BFF BANKING GROUP

# 2018 HALF- YEAR CONSOLIDATED FINANCIAL REPORT

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

# HALF-YEAR CONSOLIDATED FINANCIAL REPORT
at June 30, 2018

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## BOARD OF DIRECTORS [(*)]

| | |
|---|---|
| Chairman | Salvatore Messina |
| Chief Executive Officer | Massimiliano Belingheri |
| Vice Chairman | Luigi Sbrozzi |
| Directors | Isabel Aguilera<br>Michaela Aumann<br>Federico Fornari Luswergh<br>Ben Carlton Langworthy<br>Carlo Paris<br>Barbara Poggiali |

[(*)] The Board of Directors was appointed by the Shareholders' Meeting held on April 5, 2018 and its term of office will end on the date of the Meeting convened to approve the Financial Statements at December 31, 2020.

## BOARD OF STATUTORY AUDITORS [(*)]

| | |
|---|---|
| Chairman | Paola Carrara |
| Acting Auditors | Marco Lori<br>Patrizia Paleologo Oriundi |
| Alternate Auditors | Giancarlo De Marchi<br>Fabrizio Riccardo Di Giusto |

[(*)] The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on April 5, 2018 and its term of office will end on the date of the Meeting convened to approve the Financial Statements at December 31, 2020.

## INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

## FINANCIAL REPORTING OFFICER

Carlo Maurizio Zanni

# COMMITTEES

## REMUNERATION COMMITTEE (*)

| NAME | OFFICE | POSITION |
|---|---|---|
| Barbara Poggiali | Independent Director | Chairperson |
| Isabel Aguilera | Independent Director | Committee Member |
| Luigi Sbrozzi | Non-Executive Director | Committee Member |

(*) Committee members were appointed by the Board of Directors on April 5, 2018.

## RELATED PARTY TRANSACTIONS COMMITTEE (*)

| NAME | OFFICE | POSITION |
|---|---|---|
| Carlo Paris | Independent Director | Chairperson |
| Michaela Aumann | Independent Director | Committee Member |
| Barbara Poggiali | Independent Director | Committee Member |

(*) Committee members were appointed by the Board of Directors on April 5, 2018.

## APPOINTMENTS COMMITTEE (*)

| NAME | OFFICE | POSITION |
|---|---|---|
| Federico Fornari Luswergh | Independent Director | Chairperson |
| Isabel Aguilera | Independent Director | Committee Member |
| Ben Carlton Langworthy | Non-Executive Director | Committee Member |

(*) Committee members were appointed by the Board of Directors on April 5, 2018.

## CONTROL AND RISK COMMITTEE (*)

| NAME | OFFICE | POSITION |
|---|---|---|
| Michaela Aumann | Independent Director | Chairperson |
| Federico Fornari Luswergh | Independent Director | Committee Member |
| Luigi Sbrozzi | Non-Executive Director | Committee Member |

(*) Committee members were appointed by the Board of Directors on April 5, 2018.

## BOARD OF DIRECTORS

ROLE OF BOARD OF DIRECTOR'S MEMBERS AND INDEPENDENCE REQUIREMENTS

| NAME | OFFICE IN BFF | 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 | ✓ | | | |
| ISABEL AGUILERA | Director | | ✓ | ✓ | ✓ |
| MICHAELA AUMANN | Director | | ✓ | ✓ | ✓ |
| BEN CARLTON LANGWORTHY | Director | | ✓ | | |
| FEDERICO FORNARI LUSWERGH | Director | | ✓ | ✓ | ✓ |
| CARLO PARIS | Director | | ✓ | ✓ | ✓ |
| BARBARA POGGIALI | Director | | ✓ | ✓ | ✓ |

## Structure of the Group

The Banca Farmafactoring Banking Group is mainly engaged in the management and sale of receivables due to suppliers from the public administration and, more specifically, the national healthcare systems. The Group is active in Italy, Portugal, Greece and Croatia through Banca Farmafactoring, in Spain through BFF Finance Iberia, and in Poland, the Czech Republic and Slovakia through BFF Polska and its associated companies.
Banca Farmafactoring also offers deposit products to its retail and corporate clientele in Italy, Spain and Germany.
BFF Polska S.A., acquired by Banca Farmafactoring in 2016, is an independent specialized operator, leader in the provision of financial services to companies operating in the healthcare sector in Poland, Slovakia and the Czech Republic.
BFF Polska mainly operates in three areas:

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

Thanks to the BFF Polska Group, the BFF Banking Group operates in a position of leadership in the Polish alternative financing market (AFM) in the hospital area, where intermediaries compete with traditional bank service providers in financing healthcare entities. Other specialized operators are also active in this segment, and, in a limited manner, some traditional banks, too.

At June 30, 2018, the BFF Banking Group included the Parent Banca Farmafactoring and the following companies:

| Company name | Registered and operating office | Relation-ship type (1) | Investment relationship | | Voting rights % (2) |
|---|---|---|---|---|---|
| | | | Investor | Invest. % | |
| COMPANIES CONSOLIDATED LINE-BY-LINE | | | | | |
| 1. BFF Finance Iberia S.A. (3) | Madrid - C/ Luchana 23 | 1 | Banca Farmafactoring | 100% | 100% |
| 2. BFF SPV S.r.l. | Milan – Via A. Pestalozza 12/14 | 4 | Banca Farmafactoring | 0% | 0% |
| 3. BFF Polska S.A.(4) | Łodz - Al. Marszalka Jozefa Piłsudskiego76 | 1 | Banca Farmafactoring | 100% | 100% |
| 4. BFF Medfinance S.A. (5) | Łodz - Al. Marszalka Jozefa Piłsudskiego 76 | 1 | BFF Polska S.A. | 100% | 100% |
| 5. BFF Česká republika S.R.O. (6) | Prague - Roztylská 1860/1 | 1 | BFF Polska S.A. | 100% | 100% |
| 6. BFF Central Europe S.R.O. (7) | Bratislava - Mostova 2 | 1 | BFF Polska S.A. | 100% | 100% |
| 7. Debt-Rnt sp. Z.O.O. | Łodz - Al. Marszalka Jozefa Piłsudskiego 76 | 1 | BFF Polska S.A. | 100% | 100% |
| 8. Komunalny Fundusz Inwestycyjng Zamknięty | Warsaw - Plac Dąbrowskiego 1 | 4 | BFF Polska S.A. | 100% | 100% |
| 9. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty | Warsaw - Plac Dąbrowskiego 1 | 4 | BFF Polska S.A. | 100% | 100% |
| 10. Kancelaria Prawnicza Karnowski i Wspólnik sp.k. | Łodz - Al. Marszalka Jozefa Piłsudskiego 76 | 4 | BFF Polska S.A. | 99% | 99% |
| 11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k. | Łodz - Al. Marszalka Jozefa Piłsudskiego 76 | 4 | Debt-Rnt sp. Z.O.O. | 99% | 99% |

As far as point 8 and 9 are concerned, voting rights refer to the investors' right to vote at the Meeting.

Companies in points 10 and 11 above are limited partnerships and are not consolidated since their total asset figures are not significant.

***Key:***

(1) Relationship type:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = having a dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control
5 = centralized management as per Article 26, paragraph 1 of Legislative Decree 87/92
6 = centralized management as per Article 26, paragraph 2 of Legislative Decree 87/92

(2) Voting rights in ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.
(3) The change in the company name (formerly Farmafactoring España) became effective on April 4, 2018.
(4) The change in the company name (formerly Magellan S.A.) became effective on March 22, 2018.
(5) The change in the company name (formerly Medfinance S.A.) became effective on April 20, 2018.
(6) The change in the company name (formerly Magellan Česká republika S.R.O.) became effective on May 1, 2018.
(7) The change in the company name (formerly Magellan Central Europe S.R.O.) became effective on May 1, 2018.

## The International Economic Scenario

After the slowdown witnessed in the first quarter, the outlook for the global economy remains favorable overall. According to OECD forecasts, global GDP should strengthen by 3.8% in 2018 and 3.9% in 2019.

Based on the economic figures of the second quarter, growth is expected to be strong in the United States, driven by an ongoing increase in employment and household disposable income. Indicators remained compatible with GDP growth in Japan and the United Kingdom, standing at 0.6% and 2.8%, respectively. Among the emerging economies, growth in China and India remained solid for the first quarter of 2018, although more recent figures show a moderate slowdown in the second quarter. Russia's economic outlook continues to gradually improve, while that of Brazil remains fragile.

Inflation in the key advanced economies continues to rise moderately, driven by an increase in energy prices. In May, inflation rose to 2.8% in the United States, while it remained stable in the United Kingdom at 2.4% and in Japan at 0.6%. Prices in the major emerging economies continues to show no significant signs of acceleration.

There are some uncertainties at a global level, deriving from the possible intensification of protectionist measures announced by the United States and from retaliatory threats from their commercial partners. Europe must also face the limited progress that has been made on the Brexit negotiations front.

As expected, the Federal Reserve increased the target federal funds rate by 25 basis points (from 1.75% to 2.00%). Neither the Bank of England nor the Bank of Japan changed their monetary policies. In China, the Central Bank eased monetary conditions slightly, reducing the required deposit reserve ratio by 150 basis points.

Growth in the euro area slowed by comparison to last year’s pace. Inflation strengthened, rising to 2% in June, and was supported in particular by prices for food and energy. Core inflation remained low standing at around 1.0%.
In the first quarter of 2018, GDP in the euro area grew by 0.4% compared to the previous period, driven by demand from within the eurozone, and by private consumption in particular. There was a deceleration compared to last year, which was particularly marked in France and Germany. On the basis of projections developed by the central banks of the Eurosystem, GDP should grow by a total of 2.1% over the course of the current year. In order to progress towards sustainable adjustment on the path of inflation, the ECB plans to discontinue net securities purchases at the end of the year, while preserving an ample degree of monetary accommodation. The ECB plans to keep interest rates at their current low levels, at least through the first half of 2019, and to reinvest the principal payments from maturing securities. The purchase program will also remain among the instruments available for consideration. The euro has again started to fall against other currencies, losing 5.0% against the dollar since mid-April, and 1.0% against the yen, while it has gained 1.0% against the pound sterling.

## The Italian Economy in the First Half of 2018 - and Comments on the Economies of the Countries in which the Group Operates

According to estimates from the Bank of Italy on the performance of the Italian economy, GDP growth is expected to be 1.3% for 2018. Inflation has increased, and reached 1.5% in June, as it was driven up by prices for the more volatile components such as energy and food. Core inflation, while remaining low, has recovered after its April fall.

After remaining stable in the first quarter, employment began to rise again in the second quarter (including permanent employment).

With regards to the banks, credit granted to businesses has continued to increase; the rate of household borrowing has remained sound. Financing costs have remained at very low levels, and credit quality has continued to improve. In the first three months of 2018, new impaired receivables as a percentage of total loans decreased to 1.7%, down from 2.0% in the previous quarter. The impact of impaired loans has continued to fall, at both a gross level and net of adjustments. The adoption of the new IFRS 9 from January 1 (to replace IAS 39) has led to a marked increase in the coverage ratio for impaired receivables. Capitalization of the major banks remained almost stable at 13.2%.

In the second quarter of the year, volatility on the Italian financial markets strongly increased, particularly between the end of May and early June due to uncertainties regarding the formation of the new Government. Pressure intensified on the Italian government bond market, with yields increasing—including yields on bonds with a maturity of between one and three years. Tensions eased once the Government was formed, and the 10-year BTP/Bund spread stood at around 200 basis points.

According to projections presented by the Bank of Italy, growth should continue for the next three years. On an annual basis, GDP is expected to increase by 1.3% this year, 1.0% next year, and 1.2% in 2020. Over the three-year period inflation—including core inflation—should rise gradually, reaching 1.5% in 2020. This assumes that the outlook continues to improve, with an easing of credit conditions and an expansive monetary framework.
With regard to Spain, during the last five years, the country's overall economic situation has changed markedly, moving out of a long period of recession into a consolidated period of economic recovery.

After a prolonged phase of GDP contraction, Spain's economic recovery began in 2014.
In the first quarter of 2018, the Spanish economy again reported GDP growth of 0.7% on a quarterly basis. The trend of the year continued in the second quarter. According to the European Commission's forecasts, growth is estimated at 2.8% in 2018.
The reasons behind the growth of the Spanish economy and the regained competitiveness involve the recovery of domestic demand, the increase in investments in the building industry, 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.

Economic recovery also continued in Portugal: the government estimates GDP growth of 2.3% in 2018, a trend confirmed by figures for the first quarter of the year. Contributory factors to this result include the positive trend of exports and private consumption, which are expected to grow by 7.2% and 2.1% respectively. The inflation rate is also projected to rise slightly, with the estimate for 2018 at +1.2%, a figure similar to the average of the European Union.
The labor market shows signs of improvement; unemployment is forecast to continue its downward trend, albeit still above the average of EU countries, where in 2018 it is expected to fall from 8.9% to 7.6% of the total workforce.

As far as Poland is concerned, since it joined the EU, it has experienced a period of sustained economic growth. This trend remained positive even during the recent economic crisis, confirming Poland's growth rates among the highest in the European Union (+4.6% in 2017).

GDP is expected to grow by 4.6% in 2018 as well. In the current year, the unemployment rate should fall from the 4.9% reported in 2017 to 4.1%, and to 3.9% in 2019.
The general economic trend and the dynamic Polish industrial production have had a significant impact on the labor market, leading to a steady decrease in unemployment rates. In the current year, the unemployment rate should fall from the 4.9% reported in 2017 to 4.1%, and to 3.9% in 2019.
The favorable economic situation has also contributed to curbing the increase in public deficit.

In Slovakia, the main drivers of economic growth are a strong foreign demand and the growth in household consumption. The latest European Commission forecasts suggest GDP growth of 3.9% in 2018 and 4.0% in 2019, thanks to the good performance of exports and, above all, to an increase in household consumption, encouraged by higher employment.
Inflation is expected to increase by 2.6% for 2018, and 2.2% in 2019. According to estimates from the Ministry of Labor, the unemployment rate for the first quarter of 2018 stood at 7.1%, down from the 8.7% of the first quarter of 2017. Further decreases are expected.

In the Czech Republic, GDP is expected to grow by 3.0% in 2018 and 2.9% in 2019, thanks to strong domestic demand. Growth may be increasingly undermined by labor shortages, as the unemployment rate for the Czech Republic is the lowest in the European Union (2.6% in 2017). The inflation rate is estimated to be 2.1% for 2018, and 2.0% for 2019.

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

According to the 2018 Economic and Financial Document (*Documento di Economia e Finanza*, DEF), approved by the Italian Chamber of Deputies on June 19, 2018, current public expenditure in Italy on goods and services in 2017 amounted to €140,252 million, of which €32,823 million relating to current expenditure on goods and services by the National Healthcare System and €107,429 million relating to total expenditure on goods and services by other Italian public administration agencies.
2018 forecasts of public finance set out in the 2018 DEF document estimate public expenditure on goods and services at €139,498 million, of which €33,331 million in relation to current expenditure on goods and services by the National Healthcare System and €106,167 million by other Italian public administration agencies.
Article 1 of the 2017 Budget Law (Law 232/2016) determined the level of government funding for standard national healthcare needs, set at €113 billion for 2017 and €114 billion for 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 monthly Statistical Bulletin published by the Bank of Italy, Italy's debt is continuing to grow. It reached €2,311.7 billion in April 2018, increasing by €9.3 billion compared to the previous month. This rise was due to Treasury increasing liquid assets by €7.3 billion and, to a lesser extent, to public administration agencies' needs (€2.4 billion).

According to the Bank of Italy's estimates, the public administration agencies' commercial debt for 2016 amounts to approximately €64 billion.

The 2018 Economic and Financial Document (*Documento di Economia e Finanza*, DEF) reshaped national healthcare spending at €113.6 billion for 2017, €115.8 billion for 2018, €116.4 billion for 2019 and €118.6 billion for 2020.
The 2017 deficit thus amounts to €1 billion.

Beginning January 1, 2015, as established by the 2015 Budget Law, a split payment mechanism was introduced (Article 17-ter of Presidential Decree 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.

Following the amendments made by Law 172/2017, the split payment mechanism for VAT was further extended to a greater range of parties.
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.

Nonetheless, the Italian government has announced its intention to explore the elimination of the split payment mechanism, which puts pressure on company liquidity management. The path to elimination therefore started with the so-called "Dignity Decree", but for the moment, the only category where split payments will be eliminated is professionals working with the public administration.

As noted in the Bank of Italy's estimates referred to above, these interventions reduced commercial debt but have not entirely 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 192/2012, which amended Legislative Decree 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).

As part of the measures aimed at monitoring compliance with economic and financial balance requirements, Regions may be subject to Repayment Plans in relation to the healthcare sector. On the basis of the recognition of the causes that structurally determined significant management deficits on a regional level, such plans identify and selectively address the various problems that have arisen in each region.
This procedure is currently adopted in Apulia and Sicily, 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.

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.

The system became operational on April 30, 2018, around 250 local entities are now active, and more than 1.7 million transactions have been handled since the beginning of the year. During 2018, all Italian municipalities and healthcare entities are expected to use SIOPE+. Over the coming years, the system will be extended to all public administration agencies, as per the following timeline:

- 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, the size of the public debt increased at the end of the first quarter of 2018, reaching €1,160 billion, compared to €1,126 billion in the same period of 2017. Public debt therefore stood at 98.7% of national GDP.
As to the Spanish National Healthcare System, the latest figures available, supplied by the Ministry of Economy and Finance, indicate a contraction of 12% for healthcare debt in the first quarter of the year, as compared to the figures at the end of 2017. With regards to healthcare spending, the figures for April 2018 registered an increase of 5.0% in comparison to 2017.
Payment times in the sector continue to become shorter, through extraordinary regional funding mechanisms such as the FLA (*Fondo de Liquidez Autonómico*) and the FFF (*Fondo de Facilidad Financiera*).

In Portugal, in the first half of 2018, overall public expenditure on goods and services was €2.7 billion (up 12% compared to 2017), fueled by healthcare expenditure of €2.3 billion.
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 +3.6%). The Portuguese healthcare deficit amounted to €93.6 million in the first quarter of 2018 compared to €99.7 million in the prior-year period.
More recent figures for May 2018 show public debt amounting to €122.5 billion, even though it is estimated that the debt/GDP ratio will decrease from 130.45% to 128.5%. The deficit/GDP ratio is also expected to decline from 3% in 2017 (or 0.9% net of the capital injections to Banco CGD) to 0.7% in 2018.

