 7.8%, net of value adjustments), mainly due to the conclusion of transactions for the sale of non-performing loans. The capital ratios of banks strengthened.
Since last October, the decline in yield differentials between Italian and German government bonds resumed: on ten-year bonds the yield decreased by approx. 13 basis points to 1.98%, while the differential with the corresponding German bond went down 25 basis points, to 140 points.

Based on the estimates of the quarterly accounts released by ISTAT, in the first nine months of 2017 net borrowing of public administration agencies stood at 2.3% of GDP, an improvement of approx. 0.2% compared to the corresponding period in 2016. At the end of November, the debt of the public administration amounted to 2,275 billion, up 56.6 billion compared to 2016. Considering the preliminary data for December, it is estimated that in 2017 the debt to GDP ratio decreased slightly compared to 2016.

In Spain, the 2018 budget law has not yet been approved, although the minority government led by Mariano Rajoy has requested the support of the other political forces. The suspension of Catalan independence has generated political and social instability and decreased foreign investment in the region, although there have been no particular delays in payments to suppliers as a result of this crisis.
Consolidation of economic recovery continued in 2017, with expected GDP growth of 3.1% despite a slight decline compared to 3.3% recorded in 2016. Forecasts for 2018 predict a 2.4% increase in GDP, higher than the main Eurozone countries.
The reasons behind the growth of the Spanish economy mainly involve the recovery of domestic demand, the increase in exports of goods and services, and improved credit conditions for businesses and families, following the adoption by the Spanish Government of special measures to encourage loans, especially for small and medium-size businesses.
The deficit/GDP ratio for 2017 should be equal to 3%, in line with the targets communicated to the European Union. Unemployment continued its downward trend, at 16.4% compared to 18.5% recorded at the end of 2016, but remains above the EU average and the second-highest in the Eurozone following Greece.

Economic recovery also continued in Portugal: the government estimates GDP growth of 2.4% in 2017, while an increase of 2.3% is expected in 2018. The positive trend of tax revenues, with an increase of 4.3% already recorded in 2017, should contribute to the achievement of this result. In

2017 the inflation rate stood at 1.4% and should remain more or less the same in 2018. The labor market shows signs of recovery with a steady decrease in unemployment, falling to 8.5% in the third quarter of the year compared to 11.1% recorded in 2016, the first time below 9% since 2009. In 2018, the Portuguese government predicts an unemployment rate of around 7.8%, and 7% in 2019. After reaching a record high of 130.6% of GDP in 2014, public debt should fall to 127.7% in 2017, with the goal of reaching 120% in 2021.

After the heavy season of austerity, which began in 2010, the fundamentals of the Greek economy returned positive in 2017. The government led by Alexis Tsipras announced, for 2017, a primary surplus equal to 2.2% of GDP, which should make it possible to ease austerity measures and, last September, the Finance Ministers of the European Union declared Greece's exit from the excessive deficit procedure.
GDP growth in 2017 is estimated at 1.3%, while the European Commission expects a 2.5% GDP increase over the next two years.
Following this renewed growth, the government intends to resume financing on markets: the Greek public debt agency hopes to raise 10 billion in 2018 and 15 billion in 2019 to cover its financing needs.
Unemployment, although declining, is currently at 21% (with youth unemployment at 42.8%), the highest in the Eurozone.

As far as Poland is concerned, the country's economy continues a phase of sustained growth, confirming one of the highest growth rates in the European Union.
In 2017 GDP is expected to grow up to 3.6%, an increase compared to 2.7% in 2016, while forecasts predict an increase of 3.3% in 2018, due above all to the increase in domestic demand and corporate investments, foreign in particular, to greater investments linked to EU funding, and to the growth in exports, which should remain sustained.
Private consumption should increase by 4.5% in 2017 and 3.4% in 2018, driven by the decrease in the unemployment rate, which went down from 8.2% in 2016 to 6.6% in 2017, by wage growth and by social transfers.
Consumer prices resumed growth and are expected to increase by 1.8% in 2017 and by 2.2% in 2018.
The easing of the country's fiscal policy led to an increase in government deficit to 2.5% of GDP in 2016, a trend that may be confirmed in 2017 due to the increase in social spending and public investment.

In Slovakia, the latest estimates predict a GDP growth rate of 3.2% in 2017, and 3.8% in 2018.
This growth, driven by strong foreign demand and the growth of household consumption, should create new jobs with unemployment down to 8.7% at the end of 2017, and to 7.5% in 2018. As regards trade with foreign countries, Slovakia recorded a surplus of €3 billion in the first three quarters of the year, 11% higher than the previous year. Imports increased by 2.6% to €48.3 billion, while exports rose by 3% to €51.3 billion.
The inflation rate should stand at 1.8% in 2017.

In the Czech Republic, the third quarter of 2017 showed economic growth of 5% compared to the same period in 2016, driven by the increase in public wages, which encouraged private consumption, and by manufacturing, which in November increased by 8.5% compared to the previous year. Inflation is at 2.5% on an annual basis, while the country has the lowest unemployment rate in the

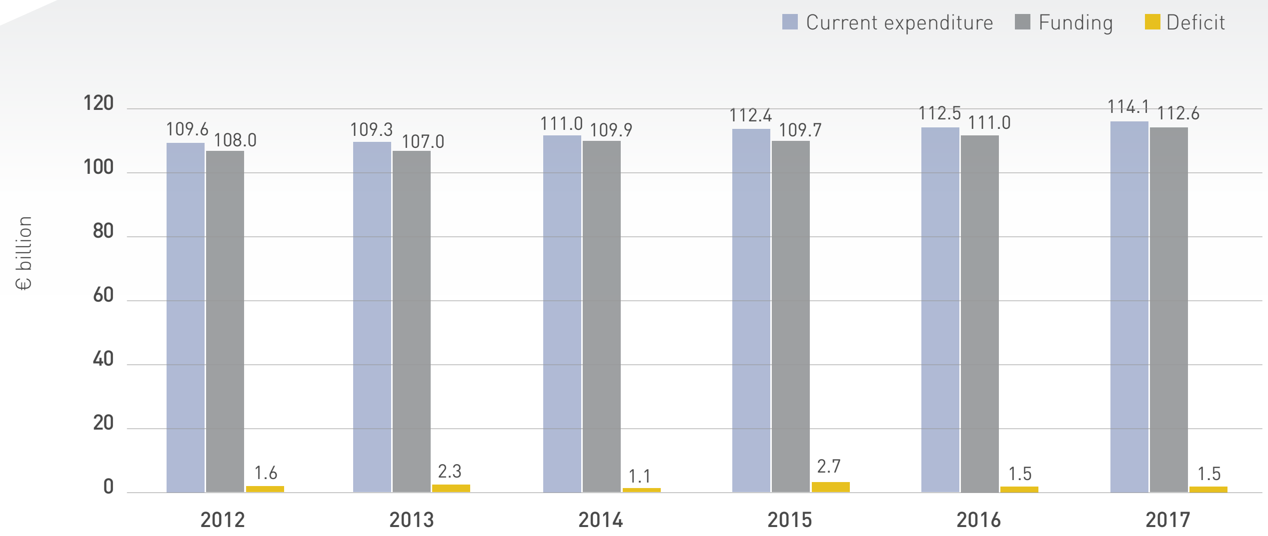
entire European Union (3.8% in December 2017, down 1.4% compared to December 2016).
Foreign trade grew from January to November 2017: imports amounted to €131.9 billion, with an increase of 11.2% compared to the same period in 2016, while exports were equal to €147.5 billion, with an increase of 8.7% over the previous year.

The National Debt Stock, Public Expenditure on Goods and Services in Italy, and Comments on the Countries in which the Group Operates

According to the 2017 Economic and Financial Document (*Documento di Economia e Finanza, DEF*), total public expenditure in Italy on goods and services in 2016 amounted to €138,887 million, of which €31,586 million relating to current expenditure on goods and services by the National Healthcare System and €107,301 million relating to total expenditure on goods and services by other Italian public administration agencies.
2017 forecasts of public finance set out in the 2017 DEF document estimate public expenditure on goods and services at €139,413 million, of which €32,453 million in relation to current expenditure on goods and services by the National Healthcare System and €106,960 million by other Italian public administration agencies.
According to the monthly Statistical Bulletin published by the Bank of Italy, in October 2017 Italy's national debt increased to nearly €2,290 billion, compared to €2,284 billion at the end of September. The increase was mainly due to the requirements of the public administration agencies, totaling €4.9 billion.
According to the Bank of Italy's estimates, the public administration agencies' commercial debt for 2016 amounts to approximately €64 billion. Article 1 of the 2017 Budget Law (Law no. 232/2016) determined the level of government funding for standard national healthcare needs, set at €113 billion for 2017 and €114 billion in 2018. For 2019, the level of funding for national healthcare needs has been set at €115 billion.
Subsequently, the decree issued by the Ministry of Economy and Finance on June 5, 2017, reduced government funding of standard national healthcare needs by €423 million in 2017 and by €604 million in 2018. Therefore, in 2017 the national healthcare need is equal to €112.6 billion, while it amounts to €114 billion in 2018.

According to the estimates in the Update to the 2017 DEF, healthcare spending is expected to reach €115 billion in 2018, €116 billion in 2019 and €118 billion in 2020. In 2017, it is estimated at €114.1 billion. The 2017 deficit would thus amount to €1.5 billion.

National Healthcare Fund (MEF data)



Beginning January 1, 2015, as established by the 2015 Budget Law, a split payment mechanism was introduced (Article 17-ter of Presidential Decree no. 633/1972), on the basis of which the public entities, and no longer the suppliers, must pay VAT to the tax authorities on certain sales of goods and on services rendered to those entities. The payment of invoices is therefore split between the tax authorities, with regard to VAT, and the supplier, for the taxable amount. Since this area is regulated by EU laws, the European Commission examined the Italian law and, in June, it authorized the application of the split payment mechanism, but only until December 31, 2017.
Following a request on the part of the Italian government, on May 6, 2017, the 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), and also extended the parties involved and the scope of application of the mechanism. Such rule still has a provisional nature.

In recent years, the Italian legislator has intervened on several occasions to inject liquidity into the system. In the two years 2013-2014, funds were repeatedly set aside to tackle the problem of public administration agencies' debt. More specifically:

a. Decree-Law no. 35/2013 made approximately €40 billion available for the years 2013 and 2014;
b. Decree-Law no. 102/2013 set aside another €7.2 billion for 2013;
c. the 2014 Budget Law allocated €0.5 billion;
d. Decree-Law no. 66/2014 made available an additional €9.3 billion.

As noted in the Bank of Italy's estimates referred to above, these interventions reduced commercial debt but have not resolved the issue of late payment by the public administration. As a matter of fact, on December 7, 2017, the European Commission decided to refer Italy to the Court of Justice for breach, by public administration agencies, of the provisions of Directive 2011/7/EU on combating late payment in commercial transactions, and implemented in Italy through Legislative Decree no. 192/2012, which amended Legislative Decree no. 231/2002.

The decision of the Commission comes three years after the initiation of the infringement procedure (no. 2014/2143) in June 2014 through a letter of formal notice, following the motivated opinion of February 15, 2017. In particular, it is noted that in practice the Italian public administration agencies breach Article 4 of Directive 2011/7/EU, which states that payments must be made within thirty days (extendable to sixty days for public companies required to comply with the transparency requirements set out in Legislative Decree no. 333 of November 11, 2003, and for public entities providing healthcare services).

The Repayment Plans aim to restore the economic and financial balance of the Regions involved and, on the basis of the recognition of the causes that structurally determined significant management deficits on a regional level, they identify and selectively address the various problems that have arisen in each region.
This procedure is currently adopted in Apulia and Sicily (Piedmont announced it achieved the targets set by the Repayment Plan), in addition to Lazio, Abruzzo, Molise, Campania and Calabria, regions for which an administrator (*Commissario ad acta*) is also required for the continuation of the repayment plan. The administrative receivership procedure for the Lazio region is expected to end on December 31, 2018.

On July 15, 2016, the Ministerial Decree issued by the Ministry of Health together with the Ministry of Economy and Finance on June 21, 2016, regarding "repayment plans for hospitals, university hospitals, public scientific institutes for hospitalization and healthcare or other public entities", was published in the Official Gazette. Pursuant to such decree, hospitals - and, starting from 2017, Local Healthcare Entities (ASL) - that have a financial deficit of more than 10% between costs and revenues must adopt a repayment plan. The "2017 Budget Law" established that if the deficit between costs and revenues reaches 7% of revenues or €7 million (instead of the current 10% and €10 million), hospitals or university hospitals and other public entities offering hospitalization and healthcare services shall adopt and implement a repayment plan.
With ruling no. 192 of 2017, the Constitutional Court accepted the appeal submitted by the Veneto Region, noting that the quantification of excess spending must be ascertained together with the Regions.

Article 1, paragraph 533, of the "2017 Budget Law" passed on December 11, 2016 called for the evolution of the SIOPE (*Sistema Informativo sulle Operazioni degli Enti Pubblici*, General Government Transactions Information System) data collection system into SIOPE+. The purpose is to improve the monitoring of the time taken for public administration agencies to pay trade payables by integrating the data collected via SIOPE with those of the purchase invoices recorded by the PCC electronic platform, and, ultimately, to follow the entire revenue and expenditure cycle.
SIOPE+ asks all public administration agencies to:

a) request collections and payments through their treasurer or cashier using exclusively 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.

Subsequent implementing decrees provided for the following:
- experimentation - phase 1 from July 1, 2017 for 7 entities, including 5 municipalities;
- experimentation - phase 2 from October 1, 2017 for 23 entities, including 17 municipalities and 1 metropolitan city;
- full operation from January 1, 2018 for all regions, autonomous provinces, metropolitan cities and provinces;
- full operation from April 1, 2018 for municipalities of over 60,000 inhabitants;
- full operation from July 1, 2018 for municipalities of 10,001 to 60,000 inhabitants;
- full operation from October 1, 2018 for municipalities of up to 10,000 inhabitants;
- full operation from January 1, 2019 for municipalities affected by the earthquakes that occurred starting from August 24, 2016;
- full operation from October 1, 2018 for local healthcare entities and hospitals.

With regard to the situation in Spain, at November 2017 the size of the national debt was €1,142 billion, increasing compared to €1,100 billion in the corresponding period of 2016. In light of the foregoing, public debt is equal to 99.2% of GDP in 2017, the same level as in 2016.
Total public expenditure on goods and services was €56 billion, which corresponds to 5% of the Spanish GDP.
As to the Spanish National Healthcare System, the latest figures available, supplied by the Ministry of Economy and Finance in November 2017, suggest that the deficit decreased from €4 billion in 2016 to €3.6 billion in 2017.
As for expenditure for the supply of drug products, in 2017 there was a 2.7% increase over the prior year period, compared to an increase of 1.1% reported in 2016.
Extraordinary regional funding mechanisms such as the FLA (*Fondo de Liquidez Autonómico*) and the FFF (*Fondo de Facilidad Financiera*) are still in place, for a total amount of €30 billion in 2017.

In Portugal, at December 2017, overall public expenditure on goods and services was €11.8 billion, fueled by healthcare expenditure of €3.8 billion (€3.7 billion in 2016).
As regards the Portuguese healthcare sector, the DGO (*Direção - Geral do Orçamento*, the body that controls the implementation of the budget) reported an increase in revenues compared to the prior year due to an increase in transfers from the Government (approximately +5%). The Portuguese healthcare deficit amounts to €230.5 million, a decrease compared to €301.1 million in 2016.
The latest figures for 2017 indicate a national debt of €257.4 billion, with a debt to GDP ratio of 1.3%.

Greece remained at the top of the ranking with debt amounting to €320 billion, equal to 180% of GDP, one of the highest ratios in the world. Overall public expenditure on goods and services was €8 billion, which corresponds to 4.8% of GDP.

With regard to Poland, in 2017 overall expenditure on goods and services for central and local entities of the public administration is estimated at PLN 625 billion, corresponding to €158 billion (based on the exchange rate at December 29), an increase of 10.2% over the prior year.

In Poland, the National Healthcare System is funded by the government through the National Healthcare Fund (*Narodowy Fundusz Zdrowia*, NFZ). In 2017, healthcare expenditure amounted to PLN 80 billion (approximately €19 billion), whereas the costs and revenues of the NFZ should increase by 8.4% and 9.7% respectively compared to 2016. The deficit of the National Healthcare System for 2017 should amount to PLN 1.6 billion, compared to PLN 2.4 billion in 2016.

In Slovakia, public debt in 2017 should be about 1.6% of GDP, decreasing to 1.2% in 2018.
In 2017, revenues of €4.7 billion - against costs of €4.5 billion - are expected for the healthcare system, with a surplus of €0.2 billion.
The Government has planned the reduction of healthcare debt in 2018, also approved by the Slovakian parliament, for a total of €585 million.

As for the Czech Republic, the public accounts for 2017 closed with a deficit of CZK 6.2 billion (corresponding to €243 million based on the exchange rate at December 29), compared to a surplus of CZK 62 billion (approximately €2.3 billion) in 2016.
Public expenditure is estimated at CZK 280 billion (approximately €11 billion).

The Factoring Market in Italy

Banca Farmafactoring is the leader in Italy in the factoring sector and specializes in the management and non-recourse sale of trade receivables due from supplier companies of the National Healthcare System 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 national debt and impaired loans narrow the margin of maneuver of the state and financial intermediaries, factoring distinguishes itself for the lower risk involved, as validated by a modest non-performing loan percentage.

At the end of 2017, the Italian factoring market, in general, maintained a steadily higher level of support to firms as compared to other types of loans, with turnover increasing to approximately €222 billion, accounting for 13% of national GDP.

Year-end figures show that cumulative turnover increased by 9.5% compared to the previous year, when a 9.6% YoY increase was recognized. Outstanding receivables grew by 2.2% to €62.3 billion; fees and advances to clients also increased (+1.4%, equal to over €50 billion).
Likewise, following these positive results, 2017 profit is expected to increase compared to 2016.

Developments in the Banking Group

The consolidated financial statements at December 31, 2017 include the aggregated figures from the balance sheet and income statement 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 vehicles Farmafactoring SPV I S.r.l. and BFF SPV S.r.l., and the companies of 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). On April 7, 2017, the shares began trading on the MTA, following Borsa Italiana S.p.A.'s authorization, as described in greater detail under "Significant events during the period".

At December 31, 2017, the Group's net profit amounted to €95.5 million, compared to €72.1 million at December 31, 2016, thus increasing 32.4% from the previous year's figures, which included the 7-month performance of Magellan since its acquisition by the Banca Farmafactoring Group.

The normalized profit of the Group (representing the Group's results of operations net of non-recurring expenses due to listing, non-recurring income from the change in the recovery rate of late payment interest, but including the Magellan Group's figures for the entire period - without considering the above-mentioned items), amounted to €83.7 million, compared to a normalized profit of €87.3 million for 2016.

(In € millions)

	12/31/2017	12/31/2016
Profit for the period	**95.5**	**72.1**
One-off costs for the acquisition of Magellan	-	7.6
IPO expenses	2.8	2.4
Change in estimate of the late payment interest recovery percentage from 40% to 45% – one-off effect	(17.8)	-
Exchange differences covered by Translation reserve in Equity	3.3	(0.3)
Resolution fund – non-recurring contribution	-	**1.5**
Normalized profit (2016: 7-month period for Magellan)	**83.7**	**83.3**
Magellan's profit (5-month period)	-	4.0
Normalized profit	**83.7**	**87.3**

Compared to the consolidated profit, the normalized profit does not include:
- non-recurring expenses of €2.8 million due to listing, of which €1.7 million referring to costs and €1.1 million to expenses concerning stock options granted to employees upon listing. Such cost is recognized in the income statement and generates an increase, before taxes, in equity;
- the one-off positive effect for Banca Farmafactoring and Farmafactoring España only, net of taxes, for a total of €17.8 million, deriving from the change, at January 1, 2017, in the collection percentage of late payment interest to be included in amortized cost. Such percentage changed from 40% to 45%, keeping the average collection times unchanged and estimated at 1,800 days. As a matter of fact, with regard to the receivables of the Parent Banca Farmafactoring and the subsidiary Farmafactoring España, and the estimated late payment interest collections, the time series of data was updated with the 2016 late payment interest collections. This resulted in a weighted average collection percentage that is higher than the 40% used for the preparation of the 2014 and 2015 financial statements and for the financial statements for the year ended December 31, 2016. The updating of the time series, which was undertaken considering the collections for 2017, confirmed the suitability of the existing percentage and of estimated collection times;
- the negative exchange effect recognized in profit or loss, arising from the revaluation of the loan payable in Polish zloty used for the acquisition of the Magellan Group and amounting, at December 31, to €3.3 million, net of taxes, offset by a positive effect from the revaluation of the exchange rates applied to the Magellan Group's equity in Consolidated equity.

Furthermore, compared to the previous year, 2017 results were unfavorably affected by:
- the negative impact, amounting to €2 million, of higher taxes, caused by the reduction in the rate relating to ACE (*Aiuto alla Crescita Economica*, Aid to Economic Growth), from 4.75% in 2016 to 1.6% in 2017, as provided for by Government corrective measures;
- the cost of the loans for the acquisition of the Magellan Group, amounting to €2.5 million after taxes, compared to €1.5 million in 2016;
- financial expenses for the issue of subordinated bonds in February 2017, for a net amount of €3.9 million;
- the impairment of assets acquired through the contributions to the Voluntary Scheme established by FITD (*Fondo Interbancario di Tutela dei Depositi*, Interbank Deposit Protection Fund) to save Caricesena, Carim and Carismi, amounting to €0.5 million net of taxes;
- the negative impact on the income statement of Magellan's performance in the factoring service for SMEs, relating to the recourse purchase of receivables due from private debtors and no longer sold in 2017, amounting to €1.3 million after taxes.

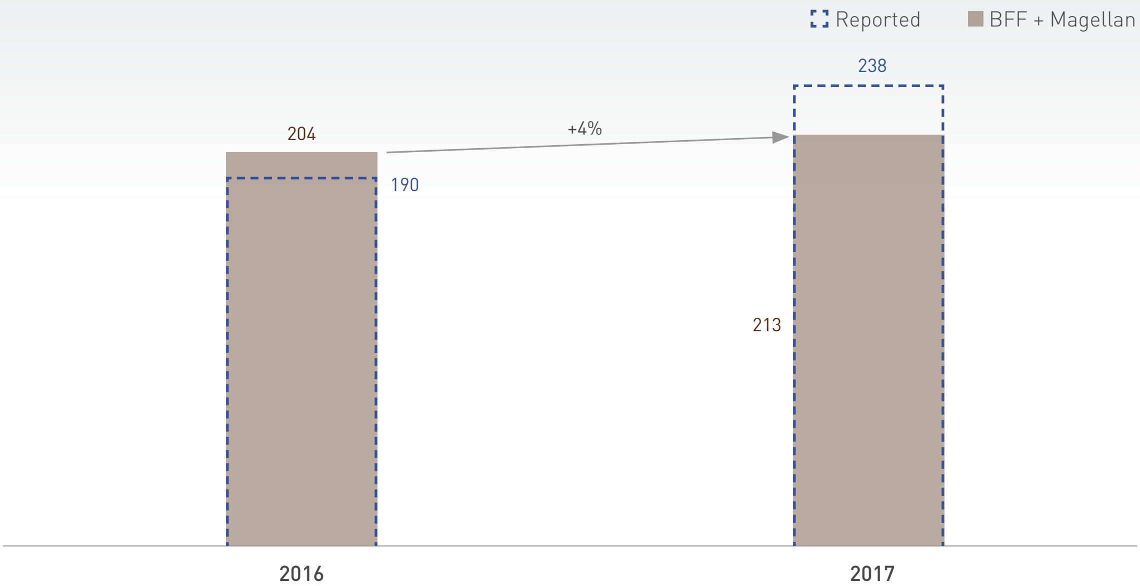
Taking account of the above-mentioned effects, 2017 normalized profit would amount to €92.5 million, up 6% on the previous years' €87.3 million.

Interest income totaled €237.9 million, compared to €190.2 million in 2016 (including a 7-month period for Magellan). Normalized interest income amounted to €212.8 million in 2017, compared to €204 million in 2016.
Interest income mainly includes:
- maturity commissions charged to customers;
- accrued late payment interest;
- gains on late payment interest collected in the period compared to the percentage already included in amortized cost;

- interest on government securities in portfolio;
- interest on loans issued 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 2016 and to a change - from 40% to 45% - in the estimated collection percentage used to account for late payment interest, referring to Banca Farmafactoring and Farmafactoring España only, to be included in amortized cost.
Gains recorded in 2017 are lower compared to the previous year also due to the change in the estimated collection percentage, included in amortized cost, from 40% to 45%.
The following chart shows the changes in interest income and normalized interest income: the latter fell from €237.9 million to €212.8 million, since no account was taken of the one-off positive effect of €25.2 million, before taxes, arising from the change in the estimate for the late payment interest collection percentage to be included in amortized cost, from 40% to 45%, for Banca Farmafactoring and Farmafactoring España only.
Normalized figures for 2016 include the Magellan Group's interest income for the entire year. As a result, interest grew from €190.2 million to €204 million.
The increase in normalized interest income is thus equal to 4%.

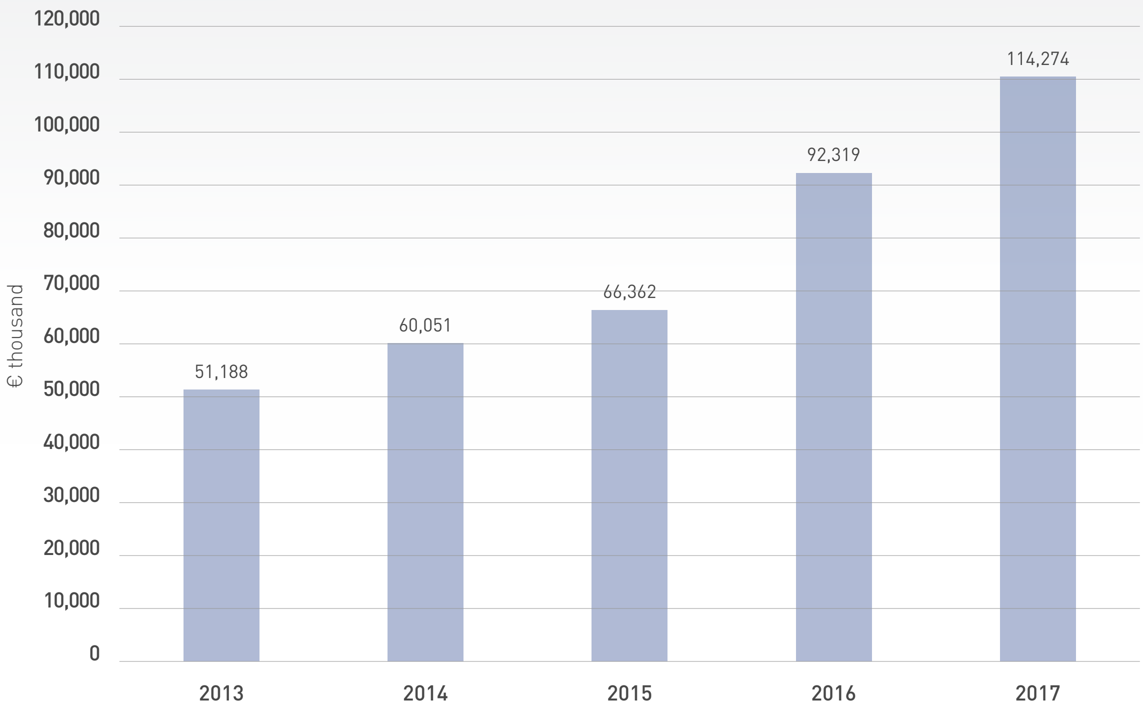
Normalized Interest Income (€m)



Collections of late payment interest amounted to €114.3 million at December 31, 2017, up 24% on the previous year's €91.8 million.
The 2017 figure include collections in Italy (€103.5 million), Spain (€10.6 million) and Portugal (€141 thousand). Recovery percentages relating to such collections were below those of the prior year. Therefore, the percentage gains recognized in the income statement were lower, also because of the increase to 45% in the expected recovery rate used to account for such interest on an accrual basis.

The following chart illustrates the trend of late payment interest collected over the last five years.

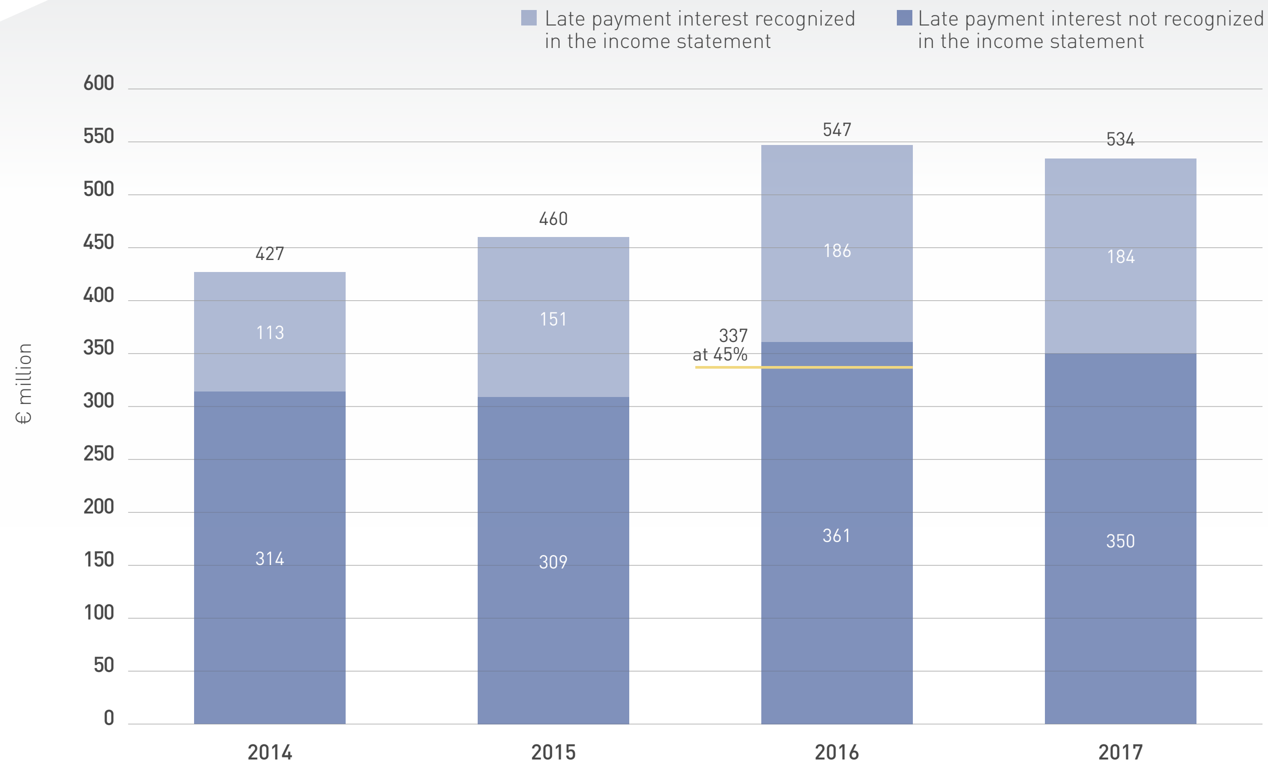
Banking Group: "late payment interest" collected



The cumulative amount of late payment interest due to Banca Farmafactoring and Farmafactoring España, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €534 million at December 31, 2017, including approximately €43 million due from Spanish debtors, €21 million due from Portuguese debtors and €1 million due from Greek debtors. An overall amount of €184 million in late payment interest was already recognized in the income statement for this year and the previous years, despite not being collected yet.
Had the 45% late payment interest collection rate been applied at December 31, 2016 as well, the amount not yet recognized in the income statement would have totaled €337 million. Therefore, the amount not yet recorded in the income statement at December 31, 2017 (€350 million) would show an increase of 4% compared to 2016.

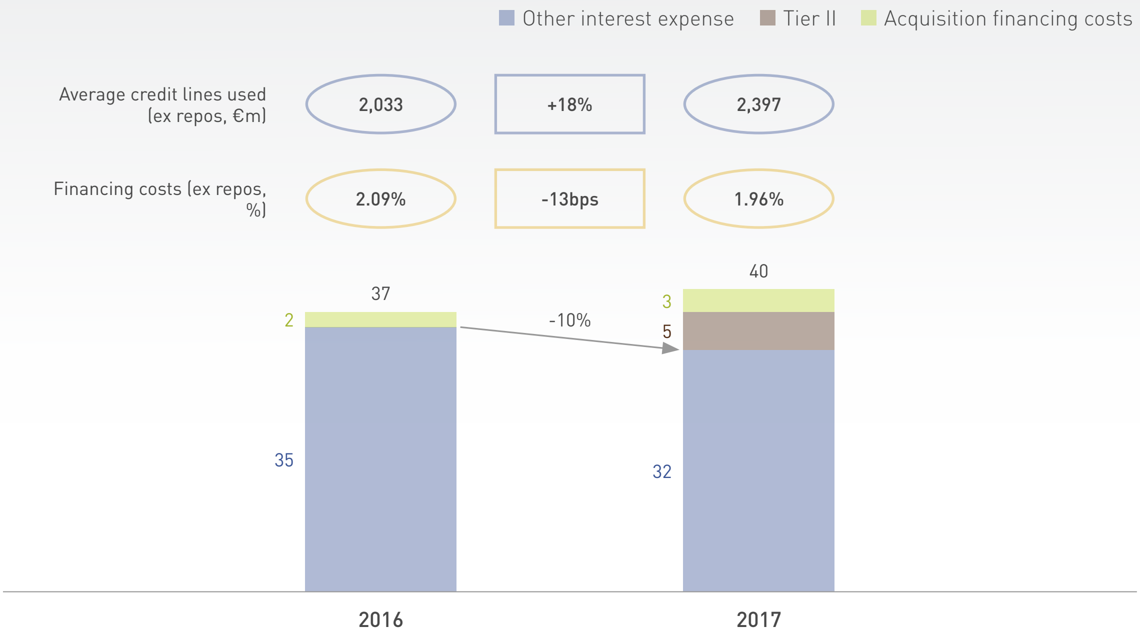
The following table shows the trend of the Provision for late payment interest in the last four years, with specific reference to the amounts recognized in the income statement.

“Late payment interest” provision



Interest expenses increased from €31 million at December 31, 2016 (€37.1 million considering the Magellan Group for a full year period) to €39.9 million at December 31, 2017. This increase in absolute terms is primarily due to a higher outstanding balance, interest expenses on the Tier 2 bonds of €4.9 million not recorded in 2016, and the cost of funding the acquisition of Magellan to the tune of €3.1 million in 2017, compared to €1.8 million in the previous year, when the latter was considered for seven months only.
At December 31, 2017, the ratio of financial expenses to average credit lines used was 1.96%, compared to 2.09% at December 31, 2016, showing a reduction of 13 basis points.
The average credit lines used increased by 18% from €2,033 million at December 31, 2016 to €2,397 million at December 31, 2017.

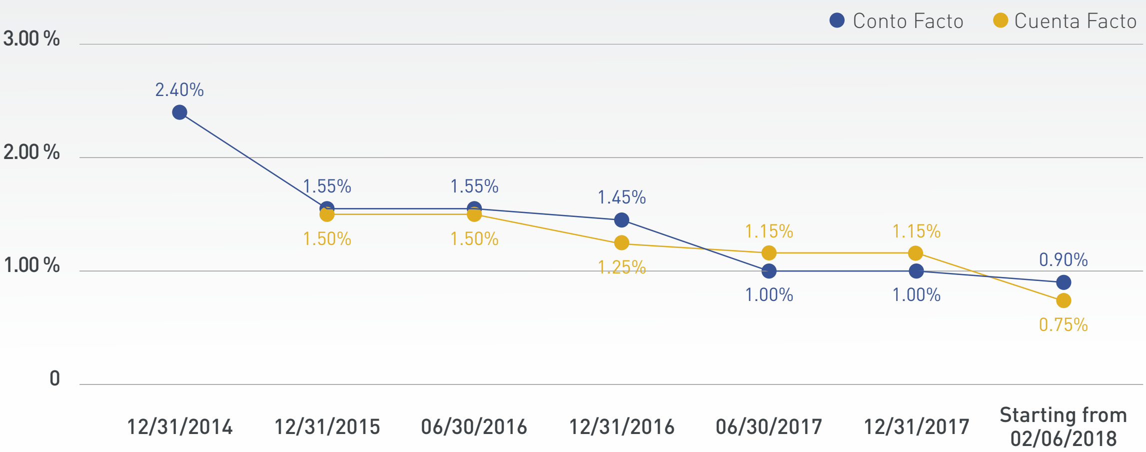
Interest Expenses (BFF + Magellan €m)



The reporting period benefited in part from a reduction in deposit account rates, notably in relation to the interest rates on the new online 12-month deposit accounts, which fell from 1.45% at December 31, 2016 to the current 1.00% in Italy, and from 1.25% for the year 2016 to the current 1.15% in Spain. The reduction of rates, after the repayment of the €300 million bond in June 2017 and the placement of two new bonds of €200 million at lower interest rates than the previous one, also generated its effects, starting from the second half of the period-specifically, starting from July 2017 for the first bond, and December 2017 for the second one.

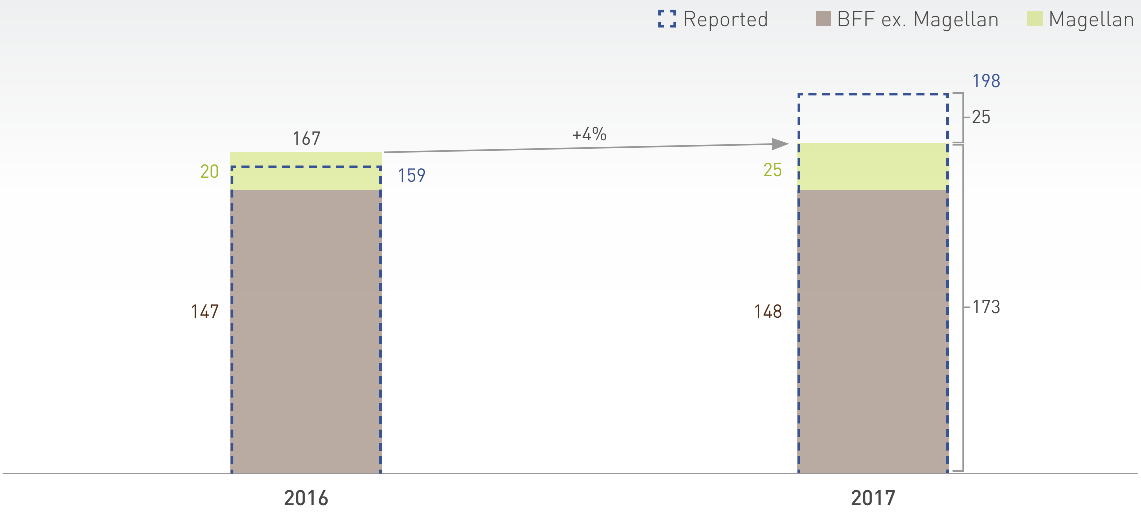
The following chart shows the trend in the interest rates on the online deposit accounts in Italy and Spain.

