



BANCA
FARMAFACTURING

BFF BANKING GROUP

2017 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

2017 FINANCIAL STATEMENTS AND REPORTS 33rd YEAR

Extract of notice of the ordinary shareholders' meeting of Banca Farmafactoring S.p.A. on April 5, 2018

The Ordinary Shareholders' Meeting of Banca Farmafactoring S.p.A. is hereby convened at the headquarters in Milan, Via Domenichino 5, in a **single call** on **April 5, 2018** at **11:00 am** to resolve upon the following

AGENDA

1. Financial Statements at December 31, 2017. Board of Directors', Board of Statutory Auditors' and Independent Auditors' Reports. Related and consequent resolutions. Presentation of the consolidated financial statements of the Banca Farmafactoring Banking Group at December 31, 2017.
2. Allocation of the profit for the year. Related and consequent resolutions.
3. Authorization for the purchase and disposal of own shares. Related and consequent resolutions.
4. Remuneration and incentive policies:
 - 4.1. Annual remuneration report; resolutions regarding the first section pursuant to Article 123-ter, Paragraph 6, of Legislative Decree no. 58/1998.
 - 4.2. Confirmation of the ratio between variable and fixed remuneration, at a maximum of 2:1, established by resolution of the Shareholders' Meeting of December 5, 2016. Related and consequent resolutions.
 - 4.3. Policies for the determination of remuneration in the event of early termination of office or employment, including the limits set for such remuneration. Related and consequent resolutions.
5. Appointment of the Board of Directors. Related and consequent resolutions.
 - 5.1. Determination of the number of members of the Board of Directors.
 - 5.2. Determination of the term of office for the Board of Directors.
 - 5.3. Appointment of the members of the Board of Directors.
 - 5.4. Appointment of the Chairman of the Board of Directors.
 - 5.5. Determination of fees for the members of the Board of Directors.
6. Appointment of the Board of Statutory Auditors. Related and consequent resolutions.
 - 6.1. Appointment of the members of the Board of Statutory Auditors.
 - 6.2. Appointment of the Chairman of the Board of Statutory Auditors.
 - 6.3. Determination of fees for the standing members of the Board of Statutory Auditors.
7. Increase of the fees for the Independent Auditors for the statutory audit of the accounts. Related and consequent resolutions.

Information regarding:

- i) share capital;
- ii) entitlement to attend and vote at the Shareholders' Meeting (record date **March 23, 2018**);
- iii) exercise of proxy voting, also via the Shareholders' representative (Computershare S.p.A.) designated by Banca Farmafactoring S.p.A.;
- iv) additions to the agenda and new proposals for resolutions on matters already on the agenda of the Shareholders' Meeting (by **March 5, 2018**);
- v) the right to submit questions on matters on the agenda prior to the Shareholders' Meeting (by **April 2, 2018**);
- vi) the appointment of the Board of Directors;
- vii) the appointment of the Board of Statutory Auditors, and
- viii) the availability of meeting documentation, including reports and proposed resolutions on items

on the agenda, is provided in the notice, the complete version of which – together with the meeting documentation – is published on the website of Banca Farmafactoring S.p.A. (www.bffgroup.com, under the section “*Investor Relations/ Meeting Documentation*”), to which reference is made.

With regard to the appointment of the Board of Directors and the Board of Statutory Auditors, please note that the lists: (a) may be submitted by Shareholders who, individually or jointly with other Shareholders, own at least 1% of the share capital of Banca Farmafactoring S.p.A.; (b) must be filed at the company headquarters by **March 11, 2018**.

Milan, February 24, 2018

On behalf of the Board of Directors
THE CHAIRMAN
(Salvatore Messina)



*This extract is published in the newspaper IL SOLE 24ORE and made available, on the same date, on the website of Banca Farmafactoring S.p.A. (www.bffgroup.com, under the section “*Investor Relations/ Meeting Documentation*”), at Borsa Italiana S.p.A. and on the authorized storage mechanism 1info, managed by Computershare S.p.A. (www.1info.it).*

Persons entitled to attend and vote at the Shareholders' Meeting are kindly requested to arrive well in advance, with evidence of the notice required from the reference intermediary pursuant to Article 83-sexies of the Italian Consolidated Law on Finance, as well as valid ID, such as to facilitate admission procedures and allow the timely start of the meeting.

Contents

01	REPORT ON OPERATIONS	
	The International Economic Scenario	13
	The Italian Economy in 2017 and Comments on the Economies of the Countries in which the Bank Operates	14
	The National Debt Stock, Public Expenditure on Goods and Services in Italy, and Comments on the Countries in which the Bank Operates	16
	The Factoring Market in Italy	20
	Developments in the Bank's activities	20
	Performance	24
	Significant Events during the Period	26
	Deposit Guarantee Scheme	30
	Resolution Fund	31
	Internal Control	32
	Systems Development	35
	Change in Staff Headcount	35
	Share Performance	36
	Main Balance Sheet Items	37
	Main Income Statement Items	43
	Objectives and Policies on the Assumption, Management and Hedging of Risks	46
	Other Information Required by Article 2428 of the Italian Civil Code	49
	Business outlook	51
	Proposal for the Appropriation of Banca Farmafactoring's Profit	51
02	FINANCIAL STATEMENTS AT DECEMBER 31, 2017	
	Balance Sheet	54
	Income Statement	56
	Statement of Comprehensive Income	57
	Statement of Changes in Equity	58
	Statement of Cash Flows	60
	Notes to the Financial Statements	62
	Part A - Accounting Policies	62
	Part B - Balance Sheet	89
	Part C - Income Statement	128
	Part D - Comprehensive Income	145
	Part E - Risks and Related Risk Management Policies	146
	Part F - Equity	189
	Part G - Business Combinations	198
	Part H - Related Party Transactions	199
	Part I - Share-based Payments	201
03	CERTIFICATION BY THE FINANCIAL REPORTING OFFICER	205
04	BOARD OF STATUTORY AUDITORS' REPORT	209
05	INDEPENDENT AUDITORS' REPORT	235
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Board of Directors

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

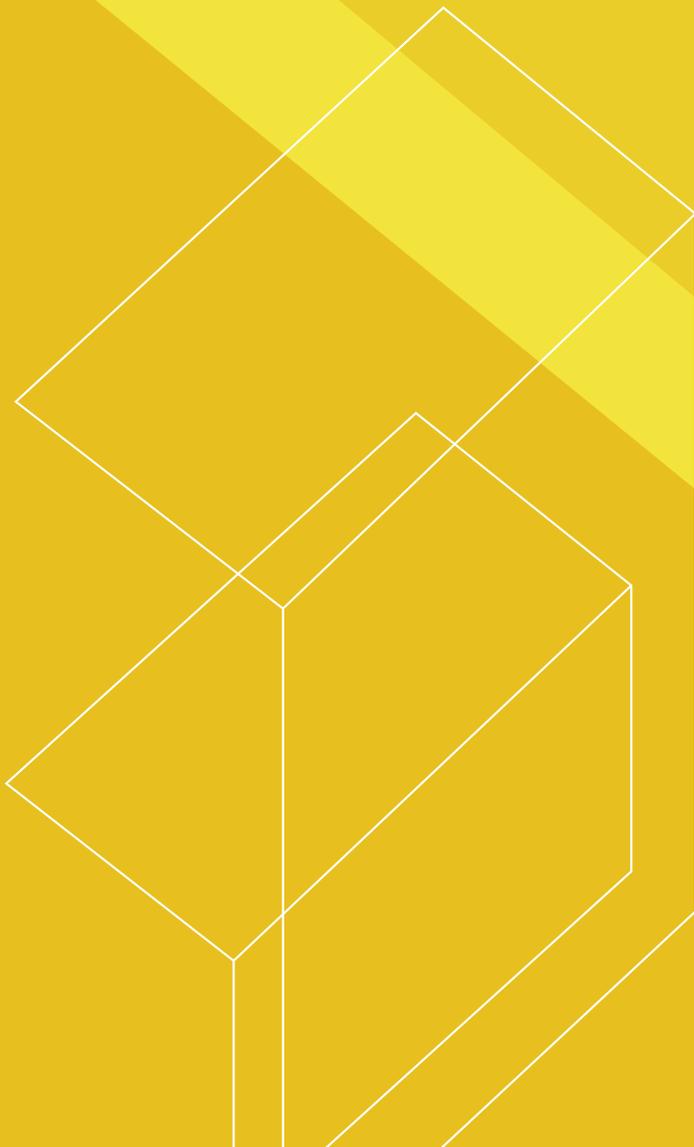
Board of Directors

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 Zambelletti Rossi	Director		✓	✓	✓

01

REPORT ON OPERATIONS



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 Bank 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 consumer 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.

The National Debt Stock, Public Expenditure on Goods and Services in Italy, and Comments on the Countries in which the Bank 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 Sep-

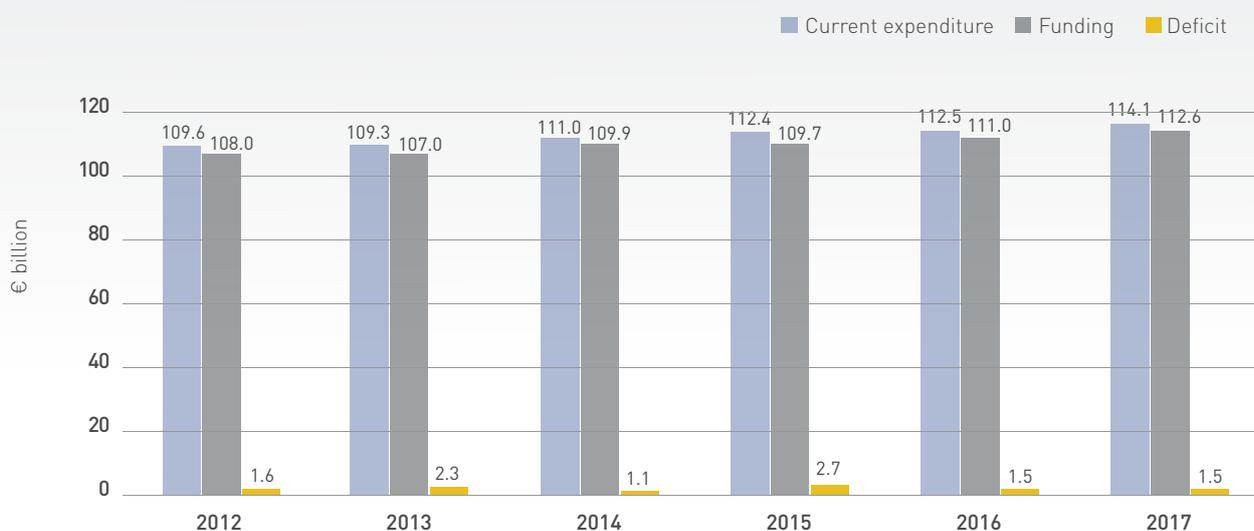
tember. The increase was mainly due to the requirements of the public administration agencies, totaling €4.9 billion.

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.

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 Bank's activities

At December 31, 2017, the Bank's net profit amounted to €79.5 million, up approximately 13% compared to €70.3 million at December 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".

The normalized profit of the Bank (representing the 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) amounted to €69 million.

As far as 2016 is concerned, excluding non-recurring expenses of €8.7 million (net of taxes) and FFE's extraordinary dividend of €7.7 million (net of taxes), the Bank's normalized profit would amount to €71.3 million.

Compared to net profit, the normalized profit does not include:

- non-recurring expenses of €2.6 million due to listing, of which €1.7 million referring to costs and €0.9 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, net of taxes, for a total of €16.5 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. With regard to 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.

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.

Taking account of the above-mentioned effects, 2017 normalized profit would amount to €76.3 million, up 7% on the previous years' €71.3 million.

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.

(Amounts in € millions, unless otherwise indicated)

	12/31/2017	12/31/2016
Non-performing loans (NPLs)	16,009	7,194
Non-performing loans purchased performing	13,185	6,702
Non-performing loans purchased already impaired	2,824	492
Unlikely to pay exposures		
Past due exposures	63,100	45,429
Total	79,110	52,622

NPLs include €14,975 thousand relating to municipalities in financial distress, €2,824 of which were purchased already impaired. Past due exposures amounted to €63,100 thousand. Among these past due exposures, €61,100 thousand (96.8%) concerned public administration agencies and Italian public sector companies.

During the reporting period, Banca Farmafactoring has continued to work for the expansion, diversification and optimization of the deposit-taking structure, in order to make it increasingly more flexible and consistent with business development trends, also thanks to its solid capitalization and stable available resources.

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 bonds, 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.

At December 31, 2017, the Bank’s equity was equal to €332.9 million, increasing compared to €323.4 million recorded in the previous year, mainly attributable to the higher statutory profit for 2017.

The following table shows the Bank’s own funds, amounting to €322 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.

(Amounts in € millions, unless otherwise indicated)

	12/31/2017	12/31/2016
Own funds	322	225
CET1 Capital Ratio	10.6%	15.7%
Tier 1 Capital Ratio	10.6%	15.7%
Total Capital Ratio	15.3%	15.7%

The change in the Bank'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 by the Bank of all the Banking Group's dividends for an overall amount of €83.7 million. Therefore, the Bank's profit of €79.5 million will be entirely distributed to Shareholders. Furthermore, an amount of €4.2 million, to be withdrawn from the Retained earnings reserve, will be allocated to Shareholders.

In the event that the entire profit for the period is allocated to increase own funds, the Bank's CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio would be 18.5%.

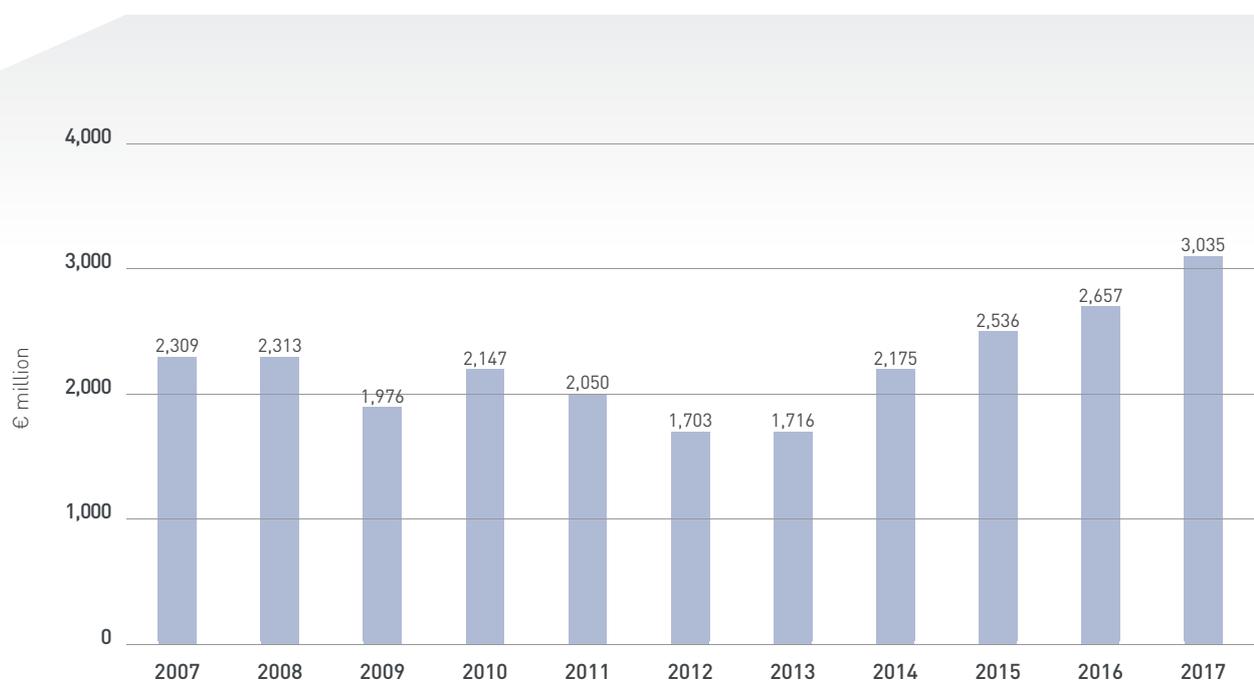
A description of the performance of the main indicators of the Bank's business as well as of the key balance sheet and income statement figures is provided below.

Performance

At December 31, 2017, Banca Farmafactoring's net profit amounted to €79.5 million, up 13%.

The following chart shows the total volumes, which amounted to €3,035 million, up 14% compared to €2,657 million in 2016. Figures include volumes relating to Portugal and Greece (where operations started in September 2017).

Total purchases



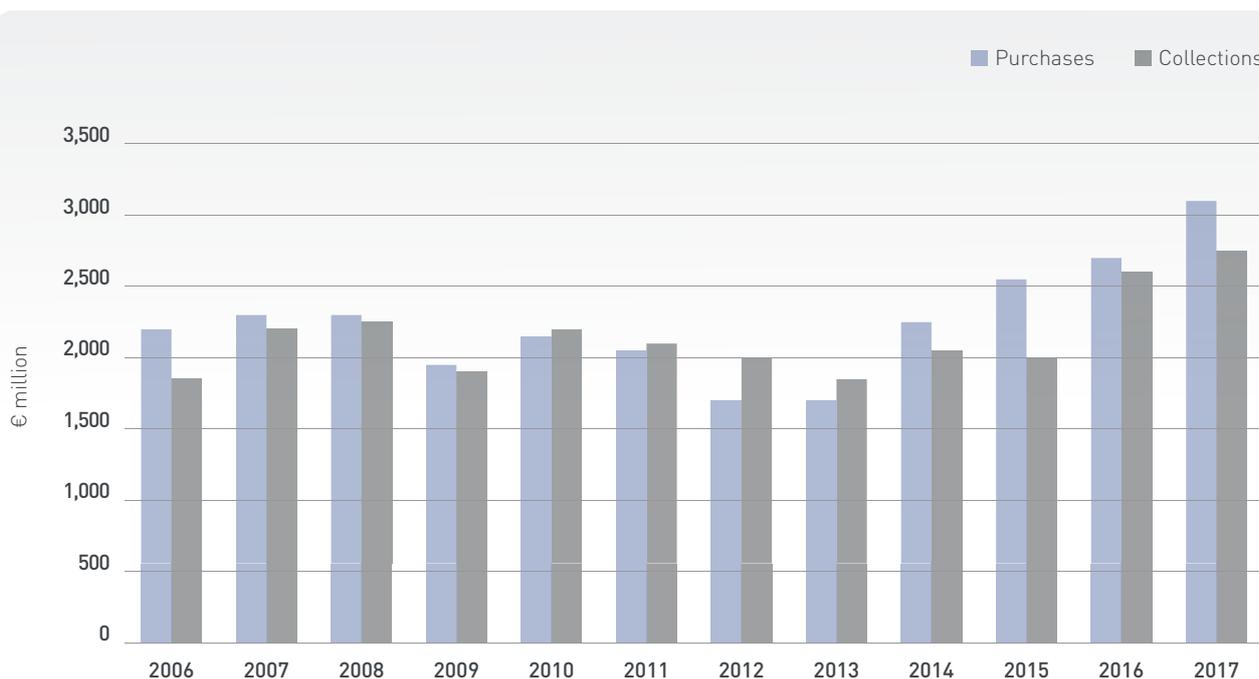
Total non-recourse purchases in Italy amounted to €2,871 million, up from €2,606 million at December 31, 2016.