With regard to Poland, in 2018 overall expenditure on goods and services for central and local entities of the public administration is estimated at PLN 648 billion, corresponding to €149 billion (based on the exchange rate at June 30), an increase of 7.0% over the prior year.
In Poland, the National Healthcare System is funded by the government through the National Healthcare Fund (*Narodowy Fundusz Zdrowia*, NFZ). In 2018, healthcare expenditure amounted to PLN 83 billion (approximately €19 billion), whereas the costs and revenues of the NFZ should increase by 3.0% and 5.1% respectively compared to 2017. The healthcare system deficit for 2017 amounted to PLN 1.6 billion, and it is expected that breakeven will be achieved in 2018.
In Slovakia, public administration deficit in 2018 should be about 0.8% of GDP, decreasing to 0.1% in 2019.
For 2018, Slovakia's healthcare debt is expected to decline by 43.0% compared to 2017, due to the impact of government assistance plans.

As far as the Czech Republic is concerned, GDP grew by 1.6% in 2017 and further growth of 1.0% is estimated for 2018. This strong economic performance is also reflected in the healthcare sector, which has achieved financial breakeven with no deficits being generated since 2014.

## 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.

The first quarter of 2018 recorded a slight decline in the factoring market, both in terms of turnover (-1.18%) and outstanding receivables (-0.08%) when compared to the same period in the previous year.
According to Assifact, outstanding receivables due from public administration agencies amounted to €6.5 billion at March 31, 2018. BFF's market share in the industry is 28.2%.
By contrast, preliminary data released by Assifact on the factoring market for the first half of 2018 indicates growth, albeit limited in comparison to earlier forecasts. Specifically, they show a 0.27% increase in turnover and a 2.37% increase in outstanding receivables.
Full year forecasts on 2018 factoring are even more optimistic: according to Assifact an increase of 4.49% on average is expected in terms of turnover, and 3.11% in terms of outstanding receivables.

At June 2018, according to Assifact figures, impaired exposures for factoring (before value adjustments) accounted for 6.02% of total gross exposures, of which 2.77% are non-performing loans. These two figures, both of which are slightly higher compared to December 2017, show a greater incidence in relation to exposures with assignors, rather than on non-recourse factoring transactions.

## Results of Operations

The condensed consolidated interim financial statements at June 30, 2018 include the aggregated figures from the balance sheet and income statement of Banca Farmafactoring S.p.A., BFF Finance Iberia S.A. (a wholly-owned subsidiary of Banca Farmafactoring S.p.A.), the special purpose vehicle BFF SPV S.r.l., and the companies of the BFF Polska Group, acquired in 2016.

At June 30, 2018, the Group’s profit amounted to €41.3 million, compared to €50.7 million recognized in the prior-year period. The normalized profit of the Group (representing the Group’s results of operations net of non-recurring expenses and income), amounted to €39.9 million, up 5% compared to the normalized profit in the prior-year period.

*In € millions*

| | 06/30/2018 | 06/30/2017 |
|---|---|---|
| **Profit for the period** | **41.3** | **50.7** |
| IPO expenses | | 1.7 |
| Stock options | 0.9 | 1.1 |
| Change in estimate of the late payment interest collection percentage from 40% to 45% – one-off effect | | (17.8) |
| Exchange differences covered by Translation reserve in Equity | (2.8) | 2.5 |
| 2016 Resolution fund – non-recurring contribution | 0.5 | |
| **Normalized profit** | **39.9** | **38.1** |

Compared to the consolidated profit, the normalized profit for the first half of 2018 does not include:

- €0.9 million charges relating to employee stock options assigned in the first quarter of 2018. Such cost is recognized in the income statement and generates an increase, before taxes, in equity;
- the positive exchange effect recognized in profit or loss, arising from the revaluation of the loan payable in Polish zloty used for the acquisition of the BFF Polska Group and amounting, at June 30, to €2.8 million, after tax, offset by a positive effect from the revaluation of the exchange rates applied to the BFF Polska Group's equity in consolidated equity;
- charges related to extraordinary contributions to the National Resolution Fund for 2016 (as per the Bank of Italy's request of May 28, 2018) amounting to €0.5 million after tax, and paid in June 2018.

Compared to the prior-year period, the first half of 2018 takes into account two months of higher financial charges in relation to Tier II subordinated bonds, issued in February 2017 for €0.8 million after tax. It also includes adjustments of €1 million after tax to receivables deriving from the "factoring for business" product. Neither of these costs were normalized.
Taking account of the above-mentioned effects, normalized profit for the first half of 2018 would amount to €41.7 million, up 9% compared to €38.1 million at June 30, 2017.

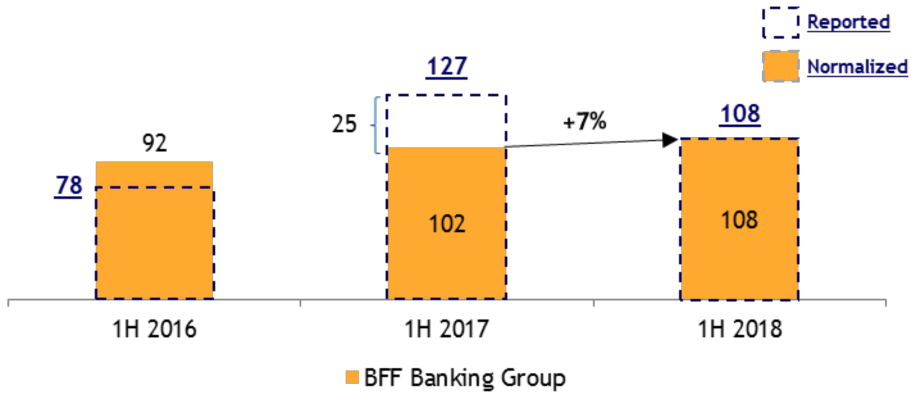
Interest income totaled €108.3 million, compared to €126.7 million in 2017. Normalized interest income amounted to €108.3 million compared to €101.5 million in 2017.
Interest income mainly includes:

- maturity commissions charged to customers;
- accrued late payment interest;
- gains on late payment interest collected in the period compared to the percentage already included in amortized cost;
- interest on government securities in portfolio;
- interest on loans issued by BFF Polska.

The following chart shows the changes in interest income and normalized interest income in relation to the last three half-year periods.
Specifically, as far as the first half of 2017 is concerned, interest income amounted to €127 million, of which €25 million relating to the one-off positive effect, before taxes, arising from the change in the estimate for the late payment interest collection percentage to be included in amortized cost, from 40% to 45%, for Banca Farmafactoring and BFF Finance Iberia only. Therefore, the normalized figure amounted to €102 million.

At the end of the first half of 2018, interest income recognized in the financial statements amounted to €108 million, increasing by 7% compared to the normalized figures for the same period in the previous year. This was due to the higher average stock of receivables due from customers as compared to the first half of 2017.

## Normalized Interest Income (€m)

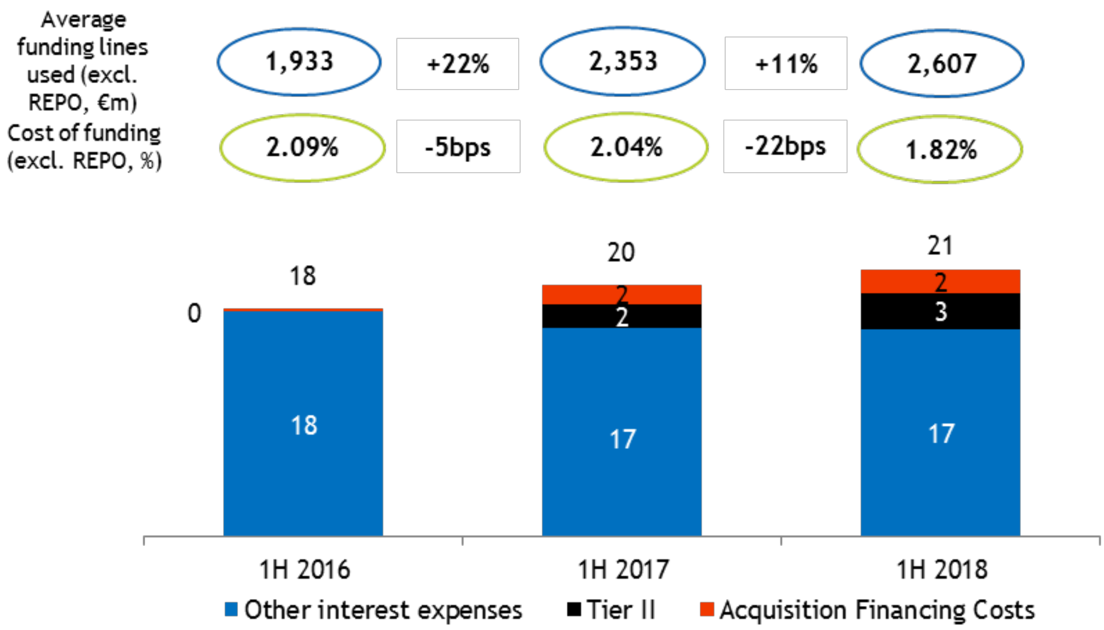



Collections of late payment interest relating to Banca Farmafactoring and BFF Finance Iberia amounted to €37 million, as compared to €57 million for the same period in the previous year. Specifically, €33 million were collected in Italy, €4 million in Spain, and €0.4 million in Portugal. Such collections had higher recovery rates than the prior year, and therefore the percentage gains recognized in the income statement were greater.

Late payment interest on receivables purchased without recourse by Banca Farmafactoring and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €551 million, of which €43 million related to Spanish debtors, €26 million to Portuguese debtors and €1 million to Greek debtors. Of this interest, a total of €193 million was recorded in the income statement in current and prior years.
The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €524 million at June 30, 2017, of which €179 million were recognized in the income statement of the reporting period and in previous years.
The provision for late payment interest increased by 5% in the first half of 2018 compared to the prior-year period.

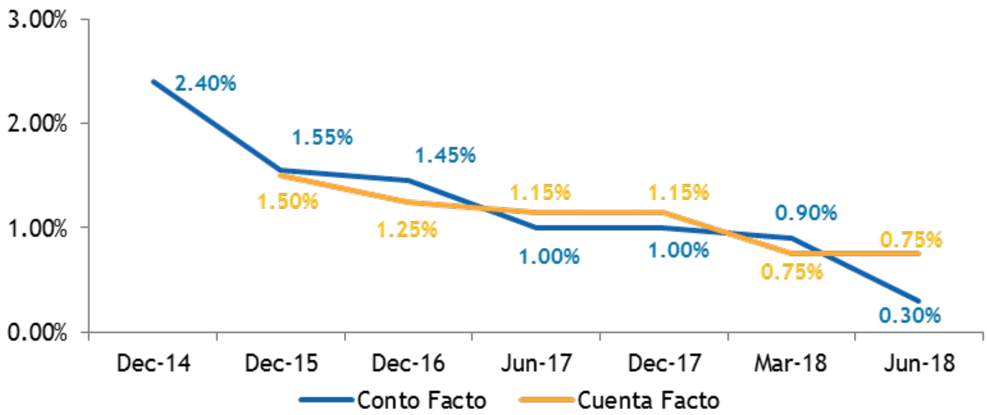
Interest expense increased from €20 million at June 30, 2017 to €21 million at June 30, 2018. This increase in absolute terms is primarily due to a higher outstanding balance, interest expense on the Tier 2 bonds of €3 million in the first half of 2018 compared to €2 million in the prior-year period, and to the increase in loans denominated in zloty which are granted at a higher base rate.
At June 30, 2018, the ratio of financial expenses to average credit lines used was 1.82%, compared to 2.04% at June 30, 2017, showing a reduction of 22 basis points. The average credit lines used increased by 11% from €2,353 million at June 30, 2017 to €2,607 million at June 30, 2018.

## Interest expenses (BFF + BFF Polska €m)



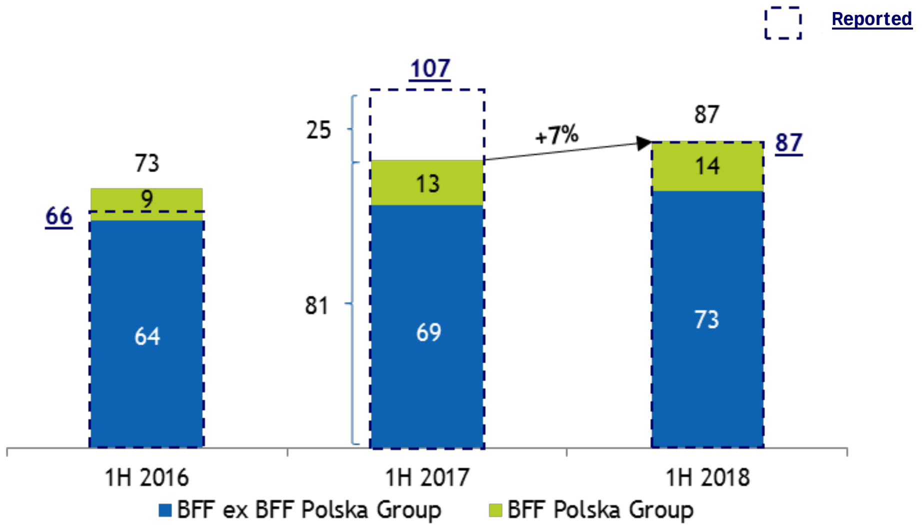

The reporting period has not yet fully benefited from the reduction in rates offered on the new deposit accounts opened by customers, especially those offered on the 12-month online deposit accounts, which decreased from 1.00% in the first half of 2017 to the current 0.30% in Italy, and from 1.15% in the first half of 2017 to the current 0.75% in Spain. Such effects will have greater impact over the next quarters when customers renew their positions.
The following chart shows the trend in the interest rates on the 12-month online deposit accounts in Italy and Spain.

### Interest on New Products and 12-month Renewals



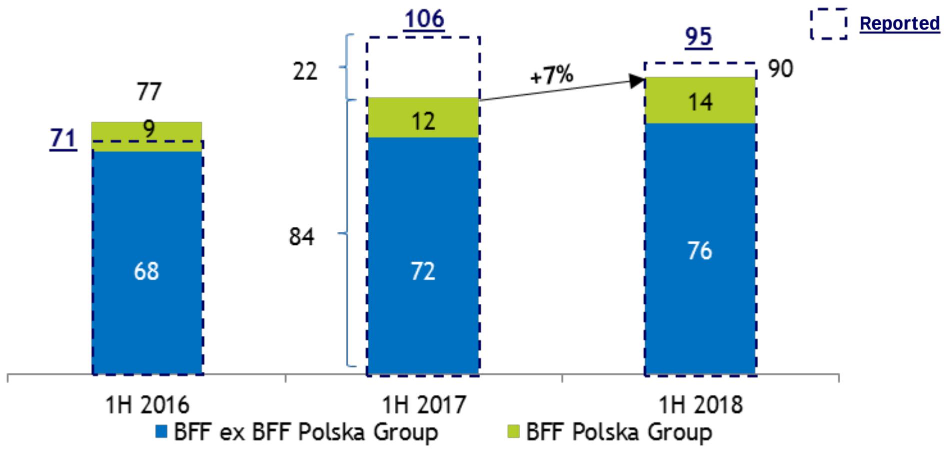
The net interest margin totaled €87 million at June 30, 2018, compared to €107 million in the first half of 2017.
The normalized interest margin for 2018 amounted to €87 million, showing a 7% increase as compared to the normalized interest margin at June 30, 2017 (which amounted to €81 million).
The normalized net interest margin for 2018 does not take into account the one-off positive impact of €25 million, before taxes, deriving from the change—from 40% to 45%—in the estimate of late payment interest collection percentage to be included in amortized cost, for Banca Farmafactoring and BFF Finance Iberia only.

## Normalized Net Interest Margin (€m)




Net banking income—which, compared to the interest margin, also principally includes fees and commissions relating to the mandates for the management and collection of receivables and exchange gains and losses—totaled €94.5 million at June 30, 2018 compared to €105.9 million at June 30, 2017.
Normalized net banking income, as presented in the chart below, increased by 7% from €84 million recognized at June 30, 2017 to €90 million recognized at June 30, 2018.
The latter figure does not consider the positive exchange effect arising from the write-down of the loan payable in Polish zloty for the acquisition of the BFF Polska Group, amounting to €4.1 million.
Normalized net interest margin of the prior-year period does not take into account the one-off positive impact of €25 million, before taxes, deriving from the change—from 40% to 45%—in the late payment interest collection percentage to be included in amortized cost, for Banca Farmafactoring and BFF Finance Iberia only, and the negative exchange effect arising from the revaluation of the loan payable in Polish zloty, for the acquisition of the BFF Polska Group, amounting to €3.6 million.

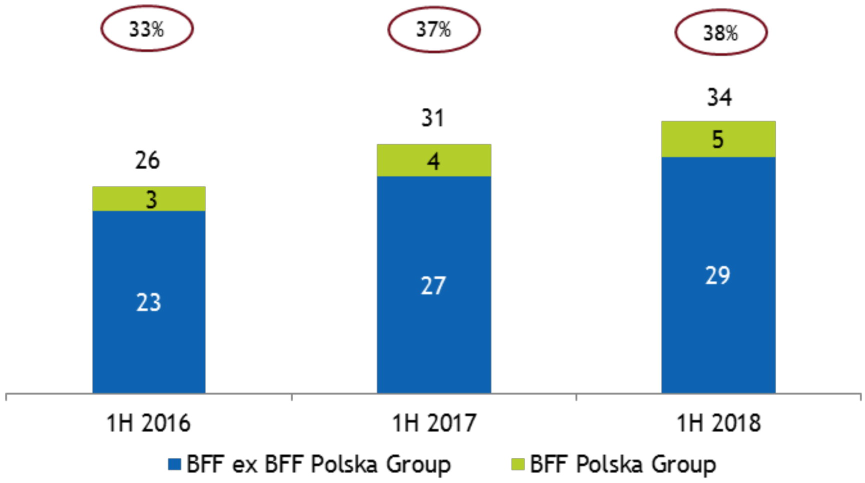
## Normalized Net Banking Income (€m)




Over the course of the last few years, the Group has invested significantly on structure and resources in order to support growth in size and operations.
Normalized operating costs, described below, include administrative expenses, personnel costs, amortization of intangible assets and depreciation of property, plant and equipment. At June 30, 2018, they totaled €34 million compared to €31 million in the prior-year period. At June 30, 2018, operating costs increased by 9% compared to the same period in the previous year. This was due to growing personnel costs following the increase in human resources, and to higher ordinary contributions to both the Resolution Fund and the FITD. Other operating costs remained on par with the same period in the previous year.