Interest on New 12-month Deposit Accounts



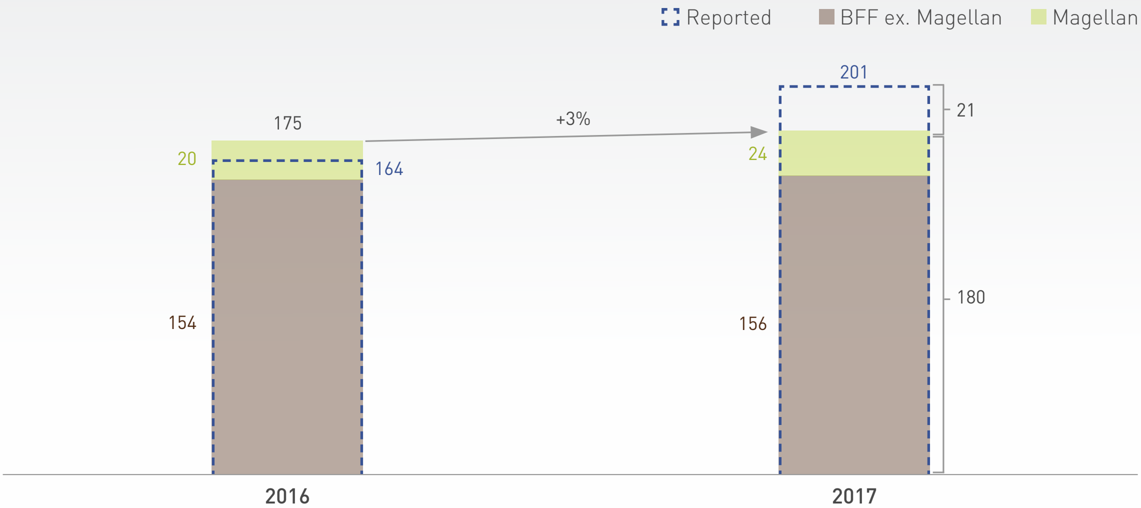
Following what was mentioned earlier, the net interest margin amounted to €198 million at December 31, 2017, compared to €159.2 million at December 31, 2016.
The normalized net interest margin increased by 4%, from €166.9 million at December 31, 2016 (including Magellan for the entire period) to €172.8 million at December 31, 2017. Such amount does not take into account the one-off positive impact of €25.2 million, before taxes, deriving from the change - from 40% to 45% - in the estimate of late payment interest collection percentage to be included in amortized cost, for Banca Farmafactoring and Farmafactoring España only.

Normalized Net Interest Margin (€m)



Net banking 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 €200.8 million at December 31, 2017 compared to €164 million at December 31, 2016.
Normalized net banking income, as presented in the chart below, increased by 3% from €174.8 million recognized at December 31, 2016 - including Magellan for the entire year - to €180.3 million recognized at December 31, 2017.
The latter figure does not consider the one-off positive effect of €25.2 million, before taxes, deriving from the change - from 40% to 45% - in the late payment interest collection percentage to be included in amortized cost, 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 €4.7 million.
2016 figures do not take account of the €3.5 million one-off costs for the acquisition of Magellan and of the positive exchange effect arising from the write-down of the loan payable in Polish zloty for the acquisition of Magellan, amounting to €0.4 million.

Normalized Net Banking Income (€m)



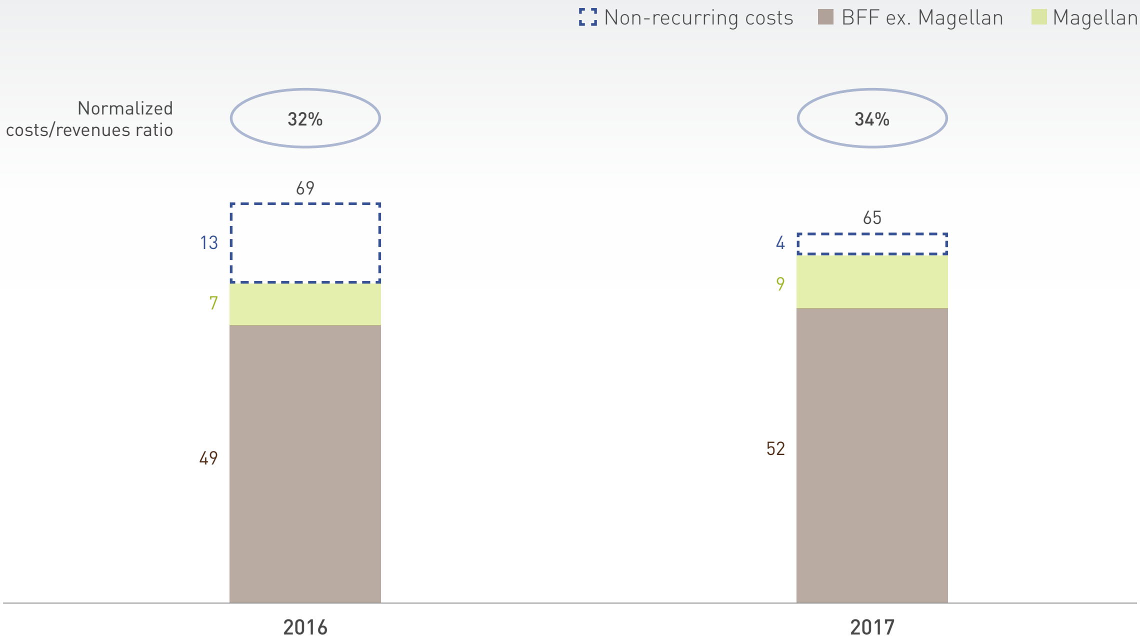
Over the course of the last few years, the Group has invested significantly on structure and resources in order to support growth in size and operations.
Operating costs, described below, include administrative expenses, personnel costs, amortization of intangible assets and depreciation of property, plant and equipment. At December 31, 2017, they totaled €65.1 million compared to €69 million in the previous year.

These reported costs, if normalized, would be €61.2 million at December 31, 2017, compared to €56.4 million in 2016.

With regard to 2017, normalized costs did not take into account €1.5 million regarding stock options and €2.4 million for other charges related to listing, while for 2016 account was not taken of non-recurring expenses in relation to the IPO, for €3.5 million, the contribution to the Resolution Fund, for €2.2 million, requested as part of the crisis resolution program for Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti, and Cassa di Risparmio di Ferrara, and charges related to the acquisition of Magellan, for €7 million.
The following chart shows normalized operating costs and the ratio of operating costs/net banking income (both "normalized"), at 32% for 2016 and 34% for 2017, demonstrating the continuation of good operating efficiency.

Finally, these investments, also relating to projects that will start in subsequent years, will allow the Group to grow in the future.

Operating Costs



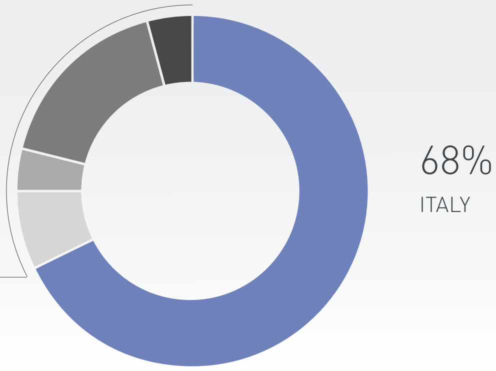
The following is a summary of receivables due from customers of the Banking Group, which amount to €3,018.5 million at December 31, 2017, an increase of 21% compared to €2,499.1 million at December 31, 2016, broken down by product line.

(In € millions)

	12/31/2017	12/31/2016
Factoring	2,460	2,107
Loans to customers	478	317
Other receivables	75	68
Finance leases	6	7
Receivables due from customers	**3,018**	**2,499**

The following chart gives a geographic breakdown of receivables due from customers.
It should be noted that, after receiving authorization from the Bank of Italy to carry out non-recourse factoring activities in Greece, pursuant to the regulations on the freedom to provide services, in September Banca Farmafactoring concluded the first purchase of receivables, acquiring an invoice portfolio referring to 100 hospital and healthcare facilities spread across Greece, worth a total of €10 million. Overall, in 2017, purchases in Greece amounted to €14 million.
Greece is the seventh market currently managed by the Group, in addition to the Italian, Polish, Czech, Slovakian, Spanish and Portuguese markets.

Geographical breakdown of receivables



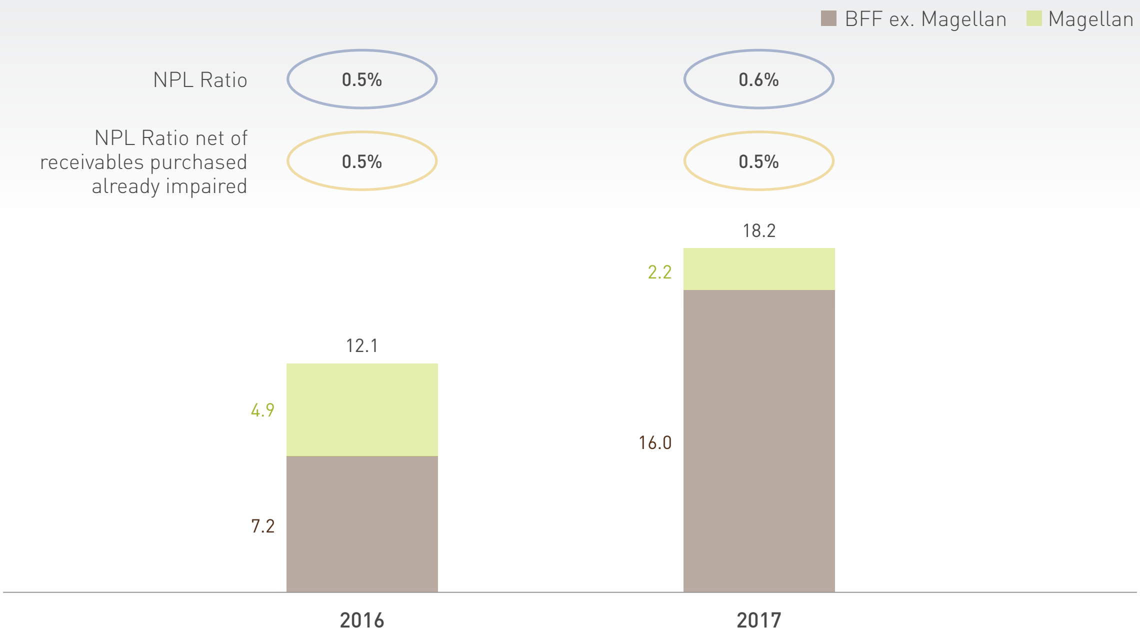
In 2017, credit quality continued to be good and characterized by a high solvency of the counterparties: the following table shows the net impaired positions compared to December 31, 2016.

(In € millions)

	12/31/2017	12/31/2016
Non-performing loans (NPLs)	**18,175**	**12,065**
Non-performing loans purchased performing	15,351	11,573
Non-performing loans purchased already impaired	2,824	492
Unlikely to pay	**6,760**	**3,614**
Past due exposures	**69,794**	**46,167**
Total	**94,730**	**61,847**

Past due exposures mainly refer to Italian public administration entities (largely local entities).
The following chart shows the change in non-performing loans and the ratio of NPLs to receivables due from customers, which is equal to 0.6%.
Without taking account of non-performing loans purchased already impaired of €2,824 thousand, the NPL ratio at December 31, 2017 would be equal to 0.5%, in line with the prior year's figure.
The cost of credit for the period is 20 basis points, on an annualized basis.
NPLs include €14,975 thousand relating to municipalities in financial distress, €2,824 of which were purchased already impaired.

Net Non-Performing Loans Evolution (€m)



Owned securities, classified in the AFS (Available-For-Sale) and HTM (Held-To-Maturity) portfolios, mainly include Italian government securities and amounted to €1,221 million at December 31, 2017, decreasing by €793 million (-39%) compared to €2,014 million at December 31, 2016. The ratio of owned securities to the Banking Group's total assets decreased from 42.5% in 2016 to 27.5% in 2017. The securities in the AFS portfolio of €101.3 million are at variable rates (CCT), with residual maturities within five years, while those in the HTM portfolio of €1,120.6 million are at fixed rates (BOT, BTP and CTZ), with maturities related 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 December 31, 2017 amounted to €1,127.9 million, with a positive difference, before taxes, over the carrying amount at the same date of approximately €7.3 million that has not been recognized in the financial statements.

AFS securities are measured at fair value and the relevant interest, calculated using the effective rate of return, is recognized in the income statement. At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity under revaluation reserves.
At December 31, 2017, the positive reserves on the AFS government securities amounted to €68 thousand, net of taxes.
The average remaining contract duration, in days, of government securities recorded in the AFS and HTM portfolios, at December 31, 2017, was 1462 and 923 days, respectively.

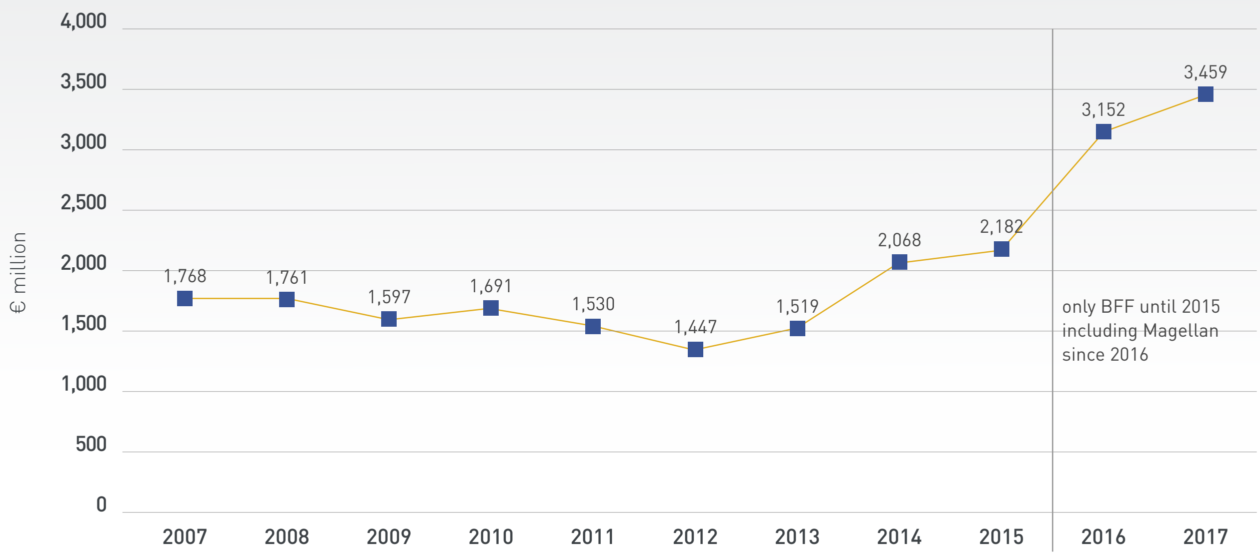
During the reporting period, the Bank has continued to work for the expansion, diversification and optimization of the deposit-taking structure. Banca Farmafactoring offers an online deposit account on the Italian market (Conto Facto), aimed at retail and corporate clientele and guaranteed by the FITD.

Banca Farmafactoring's Spanish branch offers a similar online deposit account on the Spanish market (Cuenta Facto), also aimed at retail and corporate clientele and guaranteed by the FITD. Moreover, deposit-taking is also offered in Germany by Banca Farmafactoring's Spanish branch in compliance with regulations on the freedom to provide services, aimed exclusively at retail clientele, using the Weltsparen online platform.
At December 31, 2017, the deposit-taking activity relating to Conto Facto and Cuenta Facto, including the deposits of the German platform, totaled €1,000 million, compared to €817 million at December 31, 2016.

At the end of the reporting period, the total amount of funding available was equal to €3,459 million, with an increase of €307 million compared to €3,152 million at December 31, 2016. This amount consists of deposit account collections for €1,000 million, bond issues for €686 million, financial resources from the wholesale funding of the Parent Company and its subsidiaries, equal to €1,335 million and €286 million respectively, and securitization for €152 million. Overall use was equal to €2,606 million net of exposures arising from repo transactions.

The chart below shows the performance of bank credit facilities over the last 10 years.

Trend in bank credit facilities



In particular, during the year the following main transactions were carried out, as described in more detail below:
- in March the placement of the first 10-year € 100 million Tier II subordinated bond issue was completed;
- on June 12, 2017, the first BFF Group bond, issued for €300 million, were repaid on maturity;
- in June, the placement of a 5-year senior unsecured and unrated €200 million bond issue was completed;

- the revolving phase of the FF SPV I S.r.l. securitization, whose senior security amounted to €85 million, was not renewed;
- a securitization transaction was planned with Bayerische Landesbank, characterized by Flexible Notes for €150 million;
- a 30-month €200 million senior unsecured bond was issued in December;
- multicurrency and multi-borrower lines were structured with a "credit mandate" by BFF in the interest of its subsidiaries, for a total of €309.5 million at year end.

With regard to activities relating to the funding activities of Magellan and its subsidiaries, the following activities were carried out, aimed at improving the efficiency of the financial structure and developing the expected funding synergies deriving from the acquisition:
- repayment of bonds in euro and Polish zloty for a total of €60 million;
- replacement of the resources repaid as mentioned above and/or that have reached maturity, by structuring new wholesale funding solutions in various specific currencies and at better conditions, for a total of €161 million, of which:
  - an additional €51 million in bank lines provided by local banks;
  - an additional €111 million in wholesale banking solutions supported by BFF;
- greater use of intra-group financing through intercompany loans, which, at December 31, 2017, amounted to a total of €199 million, with an increase of €118 million compared to 2016.

At December 31, 2017, the equity of the Banking Group was equal to €363.9 million, increasing compared to €333.7 million recorded in the previous year, mainly attributable to the higher statutory profit for 2017.

The following table shows the Banking Group's own funds pursuant to the Consolidated Law on Banking, amounting to €352 million at December 31, 2017, net of dividends; 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)

	12/31/2017	12/31/2016
Own funds	352	235
CET1 Capital Ratio	12.6%	16.7%
Tier 1 Capital Ratio	12.6%	16.7%
Total Capital Ratio	17.5%	16.7%

The change in the Banking Group's own funds and capital ratios compared to figures at December 31, 2016, as described in Part F of this Annual Report, was affected by the following main events:

- 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. Exposures for receivables due from the Italian Public Administration, other than Government, regional and local agencies, which include those due from entities belonging to the National Healthcare System and from the Local Healthcare

Entities (ASL), have been assigned a 100% weighting since March 2017, compared to 50% adopted up to December 31, 2016.
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.

- Issue of Tier 2 bonds for a total face value of €100 million.
- Growth in outstanding volumes and, therefore in "Due to customers" compared to the previous year, which led to a subsequent increase in capital absorption for credit risk.
- Distribution of dividends for €83.7 million and allocation to consolidated Tier 1 Capital (CET1) of part of the profit for the period, for a total of €11.8 million. The amount derives from the change in the estimate of the late payment interest collection 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. Non-recurring expenses, net of taxes, relating to listing costs for €1.7 million, and to stock options assigned to certain beneficiaries last March for €1.1 million, were deducted from this amount. This amount also includes exchange rate losses resulting from the revaluation of the loan payable in Polish zloty in the first quarter, net of exchange rate differences for the period from March 31, to December 31, 2017. The impact of exchange rate differences, equal to €3.3 million, was more than offset by the positive effect deriving from exchange rate gains in consolidated net equity, due to the natural hedging between the loan in Polish zloty for the acquisition of Magellan and the value of Magellan equity.

Considering the aforementioned allocation of €11.8 million to consolidated Tier 1 Capital (CET1), the overall increase in CET1, compared to December 31, 2016, was equal to €18.5 million.
In the event that the entire profit for the period is allocated to increase the Banking Group's own funds, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio would be 16.6%, 16.6% and 21.4%, respectively.

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation used solely for prudential supervision purposes, as described in the Notes in Part F, envisages that BFF Luxembourg S.à r.l. is the parent.
For the purpose of preparing the other parts of the consolidated financial statements and for the submission of "non-harmonized" reporting, the Banking Group will continue to act as the reference party pursuant to the Consolidated Law on Banking. With reference to the Group, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio are 10.4%, 11.0% and 15.0%, respectively.

Given the Total Capital Ratio, equal to 17.5% for the Banking Group pursuant to the Consolidated Law on Banking and 15% for the CRR Group, in line with the dividend policy approved by the Board of Directors of the Bank, which envisages a target Total Capital Ratio of 15% for the Banking Group, distribution of the entire consolidated profit for the period exceeding the €11.8 million already allocated to the consolidated Tier 1 Capital of the Banking Group, was proposed (€83.7 million).

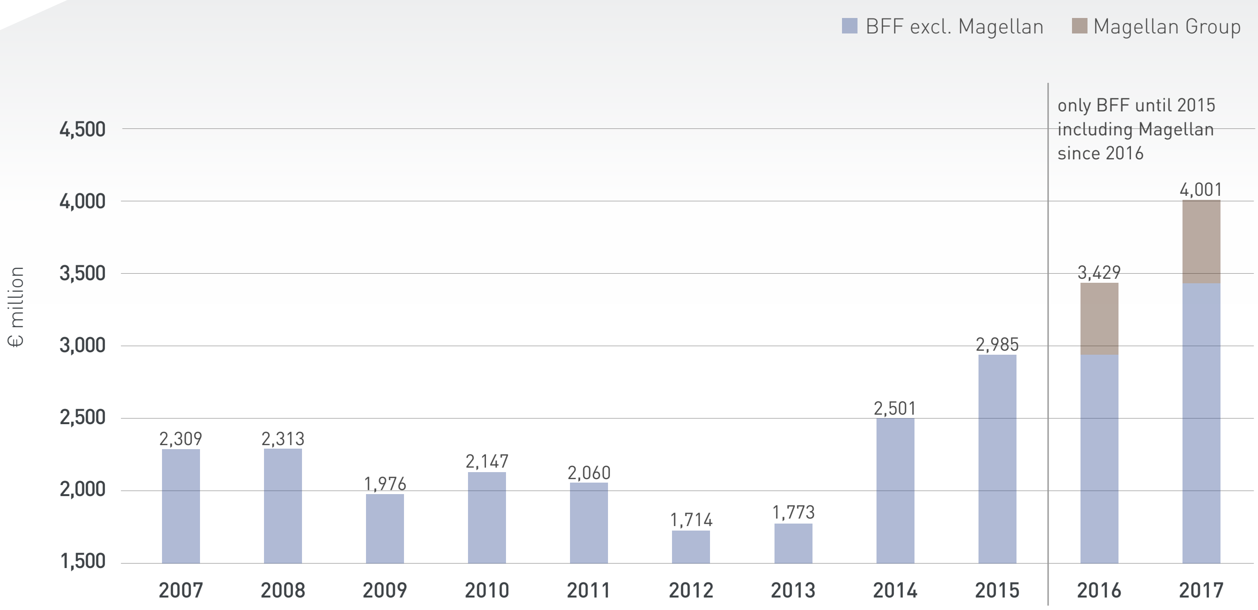
It should be noted that the majority shareholder, BFF Luxembourg, has formalized its commitment to maintain a dividend payment policy such as to preserve, over time, a total capital ratio of not less than 15% both at the level of the BFF Group and within the CRR Group.

Performance of the Banca Farmafactoring Group

The consolidated net profit amounted to €95.5 million at December 31, 2017, and it included Banca Farmafactoring's profit of €79.5 million, the subsidiary Farmafactoring España's profit of €7.8 million, and the Magellan Group's profit of €8 million.
With reference to the Magellan Group, consolidated profit amounted to PLN 33.8 million at December 31, 2017, equal to about €8 million at the average exchange rate for the period (4.257), compared to PLN 29.8 million for 2016, equal to €7 million at same exchange rates, thus increasing by 13%.

The following chart shows the total volumes of the Banking Group, which totaled €4,001 million, up 17% compared to €3,429 million in 2016. These figures refer to the non-recourse purchases of Banca Farmafactoring, Farmafactoring España and the new volumes generated by the Magellan Group in 2017.

Total volumes

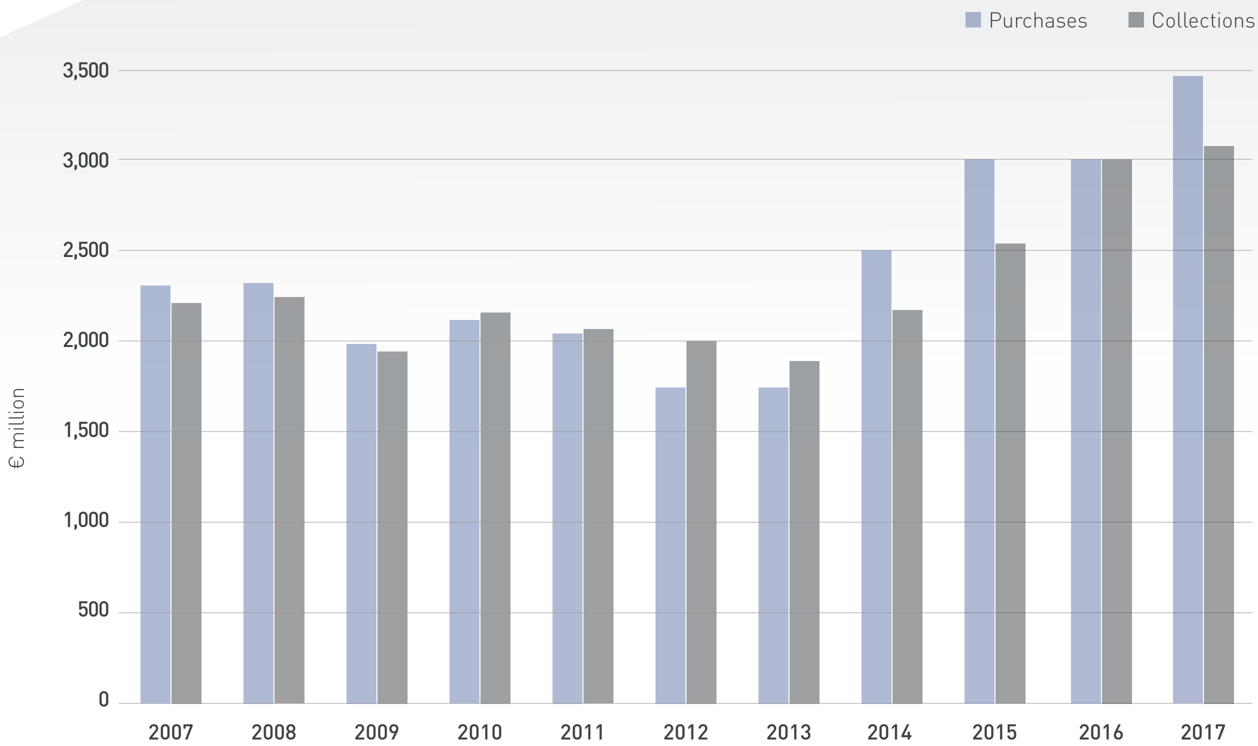


Total non-recourse purchases in Italy amounted to €2,871 million, up from €2,606 million at December 31, 2016.
As for Spanish receivables, purchase volumes amounted to €419 million, up by 19% compared to €351 million in 2016. In Spain, following the injection of liquidity by the Government, the inclination of the clientele to sell receivables also remained low in 2017. In 2017, the Magellan Group did not carry out any purchase in Spain, compared to the €12 million purchased in the first half of 2016.
Purchase of receivables due from the Portuguese public sector amounted to €150 million, a considerable increase (+293%) compared to €51 million in 2016.

In September, Banca Farmafactoring concluded the first transaction for the purchase of receivables in Greece: the volume of receivables from the Greek healthcare system purchased during the year amounted to €14 million.

The positive trend of non-recourse purchases by Banca Farmafactoring and Farmafactoring España is shown below (from €3,003 million in 2016 to €3,455 million at December 31, 2017) with the related collections.

Non-recourse receivables: purchases and collections



The Magellan Group's volumes for the year amounted to 2,326 million Polish zloty (approx. €546 million at the average exchange rate for the year), up 32% compared to 1,802 million Polish zloty recorded at December 31, 2016 (equal to €414 million), excluding the volumes of the Spanish branch of Magellan, incorporated in FFE during 2017. Receivables due from customers at December 31, 2017 amounted to €627 million, up by 33% compared to €472 million at December 31, 2016, considering the same exchange rates.

In the second half of the year, Magellan decided to stop marketing the "factoring for business" product related to the recourse factoring of receivables due from private debtors that, for the purposes of calculating the capital requirements on credit risk, applied a risk weight of 100%, not generating adequate profitability for the expected risk profiles.

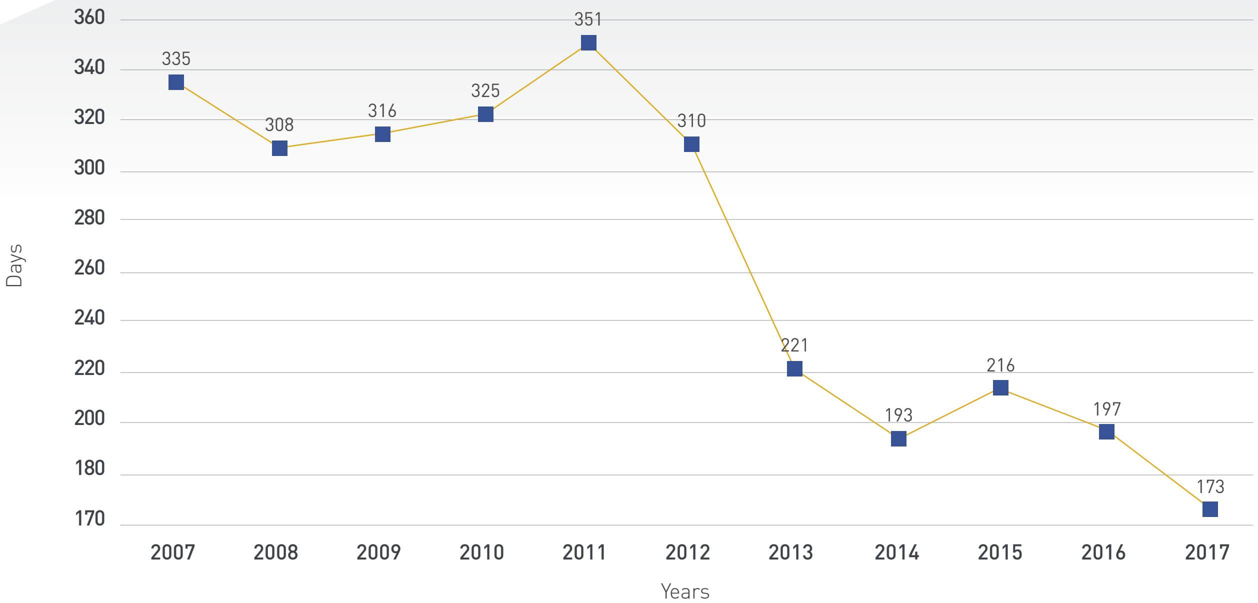
The negative effect on the income statement for the year, deriving from such product, amounted to €1.3 million net of taxes.
The net residual portfolio totaled €6 million at December 31, 2017, compared to €6.1 million at December 31, 2016.

Also considering overall management activities, volumes amounted to €6,596 million, compared to €6,305 million in 2016, with a 4.6% increase.

In 2017, the average days sales outstanding concerning receivables managed by Banca Farmafactoring directly and on behalf of third parties, were equal to 173 in Italy, compared to 197 in 2016, as shown in the chart below, which shows the average days sales outstanding over the last 10 years.

The improvement over last year can principally be ascribed to important payment agreements reached by the Bank with its main debtors, especially the National Healthcare System, and the increase, compared to the prior year, in volumes purchased from healthcare debtors, which have better payment times than the receivables purchased and due from other public administration agencies.

Average days sales outstanding in Italy: management and non-recourse receivables



Source: Banca Farmafactoring S.p.A. internal data

Significant Events during the Period

Banca Farmafactoring's 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) acted as Joint Global Coordinators and Joint Bookrunners; BNP Paribas, Jefferies International Limited and UniCredit Corporate & Investment acted as Joint Bookrunners; Banca Akros acted as Co-lead Manager.

At the conclusion, 583,000 shares were placed (58,300,000 after the new BFF bylaws came into effect on the start date of trading, which envisaged the stock split at 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 start date of trading), all placed on sale by BFF Luxembourg S.à r.l..

Following the institutional placement, the Company's capitalization, calculated on the basis of the offering price, was approximately €800 million. The total proceeds of the institutional placement, to which the selling shareholder is exclusively entitled, 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.

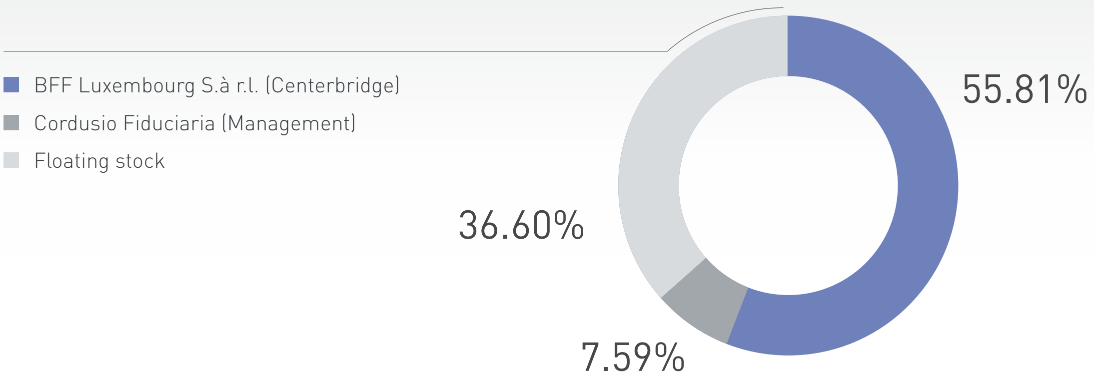
On April 7, 2017, the shares began trading on the Mercato Telematico Azionario, following Borsa Italiana S.p.A.'s authorization, and the share payment date was fixed on the same day.

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.
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 Bank's Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, which has already been submitted for examination by the Supervisory Body 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 stock option 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 Annual Report.

Shareholder structure

The following chart shows the breakdown of Banca Farmafactoring's shareholder structure following the above-mentioned listing of shares. While the amount of share capital has remained the same (€130,982,698), the number of Company's shares increased from 1,701,074 to 170,107,400 due to the 1 to 100 stock split, and, consequently, implied accounting par value per share changed from €77 to €0.77.



The investment held by Cordusio Fiduciaria refers to 31 managers, employees and former employees of the Banking Group. It should be noted that within 12 months of the listing date, the lock-up period will expire for the majority shareholder, the managers, the employees and the former employees of the Banking Group.

On February 21, 2018, BFF Luxembourg S.à r.l. (vehicle controlled by Centerbridge) informed the market that it completed the sale of 17.25 million BFF shares, equivalent to 10.1%, through an accelerated book build. Based on BFF Luxembourg's announcement, subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 55.8% to 45.7%. In order to carry out the transaction, the banks acting as Joint Global Coordinators in the Group IPO agreed to grant a waiver to the lock-up commitments taken on by BFF Luxembourg S.à r.l. upon listing.

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, in compliance with the regulations on the freedom to provide services, notifying the Greek regulatory authorities, pursuant to the Bank of Italy Circular no. 285, Part One, Title 1, Chapter 6, Section II. In September, Banca Farmafactoring concluded the first transaction for the purchase of receivables in Greece, purchasing an invoice portfolio referring to approximately 100 hospitals and healthcare facilities spread across the country, for a total of €10 million. This was the first transaction carried out by BFF in Greece - where the Group operates pursuant to the regulations on the freedom to provide services. Greece is the seventh market currently managed by the Group, in addition to the Italian, Polish, Czech, Slovakian, Spanish and Portuguese markets.

Banca Farmafactoring bond issues

On March 2, 2017, the private placement was completed of the first subordinated unsecured and unrated €100 million Tier 2 bond, with a duration of 10 years and the right to an issuer call date in the fifth year.
The bonds (ISIN code XS1572408380) were issued through a private placement to institutional investors and were not backed by collaterals. This transaction was the first unrated bond issue targeting the institutional market carried out by an unlisted Italian bank.
The bonds are bearer bonds with a face value per bond of €100 thousand and multiples of €1,000, with a fixed coupon of 5.875% per year, paid annually on a deferred basis. The bonds were listed for trading on the Irish Stock Exchange and on Borsa Italiana's ExtraMOT. They have been admitted to trading on the relevant markets.
Banca Farmafactoring does not hold any financial instruments connected with the above-mentioned transaction.

On June 29, 2017, the placement was completed of 5-year senior unsecured and unrated €200 million bonds.
The bonds (ISIN code XS1639097747) were unrated, not backed by collaterals and reserved for institutional investors.
The bonds are bearer bonds with a face value per bond of €100 thousand and multiples of €1,000, with a fixed coupon of 2.00% per year, paid annually on a deferred basis. The bonds were listed for trading on the Irish Stock Exchange and on Borsa Italiana's ExtraMOT. They have been admitted to trading on the relevant markets.
Banca Farmafactoring does not hold any financial instruments connected with the above-mentioned transaction.

On December 5, 2017, the public placement was completed of 2.5-year senior unsecured and unrated €200 million bonds.
The bonds (ISIN code ISIN XS1731881964) were unrated, not backed by collaterals and reserved for institutional investors.
This transaction was the first unrated floater bond issue in Euro carried out by a European bank.
The bonds are bearer bonds with a face value per bond of €100 thousand and multiples of €1,000, with a variable coupon equal to the 3-month Euribor plus a spread of 1.45%, paid quarterly on a deferred basis. The bonds were listed for trading on the Irish Stock Exchange and on Borsa Italiana's ExtraMOT. They have been admitted to trading on the relevant markets.
Banca Farmafactoring does not hold any financial instruments connected with the above-mentioned transaction.

Amortization of the Farmafactoring SPV I securitization transaction
On June 30, 2017, the revolving phase of the Farmafactoring SPV I S.r.l. securitization, whose senior security amounted to €85 million, was not renewed.
Consequently, in July 2017 the revolving phase was concluded and the vehicle began to accumulate liquidity thanks to the collection flows deriving from the receivables portfolio sold and the remaining amount at the start date of the amortization phase. The liquidity accumulated on a monthly basis was allocated to the gradual repayment of Senior Notes on the monthly payment dates of the amortization phase.
At December 31, 2017, outstanding Senior Notes amounted to €1.8 million. The repayment of the Senior Notes was completed on January 25, 2018.
Following the repayment of the Senior Notes, activities for the unwinding of the program and the SPV were launched, which should be completed by the end of the first half of 2018.

New securitization transaction with the Bayerische Landesbank Group
In July 2017, the private placement of a new securitization transaction was concluded with the Bayerische Landesbank (BayernLB) Group for €150 million - the maximum amount of the flexible senior note - with the aim of diversifying funding activities.
The receivables due from Local Healthcare Entities (ASL) and hospitals (AO) are sold without recourse to a special purpose vehicle pursuant to Law no. 130/99, BFF SPV S.r.l., which finances the purchase of the receivables by issuing securities up to a total of €150 million, underwritten by Corelux, a special purpose vehicle in the BayernLB Group, using liquidity made available 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 in order to maintain the collateralization ratio provided for by the contract. The revolving phase started in September 2017, after the issue and payment of the senior notes.