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 amounted to €14 million.

The positive trend of non-recourse purchases (from €2,657 million in 2016 to €3,035 million at December 31, 2017) is shown below with the related collections.

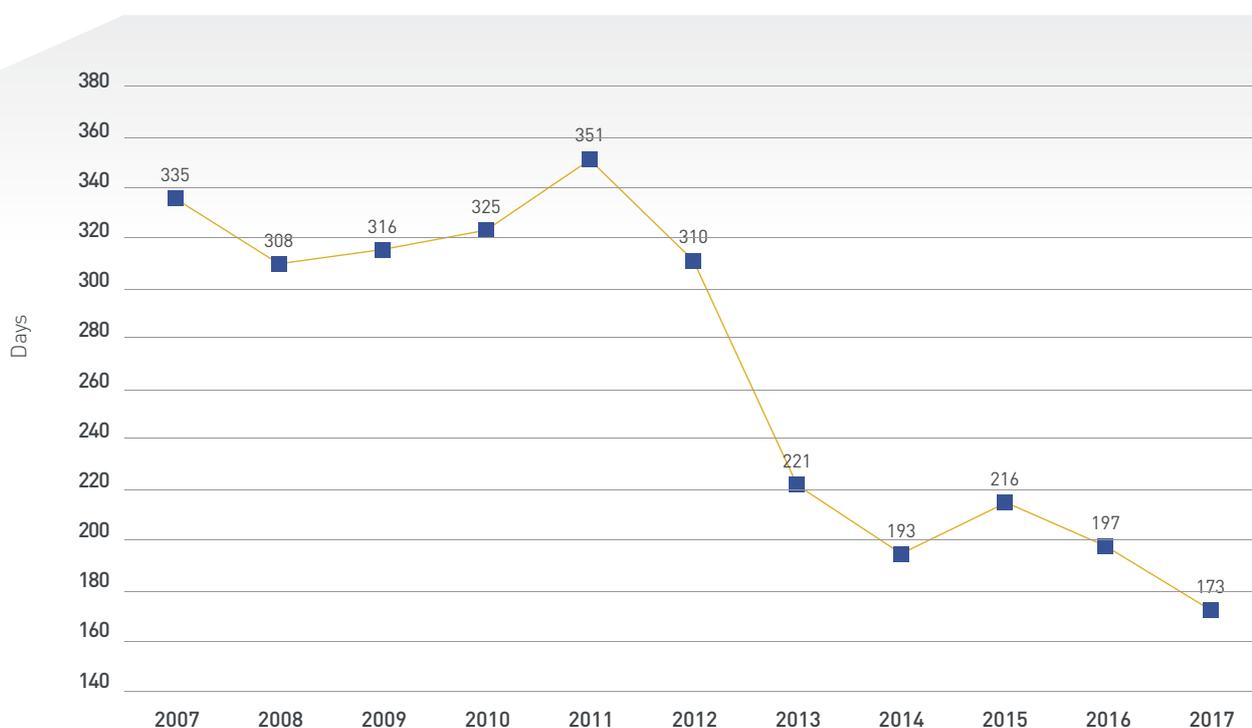
Non-recourse receivables: purchases and collections



Also considering, for Italy, management activities besides non-recourse purchases, volumes amounted to €5,631 million, in line with €5,528 million in 2016.

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



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 end of the placement process, 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 of the existing shares 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. Furthermore, the Joint Global Coordinators did not exercise the greenshoe option and, therefore, the Purchase Offer referred to 53,000,000 ordinary shares, equal to approximately 31.2% of share capital.

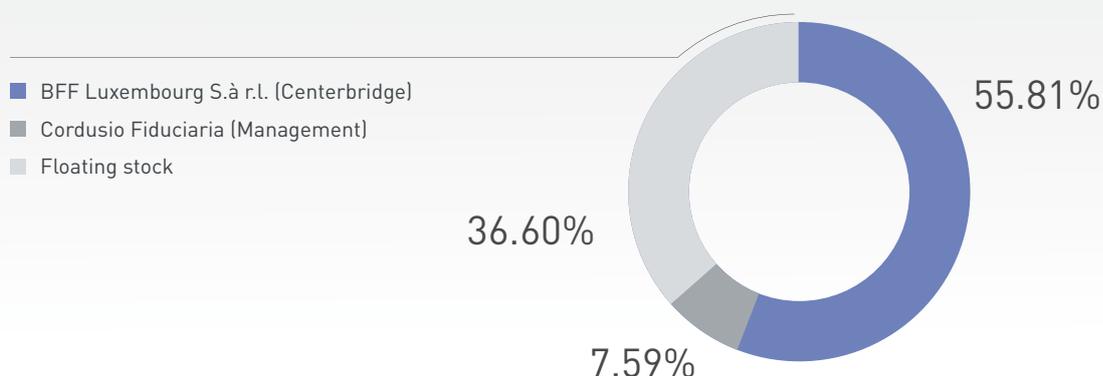
On December 5, 2016, the Bank's Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, which has already been submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular no. 285. During the first half of 2017, the option rights relating to this 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.

Structure at December 31, 2017



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 finalized 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 fourth market currently managed by the Bank, in addition to the Italian, 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 carried out by a bank on the European market.

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 through 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 and hospitals, 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*) 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 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 b) of the income statement “Net adjustments/reversals of impairment of 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, which 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 the 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, 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 of 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, through 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 the 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/offenses provided for by Legislative Decree no. 231/2001, 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 also 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.

Systems Development

In 2017, investments were made in the Information & Communication Technologies sector. These investments were directed to applications software, 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).

Change in Staff Headcount

In order to support the development plans of the Bank and best meet the needs of the period, the number of staff has been steadily increased over the years.

At December 31, 2017, the Bank's total number of employees is 201 in Italy and 9 in Spain at the branch based in Madrid.

Specifically, the Bank added 23 people in 2017, reaching a total of 210 resources, of whom 9 are at the BFF branch in Madrid (including the Italian staff seconded).

The following table shows the composition of the Bank's staff broken down by the countries in which it operates.

Category	2016			2017		
	Italy	Spain	Total	Italy	Spain	Total
Senior Executives/Executives	14		14	15		15
Managers / Middle Managers / Professionals	62	5	67	66	3	69
Specialists	117	4	121	120	6	126
Total by country	193	9		201	9	
Group total for the year	202			210		

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 the Bank 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 the AFS government securities amounted to approximately €68 thousand, net of taxes.

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 €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	16,195	136,684	(120,489)
Due from customers	2,587,721	2,197,704	390,017
Total	2,603,916	2,334,388	269,528

“Due from banks” mainly consists of current account balances of the Group companies at the end of the year.

Restricted deposits mainly include €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	2,049,047	1,766,223	282,824
Receivables purchased below face value	51,166	51,826	(660)
Receivables due from the Parent Company	412,841	314,586	98,256
Other receivables due from customers	64,833	55,078	9,755
Total	2,587,721	2,197,704	390,016

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.

With regard to the Bank’s 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.

Therefore, starting from January 1, 2017, the Bank's collection percentage of late payment interest to be included in amortized cost changed from 40% to 45%, keeping the average collection times unchanged and estimated at 1,800 days.

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 1,800 days for collection times.

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 €16,009 thousand, thus increasing compared to 2016, mainly due to non-recourse receivables purchased from local entities. The ratio of net NPLs to receivables due from customers was 0.62%, up compared to 2016 (0.33%). Net NPLs concerning municipalities and provinces in financial distress amounted to €14,975 thousand (93.5% 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 amounted to € 3 million.

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, which, at December 31, 2017, amounted to 79.1 million, shall be classified as follows:

- Non-performing loans (for a net value of €16.0 million);
- Unlikely-to-pay exposures (for a net value of €0.0 million);
- Impaired past due exposures (for a net value of €63.1 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 Bank’s total non-performing loans, net of impairment, amounted to €16.0 million, of which €2.8 million purchased already impaired. Among these non-performing loans, €15 million (93.5% of the total) concerned municipalities in financial distress.

Gross non-performing loans amounted to €19.5 million and were adjusted to the tune of €3.5 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 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, gross exposures classified as unlikely to pay totaled €0.4 million, fully adjusted.

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, since there are no objective indications of individual impairment.

At December 31, 2017, total net past due exposures amounted to €63.1 million, of which 96.8% referring to the Italian public administration and public sector companies.

The Bank’s gross exposures totaled €63.2 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	78,916	(2,630)	76,286	54,126	(1,995)	52,130
Impaired exposures purchased impaired	4,196	(1,373)	2,824	971	(479)	492
Performing exposures	2,511,627	(3,016)	2,508,611	2,148,553	(3,471)	2,145,082
Total	2,594,739	(7,019)	2,587,721	2,203,649	(5,945)	2,197,704

Property, plant and equipment and intangible assets

(Amounts in € thousands)

Items	12/31/2017	Net increase	Net decrease	12/31/2016	% of total
Buildings	7,145	0	(325)	6,820	57.44%
Land	3,685	0	0	3,685	31.04%
Plant	190	46	(80)	156	1.31%
Furniture and fixtures	174	24	(45)	154	1.29%
Electronic machines	810	790	(662)	938	7.90%
Other property, plant and equipment	149	1	(29)	121	1.02%
Total	12,152	862	(1,142)	11,873	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 €3.4 million; they mainly refer 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	28,409	24,488	3,921
<i>current</i>	24,680	20,749	3,931
<i>deferred</i>	3,729	3,739	(10)
Tax liabilities	80,866	71,212	9,654
<i>current</i>	24,459	22,307	2,152
<i>deferred</i>	56,407	48,905	7,502

Current tax assets totaled €24,680 thousand; they mainly include advance payments for IRES and IRAP taxes made by the Bank.

Current tax liabilities amounted to €24,459 thousand; they include the accrual of income taxes for the year.

Deferred tax liabilities amounted to €56,407 thousand; they mainly include the taxes calculated on the Bank'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	460,387	603,346	(142,959)
Due to customers	2,499,059	3,007,683	(508,624)
<i>Of which due to financial institutions</i>	280,460	313,747	(33,287)
Total	2,959,446	3,611,029	(651,583)

"Due to banks" mainly refers to loans granted by the banking system at current market rates.

The item also includes the loan agreement for the acquisition of Magellan S.A. entered into with the Unicredit Group. The loan was granted for an approximate total amount of PLN 355 million, about 80% of the value of the public tender offer (equal to €85 million at December 31, 2017).

"Due to financial institutions" mainly includes:

- €142.2 million arising from the cooperation agreement entered into with International Factor Italia S.p.A. - IFITALIA;
- €80.1 million due to the SPV I vehicle in relation to the securitization transaction with Deutsche Bank and BFF SPV;
- €58 million arising from the cooperation agreement entered into with Unicredit Factoring S.p.A..

"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 €652 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.

On June 12, 2017, the first BFF Group bonds, issued for €300 million, were repaid on maturity by the Bank.

Provisions for risks and charges

At December 31, 2017, "Provisions for risks and charges" totaled €5,146 thousand. They mostly include allocations to "Pension and other post-employment benefits" of €4,219 thousand.

(Amounts in € thousands)

Items	12/31/2016	Increase	Decrease	12/31/2017
Employee benefits	6,156	238	(2,175)	4,219
Total	6,156	238	(2,175)	4,219

"Pension and other post-employment benefits" are measured pursuant to IAS 19 based on an actuarial valuation.

Main 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.

At December 31, 2017, the Bank's profit amounted to €79.5 million, compared to €70.3 million recognized in the previous year.

Net banking income*(Amounts in € thousands)*

Items	12/31/2017	12/31/2016	Change
Maturity commissions and late payment interest on non-recourse receivables	173,864	147,151	26,713
Interest income on securities	4,248	3,994	254
Other interest	11,795	7,462	4,332
Interest income	189,907	158,608	31,299
Interest expense	(31,406)	(24,793)	(6,613)
Net fees and commissions	6,559	4,882	1,677
Dividends and similar income	-	8,022	(8,022)
Gains (losses) on trading	(4,804)	489	(5,293)
Gain (losses) on hedge accounting	32	(1)	33
Gains (losses) on sale of AFS financial securities	1,759	706	1,053
Net banking income	162,047	147,912	14,135

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 totaled €173,864 thousand in 2017, compared to €147,151 thousand in 2016. This amount includes a one-off positive effect, net of taxes, of €16.5 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 1,800 days. With regard to the Bank’s 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 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 1,800 days for collection times.

Collections of late payment interest totaled €103.7 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 the Bank, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €490 million, including approximately €21 million due from Portuguese debtors and €1 million due from Greek debtors. Of this interest, a total of €167 million was recorded in the income statement in current and prior years.

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.

Other interest mainly includes interest income arising from intercompany loans granted to the subsidiaries Farmafactoring España and the Magellan Group for an overall amount of €9.2 million.

Interest expense increased from €24.8 million at December 31, 2016 to €31.4 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, equal to €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 €1.7 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	7,994	(281)
Fee and commission expenses	(1,153)	(3,112)	1,959
Net fees and commissions	6,559	4,882	1,678

Losses on trading amounted to €4.8 million; they mainly 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.

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).

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	22,154	20,402	1.753
Other administrative expenses	28,547	34,092	(5.545)
Total administrative expenses	50,701	54,493	(3.792)

The decrease in other administrative expenses is mainly due to the lower non-recurring expenses relating to the acquisition of the Magellan Group, recognized in 2016 only.

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

Going concern

In accordance with IAS 1, paragraph 24, the Bank 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 Bank 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	158.5	133.8
Net banking income	162.0	147.9
EBTDA	115.9	97.2
Profit for the year	79.5	70.3
ROE (Return On Equity) (%)	31.4%	27.8%
Net banking income / Non-recourse volumes (%)	5.3%	5.6%
Net interest margin / Interest and similar income (%)	83.5%	84.4%
Non-performing loans (net of impairment) / Due from customers (%)	0.62%	0.33%
Own funds / Due from customers (%) (1)	20.36%	23.12%
Financial leverage	16.1	17.8
Equity	332.9	323.4
Own funds	321.8	225.0

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 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.

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 Bank’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.

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, during the reporting period.

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.

Business outlook

According to the approved planning guidelines, Banca Farmafactoring 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 management and 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.

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

FINANCIAL STATEMENTS AT DECEMBER 31, 2017



Balance Sheet

(Amounts in euros)

Assets	12/31/2017	12/31/2016
10. Cash and cash equivalents	80,928,000	145,477
20. Financial assets held for trading	0	110,869
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	16,194,697	136,684,930
70. Due from customers	2,587,720,536	2,197,704,207
80. Hedging derivatives	321,839	529,027
100. Equity investments	115,487,012	115,487,012
110. Property, plant and equipment	11,872,992	12,152,236
120. Intangible assets <i>of which</i> <i>- goodwill</i>	3,439,560	3,313,889
130. Tax assets	28,408,962	24,487,905
a) current	24,679,709	20,749,196
b) deferred	3,729,253	3,738,709
<i>of which for purpose of Law 214/2011</i>	685,606	748,650
150. Other assets	7,678,847	4,367,201
TOTAL ASSETS	4,074,111,265	4,509,582,487

(Amounts in euros)

Liabilities and Equity	12/31/2017	12/31/2016
10. Due to banks	460,386,581	603,346,026
20. Due to customers	2,499,059,328	3,007,682,965
30. Debt securities issued	652,037,179	453,338,615
40. Financial liabilities held for trading	0	6,568
60. Hedging derivatives	0	176,037
80. Tax liabilities	80,866,182	71,212,011
<i>a) current</i>	<i>24,459,003</i>	<i>22,306,933</i>
<i>b) deferred</i>	<i>56,407,179</i>	<i>48,905,078</i>
100. Other liabilities	42,889,583	42,993,236
110. Employee severance benefits	848,138	867,129
120. Provisions for risks and charges	5,146,149	6,527,722
<i>a) pension and other post-employment benefits</i>	<i>4,218,868</i>	<i>6,156,254</i>
<i>b) other provisions</i>	<i>927,281</i>	<i>371,468</i>
130. Revaluation reserves	3,920,581	4,494,859
160. Reserves	118,497,150	117,640,902
180. Share capital	130,982,698	130,982,698
200. Profit (loss) for the year	79,477,696	70,313,719
TOTAL LIABILITIES AND EQUITY	4,074,111,265	4,509,582,487

Income Statement

(Amounts in euros)

Items	12/31/2017	12/31/2016
10. Interest and similar income	189,906,947	158,607,797
20. Interest and similar expenses	(31,406,338)	(24,792,800)
30. Net interest margin	158,500,609	133,814,997
40. Fee and commission income	7,712,597	7,993,877
50. Fee and commission expenses	(1,153,468)	(3,112,321)
60. Net fees and commissions	6,559,129	4,881,556
70. Dividends and similar income	0	8,021,500
80. Gains (losses) on trading	(4,804,040)	489,376
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	162,046,934	147,911,981
130. Net adjustments to/reversals of impairment of: a) receivables b) available-for-sale financial assets	(1,156,177) (701,869)	(576,818) (63,885)
140. Net profit from financial activities	160,188,888	147,271,278
150. Administrative expenses: a) personnel costs b) other administrative expenses	(22,154,182) (28,546,994)	(20,401,546) (34,091,615)
160. Net allocations to provisions for risks and charges	(824,628)	(2,047,036)
170. Net adjustments to/reversals of impairment of property, plant and equipment	(1,142,327)	(1,097,311)
180. Net adjustments to/reversals of impairment of intangible assets	(1,630,569)	(1,318,370)
190. Other operating income (expenses)	5,358,688	5,845,011
200. Operating costs	(48,940,012)	(53,110,867)
250. Profit (loss) before tax from continuing operations	111,248,876	94,160,411
260. Income taxes on profit (loss) from continuing operations	(31,771,180)	(23,846,692)
270. Profit (loss) after tax from continuing operations	79,477,696	70,313,719
290. Profit (loss) for the year	79,477,696	70,313,719
Basic earnings per share (*)	0,47	0,41
Diluted earnings per share (*)	0,47	0,41

*) 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 41.33.