Normalized costs do not take into account €1.3 million concerning the stock options granted in the first quarter of the year, and €0.7 million related to extraordinary contributions requested by the National Resolution Fund. On the contrary, the prior-year period did not take into account extraordinary charges concerning stock options of €1.5 million, and other charges connected to the listing process of €2.4 million.

The following chart shows normalized operating costs and the ratio of operating costs/net banking income (both “normalized”), at 37% for the first half of 2017 and 38% for the first half of 2018, demonstrating the continuation of good operating efficiency.
Finally, these investments, also relating to projects that will start in subsequent years, will allow the Group to grow in the future.



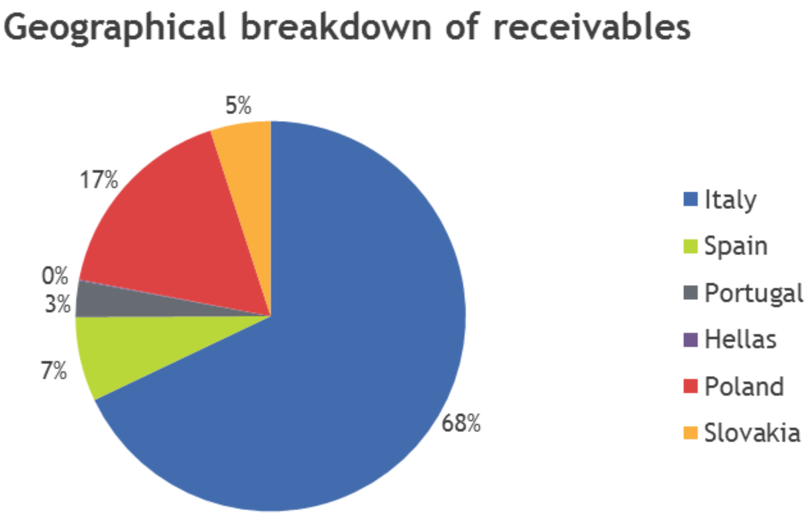

The following is a summary of receivables due from customers of the Banking Group, which amount to €3,000 million at June 30, 2018, a decrease of 1% compared to €3,018 million at December 31, 2017 and an increase of 17% compared to €2,557 million at June 30, 2017, broken down by product line. The above-mentioned figures do not include the "Held to Collect" portfolio, which was reclassified to receivables due from customers starting from January 1, 2018.

The following is a summary of receivables due from customers of the BFF Banking Group, which amount to €3,000 million at June 30, 2018 (in line with figures at December 31, 2017), and show an increase of 17.3% compared to €2,558 million at June 30, 2017, broken down by product line.

*(In € millions)*

| | 06/30/2018 | 12/31/2017 |
|---|---|---|
| Factoring | 2,415 | 2,460 |
| Loans to customers | 515 | 478 |
| Other receivables | 65 | 75 |
| Finance leases | 5 | 6 |
| **Due from customers** | **3,000** | **3,018** |

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




During the month of June 2018—and for the first time in Italy—Banca Farmafactoring and Citelum (a subsidiary of the French Group EDF and international market leader in managing public lighting systems and related urban services) signed an agreement aimed at transferring receivables due from public administration agencies and relating to investments on technological upgrades and energy efficient infrastructure improvements.
This new financial solution developed by the BFF Banking Group is particularly innovative as it allows the assignor to transfer credits coming from investments in infrastructure upgrades. At the same time, Banca Farmafactoring can purchase receivables arising from multi-year contracts for infrastructure supply and maintenance.

In 2018, 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, 2017.

*(In € thousands)*

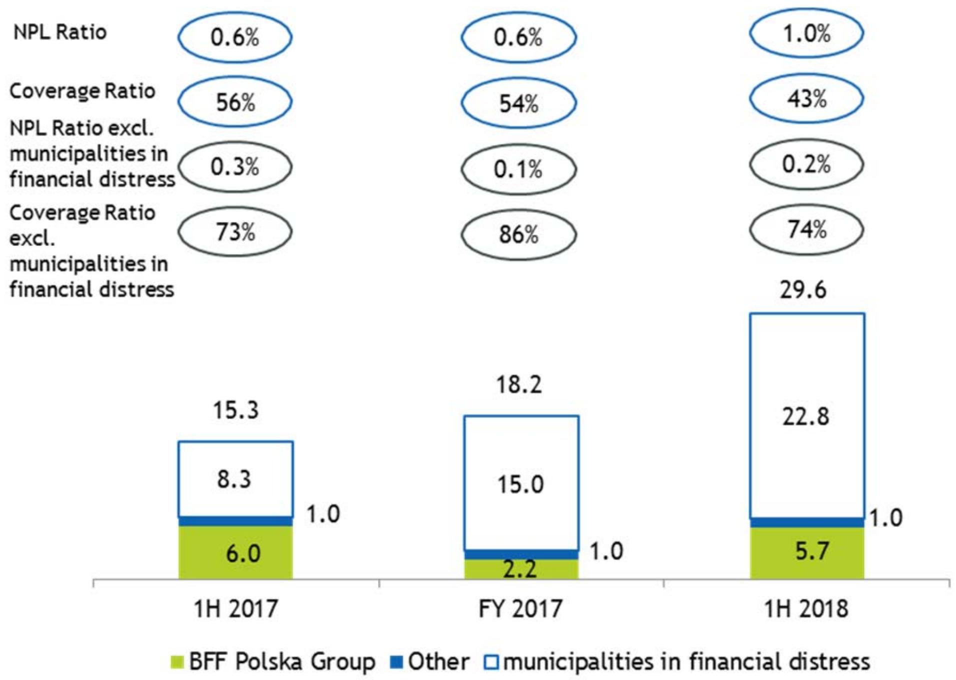
| | 06/30/2018 | 12/31/2017 |
|---|---|---|
| **Non-performing loans (NPLs)** | **29,554** | **18,175** |
| Non-performing loans purchased performing | 23,844 | 15,351 |
| Non-performing loans purchased already impaired | 5,710 | 2,824 |
| **Unlikely to pay exposures** | **9,210** | **6,760** |
| **Past due exposures** | **128,328** | **69,794** |
| **Total** | **167,092** | **94,730** |

Total impaired exposures of €167 million mainly consist of amounts due from Italian public administration agencies and other public sector companies (accounting for 77% of the total). Non-performing loans of €29 million include €23 million due from municipalities in financial distress.
Past due exposures of €128 million mainly consist of amounts due from Italian public administration agencies (mostly local entities) and other public sector companies (accounting for 81% of the total).

The following chart shows the change in non-performing loans and the ratio of NPLs to receivables due from customers, which is equal to 1.0%.

On an annualized basis, the cost of credit for the period is 21 basis points, of which 8 and 9 bps relate to the "SME-Factoring for business" product and municipalities in financial distress, respectively.
NPLs include €22.8 million relating to municipalities in financial distress, €5.7 of which were purchased already impaired.

Net Non-Performing Loans Evolution (€m)




Owned securities, classified in the HTC&S (Held to Collect and Sell) and HTC (Held To Collect) portfolios, mainly include Italian government securities and amounted to a total of €1,123 million, decreasing by €99 million (-8%) compared to €1,222 million at December 31, 2017. The ratio of owned securities to the BFF Banking Group's total assets decreased from 27.5% at December 31, 2017 to 26.4% at June 30, 2018.

At June 30, 2017, the total portfolio amounted to €1,740 million, of which €464 million was classified as HTC&S securities (formerly AFS) and €1,276 million was classified as HTC securities (formerly HTM).

Securities in the HTC&S portfolio, for a total face value of €165 million, consist of Italian government bonds at variable rate (CCT) which have a residual maturity of less than five years. They are measured at fair value, and interest calculated using the effective rate of return is recognized in the income statement.
At the end of the reporting period, the value of securities is compared to their fair value and any difference is recognized in equity as part of revaluation reserves.
At June 30, 2018, the fair value of HTC&S securities amounted to €159 million, resulting in negative reserves for HTC&S government securities of €5.4 million after tax.

The average remaining contract duration, in days, of government securities recorded in the HTCS and HTC portfolios, at June 30, 2018, was 1,537 and 1,035 days, respectively.

The HTC portfolio with a face value of €928 million includes fixed-rate Italian government securities (BOT, BTP and CTZ), with maturities related to the sources of committed and unsecured funding held by the Bank in accordance with company policy. The fair value of the HTC securities at June 30, 2018 amounted to €949.6 million, with a negative difference, after tax, over the carrying amount at the same date of approximately €9.7 million that has not been recognized in the financial statements.
During the reporting period, the Bank has continued to work for the expansion, diversification and optimization of the deposit-taking structure. Banca Farmafactoring offers an online deposit account on the Italian market (Conto Facto), aimed at retail and corporate clientele and guaranteed by the FITD.
Banca Farmafactoring's Spanish branch offers a similar online deposit account on the Spanish market (Cuenta Facto), also aimed at retail and corporate clientele and guaranteed by the FITD.
Moreover, deposit-taking is also offered in Germany by Banca Farmafactoring's Spanish branch in compliance with regulations on the freedom to provide services, aimed exclusively at retail clientele, using the Weltsparen online platform.
At June 30, 2018, the deposit-taking activity relating to Conto Facto and Cuenta Facto, including the deposits of the German platform, totaled €899 million, compared to €850 million at June 30, 2017 and €1,000 million at December 31, 2017.

At June 30, 2018, the total amount of available funding (net of Acquisition Financing) was €3,115 million, decreasing by €344 million compared to the amount available at December 31, 2017 of €3,459 million (net of Acquisition Financing for PLN 355 million). This amount consists of deposit-taking activity for €899.3 million, bond issues for €670.0 million, financial resources from the wholesale funding of Banca Farmafactoring and its subsidiaries, equal to €999.3 million and €396.4 million respectively, and securitization for €150.0 million.
Overall use was equal to €2,606 million net of exposures arising from repo and acquisition financing transactions.

In particular, the main activities undertaken during the first half of 2018 were as follows:

- the FF SPV I S.r.l. securitization transaction (Deutsche Bank) came to an end at the end of the amortization phase, leading to the special purpose vehicle being liquidated and cancelled;
- as far as the Flexible Note BFF SPV Srl securitization transaction (Bayerische Landesbank) is concerned, in January a temporary amortization period was set, leading to a Senior Note amount of €50 million in February (previously €100 million at December 31, 2017);
- various ALM operations were carried out, directed at optimizing and improving the financial structure. The most significant among these related to various banking facilities implemented by:
    - early termination of stand-by and term loans entered into with a leading Italian lender (for €75 million and €50 million respectively, and which were originally due in 2020), and provision of a new facility for an amount equal to €50 million (due in 2023 under improved conditions);
    - partial repayment of Acquisition Financing supplied by the Unicredit Group which was due at the end of May 2019 (down from PLN 355 million to PLN 185 million, with simultaneous early termination of the IRS entered into with Natixis for hedging purposes with a positive fair value of €190 thousand);
    - underwriting of a new term loan contract with Intesa Sanpaolo, for an amount of PLN 220 million and due in February 2021, aimed at refinancing the above-mentioned partial repayment and the Treasury Shares for an amount of PLN 23 million. New multi-currency lines (euro, Polish zloty and Czech koruna) and multi-borrower lines have been established with Unicredit, Intesa Sanpaolo and

BayernLB with a "credit mandate" by Banca Farmafactoring in favor of BFF Polska and its subsidiaries, for a total of €111.7 million at June 30, 2018.

With regard to the funding activities of BFF Polska and its subsidiaries, the following activities were carried out, aimed at improving the efficiency of the financial structure and developing the expected funding synergies deriving from the acquisition:

- repayment of bonds issued in euros was completed in April. Therefore, at June 30, 2018, the bonds issued by the subsidiary BFF Polska currently outstanding are denominated solely in Polish Zloty (equal to €20.5 million);
- at June 30, 2018 credit lines with local banks in euro, Polish zloty and Czech koruna amount to an equivalent value of €287 million.

The BFF Banking Group's equity amounted to €313 million at June 30, 2018, down from €364 million at December 31, 2017, which included profit for the year of €96 million, of which €84 million were distributed.

The following table shows the BFF Banking Group's own funds pursuant to the Consolidated Law on Banking, amounting to €345 million at June 30, 2018; 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. Such own funds do not include profit for the period because, in accordance with group dividend policy, this profit is destined to be fully distributed as dividends until the total capital ratio for the BFF Banking Group remains above 15% as per the Consolidated Law on Banking.

*In € millions*

| | 06/30/2018 | 12/31/2017 |
|---|---|---|
| Own funds | 345 | 352 |
| CET1 Capital Ratio | 12.3% | 12.6% |
| Tier 1 Capital Ratio | 12.3% | 12.6% |
| Total Capital Ratio | 17.2% | 17.5% |

The decrease in the BFF Banking Group's own funds (as compared to December 31, 2017) was mainly influenced by including in the calculation the HTC&S securities valuation reserves with effect from January 1, 2018. Following the decrease in the fair value of Italian government securities which was evidenced in May and June, this led to a negative impact of €5.4 million after taxes, along with a €4.2 million decrease in the translation reserve due to the revaluation of the exchange rates applied to the BFF Polska Group's equity in consolidated equity. Such movements were offset by a €0.8 million reduction in deductions from own funds for intangible assets, and further movements in the reserves. It should be noted that current year's profit has not been included as part of own funds.
In the event that the entire profit for the period is allocated to increase the BFF Banking Group's own funds, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio would be 14.3%, 14.3% and 19.2%, respectively.

With reference to the CRR Group, which includes the majority shareholder, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio are 11.7%, 12.7% and 16.2%, respectively.

It should be noted that capital ratios at June 30, 2018 have benefited from DBRS upgrading Greece to B initially, and then to BH. As a result, the risk weight relating to receivables due from Greek public administration agencies decreased from 150% to 100%.

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

## Performance of the BFF Banking Group

The consolidated net profit amounted to €41.3 million at June 30, 2018, and it included Banca Farmafactoring's profit of €33 million, the subsidiary BFF Finance Iberia's profit of €1.7 million, and the BFF Polska Group's profit of €6.6 million.

BFF Banking Group's total new volumes amounted to €2,059 million, increasing by 24% compared to €1,667 million for the same period in 2017. These figures refer to the non-recourse purchases of Banca Farmafactoring, BFF Finance Iberia and the new volumes generated by the BFF Polska Group.

Total non-recourse purchases in Italy amounted to €1,392 million, up from €1,209 million at June 30, 2017.
As for Spanish receivables, purchase volumes amounted to €318 million, up by 114% compared to €149 million in 2017. In Spain, concerted commercial efforts have managed to compensate for the effect of reduced payment times following the liquidity injections made by the Government over the years.
Purchase of receivables due from the Portuguese public sector amounted to €65 million, decreasing by 9% compared to €71 million in 2017. This decrease as compared to the same period in the previous year can be attributed to Banca Farmafactoring's different purchasing times.

Purchases made in Greece amounted to €5 million.

Volumes made by the BFF Polska Group during the period amounted to €279 million (based on the average exchange rate for the period), compared to €238 million at June 30, 2017.
In the second half of 2017, BFF Polska decided to stop marketing the "factoring for business" product related to the recourse factoring of receivables due from private debtors that, for the purposes of calculating the capital requirements on credit risk, applied a risk weight of 100%, not generating adequate profitability for the expected risk profiles.
The negative effect on the income statement for 2018, deriving from such product, amounted to €1 million after tax. The net residual portfolio totaled €4 million at June 30, 2018.

Taking into consideration the credit management activities carried out by the BFF Banking Group, overall volumes amounted to €3,654 million, as compared to €3,106 million at June 30, 2017.

Collections relating to non-recourse purchases by Banca Farmafactoring and BFF Finance Iberia amounted to €1,897 million, as compared to €1,505 million at June 30, 2017.
For Italy, collections totaled €1,467 million compared to €1,273 million in the prior-year period. As for Spain, collections stood at €326 million, higher than the €200 million in the first half ended June 30, 2017. In Portugal, collections totaled €98 million compared to €32 million at June 2017.
In Greece, €6 million was collected over the first half of the year.

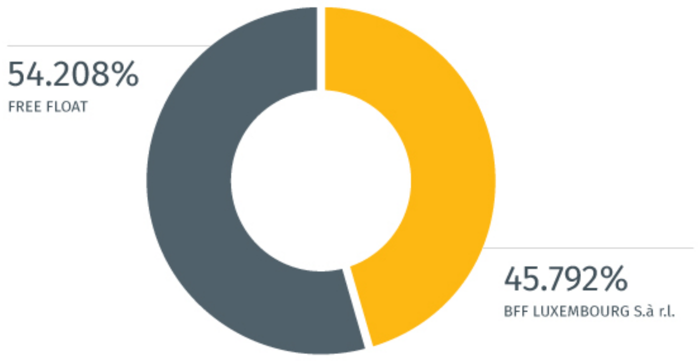
Total collections amounted to €3,415 million (including management activities in addition to non-recourse purchases) compared to €3,055 million in the previous year.

## Significant Events during the Period

### Shareholder Structure

On February 21, 2018, BFF Luxembourg S.à r.l. informed that it completed the sale of 17.25 million BFF shares, equivalent to 10.1% of the Bank's capital, through an accelerated book build.
Subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 55.8% to 45.8%. 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.

The following chart shows the breakdown of Banca Farmafactoring's shareholder structure following the above-mentioned transaction.




Total number of shares 170,107,400
*Source: official communications to BFF (Modello 120A - 120B)*

The floating stock includes the stake held by 31 managers, employees and former employees of the Banking Group. It should be noted that, after 12 months of the listing date, the lock-up period expired for the majority shareholder, the managers, the employees and the former employees of the Banking Group. On April 6, 2018, BFF Luxembourg S.à r.l. signed a lock-up agreement with the CEO and six other Bank managers. Under this agreement they commit not to dispose of a part of the shares held, accounting for 2.6% of the share capital, for a maximum period of three years. BFF Luxembourg S.à r.l. granted those shareholders the option to purchase an equal number of the Bank's ordinary shares, currently held by BFF Luxembourg S.à r.l.