Banca Farmafactoring, as the originator, maintains a role in the securitization transaction, even though it sells the receivables on a non-recourse basis.
This transaction involves a credit enhancement mechanism through an overcollateralization ratio and a subordinated loan carried by Banca Farmafactoring.
At the end of the first revolving period (currently January 2019), there will be an amortization period of up to one year related to the receivables collection performance, until full repayment of securities.
Through the exercise of a put option, the vehicle may also transfer back to Banca Farmafactoring any receivables outstanding after the 12 months set as the maximum limit for the amortization period.
By virtue of the above, all the risks and benefits of the transaction were not transferred to the assignee but remained with Banca Farmafactoring. Consequently, the securitization risk is included in the credit risk.
Banca Farmafactoring does not hold any financial instruments issued by the vehicle as part of the transaction and, as collection agent, takes care of the recovery and collection of receivables on behalf of the servicer Zenith Service.

Deposit Guarantee Scheme

Directive (EU) 2014/49 (Deposit Guarantee Schemes Directive, DGSD) introduced in 2015 a new mixed funding mechanism, based on ordinary (*ex-ante*) contributions and extraordinary (*ex-post)* contributions on the basis of the amount of the covered deposits and the degree of risk incurred by the respective member bank.
More specifically, Article 10 of such directive, transposed into Article 24, paragraph 1 of FITD bylaws, establishes the setting up of a mandatory contribution mechanism, according to which available financial resources should be set aside up to the target level of 0.8% of total covered deposits by July 3, 2024.
Paragraph 5 of the aforementioned Article states that member banks must annually pay ordinary contributions (the so-called "Mandatory Scheme") commensurate with the amount of protected deposits outstanding at September 30 each year out of the total in the banking system, also taking into account risk adjustments, resulting from the application of the new model of performance indicators with the methods described in the "Regulations on reporting and contributions based on risk of FITD member banks" available on the FITD website.
For 2017, the ordinary contribution due from Banca Farmafactoring amounted to €546 thousand, paid in December 2017, in line with the previous year, in which ordinary contributions totaled €545 thousand. This amount was recognized in item 180 b) "other administrative expenses", as indicated in the Bank of Italy communication of January 19, 2016 "Contributions to Resolution Funds: treatment in financial statements and supervisory reporting".
As concerns extraordinary contributions, Article 23 of the FITD bylaws provides that "whenever the available financial resources are insufficient to repay depositors, the member banks shall pay extraordinary contributions not exceeding 0.5% of the covered deposits per calendar year. In exceptional circumstances, and with the consent of the Bank of Italy, the FITD may require higher contributions".

On November 26, 2015, the meeting of FITD members also approved a Voluntary Scheme in addition to the Mandatory Scheme, to implement measures to support member banks at the point or at the risk of becoming insolvent. Banca Farmafactoring has decided to participate in the scheme. The Voluntary Scheme has autonomous financial resources, currently totaling €795 million, which the member banks commit to provide, when requested, for the implementation of specific measures. As regards the financial resources of the Scheme, the Bank voted against the resolution of the Extraordinary Shareholders' Meeting of September 7, 2017, aimed at increasing the Scheme resources from €700 million to €795 million.
Operations required by the Voluntary Scheme in 2017 concerned:
- in September, the collection of contributions to support Carim and Carismi, for a total of €55 million, of which €77 thousand charged to Banca Farmafactoring;
- in December, the collection of contributions to support Caricesena, Carim and Carismi, for a total of €455 million, of which €594 thousand charged to Banca Farmafactoring.

In 2016, intervention of the Voluntary Scheme was requested to support the difficult situation of Caricesena. The amount charged to Banca Farmafactoring, paid in September 2016, totaled €235 thousand.

In keeping with the instructions provided by the Bank of Italy on October 26, 2016 in "Voluntary Scheme established by FITD. Questions", the amount was recorded among equity securities in item 40 "Available-for-sale financial assets" in the balance sheet asset section. The fair value measurement of these shares resulted in a value adjustment of the assets acquired through the contributions paid to the Voluntary Scheme, equal to €702 thousand, recorded under item 130 of the income statement "Net adjustments/reversals of impairment of: b) available-for-sale financial assets". The Bank has already announced its intention to withdraw from the Voluntary Scheme at the earliest possible date, confirming this decision with a notice of withdrawal on September 19, 2017, following its vote against the resolution of the Extraordinary Shareholders' Meeting of the Fund on September 7, 2016, as mentioned above.

Resolution Fund

Regulation (EU) 806/2014, governing the Single Resolution Mechanism that came into force 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 National Resolution Funds (NRF) set up by Directive (EU) 2014/59 (Banking Recovery and Resolution Directive - BRRD) and implemented in 2015, became part of the new European Resolution Fund.
The Regulation establishes a financial arrangement according to which, over a period of eight years, that is, by December 31, 2023, the member states shall provide SRF with financial means reaching at least 1% of the amount of 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 Banca Farmafactoring in 2017 by the Bank of Italy with its Note of April 28, 2017 was €1,171 thousand, paid in May 2017.
The ordinary annual contribution requested in 2016 was €1,086 thousand, paid in June 2016.

Furthermore, on December 28, 2016, the Bank of Italy, within the framework of the resolution scheme 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 Banca Farmafactoring, this amounted to €2,179 thousand.

Internal Control

The CEO is the person responsible for the Banking Group's Internal Control system.
Pursuant to the provisions of the Supervisory Authority, the organizational framework of the Group's internal control system is based upon the following three control levels.

First-level controls
First-level controls (line controls) aim to ensure that transactions are carried out correctly, and are performed by the same operating structures that execute the transactions, also with the support of IT procedures.

Second-level controls
Second-level controls aim to ensure the correct implementation of the risk management process and compliance with the regulatory framework, including the risk of money laundering and terrorist financing. They are entrusted to the Risk Management Function and the Compliance and AML Function of the Parent Company, which, consistently with the current prudential supervisory regulations, have the following main responsibilities:

- **Risk Management**: it ensures the consistency of the risk measurement and control systems with the processes and methodologies of company activities, coordinating with the relevant company structures; oversees the realization of the process for determining capital adequacy; monitors the controls over the management of risk, in order to define methods to measure those risks; assists corporate bodies in designing the Risk Appetite Framework (RAF); verifies that the limits assigned to the various operating functions are being observed; and checks that the operations of the individual areas are consistent with the assigned risk and return objectives.

- **Compliance and Anti-Money Laundering** (AML): it supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory framework for the Bank and the Group - also through its reference persons/local functions at its subsidiaries and/or branches -, continuously verifying whether internal processes and procedures are adequate in preventing such risk and identifying the relevant risks to which the Bank and the subsidiaries are exposed; guarantees an overall and integrated vision of the risks of non-compliance to which the Bank and the subsidiaries are exposed, ensuring adequate disclosure to the corporate bodies of the Bank and the subsidiaries. Furthermore, this function has the task of preventing and combating money laundering and terrorist financing by continuously identifying the applicable rules in this area, and verifying the coherence of the processes with the objective of ensuring that the Bank and the Group conform to the law on matters of anti-money laundering and counter-terrorist financing. It is also responsible for the controls required by the anti-money laundering law, so as to prevent the use of the financial system for purposes of laundering profits from criminal activities and financing terrorism.

Third-level controls
Internal audit activities are carried out by the Group's Internal Audit function, directly reporting to the Board of Directors. The Internal Audit function carries out independent controls, not only at the Parent Company but also at the subsidiary Farmafactoring España under a specific servicing agreement which governs the provision of the audit service, and, in an institutional framework, as

a function of the Parent Company for the subsidiary Magellan S.A..
The regulation approved by the Board of Directors specifies that the Internal Audit function, within the third-level controls, evaluates the overall functioning of the internal control system and brings to the attention of the corporate bodies any possible improvements, with particular reference to the RAF (Risk Appetite Framework), the process for the management of risks, and the tools for their measurement and control.
The Head of the Internal Audit function has the necessary autonomy and is independent of the operating structures, in compliance with Bank of Italy's regulation on internal controls, the Governance Code and internal regulations, and is vested with the organizational powers to monitor company processes.
The Internal Audit function carried out, for the year 2017, the testing activities established in the Group's multi-year 2016-2018 audit plan, subject to annual updating, by carrying out follow-up activities and reporting on the results of its testing on a quarterly basis to the Bank's governance and control bodies, though its dashboard.
In particular, the Internal Audit function, as function of the Parent, was in charge of the management and coordination of the activities carried out by the Magellan Internal Audit function.
In addition, the checks envisaged for 2017 in the Group audit plan were carried out according to a risk-based logic, on the internal structures of the Bank, on the subsidiary Farmafactoring España, on the Spanish Branch, on Magellan and its subsidiaries and on the markets where the Bank operates pursuant to the regulations on the freedom to provide services, including the new business in Greece.
The process for audit planning and management was certified under the new quality standard UNI ISO 9001:2015 and was deemed to be compliant.
The Head of the Internal Audit function is responsible for the internal reporting system (so-called whistle-blowing process) in accordance with the reference banking regulations, and prepared the 2017 report for the Banking Group, which states that no reports were received by the Bank or its subsidiaries at which the whistle-blowing process was introduced in 2017.

Supervisory Body
The Bank has an Organization, Management and Control Model pursuant to Legislative Decree no. 231/2001, prepared in compliance with the provisions of the above-mentioned Legislative Decree no. 231/2001, as well as the guidelines issued by ASSIFACT, ABI and Confindustria in accordance with industry best practice. The Model was updated and reviewed with a resolution of the Board of Directors of September 27, 2017.
The Model has a General Section which outlines, in addition to a summary description of Legislative Decree no. 231/2001, the key characteristics and features of the Model, the functions and powers of the Supervisory Body, the system of information flows and communication to/from the Supervisory Body, the system of sanctions to prevent violation of the provisions contained in the Model, and the reporting and staff training obligations of the Model.
The Group's Code of Ethics is the highest reference level with regard to ethics and sets out the founding values and rules of corporate ethics that the Group recognizes as its own, and in relation to which it requires compliance by all recipients of the Code itself. The Code of Ethics adopted by the Group, besides its inherent values, includes ethical conduct and principles intended to prevent illegal behaviors set forth in Legislative Decree no. 231/2001, thus becoming relevant for the purposes of the Model, and complementary to it. The Bank undertakes to implement such conduct rules at a Group level, in order to ensure that its activities are carried out in compliance with the ethical principles referred to in the Code of Ethics. The Bank transmits the Code of Ethics to Group

companies so they may adopt the same, integrating it, if necessary, with the values and principles expressly related to the specific area of business and actual exposure to the risks/offences provided for by Legislative Decree no. 231/001, which typically characterize each individual company of the Group.

At December 31, 2017, the Supervisory Body was composed as follows:
Chairman: Giovanni Maria Garegnani (independent professional);
Member: Marco Lori (Chairman of the Board of Statutory Auditors);
Member: Marina Corsi (Head of Internal Audit).

The activities of the Supervisory Body carried out in 2017 aimed mainly to assess the adequacy of the 231 Organization Model, also at a Group level, to check information flows, to examine the reports prepared by the Internal Audit and all other control functions and to carry out independent checks with the support of the Internal Audit function.
The Supervisory Body was also constantly updated, to the extent of its competence, on projects that are strategically relevant for the Bank, and shared the updates of the 231 Organization Model approved by the Board of Directors in 2017 both in relation to the new 231 offenses and in relation to the changes to the organizational structure of the Bank.
It should also be noted that the Spanish subsidiary Farmafactoring España adopted its own Organizational Model in accordance with Article 31-bis of the Spanish Penal Code, similar to the 231 Organization Model of the Bank (general section, specific section on activities at risk and information flows), with an independent, monocratic Supervisory Body.
With regard to the Polish subsidiary Magellan, in accordance with Polish regulations, specific guidelines have been adopted to govern "anti-corruption" issues, with the identification of a specific, monocratic body, represented by the local Compliance and AML function.

Systems Development

In 2017, investments were made in the Information & Communication Technologies sector. These investments were directed to applications software and basic software and hardware to ensure the availability, continuity, performance and security of the systems (see Bank of Italy Circular no. 285, and subsequent updates, regarding systems and operating continuity, Legislative Decree no. 196 of June 30, 2003, as amended, and the international standards ISO/IEC 27001:2013 - ISO/IEC 27002:2007).
More specifically, the following main projects were implemented:

- update of the infrastructure and activation of new physical and logical server systems, new systems for communication and safety at the Bank's production and disaster recovery data centers;
- migration of the systems of the subsidiary Magellan to the Data Centers of the Bank, also migrating the Active Directory domain;
- creation of new software systems, mainly aiming at:
  - managing new accounting standards (IFRS 9),
  - managing operating and management reporting,
  - managing the commercial (CRM), treasury and financial activities of the Polish subsidiary (CRM);

- implementation of new software functions within the factoring system for the Spanish subsidiary, to manage the Greek market and for integration with the MEF platform.

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 December 31, 2017, the total number of employees of the Banca Farmafactoring Group is 412.
Banca Farmafactoring and Farmafactoring España added 30 people in 2017, reaching a total of 235 resources, of whom 34 are in Spain (9 at the BFF branch in Madrid and 25 at FFE).
At December 31, 2017, the Magellan Group has 177 staff, of whom 163 are in Poland, 10 in Slovakia and 4 in the Czech Republic.
The following table shows the composition of the Group's staff broken down by the countries in which it operates through a permanent establishment.

	2016						2017					
Category	Italy	Spain	Poland	Slovakia	Czech Rep.	TOT	Italy	Spain	Poland	Slovakia	Czech Rep.	TOT
Senior Executives/ Executives	14	1	4	-	-	**19**	15	1	5	-	-	**21**
Managers/ Middle Managers/ Professionals	62	14	25	2	1	**104**	66	12	25	2	-	**105**
Specialists	117	17	141	9	2	**286**	120	21	133	8	4	**286**
Total by country	**193**	**32**	**170**	**11**	**3**		**201**	**34**	**163**	**10**	**4**	
Group total for the year	**409**						**412**					

Share Performance

Banca Farmafactoring shares (ISIN code IT0005244402) are listed on the Mercato Telematico Azionario (MTA) of Borsa Italiana in the Blue Chips segment, and are part of 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 December 29, 2017. At December 29, 2017, the stock price reached €6.4, up by 36.2% compared to the listing price of €4.7 per share and compared to the 7.9% increase in FTSE IT All Share.

Main Balance Sheet Items

The key items in the consolidated balance sheet are commented below and described in greater detail in the Notes in Part B.

Available-for-sale financial assets

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Government securities - AFS	101,285	385,085	(283,800)
Equity investments	17	17	0
Equity securities	147	177	(30)
Total	**101,449**	**385,279**	**(283,830)**

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 €100 million. These securities earn interest at variable rates (CCT) and have residual maturity dates within five years.

At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity under revaluation reserves.
At December 31, 2017 the positive reserves on available-for-sale government securities amounted to approximately €68 thousand, net of the tax effect.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such securities will be classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.

Held-to-maturity financial assets

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Government securities - HTM	1,120,610	1,629,320	(508,710)
Total	**1,120,610**	**1,629,320**	**(508,710)**

The amount consists entirely of government securities, classified in the Held-to-maturity (HTM) portfolio, purchased to hedge liquidity risk and to optimize the cost of money, for a total face value of €1,080 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 classified in the HTM portfolio and, therefore, measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement.
The HTM portfolio includes financial assets that 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 shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of HTM investments before maturity.

The fair value of these securities amounts to €1,127.9 million at December 31, 2017, with a positive difference over the carrying amount at the same date of approximately €7.9 million that has not been recognized in the financial statements.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such securities will be classified in the category belonging to the Held to Collect (HTC) business model.

Receivables

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Due from banks	44,792	144,871	(100,079)
Due from customers	3,018,486	2,499,094	519,392
Total	**3,063,278**	**2,643,965**	**419,313**

"Due from banks" mainly consists of the balances of the current accounts held by the Group companies at the end of the year.
The item includes €5,206 thousand in the mandatory reserve deposit with ICBPI, as Banca Farmafactoring is an indirect participant in that system, and €3,078 thousand deposited with Banco de España as CRM (*Coeficiente de Reservas Mínimas)* for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto.

Details of "Due from customers" are as follows:

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Assignors - loan account	9,833	9,992	(159)
Receivables purchased without recourse	2,437,738	2,049,517	388,221
Receivables purchased below face value	51,725	52,362	(637)
Other receivables	519,190	387,224	131,966
Total	**3,018,486**	**2,499,094**	**519,392**

Receivables purchased without recourse are measured at amortized cost based on the present value of estimated future cash flows, and include both principal and late payment interest accruing from the receivable due date for the amount considered recoverable, based on the time series analysis on the percentages and recoverability times.
In order to compute amortized cost, including late payment interest recognized on the accrual basis, the Bank updated the time series of data regarding the percentages and collection times of late payment interest used in the prior year, with the collections recorded in 2017. The outcome of this updating process has confirmed, on the basis of the times series analysis, the recoverability rate of 45% for late payment interest and 1800 days for collection times for Banca Farmafactoring and Farmafactoring España.
Other receivables mainly refer to financing pertaining to the subsidiary Magellan.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such receivables will be classified in the category belonging to the Held to Collect (HTC) business model.

Credit quality

In 2017, as described below, credit quality remains good: net non-performing loans amounted to €18,175 thousand, thus increasing compared to 2016, mainly due to non-recourse receivables purchased from local entities by the Parent. The ratio of net NPLs to receivables due from customers was 0.60%, slightly up compared to 2016 (0.48%). Net NPLs concerning municipalities in financial distress amounted to €14,975 thousand (82.8% of the total), €2,824 thousand of which were purchased already impaired.

The Bank carried out an analysis of the receivables portfolio to identify any impairment of its financial assets.

This internal analysis made it possible to distinguish between performing and non-performing loans, including in the latter category financial assets that show an individual risk of loss, while the remaining financial assets have been classified in the performing category.

Performing loans include receivables due from customers that, while more than 90 days past due, show no objective indication of loss 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 loans in order to correctly monitor the quantitative content.

To determine the "Loss Given Default" (LGD), the Bank used the value recommended in the "Basel Accord Framework" for non-collateralized receivables due from sovereign states, companies and banks, equal to 45% of the relevant probability of default (PD).

The collective assessment of the "Probability of Default" (PD) was performed by assigning to the debtors (local healthcare entities and hospitals) a rating corresponding to the credit rating assigned by the major rating agencies to the Region to which the debtors belong, or to the Republic of Italy for Government agencies, or to the Country of residence in the event of foreign public counterparties. This product was then applied to the exposures not classified as non-performing Exposures at Default (EAD).

At December 31, 2017, the general impairment relating to the Bank amounted to € 3 million.

As regards Magellan, the collective impairment is calculated, at this time, exclusively in relation to private counterparties. In this case, Magellan carries out a portfolio impairment by applying to the receivable 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 Company, so that the corresponding functions of the parent can report on the activities conducted in this area and check the correctness of the conclusions.

The Bank classified receivables due from customers into "performing loans" and "non-performing loans," in accordance with the provisions of Bank of Italy Circular no. 262 of December 22, 2005, and subsequent updates, "*Banks' financial statements: layout and preparation*".

On July 24, 2014, the European Banking Authority (EBA) published the "*Final draft implementing technical standards on supervisory reporting on forbearance and non-performing exposures*" (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for non-performing exposures and forbearance measures.

According to these definitions, adopted by the Bank of Italy with the seventh update to Circular no. 272 of January 20, 2015, impaired assets of 94.7 million at December 31, 2017 shall be classified as follows:
• Non-performing loans (for a net value of €18.2 million);
• Unlikely-to-pay exposures (for a net value of €6.78 million);
• Impaired past-due exposures (for a net value of €69.8 million).
The "forborne exposures" sub-category can be found within the above-mentioned categories.

Non-performing loans
These are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.

At December 31, 2017, the total non-performing loans of the Banking Group, net of impairment, amounted to €18.2 million, of which €2.8 million purchased already impaired. Among these non-performing exposures, €15 million (82.8% of the total) concerned municipalities in financial distress.

Gross non-performing loans amounted to €25.7 million and were adjusted to the tune of €7.5 million.

Unlikely to pay exposures
Unlikely to pay exposures 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). 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 the unlikely to pay category at the individual transaction level, provided the intermediary believes that the conditions for classifying in this category the entire amount of exposures to the same debtor cannot be met.
At December 31, 2017, gross exposures classified as unlikely to pay totaled €10.4 million; adjustments to the tune of €3.6 million were recognized, thus determining a net amount of €6.8 million.

Impaired past-due exposures
These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Measurement of past due exposures is carried out at the portfolio level for Banca Farmafactoring and Farmafactoring España, since there are no objective indications of individual impairment.
At December 31, 2017, total net past due exposures amounted to €69.8 million for the whole Group, of which 92.8% referring to the Public Administration and public sector companies of the countries where the Banking Group operates.
The Banking Group's gross exposures totaled €69.9 million and relevant adjustments amounted to €0.1 million.

The following table shows receivables due from customers, with an indication of any adjustment, broken down into "Performing exposures" and "Impaired assets". Adjustments to "Performing Exposures" are the result of a collective impairment.

(Amounts in € thousands)

Type	12/31/2017			12/31/2016		
	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount
Impaired exposures purchased performing	101,806	(9,900)	91,906	65,401	(4,047)	61,354
Impaired exposures purchased impaired	4,197	(1,373)	2,824	971	(479)	492
Performing exposures	2,928,988	(5,232)	2,923,756	2,443,009	(5,761)	2,437,248
Total	**3,034,991**	**(16,505)**	**3,018,486**	**2,509,381**	**(10,287)**	**2,499,094**

Property, plant and equipment and intangible assets

(Amounts in € thousands)

Items	12/31/2016	Net increase	Net decrease	12/31/2017	% of total
Buildings	7,145	0	(325)	6,820	53.30%
Land	3,685	0	0	3,685	28.80%
Plant	296	50	(80)	266	2.08%
Furniture and fixtures	228	25	(53)	200	1.56%
Electronic machines	810	790	(662)	938	7.33%
Other property, plant and equipment	825	386	(324)	886	6.93%
Total	**12,988**	**1,251**	**(1,444)**	**12,795**	**100.00%**

At the date of IAS 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.
The measurement at first-time adoption resulted in an approximately €4 million revaluation of the buildings, from €5 million to €9 million. The amortized value of the buildings is now €6.8 million.
The largest increases refer to investments in electronic machines, notably in relation to hardware purchases.

Intangible assets amounted to €26,034 million and include goodwill of €22,146 thousand, fully arising from the acquisition of the Magellan Group by the Banca Farmafactoring Group in May 2016. Such goodwill was recognized following the end of the Purchase Price Allocation (PPA) process, carried out pursuant to IFRS 3. The residual amount refers to investments in new multi-year programs and software.

Tax assets and liabilities

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Tax assets	**30,917**	**25,870**	**5,047**
current	25,884	21,451	4,433
deferred	5,033	4,419	614
Tax liabilities	**82,456**	**73,658**	**8,798**
current	25,628	24,129	1,499
deferred	56,828	49,529	7,299

Current tax assets totaled €25,884 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amounted to €225,628 thousand; they include the accrual of income taxes for the year of Group companies.
Deferred tax liabilities amounted to €56,828 thousand; they mainly include the taxes calculated on Banca Farmafactoring's late payment interest accrued and to be accrued, which will be paid upon collection.

Payables

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Due to banks	657,993	634,807	23,186
Due to customers	2,495,987	2,996,142	(500,155)
Of which due to financial institutions	*200,323*	*231,790*	*(31,467)*
Total	**3,153,980**	**3,630,949**	**(476,969)**

"Due to banks" refers to loans granted by the banking system to the Parent Company and the subsidiary Magellan.
"Due to financial institutions" mainly refers to cooperation agreements with financial entities other than banks.
"Due to customers" includes €1,000 million for the online deposit accounts Conto Facto and Cuenta Facto, and €1,163 million for repurchase agreements with the counterparty *Cassa di Compensazione e Garanzia*, executed to refinance the Bank's securities portfolio.

Debt securities issued

The balance of debt securities issued at December 31, 2017 totaled €790 million.
The item includes:

- the 2016-2021 bond issued by Banca Farmafactoring for a total face value of €150 million;
- the first subordinated unsecured and unrated €100 million Tier 2 bond issued by Banca Farmafactoring, with a duration of 10 years and the right to an issuer call date in the fifth year;
- the five-year senior unsecured and unrated €200 million bond issued in June;
- the 30-month senior unsecured €200 million bond issued in December;
- the €150 million Flexible Notes arising from the new securitization transaction performed with Bayerische Landesbank. The revolving phase of the securitization transaction performed with the Deutsche Bank Group - whose Senior Notes amounted to €85 million - was not renewed. Therefore, amortization started in the second half of 2017. At December 31, 2017, the overall amount of outstanding Senior Notes was €1.8 million;
- debt securities issued by the subsidiary Magellan amounting to €36 million.

On June 12, 2017, the first BFF Group bonds, issued for €300 million, were repaid on maturity.
During the reporting period, repayment of bonds for an overall amount of €60 million was made by Magellan.

Provisions for risks and charges

At December 31, 2017, "Provisions for risks and charges" totaled €5,445 thousand. They mostly include allocations to "Pension and other post-employment benefits" of €4,366 thousand and "Other provisions" of €1,079 thousand.

(Amounts in € thousands)

Items	12/31/2016	Increase	Decrease	12/31/2017
Employee benefits	6,343	266	(2,243)	4,366
Other provisions	646	564	(131)	1,079
Total	**6,989**	**830**	**(2,374)**	**5,445**

"Pension and other post-employment benefits" are measured pursuant to IAS 19 based on an actuarial valuation.
Allocations to other provisions refer to risks of different kinds that the Banking Group's companies may face.

Main Consolidated Income Statement Items

A brief comment on the main income statement items is provided below, while for a more in-depth description reference should be made to the section relating to the results of operations and to Part C of the Notes.
The Group's profit at December 31, 2017 amounted to €95.5 million, up by 32.4% compared to €72.1 million at December 31, 2016. The prior-year figures included Magellan's profit for a seven-month period, i.e. since its acquisition by the Banca Farmafactoring Group.

Net banking income

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Maturity commissions and late payment interest on non-recourse receivables	189,852	163,165	26,687
Interest income on securities	4,352	4,097	255
Other interest	43,739	22,964	20,775
Interest income	**237,943**	**190,226**	**47,717**
Interest expense	**(39,930)**	**(31,020)**	**(8,910)**
Net fees and commissions	**6,455**	**3,355**	**3,100**
Dividends and similar income	60	60	0
Gains (losses) on trading	(5,482)	682	(6,164)
Gain (losses) on hedge accounting	32	(1)	33
Gains (losses) on sale of AFS financial securities	1,759	705	1,054
Net banking income	**200,837**	**164,007**	**36,830**

The recognition of maturity commissions and late payment interest on purchases of non-recourse receivables in the income statement reflects the effective return from the application of the "amortized cost" criterion for measuring non-recourse receivables purchased, in accordance with IAS 39. This implies that the income is recognized in relation to the return deriving from the expected cash flows.
The amount of maturity commissions and late payment interest on non-recourse receivables of Banca Farmafactoring and Farmafactoring España totaled €189,852 thousand in 2017, compared to €163,165 thousand in 2016.
This amount includes a one-off positive effect for Banca Farmafactoring and Farmafactoring España, net of taxes, of €25 million, which derives from the change, at January 1, 2017, in the late payment interest collection 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 a matter of fact, with regard to the receivables of the parent Banca Farmafactoring and the subsidiary Farmafactoring España, and the estimated late payment interest collections, the time series of data was updated with the 2016 late payment interest collections. This resulted in a weighted average collection percentage that is higher than the 40% used for the preparation of the 2014 and 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 payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian public administration agencies. 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.

Collections of late payment interest totaled €114.3 million; the income statement of the reporting period shows the amount exceeding 45% of estimated collection, which was already recorded in current and previous years.
At December 31, 2017, the cumulative amount of late payment interest due to Banca Farmafactoring and Farmafactoring España, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €534 million, including approximately €43 million due from Spanish debtors, €21 million due from Portuguese debtors and €1 million due from Greek debtors. Of this interest, a total of €184 million was recorded in the income statement in current and prior years.
Had the 45% late payment interest collection rate been applied at December 31, 2016 as well, the amount not yet recognized in the income statement would have totaled €337 million. Therefore, the amount not yet recorded in the income statement at December 31, 2017 (€350 million) would show an increase of 4% compared to 2016.

Interest income on securities, amounting to €4.3 million, originates from government securities classified in the available-for-sale (AFS) and held-to-maturity (HTM) portfolios. These securities are measured using the amortized cost method, according to which the interest generated is recorded in the income statement using the effective rate of return.

The amount also includes interest income, calculated at amortized cost, generated by Magellan's funding activities, for a total amount of €41.1 million.

Interest expenses increased from €31 million at December 31, 2016 (€37 million considering Magellan for a full year period) to €40 million at December 31, 2017. This increase in absolute terms is primarily due to a higher outstanding balance, interest expenses on the Tier 2 bonds of €4.9 million not recorded in 2016, and the cost of funding the acquisition of Magellan to the tune of €3.1 million in 2017, compared to €1.8 million in the previous year, when the latter was considered for seven months only.
The reporting period benefited in part from a reduction in deposit account rates, notably in relation to the interest rates on the online 12-month deposit accounts, which fell from 1.45% at December 31, 2016 to the current 1.00% in Italy, and from 1.25% for the year 2016 to the current 1.15% in Spain.

Net fees and commissions show an increase of €3.1 million compared to the prior year, as presented in the following table. The increase in 2016 expenses from fees and commissions was mainly due to the conclusion of the process to delist the subsidiary Magellan.

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Fee and commission income	7,713	7,832	(119)
Fee and commission expenses	(1,258)	(4,478)	3,220
Net fees and commissions	**6,455**	**3,355**	**3,100**

Losses on trading amounted to €5.5 million; they include the negative exchange differences on foreign currency loans among Group companies and with other financial intermediaries, notably the loan payable in Polish zloty secured for the acquisition of Magellan, equal to €4.7 million, before taxes, at December 31, 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.
Fair value measurement at December 31, 2017 of Magellan's derivatives for which hedge accounting was not applied was also included.
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. In this latter case, the changes in the hedging derivative's fair value are recorded in equity.
The hedge ineffectiveness is represented by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item, recognized in the income statement under item 90 "Gains (losses) on hedge accounting". At December 31, 2017, this item amounted to €32 thousand.
At December 31, 2017, the Bank has in place an Interest Rate Swap contract with a notional amount in Polish currency (zloty), in order to hedge a variable rate medium-term loan obtained in 2016 from changes in future cash flows arising from fluctuations in market interest rates (Wibor). Magellan has also entered into FX-Swap contracts aimed at hedging intra-group loans from fair value changes arising from fluctuations in exchange rates.

Gains on disposal of securities refer to the sale of government securities in the AFS portfolio made during the reporting period, which generated a gain of €1.8 thousand, before the tax effect.

Administrative expenses

(Amounts in € thousands)

Items	12/31/2017	12/31/2016	Change
Personnel costs	27,619	24,924	2,695
Other administrative expenses	34,380	38,717	(4,337)
Total administrative expenses	**61,999**	**63,641**	**(1,642)**

The increase in the costs of employees largely refers to the recognition of Magellan's figures, for seven months in 2016 and for the entire year in 2017.
The amount also includes expenses for employee stock options at listing, for €1.5 million, before taxes.
Other administrative expenses at December 31, 2017 amounted to €34.4 million, decreasing compared to 2016 due to non-recurring expenses connected with the acquisition of Magellan recognized in 2016.

Objectives and Policies on the Assumption, Management and Hedging of Risks

Going concern

In accordance with IAS 1, paragraph 24, the Banking Group assesses its ability to continue as a going concern by taking into account the trend of its main core indicators and available information about the future, covering at least 12 months after the reporting date.
In view of the aforementioned considerations, associated with the historical and prospective review of its earnings and its ability to access financial resources, the Group will continue its operating activities on a going concern basis and, consequently, these financial statements are drawn up based on this assumption.

A performance review of the last few years shows a continuing positive trend.

The data can be summarized as follows:
• growing trend for equity;
• capital adequacy in relation to the risks connected with lending activities;
• sufficient availability of financial resources;
• positive commercial prospects associated with the trend in demand;
• high credit quality.

A quantitative summary of such review is presented in the following table.

(Amounts in € millions, unless otherwise indicated)

Items	12/31/2017	12/31/2016
Net interest margin	198.0	159.2
Net banking income	200.8	164.0
EBTDA	141.2	103.9
Profit for the year	**95.5**	**72.1**
ROE (Return On Equity) (%)	**36%**	**28%**
Net banking income / Non-recourse volumes (%)	5.8%	5.5%
Net interest margin / Interest and similar income (%)	83.2%	83.7%
Non-performing loans (net of impairment) / Due from customers (%)	0.60%	0.48%
Own funds / Due from customers (%) (1)	22.2%	24.9%
Financial leverage	16.6	18.1
Equity	**363.8**	**333.7**
Own funds	**352.2**	**235.0**

(1) Weighting applied to receivables due from the Italian public administration was equal to 50% in 2016 and 100% in 2017.

Risk management and compliance with Prudential Supervision regulations

The prudential supervision regulations are governed by the Bank of Italy Circular no. 285 *"Supervisory provisions for banks"* and Circular no. 286 *"Instructions for the preparation of supervisory reporting by banks and securities intermediaries"*, both dated December 17, 2013, which adopt the new harmonized regulation for banks and investment firms contained in the EC Regulation CRR (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 2013.
These regulations include the standards set forth by the Basel Committee for banking regulations (Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways with which the powers attributed by EU regulations to national authorities were exercised.

The above circulars outline a complete, organic and rational regulatory framework, integrated with the directly applicable EU provisions, which will be completed with the issue of the implementation measures contained in the regulatory technical standards and implementing technical standards adopted by the European Commission based on the EBA's proposal.

The regulation applicable at December 31, 2017 is based on three pillars.

Pillar I – Capital adequacy to meet the typical risks associated with financial operations

From the standpoint of operations, the absorption of risks is calculated using various methods:
- "Standardized approach" for the credit risk;
- "Standardized approach" for the counterparty risk;
- "Basic approach" for the operational risk;
- "Standardized approach" for the market risk.

Pillar II –The ICAAP Report

The supervisory regulations require intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Supervisory 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 Report 2017" to the Bank of Italy, updating the risk management system aimed at determining capital adequacy.

Pillar III – Disclosure to the public

Pursuant to Article 433 of the CRR, banks shall publish the disclosures required by EU regulations at least on an annual basis. Annual disclosures shall be published in conjunction with the date of publication of the financial statements.
The regulation relating to Pillar III establishes specific obligations for the periodic publication of information relating to capital adequacy, exposure to risks, and the general features of the systems used for their identification, measurement and management.

The Banca Farmafactoring Banking Group draws up this document, in accordance with the provisions in effect, on a consolidated basis, with reference to a scope of consolidation that is considered significant by regulatory requirements.

To this end, the Board of Directors of Banca Farmafactoring has approved a dedicated procedure denominated "Disclosure to the Public (Pillar III)".

Pursuant to this procedure, the disclosure should be:
- approved by the Board of Directors before its distribution;
- published on the Bank's website **www.bffgroup.com** at least once a year, within the deadline established for the publication of the financial statements, thus within 21 days of the date of approval of the financial statements by the Shareholders' Meeting.

With regard to the provisions of the Bank of Italy Circular no. 285 of December 17, 2013, and subsequent updates, the Banca Farmafactoring Banking Group will publish on its website **www.bffgroup.com**, once a year, within the deadlines established for the publication of the financial statements, a country-by-country reporting document, which contains information inherent to the business, turnover and the number of staff in the various countries in which the Group is present.
The information to be published is defined by Appendix A, first part, Title III, Chapter 2 of the above Circular.

Reconciliation between Equity and Profit for the Year of the Parent Company and the Consolidated Figures of the Group

(Amounts in € thousands)

	Equity at 12/31/2017	Of which Profit at 12/31/2017	Equity at 12/31/2016	Of which Profit at 12/31/2016
Parent Company's balances	**332,878**	**79,478**	**323,432**	**70,314**
Effect of transactions among Group companies (including dividends)			(662)	(8,022)
Farmafactoring España - adjustment due to derecognition of equity investment	9,052		1,690	
Farmafactoring España - profit	7,792	7,792	7,317	7,317
Magellan - adjustment due to derecognition of equity investment	2,072			
Magellan - profit	7,954	7,954	2,851	2,851
Exchange differences - translation reserves	3,773		(558)	
Other consolidation adjustments	324	324	(324)	(324)
Equity attributable to non-controlling interests	10			
Group consolidated figures	**363,856**	**95,548**	**333,746**	**72,136**

Other Information Required by Article 2428 of the Italian Civil Code

Related party transactions

As for transactions with related parties and associated parties, the Board of Directors of Banca Farmafactoring S.p.A., on November 11, 2016, approved:

- with immediate effect, the "Policies on internal controls adopted by the BFF Group to manage conflict of interests" and the "BFF Group Regulation for the identification and approval of transactions with associated parties";
- with effect subject to the start of trading on the MTA managed by Borsa Italiana (i.e. from April 7, 2017), the "Policies on internal controls adopted by the BFF Group to manage conflict of interests" (referred to as "Policy to manage conflicts of interests") and the "BFF Group Regulation for the identification and approval of transactions with parties that may be in a conflict of interest" 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 by resolution no. 17221 of March 12, 2010, as subsequently amended by resolution no. 17389 of June 23, 2010, following a favorable opinion expressed by the Board of Statutory Auditors and the Related Party Committee.

The Policy to manage conflicts of interests regulates the control processes aimed at ensuring the correct measurement, monitoring and management of the risks assumed by the Group with associated parties.

The Regulation is aimed at overseeing the risk that proximity, if any, of such parties to the Banking

Group's decision-making centers may compromise the objectivity and impartiality of the decisions taken on transactions involving those parties, with possible distortions in the resource allocation process, exposure of the Bank to risks not adequately measured or supervised, and potential damage for shareholders and stakeholders.
The Regulation for transactions with associated parties and the Policy to manage conflicts of interest are communicated to the Shareholders' Meeting and the public via the Bank's website under the section Governance/procedures and regulations/transactions with associated parties.

Related parties also include investee companies of the Banca Farmafactoring Group, as described in the "Structure of the Group" section of this report.

Information on related party transactions is provided in Part H of the Notes.

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

The Bank complied with the provisions of Article 70, paragraph 8 and Article 71, paragraph 1 bis of the Issuers' Regulations adopted by 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.

Disclosure of compliance with codes of conducts pursuant to Article 89-bis of the Issuers' Regulations

The Bank complied with the Corporate Governance Code for listed companies - approved in March 2006 by the Corporate Governance Committee and promoted by Borsa Italiana - as described in the Bank's Corporate Governance Report and Ownership Structure.

Unusual or atypical transactions

The Bank did not carry out any unusual or atypical transactions, as reported in Consob Communication no. 6064293 of July 28, 2006.

Events subsequent to the end of the reporting period

On January 5, 2018, the Bank received a communication from the Bank of Italy reporting that the Bank of Portugal had been notified of the Bank's intention to open a branch in Portugal.
On January 15, 2018, the Bank received a communication from the Bank of Italy reporting that the Bank of Croatia had been notified of the Bank's intention to carry out non-recourse factoring activities in the country pursuant to the regulations on the freedom to provide services.

On February 21, 2018, BFF Luxembourg S.à r.l. (vehicle controlled by Centerbridge) informed the market that it completed the sale of 17.25 million BFF shares, equivalent to 10.1%, through an accelerated book build. Based on BFF Luxembourg's announcement, subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 55.8% to 45.7%. In order to carry out the transaction, the banks acting as Joint Global Coordinators in the Group IPO agreed to grant a waiver to the lock-up commitments taken on by BFF Luxembourg S.à r.l. upon listing.