Statement of Comprehensive Income

(Amounts in euros)

Items	12/31/2017	12/31/2016
10. Profit (loss) for the year	79,477,696	70,313,719
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		
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	(574,278)	311,286
140. Comprehensive income (Items 10+130)	78,903,418	70,625,005

Statement of Changes in Equity

(Amounts in euros)

At 12/31/2017

	Balance at 12/31/2016	Change in opening balance	Balance at 01/01/2017	Retained earnings (Accumulated losses)		Change during the year							Equity at 12/31/2017	
				Reserves	Dividends and other allocations	Change in reserves	Equity transactions					Comprehensive income for the year 2016		
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares			Stock options
Share capital:														
a) ordinary shares	130,900,000		130,900,000				82,698							
b) other shares	82,698		82,698				(82,698)							
Share premium														
Reserves														
a) from profits	117,640,902		117,640,902	16,540		(1,828,359)								115,829,083
b) other											2,668,067			2,668,067
Revaluation reserves	4,494,859		4,494,859									(574,278)		3,920,581
Equity instruments														
Treasury shares														
Profit (loss) for the year	70,313,719		70,313,719	(16,540)	(70,297,179)								79,477,696	79,477,696
Equity	323,432,178		323,432,178		(70,297,179)	(1,828,359)					2,668,067	78,903,418	332,878,125	

(Amounts in euros)

At 12/31/2016

	Balance at 12/31/2015	Change in opening balance	Balance at 01/01/2016	Retained earnings (Accumulated losses)		Change during the year							Comprehensive income for the year 2016	Equity at 12/31/2016
				Reserves	Dividends and other allocations	Change in reserves	Equity transactions							
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options		
Share capital:														
<i>a) ordinary shares</i>	130,900,000		130,900,000											130,900,000
<i>b) other shares</i>							82,698							82,698
Share premium														
Reserves														
<i>a) from profits</i>	126,829,143		126,829,143			(9,188,241)								117,640,902
<i>b) other</i>														
Revaluation reserves	4,183,573		4,183,573									311,286		4,494,859
Equity instruments														
Treasury shares														
Profit (loss) for the year	59,659,457		59,659,457		(59,659,457)							70,313,719		70,313,719
Equity	321,572,173		321,572,173		(59,659,457)	(9,188,241)	82,698					70,625,005		323,432,178

Statement of Cash Flows Indirect Method

(Amounts in euros)

	12/31/2017	12/31/2016
A. OPERATING ACTIVITIES		
1. Operations	82,024,429	74,797,078
- profit or loss for the period (+/-)	79,477,696	70,313,719
- capital gains/losses on financial assets held for trading and on financial assets/liabilities measured at fair value (-/+)		
- capital gains/losses on hedge accounting (-/+)		
- net adjustments/reversals of impairment (+/-)	1,156,177	576,818
- net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-)	2,772,129	2,415,023
- net allocations to provisions for risks and charges and other expenses/income (+/-)	(1,381,573)	1,491,517
- unpaid taxes and tax credits (+/-)		
- net adjustments to/reversals of impairment of disposal groups, net of the tax effect (-/+)		
- other adjustments (+/-)		
2. Liquidity generated/absorbed by financial assets	(514,541,620)	1,096,016,245
- financial assets held for trading	(110,869)	110,869
- financial assets measured at fair value		
- available-for-sale financial assets	(283,428,241)	(44,147,483)
- due from banks: on demand	(120,490,233)	81,292,412
- due from banks: other		
- due from customers	391,172,506	255,190,356
- other assets	(501,684,783)	803,570,091
3. Liquidity generated/absorbed by financial liabilities	(441,039,432)	1,201,720,433
- due to banks: on demand	(142,959,445)	(84,729,971)
- due to banks: other		
- due to customers	(508,623,637)	1,130,180,730
- debt securities issued	198,698,563	150,376,500
- financial liabilities held for trading	(6,568)	6,568
- financial liabilities measured at fair value		
- other liabilities	11,851,655	5,886,606
Net liquidity generated/absorbed by operating activities	155,526,617	180,501,266
B. INVESTING ACTIVITIES		
1. Liquidity generated by	-	-
- sale of equity investments		
- dividends collected on equity investments		
- sale of held-to-maturity financial assets		
- sale of property, plant and equipment		
- sale of intangible assets		
- sale of business branches		
2. Liquidity absorbed by	(2,618,556)	(111,749,266)
- purchase of equity investments	-	(109,190,427)
- purchase of held-to-maturity financial assets		
- purchase of property, plant and equipment	(862,316)	(673,344)
- purchase of intangible assets	(1,756,240)	(1,885,495)
- purchase of business branches		
Net liquidity generated/absorbed by investing activities	(2,618,556)	(111,749,266)
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	80,782,523	(13,000)

Reconciliation

(Amounts in euros)

Item	Amount	
	12/31/2017	12/31/2016
Cash and cash equivalents at the beginning of the year	145,477	158,477
Net liquidity generated/absorbed during the year	80,782,523	(13,000)
Cash and cash equivalents: effect of change in exchange rate		
Cash and cash equivalents at the end of the year	80,928,000	145,477

Notes to the Financial Statements

Dear Shareholders,

The Notes are arranged in the following order:

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

Part A – Accounting Policies

A.1 - GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

The 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 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 financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity, and the notes to the financial statements, and are accompanied by the Directors’ report on operations.

The financial statements agree with the accounting records.

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 Bank, and after examining the risks to which it is exposed, Directors have not identified any issue that could raise doubts on the Bank'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 period, 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 to better take into account 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 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, consistent and aligned with the regulatory requirements for prudential supervision in force, has been adopted.

The aim of impairment for performing exposures, consistently with the provisions of the standard, 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 Bank'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 Bank's receivables are due from the public administration or are short-term.

In particular, following the project activities, the calculations carried out on the portfolio at December 31, 2017 show that, at the Bank level, the impact of the First Time Adoption of IFRS 9 generated collective impairment losses lower than those calculated according to IAS 39, on a range from €0.6 to €1.2 million.

The positive impact for the Bank mainly derives 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.

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 Bank 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 Bank 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 - Recognition of Deferred Tax Assets for Unrealized Losses;
- Amendments to IAS 7 on disclosure regarding cash flows arising from financing activities;
- Clarifications to IFRS 15 - Revenue from Contracts with Customers;
- Amendments to IFRS 2 - Clarifications of classification and measurement of share based payment transactions;
- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- 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 – 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 4 – Other issues

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

In accordance with IFRSs, the development of estimates by management is a prerequisite for the preparation of the 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 Bank, 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 the Bank, 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, the Bank has 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, €16.5 million.

The description of the accounting policies adopted for the main aggregates of the 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 Legislative Decree no. 39/2010.

A.2 - MAIN ITEMS OF THE SEPARATE FINANCIAL STATEMENTS

Disclosure of the accounting standards adopted to prepare the separate 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.

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 fair value. Any changes are recognized in the income statement 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 in a period subsequent to the period in which the impairment was recognized 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.

Receivables also include 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 derive from the liquidity on current account transactions generated by amounts collected in the closing days of the reporting period, 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 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 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 the Bank 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", the Bank 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, the Bank has 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.

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 Bank, the time series of data were updated with the 2016 collections. As a result, the weighted 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.

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 Bank, 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 is 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%.

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.

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 the 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 Bank, 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 “Gains (losses) on hedge accounting”;
 - 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 “Gains (losses) on hedge accounting”.

Derecognition criteria

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or is repaid; c) early revocation of the designation; d) the hedging instrument expires or is sold, terminated or exercised.

If the hedge is not effective, the portion of the derivative contract no longer 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 financial instruments, the hedged assets/liabilities, and/or the derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and benefits connected thereto.

7 - Equity investments

Recognition criteria

Equity investments are initially recognized at the settlement date, if they are traded under regular way purchases or sales, otherwise they are recognized at the trade date.

They are initially recorded at cost.

Classification criteria

Equity investments are investments in other companies, generally represented by shares or quotas, classified as controlling or associate investments. Specifically:

- subsidiary: an entity over which the parent exercises dominant control, meaning the power to govern the financial and operating policies of the entity and to obtain benefits from its activities;
- associate: an entity over which the investor has significant influence and which is not a subsidiary or a joint venture for the investor.

Significant influence means that an investment is held of 20% or more of the voting power (directly or through subsidiaries) at the shareholders' meeting of the investee.

Measurement criteria and recognition of income components

Equity investments in non-consolidated subsidiaries are measured at cost, adjusted for impairment, if any.

If there is objective evidence that an equity investment has been impaired, the equity investment's recoverable amount is estimated by taking account of either the present value of the cash flows expected to be derived from the equity investment in the future, including upon disposal, or using the market multiple method if future cash flows are not available (impairment test).

When there is insufficient information, the company's equity is considered as the value in use.

If the recoverable amount is lower than the carrying amount, the difference is recognized in the income statement under item 210 "Gains (losses) on equity investments".

If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, the relevant adjustments are attributed to the same income statement item up to the cost of the equity investment recorded before the impairment.

Dividends from investee companies are recorded in the year in which they are subject to resolution under "Dividends and similar income".

Derecognition criteria

Equity investments are derecognized when the contractual rights to the cash flows arising from the equity investments expire or when the equity investments are sold, with the substantial transfer of all the risks and benefits deriving from their ownership.

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 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 Bank 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.

They 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 buildings owned by the company and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.

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

An item of property, plant and equipment 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.

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 Bank 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.

Measurement criteria

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives, which 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.

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 differ-

ences 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.

17 - Other information

Employee severance benefits

Recognition and measurement criteria

As a result of the 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 revaluation 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 capital, 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 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 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 Banca Farmafactoring" 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", the Bank also included the estimate of late payment interest in the calculation of amortized cost.

As a matter of fact, the Bank has 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 Bank, 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.

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 (participation 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.

A.4.2 Measurement processes and sensitivity

Financial instruments are used to hedge fluctuations in market rates and exchange rates connected with the financial assets and liabilities recognized in the financial statements.

At the end of the reporting period, Banca Farmafactoring did not recognize any assets or liabilities held for 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**

(Amounts in € thousands)

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					111	
2. Financial assets measured at fair value						
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	17	385,086	817	17
1. Financial liabilities held for trading					7	
2. Financial liabilities measured at fair value						
3. Hedging derivatives		322			176	
Total		322			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			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						
3.5 Other decreases						
4. Closing balance			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

(Amounts in € thousands)

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	16,195			16,195	136,685			136,685
3. Due from customers	2,587,721			2,587,721	2,197,704			2,197,704
4. Property, plant and equipment held for investment								
5. Non-current assets and disposal groups held for sale								
Total	3,724,525	1,127,929		2,603,915	3,963,709	1,632,899		2,334,389
1. Due to banks	460,387			460,387	603,346			603,346
2. Due to customers	2,499,059			2,499,059	3,007,683			3,007,683
3. Debt securities issued	652,037	654,873			453,339	447,578		
4. Liabilities associated with assets held for sale								
Total	3,611,483	654,873		2,959,446	4,064,368	447,578		3,611,029

Key:

CA = carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

A5 - 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 - Balance Sheet

All amounts are stated in thousands of euros.

ASSETS

Section 1 – Cash and cash equivalents – Item 10

€80,928 thousand

1.1 Cash and cash equivalents: breakdown

(Amounts in € thousands)

	Total 12/31/2017	Total 12/31/2016
a) Cash	1	2
b) Unrestricted deposits with Central Banks	80,927	143
Total	80,928	145

The balance includes the cash on hand and Banca Farmafactoring's account 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	Total 12/31/2017			Total 12/31/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Balance sheet assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in CIUs						
4. Loans						
4.1 Repos						
4.2 Other						
Total A						
B. Derivative instruments						
1. Financial derivatives					111	
1.1 held for trading					111	
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					111	
Total (A+B)					111	

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

(Amounts in € thousands)

Items/Amounts	Total 12/31/2017	Total 12/31/2016
A. Balance sheet 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		
B. Derivative instruments		
a) Banks		111
b) Customers		
Total B		111
Total (A+B)		111

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.

These securities earn interest at variable rates (CCT) and have residual maturity dates within 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.

Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, AFS securities were classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.

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 AFS 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”.

In 2015, Banca Farmafactoring participated in the Voluntary Scheme established by FITD to implement measures to support member banks at the point or at the risk of becoming insolvent. In May 2016, Cassa di Risparmio di Cesena requested the intervention of the Voluntary Scheme to increase its share capital, in order to improve its difficult situation.

The amount charged to Banca Farmafactoring, paid in the September 2016 - December 2017 period, amounted to €906 thousand and the relevant fair value at December 31, 2017—communicated by FITD on January 19, 2018—was equal to €147 thousand. The effect recognized in the 2017 income statement under item 130 “Net adjustments to/reversals of impairment of: b) available-for-sale financial assets” amounted to €702 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 measured at fair value.

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 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%

The key figures of Nomisma S.p.A. are as follows:

(Amounts in euros, at 12/31/2016)

Registered office	Bologna - Strada Maggiore n. 44
Share capital	Euro 6,963,499.89 fully paid-in
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	Total 12/31/2017			Total 12/31/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	101,285			385,086		
1.1 Structured securities						
1.2 Other debt securities	101,285			385,086		
2. Equity securities		147	17		177	17
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	Total 12/31/2017	Total 12/31/2016
1. Debt securities	101,285	385,086
a) Governments and Central Banks	101,285	385,086
b) Other public entities		
c) Banks		
d) Other issuers		
2. Equity securities	164	194
a) Banks		
b) Other issuers:	164	194
- insurance companies		
- financial companies	147	177
- non-financial companies	17	17
- other		
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.

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 €1,127,929 thousand, 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 (HTC) 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	1,120,610	1,127,929			1,629,320	1,632,899		
1.1 Structured securities								
1.2 Other debt securities	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	1,120,610	1,629,320
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

€16,195 thousand

Receivables due from banks mainly 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	16,195				136,685			
1. Loans	16,195				136,685			
1.1 Current accounts and unrestricted deposits	6,910				128,859			
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	16,195			16,195	136,685			136,685

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 as CRM (*Coeficiente de Reservas Mínimas*) with Banco de España, for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto.

This item does not include any impaired assets.

Section 7 – Due from customers – Item 70

€2,587,721 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, as from January 1, 2017, the Bank has used 45% as the percentage of collection of late payment interest in place of the previous 40%, keeping the average collection times unchanged.

The cumulative amount of late payment interest due to Banca Farmafactoring, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €490 million, of which only €167 million were recognized in the income statement of the reporting period and in previous years.

7.1 Due from customers: breakdown by type

The breakdown is as follows:

- 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.

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.

- Other performing loans due from customers amounted to €570,544 thousand; they mainly include:
 - accrued late payment interest of approximately €85,495 thousand; such 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 €167 million late payment interest recognized in the income statement and referring to the provision existing at December 31, 2017, €85.5 million refers to the item under review, while the remaining amount of approximately €81.5 million was recognized under “factoring”;
 - amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €63,902 thousand;

– intercompany loans granted to the subsidiary FFE and the Magellan Group for an overall amount of €409 million.

• Impaired assets amounted to a total of €79,110 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.

Non-performing loans thus include all doubtful receivables, net of any adjustment for impairment or reversal of impairment.

At December 31, 2017, the Bank's total non-performing loans, net of impairment, amounted to €16,009 thousand. 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, the net amount is equal to 0. Non-performing loans relating to municipalities in financial distress amounted to €15 million, accounting for 94% of the total.

Gross non-performing loans amounted to €19,486 thousand. Relevant impairment totaled €3,477 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 €33,375 thousand and relevant adjustments totaled €17,366 thousand.

The remaining positions, referring to the Bank, were impaired based exclusively on the time value, as they consist of positions secured by sureties and exposures with local 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.

– **Unlikely to pay exposures:** 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). Unlikely to pay exposures at December 31, 2017 were 0.

– **Net past due exposures** at December 31, 2017 totaled €63,100 thousand, of which €61,100 thousand attributable to public administration counterparties and public sector companies.

(Amounts in € thousands)

Type of transaction/ Amounts	Total 12/31/2017						Total 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	2,508,611	2,824	76,286			2,587,721	2,145,082	492	52,130			2,197,506
1. Current accounts												
2. Reverse repos												
3. Mortgages												
4. Credit cards, personal loans, salary-backed loans (<i>cessione del quinto</i>)												
5. Finance leases												
6. Factoring	1,938,067	2,824	73,827				1,678,521	492	50,771			
7. Other loans	570,544		2,459				466,561		1,359			
Debt securities												
8. Structured securities												
9. Other debt securities												
Total	2,508,611	2,824	76,286			2,587,721	2,145,082	492	52,130			2,197,506

Fair value

This item mainly refers to non-recourse receivables. In particular, such receivables are past due and due from the public administration. Their 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 at the reporting date.

7.2 Due from customers: breakdown by debtor/issuer

(Amounts in € thousands)

Type of transaction/ Amounts	Total 12/31/2017			Total 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:	2,508,611	2,824	76,286	2,145,082	492	52,130
a) Governments	480,159		1,754	408,700		4,662
b) Other public entities	1,517,982	2,824	64,875	1,325,303	492	39,756
c) Other subjects	510,470		9,657			
- non-financial companies	20,558		8,802	29,425		6,530
- financial companies	476,755			367,508		
- insurance companies						
- other	13,157		855	14,147		1,184
Total	2,508,611	2,824	76,286	2,145,082	492	52,130

Exposures to financial companies mainly include loans granted to the subsidiary FFE and the Magellan Group (for an overall amount of €409 million) and Cassa di Compensazione e Garanzia (€63 million).

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		322		85,005		529		81,618
1) Fair value						2		1,110
2) Cash flows		322		85,005		527		80,508
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		322		85,005		529		81,618

Key:

NA = notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

(Amounts in € thousands)

Transactions/ Type of hedge	Fair value					Generic	Cash flows		Foreign investments
	Specific						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 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

€115,487 thousand

Equity investment totaled €115.5 million; this item includes the investments in Magellan and Farmafactoring España, exclusively controlled by Banca Farmafactoring, which holds 100% of their share capital.

The equity investment in Magellan amounted to €109.2 million.

The subsidiary's profit amounted to €8 million, therefore contributing to the Banca Farmafactoring Group's income statement for the same amount.

The equity investment in Farmafactoring España amounted to €6.3 million; it refers to the share capital, ancillary charges relating to the incorporation and start up of activities on the Spanish market.

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

As far as Magellan is concerned, the impairment test was carried out pursuant to international accounting standards, and the carrying amount was not impaired.

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 the carrying amount of equity investments cannot be fully recovered.

10.1 Equity investments: information on investment relationships

Name	Registered office	Operating office	Investment %	Voting rights %
A. Exclusively controlled companies				
1. <i>Farmafactoring España S.A.U.</i>	Madrid (Spain)	Madrid (Spain)	100%	100%
2. <i>Magellan S.A.</i>	Łódz (Poland)	Łódz (Poland)	100%	100%
B. Jointly controlled companies				
C. Companies over which significant influence is exercised				

10.5 Equity investments: year-over-year change

(Amounts in € thousands)

	Total 12/31/2017	Total 12/31/2016
A. Opening balance	115,487	6,297
B. Increase		
B.1 Purchases		
B.2 Reversals of impairment		
B.3 Revaluations		
B.4 Other changes		
Business combinations		109,190
C. Decrease		
C.1 Sales		
C.2 Adjustments		
C.3 Other changes		
D. Closing balance	115,487	115,487
E. Total revaluations		
F. Total adjustments		

Section 11 - Property, plant and equipment - Item 110

€11,873 thousand

11.1 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
1.1 Owned assets	11,873	12,152
a) land	3,685	3,685
b) buildings	6,820	7,145
c) furniture and fixtures	188	221
d) electronic systems	937	810
e) other	242	291
1.2 Assets acquired under finance leases		
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other		
Total	11,873	12,152

11.5 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	2,432	6,636	5,335	34,912
A.1 Net total impairment		(9,679)	(2,211)	(5,826)	(5,044)	(22,760)
A.2 Net opening balance	3,685	7,145	221	809	291	12,152
B. Increase:						
B.1 Purchases			24	790	47	862
B.2 Capitalized improvements						
B.3 Reversals of impairment						
B.4 Positive fair value changes 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)	(57)	(662)	(97)	(1,142)
C.3 Impairment losses recognized in						
a) equity						
b) income statement						
C.4 Negative fair value changes 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	188	937	242	11,873
D.1 Net total impairment		(10,003)	(2,268)	(6,489)	(5,136)	(23,896)
D.2 Gross closing balance	3,685	16,823	2,457	7,426	5,378	35,769
E. Measured at cost	3,685	16,823	2,457	7,426	5,378	35,769

At the date of IFRS first-time adoption (January 1, 2005), the buildings owned by Banca Farmafactoring and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.