## Distribution of 2017 Dividends

The BFF Banking Group's Profit for the year ended December 31, 2017 amounted to €95,547,803.
In line with the dividend policy approved by the Bank's Board of Directors, which envisages a Total Capital Ratio target of 15% for the BFF Banking Group, the Ordinary Shareholders' Meeting of the Bank held on April 5, 2018 decided to distribute to Shareholders part of the BFF Banking Group's consolidated profit up to €83,692,841.
This amount corresponds to the entire BFF Banking Group's adjusted profit. The part of profit not arising from operations in the reporting period was allocated to consolidated Tier I Capital, equal to €11,854,962, and allocated to the Retained earnings reserves of the respective investee companies.

## Shareholders Meetings' Resolutions

Pursuant to Article 14 of the company's bylaws, the Bank's Ordinary Shareholders' Meeting of April 5, 2018 resolved that the Board of Directors shall be composed of nine members remaining in office for three years (2018, 2019 and 2020). Their term of office will end on the date of the Meeting convened to approve the financial statements for the year 2020.
The names of the nine directors were decided by vote at the same Ordinary Shareholders' Meeting, with respect given to minority representation and gender balance as required by Law 120/2011. During the Ordinary Shareholders' Meeting, Mr. Salvatore Messina was confirmed as Chairman of the Board of Directors.
With regards to the composition of the Board of Statutory Auditors, the Shareholders' Meeting decided by vote the new members for the Board of Statutory Auditors and the relevant Chairman, who will remain in office for the three-year period 2018-2020.
Finally, the Shareholders' Meeting authorized the Board of Directors to purchase up to 26,196,539 Banca Farmafactoring shares, for the purposes described in the "Treasury shares" section of this report.

## Group Rebranding

The BFF Banking Group's internationalization process was launched by opening the subsidiary Farmafactoring España S.A. in Spain (now BFF Finance Iberia S.A.) in 2010 and the Madrid branch in 2015.

The process continued with the Group entering the Central and Eastern European market in 2016 and the Greek market in 2017, and with the authorization to operate in Croatia in 2018.

In light of the Group's new position in the market and subsequent completion of the listing process in April 2017, a rebranding project was launched at Group level, with a single brand being adopted for all Group companies.

Therefore, the BFF Banking Group operates through this common brand in the eight markets where it is present from May 2, 2018, namely Italy, Spain, Portugal, Poland, Czech Republic, Slovakia, Greece and Croatia. This further strengthens the Group's position as the only pan-European player able to respond to the financial needs of businesses supplying goods and services to the public sector in multiple markets.

The new names of subsidiaries are as follows:

- BFF Polska S.A. (formerly Magellan S.A.)
- BFF Finance Iberia S.A. (formerly Farmafactoring España S.A.)
- BFF Central Europe S.R.O. (formerly Magellan Central Europe S.R.O.)
- BFF Česká republika S.R.O. (formerly Magellan Česká republika S.R.O.)
- BFF Medfinance S.A. (formerly Medfinance S.A.)

## Opening of the Branch in Portugal and Start of Operations in Croatia

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 April 20, 2018, the Bank of Portugal confirmed that they had received the application from the Bank of Italy. On June 19, the Bank of Portugal advised that the Portuguese branch had been registered, and provided the associated registration number. On July 16, the branch officially began operations.

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, in accordance with the Bank of Italy Circular no. 285, Part One, Title 1, Chapter 6, Section II.
During the month of June, set-up operations were completed for the processes, systems and contracts as required, in order to be ready for the launch of initial operations on the Croatian market.

## 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.
At June 30, 2018 an amount of €275 thousand was recorded (€550 thousand for the full year).

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 decided to participate in the scheme.
The Voluntary Scheme has autonomous financial resources, currently totaling €795 million, which the member banks commit to provide, when requested, for the implementation of specific measures. As regards the financial resources of the Scheme, the Bank voted against the resolution of the Extraordinary Shareholders' Meeting of September 7, 2017, aimed at increasing the Scheme resources from €700 million to €795 million.
Operations required by the Voluntary Scheme in 2017 concerned:

- in September, the collection of contributions to support Carim and Carismi for a total of €55 million, of which €77 thousand charged to Banca Farmafactoring;
- in December, the collection of contributions to support Caricesena, Carim and Carismi, for a total of €455 million, of which €594 thousand charged to Banca Farmafactoring.

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

In 2017, the fair value measurement of these amounts resulted in a value adjustment of the assets acquired through the contributions paid to the Voluntary Scheme, equal to €702 thousand. Banca Farmafactoring 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, 2017, as mentioned above. For this reason, the Bank will no longer be forced to make additional payments to the aforesaid Voluntary Scheme.

## 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 2018 by the Bank of Italy with its Note of April 27, 2018 was €1,872 thousand, paid in May 2018.
The ordinary annual contribution requested in 2017 was €1,171 thousand, while in 2016 it was €1,086 thousand.

In the event that the financial resources of the National Resolution Fund are insufficient to sustain the recovery and restructuring actions carried out over time, Law 208/2015 (the so-called Budget Law for 2016) requires the banks to make additional contributions, with the amount to be determined by the Bank of Italy.
By letter dated May 25, 2018, the Bank of Italy requested the banking industry to provide an additional extraordinary contribution of €310 million for 2016, taking into account the upcoming financial needs of the Fund.
The amount charged to Banca Farmafactoring, paid in June 2018, was equal to €701 thousand. No extraordinary contributions were requested of the banking sector in 2017.

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.

## Change in Staff Headcount

In order to support the development plans of the BFF Banking Group and seize growth opportunities, the number of staff has been steadily increased over the years.
At June 30, 2018, the total number of BFF Group employees amounted to 441 staff members, of which 214 in Italy (including 4 staff to be seconded to the Banca Farmafactoring branch in Lisbon, whose operations are scheduled to start in July 2018), 35 in Spain (10 at the Banca Farmafactoring branch in Madrid, and 25 at BFF Finance Iberia), 176 in Poland, 12 in Slovakia and 4 in the Czech Republic. During the first half of 2018, the Bank added 59 people, of whom 19 in Italy, 3 in Spain, 33 in Poland and 4 in Slovakia.
The following table shows the composition of the Group's staff broken down by the countries in which it operates through a permanent establishment.

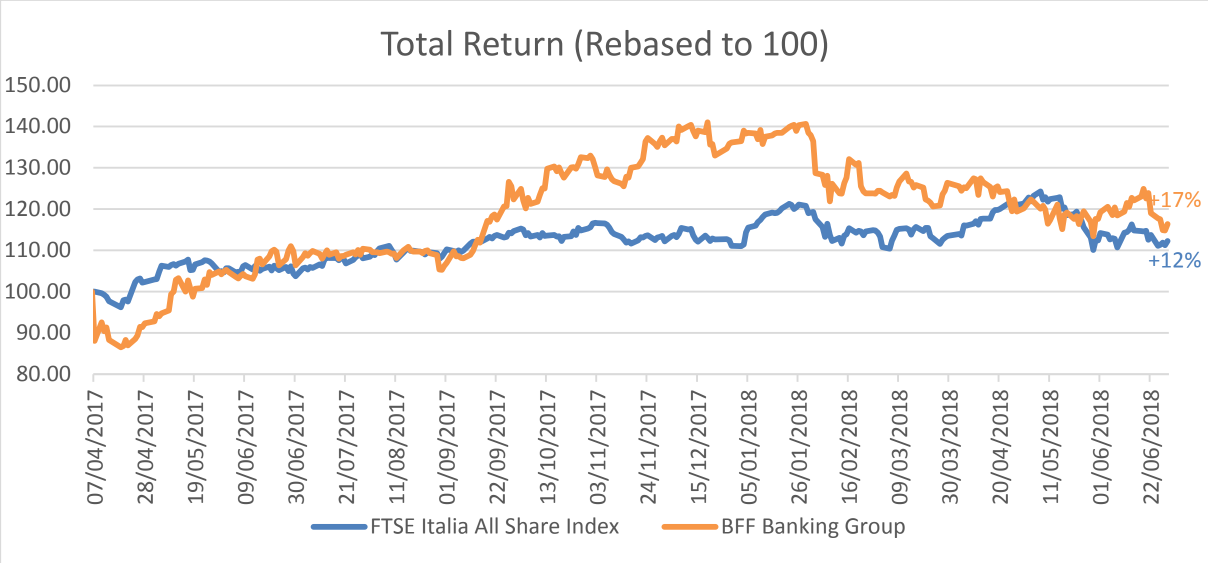
| | 2017 | | | | | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CATEGORY | Italy | Spain | Poland | Slovakia | Czech Rep. | TOT | Italy | Spain | Poland | Slovakia | Czech Rep. | TOT |
| Senior Executives/Executives | 15 | 1 | 5 | - | - | 21 | 16 | 1 | 6 | - | - | 23 |
| Managers/Middle Managers/ Professionals | 66 | 12 | 25 | 2 | - | 105 | 77 | 14 | 25 | 2 | - | 118 |
| Specialists | 120 | 21 | 133 | 8 | 4 | 286 | 121 | 20 | 145 | 10 | 4 | 300 |
| **Total by country** | **201** | **34** | **163** | **10** | **4** | | **214** | **35** | **176** | **12** | **4** | |
| | | | | | | | | | | | | |
| **Group total for the year** | **412** | | | | | | **441** | | | | | |

## 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
- MSCI World.

The share price at June 29, 2018 was €5.02, increasing by 6.8% compare to the share placement price of €4.70. Since listing, the Bank has distributed dividends of €0.492 per share. Taking into consideration the distributed dividends, total return for shareholders compared to the placement price was 17.2%. The FTSE Italia All Share Index total return was instead 12%.




## 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 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, approval and management of transactions with parties that may be in a conflict of interest" implementing the supervisory provisions of the Bank of Italy Circular no. 263 of December 27, 2006, Title V, Chapter 5, and the Consob Regulation on transactions with related parties, adopted by resolution no. 17221 of March 12, 2010, as subsequently amended by resolution no. 17389 of June 23, 2010, following a favorable opinion expressed by the Board of Statutory Auditors and the Related Party Committee.

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

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

The BFF Banking Group Regulation for the management of transactions with parties that may be in a conflict of interest and the Policy to manage conflicts of interest are communicated to the Shareholders' Meeting and the public via the Bank's website under the section Governance/procedures and regulations/transactions with associated parties.

Related parties include investee companies belonging to the BFF Banking Group, as described in the section "Structure of the Group".

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

## 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

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 period ended June 30, 2018.

## Treasury shares

On March 1, 2018, the Bank purchased 50,938 treasury shares (accounting for 0.03% of share capital) at an average price of €5.8895 per share and for a total amount of €299,999.35, as per the authorization of the Shareholders' Meeting of December 5, 2016, subject to prior disclosure pursuant to Regulation (EU) 2016/1052. Authorization was also received from the Bank of Italy on February 26, 2018.

As also described in Part I of this document, the treasury share purchase plan aims to equip the Bank with sufficient financial instruments to be granted to the BFF Group's "Risk Takers" in order to meet the relevant variable remuneration percentage requirements, in implementation of the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of the BFF Banking Group".
The total amount of shares purchased was equal to the maximum amount authorized for the plan by the Bank of Italy (€300,000).
After the variable remuneration for the year 2017 was paid to Risk Takers, the treasury share reserve amounted to €267,207 at June 30, 2018.

### Other offices

Banca Farmafactoring has an office in Rome, Via Bertoloni 1/E. In 2015, the Bank opened a Spanish branch in Madrid and, as previously mentioned, it opened a Portuguese branch in Lisbon on July 16, 2018.

As regards the other BFF Banking Group companies, reference should be made to the "Structure of the Group" section of this report.

# CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

as of 30 June 2018

# Consolidated Balance Sheet

(Amounts in euros)

| Assets | | 06/30/2018 | 12/31/2017(*) |
|---|---|---|---|
| **10.** | Cash and cash equivalents | 38,619,001 | 80,932,835 |
| **20.** | Financial assets measured at fair value through profit or loss | 37,272 | 545,846 |
| | *c) other financial assets mandatorily measured at fair value* | *37,272* | *545,846* |
| **30.** | Financial assets measured at fair value through OCI | 159,160,707 | 101,449,267 |
| **40.** | Financial assets measured at amortized cost | 3,983,273,088 | 4,183,888,076 |
| | *a) due from banks* | *19,214,857* | *44,792,419* |
| | *b) due from customers* | *3,964,058,231* | *4,139,095,657* |
| **50.** | Hedging derivatives | 0 | 321,839 |
| **70.** | Equity investments | 150,919 | 260,893 |
| **90.** | Property, plant and equipment | 12,481,533 | 12,794,887 |
| **100.** | Intangible assets | 25,277,829 | 26,034,157 |
| | of which | | |
| | *- goodwill* | *22,146,189* | *22,146,189* |
| **110.** | Tax assets | 19,259,930 | 30,917,074 |
| | *a) current* | *11,292,030* | *25,883,920* |
| | *b) deferred* | *7,967,900* | *5,033,154* |
| **130.** | Other assets | 12,495,785 | 9,795,958 |
| | **TOTAL ASSETS** | **4,250,756,065** | **4,446,940,832** |

(*) Figures at December 31, 2017 were restated based on the financial statement format provided for by the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) in line with the new IFRS 9 requirements.

# Consolidated Balance Sheet

(Amounts in euros)

| Liabilities and Equity | 06/30/2018 | 12/31/2017(*) |
|---|---|---|
| **10.** Financial liabilities measured at amortized cost | 3,791,270,917 | 3,944,117,768 |
| *a) due to banks* | *687,294,961* | *657,992,541* |
| *b) due to customers* | *2,386,327,051* | *2,495,986,713* |
| *c) debt securities issued* | *717,648,905* | *790,138,514* |
| **20.** Financial liabilities held for trading | 0 | 535,073 |
| **60.** Tax liabilities | 72,609,145 | 82,455,762 |
| *a) current* | *14,016,660* | *25,627,899* |
| *b) deferred* | *58,592,485* | *56,827,864* |
| **80.** Other liabilities | 68,926,103 | 49,683,022 |
| **90.** Employee severance benefits | 869,178 | 848,138 |
| **100.** Provisions for risks and charges: | 4,226,295 | 5,445,278 |
| *a) commitments and guarantees provided* | *202,596* | *0* |
| *b) pension and other post-employment benefits* | *3,194,644* | *4,366,009* |
| *c) other provisions for risks and charges* | *829,055* | *1,079,269* |
| **120.** Revaluation reserves | (1,991,686) | 7,693,804 |
| **150.** Reserves | 142,809,147 | 129,621,486 |
| **170.** Share capital | 130,982,698 | 130,982,698 |
| **180.** Treasury shares | (267,207) | 0 |
| **190.** Equity attributable to non-controlling interests | 0 | 10,000 |
| **200.** Profit (loss) for the period | 41,321,474 | 95,547,803 |
| **TOTAL LIABILITIES AND EQUITY** | **4,250,756,065** | **4,446,940,832** |

(*) Figures at December 31, 2017 were restated based on the financial statement format provided for by the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) in line with the new IFRS 9 requirements.

# Consolidated Income Statement

*(Amounts in euros)*

| Items | | 06/30/2018 | 06/30/2017(*) |
|---|---|---|---|
| 10. | Interest and similar income | 108,326,049 | 126,720,352 |
| | of which: interest income calculated using the effective interest rate method | 93,729,064 | 106,767,960 |
| 20. | Interest and similar expenses | (21,356,074) | (20,133,080) |
| **30.** | **Net interest margin** | **86,969,975** | **106,587,272** |
| 40. | Fee and commission income | 3,760,536 | 3,969,726 |
| 50. | Fee and commission expenses | (769,012) | (501,374) |
| **60.** | **Net fees and commissions** | **2,991,524** | **3,468,351** |
| 70. | Dividends and similar income | 2,433 | 45,684 |
| 80. | Gains (losses) on trading | 4,082,159 | (4,242,848) |
| 90. | Gains (losses) on hedge accounting | 110,652 | 26,955 |
| 100. | Gains (losses) on disposal or repurchase of: | | |
| | *a)* financial assets measured at amortized cost | (459) | 0 |
| | *b)* financial assets measured at fair value through OCI | 359,795 | 20,340 |
| **120.** | **Net banking income** | **94,516,079** | **105,905,755** |
| 130. | Net adjustments/reversals of impairment for credit risk relating to: | | |
| | *a)* financial assets measured at amortized cost | (3,219,795) | (1,905,282) |
| | *b)* financial assets measured at fair value through OCI | (9,093) | 0 |
| **150.** | **Net profit from financial activities** | **91,287,192** | **104,000,473** |
| **180.** | **Net profit from financial and insurance activities** | **91,287,192** | **104,000,473** |
| 190. | Administrative expenses: | | |
| | *a)* personnel costs | (16,363,771) | (15,195,331) |
| | b) other administrative expenses | (17,963,284) | (18,183,992) |
| 200. | Net allocations to provisions for risks and charges | | |
| | *a)* commitments and guarantees provided | (35,909) | 0 |
| | *b)* other net allocations | (513,010) | (374,966) |
| 210. | Net adjustments to/reversals of impairment of property, plant and equipment | (718,331) | (724,656) |
| 220. | Net adjustments to/reversals of impairment of intangible assets | (940,229) | (900,884) |
| 230. | Other operating income (expenses) | 1,621,443 | 1,912,666 |
| **240.** | **Operating costs** | **(34,913,092)** | **(33,467,162)** |
| **290.** | **Profit (loss) before tax from continuing operations** | **56,374,100** | **70,533,311** |
| 300. | Income taxes on profit (loss) from continuing operations | (15,052,626) | (19,879,736) |
| **310.** | **Profit (loss) after tax from continuing operations** | **41,321,474** | **50,653,574** |
| **330.** | **Profit (loss) for the period** | **41,321,474** | **50,653,574** |
| **350.** | **Profit (loss) for the period attributable to owners of the Parent** | **41,321,474** | **50,653,574** |

(*) Figures at June 30, 2017 were restated based on the financial statement format provided for by the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) in line with the new IFRS 9 requirements.