There are no other events or facts subsequent to the end of the reporting period such as to require an adjustment to the results of the financial statements for the year ended December 31, 2017.

Treasury shares

The Bank does not hold any treasury shares, either directly or through individuals, fiduciary companies and/or trusts.

On February 2, 2018, an application was submitted to the Bank of Italy for the purchase of treasury shares worth a maximum of €300,000.
It should be noted that, at the date of this report, the Supervisory Authority has not yet issued any formal authorization.

Other offices

In 2015, the Bank opened a Spanish branch in Madrid. It also opened offices in Rome - Via Bertoloni 1/E.
As regards the other Group companies, reference should be made to the "Structure of the Group" section of this report.

Business outlook

According to the approved planning guidelines, the Banca Farmafactoring Banking Group will pursue the activities undertaken in past years, developing commercial policies geared to strengthen its relationships with existing clientele and expanding operations for the management of receivables deriving not only from the supply of drugs or diagnostic products, but also from other merchandise sectors as well as arising from services in relation to the public administration in general, in European Union countries.

In a still challenging economic and financial scenario, the Group has further strengthened its position on a local level by building up commercial relations and diversifying banking and funding relationships, in order to reduce as much as possible the risk of concentration of relationships and minimize the time required for sums to be credited by the entities of the National Health System and the public administration.

Commercial efforts will focus on the expansion of relationships with traditional customers, the acquisition of new customers and the development of new products in the various countries where the Group operates as well as in new markets.

Growth opportunities for 2018 include entry into the Croatian market pursuant to the regulations on the freedom to provide services. In December 2017, a request for authorization was submitted to the Bank of Italy, which notified the Bank of Croatia of such communication on January 13, 2018.
The procedure for the opening of a branch of the Bank in Portugal was started. The branch will presumably become operational in the second quarter of 2018 and manage non-recourse factoring, currently carried out directly from Italy. On January 5, the Bank of Italy notified the Bank of Portugal of this plan.
Certain costs related to these projects were already incurred in the reporting period, thus making it possible to support the Group's growth in the future.

Appropriation of the Banking Group's Profit

The Banking Group's Profit for the year ended December 31, 2017 amounted to €95,547,803.
In line with the dividend policy approved by the Bank's Board of Directors, which envisages a target of 15% of the Total Capital Ratio for the Banking Group, the distribution to Shareholders of part of the Banking Group's consolidated profit up to €83,692,841 is proposed. This amount corresponds to the entire Banking Group's profit, net of allocations to consolidated Tier I Capital, equal to €11,854,962, which will be allocated to the Retained earnings reserves of the respective investee companies.

The following proposal for the appropriation of Banca Farmafactoring's profit will be submitted to the Shareholders' Meeting of the Bank on April 5, 2018.

Proposal for the Appropriation of Banca Farmafactoring's Profit

Dear Shareholders,

The financial statements of Banca Farmafactoring at December 31, 2017 show a profit of €79,477,696, which we propose to allocate entirely to Shareholders, in compliance with the Company's dividend policy.

Furthermore, we submit the consolidated financial statements at December 31, 2017, which, although not requiring the approval of the Shareholders' Meeting, supplement the disclosure already provided through the Bank's separate financial statements.

We also propose to allocate €4,215,145 to Shareholders, to be withdrawn from the Retained earnings reserve, which will consequently be reduced to €85,328,312, so that the total proposed dividend is equal to €83,692,841, in line with the Banking Group's profit, excluding the allocations to consolidated Tier I Capital.

The Shareholders will therefore be entitled to a dividend of €0.492 for each of the 170,107,400 shares held (ex-date: April 9, 2018).

Pursuant to Article 83-terdecies of Legislative Decree no. 58 of February 24, 1998 (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary pursuant to Article 83-quater, paragraph 3 of the Consolidated Law on Finance, at the end of the accounting date of April 10, 2018 (record date).

The aforementioned dividend—before tax provided for by the law—will be paid on April 11, 2018.

Now, therefore, we submit the following resolution proposal for your approval:

"The Shareholders' Meeting of Banca Farmafactoring S.p.A., having acknowledged the report on operations prepared by the Board of Directors, the Board of Statutory Auditors' report and the Independent Auditors' report, having examined the separate financial statements at December 31, 2017 and acknowledged the Group's consolidated financial statements,

resolved

i. *to approve the separate financial statements for the year ended December 31, 2017, and the relevant report on operations prepared by the Board of Directors, showing profit for the year of €79,477,696;*
ii. *to withdraw €4,215,145 from the "Retained earnings" reserve to be distributed to Shareholders; after such allocation, the above-mentioned reserve will decrease to €85,658,312;*
iii. *to allocate the net profit for the year of €79,477,696, in addition to €4,215,145 withdrawn from the "Retained earnings" reserve, to Shareholders, for an overall amount of dividends to be distributed of €83,692,841, equal to €0.492 - before tax provided for by the law - for each ordinary share (ex-date: April 9, 2018). Such dividend includes the portion attributable to any treasury share held by the company at the record date. Pursuant to Article 83-terdecies of Legislative Decree no. 58 of February 24, 1998 (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary pursuant to Article 83-quater, paragraph 3 of the Consolidated Law on Finance, at the end of the accounting date of April 10, 2018 (record date);*
iv. *that such dividend will be paid as of April 11, 2018. Payment will be made through authorized intermediaries with which shares have been registered within the Monte Titoli system.*

The Chairman of the Board of Directors
Salvatore Messina

02 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2017

Consolidated Balance Sheet

(Amounts in euros)

Assets	12/31/2017	12/31/2016
10. Cash and cash equivalents	80,932,835	149,035
20. Financial assets held for trading	0	244,420
30. Financial assets measured at fair value	545,846	3,401,129
40. Available-for-sale financial assets	101,449,267	385,279,885
50. Held-to-maturity financial assets	1,120,609,553	1,629,319,849
60. Due from banks	44,792,419	144,871,367
70. Due from customers	3,018,486,104	2,499,094,435
80. Hedging derivatives	321,839	529,027
100. Equity investments	260,893	301,567
120. Property, plant and equipment	12,794,887	12,988,330
130. Intangible assets	26,034,157	25,811,363
of which		
- goodwill	*22,146,189*	*22,146,189*
140. Tax assets	30,917,074	25,870,072
a) current	*25,883,920*	*21,450,987*
b) deferred	*5,033,154*	*4,419,084*
of which for purpose of Law 214/2011	*685,606*	*748,650*
160. Other assets	9,795,958	7,135,948
TOTAL ASSETS	**4,446,940,832**	**4,734,996,427**

(Amounts in euros)

Liabilities and Equity	12/31/2017	12/31/2016
10. Due to banks	657,992,541	634,806,875
20. Due to customers	2,495,986,713	2,996,142,256
30. Debt securities issued	790,138,514	634,282,882
40. Financial liabilities held for trading	535,073	7,248
60. Hedging derivatives	0	176,037
80. Tax liabilities	82,455,762	73,658,616
a) current	*25,627,899*	*24,129,771*
b) deferred	*56,827,864*	*49,528,845*
100. Other liabilities	49,683,022	54,319,925
110. Employee severance benefits	848,138	867,129
120. Provisions for risks and charges	5,445,278	6,989,235
a) pension and other post-employment benefits	*4,366,009*	*6,342,956*
b) other provisions	*1,079,269*	*646,279*
140. Revaluation reserves	7,693,804	3,937,274
170. Reserves	129,621,486	126,689,753
190. Share capital	130,982,698	130,982,698
210. Equity attributable to non-controlling interests	10,000	0
220. Profit (loss) for the year	95,547,803	72,136,499
TOTAL LIABILITIES AND EQUITY	**4,446,940,832**	**4,734,996,427**

Consolidated Income Statement

(Amounts in euros)

Items		12/31/2017	12/31/2016
10.	Interest and similar income	237,943,026	190,225,502
20.	Interest and similar expenses	(39,930,476)	(31,020,474)
30.	**Net interest margin**	**198,012,550**	**159,205,028**
40.	Fee and commission income	7,712,965	7,832,442
50.	Fee and commission expenses	(1,257,719)	(4,477,743)
60.	**Net fees and commissions**	**6,455,246**	**3,354,700**
70.	Dividends and similar income	59,723	60,488
80.	Gains (losses) on trading	(5,481,911)	681,837
90.	Gains (losses) on hedge accounting	32,279	(1,011)
100.	Gains (losses) on disposal or repurchase of:		
	b) available-for-sale financial assets	1,758,957	705,563
120.	**Net banking income**	**200,836,844**	**164,006,605**
130.	Net adjustments to/reversals of impairment of:		
	a) receivables	(6,046,114)	(2,180,160)
	b) available-for-sale financial assets	(701,869)	(63,885)
140.	**Net profit from financial activities**	**194,088,861**	**161,762,560**
170.	**Net profit from financial and insurance activities**	**194,088,861**	**161,762,560**
180.	Administrative expenses:		
	a) personnel costs	(27,619,336)	(24,923,620)
	b) other administrative expenses	(34,379,769)	(38,717,534)
190.	Net allocations to provisions for risks and charges	(830,829)	(2,075,111)
200.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,443,853)	(1,282,155)
210.	Net adjustments to/reversals of impairment of intangible assets	(1,689,849)	(1,334,042)
220.	Other operating income (expenses)	3,849,450	5,703,586
230.	**Operating Costs**	**(62,114,186)**	**(62,628,875)**
280.	**Profit (loss) before tax from continuing operations**	**131,974,675**	**99,133,685**
290.	Income taxes on profit (loss) from continuing operations	(36,426,872)	(26,997,186)
300.	**Profit (loss) after tax from continuing operations**	**95,547,803**	**72,136,499**
320.	**Profit (loss) for the year**	**95,547,803**	**72,136,499**
340.	**Profit (loss) for the year attributable to owners of the Parent**	**95,547,803**	**72,136,499**
	Basic earnings per share (*)	0.56	0.42
	Diluted earnings per share (*)	0.56	0.42

(*) Following the implementation of BFF's new Bylaws on the start date of trading, which envisaged the stock split of the existing shares at a ratio of 1:100, basic and diluted earnings per share at December 31, 2016 were adjusted to be comparable with the figures of the reporting period. At December 31, 2016, basic and diluted earnings per share amounted to 42.41.

Consolidated Statement of Comprehensive Income

(Amounts in euros)

Items		12/31/2017	12/31/2016
10.	**Profit for the year**	**95,547,803**	**72,136,499**
	Other comprehensive income, after tax, that will not be reclassified to profit or loss		
20.	Property, plant and equipment		
30.	Intangible assets		
40.	Defined benefit plans	(20,497)	(23,955)
50.	Non-current assets held for sale		
60.	Portion of revaluation reserves from equity investments measured using the equity method		
	Other comprehensive income, after tax, that will be reclassified to profit or loss		
70.	Hedges of foreign investments		
80.	Exchange differences	4,330,808	(557,585)
90.	Cash flow hedges	(151,404)	345,560
100.	Available-for-sale financial assets	(402,377)	(10,319)
110.	Non-current assets held for sale		
120.	Portion of revaluation reserves from equity investments measured using the equity method		
130.	**Total other comprehensive income, net of taxes**	**3,756,530**	**(246,299)**
140.	**Comprehensive income (Items 10+130)**	**99,304,333**	**71,890,200**
150.	Consolidated comprehensive income attributable to non-controlling interests		
160.	**Consolidated comprehensive income attributable to owners of the Parent**	**99,304,333**	**71,890,200**

Consolidated Statement of Changes in Equity

At 12/31/2017

				Retained earnings (Accumulated losses)		Change during the year										
							Equity transactions									
	Balance at 12/31/2016	Change in opening balance	Balance at 01/01/2017	Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivative on own shares	Stock options	Change in shareholding interests	Comprehensive income for the year 2017	Group equity at 12/31/2017	Equity attributable to non-controlling interests at 12/31/2017
Share 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	557,585	126,689,753	10,961		206,943									**126,907,657**	
- other						45,761						2,668,067			**2,713,828**	
Revaluation reserves	4,494,859	(557,585)	3,937,274											3,756,530	**7,693,804**	
Equity instruments																
Treasury shares																
Profit (loss) for the year	72,136,499		72,136,499	(10,961)	(72,125,538)									95,547,803	**95,547,803**	
Group equity	**333,746,224**		**333,746,224**		**(72,125,538)**	**252,704**						**2,668,067**		**99,304,333**	**363,845,790**	
Equity attributable to non-controlling interests													10,000			10,000

(Amounts in euros)

At 12/31/2016

				Retained earnings (Accumulated losses)		Change during the year										
							Equity transactions									
	Balance at 12/31/2015	Change in opening balance	Balance at 01/01/2016	Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividend	Change in equity instruments	Derivative on own shares	Stock options	Change in shareholding interests	Comprehensive income for the year 2016	Group equity at 12/31/2016	Equity attributable to non-controlling interests at 12/31/2016
Share 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		(9,850,667)								(557,585)	**126,132,168**	
- other																
Revaluation reserves	4,183,573		4,183,573											311,286	**4,494,859**	
Equity instruments																
Treasury shares																
Profit (loss) for the year	68,790,823		68,790,823	(9,131,372)	(59,659,457)									72,136,499	**72,136,499**	
Group equity	**331,283,444**		**331,283,444**		**(59,659,457)**	**(9,850,667)**	**82,698**							**71,890,200**	**333,746,224**	
Equity attributable to non-controlling interests																

Consolidated Statement of Cash Flows Indirect Method

(Amounts in euros)

	Amount	
A. OPERATING ACTIVITIES	12/31/2017	12/31/2016
1. Operations	**107,471,768**	**28,985,688**
- profit or loss for the period (+/-)	95,547,803	28,349,365
- capital gains/losses on financial assets held for trading and on financial assets/liabilities measured at fair value (-/+)	821,761	-
- capital gains/losses on hedge accounting (-/+)	(32,279)	-
- net adjustments to/reversals of impairment (+/-)	6,747,983	(747,121)
- net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-)	3,133,702	1,360,422
- net allocations to provisions for risks and charges and other expenses/income (+/-)	830,829	23,022
- net premiums not collected (-)		
- other income/expenses from insurance activities not collected (-/+)		
- unpaid taxes and tax credits (+/-)		
- net adjustments to/reversals of impairment of disposal groups, net of the tax effect (-/+)		
- other adjustments (+/-)	421,970	
2. Liquidity generated/absorbed by financial assets	**(362,080,089)**	**393,469,157**
- financial assets held for trading	(244,420)	(66,724)
- financial assets measured at fair value	(2,855,283)	-
- available-for-sale financial assets	(283,128,749)	(97,151,010)
- due from banks: on demand	(100,078,948)	11,994,343
- due from banks: other		
- due from customers	525,437,782	(33,703,897)
- other assets	(501,210,472)	512,396,445
3. Liquidity generated/absorbed by financial liabilities	**(313,493,661)**	**537,814,022**
- due to banks: on demand	23,185,666	(360,890,909)
- due to banks: other		
- due to customers	(500,155,543)	680,038,752
- debt securities issued	155,855,633	149,787,381
- financial liabilities held for trading	(293,937)	(17,583)
- financial liabilities measured at fair value		
- other liabilities	7,914,520	68,896,381
Net liquidity generated/absorbed by operating activities	**156,058,196**	**173,330,553**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	**19,050**	**-**
- sale of equity investments	(40,673)	-
- dividends collected on equity investments	59,723	-
- sale of held-to-maturity financial assets		
- sale of property, plant and equipment		
- sale of intangible assets		
- sale of subsidiaries and business branches		
2. Liquidity absorbed by	**(3,167,909)**	**(103,827,119)**
- purchase of equity investments	(174,835)	(103,195,982)
- purchase of held-to-maturity financial assets		
- purchase of property, plant and equipment	(1,127,890)	(370,722)
- purchase of intangible assets	(1,865,183)	(260,415)
- purchase of subsidiaries and business branches		
Net liquidity generated/absorbed by investing activities	**(3,148,859)**	**(103,827,119)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares		
- issue/purchase of equity instruments		
- distribution of dividends and other	(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 YEAR	**80,783,800**	**738,434**

Reconciliation

(Amounts in euros)

Item	Amount	
	12/31/2017	12/31/2016
Cash and cash equivalents at the beginning of the year	149,035	158,612
Net liquidity generated/absorbed during the year	80,783,800	738,434
Cash and cash equivalents: effect of change in exchange rate		
Cash and cash equivalents at the end of the year	**80,932,835**	**897,046**

Notes to the Consolidated Financial Statements

Dear Shareholders,
The Notes are arranged in the following order:

Part A - Accounting Policies
Part B - Consolidated Balance Sheet
Part C - Consolidated Income Statement
Part D - Consolidated Comprehensive Income
Part E - Risks and Related Risk Management Policies
Part F - Consolidated Equity
Part G - Business Combinations
Part H - Related Party Transactions
Part I - Share-based Payments
Part L - Segment Reporting

Part A – Accounting Policies

A.1 – GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

The consolidated financial statements at December 31, 2017 have been prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the IASB, endorsed by the European Commission as provided for by Regulation (EC) no. 1606 of July 19, 2002 governing the application of IASs/IFRSs, and in compliance with the relevant interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period.

IFRSs have been applied based on the Framework for the preparation and the presentation of financial statements, with particular reference to the fundamental principle of substance over legal form and the concept of relevance or significance of information.

Section 2 – General preparation principles

The consolidated financial statements at December 31, 2017 were prepared in accordance with the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", as subsequently amended.
The consolidated financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements, and are accompanied by the Directors' report on operations.
In accordance with the provisions of Article 5, paragraph 2, of Legislative Decree no. 38 of February 28, 2005, the financial statements are denominated in euros, as the euro is BFF's functional currency.
All amounts included in notes are in thousands of euros, unless otherwise stated; prior-year figures are provided for the purposes of comparison.
The financial statements were prepared based on the general principle of prudence and on an

accrual and going concern basis, since, with reference to the operations and the financial and equity position of the Group, and after examining the risks to which it is exposed, Directors have not identified any issue that could raise doubts on the Group's ability to meet its obligations in the foreseeable future.

Main measurement criteria

Pursuant to IAS 1 and the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005, as subsequently amended, the main measurement criteria for the most significant items of the financial statements are presented below.

New accounting standards

Accounting standards and interpretations effective as of January 1, 2017

Amendments to IAS 12 - Income Taxes
Recognition of deferred tax assets in relation to unrealized losses adopted by Regulation (EU) 2017/1989. The amendments aim to clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to IAS 7 - Statement of Cash Flows
Disclosure initiative, adopted by Regulation (EU) 2017/1990. An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, separating changes arising from cash flows and non-cash changes.

New standards and interpretations issued, effective as of January 1, 2018

- *IFRS 15 – Revenue from Contracts with Customers, adopted by Regulation (EU) no. 2016/1905*

This new standard will replace IAS 18 – Revenue, IAS 11 – Construction Contracts, and IFRIC 13 – Customer Loyalty Programmes. It introduces a new model for recognizing revenues which no longer refers to the characteristics of the item being transferred to the customer (goods, services, interest, royalties, etc.), but is based on the distinction between a performance obligation satisfied at a point in time and an obligation satisfied over time.
If a performance obligation is satisfied at a point in time, the relevant revenue shall be recognized in the financial statements as total "control" over the good or service being transferred is passed to the customer. In this regard, not only the significant exposure to risks and rewards related to the good or service, but also other issues, such as its physical possession, acceptance by the customer and the existence of related legal rights, are taken into account.
If the performance obligation is fulfilled over time, the relevant revenue shall be measured and recognized virtually on the basis of the progress towards complete satisfaction of the performance obligation. In practice, the entity's accounting method is based on the level of progress in production or costs incurred. The standard provides specific guidance so that entities can choose the most appropriate accounting method.
Finally, according to the new standard, each performance obligation is separately measured, despite being part of a contractual and/or commercial framework.
Owing to this approach, the measurement and timing of recognition of sales revenues could diverge from those identified in compliance with the provisions of IAS 18. During the reporting pe-

riod, analyses were carried out to assess any impact of this standard on the Group. No significant aspects have emerged so far.

• *IFRS 9 – Financial Instruments, adopted by Regulation (EU) no. 2067/2016.*

The new accounting standard, which, as from January 1, 2018, will largely replace the current IAS 39 – Financial Instruments: Recognition and Measurement, aims to improve disclosure on financial instruments, by taking account of the difficulties which arose during the financial crisis. It also introduces an accounting model which can promptly reflect the expected losses on financial assets. The changes introduced by the new standard can be summarized in the following three areas:

i) ***Classification and measurement of financial assets***, based both on the business model, which was formalized by the Board of Directors to define the management of financial assets and relevant purposes, and on the characteristics of the expected cash flows. The new standard establishes three different categories of financial assets:
Amortized cost: financial assets held in order to collect the contractual cash flows represented solely by the payment of capital and interest;
Fair value through other comprehensive income (FVTOCI): financial assets held in order to collect both the contractual cash flows, represented solely by the payment of capital and interest, and the cash flows from the sale of assets;
Fair value through profit and loss (FVTPL): residual category under which financial assets which are not part of the previous two categories are classified.

Following the adoption of the new accounting standard IFRS 9, starting from January 1, 2018, securities belonging to the held-to-maturity portfolio will be classified in the category belonging to the Held to Collect (HTC) business model. As from the same date, securities recognized in the available-for-sale portfolio will be classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.
Following the adoption of the new accounting standard IFRS 9, non-recourse receivables valued at amortized cost will be classified in the category belonging to the Held to Collect (HTC) business model.

ii) ***Impairment***, based on the new expected loss model, which prospectively considers losses over the life of the financial instrument and requires their immediate recognition rather than on the occurrence of a trigger event as required by the model of incurred losses pursuant to IAS 39.
The expected losses model thus requires companies to segment their portfolios into three levels (stages), in relation to the change in credit risk of the asset compared to initial recognition.
In particular, Stage 1 contains exposures that recorded no significant increases in credit risk between the initial date and the reporting date. In this case, expected losses are calculated over a maximum timeframe of 12 months.
Stage 2 contains exposures that recorded a significant deterioration in credit quality compared to initial recognition, and the entire residual life of the asset is used to calculate the expected loss.
Stage 3 contains financial instruments whose credit risk deteriorated significantly, to the extent that the exposure is considered impaired. For exposures classified under this level, expected loss is also calculated over the lifetime of the asset but unlike the positions recorded in Stage 2, impairment is analytical, assessed on a case-by-case basis.
For the classification of impaired loans pursuant to the new IFRS 9, a definition of default, con-

sistent and aligned with the regulatory requirements for prudential supervision in force, has been adopted.
The aim of impairment, consistent with the provisions of the standard, for performing exposures is to recognize an Expected Credit Loss with the use of lifetime parameters for all financial instruments that have experienced a significant increase in credit risk since initial recognition, considering all of the information available without any additional costs or efforts (i.e. forward-looking information).
The measurement of expected loss over the lifetime of the instrument must reflect the forward-looking information. The inclusion of this information is reflected in the multi-period PD parameter of IFRS 9 adopted, calculated by incorporating "current" information (point-in-time concept) and "forecast" information (forward-looking concept) through the use of macroeconomic scenarios differentiated by type of exposure, provided by a qualified external information provider.

iii) ***General hedge accounting***, partially modified compared to the provisions of IAS 39. Among the main changes introduced, the following are of particular importance: extension of cases in which hedge accounting can be applied; verification of hedge effectiveness, only prospectively; introduction of the option to change the hedge ratio without interrupting that pre-existing (so-called rebalancing).

In relation to the application of IFRS 9 as from January 1, 2018, in the first quarter of 2017 the Banca Farmafactoring Group launched a project to adopt the new requirements introduced by the new standard.
This project, which involves every legal entity of the Group, has been divided into two macro areas – Classification and Measurement and Loss Loan Provision (LLP) – and into three stages: Assessment, Design and Implementation.
On launching the project, an Assessment stage was undertaken in which an estimate was made, at both individual and aggregate level, of the effects arising from the adoption of the new standard, so as to be able to assess its impact and identify the actions to be taken in order to best manage the changes introduced by IFRS 9.
As part of Classification and Measurement (C&M), the so-called SPPI (Solely Payments of Principal and Interest) test was carried out: the various types of contracts included in the scope of consolidation were identified and analyzed for the various portfolios, in relation to all the Group companies.
The SPPI test did not identify any financial assets or liabilities which shall be measured at fair value, therefore confirming substantial continuity of the criteria already adopted in compliance with IAS 39.

Having taken account of the characteristics of the financial assets which make up the Group's portfolio, no significant divergences emerged in this stage in terms of the economic impact between the new model based on expected losses and the model used currently, based on incurred losses, since most of the Group's receivables are due from the public administration or are short-term.

In particular, following the project activities, calculations carried out on the portfolio at December 31, 2017 show that, at the Banking Group level, the impact of the First Time Adoption of IFRS 9 generated impairment losses lower than those calculated according to IAS 39, on a range from €0 to €1 million. The positive impact for the Banking Group derives from the net effect recorded at a level of individual entities, as summarized below:

- positive impact for Banca Farmafactoring and FFE, mainly deriving from the characteristics of the portfolio, consisting almost entirely of counterparties belonging to the public administration and with duration of less than one year, parameters used in the calculation of such items have been redetermined even more precisely during the transition to IFRS 9;
- negative impact for the Magellan Group, considering the different type and characteristics of the portfolio, including private/corporate counterparties with respect to the Parent Company, with duration of more than one year.

The Design stage, which was completed in compliance with the timeframes envisaged in planning the activities, focused on defining the criteria necessary to implement processes and procedures relating to the business model, the SPPI test, the Benchmark test and the Stage allocation.

The Implementation stage was undertaken in accordance with the plan made and IT work (e.g. development and adoption of the impairment model and of the SPPI tool) and organizational work (Regulations, Policies and Processes) was carried out.
In relation to the organizational part of the Implementation stage, having taken account of the plan complexity, the Group decided for a long-term (2017-2018) redistribution of activities, by planning and implementing the high priority review of internal "IFRS 9 specific" regulation by the end of 2017 (for example: updating the Lending Regulation and the Policy on Management of Government Securities, drafting the Accounting Manual), and the lower priority actions by the first quarter of 2018, in line with the reporting deadlines and in compliance with the Bank of Italy Circular no. 262.
During 2017, the Group also started specific training activities involving both top management and operational staff to disseminate the culture of transition to the new standard, as required by IFRS 9.

New accounting standards and interpretations not yet endorsed

At the approval date of the financial statements, the following accounting standards, amendments and interpretations were issued by the IASB, although not yet endorsed by the European Commission:
- IFRS 14 - Regulatory Deferral Accounts;
- IFRS 16 - Leases, effective as of January 1, 2019.

The new standard defines the accounting treatment of lease transactions in place of the current regulations, established by IAS 17 - Leases and by the interpretations IFRIC 4 – Determining whether an Arrangement Contains a Lease, SIC 15 – Operating Leases - Incentives and SIC 27 - Evaluating the Substance of Transactions in the Legal Form of a Lease.
The new standard introduces a criterion based on the right of use, which will standardize the accounting treatment of operating leases currently applied by the lessee with that for finance leases.
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IAS 12, on the Recognition of Deferred Tax Assets for Unrealized Losses;
- Amendments to IAS 7, on Disclosure regarding cash flows arising from financing activities;
- Clarifications of IFRS 15 – Revenue from Contracts with Customers;
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions;
- Annual Improvements to IFRS 2014-2016;
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration.

The potential repercussions of the upcoming application of these standards, amendments and interpretations on financial reporting are still being examined and assessed.

Section 3 – Scope and basis of consolidation

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

Subsidiaries

As indicated in section "Group Structure", subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to the variable returns generated by it and has the ability to affect such returns through its power over the company. Generally, control is deemed to exist when more than half of the voting rights are directly or indirectly held, taking also into account potentially 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 benefits 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 on a line by line basis from the date on which control is transferred to the Group. Conversely, they are excluded from the scope of consolidation when such control ceases.

The financial statements and the notes of the companies which are consolidated on a line by line basis are prepared in compliance with the IASs/IFRSs used for the consolidated financial statements.

The criteria adopted for line-by-line consolidation are as follows:

- assets and liabilities, revenues and costs of the entities that are fully consolidated are recognized 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;
- gains and losses, including the related tax effects, arising from transactions between companies consolidated on a line-by-line basis and not yet realized with reference to third parties, are eliminated, except for losses, which 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 costs, 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 recorded at the end of the reporting period; 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 year-end rate for assets and liabilities and the average rate for the period for income statement items, are recognized in the revaluation reserves in equity, as for the translation differences on the subsidiaries' equities.

  All translation differences are recognized in profit or loss in the period in which the investment is disposed of.

1. Investments in subsidiaries under exclusive control

At December 31, 2017, the Banca Farmafactoring Banking Group included the Parent Banca Farmafactoring and the following companies:

Company name	Registered and operating office	Relationship type (1)	Investment relationship		Voting rights % (2)
			Investor	Invest. %	
COMPANIES 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.	Milan - Via Statuto 10	4	Banca Farmafactoring	0%	0%
3. BFF SPV S.r.l.	Milan - Via A. Pestalozza 12/14	4	Banca Farmafactoring	0%	0%
4. Magellan S.A.	Łodz - Al. Marszalka Jozefa Pitsudskiego 76	1	Banca Farmafactoring	100%	100%
5. MedFinance S.A.	Łodz - Al. Marszalka Jozefa Pitsudskiego 76	1	Magellan S.A.	100%	100%
6. Magellan Česká Republika S.R.O.	Prague - Roztylská 1860/1	1	Magellan S.A.	100%	100%
7. Magellan Central Europe S.R.O.	Bratislava - Mostova 2	1	Magellan S.A.	100%	100%
8. Debt-Rnt sp. Z O.O.	Łodz - Al. Marszalka Jozefa Pitsudskiego 76	1	Magellan S.A.	100%	100%
9. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw - Plac Dąbrowskiego 1	1	Magellan S.A.	100%	100%
10. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	1	Magellan S.A.	100%	100%
11. Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Pitsudskiego 76	4	Magellan S.A.	99%	99%
12. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Pitsudskiego 76	4	Debt-Rnt sp. Z O.O	99%	99%

Companies in points 11 and 12 above are limited partnerships and are not consolidated, since their turnover figures are not significant.

Key:
(1) Relationship type:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = having a 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 ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.

Section 4 – Events subsequent to the end of the reporting period

On January 5, 2018, the Bank received a communication from the Bank of Italy reporting that the Bank of Portugal had been notified of the Bank's intention to open a branch in Portugal.
On January 15, 2018, the Bank received a communication from the Bank of Italy reporting that the Bank of Croatia had been notified of the Bank's intention to carry out non-recourse factoring activities in the country pursuant to the regulations on the freedom to provide services.

On February 21, 2018, BFF Luxembourg S.à r.l. (vehicle controlled by Centerbridge) informed the market that it completed the sale of 17.25 million BFF shares, equivalent to 10.1%, through an accelerated book build. Based on BFF Luxembourg's announcement, subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 55.8% to 45.7%. In order to carry out the transaction, the banks acting as Joint Global Coordinators in the Group IPO agreed to grant a waiver to the lock-up commitments taken on by BFF Luxembourg S.à r.l. upon listing.
There are no other events or facts subsequent to the end of the reporting period such as to require an adjustment to the results of the financial statements for the year ended December 31, 2017.

Section 5 – Other issues

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

In accordance with IFRSs, the development of estimates by management is a prerequisite for the preparation of the consolidated financial statements at December 31, 2017. This process involves the use of available information and subjective assessments, 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, therefore, it cannot be ruled out that, in subsequent periods, the current values recognized in the financial statements may differ, even significantly, owing to a change in the subjective assessments.
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 made, provided that the review involves only that period. Should the review involve both current and future periods, the change is recognized in the period in which the review is made, and in the related future periods.

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

- the degree of recoverability and estimated collection times for late payment interest on non-recourse receivables due to the Group, 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 disclosure purposes;
- the fair value of financial instruments not traded in active markets determined with measurement models;
- expenses recorded on the basis of provisional values that are not definitive at the date of the report, including those referring to stock options for employees;
- any impairment of equity investments and recognized goodwill;
- employee benefit provisions based on actuarial assumptions and provisions for risks and charges;
- the recoverability of deferred tax assets.

With reference to the estimated total late payment interest which is expected to be collected by Banca Farmafactoring and Farmafactoring España, the time series were updated with collection amounts for the year 2016. This resulted in a weighted average collection percentage that is higher than the 40% used for the preparation of the 2014 and 2015 financial statements and for the financial statements for the year ended December 31, 2016. As from January 1, 2017, Banca Farmafactoring and Farmafactoring España have used 45% as the percentage of collection of late payment interest to be included in the amortized cost in place of the previous 40%, keeping the average collection times unchanged and estimated at 1,800 days.
The updating of the time series, which was undertaken considering the collections for 2017, confirmed the suitability of the existing percentage.
Therefore, as provided for by IAS 39 (AG8), since some changes occurred in the estimate of the expected cash flows, the Bank recalculated the current value of the aforementioned expected cash flows at the original effective interest rate, recording the impact of this change in the income statement for the year ended December 31, 2017, also taking account of the provisions of the international accounting standard with reference to the change in accounting estimates (IAS 8).
The overall impact of this change in the accounting estimate totaled, net of taxes, 17.8 million euro, and is attributable as follows: €16.3 million to BFF, and €1.5 million to FFE.
The description of the accounting policies adopted for the main aggregates of the consolidated financial statements at December 31, 2017 provides the information needed to identify the main assumptions and subjective assessments used to prepare it.

Independent audit

The Shareholders' meeting of Farmafactoring S.p.A. held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. to audit the financial statements from 2012 to 2020, pursuant to the provisions of Article 2409-bis of the Italian Civil Code and Legislative Decree no. 39/2010.

A.2 - MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Disclosure of the accounting standards adopted to prepare the consolidated financial statements at December 31, 2017, especially with reference to the criteria for recognizing, classifying, measuring and derecognizing the various assets and liabilities as well as for recognizing revenues and costs, is provided below

1 - Financial assets held for trading

Recognition criteria

Financial assets held for trading are initially recognized at their fair value at the settlement date. This amount usually 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 held to hedge against interest rate risk, which are not eligible for hedge accounting.

Specifically, the financial instruments recorded in this category are derivative contracts executed to hedge against exchange rate fluctuations through a 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 risk hedging instruments.

In particular, as for Magellan, FX-swaps were entered into with the aim of hedging the capital and interest of bonds issued by Magellan (to be repaid in euro) against changes in fair value arising from a change in currency exchange rates.

- derivative contracts also include those which may be embedded in other complex financial instruments and which were recognized separately from the host instruments since the economic characteristics and risks of the embedded derivative are not strictly related to the economic characteristics and risks of the primary contract;
- the embedded instruments, even if separated, meet the definition of derivative;
- the hybrid instruments to which they belong are not measured at fair value through profit or loss.

Measurement criteria

Financial assets held for trading are measured at the fair value through profit or loss. Any changes are recognized under item 80 "Gains (losses) on trading".

Quoted market prices are used to determine the fair value of financial instruments quoted in an active market.

Active market means a market where the prices, which reflect normal market transactions, are promptly and regularly available through stock markets, brokers, intermediaries, sector companies, listing services or authorized bodies, and represent the price of actual and regular market transactions taking place in a normal reference period.

For instruments for which the price on an active market is not available, the fair value is determined using estimating methods and measurement models which take account of all the risk factors related to the instruments and which are based on observable market data, where available.

Considering, therefore, that the inputs used to measure financial assets held for trading are different from quoted prices, but can be observed directly or indirectly on the market, in accordance with Bank of Italy Circular no. 262, the fair value measurement hierarchy is "Level 2".

Derecognition criteria
Financial assets held for trading are derecognized when the contractual rights expire and when, following disposal, substantially all of the risks and benefits relating to the financial assets are transferred.

2 - Available-for-sale financial assets

Recognition criteria
Available-for-sale financial assets are initially recognized at fair value at the settlement date. This amount 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 and similar income". 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 items arising from cash flows (debt securities), which are recognized under item 130 "Net adjustments to/reversals of impairment of: b) available-for-sale financial assets" and item 80 "Gains (losses) on 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 "Gains (losses) on disposal or repurchase of: b) 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, whose fair value 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 principal or interest, constitute evidence of an impairment loss.
If there is objective evidence of impairment, the cumulative loss that was initially recognized in equity under item 140 "Revaluation reserves" is then transferred to the income statement under item 130 "Net adjustments to/reversals of impairment of: b) 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 such increase can be objectively attributable to an event relating to the improvement in the debtor's creditworthiness, occurring after the recognition of impairment in profit or loss, the impairment is reversed and the amount of the reversal is recognized in the same income statement item.
After the reinstatement, the carrying amount cannot exceed measurement at amortized cost, had the impairment loss not been recognized.

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

3 - Held-to-maturity financial assets

Recognition criteria
Held-to-maturity financial assets are initially recognized at fair value at the settlement date. This amount 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 instruments with fixed or determinable payments and fixed maturity that the entity has the positive intent and ability to hold to maturity. This type of instruments can be used for repurchase agreements, loans or other temporary refinancing transactions.
Pursuant to IAS 39, a financial asset cannot be classified as held-to-maturity if, during the reporting period or during the two preceding reporting periods, held-to-maturity investments of a material amount were sold or reclassified before maturity.

Measurement criteria
After initial recognition at fair value, these assets are measured at amortized cost using the effective interest rate method. The amount arising from the application of this method is recognized in the income statement under item 10 "Interest and similar income".

If there is objective evidence of impairment, the 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 the income statement under item 130 "Net adjustments to/reversals of impairment of: c) held-to-maturity financial assets".
If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be objectively attributable to an event relating to the improvement in the debtor's creditworthiness occurring after recognition of impairment, the previously recognized impairment loss is reversed. After the reinstatement, the carrying amount cannot exceed measurement at amortized cost, 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 disposal, substantially all of the risks and benefits relating to the financial asset sold are transferred. If, during the year, held-to-maturity investments representing a material 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 non-recurring and could not have been reasonably anticipated.

In the event of a disposal/derecognition, the difference between the carrying amount of the asset and the amount collected is recognized in the income statement under item 100 "Gains (losses) on disposal or repurchase of: c) held-to-maturity financial assets".

4 - Receivables

Recognition criteria
Receivables include loans/unquoted financial assets due from customers and banks, either directly or through third parties, with fixed or determinable payments.
Receivables are initially recognized at fair value, which usually corresponds to the consideration paid, including transaction costs and income which are directly attributable to the acquisition or provision of the financial asset, although 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, are recognized for the amount actually paid at the time of purchase.

As regards Magellan, receivables also include other financing and finance lease transactions, meaning contracts that transfer all the risks and benefits 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 collected in the closing days of the period, pending clearance, relating both to receivables management contracts and management of non-recourse receivables.
Receivables due from customers are primarily comprised of receivables from debtors relating to factoring activities and late payment interest, computed based on receivables purchased on a non-recourse basis, determined in accordance with existing laws (Legislative Decree no. 231/2002 "Implementation of Directive 2000/35/EC on combating late payments in commercial transactions").

All purchases of non-recourse receivables made in Italy refer to factoring transactions pursuant to Law no. 52/91.