The measurement at first-time adoption resulted in a revaluation of the buildings for about €4 million, from about €5 million to about €9 million.

In the financial statements, the land and building owned in Milan (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.

Section 12 - Intangible assets - Item 120

€3,440 thousand

12.1 Intangible assets: breakdown by type of asset

(Amounts in € thousands)

Assets/Amounts	Total 12/31/2017		Total 12/31/2016	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill				
A.2 Other intangible assets	3,440		3,314	
A.2.1 Assets measured at cost:	3,440		3,314	
a) Intangible assets generated internally				
b) Other assets	3,440		3,314	
A.2.2 Assets measured at fair value:				
a) Intangible assets generated internally				
b) Other assets				
Total	3,440		3,314	

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

12.2 Intangible assets: year-over-year change

(Amounts in € thousands)

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance				3,314		3,314
A.1 Net total impairment						
A.2 Net opening balance				3,314		3,314
B. Increase						
B.1 Purchases				1,756		1,756
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 - Impairment + equity + income statement				(1,631)		(1,631)
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				3,440		3,440
D.1 Net total adjustments						
E. Gross closing balance				3,440		3,440
F. Measured at cost				3,440		3,440

Key:

FIN = finite

INDEF = indefinite

Assets are recognized at cost, net of amortization, which is computed based on their estimated useful life.

Section 13 - Tax assets and liabilities – Item 130 of assets and Item 80 of liabilities

Current tax assets totaled €24,680 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.

Current tax liabilities amounted to €24,459 thousand; they include the accrual of income taxes for the year of the Bank.

13.1 Deferred tax assets: breakdown

€3,729 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.

13.2 Deferred tax liabilities: breakdown

€56,407 thousand

Deferred tax liabilities mainly refer to the taxes on 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.

13.3 Change in deferred tax assets (through the income statement)

€3,375 thousand

(Amounts in € thousands)

	Total 12/31/2017	Total 12/31/2016
1. Opening balance	3,392	2,523
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		
d) other	547	1,563
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	(564)	(694)
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		
4. Closing balance	3,375	3,392

13.3.1 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

13.4 Change in deferred tax liabilities (through the income statement)

€56,278 thousand

(Amounts in € thousands)

	Total 12/31/2017	Total 12/31/2016
1. Opening balance	48,502	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		
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	(623)	(218)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	56,278	48,502

13.5 Change in deferred tax assets (through equity)

€354 thousand

(Amounts in € thousands)

	Total 12/31/2017	Total 12/31/2016
1. Opening balance	346	370
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

13.6 Change in deferred tax liabilities (through equity)

€129 thousand

(Amounts in € thousands)

	Total 12/31/2017	Total 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 15 - Other assets - Item 150

€7,679 thousand

15.1 Other assets: breakdown

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
Security deposits	4	3
Other receivables	5,369	3,687
Accrued income and prepaid expenses	2,306	677
Total	7,679	4,367

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.

LIABILITIES AND EQUITY

Section 1 - Due to banks - Item 10

€460,387 thousand

1.1 Due to banks: breakdown by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2017	Total 12/31/2016
1. Due to central banks		
2. Due to banks	460,387	603,346
2.1 Current accounts and unrestricted deposits		
2.2 Restricted deposits	460,387	603,346
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	460,387	603,346
<i>Fair value - Level 1</i>		
<i>Fair value - Level 2</i>		
<i>Fair value - Level 3</i>	460,387	603,346
Total fair value	460,387	603,346

“Due to banks” primarily refers to loans provided by the banking system at current market rates. The item also includes the loan agreement for the acquisition of Magellan S.A. entered into with the Unicredit Group. The loan was granted for an approximate total amount of PLN 355 million, about 80% of the value of the public tender offer (equal to €85 million at December 31, 2017).

Section 2 – Due to customers – Item 20

€2,499,059 thousand

2.1 Due to customers: breakdown by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2017	Total 12/31/2016
1. Current accounts and unrestricted deposits	46,526	79,337
2. Restricted deposits	953,059	743,984
3. Loans	1,363,235	2,040,834
3.1 repos	1,162,912	1,809,044
3.2 Other	200,323	231,790
4. Payables following commitments to repurchase treasury shares		
5. Other payables	136,239	143,528
Total	2,499,059	3,007,683
<i>Fair value - Level 1</i>		
<i>Fair value - Level 2</i>		
<i>Fair value - Level 3</i>	2,499,059	3,007,683
Total fair value	2,499,059	3,007,683

“Due to customers” include exposures relating to the online deposit accounts offered in Italy, Spain and Germany (deposit-taking by Banca Farmafactoring’s Spanish branch, in compliance with regulations on the freedom to provide services and aimed exclusively at retail clientele, began in 2016) for an overall amount of €999.6 million, relating to both restricted deposits and current accounts.

The counterparty in repos, amounting to €1,163 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank’s securities portfolio.

Other loans of €200.3 million refer to payables arising from existing transactions between Banca Farmafactoring and other financial entities.

Other payables include securitization transaction of €80.1 million (SPV and SPV I) and collections of managed receivables due to assignors to the tune of €56.4 million.

Section 3 - Debt securities issued - Item 30

€652,037 thousand

3.1 Debt securities issued: breakdown by type

(Amounts in € thousands)

Type of securities/ Amounts	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	652,037	654,873			453,339	447,578		
1.1 structured								
1.2 other	652,037	654,873			453,339	447,578		
2. other securities								
2.1 structured								
2.2 other								
Total	652,037	654,873			453,339	447,578		

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 2027 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. The 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).

Section 4 – Financial liabilities held for trading - Item 40

€0

4.1 Financial liabilities held for trading: breakdown by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2017					Total 12/31/2016				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Balance sheet liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other bonds										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B. Derivative instruments										
1. Financial derivatives								7		
1.1 Held for trading								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								7		
Total (A+B)								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 = Livello 1

L2 = Livello 2

L3 = Livello 3

Section 6 – Hedging derivatives - Item 60

€0

6.1 Hedging derivatives: breakdown by type of hedge and by hierarchical 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 13 – Tax assets and liabilities” under assets in the balance sheet.

Section 10 – Other liabilities – Item 100

€42,890 thousand

10.1 Other liabilities: breakdown

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
Payables to suppliers	3,992	2,617
Invoices to be received	5,234	6,942
Payables to the tax authorities	2,148	3,698
Payables to social security agencies	610	543
Payables to employees	3,138	3,994
Payables for receivables management	3,647	1,683
Collections pending allocation	14,434	13,569
Other payables	8,879	9,812
Accrued liabilities and deferred income	807	137
Total	42,890	42,993

“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 amounts due 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)

	Total 12/31/2017	Total 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

Other changes include outflows from the provision for employee severance benefits to pension funds and the differences resulting from actuarial valuation recognized directly in equity.

11.2 Other information

At December 31, 2017, employee severance benefits were equal to the current value of the obligation, estimated by an independent actuary on the basis of demographic and economic assumptions.

“Other decreases” include 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

€5,146 thousand

12.1 Provisions for risks and charges: breakdown

(Amounts in € thousands)

Items/Amounts	Total 12/31/2017	Total 12/31/2016
1. Pension funds	4,219	6,156
2. Other provisions for risks and charges	927	371
2.1 legal disputes		
2.2 personnel expenses		
2.3 other	927	371
Total	5,146	6,528

The pension fund refers to the non-compete agreement entered into with the Banking Group's managers.

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

(Amounts in € thousands)

	Pension funds	Other provisions	Total
A. Opening balance	6,156	371	6,528
B. Increase			
B.1 Allocation for the year	238	564	802
B.2 Change due to passing of time			
B.3 Variation due to change in the discount rate			
B.4 Other changes			
C. Decrease			
C.1 Use in the year	(2,175)	(8)	(2,183)
C.2 Variation due to change in the discount rate			
C.3 Other changes			
D. Closing balance	4,219	927	5,146

Allocations refer to:

- the non-compete agreement with the Bank's managers to the tune of €15 thousand;
- the deferral of a portion of the annual bonuses for the first and second level staff, and other supervisory roles, to the tune of €222 thousand;
- the exposure with an assignor of €564 thousand.

Uses refer to the non-compete agreement for €1.4 million and to the deferred bonus for €0.8 million.

12.3 Defined benefit pension funds

Under a non-compete agreement, the employee agrees that, after the end of the employment relationship, he/she will not engage, for any reason whatsoever, in any activities in direct competition with that of Banca Farmafactoring. 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 the annual bonuses envisages medium-term restrictions, according to which 30% of the annual bonus will be paid after three years, starting from 2013, 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 (<i>Ragioneria Generale dello Stato</i>)
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 14 – Equity – Items 130, 150, 160, 170, 180, 190 and 200

€332,878 thousand

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

€130,983 thousand

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

14.2 Share capital – Number of shares: 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		

14.4 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	118,497				
- Legal reserve	26,197	B			
- Extraordinary reserve	89	A,B,C	89		
- Retained earnings	89,543	A,B,C	89,543		(*) 83
- Stock option and financial instrument reserves	2,668	A			
Revaluation reserves	3,921				
- AFS securities	68				
- Other	3,852				
Total share capital and reserves	253,400		89,632		

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

(*) In the prior three-year period, "Retained earnings" were used to increase the "Share capital" from €130,900 thousand in 2015 to €130,983 thousand in 2016.

Changes in Reserves are as follows:

(Amounts in € thousands)

	Legal reserve	Retained earnings	Other	Total
A. Opening balance	26,180	91,372	89	117,641
B. Increase				
B.1 Appropriation of profit	17			17
B.2 Other changes			2,668	2,668
C. Decrease				
C.1 Uses				
- absorption of losses				
- distribution		(1,828)		(1,828)
- transfer to share capital				
C.2 Other changes				
D. Closing balance	26,197	89,543	2,757	118,497

The €17 thousand increase in the legal reserve 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 of March 9, 2017, to reach the maximum amount provided for by law.

The €1,828 thousand decrease in Retained earnings was attributable to the allocation of profit, to be withdrawn from such reserve, to Shareholders, pursuant to the Ordinary Shareholders' Meeting of Banca Farmafactoring of March 9, 2017.

Increases in other reserves 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 net equity.

Revaluation reserves at December 31, 2017 totaled €3,921 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.

Other information**1. Guarantees provided and commitments***(Amounts in € thousands)*

Transactions	Amount at 12/31/2017	Amount at 12/31/2016
1) Financial guarantees provided	115,986	22
a) Banks	3,391	22
b) Customers	112,595	
2) Commercial guarantees provided	1,193	
a) Banks		
b) Customers	1,193	
3) Irrevocable commitments to disburse funds	200	6,816
a) Banks		
i) for certain use		
ii) for uncertain use		
b) Customers	200	6,816
i) for certain use		
ii) for uncertain use	200	6,816
4) Underlying commitments for credit derivatives: sales for hedging purposes		
5) Assets pledged to secure obligations of third parties		
6) Other commitments		
Total	117,379	6,838

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. Financial and commercial guarantees refer to the Bank's commitments to subsidiaries.

2. Assets pledged to secure own liabilities and commitments*(Amounts in € thousands)*

Portfolios	Amount at 12/31/2017	Amount at 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	143,890	469,548
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.

4. 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	1,187,141
a) third-party securities on deposit: connected to bank operations as custodian (excluding portfolio management)	
1. securities issued by the bank that prepares the financial statements	
2. other securities	
b) third party securities on deposit (excluding portfolio management): other	
1. securities issued by the bank that prepares the financial statements	
2. other securities	
c) third-party securities deposited with third parties	
d) owned securities deposited with third parties	1,187,141
4. Other transactions	

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

Part C - 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

€189,907 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 Available-for-sale financial assets	160			160	491
3 Held-to-maturity financial assets	4,089			4,089	3,503
4 Due from banks		33		33	25
5 Due from customers		185,534		185,534	154,589
6 Financial assets measured at fair value					
7 Hedging derivatives					
8 Other assets					
Total	4,248	185,567	91	189,907	158,608

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 Bank current accounts held with the banking system.

Interest income on receivables “Due from customers” for loans amounted to €185,534 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.

This amount includes a one-off positive effect, net of taxes, of €16.5 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.

1.4 Interest and similar expenses: breakdown

€31,406 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	8,953			8,953	5,004
3. Due to customers	7,681			7,681	8,317
4. Debt securities issued		13,962		13,962	10,527
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	16,634	13,962	811	31,406	24,793

Interest expenses increased from €24.8 million at December 31, 2016 to €31.4 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 the Bank; 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.

Interest expense on “Debt securities issued” refers to expense relating to bond issues. The item also includes interest (income) on repurchase agreements to the tune of €7 million.

*1.5 Interest and similar expenses: differences relating to hedging transactions**(Amounts in € thousands)*

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

Differences relate to hedging transactions against the exchange rate risk arising from intercompany loans issued to the Magellan Group.

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		
e) securitization servicing services		
f) factoring services	7,709	7,994
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services		
Total	7,713	7,994

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

2.3 Fee and commission expenses: breakdown

€1,153 thousand

(Amounts in € thousands)

Services/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	1,153	3,112
Total	1,153	3,112

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

€0

3.1 Dividends and similar income: breakdown

(Amounts in € thousands)

Items/Income	Total 12/31/2017		Total 12/31/2016	
	Dividends	Profits from units in CIUs	Dividends	Profits from units in CIUs
A. Financial assets held for trading				
B. Available-for-sale financial assets				
C. Financial assets measured at fair value				
D. Equity investments			8,022	
Total			8,022	

Section 4 – Gains (losses) on trading – Item 80**4.1 Gains (losses) on trading: breakdown**

€4,804 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 in 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)		(144)
4.1 Financial derivatives:			(144)		(144)
- on debt securities and interest rates			(144)		(144)
- on equity securities and equity indices					
- on currency and gold					
- other					
4.2 Credit derivatives					
Total			(144)		(4,804)

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.

Reconciliation of changes in derivatives

(Amounts in € thousands)

	Carrying amount	Change
Financial assets held for trading		
Amount at 12/31/2016	111	
Amount at 12/31/2017	0	(111)
Financial liabilities held for trading		
Amount at 12/31/2016	7	
Amount at 12/31/2017	0	7
Gains (losses) on trading		(104)

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

5.1 Gains (losses) on hedge accounting: breakdown

€32 thousand

(Amounts in € thousands)

Income components/Amounts	Total 12/31/2017	Total 12/31/2016
A. Income from:		
A.1 Fair value hedging derivatives		2
A.2 Hedged financial assets (fair value)		125
A.3 Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives	139	11
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		(137)
B.2 Hedged financial assets (fair value)		(2)
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives	(107)	
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)

The Bank's hedging activities at December 31, 2017 are described in detail in Part B of the Notes.

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 AFS securities during the year for a total face value of €475 million, resulting in a net gain of €1,759 thousand, before the tax effect.

Section 8 – Net adjustments/reversals of impairment – Item 130

€1,156 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:	(31)	(1,853)		402		326	(1,156)	(577)	
Impaired receivables purchased									
- Loans									
- Debt securities									
Other receivables	(31)	(1,853)		402		326	(1,156)	(577)	
- Loans	(31)	(1,853)		402		326	(1,156)	(577)	
- Debt securities									
C. Total	(31)	(1,853)		402		326	(1,156)	(577)	

Key:

A = From interest

B = Other reversals

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	A	B		
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)

Key:**A** = From interest**B** = Other reversals

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 9 – Administrative expenses – Item 150

€50,702 thousand

9.1 Personnel costs: breakdown

€22,154 thousand

(Amounts in € thousands)

Type of expense/Amounts	Total 12/31/2017	Total 12/31/2016
1) Employees	20,012	18,201
a) wages and salaries	13,331	12,950
b) social security contributions	3,485	3,397
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	2,585	1,276
2) Other staff in service	541	406
3) Directors and statutory auditors	1,601	1,794
4) Early retirement costs		
5) Recovery of expenses for employees on secondment to other companies		
6) Recovery of expenses for third-party employees on secondment to the company		
Total	22,154	20,402

The amount includes expenses for employee stock options at listing, for €1.5 million, before taxes

9.2 Average number of employees by category

Employees

(number)

Category	Average number 2017	Average number 2016
Executives	15	13
Supervisors	68	60
Rest of staff	119	114
Total	202	187

Other staff

Internships: 3

9.4 Other employee benefits

The amount of €2,585 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.

9.5 Other administrative expenses: breakdown

€28,547 thousand

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
Legal fees	2,178	1,854
Data processing services	2,342	2,202
External credit management services	1,014	1,116
Supervisory Body fees	42	42
Legal fees for receivables under management	723	461
Notary fees	499	692
Notary fees to be recovered	711	277
Entertainment expenses and donations	950	789
Maintenance expenses	1,241	1,166
Non-deductible VAT	3,142	4,025
Other taxes	1,162	1,313
Consulting fees	5,670	10,340
Head office operating expenses	1,457	1,166
Resolution Fund and FITD	1,727	3,823
Other expenses	5,689	4,827
Total	28,547	34,092

Other administrative expenses amounted to €28.5 million at December 31, 2017, showing a decrease compared to 2016, mainly due to non-recurring expenses connected to the acquisition of the Magellan Group and recognized in 2016.

Furthermore, with regard to contributions to the Deposit Guarantee Scheme, at December 31, 2017 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 included 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 10 – Net allocations to provisions for risks and charges – Item 160

€825 thousand

10.1 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	261	2,041
Other provisions	564	7
Total	825	2,047

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

Section 11 – Net adjustments to/reversals of impairment of property, plant and equipment – Item 170**11.1 Net adjustments to/reversals of impairment of property, plant and equipment: breakdown**

€1,142 thousand

(Amounts in € thousands)

	Depreciation (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a + b - c)
Assets/Income components				
A. Property, plant and equipment				
A.1 Owned assets	1,142			1,142
- used in the business	1,142			1,142
- held for investment				
A.2 Purchased under finance leases				
- used in the business				
- held for investment				
Total	1,142			1,142

Section 12 – Net adjustments to/reversals of impairment of intangible assets – Item 180**12.1 Net adjustments to/reversals of impairment of intangible assets: breakdown**

€1,631 thousand

(Amounts in € thousands)

	Depreciation (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a + b - c)
Assets/Income components				
A. Intangible assets				
A.1 Owned assets	1,631			1,631
- generated internally				
- other	1,631			1,631
A.2 Purchased under finance leases				
Total	1,631			1,631

Section 13 – Other operating income (expenses) – Item 190

€5,359 thousand

13.1 Other operating expenses: breakdown

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
1. Operating expenses		
- Contingent expenses		
- Rounding off and allowance expenses	(90)	(88)
- Tax expenses	(600)	(750)
Total	(690)	(838)

13.2 Other operating income: breakdown

(Amounts in € thousands)

Details	Total 12/31/2017	Total 12/31/2016
1. Operating income		
- Recovery of legal fees for purchases of non-recourse receivables	2,139	2,910
- Recovery of operational legal fees	723	461
- Receivables realized at other than face value	8	2
- Contingent assets	1,454	2,102
- Recovery of assignor notary expenses	652	214
- Royalties concerning Farmafactoring España S.A.	704	395
- Other income	369	601
Total	6,048	6,683

Section 18 – Income taxes on profit (loss) from continuing operations – Item 260

€31,771 thousand

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

(Amounts in € thousands)

Component/Amounts	Total 12/31/2017	Total 12/31/2016
1. Current taxes (-)	23,978	22,216
2. Change in current taxes of prior years (+/-)		
3. Decrease in current taxes for the year (+)		
3.bis Decrease in current taxes for the year due to tax credit under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	17	(368)
5. Change in deferred tax liabilities (+/-)	7,776	1,998
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	31,771	23,847

18.2 Reconciliation of theoretical and effective tax expense

(Amounts in € thousands)

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 for the year:		
27,5% IRES - 5,57% IRAP	21,763	2,215

Section 21 – Earnings per share**21.2 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 0.47.