# Consolidated Statement of Comprehensive Income

*(Amounts in euros)*

| Items | | 06/30/2018 | 06/30/2017 |
|---|---|---|---|
| 10. | **Profit (loss) for the period** | **41,321,474** | **50,653,574** |
| | **Other comprehensive income, after tax, that will not be reclassified to profit or loss** | | |
| 20. | Equity securities designated at fair value through OCI | | |
| 30. | Financial liabilities designated at fair value through profit or loss (change in credit quality rating) | | |
| 40. | Hedging of equity securities designated at fair value through OCI | | |
| 50. | Property, plant and equipment | | |
| 60. | Intangible assets | | |
| 70. | Defined benefit plans | 8,440 | (9,982) |
| 80. | Non-current assets and disposal groups held for sale | | |
| 90. | 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** | | |
| 100. | Hedges of foreign investments | | |
| 110. | Exchange differences | (4,358,895) | 3,201,208 |
| 120. | Cash flow hedges | (194,156) | (123,539) |
| 130. | Hedging instruments (not designated) | | |
| 140. | Financial assets (other than equity securities) measured at fair value through OCI | (5,452,704) | (551,791) |
| 160. | Portion of revaluation reserves from equity investments measured using the equity method | | |
| 170. | **Total other comprehensive income, after tax** | **(9,997,315)** | **2,515,896** |
| 180. | **Comprehensive income (Items 10+170)** | **31,324,159** | **53,169,470** |
| 190. | Consolidated comprehensive income attributable to non-controlling interests | | |
| 200. | **Consolidated comprehensive income attributable to owners of the Parent** | **31,324,159** | **53,169,470** |

# Consolidated Statement of Changes in Equity

## At June 30, 2017

*(Amounts in euros)*

| | Balance at 12/31/2016 | Change in opening balance | Balance at 01/01/2017 | Retained earnings (Accumulated losses) | | Change during the period | | | | | | | | | Group equity at 06/30/2017 | Equity attributable to non-controlling interests at 06/30/2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | | | | |
| | | | | Reserves | Dividends and other allocations | Change in reserves | Issue of new shares | Purchase of treasury shares | Distribution of extraordinary dividends | Change in equity instruments | Derivatives on treasury shares | Stock options | Change in shareholding interests | Consolidated comprehensive income for the year 2017 | | |
| Share capital: | | | | | | | | | | | | | | | | |
| - ordinary shares | **130,900,000** | | **130,900,000** | | | | 82,698 | | | | | | | | **130,982,698** | |
| - other shares | 82,698 | | **82,698** | | | | (82,698) | | | | | | | | **-** | |
| Share premium | | | | | | | | | | | | | | | | |
| Reserves: | | | | | | | | | | | | | | | | |
| - from profits | **126,132,168** | | **126,132,168** | 10,961 | | 85,045 | | | | | | 1,487,482 | | | **127,715,656** | |
| - other | | | | | | | | | | | | | | | | |
| Revaluation reserves | **4,494,859** | | **4,494,859** | | | | | | | | | | | 2,515,896 | **7,010,756** | |
| Equity instruments | | | | | | | | | | | | | | | | |
| Treasury shares | | | | | | | | | | | | | | | | |
| Profit (loss) for the period | **72,136,499** | | **72,136,499** | (10,961) | (72,125,538) | | | | | | | | | 50,653,574 | **50,653,574** | |
| **Group equity** | **333,746,224** | | **333,746,224** | **-** | **(72,125,538)** | **85,045** | **-** | | | | | **1,487,482** | | **53,169,470** | **316,362,684** | |
| Equity attributable to non-controlling interests | | | | | | | | | | | | | | | | |

## At June 30, 2018

*(Amounts in euros)*

| | Balance at 12/31/2017 | Change in opening balance | Balance at 01/01/2018 | Retained earnings (Accumulated losses) | | Change during the period | | | | | | | | | Group equity at 06/30/2018 | Equity attributable to non-controlling interests at 06/30/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | | | | |
| | | | | Reserves | Dividends and other allocations | Change in reserves | Issue of new shares | Purchase of treasury shares | Distribution of extraordinary dividends | Change in equity instruments | Derivatives on treasury shares | Stock options | Change in shareholding interests | Consolidated comprehensive income for the year 2018 | | |
| Share capital: | | | | | | | | | | | | | | | | |
| - ordinary shares | **130,982,698** | | **130,982,698** | | | | | | | | | | | | **130,982,698** | |
| - other shares | | | | | | | | | | | | | | | | |
| Share premium | | | | | | | | | | | | | | | | |
| Reserves: | | | | | | | | | | | | | | | | |
| - from profits | **126,907,657** | | **126,907,657** | 11,854,962 | | (246,599) | | | | | | 1,581,172 | | | **138,516,020** | |
| - other | **2,713,829** | | **2,713,829** | | | (1,874) | | | | | | | | | **4,293,127** | |
| Revaluation reserves | **7,693,804** | **311,238** | **8,005,042** | | | 587 | | | | | | | | (9,997,315) | **(1,991,686)** | |
| Equity instruments | | | | | | | | | | | | | | | | |
| Treasury shares | | | | | | | | (267,207) | | | | | | | **(267,207)** | |
| Profit (loss) for the period | **95,547,803** | | **95,547,803** | (11,854,962) | (83,692,841) | | | | | | | | | 41,321,474 | **41,321,474** | |
| **Group equity** | **363,845,791** | **311,238** | **364,157,029** | **-** | **(83,692,841)** | **(247,886)** | | **(267,207)** | | | | **1,581,172** | | **31,324,159** | **312,854,426** | |
| Equity attributable to non-controlling interests | **10,000** | | **10,000** | | | | | | | | | | | | | |

## Consolidated Statement of Cash Flows

Indirect Method

*(Amounts in euros)*

| A. OPERATING ACTIVITIES | Amount | |
|---|---|---|
| | 06/30/2018 | 06/30/2017(*) |
| **1. Operations** | **46,983,080** | **55,440,471** |
| - profit or loss for the period (+/-) | 41,321,474 | 50,653,574 |
| - capital gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit or loss (-/+) | - | 619,546 |
| - capital gains/losses on hedge accounting (-/+) | (110,652) | (26,955) |
| - net adjustments/reversals of impairment for credit risk (+/-) | 3,228,888 | 1,905,281 |
| - net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-) | 1,658,561 | 1,625,541 |
| - net allocations to provisions for risks and charges and other expenses/income (+/-) | 548,919 | 374,966 |
| - net premiums not collected (-) | | |
| - other income/expenses from insurance activities not collected (-/+) | | |
| - unpaid taxes and tax credits (+/-) | | |
| - net adjustments to/reversals of impairment of discontinued operations, net of the tax effect (-/+) | | |
| - other adjustments (+/-) | 335,891 | 288,518 |
| **2. Liquidity generated/absorbed by financial assets** | **(149,351,737)** | **(141,767,614)** |
| - financial assets held for trading | - | (244,420) |
| - financial assets designated at fair value | - | (2,175,355) |
| - other assets mandatorily measured at fair value | (508,574) | 78,863,407 |
| - financial assets measured at amortized cost | (197,395,193) | 142,631,830 |
| - other assets | 48,552,029 | (360,843,075) |
| **3. Liquidity generated/absorbed by financial liabilities** | **(154,410,507)** | **(120,497,304)** |
| - financial liabilities measured at amortized cost | (152,846,851) | (154,946,832) |
| - financial liabilities held for trading | (535,073) | 537,692 |
| - financial liabilities designated at fair value | | |
| - other liabilities | (1,028,583) | 33,911,836 |
| ***Net liquidity generated/absorbed by operating activities*** | **41,924,310** | **76,710,781** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Liquidity generated by** | **(107,541)** | **(80,773)** |
| - sale of equity investments | (109,974) | (126,457) |
| - dividends collected on equity investments | 2,433 | 45,684 |
| - sale of property, plant and equipment | | |
| - sale of intangible assets | | |
| - sale of subsidiaries and business branches | | |
| **2. Liquidity absorbed by** | **(170,555)** | **(929,367)** |
| - purchase of equity investments | (40,869) | (256,923) |
| - purchase of property, plant and equipment | (65,906) | (454,940) |
| - purchase of intangible assets | (63,781) | (217,504) |
| - purchase of subsidiaries and business branches | | |
| ***Net liquidity generated/absorbed by investing activities*** | **(278,096)** | **(1,010,140)** |

| C. FUNDING ACTIVITIES | | |
|---|---|---|
| - issue/purchase of treasury shares | (267,207) | |
| - issue/purchase of equity instruments | | |
| - distribution of dividends and other | (83,692,841) | (72,125,538) |
| - sale/purchase of ownership interests in subsidiaries | | |
| ***Net liquidity generated/absorbed by funding activities*** | **(83,960,048)** | **(72,125,538)** |
| **NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD** | **(42,313,834)** | **3,575,104** |

## RECONCILIATION

*(Amounts in euros)*

| | *Amount* | |
|---|---|---|
| **Item** | 06/30/2018 | 06/30/2017(*) |
| Cash and cash equivalents at the beginning of the period | 80,932,835 | 149,035 |
| Net liquidity generated/absorbed during the period | (42,313,834) | 3,575,104 |
| Cash and cash equivalents: effect of change in exchange rate | | |
| **Cash and cash equivalents at the end of the period** | **38,619,001** | **3,724,139** |

(*) Figures at June 30, 2017 were restated based on the financial statement format provided for by the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) in line with the new IFRS 9 requirements.

# Financial statements at December 31, 2017 Restated pursuant to the 5th Update of Bank of Italy's Circular 262/2005

As for figures at December 31, 2017, recognized pursuant IAS 39 requirements, the statements of reconciliation between the old set of financial statements (still in force at December 31, 2017) and the new set of financial statements complying with the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) are provided in the following pages.

| Assets | | 12/31/2017 | Financial statement items pursuant to new Circular 262/2005 - 5th Update | | |
|---|---|---|---|---|---|
| **10.** | Cash and cash equivalents | 80,932,835 | **10.** | Cash and cash equivalents | 80,932,835 |
| **20.** | Financial assets held for trading | 0 | **20.** | Financial assets measured at fair value through profit or loss<br>a) financial assets held for trading<br>b) financial assets designated at fair value<br>c) other financial assets mandatorily measured at fair value | 545,846 |
| **30.** | Financial assets measured at fair value | 545,846 | | | |
| **40.** | Available-for-sale financial assets | 101,449,267 | **30.** | Financial assets measured at fair value through OCI | 101,449,267 |
| **50.** | Held-to-maturity financial assets | 1,120,609,553 | **40.** | Financial assets measured at amortized cost<br>a) due from banks<br>b) due from customers (*) | 4,183,888,076<br>44,792,419<br>4,139,095,657 |
| **60.** | Due from banks | 44,792,419 | | | |
| **70.** | Due from customers | 3,018,486,104 | | | |
| **80.** | Hedging derivatives | 321,839 | **50.** | Hedging derivatives | 321,839 |
| **100.** | Equity investments | 260,893 | **70.** | Equity investments | 260,893 |
| **120.** | Property, plant and equipment | 12,794,887 | **90.** | Property, plant and equipment | 12,794,887 |
| **130.** | Intangible assets<br>of which<br>*- goodwill* | 26,034,157<br><br>*22,146,189* | **100.** | Intangible assets<br>of which<br>*- goodwill* | 26,034,157<br><br>*22,146,189* |
| **140.** | Tax assets<br>*a) current*<br>*b) deferred*<br>*of which for purpose of Law 214/2011* | 30,917,074<br>*25,883,920*<br>*5,033,154*<br>*685,606* | **140.** | Tax assets<br>*a) current*<br>*b) deferred* | 30,917,074<br>*25,883,920*<br>*5,033,154* |
| **160.** | Other assets | 9,795,958 | **160.** | Other assets | 9,795,958 |
| | **TOTAL ASSETS** | **4,446,940,832** | | **TOTAL ASSETS** | 4,446,940,832 |

(*) "Due from customers" includes both item 70 ("due from customers"), equal to €3,018,486,104, and item 50 ("Held-to-maturity financial assets"), equal to €1,120,609,553, of the old set of financial statements.

| Liabilities and Equity | | 12/31/2017 | Financial statement items pursuant to new Circular 262/2005 - 5th Update | | |
|---|---|---|---|---|---|
| | | | 10. | Financial liabilities measured at amortized cost | 3,944,117,768 |
| 10. | Due to banks | 657,992,541 | | a) due to banks | 657,992,541 |
| 20. | Due to customers | 2,495,986,713 | | b) due to customers | 2,495,986,713 |
| 30. | Debt securities issued | 790,138,514 | | c) debt securities issued | 790,138,514 |
| 40. | Financial liabilities held for trading | 535,073 | 20. | Financial liabilities held for trading | 535,073 |
| 50. | Financial liabilities measured at fair value | 0 | 30. | Financial liabilities designated at fair value | 0 |
| 60. | Hedging derivatives | 0 | 40. | Hedging derivatives | 0 |
| 70. | Adjustments to hedged financial liabilities | 0 | 50. | Adjustments to hedged financial liabilities | 0 |
| 80. | Tax liabilities | 82,455,762 | 60. | Tax liabilities | 82,455,762 |
| | *a) current* | *25,627,899* | | *a) current* | *25,627,899* |
| | *b) deferred* | *56,827,864* | | *b) deferred* | *56,827,864* |
| 90. | Liabilities associated with assets held for sale | 0 | 70. | Liabilities associated with assets held for sale | 0 |
| 100. | Other liabilities | 49,683,022 | 80. | Other liabilities | 49,683,022 |
| 110. | Employee severance benefits | 848,138 | 90. | Employee severance benefits | 848,138 |
| 120. | Provisions for risks and charges | 5,445,278 | 100. | Provisions for risks and charges | 5,445,278 |
| | | | | *a) commitments and guarantees provided* | |
| | *a) pension and other post-employment benefits* | *4,366,009* | | *b) pension and other post-employment benefits* | *4,366,009* |
| | *b) other provisions* | *1,079,269* | | *c) other provisions* | *1,079,269* |
| 130. | Technical reserves | 0 | 110. | Technical reserves | 0 |
| 140. | Revaluation reserves | 7,693,804 | 120. | Revaluation reserves | 7,693,804 |
| 150. | Redeemable shares | 0 | 130. | Redeemable shares | 0 |
| 160. | Equity instruments | 0 | 140. | Equity instruments | 0 |
| 170. | Reserves | 129,621,486 | 150. | Reserves | 129,621,486 |
| 180. | Share premium | 0 | 160. | Share premium | 0 |
| 190. | Share capital | 130,982,698 | 170. | Share capital | 130,982,698 |
| 200. | Treasury shares | 0 | 180. | Treasury shares | 0 |
| 210. | Equity attributable to non-controlling interests | 10,000 | 190. | Equity attributable to non-controlling interests | 10,000 |
| 220. | Profit (loss) for the period | 95,547,803 | 200. | Profit (loss) for the period | 95,547,803 |
| | **TOTAL LIABILITIES AND EQUITY** | **4,446,940,832** | | **TOTAL LIABILITIES AND EQUITY** | **4,446,940,832** |

| Consolidated Income Statement items | | 06/30/2017 | Financial statement items pursuant to new Circular 262/2005 - 5th Update | | |
|---|---|---|---|---|---|
| **10.** | Interest and similar income | 126,720,532 | **10.** | Interest and similar income | 126,720,532 |
| **20.** | Interest and similar expenses | (20,133,080) | **20.** | Interest and similar expenses | (20,133,080) |
| **30.** | **Net interest margin** | **106,587,272** | **30.** | **Net interest margin** | **106,587,272** |
| **40.** | Fee and commission income | 3,969,726 | **40.** | Fee and commission income | 3,969,726 |
| **50.** | Fee and commission expenses | (501,374) | **50.** | Fee and commission expenses | (501,374) |
| **60.** | **Net fees and commissions** | **3,468,351** | **60.** | **Net fees and commissions** | **3,468,351** |
| **70.** | Dividends and similar income | 45,684 | **70.** | Dividends and similar income | 45,684 |
| **80.** | Gains (losses) on trading | (4,242,848) | **80.** | Gains (losses) on trading | (4,242,848) |
| **90.** | Gains (losses) on hedge accounting | 26,955 | **90.** | Gains (losses) on hedge accounting | 26,955 |
| **100.** | Gains (losses) on disposal or repurchase of:<br>*a)* receivables<br>*b)* available-for-sale financial assets<br>c) held-to-maturity financial assets<br>d) financial liabilities | <br><br>20,340 | **100.** | Gains (losses) on disposal or repurchase of:<br>*a)* financial assets measured at amortized cost<br>*b)* financial assets measured at fair value through OCI<br>c) financial liabilities | <br><br>20,340 |
| **110.** | Gains (losses) on financial assets and liabilities measured at fair value | 0 | **110.** | Gains (losses) on other financial assets and liabilities measured at fair value through profit or loss<br>a) financial assets and liabilities designated at fair value<br>b) other financial assets mandatorily measured at fair value | 0 |
| **120.** | **Net banking income** | **105,905,755** | **120.** | **Net banking income** | **105,905,755** |
| **130.** | Net adjustments to/reversals of impairment of:<br>*a)* receivables<br>*b)* available-for-sale financial assets<br>c) held-to-maturity financial assets<br>d) other financial transactions | <br>(1,905,282)<br>0<br>0<br>0 | **130.** | Net adjustments/reversals of impairment for credit risk:<br>*a)* financial assets measured at amortized cost<br>b) financial assets measured at fair value through OCI | <br>(1,905,282)<br>0 |
| | | | **140** | Gains/losses from contractual changes | |
| **140.** | **Net profit from financial activities** | **104,000,473** | **150.** | **Net profit from financial activities** | **104,000,473** |
| **150.** | Net premiums | 0 | **160.** | Net premiums | 0 |
| **160.** | Balance of other income (expenses) from insurance activities | 0 | **170.** | Balance of other income (expenses) from insurance activities | 0 |
| **170.** | **Net profit from financial and insurance activities** | **104,000,473** | **180.** | **Net profit from financial and insurance activities** | **104,000,473** |
| **180.** | Administrative expenses:<br>*a)* personnel costs<br>b) other administrative expenses | <br>(15,195,331)<br>(18,183,992) | **190.** | Administrative expenses:<br>*a)* personnel costs<br>b) other administrative expenses | <br>(15,195,331)<br>(18,183,992) |
| **190.** | Net allocations to provisions for risks and charges | (374,966) | **200.** | Net allocations to provisions for risks and charges<br>*a)* commitments and guarantees provided<br>*b)* other net allocations | (374,966) |
| **200.** | Net adjustments to/reversals of impairment of property, plant and equipment | (724,656) | **210.** | Net adjustments to/reversals of impairment of property, plant and equipment | (724,656) |
| **210.** | Net adjustments to/reversals of impairment of intangible assets | (900,884) | **220.** | Net adjustments to/reversals of impairment of intangible assets | (900,884) |
| **220.** | Other operating income (expenses) | 1,912,666 | **230.** | Other operating income (expenses) | 1,912,666 |
| **230.** | **Operating costs** | **(33,467,162)** | **240.** | **Operating costs** | **(33,467,162)** |
| **240.** | Gains (losses) on equity investments | 0 | **250.** | Gains (losses) on equity investments | 0 |

| | | | | | |
|---|---|---|---|---|---|
| 250. | Gains (losses) on fair value measurement of property, plant and equipment and intangible assets | 0 | 260. | Gains (losses) on fair value measurement of property, plant and equipment and intangible assets | 0 |
| 260. | Adjustments to goodwill | 0 | 270. | Adjustments to goodwill | 0 |
| 270. | Gains (losses) on disposal of investments | 0 | 280. | Gains (losses) on disposal of investments | 0 |
| 280. | **Profit (loss) before tax from continuing operations** | **70,533,311** | 290. | **Profit (loss) before tax from continuing operations** | **70,533,311** |
| 290. | Income taxes on profit (loss) from continuing operations | (19,879,736) | 300. | Income taxes on profit (loss) from continuing operations | (19,879,736) |
| 300. | **Profit (loss) after tax from continuing operations** | **50,653,574** | 310. | **Profit (loss) after tax from continuing operations** | **50,653,574** |
| 310. | Profit (loss) after tax from disposal groups held for sale | 0 | 320. | Profit (loss) after tax from discontinued operations | 0 |
| 320. | **Profit (loss) for the period** | **50,653,574** | 330. | **Profit (loss) for the period** | **50,653,574** |
| 330. | Profit (loss) for the period attributable to non-controlling interests | *0* | 340. | Profit (loss) for the period attributable to non-controlling interests | *0* |
| 340. | **Profit (loss) for the period attributable to owners of the Parent** | **50,653,574** | 350. | **Profit (loss) for the period attributable to owners of the Parent** | **50,653,574** |

## *IFRS 9 – Financial Instruments – Group's Transition Process*

The new IFRS 9, endorsed by the European Commission through Commission Regulation (EU) 2016/2067 and effective for periods beginning on or after January 1, 2018, has replaced IAS 39 – Financial Instruments: Recognition and Measurement. The new standard aims to improve disclosure on financial instruments, by taking account of the difficulties which arose during the financial crisis. It also introduces an accounting model which can promptly reflect the expected losses on financial assets.