This item also includes the amount of the loan granted, 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 reversal and amortization, calculated using the effective interest rate method, of the difference between the amount disbursed and the amount repayable when due, including ancillary costs/income directly attributable to 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.
Non-recourse receivables purchased specifically with reference to the factoring activities carried

out by Group companies are measured at amortized cost, determined based on the present value of estimated future cash flows, with reference to both the principal amount and the late payment interest that accrue from the due date of the receivable.
By virtue of their nature, the new due 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 payment 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 the "Bank of Italy/Consob/Ivass Document no. 7 of November 9, 2016" on the "Treatment in the financial statements of late payment 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 payment interest in the calculation of amortized cost, taking into account that:

- the business model and organizational structure envisage that the systematic recovery of late payment 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 payment interest, due to the impact on the composition of 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.

As a matter of fact, Banca Farmafactoring and Farmafactoring España have a time series of data concerning collection percentages and times—acquired through analysis tools—enabling it to judge that the estimate of late payment 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 times to be used to calculate late payment interest. Any changes in collections are then analyzed on a quarterly basis to confirm such percentages in periodic reporting.
These parameters are also used for the model to calculate the amortized cost relating to non-recourse receivables purchased in Greece. The first purchases in Greece were made in September 2017, under the freedom to provide services provision. As for other types of relationship that do not refer to the Italian National Health Service, also for receivables purchased in Greece it will be arranged to reconstruct the time series relating to collection percentages and average collection timeframes for late payment interest.
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 collections. As a result, the average collection percentage for the year amounted to more than 40%. Therefore, the percentage used to draw up the financial statements for 2014, 2015 and 2016 was raised to 45% starting from January 1, 2017.
The updating of the time series, which was undertaken considering the collections for 2017, confirmed the suitability of the existing percentage.

With reference to Magellan—the group acquired in 2016—, notwithstanding the minor significance of late payment interest to the total of 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 the Parent Banca Farmafactoring, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm a substantially integral recovery of late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.
Late payment interest on past due trade receivables in the Magellan Group are mainly recognized when there is a 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 show no objective indication of impairment at an individual level, despite being more than 90 days past due from the face due date.

Although the receivables are almost entirely due from the public administration, as in previous years, when preparing its annual financial statements or interim reports, the Group, as required by IAS 39, carries out a collective assessment 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 undertaken by using, as a basis, the following risk parameters: probability of default (PD) and loss given default (LGD). This rating was then applied to the exposures not classified as non-performing Exposures at Default (EAD).

The assessment of the "Probability of Default" (PD) was performed by assigning to the debtors (local healthcare entities and hospitals) a rating corresponding to the credit rating assigned by the major rating agencies to the 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 due from sovereign states, companies and banks, equal to 45%.
Also Magellan and its subsidiaries applied the provisions of IAS 39 even before the acquisition by Banca Farmafactoring, by making a collective assessment. The composition of Magellan's portfolio is, however, different from that of Banca Farmafactoring, mainly because the exposure to private debtors is more significant. Consequently, receivables are measured 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 status in accordance with existing prudential regulations, consistently with the IAS regulations currently in effect, are measured at their estimated realizable value by recognizing any adjustments 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 reversal of impairment.

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 all of the risks and benefits relating to such receivables were transferred.
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.

5 - Financial assets measured at fair value

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

Classification criteria
The IAS/IFRS endorsed by the European Commission allow the classification in this 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 asset categories is not allowed.

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

Derecognition criteria
Financial assets measured at fair value are derecognized when the contractual rights on cash flows expire or when, following a disposal, substantially all of the risks and benefits relating to the financial asset are transferred. The gain or loss on the disposal of financial assets measured at fair value is recorded in the income statement under item 110 "Gains (losses) on financial assets and liabilities measured at fair value".

6 - Hedging

Recognition criteria

A hedging transaction is the designation of a financial instrument having as its purpose to offset, in whole or in part, the profit or loss arising from the changes in fair value or cash flows of the hedged item. The intent of hedging must be formally designated, not retroactive and consistent with the risk hedging strategy set out by the Bank's management. Hedge accounting is permitted by IAS 39 only under certain circumstances provided that the hedging relationship is:
- clearly designated and documented;
- reliably measured;
- currently effective.

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

Classification criteria

Hedging transactions are designed to offset potential losses attributable to specific types of risks. The possible types of hedges are the following:
- fair value hedge, which is a hedge of the exposure to changes in fair value of financial statement items;
- cash flow hedge, which is a hedge of the exposure to variability in future cash flows attributable to particular financial statement items;
- hedge of a net investment in a foreign operation.

Derivative contracts (including purchased options) may be designated as hedging instruments, while non-derivative financial instruments may not be designated as hedging instruments except as a hedge of foreign currency risk. Hedging derivatives are classified in the statement of financial position under item 80 "Hedging derivatives" among assets or item 60 "Hedging derivatives" among liabilities, respectively, according to whether their fair value is positive or negative on the reporting date.

The Bank hedges cash flows using an interest rate swap contract with a notional amount in Polish currency (zloty), put in place to hedge a variable rate medium-term loan in Polish currency (zloty) against changes in future cash flows arising from fluctuations in market interest rates (Wibor). Instead, the risk component of the loan attributable to changes in the euro-zloty exchange rate is not hedged.

Measurement criteria

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

When a financial instrument is designated as a hedge, the Group, as noted above, formally documents the relationship between the hedging instrument and the hedged item, and assesses the hedging instrument's effectiveness, both at inception and during its life, in achieving offsetting changes in the fair value or cash flows of the hedged item. 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 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. The hedge's effectiveness is assessed each year at the closing of the annual financial statements or 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, measuring the extent to which the actual results diverged from those of a perfect hedge.

Gains and losses arising from changes in fair value 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 or loss, the same as the fair value change of the hedging 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 or loss only when, with regard to the hedged item, there is variability in cash flows that needs to be offset, or for the ineffective portion of the hedge;
- hedge of a net investment in a foreign operation: cash flow hedge accounting is applied.

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 to item 10 "Interest and similar income" or item 20 "Interest and similar expenses" based on whether the difference is positive or negative;
- gains and losses in fair value arising from the measurement of hedging derivatives designated as a fair value hedge and the hedged positions are allocated to item 90 "Net result of hedging activities";
- gains and losses in fair value originating from the measurement of hedging derivatives designated as a cash flow hedge, for the effective portion, are allocated to a special 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 "Net result of hedging activities".

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 hedging (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, 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.

8 - Property, plant and equipment

Recognition criteria
Property, plant and equipment is initially recognized at cost, which includes all costs necessary to bring the asset to working condition for its intended use (transaction costs, professional fees, direct delivery 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 measured reliably (e.g., extraordinary maintenance costs). 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 by the company as the lessee in finance lease agreements, or those granted to the company 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 impairment losses, if any.
With regard to the Banking Group, such assets are depreciated on a straight-line basis over their estimated useful lives, understood as the period during which an asset or property is expected to contribute to company operations, adopting the straight-line method as the depreciation criterion.
The estimate of the useful life is shown below:

- 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 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 of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 200 "Net adjustments to/reversals of impairment of 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 sale proceeds or the recoverable amount and the carrying amount is recognized in the income statement under item 270 "Gains (losses) on disposal of investments".

9 - Intangible assets

Recognition criteria
Intangible assets are recognized at acquisition cost, including direct costs incurred to bring the asset into use and increased with any costs incurred subsequently to increase initial economic functions, less any accumulated amortization and impairment losses.

Intangible assets also include goodwill, being the positive difference between the purchase cost and the fair value of the assets and liabilities of the acquired company, representative of the investment's capability to produce future profit (goodwill). Should this difference be negative (badwill) or should the investment not be capable to produce future profit, the difference is immediately recognized in the income statement.
As at the date of this document, in accordance with the provisions of IFRS 3, the purchase price allocation (PPA) process was completed, confirming the allocation of the difference between the purchase cost and the fair value of the assets and liabilities acquired wholly to goodwill, as applied during the initial recognition of the acquisition of the Magellan Group and reflected in the consolidated financial statements of BFF at December 31, 2016.

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 one of the aforementioned characteristics, the cost to acquire or generate the asset internally is recorded as a cost in the year in which it was incurred.
Intangible assets mainly consist of software for long-term use and goodwill.

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

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

If there is objective evidence that an 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 of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 210 "Net adjustments to/reversals of impairment of 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 had been recognized in prior years.

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

Assets with an indefinite useful 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. To this end, the cash-generating unit is identified to which goodwill has been allocated.
The amount of any impairment is determined on the basis of the difference between the carrying amount and the recoverable amount, if lower, and is taken to the income statement under item 260 "Adjustments to goodwill". Recoverable amount is defined as the higher of fair value of the cash-generating unit less costs of disposal and its value in use, which is the present value of the cash flows expected to be derived from a cash-generating unit for the years in which it is in operation and arising from its disposal at the end of its useful life, or using the market multiple method. The recognition of any reversal of an impairment loss is not allowed.
The Group, as at December 31, 2017, following the outcomes of the impairment test on the amount of goodwill recorded in the financial statements and relating to the allocation of the acquisition cost of the Magellan Group, did not recognize an impairment loss on the aforementioned 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, 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".

11 - Current and deferred taxes

Recognition and measurement criteria

Income taxes are computed in accordance with the tax legislation in force.
The tax charge consists of the total amount of current and deferred income taxes, included in determining the result for the period.
Current taxes correspond to the amount of income taxes due for the period. Deferred tax liabilities correspond to the amount of income taxes due in future years and refer to taxable temporary differences which arose in the year or in previous years. Deferred tax assets correspond to the amount of income taxes recoverable in future years and refer to deductible temporary differences which arose in the year or in previous years.

The tax amount of an asset or a liability is the value attributed to that asset or liability according to the tax legislation in force. 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 under item 140 b) of assets. Deferred tax liabilities are recorded under item 80 b) of liabilities. Deferred tax assets and liabilities are constantly monitored and are recorded by applying the tax rates which it is expected will be applicable in the year in which the tax asset will be realized, or the tax liability will be extinguished, on the basis of the tax rates and the tax law established by provisions in force. The accounting contra entry for both current and deferred assets and liabilities consists normally of the income statement item 290 "Income taxes on profit (loss) from continuing operations".

The size of the provision for taxes is adjusted to meet charges which might arise from any assessments already communicated or in any case from outstanding disputes with tax authorities.

12 - 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, when necessary, based on actuarial calculations, 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.

13 - Payables and debt securities issued

Recognition criteria

Payables and debt securities issued are recognized on the settlement date and are initially recognized at fair value, which normally corresponds to the consideration received less transaction costs directly attributable to the financial liability. Structured securities are broken down into their basic elements, which are recorded separately when the derivative components implicit in them are of an economic nature and present risks different from those of the underlying securities and can be configured as autonomous derivatives.

Classification criteria

Financial instruments (other than trading liabilities and those measured at fair value) representing the different forms of third-party funding are allocated to the items "Due to banks", "Due to customers" and "Debt securities issued".
Interest expense is recorded in the income statement under item 20 "Interest 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 also occurs in the event of repurchase of securities previously issued, even if they are intended 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.

14 - Financial liabilities held for trading

Recognition criteria

Financial liabilities held for trading are initially recognized on the settlement date at their fair value, which normally 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 liabilities. Trading derivatives are recognized as of the trade date.

Classification criteria
Financial liabilities held for trading include financial instruments intended to hedge interest rate risk and having a negative fair value, which are not eligible for hedge accounting.
For further comments, see the notes on "Financial assets held for trading".

Measurement criteria
Financial liabilities held for trading are measured at fair value, taking any changes found to the income statement under item 80 "Gains (losses) on trading".
For further comments, see the notes on "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 liability are transferred.

18 - Other information

Business combinations
The accounting standard for business combinations is IFRS 3.
The transfer of control of a business (or an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits directly to investors or other owners, members or participants) constitutes a business combination transaction.

In accordance with IFRS 3, each business combination requires the identification of an acquirer, i.e. the entity that obtains control over another business or group of assets. The acquisition, and therefore the first-time consolidation of the acquiree, is accounted for on the date in which the acquirer obtains effective control of the business 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.
Acquisition costs are the expenses incurred by the acquirer to complete the business combination. Such costs are recorded in the income statement in the period in which they are incurred, and the services are received, except for the costs of issuing debt or equity instruments, which must be recognized in accordance with IAS 32 and IAS 39.
Business combinations are accounted for using the "acquisition method", which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.
The accounting for a business combination can be made on a provisional basis by the end of the year in which the combination is effected, but must be perfected within 12 months of the acquisition date.

On May 31, 2016, through the Polish vehicle company Mediona, the purchase was completed of the Magellan Group, exclusively controlled by Banca Farmafactoring.
On December 16, 2016, the merger of Mediona with and into Magellan was registered.
In May 2017, in accordance with the provisions of IFRS 3, the Purchase Price Allocation (PPA) process was completed, at the end of which the allocation of the purchase cost wholly to goodwill was confirmed, as applied during the initial recognition of the acquisition of the Magellan Group and reflected in the consolidated financial statements of BFF at December 31, 2016 since, following the aforementioned provisional PPA, no further assets were identified to which to reasonably allocate the purchase cost of the investment.
As required by IAS 36, at December 31, 2017, an impairment test was carried out on the goodwill recognized in the financial statements in order to verify any impairment of the Cash Generating Unit (CGU), which showed that the carrying amount of the Magellan equity investment did not need to be impaired.
Mergers fall within business combinations and represent the most complete form of combination, since they entail the legal and economic unification of those taking part in them.
Whether they lead to the creation of a new legal subject or to the absorption of a company by another already existing company, mergers are treated according to the criteria described above. Specifically:
- if the transaction results in the transfer of control of a 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 benefits

Recognition and measurement criteria
As a result of the new legislative framework introduced by Law no. 296 of 2006, the employee severance benefits vested up to December 31, 2017 (which remain with the Company) under item 110 of liabilities, are computed by estimating the remaining length of the employment relationship, for individual persons or homogeneous groups, based on demographic assumptions:
- by projecting the vested employee severance benefits, using demographic assumptions, to estimate the time of termination of employment;
- by discounting to present value, at the measurement date, the amount of the vested benefits at December 31, 2017, based on financial assumptions.

IAS 19 (revised) requires actuarial gains and losses to be recognized in other comprehensive income in the year they are accrued. Because employee severance benefits vesting starting on January 1, 2007 must be transferred to the Italian social security institute (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 an accrual basis.
The costs for servicing the plan are recorded under personnel costs, item 180 "Administrative expenses - a) personnel costs" as the net total of contributions paid, contributions accrued in previous years and not yet recorded, interest accrued, and expected revenues from assets servicing the plan. Actuarial gains and losses, as envisaged by IAS 19, are recorded in a valuation reserve.

Share-based payment agreements with BFF employees

In 2016, the Bank granted, through a free share capital increase, an award—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 converting reserves to equity, with the same accounting value as the ordinary shares of the Bank. The special shares have been converted into ordinary shares at a ratio of 1:100 as from April 7, 2017, the start date of trading of the Bank's shares on the Mercato Telematico Azionario (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 has 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, following the listing, the option rights relating to the aforementioned stock option plan were assigned for the first tranche only.
The share-based personnel remuneration plans (stock options) are recorded in the accounts according to the provisions of IFRS 2. They are recorded by charging to the income statement, with a corresponding increase in equity, a cost set on the basis of the fair value of the financial instruments allocated on the assignment date and divided over the plan's vesting period. The fair value of any options is calculated using a model which considers, besides information such as the exercise price and the duration of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, as well as the specific characteristics of the current plan. The valuation model assesses separately the options and the probability of the conditions under which the options were assigned. The combination of the two values provides the fair value of the instrument assigned.
Any reduction in the number of financial instruments assigned is recorded as the cancellation of part of them.
In compliance with the provisions as set out in the First Part, Title IV, Chapter 2, Section III, para. 2.1, 3 of Bank of Italy Circular no. 285, art. 8.4 of the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of the Banca Farmafactoring Banking Group" establishes that at least 50% of variable remuneration of so-called "Key Personnel" (or Risk Takers) must be paid in financial instruments, in particular:
(i) the Bank's shares and related instruments, including the stock option plan; and
(ii) where possible, the other instruments identified in Delegated Regulation (EU) no. 527 of March 12, 2014.
The definition of "variable remuneration" includes payments which, for various reasons, are connected to and dependent on the activities/performance of the recipients or on other parameters (e.g. length of service) and which may be due in the future from Banca Farmafactoring to the Risk Takers,
i) both pursuant to the incentive system based on company and individual objectives (so-called "MBO"),

ii) and in order to meet any payment obligations pursuant to non-competition agreements ("NCAs"), should in the future Risk Takers who have signed such agreements leave the Group.

The accounting treatment according to IFRS 2, regarding charges related to the MBO plans and Risk Taker NCAs, for the part relating to financial instruments, had a positive effect on consolidated net equity over the year, equal to approximately €1.2 million; for NCAs alone, it amounted to €1.1 million, deriving from a reclassification from the "Provision for risks and charges".

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 recognized at amortized cost;

- pursuant to IAS 18, interest income (including late payment 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 the "Bank of Italy/Consob/Ivass Document no. 7 of November 9, 2016" on the "Treatment in the financial statements of late payment 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 payment interest in the calculation of amortized cost.
  As a matter of fact, Banca Farmafactoring and Farmafactoring España have a time series of data concerning collection percentages and times, acquired through analysis tools, enabling it to judge that the estimate of late payment 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 times to be used to calculate late payment 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 collections resulted in an average collection percentage per year of more than 40%. This percentage was used for the preparation of the 2014, 2015 and 2016 financial statements and was increased to 45% starting from January 1, 2017.
  The updating of the time series, which was undertaken considering the collections for 2017, confirmed the suitability of the existing percentage.
  These parameters are also used for the model to calculate the amortized cost relating to non-recourse receivables purchased in Greece. The first purchases in Greece were made in September 2017, under the freedom to provide services provision. As for other types of relationship that do not refer to the Italian National Health Service, also for receivables purchased in Greece it will be arranged to reconstruct the time series relating to collection percentages and average collection timeframes for late payment interest. With reference to Magellan—the group acquired

in 2016—, notwithstanding the minor significance of late payment interest to the total of 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 the Parent Banca Farmafactoring, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm a substantially integral recovery of late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors. Late payment interest on past due trade receivables in the Magellan Group are mainly recognized when there is a 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 AFS and HTM 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).

A.4 - FAIR VALUE DISCLOSURE

Qualitative information

A.4.1 Fair value Levels 2 and 3: measurement techniques and inputs used

Financial assets and liabilities held for trading, available-for-sale assets (investment in the FITD Voluntary Scheme) and hedging derivatives, recognized at December 31, 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.
Financial assets classified as Level 3 mainly represent the value of the certificates purchased by Magellan in an investment fund investing in receivables due from Polish public hospitals and, without observable measurement, the value approximates cost.

A.4.2 Measurement processes and sensitivity

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

A.4.3 Fair value hierarchy

At December 31, 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.

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

Financial assets/liabilities measured at fair value	12/31/2017			12/31/2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading		0			244	
2. Financial assets measured at fair value			546			3,401
3. Available-for-sale financial assets	101,285	147	17	385,086	177	17
4. Hedging derivatives		322			529	
5. Property, plant and equipment						
6. Intangible assets						
Total	**101,285**	**468**	**563**	**385,086**	**950**	**3,418**
1. Financial liabilities held for trading		535			7	
2. Financial liabilities measured at fair value						
3. Hedging derivatives					176	
Total		**535**			**183**	

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.4.5.2 Year-over-year changes in assets measured at fair value on a recurring basis (Level 3)

	Financial assets held for trading	Financial assets measured at fair value	Available-for-sale financial assets	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance		**3,401**	**17**			
2. Increase						
2.1 Purchases						
2.2 Profits recognized in:						
2.2.1 Income Statement						
- of which Capital gains						
2.2.2 Equity						
2.3 Transfers from other levels						
2.4 Other increases						
3. Decrease						
3.1 Sales						
3.2 Redemptions						
3.3 Losses recognized in:						
3.3.1 Income Statement						
- of which Capital losses						
3.3.2 Equity						
3.4 Transfers to other levels		2,855				
3.5 Other decreases						
4. Closing balance		**546**	**17**			

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	12/31/2017				12/31/2016			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity financial assets	1,120,610	1,127,929			1,629,320	1,632,899		
2. Due from banks	44,792			44,792	144,871			144,871
3. Due from customers	3,018,486			3,018,486	2,499,094			2,499,094
4. Property, plant and equipment held for investment								
5. Non-current assets and disposal groups held for sale								
Total	**4,183,888**	**1,127,929**		**3,063,279**	**4,273,286**	**1,632,899**		**2,643,966**
1. Due to banks	657,993			657,993	635,629			635,629
2. Due to customers	2,495,987			2,495,987	2,996,142			2,996,142
3. Debt securities issued	790,139	654,873	121,316		634,283	447,578	180,944	
4. Liabilities associated with assets held for sale								
Total	**3,944,118**	**654,873**	**121,316**	**3,153,979**	**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.

A.5 - DISCLOSURE ON "DAY ONE PROFIT/LOSS"

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

Part B - Consolidated Balance Sheet

All amounts in the tables are in thousands of euros.

ASSETS

Section 1 – Cash and cash equivalents – Item 10
€80,933 thousand

1.1 Cash and cash equivalents: breakdown

(Amounts in € thousands)

	12/31/2017	12/31/2016
a) Cash	6	6
b) Unrestricted deposits with Central Banks	80,927	143
Total	**80,933**	**149**

The balance includes the cash on hand at the different Group companies and unrestricted deposits with the Bank of Italy, amounting to €80,927 thousand.

Section 2 – Financial assets held for trading – Item 20

€0

2.1 Financial assets held for trading: breakdown by type

(Amounts in € thousands)

Items/Amounts	12/31/2017			12/31/2016		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in CIUs						
4. Loans						
4.1 Repos						
4.2 Other						
Total A	**0**	**0**	**0**	**0**	**0**	**0**
B. Derivative instruments						
1. Financial derivatives:						
1.1 held for trading					244	
1.2 related to fair value option						
1.3 other						
2. Credit derivatives						
2.1 held for trading						
2.2 related to fair value option						
2.3 other						
Total B	**0**	**0**	**0**	**0**	**244**	**0**
Total (A+B)	**0**	**0**	**0**	**0**	**244**	**0**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

(Amounts in € thousands)

Items/Amounts	12/31/2017	12/31/2016
A. Cash assets		
1. Debt securities		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. Units in CIUs		
4. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total A	0	0
B. Derivative instruments		
a) Banks		
- fair value	0	244
b) Customers		
- fair value		
Total B	**0**	**244**
Total (A+B)	**0**	**244**

At December 31, 2017, this item was equal to zero since the financial instruments recognized in this category, which at the end of the previous year consisted of derivative contracts concluded to hedge exchange rate fluctuations through the forward sale of foreign currency at a spot rate, expired and were not renewed.

BFF BANKING GROUP

Section 3 – Financial assets measured at fair value - Item 30
€546 thousand

3.1 Financial assets measured at fair value: breakdown by type

(Amounts in € thousands)

	12/31/2017			12/31/2016		
Items/Amounts	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in CIUs			546			3,401
4. Loans						
4.1 Structured						
4.2 Other						
Total			**546**			**3,401**
Cost						

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The amount refers to the value of the certificates purchased by Magellan in an investment fund investing in receivables of Polish public hospitals.

3.2 Financial assets measured at fair value: breakdown by debtor/issuer

(Amounts in € thousands)

Items/Amounts	12/31/2017	12/31/2016
1. Debt securities		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. Units in CIUs	**546**	**3,401**
4. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total	**546**	**3,401**

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

€101,449 thousand

The item mainly includes government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €100 million.
They totaled €101.4 million, decreasing by €283.8 million compared to the previous year (€385.3 million).
These securities earn interest at variable rates (CCT) and have residual maturity dates of maximum five years.

The securities are classified as AFS 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 reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity under revaluation reserves.

At December 31, 2017 the positive reserves on available-for-sale government securities amounted to approximately €68 thousand, net of the tax effect.
During the reporting period, AFS securities were sold for a nominal amount of €475 million, realizing a gain of €1,759 thousand, before the tax effect, recorded in the income statement in item 100 "Gains (losses) on disposal or repurchase of: b) available-for-sale financial assets".
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, securities recognized in the AFS portfolio were classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.

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 Banca Farmafactoring is participating in the scheme.
The Voluntary Scheme has autonomous financial resources, currently totaling €795 million, which the member banks commit to provide, when requested, for the implementation of specific measures. As regards the financial resources of the Scheme, the Bank voted against the resolution of the Extraordinary Shareholders' Meeting of the Fund of September 7, 2017, aimed at increasing the Scheme resources from €700 million to €795 million.
Operations required by the Voluntary Scheme in 2017 concerned:
- in September, the collection of contributions to support Carim and Carismi, for a total of €55 million, of which €77 thousand charged to Banca Farmafactoring;
- in December, the collection of contributions to support Caricesena, Carim and Carismi, for a total of €455 million, of which €594 thousand charged to Banca Farmafactoring.

In 2016, intervention of the Voluntary Scheme was requested to support the difficult situation of Caricesena. The amount charged to Banca Farmafactoring, paid in September 2016, totaled €235 thousand.

In keeping with the instructions provided by the Bank of Italy on October 26, 2016 in "Voluntary Scheme established by FITD. Questions", the amount was recorded among equity securities in item 40 "Available-for-sale financial assets" in the balance sheet asset section. The fair value measurement of these shares resulted in a value adjustment of the assets acquired through the contributions paid to the Voluntary Scheme, equal to €702 thousand, recorded under item 130 of the income statement "Net adjustments to/reversals of impairment of: b) available-for-sale financial assets". The Bank has already announced its intention to withdraw from the Voluntary Scheme at the earliest possible date, confirming this decision with a notice of withdrawal on September 19, 2017, following its vote against the resolution of the Extraordinary Shareholders' Meeting of the Fund on September 7, 2016, as mentioned above.

The amount also includes €17 thousand held by BFF in Nomisma S.p.A. - Società di Studi Economici, accounted for at cost, in the absence of other valuation inputs. The equity investment was unchanged compared to the previous year.

The main information on the equity investment are as follows:

(Amounts in euros, unless otherwise stated)

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cent)	Percentage of equity investment
Nomisma S.p.A.	17,335.18	72,667	0.239	0.25%

Head office	Bologna - Strada Maggiore n. 44
Share capital	Euro 6,963,500 fully paid in

(In euros, at 12/31/2016)

Equity	7,443,886
Profit (loss) for the year	266,503

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

(Amounts in € thousands)

Items/Amounts	12/31/2017			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	101,285			385,086		
2. Equity securities						
2.1 Measured at fair value		147			177	
2.2 Carried at cost			17			17
3. Units in CIUs						
4. Loans						
Total	**101,285**	**147**	**17**	**385,086**	**177**	**17**

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

(Amounts in € thousands)

Items/Amounts	12/31/2017	12/31/2016
1. Debt securities		
a) Governments and Central Banks	101,285	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	147	177
3. Units in CIUs		
4. Loans		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Other subjects		
Total	**101,449**	**385,280**

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

€1,120,610 thousand

The amount consists entirely of government securities, classified in the Held-to-maturity (HTM) portfolio, purchased to hedge liquidity risk and to optimize the cost of money, for a total face value of €1,080 million.
The overall amount reached €1,120.6 million, down by €508.7 million compared to the previous year (€1,629.3 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 classified in the HTM portfolio and, therefore, measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement.

The HTM portfolio includes financial assets that 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 shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of HTM investments before maturity.

The fair value of these securities at December 31, 2017 amounted to €1,127.9 million, with a positive difference over the carrying amount at the same date of approximately €7.3 million that has not been recognized in the financial statements.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, securities recognized in HTM portfolio were classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.

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

(Amounts in € thousands)

	Total 12/31/2017				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	1,120,610	1,127,929			1,629,320	1,632,899		
2. Loans								

Key
FV = fair value
CA = carrying amount

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2017	Total 12/31/2016
1. Debt securities		
a) Governments and Central Banks	1,120,610	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	**1,120,610**	**1,629,320**
Total fair value	**1,127,929**	**1,632,899**

Section 6 – Due from banks - Item 60

€44,792 thousand

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

6.1 Due from banks: breakdown by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2017				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. Repos								
4. Other								
B. Due from banks								
1. Loans								
1.1. Current accounts and unrestricted deposits	35,508				137,045			
1.2. Restricted deposits	9,284				7,826			
1.3. Other loans:								
- Reverse repos								
- Finance leases								
- Other								
2. Debt securities								
2.1. Structured securities								
2.2. Other debt securities								
Total	**44,792**			**44,792**	**144,871**			**144,871**

Key
FV = fair value
CA = carrying amount

The restricted deposits mainly include €5,206 thousand relating to the Mandatory Reserve deposit with ICBPI, as Banca Farmafactoring is an indirect participant in that system, and €3,078 thousand deposited in the *Fondo de Garantía de Depósitos* with Banco de España, for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto.
"Current accounts and unrestricted deposits" refer for €6,574 thousand to the Magellan Group and for €21,648 thousand to securitization vehicles.
This item does not include any impaired assets.

Section 7 – Due from customers – Item 70
€3,018,486 thousand

This item mainly includes receivables from debtors, including late payment interest, resulting from factoring transactions.

Receivables purchased without recourse are measured at amortized cost based on the present value of estimated future cash flows, and include both principal and late payment interest accruing from the receivable due date. In order to compute amortized cost, including late payment interest recognized on an accrual basis, Banca Farmafactoring updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. Following such analysis, Banca Farmafactoring and Farmafactoring España, as from January 1, 2017, have used 45% as the percentage of collection of late payment interest to be included in the amortized cost in place of the previous 40%, keeping the average collection times unchanged and estimated at 1,800 days. The updating of the time series, which was undertaken considering the collections for 2017, confirmed the suitability of the existing percentage.
With regard to the receivables purchased by Farmafactoring España, the average recovery percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from Italian public administration agencies. However, since the sample observed was relatively small, a prudent decision was made to consider the use of the same 45% recovery percentage, and the same collection time, 1,800 days, as used by Banca Farmafactoring.

Magellan—a group acquired in 2016—recognizes late payment interest accrued on past due trade receivables 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.
Notwithstanding the minor significance of late payment interest to the total of Magellan's 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 the Parent Company, the estimation criteria decided locally by management when Magellan was listed were adopted. 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.

The cumulative amount of late payment interest due to Banca Farmafactoring and Farmafactoring España, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €534 million, of which only €184 million were recognized in the income statement of the reporting period and in previous years.
Had the 45% late payment interest collection rate been applied at December 31, 2016 as well, the amount not yet recognized in the income statement would have totaled €337 million. Therefore, the amount not yet recorded in the income statement at December 31, 2017 (€350 million) would show an increase of 4% compared to 2016.

7.1 Due from customers: breakdown by type

The breakdown is as follows:

- Performing factoring amounted to a total €2,278,165 thousand for the Banking Group.
  This included non-recourse receivables purchased as "performing", registered under the name of the assigned debtor, with the conditions for "derecognition", and measured at "amortized cost", worth a total of €1,938,067 thousand for Banca Farmafactoring and €200,984 thousand for the subsidiary Farmafactoring España.
  Most of non-recourse receivables are purchased already past due and their principal portion is deemed collectible. The right to accrued or accruing late payment interest is acquired upon purchase.
  These receivables include receivables sold, totaling €173,661 thousand, but not derecognized as the sale transaction did not meet the derecognition requirements for the transfer of the risks and rewards associated with such receivables. The amount refers to securitization transactions involving healthcare receivables.
  Receivables purchased below face value totaled €51,725 thousand.
  Performing recourse and non-recourse factoring of the Magellan Group totaled €139,114 thousand.

- Other performing loans due from customers amounted to €639,858 thousand; they mainly include:
  - accrued late payment interest of about €100,461 thousand, including €85,495 thousand relating to Banca Farmafactoring and €14,966 thousand relating to the Spanish subsidiary. This amount has already been recognized in the income statement in the current and prior years and refers only to late payment interest accrued on principal already collected. Therefore, of the €138.5 million late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2017, €100.5 million refers to the item under review, while the remaining amount of €83 million was recognized under "factoring";
  - amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €63,902 thousand;
  - financing activities of the Magellan Group of €466,791 thousand.

- Performing finance leases of the Magellan Group totaled €5,733 thousand.

- The Banking Group's net "Impaired assets" amounted to a total of €94,730 thousand. They include:
  - Non-performing loans: these are exposures with parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.
    At December 31, 2017, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €18,175 thousand, of which €2,824 thousand purchased already impaired. Net non-performing loans concerning municipalities in financial distress amounted to €14,975 thousand, accounting for 82.8% of the total. €2,824 thousand of total net non-performing loans were purchased already impaired.
    Gross non-performing loans amounted to €25,698 thousand. Relevant impairment totaled €7,523 thousand. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to

€13,889 thousand entirely impaired, and refers mainly to exposures with Fondazione Centro San Raffaele del Monte Tabor (ongoing liquidation and composition agreement with creditors). Taking account of this amount, too, gross non-performing loans amounted to €39,587 thousand and relevant adjustments totaled €21,412 thousand.
As far as this exposure is concerned, it should be noted that in June 2017, €1.6 million were received for the fourth distribution in the composition agreement with creditors of Fondazione Monte Tabor, in relation to which a net residual amount of €0.9 million was still due, relating to principal only.

With reference to the Bank, at December 31, 2017 total non-performing loans, net of any estimated impairment losses, amounted to €16,009 thousand, of which €14,975 thousand concerned Italian municipalities in financial distress.
Specifically, the amount of €2,824 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions, and the approximate figure of €1.7 million was fully impaired and, therefore, their net amount is equal to 0.

- The remaining positions referring to the Bank were impaired based only on the time value, as they consist of exposures backed by sureties or relating to local entities in financial distress, for which no provisions were recognized as the distressed condition is expected to be remedied, resulting in the collection of 100% of receivables. Gross non-performing loans relating to the Magellan Group amounted to €6,211 thousand; after estimated impairment losses of €4,046 thousand, the net amount totaled €2,166 thousand.

The Banking Group's unlikely to pay exposures mainly refer to Magellan Group's positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that—absent such actions as the enforcement of guarantees—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).
At December 31, 2017, gross exposures classified as unlikely to pay amounted to €10,370 thousand, of which €9,787 thousand attributable to the Magellan Group, €440 thousand to Banca Farmafactoring and €144 thousand to Farmafactoring España. The total net amount was €6,760 thousand, relating to the Magellan Group alone, since the gross exposures of Banca Farmafactoring and Farmafactoring España were entirely impaired.

Net past due exposures of the Banking Group totaled €69,794 thousand, of which €64,824 thousand, corresponding to 92.8%, attributable to public administration counterparties and public sector companies in the various countries where the banking Group operates. These consist of exposures, which, at the end of the reporting period, were overdue by more than 90 days.
More specifically, exposures to government agencies and central banks, public sector entities and local 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. Banca Farmafactoring's overall amount of past due exposures at December 31, 2017 was equal to €63,100 thousand. Of this amount, €61,100 thousand (equal to 96.8%) concerned counterparties of the Italian public administration and Italian public sector companies. As far as the Magellan Group is concerned, net past due exposures amounted to €6,694 thousand, € 3,724 thousand of which (55.6%) concerned counterparties of the public administration and public sector companies.

(Amounts in € thousands)

Type of transaction/ Amounts	12/31/2017						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												
2. Reverse repos												
3. Mortgages												
4. Credit cards, personal loans, salary-backed loans (cessione del quinto)												
5. Finance leases	5,733		31				6,817		111			
6. Factoring	2,278,165	2,824	78,297				1,950,685	492	54,467			
7. Other loans	639,858		13,579				478,370		6,776			
Debt securities												
8. Structured securities												
9. Other debt securities							1,376					
Total	**2,923,756**	**2,824**	**91,906**				**2,437,248**	**492**	**61,355**			

Fair value

The financial statement item mainly refers to non-recourse receivables, specifically 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 reasonably assessing 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), in relation to the nature, type, short duration of such receivables and related collection projections, was deemed to be substantially representative of the fair value of these receivables on the reporting date.

7.2 Due from customers: breakdown by debtor/issuer

(Amounts in € thousands)

Type of transaction/Amounts	12/31/2017			12/31/2016		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:						
a) Governments						
b) Other public entities						
c) Other issuers						
- non-financial companies						
- financial companies						
- insurance companies						
- other						
2. Loans due from:						
a) Governments	495,325		1,756	409,493		4,662
b) Other public entities	2,128,288	2,824	68,597	1,782,774	492	43,152
c) Other subjects						
- non-financial companies	223,073		20,698	94,195		7,183
- financial companies	63,913			53,045		
- insurance companies						
- other	13,157		855	97,740		6,358
Total	**2,923,756**	**2,824**	**91,906**	**2,437,248**	**492**	**61,355**

Section 8 – Hedging derivatives – Item 80
€322 thousand

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

(Amounts in € thousands)

	FV 12/31/2017			NA 12/31/2017	FV 12/31/2016			NA 12/31/2016
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value						2		1,110
2) Cash flows		322		84,928		527		80,508
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**322**		**84,928**		**529**		**81,618**

Key
FV = fair value
NA = notional amount

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge (carrying amount)

(Amounts in € thousands)

Transactions/ Types of hedge	Fair value						Cash flows		Invest. outside Italy
	Specific					Generic	Specific	Generic	
	Interest rate risk	Foreign exchange risk	Credit risk	Price risk	More risks				
1. Available-for-sale financial assets									
2. Due from banks and customers									
3. Held-to-maturity financial assets									
4. Portfolio									
5. Other transactions									
Total assets									
1. Financial liabilities							322		
2. Portfolio									
Total liabilities							**322**		
1. Expected transactions									
2. Financial assets and liabilities portfolio									

At December 31, 2017, the positive fair value refers to the cash flow hedge, through an Interest Rate Swap contract with a notional amount in Polish currency (zloty), entered into to hedge a variable rate medium-term loan in zloty obtained in 2016 from changes in future cash flows arising from fluctuations in market interest rates (Wibor).

Section 10 – Equity investments - Item 100

€261 thousand

The amount refers to Magellan's equity investment in two legal firms in which Magellan is general partner.

10.1 Equity investments: information on investment relationships

Name	Registered office	Operating office	Investment %	Voting rights %
A. Exclusively controlled companies				
1. Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz (Polonia)	Łodz (Poland)	99%	
2. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz (Polonia)	Łodz (Poland)	99%	
B. Jointly controlled companies				
C. Companies over which significant influence is exercised				

10.4 Minor equity investments: accounting information

(Amounts in € thousands)

Name	Carrying amount of equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) from continuing operations, net of taxes	Profit (loss) from discontinued operations, net of taxes	Profit (loss) for the year (1)	Other comprehensive income, net of taxes (2)	Comprehensive income (3)=(2)+(1)
A. Exclusively controlled companies									
1. Kancelaria Prawnica Karnowski i Wspolnik sp.k.	5	159	50	628	104		104		104
2. Restrukturyzacyna Kancelaria Prawnica Karnowski i Wspolnik sp.k.	91	88	1	0	(4)		(4)		(4)
B. Jointly controlled companies									
C. Companies over which significant influence is exercised									

Section 12 - Property, plant and equipment - Item 120

€12,795 thousand

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

(Amounts in € thousands)

Assets/Amounts	Total 12/31/2017	Total 12/31/2016
1. Owned assets		
a) land	3,685	3,685
b) buildings	6,820	7,145
c) furniture and fixtures	235	275
d) electronic systems	1,010	904
e) other	1,046	979
2. Assets acquired under finance leases		
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other		
Total	**12,795**	**12,988**

12.5 Property, plant and equipment used for business activities: year-over-year change

(Amounts in € thousands)

	Land	Buildings	Furniture and fixtures	Electronic systems	Other	Total
A. Gross opening balance	**3,685**	**16,824**	**2,486**	**6,730**	**6,023**	**35,748**
A.1 Net total impairment		(9,679)	(2,211)	(5,826)	(5,044)	(22,760)
A.2 Net opening balance	**3,685**	**7,145**	**275**	**904**	**980**	**12,988**
B. Increase:						
B.1 Purchases			24	794	429	1,248
B.2 Capitalized improvements						
B.3 Reversals of impairment						
B.4 Positive change in fair value recognized in:						
a) equity						
b) income statement						
B.5 Exchange rate gains						
B.6 Transfers from properties held for investment						
B.7 Other changes						
C. Decrease:						
C.1 Sales				(1)		(1)
C.2 Depreciation		(325)	(65)	(688)	(363)	(1,441)
C.3 Impairment losses recognized in:						
a) equity						
b) income statement						
C.4 Negative change in fair value recognized in:						
a) equity						
b) income statement						
C.5 Exchange rate losses						
C.6 Transfers to:						
a) property, plant and equipment held for investment						
b) assets held for sale						
C.7 Other changes						
D. Net closing balance	**3,685**	**6,820**	**235**	**1,010**	**1,046**	**12,795**
D.1 Net total impairment		(10,003)	(2,237)	(6,417)	(6,229)	(24,887)
D.2 **Gross closing balance**	**3,685**	**16,823**	**2,472**	**7,427**	**7,275**	**37,681**
E. Measured at cost	3,685	16,823	2,472	7,427	7,275	37,681

At the date of IFRS first-time adoption (January 1, 2005), the Group-owned buildings used by Banca Farmafactoring 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 (Via Domenichino 5) were recognized 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 amounted to €680 thousand.