Part D - Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in euros)

Items	Gross amount	Income tax	Net amount
10. Profit for the year			79,477,696
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			
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	(855,675)	281,397	(574,278)
140. Comprehensive income (Items 10+130)	(855,675)	281,397	78,903,418

Part E - Risks and Related Risk Management Policies

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

Foreword

Banca Farmafactoring 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 Bank.

With this in mind, the Bank 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 risks and the responsibilities of the organizational units involved in the management process;
- the mapping of the risks to which the Bank 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 define the risk governance and management model, taking into account the specific types of operations and the related risk profiles characterizing all the entities belonging to it, with the aim of creating an integrated and consistent risk management policy. Within this framework, the Bank's corporate governance bodies perform the functions entrusted to them not only with regard to the specific business activities of the Bank 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.

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 Bank 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.

SECTION 1 - CREDIT RISKS

Qualitative information

1. General information

Factoring is governed by the Italian Civil Code (Book IV – Title I, Chapter V, Articles 1260–1267) and Law no. 52 of February 21, 1991 and subsequent amendments, and consists of a plurality of financial services that can be structured in various ways, through the recourse or non-recourse assignment of trade receivables.

A peculiar feature of factoring transactions is the involvement of three different parties:

- Factor (assignee)
- Customer (assignor)
- Debtor (assigned).

2. Credit risk management policies

2.1 Organizational issues

The assessment of a transaction, for the different products offered by the Bank, 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. 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.

2.2 Management, measurement and control systems

The assessment of credit risk is part of an overall analysis of the adequacy of the Bank's capital in relation to the risks connected with lending.

With this in mind, the Bank 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 updates. This approach involves the classification of exposures into different classes ("portfolios") depending on the type of counterparty, and the application of diversified weighted ratios to each portfolio.

In particular, the Bank 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;
- 50% for receivables due from the public administration of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector and, up to December 31, 2016, those to the Italian public administration;
- 100% for countries with Credit Quality Step 3 (Italy, starting from 2017, and Portugal). For exposures with an original duration of three months or less, a weighting of 20% is applied;
- 50% or 100% for receivables from supervised intermediaries, according to the credit quality step of the country in which they have their offices. For exposures with an original duration of three months or less, 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 Bank are principally represented by exposures with counterparties of the public administration or healthcare entities of the countries in which the Bank operates.

The Bank 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 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 €145.9 million.

The Bank 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 Bank’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.

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 Bank 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 Bank 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 Bank, 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 Bank 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 amounted to € 3 million.

Non-performing loans

As required by IAS 39 and for purposes of an analytical assessment, the Bank 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 Bank, net of individual impairment losses, amounted to €16 million. The net amount of unlikely to pay exposures was €0.

2.3 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.

2.4 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 €16 million, of which €2.8 million purchased already im-

paired);

- Unlikely-to-pay exposures (net amount of €0);
- Impaired past due exposures (net amount of €63.1 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 Bank's total non-performing loans, net of impairment, amounted to €16 million. Specifically, the amount of €2,8 million 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, the net amount is equal to 0. Non-performing loans relating to municipalities in financial distress amounted to €15 million, accounting for 94% of the total.

Gross non-performing loans amounted to €19.5 million; relevant impairment amounted to €3.5 million. Taking account of 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 and equal to €13.9 million (mainly exposures with Fondazione Centro San Raffaele del Monte Tabor undergoing liquidation and composition agreement with creditors), gross non-performing loans amounted to €33.4 million and relevant adjustments amounted to €17.4 million.

As far as the latter 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, in relation to which a net residual amount of €0.9 million was still due, relating to principal only.

The remaining positions were impaired based exclusively on the time value, as they consist of positions secured by sureties and exposures with local 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.

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, gross exposures classified as unlikely to pay amounted to €440 thousand, entirely impaired. Net exposures therefore amounted to €0.

Past due impaired 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, net past due exposures amounted to €63.1 million. Of such amount, €61.1 million (96.8%) concerned Italian public administration agencies (largely local 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 geographical area

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	Past due impaired exposures	Past due but not impaired exposures	Other 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					16,195	16,195
4. Due from customers	16,009		63,101	449,763	2,058,848	2,587,721
5. Financial assets measured at fair value						
6. Financial assets held for sale						
Total 12/31/2017	16,009		63,101	449,763	3,296,937	3,825,810
Total 12/31/2016	7,194		45,429	393,244	3,902,928	4,348,795

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 €449,763 thousand.

All purchases of non-recourse receivables 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	Specific 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				16,195		16,195	16,195
4. Due from customers	83,113	4,003	79,110	2,511,627	3,016	2,508,611	2,587,721
5. Financial assets measured at fair value							
6. Financial assets held for sale							
Total 12/31/2017	83,113	4,003	79,110	3,749,716	3,016	3,746,700	3,825,810
Total 12/31/2016	55,096	2,474	52,622	4,299,644	3,471	4,296,172	4,348,795

(Amounts in € thousands)

Portfolio/Quality	Subprime assets		Other assets
	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			529

A.1.3 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 - of which: forborne exposures					16,195			16,195
Total A					16,195			16,195
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired								
b) Not impaired					3,713			3,713
Total B					3,713			3,713
Total (A+B)					19,907			19,907

A.1.6 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 - of which: forborne exposures		730	4,343	14,414		3,477		16,009
b) Unlikely to pay exposures - of which: forborne exposures	440					440		-
c) Past due impaired exposures - of which: forborne exposures	32,903	9,859	6,167	14,257		86		63,101
d) Past due but not impaired exposures - of which: forborne exposures					450,694		931	449,763
e) Other not impaired exposures - of which: forborne exposures					3,282,828		2,085	3,280,742
Total A	33,343	10,589	10,510	28,670	3,733,522	4,003	3,016	3,809,615
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	36							36
b) Not impaired					113,952			113,952
Total B	36				113,952			113,988
Total (A+B)	33,379	10,589	10,510	28,670	3,847,474	4,003	3,016	3,923,604

A.1.7 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	9,585		45,511
- of which: exposures sold but not derecognized	4,726		16,302
B. Increase	11,583	440	43,864
B.1 transfer from performing exposures	8,432	440	39,227
B.2 transfer from other categories of impaired exposures	2,455		
B.3 other increases	697		4,637
C. Decrease	1,682		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			2,439
C.7 other decreases			
D. Closing gross exposures	19,486	440	63,187
- of which: exposures sold but not derecognized	4,995		15,197

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

(Amounts in € thousands)

	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
Sources/Categories						
A. Opening total adjustments	2,392				82	
- of which: exposures sold but not derecognized	169				30	
B. Increase	1,441		440		58	
B.1 adjustments	1,277		440			
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 from revaluations						
C.2 reversals of impairment 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	3,477		440		86	
- of which: exposures sold but not derecognized	103				21	

A.2 Classification of exposures according to external and internal ratings**A.2.1 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 credit exposures			3,532,791			8,560	268,264	3,809,616
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								
E. Other								
Total			3,536,502			8,560	268,264	3,813,327

This table includes, under "On-balance sheet exposures", the following asset items from the 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 €16,195 thousand, corresponding to the credit balances in the current account of the Bank at the end of the year;
- item 70 - Due from customers, amounting to €2,587,721 thousand, equal to the sum of the outstanding exposures at December 31, 2017.

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 exposures by type of guarantee

A.3.2 Guaranteed credit exposures with customers

(Amounts in € thousands)

	Net exposure amount	Collaterals (1)				Personal guarantees (2)								Total (1)+(2)
		Mortgaged property	Property under finance leases	Securities	Other collaterals	Credit derivatives				Endorsement credits				
						CLN	Other derivatives			Governments and central banks	Other public entities	Banks	Other subjects	
							Governments and central banks	Other public entities	Banks					
1. Guaranteed on-balance sheet credit exposures:	342											33	309	342
1.1 totally guaranteed	342											33	309	342
- 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 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 exposition.	Specific adjustments	Portfolio adjustments	Net exposition.	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans - of which: forborne exposures				15,137	2,083	
A.2 Unlikely to pay exposures - of which: forborne exposures						
A.3 Past due impaired exposures - of which: forborne exposures	1,754	2		52,562	73	
A.4 Not impaired exposures - of which: forborne exposures	1,702,054		663	1,517,982		2,321
Total A	1,703,808	2	663	1,585,680	2,156	2,321
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Unlikely to pay exposures						
B.3 Other impaired assets				36		
B.4 Not impaired exposures	6			133		
Total B	6			170		
Total (A+B) 12/31/2017	1,703,814	2	663	1,585,849	2,156	2,321
Total (A+B) 12/31/2016	2,429,547	9	755	1,370,552	994	2,662

(Amounts in € thousands)

	Financial companies			Insurance companies			Non-financial companies			Other subjects		
	Net exposition.	Specific adjustments	Portfolio adjustments	Net exposition.	Specific Adjust-ments	Portfolio adjustments	Net exposition.	Specific adjustments	Portfolio adjustments	Net exposition.	Specific adjustments	Portfolio adjustments
Exposures/Counterparties												
A. On-balance sheet exposures												
A.1 Non-performing loans - of which: forborne exposures							33	284		839	1,109	
A.2 Unlikely to pay exposures - of which: forborne exposures								440				
A.3 Past due impaired exposures - of which: forborne exposures							8,769	11		16		
A.4 Not impaired exposures - of which: forborne exposures	476,755						20,558	15	13,157			17
Total A	476,755						29,361	735	15	14,012	1,109	17
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	113,788						25					
Total B	113,788						25					
Total (A+B) 12/31/2017	590,543						29,385	735	15	14,012	1,109	17
Total (A+B) 12/31/2016	367,594						35,989	864	32	15,331	608	23

B.2 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								
A.2 Unlikely to pay exposures		440								
A.3 Past due impaired exposures	62,862	86	239							
A.4 Other not impaired exposures	3,195,423	2,852	535,083	164						
Total A	3,274,294	6,855	535,321	164						
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Unlikely to pay exposures										
B.3 Other impaired assets	36									
B.4 Other not impaired exposures	164		113,788							
Total B	200		113,788							
Total (A+B) 12/31/2017	3,274,494	6,855	649,109	164						
Total (A+B) 12/31/2016	3,868,431	5,883	350,582	62						

(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								
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 A	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 B	54				26		119	
Total (A+B) 12/31/2017	194,223	576	96,720	188	2,088,691	2,701	897,667	3,391
Total (A+B) 12/31/2016	212,403	721	96,015	253	2,796,440	2,401	778,958	2,509

**B.3 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.	Adjustments	Net exp.	Adjustments	Net exp.	Adjustments	Net exp.	Adjustments	Net exp.	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		9,554							
Total A	6,640		9,554							
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 B	3,391		322							
Total (A+B) 12/31/2017	10,031		9,876							
Total (A+B) 12/31/2016	129,420		7,927							

(Amounts in € thousands)

Exposures/ Geographical area	Italy Northwest		Italy Northeast		Italy Central		Italy South and Islands	
	Net exp.	Adjustments	Net exp.	Adjustments	Net exp.	Adjustments	Net exp.	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 A	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 B					3,391			
Total (A+B) 12/31/2017	5,645		68		4,308		11	
Total (A+B) 12/31/2016	72,791		20,793		545		35,291	

B.4 Large exposures

At December 31, 2017, the Bank had 11 “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 €4,201,537 thousand, while the weighted amount was €72,566 thousand.

However, none of these positions exceed the individual concentration limit of 25% of eligible capital.

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 AG – 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, 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 €130 million at December 31, 2017.

C.1 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 Securitization SPVs

(Amounts in € thousands)

Securitization name/ SPV name	Registered 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 Bank 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 Ifitalia and Unicredit Factoring.

The counterparty in repurchase agreements, amounting to €1,162 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank’s securities portfolio.

Quantitative information

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

(Amounts in € thousands)

Types/Portfolios	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		
	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																					
1. Debt securities							35,336			1,120,108								463,913		1,619,357	2,277,923
2. Equity securities							35,336			1,120,108										1,155,444	1,808,374
3. CIUs																					
4. Loans																	463,913		463,913		469,548
B. Derivative instruments																					
Total 12/31/2017							35,336			1,120,108								463,913		1,619,357	
<i>of which impaired</i>																		20,068		20,068	
Total 12/31/2016							185,165			1,623,209								469,548			2,277,923
<i>of which impaired</i>																		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 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							
a) related to assets fully recognized							
b) related to assets partially recognized							
Total 12/31/2017			35,400	1,127,513		280,455	1,443,367
Total 12/31/2016			185,069	1,599,883		337,821	2,122,773

Section 2 - Market risks

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 Bank'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, 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.

2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

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

For assessing interest rate risk, potentially linked to fluctuations in interest rates, the Bank 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):

Type of transaction	Underlying Interest rate and debt securities			
	Notional amount	Market fair value at 12/31/2017 €		Residual life in days
		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 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. On-Balance sheet assets	844,125	479,379	442,527	322,823	1,276,128	329,325	9,805	
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	12,511	3,678						
1.3 Loans to customers	831,614	295,440	222,521	282,993	593,504	230,150	9,805	
- current account	1							
- other loans	831,614	295,440	222,521	282,993	593,504	230,150	9,805	
- with early repayment option								
- other	831,614	295,440	222,521	282,993	593,504	230,150	9,805	
2. On-Balance sheet liabilities	107,835	2,044,008	291,735	241,808	612,923	102,368		
2.1 Due to customers	107,266	1,695,689	207,217	216,808	252,088			
- current account	50,853	322,302	157,227	216,808	252,088			
- other payables	56,413	1,373,387	49,990					
- with early repayment option								
- other	56,413	1,373,387	49,990					
2.2 Due to banks	569	149,485	84,518	25,000	10,000			
- current account								
- other payables	569	149,485	84,518	25,000	10,000			
2.3 Debt securities		198,834			350,835	102,368		
- with early repayment option		198,834			200,429	102,368		
- other derivatives					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 derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
4. Off-balance sheet transactions								
+ long positions								
+ short positions								

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. On-Balance sheet assets	6	121,692						
1.1 Debt securities								
- with early repayment option								
- other								
1.2 Loans to banks	6							
1.3 Loans to customers		121,692						
- current account								
- other loans		121,692						
- with early repayment option								
- other		121,692						
2. On-Balance sheet liabilities	156	210,649						
2.1 Due to customers		19,990						
- current account								
- other payables		19,990						
- with early repayment option								
- other		19,990						
2.2 Due to banks	156	190,658						
- current account								
- other payables	156	190,658						
2.3 Debt securities								
- with early repayment option								
- other								
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 derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		84,928			84,928			
- Options								
+ long positions								
+ short positions								
- Other derivatives		84,928			84,928			
+ long positions		84,928						
+ short positions					84,928			
4. Off-balance sheet transactions								
+ long positions								
+ short positions								

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 Bank'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 Bank's asset portfolio at December 31, 2017 is denominated as follows:

- Euro;
- Polish zloty;
- Czech koruna.

The Bank therefore manages and monitors the risk connected with fluctuations in exchange rates. The Bank 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 Bank uses specific hedging instruments in order to mitigate exchange rate risk.

With regard to the acquisition of Magellan, the exchange risk arising from the acquisition of the investment in Polish zloty is hedged by a loan contract secured 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 Magellan.

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 Bank 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 Bank'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						207,502
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						6
A.4 Loans to customers						120,127
A.5 Other financial assets						87,369
B. Other assets						
C. Financial liabilities						210,638
C.1 Due to banks						190,648
C.2 Due to customers						19,990
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions						84,928
+ short positions						84,928
Total assets						292,429
Total liabilities						295,566
Difference (+/-)						-3,136

2.4 Derivative instruments

A. Financial derivatives

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 indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold			75,233	
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other			75,233	
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			111	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other			111	
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		640	

A.4 Financial derivatives: 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			7	
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other			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			183	

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

(Amounts in € thousands)

	Governments and Central Banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other
Contracts not included in clearing arrangements							
1) Debt securities and interest rates			85,674				
- notional amount			84,928				
- positive fair value			322				
- negative fair value							
- future exposure			425				
2) Equity securities and equity indices							
- 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				
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				
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		84,928		84,928
Total 12/31/2016	87,412	80,486		167,898

SECTION 3 - LIQUIDITY RISKS

Qualitative information

A. General information, operational processes and methods for measuring liquidity risk

Liquidity risk is represented by the possibility that the Bank 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 Bank 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 Bank adopted a Risk Management Policy and a 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 Bank 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 Bank's solvency conditions.

Quantitative information

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

Currency: EURO

(Amounts 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	unspecified
On-balance sheet assets	828,516	14,157	41,855	44,801	301,001	421,314	328,728	1,368,093	335,102	
A.1 Government securities			30,615		154,095	122,854	47,387	759,000	84,000	
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	828,516	14,157	11,241	44,801	146,906	298,460	281,341	609,093	251,102	
- banks	12,511	3,678								
- customers	816,005	10,480	11,241	44,801	146,906	298,460	281,341	609,093	251,102	
On-balance sheet liabilities	104,631	499,837	175,627	239,528	722,281	264,449	302,915	1,003,909	100,000	
B.1 Deposits and current accounts	48,215	12,019	13,859	50,123	362,434	208,608	264,838	311,658		
- banks	567			5,000	109,500	49,949	44,991	59,570		
- customers	47,649	12,019	13,859	45,123	252,934	158,659	219,847	252,088		
B.2 Debt securities					5,779	5,851		550,000	100,000	
B.3 Other liabilities	56,415	487,818	161,768	189,405	354,068	49,990	38,077	142,251		
Off-balance sheet transactions	3,391					30,000				
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					30,000				
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										

Currency: OTHER

[Amounts 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	unspecified
On-balance sheet assets	6				121,692					
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	6				121,692					
- banks	6									
- customers					121,692					
On-balance sheet liabilities	156			19,990	16,280		89,227	85,151		
B.1 Deposits and current accounts	156				16,280		89,227	85,151		
- banks	156				16,280		89,227	85,151		
- customers										
B.2 Debt securities				19,990						
B.3 Other liabilities										
Off-balance sheet transactions			16,758		22	23	17,969	47,881		
C.1 Financial derivatives with exchange of capital										
- long positions										
- 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			16,758				17,955	47,881		
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.

Section 4 - Operational risks

Qualitative information

1. General information, 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 Bank, 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 Bank 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 by the Bank 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 Bank 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 Bank 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 Bank 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 Bank'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 €22.8 million at December 31, 2017.

Part F - Equity

Section 1 – The Bank's equity

A. Qualitative information

The Bank's equity includes the aggregated share capital, reserves, revaluation reserves and profit for the year. For regulatory purposes, the relevant aggregated equity is calculated on the basis of the current Bank of Italy's provisions and constitutes the basis of reference in relation to prudential supervisory regulations.