### *Qualitative impacts for the Group*

The main changes introduced by IFRS 9 can be summarized in the following three areas:

i**) Classification and measurement of financial assets**, based on both the business model, in order to define the management of financial assets and relevant purposes, and on the characteristics of the expected contractual cash flows of the financial instrument (Solely Payments of Principal and Interest—SPPI—criterion).

In compliance with IFRS 9, the Bank has, on the one hand, defined the contractual cash flow characteristics of the financial instruments and, on the other, identified the management intentions with which they are held (the so-called business model). In this context, the procedures used to test the contractual cash flow characteristics were established (the so-called SPPI Test) and the business models adopted were formalized.
As far as the SPPI test is concerned, the composition of the securities and receivables portfolios at December 31, 2017 was analyzed based on the methodology defined in order to determine the proper classification upon First Time Adoption (FTA) of the new standard.

The securities portfolio of the Bank and the receivables portfolios of Group companies at December 31, 2017 were subject to all the analysis phases required by the new IFRS 9. The analysis confirmed the assessment and measurement criteria used for the Group's financial instruments (this confirmation essentially derives from having passed the SPPI tests). Upon first time adoption, marginal circumstances emerged from the analysis of certain financial instruments in the receivables portfolio requiring the performance of a benchmark test, by virtue of specific contractual clauses. Prior measurements were confirmed in these cases, too.
With regards to the Bank's securities portfolio, the SPPI test was performed upon first time adoption, and measurement criteria were confirmed.

The Securities Portfolio is managed using two different business models: Held to Collect ("HTC") or Held to Collect & Sell ("HTC&S"). Despite no sales occurred for the portfolio HTM securities, the Bank identified significant sales volumes and frequency levels requiring to analyze whether the HTC business model has been maintained or not.

Therefore, if sales were considered necessary/appropriate (based on the relevant business model), by virtue of common market practice, a value percentage threshold determined as the sum of the value of sales made in the period/the carrying amount of the HTC portfolio at the beginning of the period should be considered sustainable.
Within the scope of the HTC&S business model, IFRS 9 does not require that frequency and value thresholds be defined. Nevertheless, based on a prudent approach, it would be appropriate to define a turnover threshold for the securities portfolio, allowing this Business Model to be distinguished from the Other model (i.e. assets held for trading).
According to the analysis of the historical data from the AFS securities portfolio over a period of time from 2014 to 2017, a turnover ratio was determined as the ratio of the total value of sales to

the average inventory amount of the period ((*initial inventory amount* + *final inventory amount*)/2).

Once this threshold is exceeded, the Bank will have to reassess the business model of the Securities Portfolio. This will not require the reclassification of the already existing assets, but it will involve a different classification of the assets acquired subsequently.
As far as receivables are concerned, following the adoption of the new IFRS 9, non-recourse receivables valued at amortized cost have been classified in the category belonging to the Held to Collect (HTC) business model.
The Bank has decided not to define thresholds of value, frequency or timing prior to the maturity of the financial instrument, as no sales transactions are expected.
Therefore, if sales considered necessary/appropriate (based on the relevant business model), by virtue of common market practice, a value percentage threshold determined as the sum of the value of sales made in the period/the carrying amount of the HTC portfolio at the beginning of the period should be considered sustainable.
With regard to the sales frequency threshold, the Bank sets the frequency threshold based on market practice.

Lastly, in more general terms, as concern the management intentions with which financial assets are held, the relevant documents were prepared to provide specific rules for the measurement and classification of financial instruments—approved by the competent levels of governance—with the aim of establishing and defining the basic elements of the business model, specifying its role with reference to the classification model provided for by IFRS 9.

As a result of IFRS 9 coming into effect, the Banking Group reclassified its current financial assets and liabilities at the date of first-time adoption (January 1, 2018) to the new categories provided for by the 5th Update of Bank of Italy's Circular no. 262 of December 22, 2017, described in detail in the section "Main items of the condensed consolidated interim financial statements".

Furthermore, as provided for by the new accounting standard, the Group decided not to recalculate the comparative data relating to previous years.

ii**) Impairment**, based on the new expected loss model, which prospectively considers credit 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 incurred loss model pursuant to IAS 39.

In this context, an approach based on the use of credit risk parameters (Probability of Default—PD—, Loss Given Default—LGD—, Exposure at Default—EAD—), redefined based on a multi-period perspective, is deemed feasible.
More specifically, the new expected losses impairment model 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 includes exposures showing no significant increase in credit risk in the period between the initial recognition date and the reporting date. In this case, expected losses are measured over a period no longer than 12 months.

Stage 2 includes exposures showing 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 includes financial instruments whose credit risk deteriorated significantly, to the point that the exposure is considered impaired. For exposures classified in this stage too, expected loss is calculated over the lifetime of the asset but, unlike the positions recorded in Stage 2, impairment is measured on a case-by-case basis.

Among the fundamental concepts introduced by IFRS 9, there is the transfer of financial assets from Stage 1 (allowance for 12-month expected credit losses) to Stage 2 (allowance for lifetime expected credit losses) if the credit risk increases significantly since initial recognition. Under IFRS 9, credit-impaired financial assets, i.e. those considered non-performing based on the definition of default adopted by the Group, shall be allocated to Stage 3 (allowance for lifetime expected credit losses).

With regard to the transfer of performing financial assets (recognized in Stage 1 and Stage 2), IFRS 9 does not explicitly define the concept of "significant" increase, but it specifies that the information used to measure changes in credit risk may fall into one or both of the following categories:

- qualitative/non-statistical quantitative information, not involving statistical models or the credit ratings process;
- quantitative information, captured through the internal ratings process.

Based on the provisions on stage allocation, an entity shall consider the following when assessing whether the credit risk on a financial instrument has increased significantly (see IASB, 2014, B5.5.12):

- the change in the risk of a default occurring since initial recognition;
- the expected life of the financial instrument;
- the forward-looking information that may affect credit risk.

Therefore, the asset allocation to Stage 1 rather than Stage *2* is not linked to absolute risk (in terms of probability of default), but rather to the (positive or negative) change in the risk occurring since initial recognition.

In order to simplify the stage allocation process, IFRS 9 proposes the following two simplifications:

- The first simplification (Low Credit Risk Exemption) is the possibility of avoiding the transition to Stage 2, if at the reporting date, the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. An external rating of investment grade—according to the ECAIs' master scale—is an example of a financial instrument that may be considered as having "low credit risk".
- The second operational simplification proposed by the standard concerns the transition from Stage *1* to Stage *2* for contractual payments that are more than 30 days past due or in the case of other qualitative information (e.g. forbearance). The standard specifies that a significant deterioration in credit risk can occur even before this deadline and therefore it is intended to serve as a backstop beyond which the transition to stage 2 shall be made and lifetime expected credit losses shall be recognized. This presumption is defined as "rebuttable" by the standard. An entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not actually increased since initial recognition even though the contractual payments are more than 30 days past due.

In compliance with the standard, for performing exposures the aim of impairment 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, including forward-looking information. Inclusion of this information is reflected in the multi-period PD parameter (IFRS 9 compliant) adopted, calculated by incorporating "current" information (point-in-time concept) and "forward-looking" information through the use of macroeconomic scenarios differentiated by type of exposure, provided by a qualified external information provider.

At the end of each reporting period, the Group shall recognize a loss allowance for expected credit losses on all performing financial assets that are measured at (see IFRS 9, 5.5.1):

- Amortized Cost (AC);
- Fair Value through Other Comprehensive Income (FVOCI).

The Group shall also test the following items for impairment:

- commitments and guarantees provided not measured at FVPL;
- lease receivables governed by IAS 17;
- trade receivables governed by IAS 15.

The consolidated methodology for the purposes of IFRS 9 mainly applies to the Group's performing exposures, under the assumption that the calculation of Stage 3 impairment will not change.

Expected credit losses are a probability-weighted estimate of the present value of all cash shortfalls (i.e. the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the bank expects to receive) which are expected in the future (or in the event of lifetime estimates, over the expected life of the financial instrument).

Therefore, the impairment model is characterized by:

- the allocation of the transactions in the portfolio to different buckets, based on an assessment of the increase in the level of exposure/counterparty risk;

- the use of multi-period risk parameters (e.g. lifetime PD, LGD and EAD) to quantify expected credit losses (ECL) for financial instruments subject to a significant increase in credit risk since initial recognition.

The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous accounting standards are as follows:

- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the instrument, thus replacing the "incurred loss" criterion. According to the latter, impairment losses were recognized only when there was evidence that they existed (based on the identification of a trigger event). According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;

- ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;

- use of forward-looking information and macroeconomic factors to determine ECL;

- introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

The ECL calculation model requires a quantitative assessment of future cash flows and assumes that they can be reliably estimated. This requires the identification of certain elements, namely:

- probability of default (PD) models and assumptions about the forward distribution of default events, for the calculation of multi-period PDs used to determine the lifetime expected credit loss;

- LGD model;

- a deterministic and stochastic EAD model, for which it is possible to define a multi-period distribution, as well as a 12-month horizon.

Therefore, the risk parameters that should be modeled to comply with the rationale of considering the full lifetime of the financial instrument are as follows:

- multi-period PD;
- multi-period LGD;
- multi-period EAD.

The standard also specifies that expected losses should be discounted, at the reporting date, using the effective interest rate ("EIR") method determined at the initial recognition date.

The qualitative impacts of impairment for the Group are summarized in the following paragraphs.

*Probability of Default (PD)*

The multi-period PD parameter is interpreted by the Group by estimating a term structure of the probability of default starting from a defined stratification level (e.g. risk bucket and rating). The multi-period PD also includes adjustments for PIT conversion and forward-looking information.

The forward-looking requirement means that each of the transactions in the portfolio involving the same counterparty is assigned a probability of default beginning on the reporting date. To this end, the Group defines PD as the likelihood, over a particular time horizon, that a counterparty will be classified as in default.

In the absence of an internal rating system to define the PD, the Group has adopted a model based mainly on external information sources (e.g. rating agencies). The methodological orientation was directed towards the identification of discriminating risk drivers so that a credit quality rating, and therefore a probability of default, could be assigned. This choice was guided by the following factors:

- the Group's adoption of a standard model for determining the capital requirement for credit risk;
- coherence with the methodology used to assign ratings for the calculation of collective impairment losses according to IAS 39;
- analysis of the Group's counterparties and products (technical forms) by type.

To calculate the PD, the Group has divided its exposures into uniform clusters to distinguish the risk profiles of financial instruments requiring the calculation of value adjustments, as shown below.

- Public counterparties: the credit rating was assigned according to the time series of external ratings provided by the ECAI employed and referring to sovereign and sub-sovereign counterparties. The rating was assigned based on an external assessment assigned to the counterparties associated with the exposure subject to impairment, at the various observation times (reporting date and transaction origin date).
- Non-public counterparties (excluding Financial Institutions): with reference to the Banca Farmafactoring S.p.A. and BFF Finance Iberia S.A. exposures, the Group considered the quarterly decay rate[1] (*"The decay rate in a given quarter is given by the ratio of two quantities. The denominator consists of the number of subjects registered in the Central Credit Register and not considered as "adjusted impairment" at the end of the previous quarter. The numerator is the number of persons who entered into adjusted impairment during the quarter of recognition. The denominator is net of any receivables assigned in*

[1] In accordance with the definition adopted by the Bank of Italy's Statistical Bulletin

*the quarter to intermediaries not participating in the Central Credit Register. The denominator of the ratio, although referring to the end of the previous quarter, is conventionally reported with an accounting date in the quarter in which it is recognized (the same as the numerator and the decay rate)".)* from 1996 to the present.

As concerns BFF Polska S.A. and its subsidiaries, to calculate and define a historical default rate, the Group has adopted an approach based on the use of internal time series. Subsequently, the values identified for each year were compared with the external corporate matrix values corresponding to the probability of migration of the performing classes into the default class.

- Financial Institution counterparties: Financial Institution counterparties receive a credit rating assessment defined by the applicable ECAI, based on the evaluation time (reporting/origination date).

After the determination of the rating for each counterparty, the association with the one-year PD was performed using external migration matrices.

After the assignment of the one-year PD, the lifetime PD is determined using the Homogeneous Discrete-time Markov Chain Method (HDTMC), which considers the following assumptions:

- estimation of cumulative PD curves using homogeneous migration matrices;
- estimation of the probability of the migration matrix's cumulative migration using the "cohort method" over discrete time horizons.

In line with IFRS 9, which establishes that PD estimates must incorporate not only the effects of current conditions (Point-in-Time conversions) but also macroeconomic and forecast information (supplementing forward-looking information), the Group incorporated forward-looking (FLI) and Point-in-Time (PIT) components into PD estimates, considering both current conditions and forecasts on future economic conditions, weighted by the relative probability of occurrence, provided by external information providers.

Multi-period PD curves need to be adjusted using the PIT factor (the model's 1-year default rate) and by considering the forward-looking information provided by the default rate forecasts.

The Group has defined a specific methodological approach to modelling PDs in order to incorporate the forward-looking and point-in-time components. Starting from the lifetime PD curves, the methodology, which has been consolidated at a Group level, provides for the definition of a scaling factor necessary for the forward-looking and point-in-time adjustment of the PD parameter based on different expected macroeconomic scenarios. The BFF Banking Group relies on an external provider to supply these scenarios. The provider provides the macroeconomic scenarios with which the respective probabilities of occurrence are associated, as required by IFRS 9.

The calculation methodology underlying the creation of these scenarios takes into account:

- specific currently observable factors of counterparties in identified clusters (e.g. current rating, outlook/watchlist status);
- future developments in macroeconomic factors (e.g. GDP growth rate, unemployment rate, credit spread movements).

In particular, the following statistical techniques were used:

- dynamic equations systems representing aggregate supply and demand components;
- periodic reassessments of equations to verify model robustness and prediction accuracy;
- use of econometric techniques for time series and panel data for the estimation process;
- implementation of Monte Carlo simulations to generate deviations from the baseline and to produce empirical probability distributions.

Three scenarios were chosen to calculate PIT and FLI PD:

- baseline scenario: this is a probabilistic scenario that corresponds to the average forecast;
- high growth (upside) scenario: this is the probabilistic improvement scenario;
- mild recession (downside) scenario: this is the probabilistic worst-case scenario.

A probability of occurrence was associated with each scenario to obtain a weighted point-in-time and forward-looking PD value.

Following the retrieval of the expected default rates, the methodological approach chosen consists in applying scaling factors equal to the shocks on the default rates provided for by the defined scenarios (scaling factor approach) to the estimated multi-period Through The Cycle PDs (conditioned TTCs).

For each rating class, the result is three forward PD curves to which the baseline scenario, the high growth scenario and the mild recession scenario are applied.

To make the curves continuous and eliminate irregularities due to excessively aggressive shocks, the Group applies a smoothing algorithm using exponential damping to the forward PDs. Therefore, the Group identified time dependent weightings to be applied to the PD TTC curve and to the recalculated curve after application of the shocks.

*Loss Given Default (LGD)*

In quantifying expected loss, the LGD parameter measures the expected loss in the event of counterparty default. Therefore, LGD is a significant component for calculating the expected loss according to IFRS 9, both for positions classified as stage 1 (reference time horizon of one year), and for those that have undergone a significant increase in credit risk and were therefore classified as stage 2 and assessed on a lifetime basis.

Since the Group has no internal models for calculating the LGD parameter, it has acquired a dedicated calculation tool. LGD values are estimated using a calculation engine from an external provider, based on a historical sample of default events and an econometric model using the characteristics of the transactions to which the exposure subject to impairment refers.

The Group assigns an LGD value to each transaction on the basis of appropriate portfolio “clustering”, taking into account the following risk factors: the probability of default associated with the counterparty, the reference economic sector, and factors specific to the transaction (e.g. type of financing and positioning of the financing within the capital structure).

The prospective approach that characterizes the IFRS 9 impairment model requires the recognition of expected losses over the entire life of a loan. These losses should be estimated using historical, current and forward-looking data. For a correct evaluation of the expected losses, all reasonable and supportable information that is available without undue cost or effort at the date of the report subject to evaluation should be considered. The expected loss described in IFRS 9 can be approximated in its closed form to the functional form, which can be defined as the expected loss of AIRB (Advanced Internal Rating-Based) like models used to determine capital requirements, as well as the IAS 39 collective impairments, albeit with a different (multi-period) perspective.