Section 13 - Intangible assets – Item 130
€26,034 thousand

13.1 Intangible assets: breakdown by type of asset

(Amounts in € thousands)

Assets/Amounts	12/31/2017 Finite life	12/31/2017 Indefinite life	12/31/2016 Finite life	12/31/2016 Indefinite life
A.1 Goodwill				
A.1.1 attributable to the group		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 assets	3,888		3,665	
A.2.2 Assets measured at fair value:				
a) Intangible assets generated internally				
b) Other assets				
Total	**3,888**	**22,146**	**3,665**	**22,146**

Goodwill of €22,146 thousand refers entirely to the acquisition of the Magellan Group by the Banca Farmafactoring Group.
In May 2017, in accordance with the provisions of IFRS 3, the Purchase Price Allocation (PPA) process was completed, at the end of which the allocation of the purchase cost wholly to goodwill was confirmed, as applied during the initial recognition of the acquisition of the Magellan Group and reflected in the consolidated financial statements of BFF at December 31, 2016 since, following the aforementioned provisional PPA, no further assets were identified to which to reasonably allocate the purchase cost of the investment.

In line with what was described in the section on accounting policies and with IAS 36, an impairment test was carried out on goodwill in order to determine its recoverable amount.
This verification, which must be carried out on an annual basis or when there is evidence of an impairment loss, is performed by comparing the carrying amount of goodwill and the recoverable amount of the Cash Generating Unit (CGU) to which goodwill refers.

Therefore, the Magellan equity investment was considered, in accordance with international standards, as a Cash Generating Unit and the measurement of the equity investment as a whole thus made it possible to determine the recoverable amount of goodwill.

The recoverable amount of the equity investment held by Banca Farmafactoring in Magellan S.A. was estimated using the current market multiple method (main method), since it was impossible to correctly identify the expected cash flows for future years to determine the value in use.
This method consists in determining the value of a company's capital on the basis of prices, shown by regulated markets or in private negotiations, for shares in the company's capital or in similar companies, and requires the development of value indicators—multiples—obtained by comparing the actual price of the reference companies' capital to the value of certain company parameters.

The value of economic capital was thus determined based on multiples of the Price/Earnings (P/E) ratio, which was applied as follows:

- selection of sample companies substantially comparable with the company subject to measurement;
- calculation of the P/E ratio by multiplying the median value of the multiple by the normalized expected average profit.

At December 31, 2017, there were no indications that goodwill cannot be fully recovered.

In accordance with IAS 38, paragraph 118, letter a), the amortization rates applied are based on the estimated useful lives of the intangible assets.

13.2 Intangible assets: year-over-year change

(Amounts in € thousands)

Items/Amounts	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**22,146**			**3,665**		**25,811**
A.1 Net total impairment						
A.2 **Net opening balance**	**22,146**			**3,665**		**25,811**
B. Increase						
B.1 Purchases				1,913		1,913
B.2 Increase in intangible assets generated internally						
B.3 Reversals of impairment						
B.4 Positive fair value changes in						
- equity						
- income statement						
B.5 Exchange rate gains						
B.6 Other changes						
C. Decrease						
C.1 Sales						
C.2 Adjustments						
- Amortization				(1,690)		(1,690)
- Impairment						
+ equity						
+ income statement						
C.3 Negative fair value changes in						
- equity						
- income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Exchange rate losses						
C.6 Other changes						
D. Net closing balance	**22,146**			**3,888**		**26,034**
D.1 Net total adjustments						
E. Gross closing balance	**22,146**			**3,888**		**26,034**
F. Measured at cost	22,146			3,888		26,034

Key:
FIN = finite
INDEF = indefinite

Goodwill of intangible assets is recognized at cost, net of amortization which is computed based on its estimated useful life.

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

Current tax assets totaled €25,884 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amounted to €25,628 thousand; they include the accrual of income taxes for the year of Group companies.

14.1 Deferred tax assets: breakdown
€5,033 thousand

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

14.2 Deferred tax liabilities: breakdown
€56,828 thousand

Deferred tax liabilities mainly refer to the taxes on Banca Farmafactoring's late payment interest, recognized in the financial statements on an accrual basis but which will form part of the taxable income in future years subsequent to collection, in accordance with Article 109, paragraph 7, of Presidential Decree no. 917 of 1986, as well as prior years' bad debt provisions.

14.3 Change in deferred tax assets (through the income statement)
€4,679 thousand

(Amounts in € thousands)

	12/31/2017	12/31/2016
1. Opening balance	**4,073**	**2,569**
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) reversals of impairment	614	
d) other	557	1,570
2.2 New taxes or tax rate increases		
2.3. Other increases		
Business combinations		675
3. Decrease		
3.1 Deferred tax assets derecognized in the year		
a) reversals	(564)	(695)
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
a) conversion into tax credit pursuant to Law no. 214/2011		
b) other		
Business combinations		(47)
4. Closing balance	**4,679**	**4,073**

14.3.1 Change in deferred tax assets pursuant to Law no. 214/2011 (through the income statement)

(Amounts in € thousands)

	Total 12/31/2017	Total 12/31/2016
1. Opening balance	**749**	**547**
2. Increase		241
3. Decrease		
3.1 Reversals	(63)	(39)
3.2 Conversion into tax credit		
a) due to losses in the year		
b) due to tax losses		
3.3 Other decreases		
4. Closing balance	**686**	**749**

14.4 Change in deferred tax liabilities (through the income statement)
€56,699 thousand

(Amounts in € thousands)

	12/31/2017	12/31/2016
1. Opening balance	**49,126**	**46,504**
2. Increase		
2.1 Deferred tax liabilities recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	8,399	2,217
2.2 New taxes or tax rate increases		
2.3. Other increases		
Business combinations		722
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	(623)	(218)
b) due to changes in accounting policies		
c) other	(203)	
3.2 Tax rate reductions		
3.3 Other decreases		
Business combinations		(99)
4. Closing balance	**56,699**	**49,126**

14.5 Change in deferred tax assets (through equity)
€354 thousand

(Amounts in € thousands)

	12/31/2017	12/31/2016
1. Opening balance	**346**	**371**
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	8	9
2.2 New taxes or tax rate increases		
2.3. Other increases		
3. Decrease		
3.1 Deferred tax assets derecognized in the year		
a) reversals		(33)
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**354**	**346**

14.6 Change in deferred tax liabilities (through equity)
€129 thousand

(Amounts in € thousands)

	12/31/2017	12/31/2016
1. Opening balance	**403**	**275**
2. Increase		
2.1 Deferred tax liabilities recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	19	403
2.2 New taxes or tax rate increases		
2.3. Other increases		
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	(293)	(275)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**129**	**403**

Section 16 - Other assets - Item 160

16.1 Other assets: breakdown
€9,796 thousand

(Amounts in € thousands)

Details	12/31/2017	12/31/2016
Security deposits	44	37
Inventories	624	224
Other receivables	6,828	4,678
Accrued income and prepaid expenses	2,299	2,196
Total	**9,796**	**7,135**

Other receivables refer primarily to non-commercial receivables from sundry debtors and pending items.
Accrued income and prepaid expenses refer to the deferral of costs relating to administrative expenses.
Inventories, as defined by IAS 2, refer to the purchase of medical vehicles and equipment by the Polish Group Magellan, intended for sale or lease in the short term.

LIABILITIES AND EQUITY

Section 1 - Due to banks - Item 10
€657,993 thousand

1.1 Due to banks: breakdown by type

(Amounts in € thousands)

Type of transaction/Group components	12/31/2017	12/31/2016
1. Due to central banks		
2. Due to banks	**657,993**	**634,807**
2.1 Current accounts and unrestricted deposits	22,413	4,485
2.2 Restricted deposits	635,580	630,322
2.3 Loans		
2.3.1 Repos		
2.3.2 Other		
2.4 Payables following commitments to repurchase treasury shares		
2.5 Other payables		
Total	**657,993**	**634,807**
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	657,993	634,807
Total fair value	**657,993**	**634,807**

"Due to banks" primarily refers to loans provided by the banking system at current market rates. The item also includes the loan contract in zloty used to acquire the Magellan Group, entered into with the Unicredit Group and amounting to 355 million zloty (equivalent to € 85 million).

Section 2 – Due to customers – Item 20
€2,495,987 thousand

2.1 Due to customers: breakdown by type

(Amounts in € thousands)

Type of transaction/Group components	12/31/2017	12/31/2016
1. Current accounts and unrestricted deposits	46,526	78,454
2. Restricted deposits	953,059	743,984
3. Loans	1,427,347	2,097,697
3.1 repos	1,162,912	1,809,044
3.2 other	264,435	288,653
4. Payables following commitments to repurchase treasury shares		
5. Other payables	69,055	76,007
Total	**2,495,987**	**2,996,142**
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	2,495,987	2,996,142
Total fair value	**2,495,987**	**2,996,142**

"Due to customers" includes €999.6 million for online deposit accounts offered in Italy, Spain and Germany (restricted deposits and current accounts), compared to €822.4 million at December 31, 2016.
The counterparty in repos amounting to €1,162.9 million is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.
Other loans, worth a total of €264.4 million, refer to payables due to financial institutions deriving from existing cooperation between Banca Farmafactoring and other factoring companies and between Magellan and insurance companies.
Other payables of €69.1 million principally refer to collections of managed receivables due to assignors.

Section 3 - Debt securities issued - Item 30
€790,139 thousand

3.1 Debt securities issued: breakdown by type

(Amounts in € thousands)

	Total 12/31/2017				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	790,139	654,873	121,316		634,283	447,578	180,944	
1.1 structured								
1.2 other	790,139	654,873	121,316		634,283	447,578	180,944	
2. Other securities								
2.1 structured								
2.2 other								
Total	**790,139**	**654,873**	**121,316**		**634,283**	**447,578**	**180,944**	

This item includes the securities issued by Banca Farmafactoring, its subsidiary Magellan, and the outstanding securitization transactions, for an overall amount of €790.1 million. They are measured at amortized cost using the effective interest method.

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 (one-off) 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 €200 million senior unsecured and unrated bonds (ISIN XS1639097747), due in 2022. The bonds pay an annual fixed coupon of 2%.

On December 5, 2017, Banca Farmafactoring placed €200 million senior unsecured and unrated bonds (ISIN XS1731881964), due June 5, 2020. Such bonds pay a quarterly variable coupon based on 3M Euribor + 145 bp spread.

The item also includes:
- bonds issued in June 2016 for €150 million, maturing June 21, 2021 (ISIN XS1435298275);
- the existing securitization transaction concerning healthcare receivables with the Deutsche Bank Group for €85 million. As far as the securitization transaction is concerned, the receivables were sold to vehicle companies and were not derecognized from the assets of Banca Farmafactoring since the sale did not transfer the relevant risks and rewards. The transaction is following the amortization plan;
- bonds issued by the subsidiary Magellan to the tune of €36.3 million.

Section 4 – Financial liabilities held for trading - Item 40
€535 thousand

4.1 Financial liabilities held for trading: breakdown by type

(Amounts in € thousands)

Type of transaction/Group component	12/31/2017					12/31/2016				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L 2	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 bonds										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivative instruments										
1. Financial derivatives			535					7		
1.1 Held for trading			535					7		
1.2 Related to fair value option										
1.3 Other										
2. Credit derivatives										
2.1 Held for trading										
2.2 Related to fair value option										
2.3 Other										
Total B			**535**					**7**		
Total (A+B)			**535**					**7**		

Key:
FV = fair value
FV* = fair value calculated excluding the changes in value due to the change in the credit class of the issuer as compared with the date of issue.
NA = nominal or notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

The amount refers to foreign exchange swap derivative contracts entered into by Magellan during 2016 to hedge the principal and interest on bonds issued (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

€0

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

(Amounts in € thousands)

	Fair value 12/31/2017			NA 12/31/2017	Fair value 12/31/2016			NA 12/31/2016
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives						**176**		**74,598**
1) Fair value								
2) Cash flows						176		74,598
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total						**176**		**74,598**

Key:
NA = Notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

Section 8 – Tax liabilities – Item 80

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

Section 10 – Other liabilities – Item 100
€49,683 thousand

10.1 Other liabilities: breakdown

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
Payables to suppliers	3,992	2,747
Invoices to be received	5,234	7,278
Payables to the tax authorities	2,177	3,763
Payables to social security agencies	610	566
Payables to employees	3,138	4,900
Payables for receivables management	3,647	1,687
Collections pending allocation	14,434	14,529
Other payables	15,644	18,334
Accrued liabilities and deferred income	807	517
Total	**49,683**	**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 December 31, 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 to be transferred, stamp duties to be paid, payables to directors and other pending items.

Section 11 – Employee severance benefits – Item 110

€848 thousand

11.1 Employee severance benefits: year-over-year change

(Amounts in € thousands)

	12/31/2017	12/31/2016
A. Opening balance	**867**	**883**
B. Increase	**611**	**466**
B.1 Allocation for the year	422	417
B.2 Other changes	189	49
C. Decrease	**630**	**482**
C.1 Payments made	(173)	(120)
C.2 Other changes	(457)	(361)
D. Closing balance	**848**	**867**
Total	**848**	**867**

The liability recorded in the financial statements at December 31, 2017 in relation to employee severance benefits is equal to the current value of the obligation, estimated by an independent actuary on the basis of demographic and economic assumptions.
Other decreases include outflows from the provision for employee severance benefits to pension funds and the differences resulting from actuarial valuation recognized directly in equity.
For details about the actuarial assumptions used to determine the liability at December 31, 2017, reference should be made to the table in Section 12.3 below.

Section 12 – Provisions for risks and charges – Item 120

€5,445 thousand

12.1 Provisions for risks and charges: breakdown

(Amounts in € thousands)

Items/Amounts	12/31/2017	12/31/2016
1 Pension funds	4,366	6,343
2. Other provisions for risks and charges	1,079	646
2.1 legal disputes		
2.2 personnel expenses		
2.3 other	1,079	646
Total	**5,445**	**6,989**

12.2 Provisions for risks and charges: year-over-year change

(Amounts in € thousands)

Items/Amounts	Total	
	Pension funds	Other provisions
A. Opening balance	**6,343**	**646**
B. Increase	**264**	**564**
B.1 Allocation for the year	264	564
B.2 Change due to passing of time		
B.3 Variation due to change in the discount rate		
B.4 Other changes		
C. Decrease	**2,240**	**131**
C.1 Use in the year	(2,240)	(131)
C.2 Variation due to change in the discount rate		
C.3 Other changes		
D. Closing balance	**4,366**	**1,079**

12.3 Defined benefit pension funds

The accrual for the year refers to the following:
- non-compete agreement with managers of Group companies to the tune of €41 thousand;
- deferral of a portion of the annual bonuses for the first and second level staff to the tune of €223 thousand.

Under a non-compete agreement, the employee agrees that, after the end of the employment relationship, he/she will not to engage, for any reason whatsoever, in any activities in direct competition with that of the Banca Farmafactoring Group. The commitment is for a three-year period and starts from the date that the employment relationship is ended.
As consideration for this commitment, the Bank agrees to pay a specific amount to the employee in semi-annual installments.

The system involving deferral of a portion of the annual bonuses envisages medium-term restrictions, according to which 30% of the annual bonus will be paid after three years, provided that the Bank achieves specific targets relating to its profitability, regulatory capital requirements established by existing regulations, and the employee's continued employment at the company.
In accordance with the provisions of IAS 19, accruals were quantified based on an actuarial calculation performed externally by a specialized firm.
The Bank's obligations were computed using the "Projected Unit Credit Method", which treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to compute the final obligation, in accordance with Paragraphs 64 and 65 of IAS 19.
This actuarial method entails valuation aimed at determining the average present value of the Bank's obligations.

The main economic and demographic assumptions used for actuarial valuation purposes are the following:

- **Non-compete agreement**

The annual discount rate used to calculate the present value of the obligation was deduced, in compliance with paragraph 83 of IAS 19, from the iBoxx Corporate AA Index with 10+ duration, reported at December 31, 2017 and equal to 1.31%. In determining the rate, the yield with a duration comparable to that of the items measured was used.

Death	Mortality tables RG48 published by the Italian State General Accounting Office (*Ragioneria Generale dello Stato*)
Retirement	100% upon reaching AGO requisites
Frequency of voluntary resignation	3.00%
Clawback frequency	3.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual remuneration for Executives	3.40%
Increase in annual remuneration for Supervisors	2.40%
Contribution rate	27.40%
Stock listing	€ 6.30

- **Deferred bonus:**

Discount rate

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA Index (in line with the duration of the plan). Discount rate used was equal to -0.03%.

Mortality and disability

To estimate the phenomenon of mortality, the RG48 survival table used by the Italian State General Accounting Office to estimate the retirement expenses of the Italian population was used. For the probability of total and permanent disability, the tables adopted in the INPS model for the 2010 forecasts were used.

Frequency of resignations and dismissals

Equal to 3%.

Section 15 – Equity – Items 140, 160, 170, 180, 190, 200 and 220
€363,856 thousand

15.1 "Share capital" and "Treasury shares": breakdown

(Amounts in € thousands)

Type	Amount
1. Share capital	**130,983**
1.1 Ordinary shares	130,983
1.2 Other shares (to be specified)	

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

Items/Types	Ordinary	Other
A. Shares at the beginning of the year		
- fully paid	1,700,000	1,074
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares outstanding: opening balance	**1,700,000**	**1,074**
B. Increase		
B.1 New issues		
- against payment:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- free:		
- to employees		
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes	168,407,400	
C. Decrease		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Transactions for sale of companies		
C.4 Other changes		(1,074)
D. Shares outstanding: closing balance	**170,107,400**	-
D.1 Treasury shares (+)		
D.2 Shares outstanding at the end of the year		
- fully paid	170,107,400	
- not fully paid		

15.4 Retained earnings reserves: other information

In accordance with the provisions of Article 2427, paragraph 7-bis of the Italian Civil Code, the following tables provide a breakdown of the individual components of equity according to their possibility of use, the amount available for distribution, and past use in the three previous years (the three-year period before the date of preparation of these financial statements).

(Amounts in € thousands)

	12/31/2017	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	**129,621**				
- Legal reserve	27,417	*B*			
- Retained earnings	99,448	*A,B,C*	99,448		
- Extraordinary reserve	89	*A,B,C*	89		
- Stock option and financial instrument reserves	2,668	*A*			
Revaluation reserves	**7,694**				
- AFS securities	68				
- Other	7,626				
Total share capital and reserves	**268,298**		**99,537**		

(a) Possibility of use: A = for share capital increases; B = for absorption of losses; C = for distribution to shareholders.

Changes in reserves are as follows

(Amounts in € thousands)

	Legal reserve	Retained earnings	Other	Total
A. Opening balance	**27,400**	**98,643**	**89**	**126,132**
B. Increase				
B.1 Appropriation of profit	17			17
B.2 Other changes		2,633	2,668	5,301
C. Decrease				
C.1 Uses				
- absorption of losses				
- distribution		(1,828)		(1,828)
- transfer to share capital				
C.2 Other changes				
D. Closing balance	**27,417**	**99,448**	**2,757**	**129,621**

Legal reserve

The €17 thousand increase is due to the allocation of part of Banca Farmafactoring's profit for the year ended December 31, 2016, in accordance with the resolution approved by the Ordinary Shareholders' Meeting, to reach the maximum amount provided for by law.

Retained earnings reserve

The net increase of €2,633 thousand was attributable to retained earnings of subsidiaries and to the distribution to Shareholders of €1,828 thousand from Banca Farmafactoring's retained earnings reserve, pursuant to the Shareholders' Meeting Resolution on the financial statements for the year 2016.

Other reserves

Changes refer mainly to the granting during the first half of 2017, following listing, of option rights related to the stock option plan, worth a total of €1.5 million, recorded in accordance with the provisions of IFRS 2 through recognition in the income statement, with a corresponding increase in equity.
The remaining increase of €1.2 million refers to the variable remuneration of so-called Risk Takers, in accordance with the provisions set forth in Part I, Title IV, Chapter 2, Section III, paragraphs 2.1 and 3 of Circular no. 285 issued by the Bank of Italy, according to which at least 50% must be paid in financial instruments.
The corresponding accounting treatment, in accordance with IFRS 2, resulted, during the year, in the above-mentioned positive effect on consolidated net equity.

Revaluation reserves

Revaluation reserves at December 31, 2017 totaled €7,694 thousand; they mainly include the first-time adoption reserve arising from the revaluation of owned buildings, carried out when the transition to international accounting standards occurred.
The item grew mainly due to the increase in the translation reserve relating to the Magellan Group consolidation to the tune of €3.7 million.

Other information

1. Guarantees provided and commitments

(Amounts in € thousands)

Transactions	12/31/2017	12/31/2016
1) Financial guarantees provided	**3,391**	**22**
a) Banks	3,391	*22*
b) Customers		
2) Commercial guarantees provided		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds	**127,976**	**127,986**
a) Banks		
i) for certain use		
ii) for uncertain use		
b) Customers	**127,976**	**127,986**
i) for certain use		
ii) for uncertain use	127,976	127,986
4) Underlying commitments for credit derivatives: sales for hedging purposes		
5) Assets pledged to secure obligations of third parties		
6) Other commitments		
Total	**131,367**	**128,008**

Financial guarantees provided to banks of €3,391 thousand relate to the amount communicated by the FITD in relation to the extraordinary contributions provided for by Article 23 of the Fund bylaws.
Irrevocable commitments for uncertain use to customers of €127,976 thousand are mainly attributable to the Magellan Group.

2. Assets pledged to secure own liabilities and commitments

(Amounts in € thousands)

Transactions	12/31/2017	12/31/2016
1. Financial assets held for trading		
2. Financial assets measured at fair value		
3. Available-for-sale financial assets	35,336	185,165
4. Held-to-maturity financial assets	1,120,108	1,623,209
5. Due from banks		
6. Due from customers	641,289	630,024
7. Property, plant and equipment		

"Available-for-sale financial assets" and "Held-to-maturity financial assets" consist of government securities used as collateral in operations with the ECB and repos.
The item "Due from customers" includes receivables sold but not derecognized as part of the current securitization transaction and receivables pledged to secure financing transactions with other financial intermediaries. €177.4 million refer to the Magellan Group.

5. Asset management and trading on behalf of others

(Amounts in € thousands)

Type of services	Amount
1. Execution of orders on behalf of customers	
a) purchases	
1. settled	
2. unsettled	
b) sales	
1. settled	
2. unsettled	
2. Portfolio management	
a) individual	
b) collective	
3. Custody and administration of securities	**1,180,555**
a) third-party securities on deposit: connected to bank operations as custodian (excluding portfolio management)	
1. securities issued by companies included in the scope of consolidation	
2. other securities	
b) third party securities on deposit (excluding portfolio management): other	
1. securities issued by companies included in the scope of consolidation	
2. other securities	
c) third-party securities deposited with third parties	
d) owned securities deposited with third parties	1,180,555
4. Other transactions	

The amount refers to the face value of securities owned by the Group, classified in the AFS and HTM portfolios.

Part C - Consolidated Income Statement

All amounts in the tables are stated in thousands of euros.

Section 1 – Interest – Items 10 and 20

1.1 Interest and similar income: breakdown
€237,943 thousand

(Amounts in € thousands)

Items/Types	Debt securities	Loans	Other transactions	Total 12/31/2017	Total 12/31/2016
1 Financial assets held for trading			91	**91**	
2 Financial assets measured at fair value					
3 Available-for-sale financial assets	160			**160**	**491**
4 Held-to-maturity financial assets	4,089			**4,089**	**3,503**
5 Due from banks		488		**488**	**93**
6 Due from customers		233,115		**233,115**	**186,138**
7 Hedging derivatives					
8 Other assets					
Total	**4,248**	**233,603**	**91**	**237,943**	**190,226**

1.3 Interest and similar income: other information

Interest income concerning "Available-for-sale financial assets" of €160 thousand and "Held-to-maturity financial assets" of €4,089 thousand was generated by government securities purchased by Banca Farmafactoring to hedge liquidity risk and optimize the cost of money.
Interest income is recognized using 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 concerning receivables "Due from banks" refers to credit balances on Group current accounts held with the banking system.

Interest income on receivables "Due from customers" for loans amounted to €233,115 thousand and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse receivables and late payment interest for the year, relating to Banca Farmafactoring and Farmafactoring España.
The amount of maturity commissions and late payment interest on non-recourse receivables of

Banca Farmafactoring and Farmafactoring España totaled €189,852 thousand in 2017 compared to €163,165 thousand in 2016.
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, on January 1, 2017, in the late payment interest collection percentage to be included in amortized cost, to 45% instead of the previous 40%, maintaining the average collection times at an estimated 1,800 days.

The amount also includes interest income calculated at amortized cost, generated by the Magellan Group's portfolio, for a total amount of €41.1 million. With reference to the Magellan Group, notwithstanding the minor significance of late payment interest to the total of 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 the parent Banca Farmafactoring, the Group adopted the estimation criteria decided locally by management when Magellan was listed. These confirm a substantially integral recovery of late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.
Late payment interest on past due trade receivables, in the Magellan Group, are mainly recognized when there is a 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.

1.4 Interest and similar expenses: breakdown

€39,930 thousand

(Amounts in € thousands)

Items/Types	Payables	Securities	Other transactions	Total 12/31/2017	Total 12/31/2016
1. Due to central banks					**14**
2. Due to banks	11,068			**11,068**	**6,550**
3. Due to customers	10,442			**10,442**	**8,426**
4. Debt securities issued		17,610		**17,610**	**15,099**
5. Financial liabilities held for trading					**930**
6. Financial liabilities measured at fair value					
7. Other liabilities and provisions			14	**14**	
8. Hedging derivatives			796	**796**	**1**
Total	**21,510**	**17,610**	**811**	**39,930**	**31,020**

Interest expenses increased from €31 million at December 31, 2016 to €39.9 million at December 31, 2017.
This increase in absolute terms is primarily due to a higher outstanding balance, interest expenses on the Tier 2 bonds of €4.9 million not recorded in 2016, and the cost of funding the acquisition of the Magellan Group to the tune of €3.1 million in 2017, compared to €1.8 million in 2016, when the latter was considered for seven months only.

The interest expense concerning the item "Due to banks - Payables" refers to loans received from the banking system.

The interest expense on "Due to customers - Payables" mainly refers to interest expenses relating to the online deposit accounts of Banca Farmafactoring; the amount relating to Cuenta Facto, offered in Spain by the Spanish branch of Banca Farmafactoring was equal to approximately €6.5 million.
2017 benefited from the reduction in rates offered on deposit accounts, especially those offered on the new 12-month online deposit accounts, which decreased from 1.45% in 2016 to the current 1% in Italy, and from 1.25% in 2016 to the current 1.15% in Spain.

The item also includes interest (income) on repurchase agreements to the tune of €7,013 thousand.

1.5 Interest and similar expenses: differences relating to hedging transactions
€796 thousand

(Amounts in € thousands)

Items	12/31/2017	12/31/2016
A. Positive differences relating to hedging transactions	(7)	39
B. Negative differences relating to hedging transactions	803	(38)
C. Balance (A-B)	**796**	**1**

Section 2 – Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown
€7,713 thousand

(Amounts in € thousands)

Type of service/Amounts	Total 12/31/2017	Total 12/31/2016
a) guarantees provided	3	
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	7,710	7,711
e) securitization servicing		
f) factoring services		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services		121
Total	**7,713**	**7,832**

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

2.2 Fee and commission expenses: breakdown
€1,258 thousand

(Amounts in € thousands)

Type of service/Amounts	Total 12/31/2017	Total 12/31/2016
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	1,258	4,478
Total	**1,258**	**4,478**

The item mainly refers to expenses on existing banking relationships. The increase in 2016 expenses from fees and commissions was mainly due to the conclusion of the process to delist the subsidiary Magellan.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

€60 thousand

(Amounts in € thousands)

Items/Income	Total 12/31/2017		Total 12/31/2016	
	Dividends	Units in CIUs	Dividends	Units in CIUs
A. Financial assets held for trading				
B. Available-for-sale financial assets				
C. Financial assets measured at fair value	60			61
D. Equity investments				
Total	**60**			**61**

Dividends and similar income refer to Magellan's equity investment in two legal firms.

Section 4 – Gains (losses) on trading – Item 80

4.1 Gains (losses) on trading: breakdown

€5,482 thousand

(Amounts in € thousands)

Transactions/Income components	Capital gains (A)	Gains on trading (B)	Capital 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 CIUs					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Liabilities					
2.3 Other					
3. Other financial assets and liabilities: exchange differences					**(4,660)**
4. Derivative instruments		**(144)**		**(678)**	**(822)**
4.1 Financial derivatives:		(144)		(678)	(822)
- on debt securities and interest rates		(144)		(678)	(822)
- on equity securities and share indexes					
- on currency and gold					
- other					
4.2 Credit derivatives					
Total		**(144)**		**(678)**	**(5,482)**

Gains (losses) on trading mainly arise from the negative exchange effect recognized in the income statement, arising from the revaluation of exchange rates applied the loan payable in Polish zloty used for the acquisition of the Magellan Group and amounting, at December 31, to €4.7 million, before taxes, offset by a positive effect from the revaluation of the exchange rates applied to the Magellan Group's equity in Consolidated equity. The item also includes the effect of the measurement of Magellan's financial derivatives.

Reconciliation of changes in derivatives

(Amounts in € thousands)

	Carrying amount	Change
Financial assets held for trading		
Amount at 12/31/2016	244	
Amount at 12/31/2017	0	(244)
Financial liabilities held for trading		
Amount at 12/31/2016	7	
Amount at 12/31/2017	535	(528)
Gains (losses) on trading		**(772)**

Section 5 – Gains (losses) on hedge accounting – Item 90

€32 thousand

5.1 Gains (losses) on hedge accounting: breakdown

(Amounts in € thousands)

Income components/Amounts	Total 12/31/2017	Total 12/31/2016
A. Income from:		
A.1 Fair value hedging derivatives		
A.2 Hedged financial assets (fair value)		
A.3 Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives	139	138
A.5 Assets and liabilities denominated in currency		
Total income from hedging activities (A)	**139**	**138**
B. Charges related to:		
B.1 Fair value hedging derivatives		
B.2 Hedged financial assets (fair value)		
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives	(107)	(139)
B.5 Assets and liabilities denominated in currency		
Total charges from hedging activities (B)	**(107)**	**(139)**
C. Net result of hedging activities (A - B)	**32**	**(1)**

Section 6 – Gains (losses) on disposal or repurchase – Item 100
€1,759 thousand

6.1 Gains (losses) on disposal or repurchase: breakdown

(Amounts in € thousands)

Items/Income components	Total 12/31/2017			Total 12/31/2016		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Due from banks						
2. Due from customers						
3. Available-for-sale financial assets	1,759		1,759	987	(281)	706
3.1 Debt securities	1,759		1,759	987	(281)	706
3.2 Equity securities						
3.3 Units in CIUs						
3.4 Loans						
4. Held-to-maturity financial assets						
Total assets	**1,759**		**1,759**	**987**	**(281)**	**706**
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 year, resulting in a net gain of €1,759 thousand, before the tax effect.

Section 8 – Net adjustments/reversals of impairment – Item 130
€6,748 thousand

8.1 Net adjustments to/reversals of impairment of receivables: breakdown

(Amounts in € thousands)

Transactions/Income components	Adjustments			Reversal of impairment				Total 12/31/2017	Total 12/31/2016
	Specific		Portfolio	Specific		Portfolio			
	Derecognition	Other		A	B	A	B		
A. Due from banks									
- loans									
- debt securities									
B. Due from customers:	**(49)**	**(7,126)**			**802**		**326**	**(6,046)**	**(2,180)**
Impaired receivables purchased									
- loans									
- debt securities									
Other receivables	**(49)**	**(7,126)**			**802**		**326**	**(6,046)**	**(2,180)**
- loans	(49)	(7,126)			802		326	(6,046)	(2,180)
- debt securities									
C. Total	**(49)**	**(7,126)**			**802**		**326**	**(6,046)**	**(2,180)**

Key:
A = From interest
B = Other reversals

Adjustments at December 31, 2017 mainly include Magellan Group's positions to the tune of €5.1 million, an Italian assignor's impairment and the time value effect on Italian local entities in financial distress.

8.2 Net adjustments to/reversals of impairment of available-for-sale financial assets: breakdown

(Amounts in € thousands)

Transactions /Income components	Adjustments		Reversal of impairment		Total 12/31/2017	Total 12/31/2016
	Specific		Specific			
	Derecognition	Other	From interest	Other reversals		
A. Debt securities						
B. Equity securities		(702)			**(702)**	**(64)**
C. Units in CIUs						
D. Loans to banks						
E. Loans to customers						
F. Total		**(702)**			**(702)**	**(64)**

Adjustment to equity securities classified in the AFS portfolio derives from the fair value valuation of assets acquired through contributions paid by Banca Farmafactoring, in relation to participation in the Voluntary Scheme established by FITD.

Section 11 – Administrative expenses – Item 180

€61,999 thousand

11.1 Personnel costs: breakdown

€27,619 thousand

(Amounts in € thousands)

Type of expense/Sectors	Total 12/31/2017	Total 12/31/2016
1) Employees	**25,405**	**22,665**
a) wages and salaries	17,478	16,528
b) social security contributions	4,458	4,173
c) employee severance benefits		
d) pension		
e) allocation to employee severance benefits	422	417
f) provision for pension and other post-employment benefits:		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds:	189	162
- defined contribution		
- defined benefit	189	162
h) costs of share-based payment agreements		
i) other employee benefits	2,858	1,385
2) Other staff in service	577	432
3) Directors and statutory auditors	1,637	1,827
4) Early retirement costs		
Total	**27,619**	**24,924**

The increase in personnel costs largely refers to the recognition of Magellan, for 7 months in 2016 and the entire year in 2017.
The amount also includes expenses for employee stock options at listing, for €1.5 million, before taxes.

11.2 Average number of employees by category

Employees

(number)

Category	Average number at 12/31/2017	Average number at 12/31/2016
Executives	20	21
Supervisors	102	90
Rest of staff	279	261
Total	**401**	**372**

Since the contracts in the countries in which the Group operates are not the same as Italian contracts, the employees of the foreign companies have been conventionally divided into the "Executives", "Supervisors" and "Rest of staff" categories.
Magellan staff is considered as part of the Group for the entire year 2016.

Other staff
Internships: 9

11.4 Other employee benefits

The amount of €2,858 thousand mainly refers to costs of stock options granted to some employees, to expenses incurred for training, to insurance on behalf of staff, to meal tickets and donations to employees.

11.5 Other administrative expenses: breakdown
€34,380 thousand

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
Legal fees	2,178	2,193
Data processing services	2,342	2,202
External credit management services	1,014	1,330
Supervisory Body fees	42	42
Legal fees for receivables under management	723	956
Notary fees	499	695
Notary fees to be recovered	711	277
Entertainment expenses and donations	950	1,126
Maintenance expenses	1,241	1,167
Non-deductible VAT	3,142	4,108
Other taxes	2,028	1,864
Consulting fees	10,756	12,285
Head office operating expenses	1,691	1,332
Resolution Fund and FITD	1,727	3,823
Other expenses	5,334	5,319
Total	**34,380**	**38,718**

Other administrative expenses amounted to €34.4 million at December 31, 2017, showing a decrease compared to 2016 mainly due to non-recurring expenses connected to the acquisition of Magellan and recognized in 2016.

Furthermore, with regard to contributions to the Deposit Guarantee Scheme, a cost before taxes was recorded of €1.7 million, which comes from the €1.2 million that was already paid as the annual contribution for the Resolution Fund, and the €0.5 million contribution to be paid to the *Fondo Interbancario Tutela Depositi*. 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".
In 2016, an extraordinary contribution of €2.1 million was required.

This item also includes legal fees of €723 thousand and notary fees of €711 thousand, incurred on behalf of the assignor companies, which were fully recovered and included in other operating income.

"Other administrative expenses", in 2017, mainly include data outsourcing services, which are listed below.

(Amounts in € thousands)

Details	Total 12/31/2017
Fees paid to external companies for support to Internal Audit	49
Fees paid to external companies for Data Processing	2,342
Fees paid to external companies for Credit Checks	1,014

Section 12 – Net allocations to provisions for risks and charges – Item 190

€831 thousand

12.1 Net allocations to provisions for risks and charges: breakdown

The allocation to the provisions, compared to the prior year, shows the following breakdown:

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
Pension and other post-employment benefits	267	2,069
Other provisions	564	7
Total	**831**	**2,075**

The allocation to "Pension and other post-employment benefits" refers to deferred employee benefits.

Section 13 – Net adjustments to/reversals of impairment of property, plant and equipment – Item 200

€1,444 thousand

13.1 Net adjustments to/reversals of impairment of property, plant and equipment: breakdown

(Amounts in € thousands)

Assets/Income components	Depreciation (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
A.1 Owned assets	1,444			**1,444**
- used in the business	1,444			**1,444**
- held for investment				
A.2 Purchased under finance leases				
- used in the business				
- held for investment				
Total	**1,444**			**1,444**

Section 14 – Net adjustments to/reversals of impairment of intangible assets – Item 210
€1,690 thousand

14.1 Net adjustments to/reversals of impairment of intangible assets: breakdown

(Amounts in € thousands)

Assets/Income components	Depreciation (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a + b - c)
A. Intangible assets				
A.1 Owned assets	1,690			**1,690**
- generated internally				
- other	1,690			**1,690**
A.2 Purchased under finance leases				
Total	**1,690**			**1,690**

Section 15 – Other operating income (expenses) – Item 220
€3,849 thousand

15.1 Other operating expenses: breakdown

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
Contingent expenses		
Rounding off and allowance expenses	(90)	(88)
Other expenses	(604)	(1,577)
Deposit guarantee scheme expenses		
Tax expenses		
Total	**(694)**	**(1,665)**

Other expenses mainly refer to taxes concerning legal cases filed by the Bank.