B. Quantitative information

B.1 The Bank's equity: breakdown

(Amounts in € thousands)

Items/Amounts	Amount at 12/31/2017	Amount at 12/31/2016
1. Share capital	130,983	130,983
2. Share premium		
3. Reserves	118,497	117,641
- from profits	118,497	117,641
a) legal	26,197	26,180
b) statutory		
c) treasury shares		
d) other	92,301	91,461
- other		
3.bis Advance payments on dividends		
4. Equity instruments		
5. (Treasury shares)		
6. Revaluation reserves	3,921	4,495
- Available-for-sale financial assets	68	471
- Property, plant and equipment		
- Intangible assets		
- Hedges of foreign investments		
- Cash flow hedges	194	346
- Exchange differences		
- Non-current assets held for sale		
- Actuarial gains (losses) relating to defined benefit plans	(165)	(144)
- Portions of revaluation reserves from equity investments measured using the equity method		
- Special revaluation laws	3,823	3,823
7. Profit (loss) for the year	79,478	70,314
Total	332,878	323,432

B.2 Revaluation reserves for available-for-sale financial assets: breakdown*(Amounts in € thousands)*

Assets/Amounts	Total 12/31/2017		Total 12/31/2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	68		471	
2. Equity securities				
3. Units in CIUs				
4. Loans				
Total	68		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

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.

2.1 Own funds

A. Qualitative information

Own funds represent the first line of defense against risks associated with overall financial activities and constitute the main reference parameter for the assessment of the Bank’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 Bank constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and Risk Committee 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 Bank’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 transitional period, that is, until the adoption of IFRS 9 (effective as of January 1, 2018), the Bank will not include in own funds unrealized profit or loss relating to the above exposures.

Tier 2 (T2) capital includes Tier 2 instruments issued by subsidiaries.

The Bank's Own funds amounted to €321.8 million in 2017, compared to €225 million at December 31, 2016.

B. Quantitative information

(Amounts in € thousands)

Items/Amounts	Total 12/31/2017	Total 12/31/2016
A. Common Equity Tier 1 - CET1 before the application of prudential filters	249,117	250,485
of which 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)	249,117	250,485
D. Items to be deducted from CET1	(25,586)	(25,460)
E. Transitional period - Impact on CET1 (+/-)		
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	223,531	225,024
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects		
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-)		
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)		
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects		
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-)		
P. Total Tier 2 (T2) capital (M - N +/- O)	98,224	
Q. Total Own Funds (F + L + P)	321,755	225,024

2.2 Capital adequacy

A. Qualitative information

Compliance with the Bank's 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 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 Bank'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 Bank, the CET1 Capital Ratio is 10.6%, the Tier 1 Capital Ratio is 10.6% and the Total Capital Ratio is 15.3%.

Such ratios take account of the effects on Own funds described in the previous paragraph 2.2, and of the downgrade of the Republic of Italy by the reference ECAI, DBRS, which, on January 13, 2017, lowered the unsolicited rating from "A low" to "BBB high", causing the country to be downgraded from Credit Quality Step 2 to Credit Quality Step 3. Exposures for receivables due from the Italian public administration, 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.

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 di 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 Bank 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 Bank 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 Bank submitted the "ICAAP Report 2016", to the Bank of Italy, updating the risk management system aimed at determining capital adequacy.

B. Quantitative information*(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	4,542,171	1,681,377	1,112,622
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			145,868	89,010
B.2 Credit valuation adjustment risk			24	36
B.3 Settlement risk				
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			22,770	25,350
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			168,662	114,397
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,107,975	1,429,957
C.2 Common Equity Tier 1/ Risk-weighted assets (CET1 capital ratio) (%)			10.6%	15.7%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			10.6%	15.7%
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			15.3%	15.7%

The change in own funds and capital requirements was affected by the following main events:

- 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.

- Issue of Tier 2 bonds for a total face value of €100 million.
- Growth in outstanding volumes and, therefore in “Due from customers” compared to the previous year, which led to a subsequent increase in capital absorption for credit risk.
- Distribution by the Bank of all the Banking Group’s dividends for an overall amount of €83.7 million. Therefore, the Bank’s profit of €79.5 million will be entirely distributed to Shareholders. Furthermore, an amount of €4.2 million, to be withdrawn from the Retained earnings reserve, will be allocated to Shareholders.

Part G - Business Combinations

Section 1 - Transactions performed during the year

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

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 Bank at December 31, 2017, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statement item.

	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	7,679	0.1%
Due to customers					
At December 31, 2017		(503)	(503)	(2,499,059)	0.0%
Provisions for risks and charges: a) pension and other post-employment benefits					
At December 31, 2017		(2,660)	(2,660)	(5,146)	51.7%
Other liabilities					
At December 31, 2017		(122)	(122)	(42,890)	0.3%
Reserves					
At December 31, 2017		(520)	(520)	(118,497)	0.4%
Impact of transactions on the consolidated income statement					
Interest and similar expenses					
At December 31, 2017		(9)	(9)	(31,406)	0.0%
Administrative expenses					
a) personnel costs					
At December 31, 2017		(2,215)	(2,215)	(22,154)	10.0%
Net allocations to provisions for risks and charges					
At December 31, 2017		0	0	(825)	0.0%
Other operating income (costs)					
At December 31, 2017	11		11	5,359	0.2%

Notes: (1) Including members of the Board of Directors

Option rights relating to the stock option plan granted to Banca Farmafactoring's directors and executives with strategic responsibilities amounted to 2,352,000 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): €189 million;
- Magellan S.A.: €1.3 million;
- Magellan S.A.: PLN 501.8 million;
- Magellan Central Europe: €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.

Banca Farmafactoring 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 Banca Farmafactoring's directors and other Group's 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 Bank's employees to motivate them, reward their loyalty and strengthen their sense of belonging to the company, 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 Bank 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 first-instance sentences in legal proceedings 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 Bank'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 Supervisory Authority 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.

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 separate financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

(Amounts in € thousands)

Type of services	Banca Farmafactoring SpA			
	PwC SpA		PwC Network	
	Italy	Outside Italy	Italy	Outside Italy
Audit fees	229			31
Certification services (*)	335			
Tax fees				
Other services (**)	85		77	
Total	649		77	31

(*) 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 Annual 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 Annual report.

2) The suitability and effective application of the administrative and accounting process employed to draw up the 2017 Annual report 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 Annual report as of 31 December 2017

- 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.

3.2 The report on operations includes a reliable analysis of the important events and their impact on the Annual report, 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

Chief Executive Officer



Carlo Zanni

Financial reporting officer



04

BOARD OF STATUTORY AUDITORS' REPORT



BANCA FARMAFACTORING S.P.A.

BOARD OF STATUTORY AUDITORS' REPORT
TO THE SHAREHOLDERS' MEETING OF BANCA FARMAFACTORING S.P.A.
PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/1998
AND ARTICLE 2429, PARAGRAPH 3, OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of Banca Farmafactoring S.p.A.

Dear Shareholders,

The Board of Statutory Auditors [**"the Board"**] has been asked to report to the Shareholders' Meeting of Banca Farmafactoring S.p.A., Parent Company of the Banca Farmafactoring Banking Group [hereinafter also referred to as **"BFF"**, **"the Bank"** or **"the Company"**], called to approve the financial statements for the year ended December 31, 2017, on the supervisory activities carried out during the year, and on the other activities provided for by the regulations, also in its capacity as Internal Control and Audit Committee, pursuant to Article 153 of Legislative Decree 58/1998 [the **"Consolidated Law on Finance"**], Article 2429 et seq. of the Italian Civil Code, and pursuant to Articles 17 and 19 of Legislative Decree 39/2010, and Articles 4, 5, 6 and 17 of Regulation (EU) 2014/537.

The Board recalls that on April 4, 2017 BFF concluded the placement of its ordinary shares, 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.

The draft financial statements for the year ended December 31, 2017, which are submitted for your approval, include the notes and the schedules thereto, as well as the Directors' report on operations.

The supervisory activities have been carried out by the Board of Statutory Auditors pursuant to the provisions of Article 2403 of the Italian Civil Code, Legislative Decree 58/1998 (Consolidated Law of Finance), and the relevant provisions issued by Supervisory Authorities, in accordance with the recommendations issued by CONSOB and the Code of Conduct of the Board of Statutory Auditors as drawn up by the Italian National Board of Chartered Accountants and Accounting Experts (*Consiglio Nazionale dei Dottori Commercialisti and Esperti Contabili*).

The Ordinary Shareholders' Meeting of Farmafactoring S.p.A. held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. [**"PwC"**] to audit the financial statements for the years 2012-2020, as proposed by the Board of Statutory Auditors.



This Report describes the work carried out by the Board in the performance of its duties, which, during the year—and with specific reference to supervisory activities—were conducted in accordance with the law.

a) Appointment, self-assessment and activities of the Board of Statutory Auditors

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting held on November 4, 2015. Additions to the Board were approved by the Shareholders' Meeting of March 31, 2016, and by the Shareholders' Meeting of February 13, 2017, in which Sabrina Pugliese was appointed to replace Francesco Tabone, effective subject to listing.

The Board of Statutory Auditors, again for 2017, has assessed the qualifications of its members and the proper composition of the body—with reference to the requirements of professionalism, competence, integrity and independence required by law—as well as the availability of sufficient time and resources given the complexity of the engagement.

The self-assessment of the Board was conducted sharing the evaluation method with an independent third party company, in order to give greater transparency to the process. Also on the basis of the findings of the consultant, during the examination of questionnaires and interviews conducted with the individual members, self-assessment provided positive feedback regarding the composition and functioning of the Board of Statutory Auditors.

The Board of Statutory Auditors has participated, both individually and in cooperation with the Bank, in training sessions organized by ABI, Assonime and Assogestioni, on matters concerning the role of the Board of Statutory Auditors, its supervisory duties and statutory audit of the financial statements, as well as on issues related to corporate governance, financial reporting and internal control and risk management systems.

In order to govern the composition, functioning and powers of the supervisory body, in line with the principles established by applicable laws and regulations as well as the Corporate Governance Code the Company adheres to, the Board of Statutory Auditors has adopted its own Regulations, updated from time to time to reflect changes in legislation.

In 2017, the Board supplemented these Regulations with the Measures concerning recovery plans, submitting the new version to the Board of Directors for acknowledgment.

The Board of Statutory Auditors, in accordance with its Regulations and as far as its responsibilities are concerned, has monitored the observance of the law, bylaws, and the principles of proper administration; the adequacy of the organizational structure,



the internal control system, and the administrative and accounting structure; and the reliability of the latter to correctly represent operating events.

During the year, the Board of Statutory Auditors, which identifies itself with the Internal Control and Audit Committee as envisaged by Legislative Decree no. 39 of January 27, 2010, has carried out the verification activities entrusted to it by Article 19 of such Decree.

In this regard, it should be noted that, as of January 1, 2017, the regulatory provisions introduced by Decree 135/2016 and by Regulation (EU) 537/2014 became effective, which provide for greater interaction between the auditors and the Board of Statutory Auditors, identified as the “Internal Control and Audit Committee” [also “CCIRC”] introduced at the time by Decree 39/2010, to which new duties and responsibilities are assigned.

In particular, the amendments to the regulations governing the statutory audit of the annual and consolidated financial statements, aimed at improving the quality of the audit and the independence of the statutory auditors and audit firms, assign new duties and responsibilities to the Board of Statutory Auditors— also regarding the tasks assigned to the statutory auditor, not specifically related to audit activities— and a new structure for the independent auditors’ report on the financial statements.

During the year, the Board of Statutory Auditors has held, as far as its responsibilities are concerned, 29 meetings, on the basis of an Annual Audit Plan agreed with the second and third level control functions.

The Board of Statutory Auditors, with limited justified absences by some of its members, has also taken part in all 17 meetings of the Board of Directors and all 15 meetings of the Control and Risk Committee.

The chairperson, in the name of the entire Board of Statutory auditors, has also participated in the meetings of the Related Party Transactions Committee, the Remuneration Committee, and the Appointments Committee.

In conducting the supervisory and control activities, the Board has also had numerous meetings with senior management, with the internal control Functions (Compliance, Anti-Money Laundering, Risk Management and Internal Audit), with the Audit Firm, the Supervisory Body appointed pursuant to Legislative Decree 231/2001— of which the chairperson of the Board of Statutory Auditors is a member— , and the Heads of the various Operating Units.

The participation in the meetings of the Board of Directors and in meetings with the Control Functions and the Heads of the various Operating Units, as well as the examination of the information flows prepared by the functions, enabled the Board to acquire, in the various sectors, necessary and useful information regarding the general trend in operations, the business outlook, the organization, the internal control and



risk management system, and the administrative and accounting system, in order to assess their adequacy in meeting the company's needs and their operating reliability.

The meetings with the internal control functions specifically made it possible to obtain adequate information on the system of internal control and risk management at the level of the Banking Group.

The contacts with the Head of the Planning, Administration and Control Department offered the possibility of adequately checking the observance of the control policies and procedures relating to the administrative and accounting system, which can be confirmed as adequate.

With regard to the manner in which it has carried out its duties, the Board of Statutory Auditors informs and states that it:

- has acquired the elements of information necessary to conduct control activities, as far as its responsibilities are concerned, on the degree of adequacy of the organizational structure adopted by the Company, also as regards the liaison with subsidiaries, through direct inquiry, gathering of information from the Heads of the interested Functions, exchange of data and information with the Audit Firm;
- has monitored the observance of the requirements of the Bank of Italy;
- has overseen the application of the anti-money laundering laws;
- has overseen the functioning of the internal control and the administrative and accounting systems, in order to assess their adequacy in relation to operational needs and their reliability to represent operating events, through direct observance of company documents, gathering of information from the Heads of the respective Functions, and analyses of the results of the work carried out by the Audit Firm;
- has monitored the controls of the Parent Company over the subsidiaries.

Worthy of note is the involvement of the Internal Audit Function and the Supervisory Body of the Bank pursuant to Legislative Decree 231/2001— with regard to their respective competences—in the activities of the Board of Statutory Auditors; the function of the Supervisory Body, pursuant to Legislative Decree 231/2001, has not been transferred to the Board of Statutory Auditors, but is carried out by a separate collective body.

b) Significant events and transactions during the year

The separate financial statements of Banca Farnafactoring S.p.A. at December 31, 2017 show a profit of €79,477,696, which is formed as described in detail in the report prepared by the Board of Directors, to which reference should be made.



With regard to significant transactions, also present in the Report on Operations, the Board of Statutory Auditors has deemed it useful to point out as follows:

- i) On March 28, 2017, BFF received authorization from the Bank of Italy to conduct non-recourse factoring activities in Greece, under the freedom to provide services provision. In September, the Bank finalized the first transaction for the purchase of receivables, for a total of €10 million.
- ii) With reference to the funding plan for the year, Banca Farmafactoring's activities in 2017 were as follows:
 - a. on June 12, 2017, the first BFF Group bonds, issued for €300 million, were repaid on maturity;
 - b. on March 2, 2017, the private placement was completed of a 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;
 - c. on June 29, 2017, the placement was completed of 5-year senior unsecured and unrated €200 million bonds;
 - d. on December 5, 2017, the public placement was completed of 2.5-year senior unsecured and unrated €200 million bonds.

All the issues were reserved for institutional investors; the bonds were listed for trading on the Irish Stock Exchange and on Borsa Italiana's ExtraMOT, and have been admitted to trading on the relevant markets.

- iii) As far as securitization transactions are concerned, the Bank has decided to amortize the securitization on the Farmafactoring SPV I vehicle, initially amounting to €85 million, thereby ending the revolving phase and gradually repaying the Senior Notes. At the end of the reporting period, outstanding securities amounted to €1.8 million. Moreover, 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 Board of Statutory Auditors has also taken note that, during the first months of the current financial year, all the procedures to open a branch in Portugal have been performed and the Bank is waiting for Banco de Portugal (the relevant Supervisory Authority) to reply to the notification previously sent by the Bank of Italy. Moreover, 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.



Furthermore, in 2017 Banca Farmafactoring continued to contribute to the Deposit Guarantee Scheme (*Fondo Interbancario di Tutela dei Depositi*, introduced by Directive 2014/49/EU - Deposit Guarantee Schemes, DGS) through a mandatory contribution of €546,000 and a voluntary contribution of €671,000. It also contributed to the Resolution Fund instituted by European Regulation 806/2014, in effect from January 1, 2016, for €1.171 million.

It should be noted that the amounts contributed to the voluntary Deposit Guarantee Scheme, both during 2017 and in previous years, were written down by €702,000.

It should also be noted that the Bank has announced to *Fondo Interbancario di Tutela dei Depositi* its intention to withdraw from the Voluntary Scheme, reiterating its disagreement with the resolution of the Extraordinary Shareholders' Meeting of the Fund on September 7, 2017.

Lastly, the Directors have made reference to the capital adequacy of the Group, computed by considering the inclusion of BFF Luxembourg S.à.r.l. (so-called CRR Group), and the motivations underlying its reduction compared to 2016.

More specifically, at December 31, 2017, the Bank's equity was equal to €332.9 million, increasing compared to €323.4 million recorded in the previous year.

Own funds recognized in the separate financial statements amounted to €322 million at December 31, 2017; the overall exposure to risks, relating to the activities carried out, is adequate in relation to the level of capitalization and the identified risk profile.

With reference to the capital ratios of the Bank only, the CET1 Capital Ratio amounted to 10.6%, compared to 15.7% in 2016; the Tier 1 Capital Ratio amounted to 10.6%, compared to 15.7% in 2016, and the Total Capital Ratio was equal to 15.3%, compared to 15.7% in 2016.

The Report on Operations provides a detailed description of the reasons behind such changes compared to the prior year, that can be summarized as follows:

- downgrade of the Republic of Italy by the ECAI of reference, DBRS, which lowered the unsolicited rating from "A low" to "BBB high"; this change has an impact on the assessment of the credit risk relating to exposures to the public administration;
- issue of Tier 2 bonds for a total face value of €100 million;
- growth in receivables "Due to customers" compared to the previous year, which led to a subsequent increase in capital absorption;
- distribution of dividends for an overall amount of €83.7 million.

At the Banking Group level pursuant to the Consolidated Law on Banking, Own Funds amounted to €352 million at December 31, 2017, net of dividends. Capital ratios were as follows: CET1 Capital Ratio, 12.6%; Tier 1 Capital Ratio, 12.6%; Total Capital Ratio, 17.5%.



The Board of Statutory Auditors also found that, as of January 1, 2017, the estimated recovery percentage of late payment interest to be included in amortized cost was determined at 45%, instead of the previous 40%, with average collection times unchanged at an estimated 1,800 days; the change of this estimate resulted in a one-off positive effect on net income, for the Bank only, of €16.5 million.

This change was made following the updating of the time series of collections, including those referring to 2016, which highlighted a weighted average percentage of collections above the 40% used to prepare the 2014 and 2015 financial statements, as well as for the financial statements at 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 the estimated collection times.

The Board of Statutory Auditors, based on the information acquired and the controls carried out, has no observations or matters to report relative to the conformity of the transactions executed by the Company with the law and the bylaws.

c) Atypical and/or unusual transactions

The Report on Operations, the information received during the meetings with the Board of Directors and from the Chairman and Chief Executive Officer, from management, the control functions and the auditors, did not indicate the existence of atypical and/or unusual transactions, including intragroup or related party transactions.

d) Intragroup or related party transactions

The Board of Statutory Auditors has monitored the compliance and observance of the policies, regulations and procedures followed by the Bank, without finding any critical issues.