In this context, an approach based on the use of credit risk parameters (including Exposure at Default – EAD) to define and set parameters based on a multi-period perspective, is deemed feasible.

Similarly to what has already been defined in Basel models, to calculate ECL with credit risk parameters, EAD under IFRS 9 allows the definition of the exposure that a creditor will have at the time of default at a specific time over the life of the financial instrument.

Therefore, the EAD parameter must be aligned with the lifetime forecast horizon envisaged by the impairment model, to allow for the calculation of the provision also for transactions for which the standard requires lifetime recognition.

*Exposure at Default (EAD)*

The Group has identified the following factors for the computation of lifetime EAD:

- type of exposure;
- due date.

From these distinguishing factors for Exposure at Default modelling, the following cases have been defined:

- exposures with a deterministic repayment plan (known cash flows and due dates);
- stochastic exposures (unknown cash flows and/or due dates);

With reference to the exposures with deterministic repayment plans, the lifetime EAD is defined using the repayment plan and its effective cash flows. Stochastic modelling is therefore not necessary for these transactions.

*Stage Allocation*

To allocate exposures subject to impairment in stages, the Group has adopted the following method, which can be summarized with two fundamental criteria:

- Qualitative criterion: use of transfer logic triggers;
- Quantitative criterion: definition of a relative threshold and an absolute threshold.

The **qualitative criterion** takes precedence over the quantitative criterion and establishes that positions with information about non-payment days exceeding 30, or in the presence of forbearance measures, will be allocated to stage 2.

About the quantitative criterion:

- the absolute threshold (use of the so-called Low Credit Risk Exemption consistently with the standard's provisions and in line with the Italian Association for Factoring - Assifact guidelines) exempts those transactions referring to counterparties with investment grade ratings, at the date of analysis, from verification of significant deterioration using a relative threshold. Positions defined as low credit risk are not subject to the control of a rating downgrade between the date of analysis and the date of origin of the transaction. Lacking qualitative triggers, these positions are allocated directly to stage 1. This exception is applied to counterparties in the public administration and local entities, while it is excluded for private counterparties;
- instead, the definition of a relative threshold has the purpose of measuring the rating downgrade (at the reporting date with respect to the date of origin) for each transaction. If the number of downgrades is higher than what has been established by the threshold, differentiated according to the rating master scale used, the transaction is allocated to stage 2. The relative threshold depends on the number of rating classes considered for each segment and is equal to 1 for those segments to which the Sovereign and Financial Institutions external matrices apply (which have 7 rating classes), while it is equal to 2 for the counterparties pertaining to the segments for which the Corporate matrix is used (which has 21 rating classes).

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 the pre-existing one (so-called rebalancing). The Group opted not to apply this section of the standard starting from January 1, 2018, as specifically allowed by IFRS 9.

### *Activities and quantitative impacts on the Banking Group*

In relation to the application of IFRS 9 as from January 1, 2018, in the first quarter of 2017 the BFF Banking 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, securities and receivables, in relation to all the Group companies.
The SPPI test did not identify any financial assets or liabilities to be measured at fair value, therefore confirming substantial continuity of the criteria already adopted in compliance with IAS 39.

Having taken account of the characteristics of the financial assets which make up the Group's portfolio, no significant divergences emerged in terms of economic impact between the new model based on expected losses and the model used currently, based on incurred losses, since most of the Group's receivables are due from public administration agencies or are short-term.
In particular, calculations carried out on the portfolio at January 1, 2018 show that, at the Banking Group level, the impact of the First Time Adoption of IFRS 9 generated collective impairment in line with that calculated according to IAS 39.
The positive impact for the Banking Group is equal to €41 thousand, as detailed in the statement showing transition to IFRS 9, and derives from the net effect recorded at the level of individual entities as summarized below:
- positive impact for Banca Farmafactoring and BFF Finance Iberia (equal to €2,024 thousand), mainly arising from the characteristics of the portfolio, mostly including counterparties of public administration agencies with duration of less than 1 year, in relation to which calculation parameters have been redetermined even more precisely during the transition to IFRS 9;
- negative impact for the BFF Polska Group (equal to €1,983 thousand), considering the different type and characteristics of the portfolio, which also includes, unlike the Parent Company, private/corporate counterparties with duration of more than one year.

The Design stage, which was completed within 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 as planned, and IT work (e.g. development and adoption of the impairment model and of the SPPI tool) and organizational work (Regulations, Policies and Processes) were carried out.

The following statements show the effects of transition to IFRS 9 on the BFF Banking Group's Balance Sheet at December 31, 2017.

| Assets | | 12/31/2017 (IAS 39) | IFRS 9 impacts: Effects on classification and measurement | IFRS 9 impacts: Effects on credit risk | IFRS 9 impacts: Equity | IFRS 9 impacts: Tax effect | 01/01/2018 (IFRS 9) |
|---|---|---|---|---|---|---|---|
| **10.** | Cash and cash equivalents | 80,932,835 | | | | | 80,932,835 |
| **20.** | Financial assets measured at fair value through profit or loss | 545,846 | | | | | 545,846 |
| | *a) financial assets held for trading* | *0* | | | | | |
| | *b) financial assets designated at fair value* | *0* | | | | | |
| | *c) other financial assets mandatorily measured at fair value* | *545,846* | | | | | *545,846* |
| **30.** | Financial assets measured at fair value through OCI | 101,449,267 | | (14,020) | | | 101,435,247 |
| **40.** | Financial assets measured at amortized cost | 4,183,888,076 | | | | | 4,184,106,074 |
| | *a) due from banks* | *44,792,419* | | *(14,039)* | | | *44,778,380* |
| | *b) due from customers* | *4,139,095,657* | | *232,037* | | | *4,139,327,694* |
| **50.** | Hedging derivatives | 321,839 | | | | | 321,839 |
| **70.** | Equity investments | 260,893 | | | | | 260,893 |
| **90.** | Property, plant and equipment | 12,794,887 | | | | | 12,794,887 |
| **100.** | Intangible assets | 26,034,157 | | | | | 26,034,157 |
| | of which | | | | | | |
| | *- goodwill* | *22,146,189* | | | | | *22,146,189* |
| **110.** | Tax assets | 30,917,074 | | | | | 31,495,316 |
| | *a) current* | *25,883,920* | | | | | 25,883,920 |
| | *b) deferred* | *5,033,154* | | | | *578,242* | 5,611,396 |
| **130.** | Other assets | 9,795,958 | | | | | 9,795,958 |
| | **TOTAL ASSETS** | **4,446,940,832** | | **203,978** | | **578,242** | **4,447,723,053** |

| Liabilities and Equity | 12/31/2017 (IAS 39) | IFRS 9 impacts: Effects on classification and measurement | IFRS 9 impacts: Effects on credit risk | IFRS 9 impacts: Equity | IFRS 9 impacts: Tax effect | 01/01/2018 (IFRS 9) |
|---|---|---|---|---|---|---|
| **10.** Financial liabilities measured at amortized cost | 3,944,117,768 | | | | | 3,944,117,768 |
| *a) due to banks* | *657,992,541* | | | | | 657,992,541 |
| *b) due to customers* | *2,495,986,713* | | | | | 2,495,986,713 |
| *c) debt securities issued* | *790,138,514* | | | | | 790,138,514 |
| **20.** Financial liabilities held for trading | 535,073 | | | | | 535,073 |
| **30.** Financial liabilities designated at fair value | 0 | | | | | |
| **40.** Hedging derivatives | 0 | | | | | |
| **50.** Adjustments to hedged financial liabilities | 0 | | | | | |
| **60.** Tax liabilities | 82,455,762 | | | | | *82,763,276* |
| *a) current* | *25,627,899* | | | | *307,513* | *25,935,412* |
| *b) deferred* | *56,827,864* | | | | | *56,827,864* |
| **70.** Liabilities associated with assets held for sale | 0 | | | | | |
| **80.** Other liabilities | 49,683,022 | | | | | 49,683,022 |
| **90.** Employee severance benefits | 848,138 | | | | | 848,138 |
| **100.** Provisions for risks and charges: | 5,445,278 | | | | | 5,608,746 |
| *a) commitments and guarantees provided* | *0* | | *163,468* | | | *163,468* |
| *b) pension and other post-employment benefits* | *4,366,009* | | | | | *4,366,009* |
| *c) other provisions for risks and charges* | *1,079,269* | | | | | *1,079,269* |
| **110.** Technical reserves | 0 | | | | | |
| **120.** Revaluation reserves | 7,693,804 | | | 311,238 | | 8,005,042 |
| **130.** Redeemable shares | 0 | | | | | |
| **140.** Equity instruments | 0 | | | | | |
| **150.** Reserves | 129,621,486 | | | | | 129,621,486 |
| **160.** Share premium | 0 | | | | | |
| **170.** Share capital | 130,982,698 | | | | | 130,982,698 |
| **180.** Treasury shares | 0 | | | | | |
| **190.** Equity attributable to non-controlling interests | 10,000 | | | | | 10,000 |
| **200.** Profit (loss) for the period | 95,547,803 | | | | | 95,547,803 |
| **TOTAL LIABILITIES AND EQUITY** | **4,446,940,832** | | **163,468** | **311,238** | **307,513** | **4,447,723,053** |
| | **Total** | | **40,510** | **-311,238** | **270,729** | |

# Notes to the Condensed Consolidated Interim Financial Statements

## Part A - Accounting Policies

### A.1 – GENERAL INFORMATION

#### *Statement of compliance with international accounting standards*

The condensed consolidated interim financial statements at June 30, 2018 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. Furthermore, interim financial reporting is based on IAS 34.

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

The condensed consolidated interim financial statements were prepared on a going concern basis, since, with reference to the operations and the financial and equity position of the Group, and after examining the risks to which it is exposed, the Directors have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

#### *New standards and interpretations issued, effective January 1, 2018*

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

IFRS 15 "Revenue from Contracts with Customers" introduces a single model to recognize all revenue deriving from contracts signed with customers. It replaces the previous standards/interpretations on revenue (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31).
This model requires an entity to recognize revenue on the basis of the payments expected to be received for goods and services provided as part of ordinary operations. This is 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 which is based on the distinction between a performance obligation satisfied at a point in time and an obligation satisfied over time.

In particular, to recognize revenue under IFRS 15, an entity shall apply the following five steps:

- identify the contract, where the contract is defined as an agreement having commercial substance between two or more parties that creates enforceable rights and obligations;
- identify the performance obligations in the contract;
- determine the transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer;
- allocate the transaction price to each performance obligation, on the basis of the relative stand-alone selling prices of each distinct good or service;
- recognize revenue when a performance obligation is satisfied, which is when the customer obtains control of the relevant good or service. This recognition method takes account of the fact that a performance obligation may be satisfied at a point in time or over time. 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 a performance obligation is satisfied 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.
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. Based on the analysis carried out, the application of this standard will not have any particular impact on the Group.

In particular, the bank's individual revenue types are shown under the section "Revenue recognition criterion" and are broken down by the type of service provided. Further qualitative and quantitative information regarding revenue recognized in the income statement in the reporting period are provided in Part C – Income Statement in relation to interest income and fee and commission income.

*New accounting standards and interpretations not yet endorsed*

At the approval date of this document, 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 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 – 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.

## *Scope and basis of consolidation*

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

*Subsidiaries*

The subsidiaries are companies controlled by the Group. The BFF Banking Group controls a company when it is exposed to the variable returns generated by it and has the ability to affect such returns through its power over the company. Generally, control is deemed to exist when more than half of

the voting rights are directly or indirectly held, taking also into account potentially exercisable or convertible voting rights.
The BFF Banking Group's subsidiaries also include special purpose entities for which Banca Farmafactoring is exposed to substantially all the risks and rewards deriving from their activities or those over which it exercises control. The existence of an equity investment in these special purpose entities is not relevant for this purpose.

All subsidiaries are consolidated on a line-by-line basis from the date on which control is transferred to the BFF Banking Group. Conversely, they are excluded from the scope of consolidation when such control ceases.
The financial statements of the companies which are consolidated on a line-by-line basis are prepared in compliance with the IASs/IFRSs used for the consolidated financial statements.

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

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

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

In accordance with IFRSs, the development of estimates by management is a prerequisite for the preparation of the condensed consolidated interim financial statements at June 30, 2018. 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 consolidated financial statements may differ, even significantly, owing to a change in the subjective assessments.
Estimates and assumptions are reviewed on a regular basis. Any changes resulting from such reviews are recognized in the period in which the review is made, provided that the review involves only that period. Should the review involve both current and future periods, the change is recognized in the period in which the review is made, and in the related future periods.

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

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

With reference to the estimated total late payment interest which is expected to be collected by Banca Farmafactoring and BFF Finance Iberia, the time series were updated with collection amounts for the year 2017. This confirmed the weighted average collection percentage of 45% used for the preparation of the financial statements for the year ended December 31, 2017, with average collection times at an estimated 1,800 days.
The description of the accounting policies adopted for the main aggregates of the consolidated financial statements at June 30, 2018 provides the information needed to identify the main assumptions and subjective assessments used to prepare it.

### *Events subsequent to June 30, 2018*

There are no events or facts subsequent to June 30, 2018 such as to require an adjustment to the results recognized at the end of the reporting period.

### *Independent audit*

The Shareholders' Meeting of Farmafactoring S.p.A. held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. to audit the financial statements from 2012 to 2020, pursuant to the provisions of Article 2409-bis of the Italian Civil Code and Legislative Decree 39/2010. The condensed consolidated interim financial statements have been prepared in compliance with IAS 34 and they are submitted to limited audit.

## A.2 - MAIN ITEMS OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Disclosure of the accounting standards adopted to prepare the condensed consolidated interim financial statements at June 30, 2018, 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.

### *Financial assets*

The following three paragraphs include the guidelines for recognizing, accounting and measuring financial assets pursuant to new IFRS 9 requirements, as thoroughly described in the previous section and in compliance with the 5th Update of Bank of Italy's Circular no. 262 of December 22, 2005 which incorporates the changes introduced about the recognition requirements and distinguishes these categories:

- Financial assets measured at fair value through profit or loss;
- Financial assets measured at fair value through OCI;
- Financial assets measured at amortized cost.

## *1) Financial assets measured at fair value through profit or loss (FVPL)*

*Recognition criteria*

According to IFRS 9, financial assets that are not measured at amortized cost or at fair value through OCI or that fail the SPPI test are measured at fair value through profit or loss.
Such assets are initially recognized at their fair value on the settlement or trade 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.

*Classification criteria*

For the Banca Farmafactoring Group, financial assets measured at fair value through profit or loss include financial instruments 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.
In particular, they consist of FX-swaps entered into by the BFF Polska Group with the aim of hedging the capital and interest of bonds issued (to be repaid in Euro) against changes in fair value arising from a change in currency exchange rates. It should be noted that there are no derivative contracts entered into by the Group at June 30, 2018.

As far as the reclassification of financial assets is concerned (excluding equity securities which are not eligible for reclassification), IFRS 9 allows an entity to reclassify its financial assets to other categories of financial assets if and only if the business model for managing those assets changes.
In such cases, which are expected to be very infrequent according to the standard, financial assets can be reclassified from FVPL to one of the other two categories provided for by IFRS 9 (amortized cost or FVOCI).
The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date. Such date shall be considered the date of initial recognition for the stage allocation process for the purposes of impairment testing.

*Measurement criteria*

Financial assets measured at fair value through profit or loss are recognized at fair value. Any changes are recognized in the income statement 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 such assets are different from quoted prices, but can be observed directly or indirectly on the market, in accordance with Bank of Italy's Circular no. 262, the fair value measurement hierarchy is "Level 2".

*Derecognition criteria*

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights expire and when, following disposal, all of the risks and rewards relating to the financial asset sold are substantially transferred.

## 2) Financial assets measured at fair value through OCI (FVOCI)

*Recognition criteria*

According to IFRS 9, a financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTC&S business model); and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that solely consist of payments of principal and interest on the principal amount outstanding (meeting the SPPI test).

In addition, equity instruments for which the Bank has decided to use the FVOCI (Fair Value through Other Comprehensive Income) option are also measured at fair value through OCI. The FVOCI option provides for the recognition in OCI of all income components relating to these instruments, without any impact (even in the event of disposals) on profit or loss.
The Bank has decided to use the FVOCI option for the equity instruments held, whose amount is not significant.
Such financial assets are initially recognized at fair value on the settlement date. This amount usually corresponds to the consideration paid, including transaction costs and income directly attributable to the instrument.

*Classification criteria*

The main items in this category are government securities classified in the HTC&S portfolio, the equity investment in Nomisma S.p.A. (since this company is not subject to significant influence), and the operations required by the FITD Voluntary Scheme.
The financial assets classified within the HTC&S business model are held in order to collect contractual cash flows and for the sale of the assets as well. According to the provisions of IFRS 9, a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets has a higher frequency and amount of sales compared to a Held to Collect business model. This is because the sale of financial assets is essential in order to achieve the objective of the business model, rather than incidental to it.
These assets can be held for an indefinite period and can fulfill the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.

As far as the reclassification of financial assets is concerned (excluding equity securities which are not eligible for reclassification), IFRS 9 allows an entity to reclassify its financial assets to other categories of financial assets if and only if the business model for managing those assets changes.

In such cases, which are expected to be very infrequent according to the standard, financial assets can be reclassified from FVOCI to one of the other two categories provided for by IFRS 9 (amortized cost or FVPL).
The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. More specifically, if a financial asset is reclassified to amortized cost, its fair value at the reclassification date is adjusted to reflect the accumulated gains (losses) recognized in the revaluation reserve. On the contrary, if a financial asset is reclassified to FVPL, the accumulated gains (losses) previously recognized in the revaluation reserve are reclassified from equity to profit (loss) for the period.

*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 120 “Revaluation reserves” except for impairment and impairment losses pursuant to IFRS 9 that are recognized under item 130 “Net adjustments to/reversals of impairment of: b) financial assets measured at fair value through OCI”.
Gains and losses are recognized as Revaluation reserves until the financial asset is disposed of and the accumulated gains or losses are recognized in the income statement under item 100 “Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through OCI”.
Fair value changes recognized under item 120 “Revaluation reserves” are also reported in the consolidated 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 their last reliably measured fair value.
For the purposes of IFRS 9, the impairment of financial assets included in this category is recognized in three different stages based on the relevant credit risk level.