15.2 Other operating income: breakdown

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
Recovery of legal fees for purchases of non-recourse receivables	1,139	2,160
Recovery of operational legal fees	723	461
Receivables realized at other than face value	8	2
Contingent assets	1,454	2,101
Recovery of assignor notary expenses	652	214
Other income	566	2,432
Total	**4,543**	**7,369**

Section 20 – Income taxes on profit (loss) from continuing operations – Item 290

€36,427 thousand

20.1 Income taxes on profit (loss) from continuing operations: breakdown

(Amounts in € thousands)

Income components/Sectors	Total 12/31/2017	Total 12/31/2016
1. Current taxes (-)	28,634	26,122
2. Change in current taxes of prior years (+/-)		
3. Decrease in current taxes for the period (+)		
3.bis Reduction in current taxes for the period due to tax credit under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	7,605	(368)
5. Change in deferred tax liabilities (+/-)	188	1,243
6. Taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**36,427**	**26,997**

20.2 Reconciliation of theoretical tax and effective tax expense

The reconciliation between the theoretical and effective tax expenses for the Parent Banca Farmafactoring S.p.A. only is provided below.

(Amounts in € thousands)

	12/31/2017	
Details	IRES	IRAP
Taxable profit used for purposes of tax calculations	111,249	39,301
Theoretical tax rate 27.5% Ires - 5.57% Irap	**30,593**	**2,189**
Permanent non-deductible differences	3,240	
Deductible IRAP	198	
Temporary differences taxable in future years	30,378	
Temporary differences deductible in future years	(1,813)	(866)
Reversal of temporary differences from previous years	108	396
Taxable profit	**79,138**	**39,770**
Current taxes	**21,763**	**2,215**

Section 24 – Earnings per share

24.2 Other information

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 were the same and amounted to 0.56.

Part D - Consolidated Comprehensive Income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in euros)

Items	Gross amount	Income tax	Net amount
10. Profit (loss) for the year			**95,547,803**
Other comprehensive income that will not be reclassified to profit or loss			
20. Property, plant and equipment			
30. Intangible assets			
40. Defined benefit plans	(28,272)	7,775	(20,497)
50. Non-current assets held for sale			
60. Portion of revaluation reserves from equity investments measured using the equity method			
Other comprehensive income that will be reclassified to profit or loss			
70. Hedges of foreign investments:			
a) fair value changes			
b) reclassification to income statement			
c) other changes			
80. Exchange rate differences:			
a) fair value changes			
b) reclassification to income statement			
c) other changes	4,518,789	(187,982)	4,330,808
90. Cash flow hedges:			
a) fair value changes	(226,212)	74,808	(151,404)
b) reclassification to income statement			
c) other changes			
100. Available-for-sale financial assets:			
a) fair value changes	(601,191)	198,814	(402,377)
b) reclassification to income statement			
- adjustments due to impairment			
- capital gains (losses)			
c) other changes			
110. Non-current assets held for sale:			
a) fair value changes			
b) reclassification to income statement			
c) other changes			
120. Portion of revaluation reserves relating to equity investments measured using the equity method:			
a) fair value changes			
b) reclassification to income statement			
- adjustments due to impairment			
- capital gains (losses)			
c) other changes			
130. Total other comprehensive income	**3,663,115**	**93,415**	**3,756,530**
140. Comprehensive income (Items 10+130)	**3,663,115**	**93,415**	**99,304,333**
150. Consolidated comprehensive income attributable to non-controlling interests			
160. Consolidated comprehensive income attributable to owners of the Parent	**3,663,115**	**93,415**	**99,304,333**

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 measures are part of the governance of the organization and of the internal control system, aimed at ensuring management practices grounded in 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 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 capital adequacy, associated with the strategic planning process.

The corporate governance bodies of the Bank, as the Banca Farmafactoring Banking 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 all the Group's entities, with the aim of creating an integrated and consistent risk management policy. Within this framework, the Parent Company'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 subsidiaries 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 Function Head is not involved in the operating activities that he/she is asked to control, and his/her duties, and the related 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 Group risks (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 related present and prospective capital 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, including the Banking Group and BFF Luxembourg S.à r.l., the latter as the parent company for 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

General information

The main activity of the Banking Group is factoring, which is governed, in Italy, by the Italian Civil Code (Book IV – Chapter V, Articles 1260–1267) and Law no. 52 of February 21, 1991 and subsequent amendments, 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 Banking Group comprises the companies of the Magellan Group, which provide financial services to companies operating in the healthcare sector in the countries in which they operate.

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

Credit risk management policies

- 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 relationship underlying the credit quality and the customer's ability to repay.

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 December 29, 2017, and by the "Credit Regulation" of subsidiaries. A further organizational measure tackling 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 monitored at various levels within the framework of the multiple operating processes.

- 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 governed by Regulation (EU) no. 575/2013 (CRR) and adopted by the Bank of Italy Circular no. 285 "*Supervisory 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 amendments. 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 due from government agencies and central banks with offices in a European Union member state and financed in the local currency;
- 20% for receivables from local entities located in a European Union member state, denominated and financed in the local currency, and for receivables from the public administration of countries with Credit Quality Step 1.
  The non-recourse receivables from the Spanish Healthcare System 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 with Credit Quality Step 2, which include the exposures with entities of the Polish and Slovakian public sector, except for exposures with an original duration of three months or less, for which a weighting of 20% is applied;
- 100% for countries with Credit Quality Step 3 (Portugal and, starting from 2017, Italy), except for exposures with an original duration of three months or less, for which 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 due from retail and small business counterparties;
- 100% for receivables from private debtors;
- 100% for property, plant and equipment, equity investments, collective investment undertakings 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 any adjustments.

Banca Farmafactoring adopted the Dominion Bond Rating Service (DBRS) as reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS on January 13, 2017 was "BBB high". The exposures with the Italian public administration, which include those with entities belonging to

the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%.
The exposures of the Banking Group are principally represented by 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 December 31, 2017 is €133.4 million for the Banking Group.

The Group has an internal regulation that describes the phases that in industry 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 company 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 agreed fees and commissions, that is, 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, although 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 designated approval bodies.
"Recourse factoring" is a marginal activity for the Banking Group since this type of factoring is only included in the Magellan Group 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 "*Supervisory provisions for banks*" and no. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*" and subsequent amendments) regarding risk concentration.

More specifically:

- "large exposure" means any position equal to or greater than 10% of the eligible capital, as defined in the CRR (sum of Tier 1 Capital and Tier 2 Capital equal to or lower than one-third of Tier 1 Capital);
- for banking groups and banks not belonging to a banking group, each risk position must not be greater than 25% of the 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 amendments, "*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/used ratio (which shows the financial obligations of the company and its debt margins to 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 loans, 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 loans
The assessment of performing loans applies to those receivables due from customers that, while more than 90 days past due, show no objective indication of impairment at the individual level, in compliance with reference regulations.

Although 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 loans in order to monitor the quantitative content.

To determine the Loss Given Default (LGD), the Company uses the value recommended in the "Basel Accord Framework" for non-collateralized receivables due from sovereign states, companies and banks, equal to 45% of the relevant probability of default (PD).
The PD collective assessment is performed by assigning a rating to the debtors (such as government agencies, local entities, ASL/AO), corresponding to the credit rating assigned by the major rating agencies. This rating is then applied to the exposures not classified as non-performing Exposures at Default (EAD).
At December 31, 2017, the general impairment relating to the Bank amounted to € 3 million.
As regards Magellan, the collective impairment is calculated, at this time, exclusively in relation to private counterparties. In this case, Magellan carries out a portfolio impairment by applying to the receivable 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 Company, so that the corresponding functions of the parent can report on the activities conducted in this area and check the correctness of the conclusions.

Non-performing loans
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 loans in order to identify any objective impairment of individual positions.
Non-performing loans of the Banking Group, net of individual impairment losses, amounted to €18.2 million, including those of the Magellan Group of €2.2 million.

- Credit risk mitigation techniques
In order to make non-recourse receivables 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.

- Impaired financial assets
On July 24, 2014, the EBA published the "*Final draft implementing technical standards on supervisory reporting on forbearance and non-performing exposures*" (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for non-performing exposures and forbearance measures.
According to these definitions, adopted by the Bank of Italy with the seventh update to Circular no. 272 of January 20, 2015, impaired assets shall be classified as follows:
- Non-performing loans (net amount of €18.2 million, of which 2.8 million purchased already impaired);
- Unlikely-to-pay exposures (net amount of €6.8 million);
- Impaired past due exposures (net amount of €69.8 million).

Non-performing loans
These are exposures with parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.
At December 31, 2017, the total non-performing loans of the Banking Group, net of impairment, amounted to €18.2 million, of which €2.8 million purchased already impaired. Non-performing loans relating to Italian municipalities in financial distress amounted to €15 million, accounting for 82.8% of the total.
Gross non-performing loans amounted to €25.7 million; relevant impairment amounted to €7.5 million. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €13.9 million entirely impaired, and refers mainly to exposures with Fondazione Centro San Raffaele del Monte Tabor (ongoing liquidation and composition agreement with creditors). Taking account of this amount, too, gross non-performing loans amounted to €39.6 million and relevant adjustments totaled €21,4 million. As far as this exposure is concerned, it should be noted that in June 2017, €1.6 million were received for the fourth distribution in the composition agreement with creditors of Fondazione Monte Tabor, in relation to which a net residual amount of €0.9 million was still due, relating to principal only.

With reference to the Bank, total non-performing loans, net of any estimated impairment losses, amounted to €16 million at December 31, 2017, €15 million of which were due from Italian municipalities in financial distress.
Specifically, the amount of €2,8 million refers to receivables due from local entities (municipali-

ties, provinces) already in financial distress at the time of purchase and purchased at special conditions, and the approximate figure of €1.7 million was fully impaired and, therefore, their net amount is equal to 0.
The remaining positions, referring to the Bank, were impaired based on the time value, as they consist of positions secured by sureties and exposures with local government entities in financial distress, for which no provisions were recognized as the distressed condition is expected to be remedied resulting in the collection 100% of the receivables.
Gross non-performing loans relating to the Magellan Group amounted to €6.2 million; after impairment of €4 million, the net amount totaled €2.2 million.

Unlikely to pay exposures
Unlikely to pay exposures 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). 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 the unlikely to pay category at the individual transaction level, provided that the intermediary believes that the conditions for classifying in this category the entire amount of exposures to the same debtor cannot be met.
At December 31, 2017, net exposures classified as unlikely to pay amounted to a total of €6.8 million, all attributable to the Magellan Group portfolio.

Impaired past due exposures
These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Measurement of such past due exposures is carried out at the portfolio level, since there are no objective indications of individual impairment.

At December 31, 2017, total net past due exposures amounted to €69.8 million for the whole Group, of which 92.8% referring to the public administration and public sector companies. Banca Farmafactoring's exposures totaled €63.1 million. Of such amount, €61.1 million (96.8%) concerned Italian public administration agencies (largely local entities) and public sector companies. For the Magellan Group, net past due exposures amounted to €6.7 million, of which €3.7 million, equal to 55.6%, refer to public administration entities and public sector companies.

Quantitative information

A. Credit quality

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

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

(Amounts in € thousands)

Portfolio/Quality	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures	Other impaired exposures	Not impaired exposures	Total
1. Available-for-sale financial assets					101,285	**101,285**
2. Held-to-maturity financial assets					1,120,610	**1,120,610**
3. Due from banks					44,792	**44,792**
4. Due from customers	18,175	6,760	69,794		2,923,757	**3,018,486**
5. Financial assets measured at fair value					546	**546**
6. Financial assets held for sale						
Total 12/31/2017	**18,175**	**6,760**	**69,794**		**4,190,990**	**4,285,719**
Total 12/31/2016	**12,065**	**3,614**	**46,167**		**4,599,926**	**4,661,772**

Not impaired receivables due from customers include past due but not impaired exposures, pursuant to the provisions of Bank of Italy Circular no. 272 of July 30, 2008 "*Account matrix*", and subsequent amendments, amounting to €488,248 thousand.
All purchases of non-recourse receivables made in Italy refer to factoring transactions pursuant to Law no. 52/91.

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

(Amounts in € thousands)

Portfolio/Quality	Impaired assets			Not impaired assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Available-for-sale financial assets				101,285		101,285	**101,285**
2. Held-to-maturity financial assets				1,120,610		1,120,610	**1,120,610**
3. Due from banks				44,792		44,792	**44,792**
4. Due from customers	106,003	11,273	94,730	2,928,988	5,232	2,923,756	**3,018,486**
5. Financial assets measured at fair value						546	**546**
6. Financial assets held for sale							
Total 12/31/2017	**106,003**	**11,273**	**94,730**	**4,195,675**	**5,232**	**4,190,989**	**4,285,719**
Total 12/31/2016	**66,372**	**4,526**	**61,847**	**4,605,687**	**5,761**	**4,599,926**	**4,661,772**

(Amounts in € thousands)

Portfolio/Quality	Subprime assets		Other
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading			
2. Hedging derivatives			322
Total 12/31/2017			**322**
Total 12/31/2016			**773**

A.1.3 Banking Group - On- and off-balance sheet credit exposures with banks: gross, net and past due amounts

(Amounts in € thousands)

Type of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Impaired assets				Not impaired assets			
	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Non-performing loans								
- of which: forborne exposures								
b) Unlikely to pay exposures								
- of which: forborne exposures								
c) Past due impaired exposures								
- of which: forborne exposures								
d) Past due but not impaired exposures								
- of which: forborne exposures								
e) Other not impaired exposures					23,145			23,145
- of which: forborne exposures								
TOTAL A					**23,145**			**23,145**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired								
b) Not impaired					3,713			3,713
TOTAL B					**3,713**			**3,713**
TOTAL (A+B)					**26,858**			**26,858**

A.1.6 Banking Group - On- and off-balance sheet credit exposures with customers: gross, net and past due amounts

(Amounts in € thousands)

Type of exposure/Amounts	Gross exposure					Specific adjustments	Portfolio adjustments	Net exposure
	Impaired assets				Not impaired assets			
	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year				
A. On-balance sheet exposures								
a) Non-performing loans		730	4,343	20,625		7,523		18,175
- of which: forborne exposures								
b) Unlikely to pay exposures	6,028			4,342		3,610		6,760
- of which: forborne exposures								
c) Past due impaired exposures	37,657	9,859	6,167	16,252		140		69,795
- of which: forborne exposures								
d) Past due but not impaired exposures					489,238		989	488,248
of which: forborne exposures								
e) Other not impaired exposures					3,662,191		4,243	3,657,949
of which: forborne exposures					31,833		120	31,713
TOTAL A	**43,685**	**10,589**	**10,510**	**41,219**	**4,151,429**	**11,273**	**5,232**	**4,240,927**
B. Off-balance sheet exposures								
a) Impaired	6,289							6,289
b) Not impaired					121,687			121,687
TOTAL B	**6,289**				**121,687**			**127,976**
TOTAL (A+B)	**49,974**	**10,589**	**10,510**	**41,219**	**4,273,116**	**11,273**	**5,232**	**4,368,903**

A.1.7 Banking Group - On-balance sheet credit exposures with customers: changes in gross impaired exposures

(Amounts in € thousands)

Sources/Categories	Non-performing loans	Unlikely to pay exposures	Past due impaired exposures
A. Opening gross exposures	**16,407**	**3,715**	**46,250**
- of which: exposures sold but not derecognized	4,726		16,302
B. Increase	**11,583**	**10,032**	**49,873**
B.1 transfer from performing exposures	8,432	10,032	41,860
B.2 transfer from other categories of impaired exposures	2,455		3,376
B.3 other increases	697		4,637
C. Decrease	**2,293**	**3,376**	**26,188**
C.1 transfer to performing exposures	18		22,800
C.2 derecognition			
C.3 collections	1,664		948
C.4 proceeds on sale			
C.5 losses on sale			
C.6 transfer to other categories of impaired exposures	611	3,376	2,439
C.7 other decreases			
D. Closing gross exposures	**25,698**	**10,370**	**69,935**
- of which: exposures sold but not derecognized	4,995		15,197

A.1.7 bis Banking Group – On-balance sheet exposures with customers: trend in gross forborne exposures broken down by credit quality

(Amounts in € thousands)

Sources/Quality	Forborne exposures: impaired	Forborne exposures: not impaired
A. Opening gross exposures		
- of which: exposures sold but not derecognized		
B. Increase		**31,833**
B.1 transfer from performing exposures non included in the forborne exposures category		31,833
B.2 transfer from performing forborne exposures		
B.3 transfer from impaired forborne exposures		
B.4 other increases		
C. Decrease		
C.1 transfer to performing exposures non included in the forborne exposures category		
C.2 transfer to performing forborne exposures		
C.3 transfer to impaired forborne exposures		
C.4 derecognition		
C.5 collections		
C.6 proceeds on sale		
C.7 losses on sale		
C.8 other decreases		
D. Closing gross exposures		**31,833**
- of which: exposures sold but not derecognized		

A.1.8 Banking Group – On-balance sheet credit exposures with customers: changes in total adjustments

(Amounts in € thousands)

Sources/Categories	Non-performing loans		Unlikely to pay exposures		Past due impaired exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total adjustments	**4,342**		**101**		**82**	
- of which: exposures sold but not derecognized	169				30	
B. Increase	**3,536**		**3,509**		**112**	
B.1 adjustments	3,373		3,509		54	
B.2 losses on sale						
B.3 transfer from other categories of impaired exposures	4					
B.4 other increases	160				58	
C. Decrease	**356**				**54**	
C.1 reversals of impairment						
C.2 impairment reversals from collections	31				7	
C.3 gains on sale						
C.4 derecognition						
C.5 transfer to other categories of impaired exposures						
C.6 other decreases	325				47	
D. Closing total adjustments	**7,523**		**3,610**		**140**	
- of which: exposures sold but not derecognized	103				21	

A.2 Classification of exposures according to external and internal ratings

A.2.1 Banking Group - Breakdown of on- and off-balance sheet credit exposures by external rating class

(Amounts in € thousands)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet exposures		**644,409**	**3,294,958**			**8,560**	**315,762**	**4,263,689**
B. Derivatives			**321**					**321**
B.1 Financial derivatives			321					321
B.2 Credit derivatives								
C. Guarantees provided			**3,390**					**3,390**
D. Commitments to disburse funds							**127,976**	**127,976**
E. Other								
Total		**644,409**	**3,298,669**			**8,560**	**443,738**	**4,395,376**

This table includes, under "On-balance sheet exposures", the following asset items from the Banking Group's financial statements:

- item 40 - Available-for-sale financial assets (only debt securities), amounting to €101,285 thousand;
- item 50 - Held-to-maturity financial assets, amounting to €1,120,609 thousand;
- item 60 - Due from banks, amounting to €23,145 thousand, corresponding to the credit balances in the current accounts of the Bank and Group companies at the end of the year;
- item 70 - Due from customers, amounting to €3,018,486 thousand, equal to the sum of the outstanding exposures at December 31, 2017, net of intercompany transactions.

The ratings supplied by the rating agency DBRS (the reference ECAI) were used to assign credit quality ratings to the debtors. A reconciliation between the risk classes and the ratings supplied by DBRS is provided below.

Credit Quality Step	ECAI DBRS Ratings Limited
1	from AAA to AAL
2	from AH to AL
3	from BBBH to BBBL
4	from BBH to BBL
5	from BH to BL
6	CCC

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.2 Banking Group - Guaranteed credit exposures with customers

(Amounts in € thousands)

		Collaterals (1)					Personal guarantees (2)								
							Credit derivatives				Endorsement credits				
							Other derivatives								
	Net exposure amount	Mortgaged property	Property under finance leases	Securities	Other collaterals	CLN	Governments and central banks	Other public entities	Banks	Other subjects	Governments and central banks	Other public	Banks	Other subjects	**Total (1)+(2)**
1. *Guaranteed on-balance sheet credit exposures:*															
1.1 totally guaranteed	38,815	35,927	2,545										33	309	**38,815**
- of which impaired	33												33		**33**
1.2 partially guaranteed															
- of which impaired															
2. *Guaranteed off-balance sheet credit exposures:*															
2.1 totally guaranteed															
- of which impaired															
2.2 partially guaranteed															
- of which impaired															

B. Breakdown and concentration of credit exposures

B.1 Banking Group – Breakdown by segment of on- and off-balance sheet credit exposures with customers (carrying amount)

(Amounts in € thousands)

Exposures/ Counterparties	Governments			Other public entities		
	Net exp.	Specific adjustments	Portfolio adjustments	Net exp	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans				15,137	2,083	
- of which: forborne exposures						
A.2 Unlikely to pay exposures						
- of which: forborne exposures						
A.3 Past due impaired exposures	1,756	2		56,284	73	
- of which: forborne exposures						
A.4 Not impaired exposures	1,717,220		663	2,128,288		3,809
- of which: forborne exposures				31,713		120
TOTAL A	**1,718,976**	**2**	**663**	**2,199,709**	**2,156**	**3,809**
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Unlikely to pay exposures						
B.3 Other impaired assets				48		
B.4 Not impaired exposures	6			57,345		
TOTAL B	**6**			**57,393**		
TOTAL (A+B) 12/31/2017	**1,718,982**	**2**	**663**	**2,257,102**	**2,156**	**3,809**
TOTAL (A+B) 12/31/2016	**2,430,340**	**9**	**755**	**1,861,957**	**994**	**4,174**

(Amounts in € thousands)

Exposures/ Counterparties	Financial companies			Insurance companies		
	Net exp.	Specific adjustments	Portfolio adjustments	Net exp.	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans						
- of which: forborne exposures						
A.2 Unlikely to pay exposures						
- of which: forborne exposures						
A.3 Past due impaired exposures						
- of which: forborne exposures						
A.4 Not impaired exposures	64,459					
- of which: forborne exposures						
TOTAL A	**64,459**					
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Unlikely to pay exposures						
B.3 Other impaired assets						
B.4 Not impaired exposures						
TOTAL B						
TOTAL (A+B) 12/31/2017	**64,459**					
TOTAL (A+B) 12/31/2016	**118,444**					

(Amounts in € thousands)

Exposures/ Counterparties	Non-financial companies			Other subjects		
	Net exp.	Specific adjustments	Portfolio adjustments	Net exp.	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans	2,199	4,330		839	1,109	
- of which: forborne exposures						
A.2 Unlikely to pay exposures	6,760	3,610				
- of which: forborne exposures						
A.3 Past due impaired exposures	11,739	65		16		
- of which: forborne exposures						
A.4 Not impaired exposures	223,073		743	13,157		17
- of which: forborne exposures						
TOTAL A	243,770	8,005	743	14,012	1,109	17
B. Off-balance sheet exposures						
B.1 Non-performing loans	593					
B.2 Unlikely to pay exposures	3,591					
B.3 Other impaired assets	2,058					
B.4 Not impaired exposures	64,335					
TOTAL B	70,577					
TOTAL (A+B) 12/31/2017	314,348	8,005	743	14,012	1,109	17
TOTAL (A+B) 12/31/2016	126,646	864	32	104,099	2,364	195

B.2 Banking Group – Breakdown by geographical area of on- and off-balance sheet credit exposures with customers (carrying amount)

(Amounts in € thousands)

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments
A. On-balance sheet exposures										
A.1 Non-performing loans	16,009	3,477	2,166	4,046						
A.2 Unlikely to pay exposures		440	6,760	3,170						
A.3 Past due impaired										
exposures										
A.4 Other not impaired	62,862	86	6,932	54						
exposures	3,198,230	2,852	947,967	2,380						
TOTAL	**3,277,101**	**6,855**	**963,826**	**9,650**						
B. Off-balance sheet exposures			593							
B.1 Non-performing loans			3,591							
B.2 Unlikely to pay exposures										
B.3 Other impaired assets	36		2,070							
B.4 Other not impaired expo-										
sures	164		121,523							
TOTAL	**200**		**127,776**							
TOTAL 12/31/2017	**3,277,301**	**6,855**	**1,091,602**	**9,650**						
TOTAL 12/31/2016	**3,883,618**	**5,883**	**757,867**	**4,404**						

(Amounts in € thousands)

Exposures/Geographical area	Italy Northwest		Italy Northeast		Italy Central		Italy South and Islands	
	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments
A. On-balance sheet exposures								
A.1 Non-performing loans	700	327	195	60	457	1,169	14,658	1,921
A.2 Unlikely to pay exposures						440		
A.3 Past due impaired exposures	5,057	7	2,309	3	8,486	12	47,010	64
A.4 Other not impaired exposures	188,412	242	94,216	125	2,079,723	1,080	835,879	1,405
TOTAL	**194,169**	**576**	**96,720**	**188**	**2,088,665**	**2,701**	**897,547**	**3,391**
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Unlikely to pay exposures								
B.3 Other impaired assets	23						12	
B.4 Other not impaired exposures	31				26		107	
TOTAL	**54**				**26**		**119**	
TOTAL 12/31/2017	**194,223**	**576**	**96,720**	**188**	**2,088,691**	**2,701**	**897,667**	**3,391**
TOTAL 12/31/2016	**212,403**	**721**	**96,015**	**253**	**2,796,440**	**2,401**	**778,958**	**2,509**

B.3 Banking Group – Breakdown by geographical area of on- and off-balance sheet credit exposures with banks (carrying amount)

(Amounts in € thousands)

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments
A. On-balance sheet exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay exposures										
A.3 Past due impaired exposures										
A.4 Other not impaired exposures	6,640		16,504							
TOTAL	**6,640**		**16,504**							
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Unlikely to pay exposures										
B.3 Other impaired assets										
B.4 Other not impaired exposures	3,391		322							
TOTAL	**3,391**		**322**							
TOTAL 12/31/2017	**10,031**		**16,826**							
TOTAL 12/31/2016	**130,403**		**15,264**							

(Amounts in € thousands)

Exposures/Geographical area	Italy Northwest		Italy Northeast		Italy Central		Italy South and Islands	
	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments	Net exp.	Total adjustments
A. On-balance sheet exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay exposures								
A.3 Past due impaired exposures								
A.4 Other not impaired exposures	5,645		68		917		11	
TOTAL	**5,645**		**68**		**917**		**11**	
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Unlikely to pay exposures								
B.3 Other impaired assets								
B.4 Other not impaired exposures					3,391			
TOTAL					**3,391**			
TOTAL 12/31/2017	**5,645**		**68**		**4,308**		**11**	
TOTAL 12/31/2016	**73,774**		**20,793**		**545**		**35,291**	

B.4 Large exposures

At December 31, 2017, the CRR Group had 12 "large exposures", meaning—as specified in the Bank of Italy Circular no. 263 of December 27, 2006 "*New prudential supervision regulations for banks*" and subsequent amendments—risk positions equal to or higher than 10% of eligible capital.
The nominal unweighted amount of these positions was €3,084,930 thousand, while the weighted positions amounted to €201,056 thousand.
However, none of these positions exceed the individual concentration limit of 25% of eligible capital of the CRR Group.

C. Securitization transactions

This section presents "qualitative" and "quantitative" information about transactions concerning the securitization and asset sale activities of the Bank and the Banking Group.

C.1 Securitization transactions

Information on the transaction with "Deutsche Bank A.G. – Farmafactoring SPV I S.r.l."

Qualitative information

Strategies, processes and objectives

On June 30, 2017, the revolving phase of the Farmafactoring SPV I S.r.l. securitization, whose senior security amounted to €85 million, was not renewed. Consequently, in July 2017 the revolving phase was concluded and the vehicle began to accumulate liquidity thanks to the collection flows deriving from the receivables portfolio sold and the remaining amount at the start date of the amortization phase. Liquidity accrued on a monthly basis was used to gradually repay Senior Notes on monthly payment dates during the amortization phase.
Outstanding Senior Notes amounted to €1.8 million at December 31, 2017.
Repayment of Senior Notes was completed on January 25, 2018.

Description of the risk profile

Following the repayment of the Senior Notes on January 25, 2018, activities for the unwinding of the program and the SPV were launched, which should be completed by the end of the first half of 2018.
At the end of the transaction, subsequent to the repayment of the securities and other senior transaction expenses, all the remaining amounts from the collection of the receivables sold, including late payment interest, will belong to Banca Farmafactoring, in its capacity as underwriter of the subordinated loan.
Based on the above, all of the risks and benefits of the transaction were not transferred to the assignee but remained with Banca Farmafactoring. Consequently, the securitization risk was included in the credit risk.

Quantitative information

Type of financial instruments held

Banca Farmafactoring does not hold any financial instruments connected with the above-mentioned transaction.

Sub-servicer activity

Banca Farmafactoring, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A..
Following repayment of securities, the face amount of outstanding receivables totaled €49 million at December 31, 2017.

Disclosure on the transaction with "Bayerische Landesbank – BFF SPV S.r.l."

Qualitative information

Strategies, processes and objectives

In July 2017, the private placement of a new securitization transaction was successfully concluded with the Bayerische Landesbank (BayernLB) Group for €150 million—the maximum amount of the flexible senior note—with the aim of diversifying funding activities.

Characteristics of the transaction

The receivables, due from Local Healthcare Entities (ASL) and Hospitals (AO), are sold without recourse to a special purpose vehicle pursuant to Law no. 130/99, BFF SPV S.r.l., which finances the purchase of the receivables by issuing securities up to a total of €150 million, underwritten by Corelux, a special purpose vehicle in the BayernLB Group, using liquidity made available 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 in order to maintain the collateralization ratio provided for by the contract. The revolving phase started in September 2017, after the issue and payment of the Senior Notes.

Description of the risk profile

Banca Farmafactoring, as the originator, maintains a role in the securitization transaction, even though it sells receivables on a non-recourse basis.
This transaction calls for a credit enhancement mechanism through an overcollateralization ratio (equal to 136.05% of the amount of the securities issued) and a subordinated loan carried by Banca Farmafactoring.

At the end of the first revolving period (currently January 2019), there will be an amortization period of up to one year related to the receivables collection performance, until full repayment of securities.

Through the exercise of a put option, the vehicle may also transfer back to Banca Farmafactoring S.p.A. any receivables outstanding after the 12 months set as the maximum limit for the amortization period.

Based on the above, all of the risks and benefits of the transaction were not transferred to the assignee but remained with Banca Farmafactoring. Consequently, the securitization risk is included in the credit risk.
Banca Farmafactoring does not hold any financial instruments issued by the vehicle as part of the transaction and, as collection agent, takes care of the recovery and collection of receivables on behalf of the servicer Zenith Service S.p.A..

Quantitative information

Type of financial instruments held

Banca Farmafactoring does not hold any financial instruments connected with the above-mentioned transaction.

Sub-servicer activity

Banca Farmafactoring, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A..
Following the sales of receivables during the revolving phase of the transaction, the face amount of the outstanding receivables totaled about €130 million at December 31, 2017.

C.1 Banking Group - Exposure arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

(Amounts in € thousands)

Type of securitized asset/Exposure	On-balance sheet exposures						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Adj./Revers.	Carrying amount	Adj./Revers.	Carrying amount	Adj./Revers.	Carrying amount	Adj./Revers.	Carrying amount	Adj./Revers.	Carrying amount	Adj./Revers.	Carrying amount	Adj./Revers.	Carrying amount	Adj./Revers.	Carrying amount	Adj./Revers.
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**93,524**	**12**																
C.1 Farmafactoring SPV I																		
- Factoring	50,344	185																
C.2 BFF SPV																		
- Factoring	**43,180**	**(173)**																

C.3 Banking Group – Interests in securitization SPVs

(Amounts in € thousands)

Securitization name/SPV	Head office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
Farmafactoring SPV I S.r.l.	Milan - Via Statuto, 10	Full	119,403		18	1,771		
BFF SPV S.r.l.	Milan – Via A. Pestalozza, 12/14	Full	152,175		61	100,015		

E. Sales transactions

A. Financial assets sold and not fully derecognized

Qualitative information

The disclosure required by IFRS 7, paragraph 42D, letters a), b) and c), regarding the nature of the transferred assets, the relationship between them and the associated liabilities, and corresponding risks to which the Group is exposed, is provided below.
As explained above, on June 30, 2017, the revolving phase of the FF SPV I S.r.l. securitization was not renewed. In July 2017, the private placement of a new securitization transaction was successfully concluded with the Bayerische Landesbank (BayernLB) Group for €150 million—the maximum amount of the flexible senior note—with the aim of diversifying funding activities.
With reference to such transactions, the value of the receivables sold and not derecognized amounts to €173.7 million.
The other amounts in "Due from customers" refer for a total of €290.2 million to the receivables pledged as collateral for loans with financial intermediaries and for a total of €177.4 million for the loans granted as collateral by Magellan.
The counterparty in repurchase agreements, amounting to €1,167 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

Quantitative information

E.1. Banking Group – Financial assets sold but not derecognized: carrying amount and total amount

(Amounts in € thousands)

	Financial assets held for trading			Financial assets measured at fair value			Available-for-sale financial assets			Held-to-maturity financial assets			Due from banks			Due from customers			Total	
Types/Portfolios	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	12/31/17	12/31/16
A. On-balance sheet assets							**35,336**			**1,120,107**						**641,289**			**1,796,734**	**2,438,399**
1. Debt securities							35,336			1,120,107									**1,155,444**	**1,808,374**
2. Equity securities																				
3. Units in investments funds																				
4. Loans																641,289			**641,289**	**630,025**
B. Derivative instruments																				
Total 12/31/2017							**35,336**			**1,120,107**						**641,289**			**1,796,734**	
impaired																20,068			20,068	
Total 12/31/2016							**185,165**			**1,623,209**						**630,025**			**2,438,399**	
impaired																20,829			20,829	

Key:
A = financial assets sold and fully recognized (carrying amount)
B = financial assets sold and partially recognized (carrying amount)
C = financial assets sold and partially recognized (total amount)

E.2. Banking Group – Financial liabilities related to financial assets sold but not derecognized: carrying amount

(Amounts in € thousands)

Liabilities/Assets portfolio	Financial assets held for trading	Financial assets measured at fair value	Available-for-sale financial assets	Held-to-maturity financial assets	Due from banks	Due from customers	Total
1. Due to customers			**35,400**	**1,127,513**		**280,455**	**1,443,367**
a) related to assets fully recognized			35,400	1,127,513		280,455	**1,443,367**
b) related to assets partially recognized							
2. Due to banks						**165,299**	**165,299**
a) related to assets fully recognized						165,299	**165,299**
b) related to assets partially recognized							
3. Debt securities issued							
a) related to assets fully recognized							
b) related to assets partially recognized							
Total 12/31/2017			**35,400**	**1,127,513**		**445,754**	**1,608,667**
Total 12/31/2016			**185,069**	**1,599,883**		**424,140**	**2,209,092**

1.2 Banking Group – Market risks

1.2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

A. General information

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. Lending activities deriving from the factoring activities of the Bank, represented by non-recourse receivables, are in part at fixed rates and, for the late payment interest component, for Banca Farmafactoring and Farmafactoring España only, a 45% collection estimate at variable rates is included in amortized cost. Funding activities are mainly carried out 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. Therefore, 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.

Quantitative information

1. Regulatory trading portfolio: breakdown by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency: Other *(in € thousands)*

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecified maturity
1. Balance sheet assets								
1.1 Debt securities								
- with early repayment option								
- other								
1.2 Other assets								
2. Balance sheet liabilities								
2.1 Repo liabilities								
2.2 Other liabilities								
3. Financial derivatives		**5,000**	**1,500**					
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other								
+ long positions								
+ short positions								
3.2 Without underlying security		5,000	1,500					
- Options								
+ long positions								
+ short positions								
- Other		5,000	1,500					
+ long positions		*5,000*	*1,500*					
+ short positions								

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. This method is based on:

- 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 Banca Farmafactoring'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 within the Finance Department and Deposit account areas.
The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance and Credit 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 suitable 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 the Bank's Senior Management and Board of Directors, within the framework of periodic reporting of the Risk Management Function.
Furthermore, at the operational level, on a monthly basis the Finance and Credit Department monitors the interest rate risk, as well its management, through specific reporting.

B. Fair value hedging activities

In 2017 the company has not entered into any forex swap contracts in order to hedge intragroup loans (between Banca Farmafactoring and Magellan).

C. Cash flow hedging activities

Contracts outstanding (in € units, unless otherwise indicated):

	Underlying Interest rate and debt securities			
	Notional amount	Market fair value at 12/31/2017 €		Residual life in days
Type of transaction		Positive	Negative	
IRS plain vanilla	355,065,590	*1,342,306*		516
Total PLN	355,065,590	*1,342,306*		
Amount in Euro	**85,004,929**	*321,356*		

Hedging transactions are designed to offset potential losses attributable to specific types of risks.
The Bank uses interest rate swaps (IRS) as tools to hedge the interest rate applied to its funding.
Like all derivatives, hedging financial derivatives are initially recognized at fair value and subsequently measured at fair value.
When a financial instrument is designated as a hedge, the Bank formally reports the relationship between the hedging instrument and the hedged item.
Changes in the fair value of derivatives are recognized based on evidence provided by retrospective tests at the reporting date through a one-to-one correlation of derivatives to loans and in keeping with the provisions of IAS 39 (documentation of the hedge and effectiveness test of the derivative).

The provisions of IAS 39 require to:
- document both the hedged item and the hedging instrument;
- carry out retrospective quantitative tests to determine the effectiveness of the hedge.

Effectiveness tests are carried out by comparing changes in the fair value of the hedging instrument with those of the hypothetical derivative. The hypothetical derivative is a derivative with technical financial characteristics equal to those of the hedged item and initial fair value equal to zero, and is defined in such a way as to represent the perfect hedge.
At each reporting date, retrospective tests are performed that produce the ratio of the fair value differences between the hedging instrument and the hypothetical derivative. If the ratio of the retrospective tests is between a range of 80% and 125%, the hedge is effective; in the opposite case, the derivative is classified as "for trading".

The changes in the fair value of the derivative are therefore recognized:

- in equity, if the test is effective (up to 100%). If the hedging relationship always remains effective, at the expiry of the transaction (maturity of the derivative and the loan) the equity reserve is used without any impact on the income statement;
- through profit or loss, if the test is effective but for a value other than 100% for the fair value difference between 100% and the percentage resulting from the effectiveness test;
- fully through profit or loss, if the hedge is ineffective (below 80% or higher than 125%).

In the case of the above-mentioned IRS, the hedging relationship was effective and, therefore, the change in fair value was recorded in equity.

Quantitative information

1. Banking portfolio: breakdown by residual maturity (by repricing date) of financial assets and liabilities

Currency: EURO *(in € thousands)*

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	unspecified maturity
1. Balance sheet assets	**723,004**	**509,377**	**516,643**	**393,648**	**1,278,700**	**330,915**	**10,447**	
1.1 Debt securities		180,262	220,006	39,829	682,623	99,175		
- with early repayment option								
- other		*180,262*	*220,006*	*39,829*	*682,623*	*99,175*		
1.2 Loans to banks	14,641	3,678						
1.3 Loans to customers	708,363	325,438	296,637	353,819	596,077	231,740	10,447	
- current account	*1*							
- other loans	*708,362*	*325,438*	*296,637*	*353,819*	*596,077*	*231,740*	*10,447*	
- with early repayment option								
- other	*708,362*	*325,438*	*296,637*	*353,819*	*596,077*	*231,740*	*10,447*	
2. Balance sheet liabilities	**116,284**	**2,048,734**	**293,175**	**241,808**	**612,923**	**102,368**		
2.1 Due to customers	106,462	1,695,689	207,217	216,808	252,088			
- current account	*46,073*	*322,302*	*157,227*	*216,808*	*252,088*			
- other payables	*60,389*	*1,373,387*	*49,990*					
- with early repayment option								
- other	*60,389*	*1,373,387*	*49,990*					
2.2 Due to banks	9,822	149,485	84,518	25,000	10,000			
- current account								
- other payables	*9,822*	*149,485*	*84,518*	*25,000*	*10,000*			
2.3 Debt securities		203,559	*1,440*		350,835	102,368		
- with early repayment option		*198,834*			*200,429*	*102,368*		
- other		*4,725*	*1,440*		*150,406*			
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other								
+ long positions								
+ short positions								
4. Off-balance sheet transactions								
+ long positions								
+ short positions								

In relation to non-recourse purchases, the repricing date is the last receivables collection date.