The main document of reference is the "Banca Farmafactoring Banking Group Regulation for the management of transactions with parties that may be in a conflict of interest" approved by the Board of Directors on November 11, 2016 (effective subject to listing).

During 2017, the Board has not noted the existence of atypical or unusual transactions with related parties, intragroup, or with other parties, nor have there been indications in that sense from the Board of Directors or the independent auditors.

The transactions between the Bank and certain shareholder companies and between the Bank, its subsidiaries and its parent are based on ordinary operating activities and are in the interests of the Company, as stated by the Directors in the Report on Operations.

Such transactions are carried out at arm's length and take into account the characteristics of the transactions that have been entered into.

Information on related party transactions is detailed in the relevant section of the separate financial statements.

- e) *Monitoring and control activities carried out by the Board of Statutory Auditors in relation to the duties attributed to it as the "Internal Control and Audit Committee"*

As already mentioned, the Board of Statutory Auditors, identified as the "Internal Control and Audit Committee" [also "CCIRC"], has noted the profound evolution of audit activities due to the Reform of the statutory audit of annual and consolidated financial statements of companies, adopted (with Legislative Decree 135/2016) in implementation of Regulation (EU) 537/2014 and Directive 2014/56, whose changes mainly include:

- a new audit report, both in terms of structure and content;
- the substantial amendment of the Report for the Internal Control and Audit Committee;
- the expression of an opinion on the compliance of the management report with the law and declaration on any material errors (already starting from the year ended December 31, 2017).

In relation to the new and different duties imposed on the Board in its capacity as CCIRC, independent assessments were carried out on the organizational structure aimed at fully implementing the new regulatory provisions, intended, in particular, to improve the quality of the audit and the independence of the statutory auditors and audit firms, in order to improve market and investor confidence in financial information.

The regulatory changes, with particular reference to public-interest entities ["PIEs"] such as Banca Farmafactoring, involved the strengthening of interaction between auditors and the CCIRC, placing particular emphasis on maintaining the independence requirement, also through the constant monitoring of the activities performed by the auditor. A distinction is made between Audit Services and Non-Audit Services and, among the latter, between the services allowed and those prohibited by Article 5 of the aforementioned Regulation, which expressly states that any Non-Audit Services assigned to the Auditor must first be subject to assessment and the expression of an opinion by the CCIRC.

The Bank, together with the Board of Statutory Auditors, with a view to better governing the new context, thus issued its own "Group Regulations for the approval of Non-Audit Services to be assigned to the company entrusted with the statutory audit", which defines the general principles and operating procedures related to the assignment of Non-Audit Services entrusted to the Primary Auditor and its Network, as well as to the Secondary Auditor.



In 2017, the Board of Statutory Auditors, with particular regard to the adequacy of non-audit services provided to the audited entity, in accordance with Article 5 of the EU Regulation, constantly verified and monitored the independence of the Auditor, issuing specific opinions for all engagements assigned and classified as Non-Audit Services.

As regards the audit activities, during the many meetings held with the auditor PWC, the Board of Statutory Auditors:

- (i) has acquired information on the tests carried out on the proper keeping of the Company's accounting records and on the proper recognition of operating events in the accounting entries;
- (ii) has received from the audit firm, pursuant to Article 11 of Regulation (EU) 537/2014, the additional Report for the Internal Control and Audit Committee, which showed: i) no significant weaknesses in the internal control system as regards the financial reporting process, considered important enough to be brought to the attention of the CCIRC; ii) no cases of fraud or suspected fraud; iii) no significant matters concerning cases of non-compliance; iv) no significant difficulties concerning the availability of the information required for audit activities; v) no significant errors; vi) no significant aspects concerning the related parties of the company, such as to require reporting to those responsible for governance activities;
- (iii) has received from the same audit firm, pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) 537/2014, and pursuant to paragraph 17 of ISA Italia 260, confirmation of its independence, referring to the statement presented in the financial statements of Banca Farmafactoring for disclosure of the total fees charged to the Bank.

The Board of Statutory Auditors has also examined the reports issued by the auditors, PricewaterhouseCoopers S.p.A. on March 14, 2018, the activities of which integrate the overall framework of the control functions established by the law with reference to the financial reporting process.

As already mentioned, the text of the Audit Report, following the changes by the Audit reform, has been significantly revised in terms of structure and content, concerning both attestations and information, especially with regard to the so-called Key Aspects of the audit, i.e. the aspects considered most significant in the scope of the audit of the separate and consolidated financial statements.



With regard to the opinions and attestations, the Auditor, in the Report on the audit of the financial statements:

- has issued an opinion stating that the separate and consolidated financial statements of Banca Farmafactoring give a true and fair view of the financial position of the Bank and the Group at December 31, 2017 and of the result of its operations and cash flows for the year then ended in compliance 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 38/2005 and article 43 of Legislative Decree 136/15;
- has issued an opinion on consistency stating that the Reports on Operations accompanying the separate and consolidated financial statements at December 31, 2017, and specific disclosures contained in the "Report on Corporate Governance and Ownership Structure" pursuant to Article 123-bis, paragraph 4, of the Consolidated Law on Finance, for which the Bank's Directors are responsible, were drawn up in compliance with the law;
- has declared there was nothing to report in relation to any material errors in the Reports on Operations, on the basis of the knowledge and understanding of the Company and its operating context acquired during the audit.

As regards the identification of the Key Aspects, the Board of Statutory Auditors has ascertained that these only concern: i) the recognition of late payment interest on non-impaired receivables purchased on a non-recourse basis and ii) the estimate of the recoverable amount of the equity investment held in Magellan recorded in the financial statements, with regard to the separate financial statements, and i) the recognition of late payment interest on non-impaired receivables purchased on a non-recourse basis and ii) the estimate of the recoverable amount of the recognized goodwill attributable to the acquisition of Magellan S.A., with regard to the consolidated financial statements.

In this regard, the Board of Statutory Auditors was able to examine the audit procedures in response to the Key Aspects, agreeing on the measures for mitigating any risks arising from the aspects considered significant.

f) Monitoring activities on the independence of the auditors

As anticipated, the Board of Statutory Auditors has taken note of the Report on the independence of the auditors issued on March 14, 2018 pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) 537/2014 and paragraph 17 of ISA Italia 260, which does not report any situations that would compromise the independence or reasons for incompatibility, pursuant to articles 10 and 17 of Legislative Decree 39/2010 and articles 4 and 5 of Regulation (EU) 537/2014.



The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 2017 for auditing services and other services provided by the audit firm and other companies in its network.

(Amounts in € thousands)

Type of services	Banca Farmafactoring SpA				Group companies			
	PwC SpA		PwC Network		PwC SpA		PwC Network	
	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy
Audit				31				130
Certification services (*)	335							
Tax advice services								7
Other services (**)	85		77					
Total	649		77	31				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 agreed verification procedures, due diligence activities and methodological support.

As mentioned, in relation to the assignment of Non-Audit Services, the Board of Statutory Auditors constantly carried out independent assessments of the potential independence risks of the auditor and the safeguards applied pursuant to Article 22-ter of Directive 2006/43/EC, mainly ascertaining:

- that the non-audit service was not prohibited by Article 5, paragraph 1, letter i) of the EU Regulation, unless otherwise determined by the Member States;
- the reasons for assignment to the auditor PwC by the management of the PIE (the Bank);
- that the fees requested were determined such as to guarantee the quality and reliability of the engagement, and were such as to not lead to the emergence of possible risks to the auditors' independence.

As regards the statement above, it should be noted that most of the Non-Audit Services assigned to the Auditor, besides the engagements for the audit of the separate and consolidated financial statements, the full audit of the half-year financial report, the limited review of the quarterly reports and the verification of the proper recording of the accounting and the proper recognition of operating events in the accounting records— for the entire Group, including the foreign companies—, refer to attestation services provided for the issue of bond loans on the basis of the Statement on Auditing Standard no. 72 – Letters for underwriters and certain other requesting parties – issued by the American Institute of Certified Public Accountants (AICPA), as amended and supplemented by SAS 76.

As for the above, regarding the engagements assigned to PWC and its network by Banca Farmafactoring and the companies of the Group, the Board of Statutory Auditors does not believe there are any critical issues regarding the independence of the Auditor.

g) *Monitoring activities on the administrative accounting and financial reporting process*

Art. 19 of Legislative Decree 39/2010, as newly formulated, states that the CCIRC is responsible for monitoring the financial reporting process and for presenting any recommendations or proposals aimed at ensuring the integrity thereof.

In anticipation of the listing of its shares, the Board of Directors of Banca Farmafactoring, in accordance with the provisions of Law no. 262 of December 28, 2005 and Article 154-bis of the Consolidated Law on Finance, had already reviewed its governance structure, with resolutions dated April 28 and July 28, 2016, also with specific reference to the internal control and risk management systems with regard to financial reporting. In particular, on such occasions the Financial Reporting Officer was appointed, and the project for structuring the control model of Financial Reporting Officer was approved, consisting mainly of the Regulations for the Financial Reporting Officer Function and the Methodological Framework of the Financial Reporting Officer.

During the year, the Board of Statutory Auditors, for the duties assigned thereto, also in its capacity as the Internal Control and Audit Committee, monitored the implementation process of the Financial Reporting Officer Function, with which it held regular meetings, examining the reference model, structured according to best market practices (COSO Report and Cobit Framework) and able to provide reasonable assurance on the reliability of the financial reporting, the effectiveness and efficiency of operations, and compliance with the law and internal regulations.

In particular, the Board noted that the Bank selected a so-called mixed control model, deemed suitable to guarantee the monitoring of the Internal Control System for interim financial reporting based on the characteristics of the Group, defining the characteristics for Subsidiaries, which, for the purposes of carrying out the planned activities, envisages:

- direct controls for the Parent BFF, with the preliminary definition of activities ("scoping"), identification of procedures considered significant and the consequent identification of risks concerning "incorrect accounting representation due to errors and/or omissions relating to the balance of an account or class of transactions, resulting from calculation errors, classification errors and/or the manipulation of information, such as to generate, individually or jointly, material misstatements in the financial statements and/or financial reporting", i.e. accounting risks;



- a centralized control model for the subsidiary Farmafactoring España, which provides for the identification of resources among the staff of the Financial Reporting Officer of the Parent Company which carry out the checks required by the control model on both the Parent Company and Farmafactoring España, also through on-the-spot checks;
- a decentralized control model for the subsidiary Magellan S.A., which provides for the identification of a local resource, which reports hierarchically to the CFO of the subsidiary and functionally to the department of the Financial Reporting Officer of the Parent Company, which is responsible for carrying out checks on the administrative and accounting procedures, for the purpose of generating adequate information flows to ensure the proper monitoring of financial reporting risks.

As regards the activities carried out by the Financial Reporting Officer Function in order to attest in its report the adequate and effective application of the administrative and accounting procedures, essential for ascertaining correspondence between the corporate accounting documents and the results of the accounting books and their suitability to give a true and fair view of the financial position, the Board of Statutory Auditors has verified the results of the checks carried out, which showed a situation that is monitored across the various areas, without the recognition of any critical issues or deficiencies such as to invalidate the opinion on the adequate and effective application of the administrative and accounting procedures.

As regards the structure and content of the Interim Reports prepared by the Financial Reporting Officer for the half-year and annual financial statements, the Board of Statutory Auditors believes that the activities carried out to assess the adequate and effective application of the processes and procedures necessary for the financial reporting of the Banca Farmafactoring Group were sufficient to support the attestation required from the CEO and Financial Reporting Officer of the Banca Farmafactoring Group pursuant to art 154-bis of Legislative Decree 58/98 (Consolidated Law on Finance, hereinafter, "TUF").

The Board of Statutory Auditors has also obtained adequate information from the Directors on the general performance of operations and the business outlook as well as on the most significant transactions, in terms of size or features, carried out by the Bank and its subsidiary, and, in this regard there are no significant matters to report either from third parties or employees.



b) Monitoring activities on the adequacy of the internal control system

The Board of Statutory Auditors has monitored the adequacy of the internal control system also, as mentioned, through regular meetings with the Bank's senior management and Control Functions (Internal Audit, Compliance and AML, Risk Management) and with the Financial Reporting Officer Function, as well as through constant participation in the work of the Control and Risk Committee.

In particular, the Board of Statutory Auditors has verified that each company of the BFF Group is equipped with an internal control system in line with the Group strategy and policy, especially with regard to foreign subsidiaries, in relation to which initiatives were implemented aimed at ensuring adequate standards and organizational controls, in compliance with local regulations.

In this regard, recalling that the Bank, in its capacity as Parent Company of the BFF Group, in addition to the banking businesses, carries out management, coordination and control activities over FFE and Magellan, the Board of Statutory Auditors has acknowledged the approval by the Board of Directors of the "Intercompany Regulations", which define the organizational structure, objectives and content of management, coordination and control activities, and the "Group Regulations", which govern the regulatory sources within the Bank.

Furthermore, BFF, as Parent Company and representative with the Supervisory Authority, has issued to its subsidiaries the various measures necessary to implement the general and specific instructions given by Bank of Italy in the interest of Group stability, pursuant to Article 61, paragraph 4 of the Consolidated Law on Banking and Circular no. 285.

The Board of Statutory Auditors has also acknowledged that in 2017 the regulatory body of BFF was further adapted both in terms of Governance Regulations and Operating Regulations, also in implementation of the observations of the control functions and the requests from senior management and the operational structures.

Particular importance, in the review of the regulatory system of the Bank and the Group, was given to: i) the application process of the new accounting standard IFRS 9; ii) the review of the AML (Anti-Money Laundering) function, by virtue of the entry into force of the new provisions on the matter; iii) the security of online payment services; iv) the activation of so-called Non-Audit Services; v) the FATCA regulations, and vi) the implementation of different policies and regulations given its new status as listed company.

With particular reference to the recently acquired Magellan Group, during the year under review Banca Farnafactoring, in its capacity as parent company of the Banking Group, and taking into account its level of importance, continued in the strategic control over the evolution of the areas in which Magellan operates and the various risks referring to the activities conducted, as well as in the technical and operational control directed to the measurement of the various risk profiles brought to the Group.

As regards the latter, worthy of note is the development of information systems, aimed at implementing a data warehouse for the automated exchange of information between Group companies, which allows independent and direct access by the Parent Company to the information assets of its subsidiaries.

As reported in detail in the previous paragraph, the creation of the Financial Reporting Officer Function and all other activities aimed at ensuring the effectiveness of the internal control and risk management system with regard to financial reporting is another significant aspect in the process of strengthening the Group's internal control system.

The Board of Statutory Auditors, as far as its responsibilities are concerned, has followed the different activities carried out and was informed about the implementation of the activity plans and the results achieved, also in terms of the effectiveness of the coordination of the activities and the information flows among the various subjects involved.

The Board has also taken note of the activities conducted by the Supervisory Body, appointed to ensure the adequacy, observance and updating of the organizational and management model set forth in Legislative Decree 231/2001, and monitored the requisites of efficiency and independence related thereto, through meetings and direct participation in its work.

The Board has also verified that the Bank has observed the correspondence and submission obligations to the Supervisory Bodies.

Based on the activities performed and the information acquired, the Board of Statutory Auditors therefore believes that there are no critical issues such as to undermine the structure of the internal control system.

i) Monitoring activities on the adequacy of the risk management system

The Board of Statutory Auditors has monitored the adequacy of the risk management system, also through: examination of the Interim Reports of the control functions and the periodic information provided on the results of the monitoring activities and the implementation of the corrective measures identified; participation in the work of the Control and Risk Committee, also attending the meetings of the Risk Committee.

In particular, the Board took note that the Bank, as described also in the "Report on the system of internal control and risk management", has adopted a system of internal control and risk management that involves each of the following according to its specific responsibilities: a) the Board of Directors, which has the role of guidance and assessment of the system's adequacy; b) the Risk Committee, which is tasked with lending support, by appropriate oversight activities, to the assessments and the decisions made by the Board of Directors regarding the system of internal control and risk management; c) the Risk Management Function and the Compliance and AML Function, which bear specific responsibilities on the subject of internal control and



risk management, according to the dimensions, complexity and risk profile of the company; d) the Internal Audit Function, charged with the duty to verify that the system of internal control and risk management is functioning and adequate; e) the Board of Statutory Auditors, which monitors the effectiveness of the system of internal control and risk management.

According to the Board of Statutory Auditors, worthy of note is the Board of Directors' decision, taken during its meeting on April 28, 2016, for the purposes of the Listing process and effective subject to it, to appoint the CEO as Director responsible for creating and updating an effective Internal Control and Risk Management System (the "Appointed Director"), also by enforcing the strategic guidelines relating to the Internal Control System, as defined by the Board of Directors, supported by the Control and Risk Committee, and by ensuring the implementation of all the necessary measures to create the Internal Control System.

More specifically, also at the Group level, a fundamental aspect is considered to be the optimization of the governance of risks, in observing the following risk statements:

- ensure that regulatory requirements are met, guaranteeing that the levels of capital and liquidity of the Group remain strong from the standpoint of the first and second pillars, both under normal operating conditions and under stress scenarios;
- maintain a low risk profile;
- guarantee an adequate financial leverage level, through a policy of capitalization consistent with the level of the assets;
- ensure the availability of high quality liquidity assets (Liquidity Coverage Ratio) and stable funding sources (Net Stable Funding Ratio), such that the Group continuously maintains a level of liquidity sufficient to absorb potential shocks in the short and medium/long term;
- implement an adequate Internal Control System (ICS).

The Group, therefore, has adopted a structured reference framework by implementing a disciplined process based on a specific internal risk appetite framework ["RAF"] regulation. This is evaluated by the Board of Directors in relation to the business model and the strategic plan, and calls for the approval of risk objectives and risk tolerance.

In this regard the Board of Statutory Auditors has supervised, to the extent of its responsibilities, the completeness, adequacy, functionality and reliability of the RAF, also evaluating the changes to the framework during the year in relation to developments in terms of metrics and the calibration of risk limits, in order to incorporate such developments in the Bank's business models and take into account the regulatory guidelines.



The Board of Directors has set out the guidelines for the internal control system, ensuring that the main corporate risks are identified, managed and monitored in an adequate manner. Specifically, it has assessed all types of risk at the consolidated level and has approved the assumption of risk in a broad manner for all the Group companies and for all the countries in which it operates.

The system of internal control and risk management therefore appears to be fully consistent with the rules and regulatory framework, with the organizational structure of the Group and in line with the standards as well as national and international best practices.

Again in 2017, the Board of Statutory Auditors has constantly monitored the activities carried out by the control functions, reporting on the most relevant aspects and the outcome of checks carried out, with the following observations.

During the year, the Compliance function carried out a new mapping of the compliance risks to which Banca Farmafactoring is exposed and the controls adopted to mitigate them. The Board of Statutory Auditors agreed on the methodological approach used, through: i) the mapping of the areas and regulatory requirements applicable to the Bank, and the identification of the activities at risk associated with the same; ii) the determination of Inherent Risk; iii) the assessment of the Vulnerability of the Organization and Control System and; iv) the determination of the Residual Risk.

As a result of the mapping of compliance risks, no "High" level residual risks emerged as well as the presence of 6 requirements characterized by "Medium" residual risk. With regard, instead, to the regulatory areas in which the monitoring of compliance risks is carried out directly by the specialized functions of the Bank, assessment of the level of compliance risk was independently carried out by each Specialized Control service, formalizing the relative outcome in a "Self-Assessment" document, with subsequent independent control by the Compliance and AML and Risk Management Functions.