Currency: OTHER *(in € thousands)*

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 year	unspecified maturity
1. Balance sheet assets	**83,448**	**236,334**	**77,579**	**28,474**	**36,966**	**38,537**		
1.1 Debt securities	546							
- with early repayment option								
- other	*546*							
1.2 Loans to banks	4,826							
1.3 Loans to customers	78,076	236,334	77,579	28,474	36,966	38,537		
- current account								
- other loans	*78,076*	*236,334*	*77,579*	*28,474*	36,966	38,537		
- with early repayment option								
- other	*78,076*	*236,334*	*77,579*	*28,474*	*36,966*	*38,537*		
2. Balance sheet liabilities	**27,877**	**389,212**	**81,899**	**4,961**				
2.1 Due to customers	17,935	19,990	60,078					
- current account								
- other payables	17,935	19,990	60,078					
- with early repayment option								
- other	*17,935*	*19,990*	*60,078*					
2.2 Due to banks	9,942	358,308	7,544					
- current account								
- other payables	*9,942*	*358,308*	*7,544*					
2.3 Debt securities		10,913	14,277	4,961				
- with early repayment option								
- other		*10,913*	*14,277*	*4,991*				
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives		**84,928**			**84,928**			
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other								
+ long positions								
+ short positions								
3.2 Without underlying security		84,928			84,928			
- Options								
+ long positions								
+ short positions								
- Other		84,928			84,928			
+ long positions		*84,928*						
+ short positions					*84,928*			
4. Off-balance sheet transactions								
+ long positions								
+ short positions								

1.2.3 Exchange rate risk

Qualitative information

A. General information, operational processes and methods for measuring exchange rate 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 including indexation clauses linked to changes in the exchange rate of a specific currency.

The Group's asset portfolio at December 31, 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. Specifically, the Group uses specific hedging instruments in order to mitigate exchange rate risk.
With regard to the acquisition of the Magellan Group, the exchange risk arising from the acquisition of the investment in Polish zloty is hedged by a loan contract secured with 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 currency effect, 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 (the so-called "Translation reserve"), which comes from the revaluation of the exchange rates applied to the equity of the Magellan Group.

B. Hedging of exchange rate risk

Exchange rate risk is hedged by instruments that are linear and without optional components, such as forex swaps. These offer the Group an adequate hedge of exchange rate risk on the loans in foreign currency granted to the subsidiaries that operate in currencies other than the euro.
The Group companies use the same instruments noted above to hedge the exchange rate risk, after checking with the Parent Company.

Quantitative information

The Group's asset portfolio is denominated in currencies other than the euro. Consequently, a method has been adopted to measure and manage this risk. The exchange rate risk is monitored by the Risk Management Function in accordance with European regulation guidelines (EU Regulation no. 575/2013, CRR).

1. Breakdown of assets, liabilities and derivative instruments by currency

(Amounts in € thousands)

Items	Currency					
	U.S. dollar	British pound	Japanese yen	Canadian dollar	Swiss franc	Other currency
A. Financial assets						**512,153**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						1
A.4 Loans to customers						512,152
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities						**512,746**
C.1 Due to banks						462,605
C.2 Due to customers						19,990
C.3 Debt securities						30,150
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions						
+ short positions						
Total assets						**512,153**
Total liabilities						**512,746**
Difference (+/-)						**(593)**

1.2.4 Derivative instruments

A. Financial derivatives

A.1 Regulatory trading portfolio: year-end notional amounts

(Amounts in € thousands)

Underlying assets / Types of derivatives	Total 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates			4,535	
a) Options				
b) Swaps			4,535	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and share indexes				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold	6,500		43,666	
a) Options				
b) Swaps	6,500		43,666	
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlying assets				
Total	**6,500**		**48,200**	

A.2 Banking portfolio: year-end notional amounts

A.2.1 Hedging derivatives

(Amounts in € thousands)

Underlying assets/ Types of derivatives	Total 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates	84,928		80,486	
a) Options				
b) Swaps	84,928		80,486	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and share indexes				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold			75,233	
a) Options				
b) Swaps			75,233	
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlying assets				
Total	**84,928**		**155,719**	

A.3 Financial derivatives: gross positive fair value – breakdown by product

(Amounts in € thousands)

Underlying assets/ Types of derivatives	Positive fair value			
	Total 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading portfolio			**244**	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other			244	
B. Banking portfolio - hedging derivatives	**322**		**529**	
a) Options				
b) Interest rate swaps	322		527	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other			2	
C. Banking portfolio - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**322**		**774**	

A.4 Financial derivatives: gross negative fair value – breakdown by product

(Amounts in € thousands)

Underlying assets / Types of derivatives	Negative fair value			
	Total 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing house	Over the counter	Clearing house
a. Regulatory trading portfolio	**535**		**7**	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other	535		7	
B. Banking portfolio - hedging derivatives			**176**	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other			176	
C. Banking portfolio - other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**535**		**183**	

A.5 OTC financial derivatives: regulatory trading portfolio: notional amounts, gross positive and negative fair values for counterparties - contracts not included in clearing arrangements

(Amounts in € thousands)

Contracts not included in clearing arrangements	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
1) Debt securities and interest rates							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
2) Equity securities and share indexes							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
3) Currencies and gold							
- notional amount			6,500				
- positive fair value							
- negative fair value			535				
- future exposure			65				
4) Other							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							

A.7 OTC financial derivatives: banking portfolio: notional amounts, gross positive and negative fair values for counterparties - contracts not included in clearing arrangements

(Amounts in € thousands)

Contracts not included in clearing arrangements	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other subjects
1) Debt securities and interest rates							
- notional amount			84,928				
- positive fair value			322				
- negative fair value							
- future exposure			425				
2) Equity securities and share indexes							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
3) Currencies and gold							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
4) Other							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							

A.9 Remaining life of OTC financial derivatives: notional amount

(Amounts in € thousands)

Underlying assets/Remaining life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading portfolio	**6,500**			**6,500**
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and equity indices				
A.3 Financial derivatives on exchange rates and gold	6,500			6,500
A.4 Financial derivatives on other instruments				
B. Banking portfolio		**84,928**		**84,928**
B.1 Financial derivatives on debt securities and interest rates		84,928		84,928
B.2 Financial derivatives on equity securities and equity indices				
B.3 Financial derivatives on exchange rates and gold				
B.4 Financial derivatives on other instruments				
Total 12/31/2017	**6,500**	**84,928**		**91,428**
Total 12/31/2016	**123,433**	**80,486**		**203,919**

1.3 Banking Group – liquidity risk

Qualitative information

A. General information, 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 new financial resources adequate, in terms of amount and cost, to meet 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.

As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the Group adopted a Group Risk Management Policy 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 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 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;
- consistency of liquidity risk management and monitoring processes 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 and NSFR of the Banking Group, at December 31, 2017, were equal to 287.2% and 116.7%, respectively.

Quantitative information

1. Time breakdown by residual contractual maturity of financial assets and liabilities

Currency: EURO *(in € thousands)*

Items/Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	unspe-cified maturity
Balance sheet assets	**707,471**	**14,631**	**41,960**	**46,268**	**315,835**	**424,876**	**430,892**	**1,429,027**	**337,416**	
A.1 Government securities			30,614		154,095	122,854	47,387	759,000	84,000	
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	707,471	14,631	11,346	46,268	161,739	302,021	383,505	670,027	253,416	
- banks	*14,641*	3,678								
- customers	*692,830*	*10,953*	*11,346*	*46,268*	*161,739*	*302,021*	*383,505*	*670,027*	*253,416*	
Balance sheet liabilities	**113,078**	**499,838**	**175,627**	**239,528**	**727,006**	**265,889**	**302,915**	**1,003,909**	**100,000**	
B.1 Deposits and current accounts	52,689	*12,019*	*13,859*	*50,123*	*362,434*	*208,608*	*264,838*	*311,658*		
- banks	*9,820*			*5,000*	*109,500*	*49,949*	*44,991*	*59,570*		
- customers	*42,869*	*12,019*	*13,859*	*45,123*	*252,934*	*158,659*	*219,847*	*252,088*		
B.2 Debt securities					10,505	7,292		550,000	100,000	
B.3 Other liabilities	60,389	487,818	161,768	189,405	354,068	49,990	38,077	142,251		
Off-balance sheet transactions	**3,391**									
C.1 Financial derivatives with exchange of capital										
- long positions										
- short positions										
C.2 Financial derivatives without exchange of capital										
- long positions										
- short positions										
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees provided	*3,391*									
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

In relation to non-recourse purchases, the due date is the last principal collection date.

Currency: OTHER *(in € thousands)*

Items/Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	unspe-cified maturity
Balance sheet assets	**82,871**	**1,751**	**304**	**1,799**	**17,586**	**19,365**	**53,954**	**137,076**	**217,131**	
A.1 Government securities										
A.2 Other debt securities	555									
A.3 Units in CIUs										
A.4 Loans	82,316	1,751	304	1,799	17,586	19,365	53,954	137,076	217,131	
- *banks*	*4,826*									
- *customers*	*77,489*	*1,751*	*304*	*1,799*	*17,586*	*19,365*	*53,954*	*137,076*	*217,131*	
Balance sheet liabilities	**27,877**		**17,661**	**19,990**	**17,856**	**66,472**	**124,104**	**229,988**		
B.1 Deposits and current accounts	9,942		17,661		17,856	58,002	90,248	182,084		
- *banks*	*9,942*		*17,661*		*17,856*	*58,002*	*90,248*	*182,084*		
- *customers*										
B.2 Debt securities						8,469	9,824	11,857		
B.3 Other liabilities	17,935			19,990			24,031	36,047		
Off-balance sheet transactions					**5,022**	**1,523**	**13**			
C.1 Financial derivatives with exchange of capital					**5,000**	**1,500**				
- *long positions*					*5,000*	*1,500*				
- *short positions*										
C.2 Financial derivatives without exchange of capital					22	23	13			
- *long positions*					*22*					
- *short positions*						*23*	*13*			
C.3 Deposits and loans to be received										
- *long positions*										
- *short positions*										
C.4 Irrevocable commitments to disburse funds										
- *long positions*										
- *short positions*										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- *long positions*										
- *short positions*										
C.8 Credit derivatives without exchange of capital										
- *long positions*										
- *short positions*										

1.4 Banking Group – operational risks

Qualitative information

A. General issues, operational processes and methods for measuring operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category also includes 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 failure in work processes, in organization, governance—human errors, computer software malfunctions, inadequate organization and control measures—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 designing, implementing and managing 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 process mapping, 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 consequent 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, in order to control the above mentioned risks, the Group adopts specific organizational models for the management of the risks regarding money laundering, occupational health and safety, and information security.

Starting from the year 2016, some new measures aimed at further enhancing the identification, measurement and management of the Group's operational risk were introduced; specifically:

- The implementation of Risk Self-Assessment, an annual forward-looking assessment of exposure to operational risk. This risk assessment is carried out by so-called "business experts". The identification of operational risk is carried out on the basis of corporate processes, taking into consideration the loss event type defined by the Supervisory Provisions.
- Quarterly loss data collection. The registration of operational losses has enabled subsequent assessment, measuring, monitoring and reporting activities.

Based on the aforementioned methodology, the capital requirement for operational risk was equal to €27,983 thousand at December 31, 2017.

SECTION 3 – RISKS OF THE OTHER COMPANIES

The consolidated financial statements include the aggregated balance sheet items of Banca Farmafactoring S.p.A., Farmafactoring España S.A., the special purpose vehicles Farmafactoring SPV I S.r.l. and BFF SPV I S.r.l., and the Magellan Group.

The SPVs were established for the securitization transactions structured by the Bank and were included in the scope of consolidation, pursuant to the requirements of IASs/IFRSs, providing for the obligation to consolidate a special purpose entity when - absent an investment relationship - the company that prepares the financial statements substantially controls the special purpose entity. These companies do not show further and relevant risk factors other than those mentioned in the preceding paragraphs.

Part F - Consolidated Equity

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation used solely for prudential supervisory reporting includes the Group companies and it envisages that BFF Luxembourg S.à r.l. is the parent.
For the purpose of preparing the other parts of the consolidated financial statements and for the submission of "non-harmonized" reporting, the Banking Group will continue to act as the reference party pursuant to the Consolidated Law on Banking.
As for this Part F, therefore, Section 1 reports the data of the Banking Group pursuant to 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 pursuant to the Consolidated Law on Banking includes the aggregated share capital, reserves, revaluation reserves and profit for the year of the companies in the Group.

B. Quantitative information

B.1 Consolidated equity: breakdown by type of company

(Amounts in € thousands)

Items of equity	Banking group	Insurance companies	Other companies	Consolidation derecognition and adjustments	Total
Share capital	130,983				**130,983**
Share premium					
Reserves	129,621				**129,621**
Equity instruments					
(Treasury shares)					
Revaluation reserves:					
- Available-for-sale financial assets	68				**68**
- Property, plant and equipment					
- Intangible assets					
- Hedges of foreign investments					
- Cash flow hedges	194				**194**
- Exchange differences	3,773				**3,773**
- Non-current assets held for sale					
- Actuarial gains/losses relating to defined benefit plans	(165)				**(165)**
- Portion of revaluation reserves from equity investments measured using the equity method					
- Special revaluation laws	3,823				**3,823**
Profit for the year attributable to the group and non-controlling interests	95,558				**95,558**
Equity	**363,856**				**363,856**

B.2 Revaluation reserves for available-for-sale financial assets: breakdown

(Amounts in € thousands)

Assets/Amounts	Banking group		Insurance companies		Other companies		Consolidation derecognition and adjustments		Total 12/31/2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	68								68	
2. Equity securities										
3. Units in CIUs										
4. Loans										
Total	**68**								**68**	
Total 12/31/2016	**471**								**471**	

Available-for-sale financial assets are recognized at fair value. At the end of the reporting period, the carrying amount of securities must be compared with their amortized cost and any difference is recognized in the revaluation reserves of the balance sheet. This measurement led to the recognition at December 31, 2017 of a positive reserve of €68 thousand relating to government securities recorded in the Bank's AFS portfolio.

B.3 Revaluation reserves for available-for-sale financial assets: year-over-year change

(Amounts in € thousands)

	Debt securities	Equity securities	Units in CIUs	Loans
1. Opening balance	**471**			
2. Positive change				
2.1 Increase in fair value	1,350			
2.2 Reclassification of negative reserves to income statement:				
- due to impairment				
- following disposal				
2.3 Other changes				
3. Negative change				
3.1 Decrease in fair value				
3.2 Impairment losses				
3.3 Reclassification of positive reserves to income statement:				
- following disposal	(1,753)			
3.4 Other changes				
4. Closing balance	**68**			

B.4 Revaluation reserves related to defined benefit plans: year-over-year change

IAS 19 no longer allows the deferral of actuarial gains and losses under the "corridor method", requiring instead their immediate recognition in comprehensive income for the year to which they are attributable.
The results of the actuarial valuation reflect the impact of the provisions of Law no. 296/2006 and the computation, for IAS 19 purposes, refers solely to accrued employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.
At December 31, 2017, this revaluation reserve is negative to the tune of €165 thousand.

Section 2 – Own funds and banking regulatory ratios

2.1 Scope of application of the regulation

Own funds are computed, starting from January 1, 2014, in accordance with Bank of Italy Circular no. 285 "*Supervisory 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, relating to the new harmonized regulations for banks and investment companies, included in the EU Capital Requirements Regulation (CRR) and in the EU Capital Requirements Directive (CRD IV) of June 26, 2013.

These regulations include the standards set forth by the Basel Committee for banking regulations (Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways with which the powers attributed by EU regulations to national authorities were exercised.

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation used solely for prudential supervision purposes envisages that BFF Luxembourg S.à r.l. is the parent.

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 reference parameter for the assessment of the Group's capital adequacy.
The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum mandatory capitalization in relation to the risks assumed.

The Group constantly assesses its capital structure by 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 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) capital, 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 reserve);
- undistributed portion of the profit for the year, if any;
- 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 central administrations classified in the "Available-for-sale" portfolio, the CRR requires banks to include such reserves in own funds.
On January 24, 2014, Banca Farmafactoring's 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, stating that banks have the option of "not including in any component of own funds unrealized gains or losses relating to exposures with government agencies 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 (effective as of January 1, 2018), the companies belonging to the Group will not include in own funds unrealized profit or loss relating to the above exposures.

Additional Tier 1 (AT1) and Tier 2 (T2) capital include exclusively the non-controlling interests which can be recognized in consolidated own funds, in accordance with the CRR, Part 2, Title II "Minority interests and additional Tier 1 and Tier 2 instruments issued by subsidiaries".
In relation to the determination of non-controlling interests in additional Tier 1 and in Tier 2 capital, account is taken, as reported in the Bank of Italy Circular no. 285, of the transitional 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, amounted to €352.2 million, net of dividends, compared to €235.3 million at December 31, 2016. The change in own funds was affected by the following main events:

- issue of Tier II bonds for a total face value of €100 million, and recognized to the tune of €98.2 million;
- allocation to consolidated Tier 1 capital of part of the profit for the period, to the tune of €11.8 million. The amount derives from the change in the estimate of late payment 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 (BFF) for €16.3 million and to Farmafactoring España

(FFE) 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 in March 2017 and €3.3 million due to the negative exchange effect on the revaluation of the loan payable in Polish zloty used for the acquisition of Magellan.

Considering the aforementioned allocation of €11.8 million to consolidated Tier 1 capital, the overall increase in CET1, compared to December 31, 2016, was equal to €18.5 million.

Own funds of the Banking Group, pursuant to the Consolidated Law on Banking, are presented below.

A. Quantitative information

(Amounts in € thousands)

	Total 12/31/2017	Total 12/31/2016
A. Common Equity Tier 1 - CET1 before the application of prudential filters	**280,003**	**261,139**
CET1 instruments subject to transitional provisions		
B CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	280,003	26,107
D. Items to be deducted from CET1	**(26,034)**	**(25,795)**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 - CET1 capital (C - D +/- E)	**253,969**	**235,345**
G. Additional Tier 1 - AT1 capital gross of items to be deducted and of the transitional period effects		
AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier1 - AT1 capital (G - H +/- I)		
M. Tier 2 - T2 capital gross of items to be deducted and of the transitional period effects	**98,224**	
T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions		
P. Total Tier 2 - T2 capital (M - N +/- O)	*98,224*	
Q. Total Own Funds (F + L + P)	**352,193**	**235,345**

Own funds of the CRR Group are presented below.

A. Quantitative information

(Amounts in € thousands)

	Total 12/31/2017	Total 12/31/2016
A. Common Equity Tier 1 - CET1 before the application of prudential filters	354,539	470,535
CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	354,539	470,535
D. Items to be deducted from CET1	(153,979)	(241,744)
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions	10,765	3,073
F. Total Common Equity Tier 1 - CET1 capital (C - D +/- E)	211,325	231,864
G. Additional Tier 1 - AT1 capital gross of items to be deducted and of the transitional period effects	16,051	2,047
AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions	(3,210)	(819)
L. Total Additional Tier 1 - AT1 capital (G - H +/- I)	12,841	1,228
M. Tier 2 - T2 capital gross of items to be deducted and of the transitional period effects	21,402	2,620
T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions	59,219	(1,048)
P. Total Tier 2 - T2 capital (M - N +/- O)	80,620	1,572
Q. Total Own Funds (F + L + P)	304,786	234,664

2.3 Capital adequacy

A. Qualitative information

Compliance with Group capital adequacy limits for the CET1 Capital Ratio, Tier 1 Capital Ratio, and Total Capital Ratio is constantly monitored by the relevant corporate bodies.
The CET1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to Risk-Weighted Assets.
The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to Risk-Weighted Assets.
The Total Capital Ratio is the ratio of Total Own Funds to Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular no. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", and subsequent amendments, the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).
The Group's total exposure to risks at December 31, 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 12.6%, the Tier 1 Capital Ratio is 12.6% and the Total Capital Ratio is 17.5%.
With regard to the CRR Group, the CET1 Capital Ratio is 10.4%, the Tier 1 Capital Ratio is 11% and the Total Capital Ratio is 15.0%.
Further to what has been previously disclosed in relation to Own funds, such ratios also take account of the following:

- 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. Exposures for receivables due from the Italian public administration, other than Government, regional and local agencies, which include those due from entities belonging to the National Healthcare System and from Local Healthcare Entities (ASL), have been assigned a 100% weighting since March 2017, compared to 50% adopted up to December 31, 2016.
  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;
- growth in outstanding volumes and, therefore, in receivables "Due to customers" compared to the previous year, which led to a subsequent increase in credit risk.

Considering the Total Capital Ratio, equal to 17.5% for the Banking Group pursuant to the Consolidated Law on Banking and 15% for the CRR Group, in line with the dividend policy approved by the Board of Directors of the Bank, which envisages a target Total Capital Ratio of 15% for the Banking Group, the distribution of the entire consolidated profit for the period exceeding the €11.8 million already allocated to the consolidated Tier I Capital of the Banking Group, was proposed for an amount of €83.7 million.
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.

Pillar I – Capital adequacy to meet the typical risks associated with financial operations

From the standpoint of operations, the absorption of risks is calculated using various methods:
- "Standardized approach" for the credit risk;
- "Standardized approach" for the counterparty risk;
- "Basic approach" for the operational risk;
- "Standardized approach" for the market risk.

Credit risk
This risk is described in Part E of this document.

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 failure of procedures, human resources and internal systems or as a result of external events. This category also includes 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 statement 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 held for sale in the short term, acquired 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 portfolio. The Group measures market risk using the "Standardized" method.

Pillar II –The ICAAP Report

The supervisory regulations require intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Supervisory 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 Report 2016", to the Bank of Italy, updating the risk management system aimed at determining capital adequacy.

B. Quantitative information

The following table provides the capital requirements, at the relevant reporting period, relative to the scope of consolidation of the Banking Group pursuant to the Consolidated Law on Banking.

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	4,453,457	4,736,264	1,667,828	1,037,483
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**133,426**	**82,998**
B.2 Credit valuation adjustment risk			24	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			27,983	29,775
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			**161,433**	**112,849**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,017,910	1,410,612
C.2 Common Equity Tier 1 Capital/ Risk-weighted assets (CET1 capital ratio) (%)			**12,6%**	**16,7%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**12,6%**	**16,7%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**17,5%**	**16,7%**

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.

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	4,521,157	4,767,310	1,681,377	1,043,698
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			134,510	83,496
B.2 Credit valuation adjustment risk			24	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			27,983	29,775
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			**162,517**	**113,347**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,031,459	1,416,833
C.2 Common Equity Tier 1 Capital/ Risk-weighted assets (CET1 capital ratio) (%)			**10,4%**	**16,4%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**11,0%**	**16,5%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**15,0%**	**16,6%**

Part G - Business Combinations

Section 1 – Transactions performed during the year

During the year, there were no transactions in relation to business combinations.

In May 2017, in accordance with the provisions of IFRS 3, the Purchase Price Allocation (PPA) process was completed, at the end of which the allocation of the purchase price entirely to goodwill was confirmed, as applied during the initial recognition of the acquisition of the Magellan Group and recorded in BFF's consolidated financial statements at December 31, 2016, since, following the aforementioned provisional PPA, no further assets were identified to which reasonably allocate the investment purchase price.
Pursuant to the provisions of IAS 36, at December 31, 2017 recognized goodwill was subject to impairment test to identify any impairment loss of the Cash Generating Unit (CGU). As a result of such test, the carrying amount of the equity investment in the Magellan Group was not impaired.

Part H - Related Party Transactions

Related parties, as defined by IAS 24, include:
- the parent company;
- subsidiaries;
- directors and executives with key management responsibilities and their close family.

The following table provides the income and balance sheet amounts arising from related party transactions performed by the Group at December 31, 2017, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statement item.

(Amounts in € thousands)

	Parent Company	Directors and Executives with key management responsibilities (1)	Total related parties	Financial statement item	% of financial statement item
Impact of transactions on the consolidated balance sheet					
Other assets					
At December 31, 2017	11		**11**	**9,796**	0.1%
Due to customers					
At December 31, 2017		(503)	**(503)**	**(2,495,987)**	0.0%
Provisions for risks and charges: a) pension and other post-employment benefits					
At December 31, 2017		(2,864)	**(2,864)**	**(5,445)**	52.6%
Other liabilities					
At December 31, 2017		(122)	**(122)**	**(49,683)**	0.2%
Reserves					
At December 31, 2017		(580)	**(580)**	**(129,621)**	0.4%
Impact of transactions on the consolidated income statement					
Interest and similar expenses					
At December 31, 2017		(9)	**(9)**	**(39,930)**	0.0%
Administrative expenses a) personnel costs					
At December 31, 2017		(2,622)	**(2,622)**	**(27,619)**	9.5%
Net allocations to provisions for risks and charges					
At December 31, 2017		-	**-**	**(831)**	0.0%
Other operating income (costs)					
At December 31, 2017	11		**11**	**3,849**	0.3%

Notes: (1) Including members of the Board of Directors.

Option rights relating to the stock option plan granted to directors and executives with strategic responsibilities amounted to 2,620,800 considering the first tranche only.

The number of Banca Farmafactoring's shares held by directors and executives with strategic responsibilities amounted to 9,662,361.

In order to optimize the Group's funding activities, the Parent Company has entered into intercompany loan contracts with subsidiaries, regulated at arm's length.
More specifically, the balances of the intercompany positions at December 31, 2017 are as follows:
- Farmafactoring España (through Banca Farmafactoring Sucursal en España) to the tune of €189 million;
- Magellan S.A. to the tune of €1.3 million;
- Magellan S.A. to the tune of PLN 501.8 million;
- Magellan Central Europe to the tune of €100 million.

Banca Farmafactoring and Farmafactoring España S.A. have entered into a license agreement. Such agreement allows the use, under license, of the software, organizational methods and communication lines of Banca Farmafactoring (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties which at December 31, 2017 amounted to about €704 thousand.
During 2016, Farmafactoring España purchased Italian healthcare receivables from the Parent for about €82 million. At the end of the reporting period, these receivables have already been collected for about €79.1 million (of which €67 million in 2016 and €12.1 million in 2017), with an outstanding balance of about €2.2 million.
Banca Farmafactoring and Magellan S.A. have entered into an intra-group service and cost-sharing agreement. Such agreement focuses on service provision and optimal cost sharing between the participating companies. The costs charged back to Magellan S.A. at December 31, 2017 amounted to approximately €834 thousand.

It should be noted that Banca Farmafactoring provides the following:
- administrative support services 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 for the subsidiary Farmafactoring España, for €6,400 per year;
- risk activities for the subsidiary Farmafactoring España, for €12,000 per year;
- administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year.

The Group has also entered into agreements with its shareholder companies in relation to factoring services and the management and collection of receivables at arm's length.
Lastly, it should be noted that the conditions of deposit accounts relating to Group directors and other related parties correspond to those recorded in the relevant prospectus at the time the deposit 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 Bank's Board of Directors approved, and subsequently updated on December 21, 2015, a "Report on proposed amendments to the bylaws", drawn up in accordance with Article 2, Section II, Chapter 1, Title III of Prudential Instructions for Banks. The Report was submitted—initially on December 23, 2015 and subsequently, as updated, 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 bylaws stem from the Bank's intention to grant, through a free share capital increase, an award—one-time and not linked to performance targets—of special shares to each of the Group employees 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, the Bank received the Bank of Italy's authorization, issued pursuant to Article 56 of the Consolidated Law on Banking, regarding the amendments to the bylaws contained in the Report.
Consequently, on May 18, 2016, the Shareholders' Meeting of the Bank resolved to approve:
(i) the Stock Grant Plan,
(ii) a free share capital increase, 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 use of the "Retained earnings" reserve, 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 bylaws necessary for implementing the Stock Grant Plan.

The free share capital increase was registered in the Milan Company Register on June 22, 2016, and 6 bonus special shares were issued (with May 31, 2016 as value date) to each employee of the Group with a permanent employment contract (including those with a part-time contract) having the following requisites:
(i) absence of disciplinary proceedings pending that may result in the end of the employment relationship, or, alternatively
(ii) absence of sentence at first instance in a legal proceeding connected with employment that may result in the end of the employment relationship or in any case connected with violations of the principles included in the Group's Code of Ethics.
The bonus award of the special shares was made by converting reserves to capital, with the same accounting value as the ordinary shares of the Bank.
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 Mercato Telematico Azionario began.

b) Stock Option Plan

On December 5, 2016, the Bank's extraordinary shareholders' meeting approved the stock option plan for employees and members of the corporate boards, which had been already submitted to 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 plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe one newly issued ordinary share of the Bank, or to purchase one ordinary share (cum dividend, without par value) included in the company portfolio when the option is exercised (taking into account the share split);
- *beneficiaries*: the identification of beneficiaries and the granting of options are decided by:
    - a) the Board of Directors, after consulting with the Remuneration Committee, with reference to executives and directors;
    - b) the Chief Executive Officer in the other cases;
- *plan management*: the Board of Directors fixed, 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.

In line with current regulations, the options granted under the stock option plan contribute to the determination of the variable remuneration paid through the use of financial instruments, and are subject to all the restrictions established 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.

The vesting conditions of the stock options included in the plan are as follows:

- the options awarded in each tranche will vest starting from the twelfth month following the award, subject to a series of conditions detailed in the plan:
    - (a) continuation of employment relationship with the Group and/or of the office held in the Board of Directors; and
    - b) levels of capital and liquidity resources suitable to cover the activities undertaken and compliance with other parameters, also of a regulatory nature;
- it should be noted that the plan is subject to malus and clawback conditions: 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.

During the first half of 2017, option rights to the stock option plan were awarded (first tranche), accounting for 3.75% of fully diluted capital, equal to 6,720,000 shares awarded. Outstanding options at December 31, 2017 amounted to 6,497,522.

Part L - Segment Reporting

At December 31, 2017, the Banca Farmafactoring Banking Group includes the Parent Banca Farmafactoring S.p.A. and the subsidiaries Farmafactoring España and the Magellan Group.

Banca Farmafactoring and its subsidiary Farmafactoring España S.A. are engaged in the management and sale of receivables due from the National Healthcare System and the public administration in Italy and in Spain.
Banca Farmafactoring also operates in Portugal pursuant to the regulations on the freedom to provide services.
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.
Customers are mainly multinational companies in the pharmaceutical and biomedical sectors which generate receivables from the provision of goods and services to the National Healthcare System or the public administration. Banca Farmafactoring is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table shows the composition, at December 31, 2017 and December 31, 2016, of managed turnover, receivables due from customers and receivables purchased, relating to Banca Farmafactoring and the subsidiary Farmafactoring España, broken down by debtor and geographical area. At December 31, 2017, receivables due from Banca Farmafactoring and Farmafactoring España customers amounted to €2,391 million, compared to €2,052 million at December 31, 2016, thus increasing by 17%.

(Amounts in € thousands)

	At December 31, 2017			At December 31, 2016		
	Managed turnover	Receivables due from customers	Receivables purchased	Managed turnover	Receivables due from customers	Receivables purchased
Italy	**5,466,822**	**2,055,665**	**2,871,315**	**5,476,782**	**1,862,032**	**2,606,116**
National Healthcare System	4,438,902	821,116	1929,759	4,472,986	860,253	1,726,125
Public administration agencies	910,008	1,127,306	887,483	893,701	896,974	826,393
Other	117,912	107,243	54,073	110,095	104,805	53,598
Spain	**419,431**	**213,330**	**419,431**	**351,266**	**154,677**	**345,554**
National Healthcare System	227,458	136,173	227,458	262,974	119,639	257,263
Public administration agencies	191,973	65,171	191,973	88,291	35,013	88,291
Other		11,986			25	
Portugal	**149,878**	**113,664**	**149,878**	**51,137**	**35,229**	**51,137**
National Healthcare System	149,676	113,436	149,676	51,137	35,229	51,137
Public administration agencies	202	194	202			
Other		34				
Greece	**13,920**	**8,569**	**13,920**			
National Healthcare System	11,560	6,501	11,560			
Public administration agencies	2,360	2,060	2,360			
Other		8				
Total	**6,050,051**	**2,391,228**	**3,454,544**	**5,879,185**	**2,051,938**	**3,002,807**

Magellan S.A. is an independent specialized operator, leader in the provision of financial services 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 is mainly conducted in three areas:
• financing the working capital of suppliers to the public administration;
• financing current and future receivables;
• financing investments in the public and healthcare sectors.

At December 31, 2017, the Magellan Group's receivables due from customers amounted to €627 million (at the exchange rate of December 31, 2017), up by 40% compared to €447 million at December 31, 2016. The Magellan Group's new business at the end of 2017 amounted to €546 million (based on the average exchange rate recorded in the year), up by 32% compared to €414 million at December 31, 2016.

The breakdown of receivables due from customers and Magellan's new business volumes by geographical region is presented below:

(Amounts in € millions)

	12/31/2017		12/31/2016	
	Due from customers	*New Business*	Due from customers	*New Business*
Poland	494	476	359	365
Slovakia	131	66	84	41
Czech Republic	2	4	4	8
Total	**627**	**546**	**447**	**414**

Other information

Audit fees to the independent auditors and other companies in their network.

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulation (Resolution no. 11971 of May 14, 1999, as subsequently supplemented and amended), shows the fees pertaining to the year 2017 for auditing services and other services provided by the independent auditors and other companies in their network. Such fees represent the costs incurred and recorded in the consolidated financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

(Amounts in € thousands)

	Banca Farmafactoring SpA				Group companies			
	PwC SpA		PwC Network		PwC SpA		PwC Network	
Type of services	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy
Audit fees	229			31				130
Certification services (*)	335							
Tax fees								7
Other services (**)	85		77					
Total	**649**		**77**					**137**

(*) Amounts referring to the comfort letters on accounting, tax and forecast data issued for the purposes of the report on prospectuses as part of the listing process and to the comfort letters issued for the purposes of bond loan issues.
(**) Amounts referring to the agreed verification procedures and to due diligence activities and methodological support.

03 CERTIFICATION BY THE FINANCIAL REPORTING OFFICER

Certification of the Consolidated Financial Report 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 of the administrative and accounting procedures employed to draw up the 2017 Consolidated Financial Statements.

2) The suitability and effective application of the administrative and accounting process employed to draw up the 2017 Consolidated Financial Statements 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 Financial Statement

a. was drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b. corresponds to the results of the accounting books and records;

c. is suitable for providing a true and fair view of the financial position of the issuer and all the companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the important events and their impact on the Consolidated Financial Statements, together with a description of the main risks and uncertainties to which they are exposed. The report on operations includes, moreover, a reliable analysis of the information concerning major transactions with related parties.

Milan, 22 February 2018

Massimiliano Belingheri	Carlo Zanni
Chief Executive Officer	Financial reporting officer

04 INDEPENDENT AUDITORS' REPORT

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Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banca Farmafactoring SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca Farmafactoring Group (the Group), which comprise the consolidated balance sheet as of 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banca Farmafactoring SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*

Recognition of late-payment interest on non-impaired non-recourse purchases of receivables

Notes to the consolidated financial statements:
Part A – Accounting policies, "Receivables" and "Revenue recognition criterion" sections;
Part B – Notes to the consolidated balance sheet, Asset, section 7;
Part C – Notes to the consolidated income statement, section 1.

In order to calculate the amortized cost of non-recourse receivables from customers, the Group also considered the estimate of late-payment interest accrued and deemed recoverable in accordance with the provisions of the Bank of Italy/Consob/Ivass Document no. 7 of 9 November 2016" regarding the "Treatment in the financial statements of late-payment interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables".

We focused our attention on this matter since, on the one hand, the amount of late-payment interest recognised but not yet collected is significant and, on the other hand, the parameters selected to estimate this revenue component implies the availability of statistically reliable historical series built on the basis of collection's flows and times observable at the measurement date.

Specifically, in order to select the key parameters for recognising the late-payment interest considered recoverable, Banca Farmafactoring made use of internal databases consisting of historical series about the recovery percentages and actual collection times in the last eight years.

In conducting the audit, we took into account the internal control relevant to the preparation of the financial statements, to design the appropriate audit procedures in the circumstances. In particular, as part of our analysis of this key audit matter, also supported by the PwC network experts, we carried out the following main activities:

- analysis of internal documentation regarding the recovery management of late-payment interest, including limits set for the transactions with debtors;
- analysis of the IT/management systems from which the historical data relating to the collection flows and times of the late-payment interest were extracted and check of the adequacy of the extracted data bases used in determining the parameters;
- examination of the processing of the extracted data bases, as well as controls performed, to verify that the adjustments to the extracted data are not arbitrary and are supported by evidence;
- critical analysis of the findings of the historical series used to determine the recovery percentages and collection times to be considered in the calculation of the amortized cost;
- verification of the algorithm for calculating the parameters used and of the calculation of the amortized cost.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Estimate of the recoverable amount of goodwill recognised in the consolidated financial statements related to the acquisition of Magellan SA	
Notes to the consolidated financial statements: *Part A – Accounting policies, "Intangible assets" section;* *Part B – Notes to the consolidated balance sheet, Asset, section 13;* *Part G – Business combinations.* At 31 December 2017, the Group recorded goodwill amounting to Euro 22.1 million, arising from the acquisition of the Magellan Group for a price of Euro 103.1 million, a transaction finalised on 31 May 2016. The purchase price allocation to identify, on a residual basis, this goodwill was concluded within the end of May 2017, in accordance with the IFRSs requirements. Regarding the value of goodwill recognised in the consolidated financial statements at 31 December 2017, the Group performed the impairment test at the reporting date, identifying Magellan SA as the only cash generating unit; on the basis of the results of the test, the Group has confirmed the value of the goodwill recorded. We focused our attention on this asset not only because of the materiality of the goodwill amount, but also because the impairment test of the value of such goodwill implies the use of financial assumptions which are, by their own nature, uncertain and subjective; in particular, these matters become more noteworthy considering that, through this acquisition, the Group completed the combination of entities carrying out different businesses, and with operations in a different reference regulatory framework.	As part of our audit activities, in order to address this key matter, we carried out the following main activities, also supported by the PwC network experts: • understanding and evaluating of the purchase price allocation method of the identified assets and liabilities, in accordance with the IFRSs requirements; • analysis of the procedure to determine the potential indicators of impairment of the goodwill recorded; • understanding and evaluating of the method applied in the impairment test, evaluation of the reasonableness of the assumptions used to determine the recoverable amount of goodwill, reperforming of the test and reasonableness analysis of the results; • verification of the completeness and adequacy of the disclosure provided in the notes, in accordance with the IFRSs requirements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Banca Farmafactoring SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 3 May 2012, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the statutory audit of the Company's separate financial statements for the years ending 31 December 2012 to 31 December 2020; after the registration of the banking group, on 20 February 2015, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the audit of the Group's consolidated financial statements for the years ending 31 December 2014 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Banca Farmafactoring SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Banca Farmafactoring Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Banca Farmafactoring Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Banca Farmafactoring Group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have nothing to report.

Milan, 14 March 2018

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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