The Board of Statutory Auditors, together with the Internal Audit Function, considers the representation of the overall compliance risks to which Banca Farmafactoring is exposed adequate, and that the initiatives taken and measures carried out, or being completed, can be considered effective with respect to the proper implementation of the risk management process, recommending the extension of the compliance risk mapping and management activities to all individual Entities belonging to the Group. The Board of Statutory Auditors, together with the Risk Management Function, also made further observations regarding the need to assess, under the ICAAP framework, a more adequate measurement of operational and reputational risks, arising from compliance risks.



On May 31, 2017, the Company's Board of Directors approved the Recovery Plan of the Banca Farmafactoring Banking Group [the "Recovery Plan"], prepared by the Risk Management Function in compliance with the communication of the Bank of Italy, in relation to the requirements provided by Directive 2014/59/EU – *Bank Recovery and Resolution Directive*.

In this regard, the Board of Statutory Auditors examined the Recovery Plan together with the Risk Management and Internal Audit Functions, clarifying certain aspects with the Control and Risk Committee.

During its assessment, the Board of Statutory Auditors ascertained the substantial consistency of the Recovery Plan with the capital requirements, the RAF and the Group ICAAP, as well as the severity of the expected scenarios and recovery options, with regard to both their feasibility and their impact on the stress events considered.

The Board of Statutory Auditors also examined the governance procedures for the management and possible implementation of the Plan, the escalation procedures in case the attention thresholds are reached, as well as the related communication process.

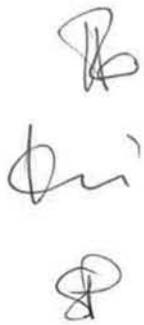
In relation to the Recovery Plan, the Board of Statutory Auditors also observed that the Bank of Italy, on January 26, 2018, communicated to BFF the results of the assessment carried out, considering it "*overall compliant with the relevant regulatory provisions*" requesting some additions and amendments, "*to take account of certain areas for improvement*" that emerged in relation to the indicators, recovery options and preparatory measures.

On April 27, 2017, the Board of Directors of Banca Farmafactoring approved the 2016 ICAAP Report, acknowledging the various observations made by the relevant control functions and by the Control and Risk Committee.

The Board of Statutory Auditors, in this regard, also taking into account the ICAAP Audit Report, has verified that the ICAAP adopted by Bank is structured in accordance with the applicable regulatory provisions, agreeing on the observations expressed by the control Functions on the initiatives proposed to improve the internal capital adequacy assessment process.

As part of the activities carried out by the AML Function, the Board of Statutory Auditors has constantly monitored, with reference to legislation combating money laundering and terrorist financing, the activities carried out by the Function and the outcome of the ex post checks, with no critical situations to report.

The Board of Statutory Auditors has also examined the self-assessment carried out in 2017, during which the Bank's AML Function identified and processed the data and information subject to assessment within the group, and prepared the results of the process, with the identification of any adaptations required in compliance with the provisions of the Bank of Italy set forth in the document "Self-assessment of money laundering and terrorist financing risks" dated October 21, 2015.



In this regard, the Board of Statutory Auditors noted that, in the opinion Head of the Function, the overall evaluation of the Group's residual money laundering risk should be considered "low", in consideration of the assessment of the design and the effectiveness of controls on each legal entity belonging to the Group.

Finally, the Board of Statutory Auditors has taken note of the initiatives implemented for the continuation of activities aimed at the general strengthening of the control functions with regard to the foreign companies of the BFF Group and, in particular, the Magellan Group, for which specific functions have been established that report to the respective Heads of the Parent Company's Functions.

j) Monitoring activities on the adequacy of the internal control system

During the performance of its control activities, the Board of Statutory Auditors continued its constant dialogue with the Internal Audit Function in the year under review, sharing the results of its verifications both in relation to the Parent Company and the individual investee companies.

The Board of Statutory Auditors, in this regard, has ascertained that the activities planned by the Internal Audit Function for the year 2017 covered the scope of activities that the Function undertook to perform. No critical issues emerged from this activity.

The Board of Statutory Auditors has also endorsed the Audit Plan, prepared on a three-year basis for the 2016-2018 period, where the planning of audit activities is carried out according to a process-oriented and risk-based approach.

The Audit Plan is reviewed and/or supplemented annually and submitted for approval by the Board of Directors after examination by Control and Risk Committee, and subject to a preliminary review by the Chairman of the Board of Directors, the CEO, the Board of Statutory Auditors and the 231/2001 Supervisory Body.

The Board of Statutory Auditors has examined the guidelines for updating and revising the Group's Audit Plan for the year 2018 and noted, with particular regard to foreign subsidiaries: i) for the Magellan Group, that the audit reports are shared by the Magellan's Internal Audit Function with local corporate bodies and transmitted to the Parent Company's Internal Audit Function, which involves the relevant corporate Functions for audits in the areas they are responsible for; ii) for Farmafactoring España, that the results of checks carried out are first submitted to the Board of Directors of the subsidiary and included in the Dashboard of the Parent Company's Internal Audit Function.

It should be noted that the Internal Audit Function is responsible for the so-called whistleblowing system, in relation to which only one report was received, considered irrelevant.

The Board of Statutory Auditors also noted that the Bank's Internal Audit Function, with the objective of continuously improving the quality of its services in accordance

with the highest international standards, has adopted a quality certification process since 2014 based on the standard UNI EN ISO 9001:2008 and, following the entry into force of the new standard UNI EN ISO 9001:2015 in 2017, the Function has adapted its quality model to the new requirements.

On November 14, 2017, the Internal Audit Function completed the certification procedure for the Internal Audit process, aimed at obtaining the new UNI EN ISO 9001:2015 certification. The quality management system was in line with the reference standards and since no regulatory “non-compliance” was found, on November 22, 2017, the external body confirmed certification of the Quality Management System according to the professional standard UNI EN ISO 9001/2008.

k) Monitoring activities on compliance with principles of proper administration and adequacy of the organizational structure

The Board of Statutory Auditors has acquired information and monitored the adequacy of the organizational structure adopted by the Bank and its functioning, the observance of the principles of proper administration, and the adequacy of the instructions given to subsidiaries by the Company pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, through meetings and direct observations and by gathering information from the Heads of the relevant functions, in addition to acquiring additional necessary information from the firm appointed to audit the financial statements, PricewaterhouseCoopers S.p.A.

In particular, the Board of Statutory Auditors observed that in 2017, the process for the integration of the Magellan Group—mainly consisting of Magellan S.A. and its subsidiaries Magellan Central Europe s.r.o., Magellan Česká Republika s.r.o., Medfinance S.A.—in the banking Group continued, with specific regard to the financial reporting process at the consolidated level and the overall alignment to the Group’s accounting policies.

The implementation of the integration process also concerned the extension of the BFF Group’s policies and regulations to Magellan, specifically of the Credit Regulation, as well as the adoption of substantial measures to align the ICT platforms. No critical issues emerged from the examination of the interim reports of subsidiaries submitted to the attention of the Board of Directors and the Board of Statutory Auditors.

Furthermore, the Board of Statutory Auditors has noted that in 2017 the Bank expanded its staff with the creation of new departments including: the General Counsel, Investor Relations and M&A, Communication and Institutional Relations.

The Board of Statutory Auditors, considering also the previous points discussed in this Report, believes that the Bank’s organizational structure is adequate in relation to the needs of its current operations.



The Board of Statutory Auditors also believes that the instructions given to the subsidiaries by the Company in order to provide all information necessary to meet the disclosure obligations required by law, pursuant to Article 144, paragraph 2, of Legislative Decree 58/98, are adequate.

l) Remuneration policy

The remuneration policies of the Banca Farnafactoring Group are governed by the Remuneration and Incentive Policy [the "Policy"], drawn up in accordance with the provisions of Title IV, Chapter 2, of the Supervisory Provisions for Banks as per Circular no. 285 of December 17, 2013, and implementing the provisions of the delegated act issued by the European Banking Authority (EBA) concerning the Regulatory Technical Standards (RTS) for the identification of Risk Takers, which came into force on June 24, 2014.

The Policy currently in effect, approved by the Shareholders' Meeting held on March 9, 2017, considers the new Company's status, for remuneration purposes only, as an intermediate-size bank, in conformity with the relevant Supervisory Provisions and, precisely:

- the scope of the roles whose remuneration is approved directly by the Board of Directors based on the proposal by the Remuneration Committee, including directors vested with specific powers, Senior Executives and the Heads of the Group's Control Functions;
- 50% of the variable remuneration to which Risk Takers are entitled (both for the up front and deferred portion), paid using financial instruments. It should be noted that the minimum percentage for intermediate-size banks is 25%, but the Bank, in this case, has adopted a more conservative minimum percentage, as established for larger banks;
- confirmation of the resolutions passed by the Shareholders' Meeting of December 5, 2016, regarding the adoption of a maximum ratio between the variable and fixed component of remuneration equal to 2:1.

The Board of Statutory Auditors also took note of the procedure to prepare the Remuneration Report for the year 2018, in relation to the disclosure required pursuant to Article 123-ter of Legislative Decree 58/1998 and Article 84-quarter of CONSOB Regulation 11971/1999, which is divided into two sections:

- The first section, which contains the remuneration policy of the Banca Farnafactoring banking group for the year 2018, which will be submitted for approval by the Shareholders' Meeting;
- The second section, which describes how the remuneration policy for 2017 was implemented during the year, providing an overview of the remuneration effectively disbursed.



Lastly, the Board of Statutory Auditors took note of the changes made to the procedure for identifying the performance parameters, which limit access to variable remuneration in order to take into account the risks assumed by the Group.

m) Complaints, reports, omissions or reprehensible actions, opinions issued and measures undertaken

During 2017, and up to the date of the preparation of this report, the Board did not receive any complaints pursuant to Article 2408 of the Italian Civil Code, or reports or claims or notices of reprehensible actions.

During the year, the Board of Statutory Auditors has issued opinions and expressed observations which the existing law and Supervisory Provisions for banks assign to the Board, including, besides the opinions on non-audit services:

- observations on the Annual report regarding the outsourcing of important operational functions;
- opinions issued on Remuneration;
- the opinion on the ICAAP report and RAF;
- the opinion on the Recovery Plan;
- the opinion on the mapping of compliance risks and the controls adopted to mitigate them.

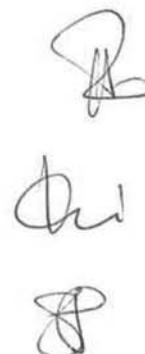
During the activities performed and on the basis of the information obtained, no omissions, reprehensible actions, irregularities or otherwise significant circumstances were found such as to require reporting to the Supervisory Authority or mention in this Report.

n) Governance

The Board of Directors of Banca Farmafactoring S.p.A., which has adopted a traditional administration and control system, is currently composed of 10 members, 5 of whom are independent. The only executive director is the Chief Executive Officer who is in charge of management.

Corporate governance also provides for the creation of a Supervisory Board, pursuant to Legislative Decree 231/2001, and specific committees with analytical, consulting and proactive responsibilities serving the corporate governing bodies with strategic and management supervision functions, meaning:

- the Remuneration Committee;
- the Related Party Transactions Committee;
- the Appointments Committee;
- the Control and Risk Committee.



The Board of Statutory Auditors, which regularly takes part in all the meetings of the Board of Directors, has taken note that in 2017 the updates to all the regulations of the Bank have been approved, in order to consider the extension of the provisions of the existing policies to the new Banking Group, with the extension to the Magellan S.A. Group. The various updates also consider, for governance purposes, the Bank's new status as a larger bank.

In 2017, the Board of Statutory Auditors has conducted a process of self-assessment of its members and took note that the Board of Directors has also performed its self-assessment and prepared a succession plan for the CEO.

The Board of Statutory Auditors has assessed the implementation of the Corporate Governance Code promoted by Borsa Italiana and adopted by Banca Farmafactoring, as illustrated in the "Report on Corporate Governance and Ownership Structure".

During the year 2017, the Board of Statutory Auditors has also verified the proper application of the criteria and procedures for ascertaining the independence requirements of the members of the Board of Directors, pursuant to application criterion 3.C.5 of the Corporate Governance Code. In this regard, the Board of Statutory Auditors found that both the Appointments Committee and the Board of Directors, based on the documentation provided and the statements made by each Director, verified the independence of Directors. The Board of Statutory Auditors thus examined the documentation made available by the company, verifying, in accordance with Article 3.C.5 of the Corporate Governance Code, and to the extent of the duties assigned by law, the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of its Directors.

o) Adjustment of fees to Independent Auditors

The Board of Statutory Auditors received from PricewaterhouseCoopers S.p.A. ["PwC"], the company responsible for auditing the separate and consolidated financial statements of the BFF Group, a proposal dated November 30, 2017, for the amendment of the contractual conditions set forth in the original proposal of April 3, 2012, as subsequently amended on January 12, 2015 and on April 4, 2016, the latter following authorization for the listing of BFF shares on the Mercato Telematico Azionario (MTA).

The proposed adjustments are derived from the Reform of the audit of the separate and consolidated financial statements of companies, implementing (by Legislative Decree 135/2016) Regulation (EU) 2014/537 and Directive 2014/56, as well as the extension of the engagement due to the application of the new IFRS 9 and the expansion of the scope following the acquisition of the Magellan Group.



Pursuant to Article 13, paragraph 1, of Legislative Decree 39/2010, the Board of Statutory Auditors shall prepare a reasoned proposal for the Shareholders' Meeting, so that it may make the necessary decisions regarding the additional fees due to the Independent Auditors.

The Board of Statutory Auditors, after meeting with the Bank's Management and the audit firm to acquire more detailed information on the services to be provided and the audit process, has expressed its favorable opinion on the adjustment of the fees to Independent Auditors, to be submitted for approval by the Shareholders' Meeting with the specific reasoned opinion to which reference is made.

Conclusions

In conclusion of the monitoring activities carried out by the Board of Statutory Auditors as described above, we can reasonably affirm that the Bank's activities have been carried out in accordance with the law and the bylaws and that the organizational, administrative and accounting structures as well as its actual functioning, are adequate.

The Board of Statutory Auditors has taken note of the reports issued by the Independent Auditor on March 14, 2018 pursuant to Articles 14 and 16 of Legislative Decree 39/2010, including an unqualified opinion on the financial statements of the Bank and the consolidated financial statements of the Banking Group. According to the same reports, in compliance with relevant regulations, information included in the Report on Operations is consistent with the financial statements as set out in art. 14, paragraph 2, letter e) of Legislative Decree 39/2010.

Taking into account the above, the Board of Statutory Auditors, having considered the content of the reports issued by the Independent Auditors, has no reason, as far as its responsibilities are concerned, to oppose the approval of the financial statements for the year ended December 31, 2017 and the payment of dividends as proposed by the Board of Directors.

To this end, the Board of Statutory Auditors takes note that the Board of Directors has assessed the proposal for the distribution of dividends based on prerequisites aimed at constantly complying with prudent capital requirements over time.

It should be noted that, with the approval of the financial statements for the year ended December 31, 2017, the Shareholders' Meeting will be required to resolve, among other things, on the appointment of the new Board of Statutory Auditors and the new Board of Directors for the 2018-2020 period, and therefore is invited to make the necessary decisions.

Milan, March 14, 2018

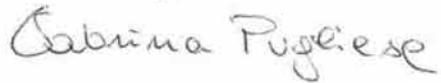


The Statutory Auditors

Marco Lori 

Patrizia Paleologo Oriundi 

Sabrina Pugliese



05

INDEPENDENT AUDITORS' REPORT





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 Financial Statements

Opinion

We have audited the financial statements of Banca Farmafactoring SpA (the Company), which comprise the balance sheet as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company 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 Financial Statements* section of this report. We are independent of 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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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 financial statements:

Part A – Accounting policies, “Receivables” and “Revenue recognition criterion” sections;

Part B – Notes to the balance sheet, Asset, section 7;

Part C – Notes to the income statement, section 1.

In order to calculate the amortized cost of receivables from customers purchased without recourse, the Company also considered the estimate of late-payment interest accrued and deemed recoverable in accordance with what set out in the “Document of the Bank of Italy/Consob/Ivass no. 7 of 9 November 2016” regarding the “Treatment in 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 flows and times observable at the measurement date, and an elevated professional judgement is requested.

Specifically, in order to select the key parameters for recognising the late-payment interest considered recoverable, the Company 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, in order 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 the equity investment in Magellan SA recorded in the financial statements

Notes to the financial statements:

Part A – Accounting policies, “Equity investments” section;

Part B – Notes to the balance sheet, Asset, section 10.

At 31 December 2017, the Bank held a 100% stake in the company Magellan SA, equal to Euro 109.2 million.

As a part of the impairment test of the goodwill, recorded in the consolidated financial statements related to the acquisition of this equity investment, the Company identified Magellan SA as the only cash generating unit; on the basis of the result of the test, the Company has confirmed the value of the equity investment recorded at the acquisition date.

We focused our attention on this asset not only because of the materiality of the investment amount, but also because the impairment test of the value of this investment 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, Banca Farmafactoring 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 process used by the Company to identify potential indicators of any impairment in the value of equity investment recorded;
- analysis of the impairment test results of the goodwill recorded in the consolidated financial statements, as supporting evidence of the absence of potential indicators of any impairment for the equity investment in Magellan SA.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company 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 Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 institution of the banking group, on 20 February 2015, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the statutory audit of the Company'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 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 Banca Farmafactoring SpA as of 31 December 2017, including their consistency with the relevant 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 financial statements of Banca Farmafactoring SpA 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 financial statements of Banca Farmafactoring SpA 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 Company 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.

Resolutions of the Ordinary Shareholders' Meeting

The Ordinary Shareholders' Meeting, convened on April 5, 2018 in a single call, resolved, among other things, to:

- i) Approve the Financial Statements at December 31, 2017, consisting of the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity and the Notes, and accompanied by the Board of Directors' Report on Operations, the Certification by the Chief Executive Officer and the Financial Reporting Officer, the Board of Statutory Auditors' Report, and the Independent Auditors' Report, in compliance with the applicable laws and regulations.
- ii) Distribute a dividend of €0.492 for each of the 170,107,400 shares, for an overall amount of €83,692,841 arising from:
 - a) profit for the year to the tune of €79,477,696;
 - b) retained earnings reserve to the tune of €4,215,145.Such dividend includes the portion attributable to any treasury share held by the Company at the record date.
- iii) Appoint the Board of Directors for the three-year period 2018 to 2020 (and therefore until the approval of the Financial Statements at December 31, 2020), consisting of 9 members: Salvatore Messina – *Chairman*, Massimiliano Belingheri, Luigi Sbrozzi, Ben Carlton Langworthy, Gabriele Michaela Aumann (born Schindler), Barbara Poggiali, Isabel Aguilera, Federico Fornari Luswergh, Carlo Paris.
- iv) Appoint the Board of Statutory Auditors for the three-year period 2018 to 2020 (and therefore until the approval of the Financial Statements at December 31, 2020), consisting of the following members: Paola Carrara – *Chairman*, Marco Lori – *Statutory Auditor*, Patrizia Paleologo Oriundi – *Statutory Auditor*, Giancarlo De Marchi – *Alternate Auditor*, Fabrizio Riccardo Di Giusto – *Alternate Auditor*.

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