More specifically, for Stage 1 instruments (financial assets that are not credit-impaired on initial recognition and instruments that have not been subject to significant increases in credit risk since initial recognition) 12-month expected credit losses are recognized at the initial recognition date and at each subsequent reporting date.
On the contrary, for Stage 2 instruments (performing exposures showing significant increases in credit risk since initial recognition) and for Stage 3 instruments (credit-impaired exposures) full lifetime expected credit losses are recognized.

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 120 “Revaluation reserves” is then transferred to the income statement under item 130 “Net adjustments to/reversals of impairment of: b) financial assets measured at fair value through OCI”. 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 recognition of impairment in profit or loss, the impairment is reversed and the amount of the reversal is recognized in the same income statement item. This does not apply to equity securities, which are not tested for impairment.
After the reinstatement, the carrying amount cannot in any case 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 rewards relating to the financial asset sold are transferred. On the other hand, if the risks and rewards arising from the financial assets sold are substantially retained, the financial assets sold will continue to be recognized in the financial statements, even though legal title to these assets is effectively transferred.

## *3) Financial assets measured at amortized cost*

*Recognition criteria*

According to IFRS 9 (paragraph 4.1.4), a financial asset is measured at amortized cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (HTC business model); and
b) the contractual terms of the financial asset give rise on specific date to cash flows that solely consist of payments of principal and interest on the principal amount outstanding (meeting the SPPI test).

On the basis of the accounting statements introduced by the 5th Update of Bank of Italy's Circular no. 262 of December 22, 2005, this financial statement item shall separately show:

- receivables due from banks;
- receivables due from customers, including debt securities classified in the HTC business model.

Such assets 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 substantial transfer of all risks and rewards as well as cash flows, are initially recognized at fair value, represented by the face value of the receivable net of fees and commissions charged to the assignor;
b) if purchased for amounts below the face value, they are recognized for the amount actually paid at the time of purchase.

HTC debt securities have fixed or determinable payments and a fixed maturity and may be used for repurchase agreements, loans or other temporary refinancing operations.
These assets are initially recognized at fair value on the settlement date. This amount usually corresponds to the consideration paid, including transaction costs and income.
This item also includes finance lease transactions, meaning contracts that transfer all the risks and rewards of ownership of the asset to the lessee. At the end of the contract, the title to the asset is not necessarily transferred to the lessee.

*Classification criteria*

Receivables due from banks mainly refer to current account transactions generated by liquidity collected in the closing days of the period, pending clearance, relating both to receivables management contracts and management of non-recourse receivables.
Receivables due from customers mainly include receivables due from debtors, relating to factoring transactions, and late payment interest, computed based on receivables purchased on a non-recourse basis, determined in accordance with existing laws (Legislative Decree 231/2002 "Implementation of Directive 2000/35/EC on combating late payments in commercial transactions").

All purchases of non-recourse receivables made in Italy refer to factoring transactions pursuant to Law 52/91.
Debt securities classified as HTC are held within a business model with the objective of obtaining contractual cash flows by collecting payments over the lifetime of the instrument.
Not all assets shall necessarily be held to maturity. IFRS 9 provides the following examples of cases in which the sale of financial assets may be consistent with the HTC business model:

- sales are attributable to the increased credit risk of a financial asset;
- sales are infrequent (even if significant in terms of amount) or insignificant at an individual level and in aggregate form (even if frequent);
- sales take place close to the maturity of the financial asset and revenues from the sales are close to the amount of the remaining contractual cash flows.

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.

As far as the reclassification of financial assets is concerned (excluding equity securities which are not eligible for reclassification), IFRS 9 allows an entity to reclassify its financial assets to other categories of financial assets if and only if the business model for managing those assets changes.
In such cases, which are expected to be very infrequent according to the standard, financial assets can be reclassified from amortized cost to one of the other two categories provided for by IFRS 9 (FVOCI or FVPL).
The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. Gains or losses arising from the difference between the amortized cost of a financial asset and its fair value are recognized in the income statement in the case of a reclassification to FVPL, or in equity as part of the relevant revaluation reserve, in the case of a reclassification to FVOCI.

*Measurement criteria*

After initial recognition, financial assets 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, relating to ancillary costs/income directly attributable to the individual receivable.
Specifically, non-recourse receivables purchased as part of the factoring activities carried out by Group companies are measured at amortized cost, determined based on the present value of estimated future cash flows, with reference to both the principal and the late payment interest accruing as 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 formalized with the assignor in the sales contract.
Pursuant to IFRS 15, interest income (including late payment interest) is 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 231/2002 on non-recourse purchases of non-impaired receivables”, Banca Farmafactoring and BFF Finance Iberia 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 its impact on the composition of results, does not constitute an auxiliary element of non-recourse purchase transactions, and has been considered for a complete analysis of the prospective profitability profiles.

As a matter of fact, Banca Farmafactoring and BFF Finance Iberia have time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series of data are updated on an annual basis when the financial statements are prepared, in order to determine the collection percentages and times to be used to calculate late payment interest. Any changes in collections are then analyzed on a quarterly basis to confirm such percentages in periodic reporting.
As far as the receivables of the Parent Banca Farmafactoring and the subsidiary BFF Finance Iberia are concerned, the updating of the time series, which was undertaken considering the collections for 2017, confirmed the suitability of the existing collection percentage (45%).
With reference to the BFF Polska Group—the group acquired in 2016—, notwithstanding the minor significance of late payment interest to the total of receivables, as part of the activities to complete the integration of the Group's processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the Group adopted the estimation criteria decided locally by management when the BFF Polska Group was listed. These confirm a substantially integral recovery of late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.
As for the BFF Polska Group, late payment interest on past due trade receivables is mainly recognized when there is a reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or court decisions.

After initial recognition at fair value, securities classified as HTC 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".
The Group carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets.
As already illustrated above, IFRS 9 introduces the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are an estimate of the weighted probability of credit losses over the expected lifetime of the financial instrument. Since a loss may not necessarily occur before it is recognized in the financial statements, generally all financial assets will entail the recognition of an allowance.
The approach adopted is represented by the general deterioration model, which envisages a three-stage classification. These stages reflect the deterioration of the credit quality of the financial instruments included within the scope of application of IFRS 9.
At each reporting date, the entity assesses whether there has been a significant change in credit risk compared to the initial recognition. If so, this will result in a change of stage: the model is symmetrical, and assets can move between different stages, as thoroughly described in the previous paragraph on the application of the new IFRS 9.
For assets classified in Stage 1, value adjustments relating to each individual financial asset are determined on the basis of 12-month expected credit losses (contractual cash flow shortfalls estimated by taking into account potential default in the following 12 months), while for assets classified in Stages 2 and 3, calculations are based on lifetime expected credit losses (contractual cash flow shortfalls estimated by taking into account the potential default over the residual life of the financial instrument).
If there is objective evidence of impairment and the asset is classified in Stage 3, 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: a) financial assets measured at amortized cost".

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 in any case 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.

*Derecognition criteria*

Derecognition of a financial asset occurs when the contractual rights on cash flows deriving from the financial asset expire or if the entity transfers the financial asset and such transfer meets the eligibility criteria for derecognition.
Receivables sold are derecognized only if all the risks and rewards relating to such receivables were transferred.
On the other hand, if the risks and rewards are retained, the receivables sold will continue to be recognized as assets in the financial statements, even though legal title to the receivables is effectively transferred.

## *4) Hedging*

*Recognition criteria*

As noted above, in compliance with IFRS 9, the Group has opted to continue to apply IAS 39 hedge accounting even after IFRS 9 came into force.
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 50 “Hedging derivatives” among assets or item 40 “Hedging derivatives” among liabilities, respectively, according to whether their fair value is positive or negative on the reporting date.

*Measurement criteria*

Derivative financial instruments designated as hedges are recognized and measured at their fair value.
When a financial instrument is designated as a hedge, the Group, as noted above, formally documents the relationship between the hedging instrument and the hedged item, and assesses the hedging instrument's effectiveness, both at inception and during its life, in achieving offsetting changes in the fair value or cash flows of the hedged item. A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value.
Consequently, the hedge's effectiveness is assessed by comparison of the above changes, taking into account the objective pursued by the entity when the hedge was put into place. It is effective (within a range of 80-125%) when the estimated and effective changes in the fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item.
The hedge's effectiveness is assessed at the end of each reporting period (at the closing of annual financial statements or interim financial reports), by 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 derivative instruments hedging interest rate risk (in addition to the interest of the hedged positions) are allocated to item 10 "Interest and similar income" or item 20 "Interest and similar expenses" based on whether the difference is positive or negative;
- gains and losses in fair value arising from the measurement of hedging derivatives designated as a fair value hedge and the hedged positions are allocated to item 90 "Net result of hedging activities";
- gains and losses in fair value originating from the measurement of hedging derivatives designated as a cash flow hedge, for the effective portion, are allocated to a special equity revaluation reserve called "Cash flow hedge reserve", net of the deferred tax effect. For the ineffective portion, the gains and losses are recorded in the income statement under item 90 "Net result of hedging activities".

*Derecognition criteria*

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or 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 derecognized 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 rewards connected thereto.

## 6) 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 they are incurred, in the income statement under item 190 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 Group for more than one period.

*Measurement criteria*

Subsequent to initial recognition, property, plant and equipment is carried at cost, net of accumulated depreciation and impairment losses, if any.
With regard to the BFF Banking Group, such assets are depreciated on a straight-line basis over their estimated useful lives, understood as the period during which an asset or property is expected to contribute to company operations, adopting the straight-line method as the depreciation criterion. The estimate of the useful life is shown below:

- buildings: maximum 40 years;
- furniture: maximum 9 years;
- plant: maximum 14 years;
- office machines: maximum 5 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. Such amount is depreciated at the end of each reporting period based on the assets' estimated useful life. 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 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 280 "Gains (losses) on disposal of investments".

## 7) 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 Group and from which future economic benefits are likely to flow.
In the absence of one of the aforementioned characteristics, the cost to acquire or generate the asset internally is recorded as a cost in the period in which it was incurred.
Intangible assets mainly consist of software for long-term use and goodwill.

*Measurement criteria*

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

software: maximum 4 years;

other intangible assets: maximum 6 years.

If there is objective evidence that an asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value less costs of disposal and its value in use, i.e. the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 220 "Net adjustments to/reversals of impairment of intangible assets."
If the value of a previously impaired intangible asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

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

Assets with an indefinite useful life such as goodwill are not amortized but are tested for impairment annually or more frequently whenever there are indications that they might be impaired. To this end, the cash-generating unit to which goodwill is allocated is identified.
The amount of any impairment is determined on the basis of the difference between the carrying amount and the recoverable amount, if lower, and is taken to the income statement under item 270 "Adjustments to goodwill". Recoverable amount is defined as the higher of fair value of the cash-generating unit less costs of disposal and its value in use, which is the present value of the cash flows expected to be derived from a cash-generating unit for the years in which it is in operation and arising from its disposal at the end of its useful life, or considering the current market multiple method. The recognition of any reversal of impairment is not allowed.
Following the outcomes of the annual impairment test performed at the end of 2017 on the amount of goodwill recorded in the financial statements and relating to the allocation of the acquisition cost of the BFF Polska Group, the Group did not recognize an impairment loss on the aforementioned goodwill.

*Derecognition criteria*

An intangible asset is derecognized upon its disposal or when no further future economic benefits are expected from its use or sale, and any difference between the sale proceeds or recoverable amount and the carrying amount is recognized in the income statement under item 280 "Gains (losses) on disposal of investments".

## *9) Current and deferred taxes*

*Recognition and measurement criteria*

Income taxes are computed in accordance with the tax legislation in force in the countries where the Banking Group operates. 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 periods and refer to taxable temporary differences which arose in the period or in previous periods. Deferred tax assets correspond to the amount of income taxes recoverable in future periods and refer to deductible temporary differences which arose in the period or in previous periods.

The tax amount of an asset or a liability is the value attributed to that asset or liability according to the tax legislation in force. A deferred tax liability is recognized on all taxable temporary differences in accordance with IAS 12. A deferred tax asset is recognized on all deductible temporary differences in accordance with IAS 12 only to the extent that it is probable that there will be future taxable income against which the deductible temporary difference can be offset.

Deferred tax assets are recorded under item 110 b) of assets. Deferred tax liabilities are recorded under item 60 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 period 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 300 "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.

## *10) 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 timing.
Accruals to the provisions for risks and charges are recognized only when:

- a present obligation has arisen 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.
Under IFRS 9, expected credit losses on commitments and guarantees provided shall be determined based on the initial credit risk of the commitment, starting from the date on which such commitment was made. The relevant loss allowance shall be recognized as a balance sheet liability under item "100: Provisions for risks and charges: a) commitments and guarantees provided".

*Derecognition criteria*

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

## *11) Financial liabilities measured at amortized cost*

*Recognition criteria*

This item includes payables due to banks and customers as well as debt securities issued, accounted for on the settlement date. They 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 "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 are treated as the placement of new debt.

## *12) Financial liabilities held for trading*

*Recognition criteria*

Financial liabilities held for trading are initially recognized at their fair value on 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 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. Any changes are recognized in 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, following disposal, substantially all of the risks and rewards relating to the financial liability are transferred.

## *13) 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 accrued up to June 30, 2018 (which remain with the Company) under item 90 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 accrued 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 accrued benefits at June 30, 2018, based on financial assumptions.

IAS 19 (revised) requires actuarial gains and losses to be recognized in other comprehensive income in the period they are accrued. Because employee severance benefits accruing 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 190 "Administrative expenses - a) personnel costs" as the net total of contributions paid, contributions accrued in previous periods 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 the Bank's 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 (the so-called "Stock Grant Plan"). The bonus award of the special shares was made by converting reserves to equity, with the same accounting value as the ordinary shares of the Bank. The special shares have been converted into ordinary shares at a ratio of 1:100 as from April 7, 2017, the start date of trading of the Bank's shares on the Mercato Telematico Azionario (the "listing").
On December 5, 2016, the BFF Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, which had already been submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy's 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. Option rights relating to second tranche were assigned during the first quarter of 2018.
The share-based personnel remuneration plans (stock option plans) 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's Circular no. 285, Article 8.4 of the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of the Banca Farmafactoring Banking Group" establishes that at least 50% of variable remuneration of 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.

*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 IFRS 15, revenue shall be recognized in the financial statements as total "control" over the good or service being transferred is passed to the customer and its amount can be reliably estimated. 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 231/2002 on non-recourse purchases of non-impaired receivables", Banca Farmafactoring and BFF Finance Iberia also included the estimate of late payment interest in the calculation of amortized cost.
  As a matter of fact, Banca Farmafactoring and BFF Finance Iberia have time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. 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.
  The updating of the time series, which was undertaken considering the collections for 2017, confirmed the suitability of the existing collection percentage (45%).
  With reference to the BFF Polska Group—acquired in 2016—, notwithstanding the minor significance of late payment interest to the total of receivables, as part of the activities to complete the integration of the Group's processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the Group adopted the estimation criteria decided locally by management when the company was listed. These confirm a substantially integral recovery of late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors. As for the BFF Polska Group, late payment interest

on past due trade receivables is mainly recognized when there is a reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or court decisions.

- Interest income on debt securities in portfolio 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, financial assets measured at fair value through OCI (investment in the FITD Voluntary Scheme) and hedging derivatives, recognized at June 30, 2018, are classified as Level 2, as the measurements were made using inputs other than the quoted prices used in Level 1 and observable directly or indirectly for the assets and liabilities.
Financial assets classified as Level 3 mainly represent the value of the certificates purchased by the BFF Polska Group in an investment fund investing in receivables due from Polish public hospitals and, without observable measurement, the value approximates cost.

#### *A.4.2 Measurement processes and sensitivity*

Financial instruments held for trading are used to hedge fluctuations in market rates and exchange rates connected with the financial assets and liabilities recognized in the financial statements.
At June 30, 2018, the carrying amount was equal to the fair value of the instrument. The fair value change in such financial asset/liability compared to December 31, 2017 required the recognition in the income statement of a net gain/loss (+/-) on trading.

#### *A.4.3 Fair value hierarchy*

At June 30, 2018, as in 2017, there were no transfers between Level 1, Level 2 and Level 3.

### *Quantitative information*

All amounts are stated in thousands of euros.

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

| Financial assets/liabilities measured at fair value | 06/30/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets measured at fair value through profit or loss | | | | | | |
| a) financial assets held for trading | | | | | | |
| b) financial assets designated at fair value | | | | | | |
| c) other assets mandatorily measured at fair value | | | 37 | | | 546 |
| 2. Financial assets measured at fair value through OCI | 158,997 | 147 | 17 | 101,285 | 147 | 17 |
| 3. Hedging derivatives | | | | | 322 | |
| 4. Property, plant and equipment | | | | | | |
| 5. Intangible assets | | | | | | |
| **Total** | **158,997** | **147** | **54** | **101,285** | **468** | **563** |
| 1. Financial liabilities held for trading | | | | | 535 | |
| 2. Financial liabilities measured at fair value | | | | | | |
| 3. Hedging derivatives | | | | | | |
| **Total** | | **0** | | | **535** | |

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

| Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis | 06/30/2018 | | | | 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | L1 | L2 | L3 | CA | L1 | L2 | L3 |
| 1. Financial assets measured at amortized cost<br>2. Property, plant and equipment held for investment<br>3. Non-current assets and disposal groups held for sale | 3,983,273 | 949,576 | | 3,019,230 | 4,183,888 | 1,127,929 | | 3,063,279 |
| **Total** | **3,983,273** | **949,576** | | **3,019,230** | **4,183,888** | **1,127,929** | | **3,063,280** |
| 1. Financial liabilities measured at amortized cost<br>2. Liabilities associated with assets held for sale | 3,791,271 | 649,344 | 20,738 | 3,123,633 | 3,944,118 | 654,873 | 121,316 | 3,153,979 |
| **Total** | **3,791,271** | **649,344** | **20,738** | **3,123,633** | **3,944,118** | **654,873** | **121,316** | **3,153,979** |

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

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

The BFF Banking 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*
*€38,619 thousand*

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

The balance includes the cash on hand at the different Group companies and unrestricted deposits with the Bank of Italy, amounting to €38,619 thousand.

### *Section 2 – Financial assets measured at fair value through profit or loss – Item 20*
*€37 thousand*

The amount refers to the value of the certificates purchased by the BFF Polska Group in an investment fund investing in receivables due from Polish public hospitals.
During the first half of the year, the BFF Polska Group sold some certificates for a total of approximately PLN 2.1 million (approximately €0.5 million).

### *2.5 Other financial assets mandatorily measured at fair value: broken down by type*

*(Amounts in € thousands)*

| Items/Amounts | Total 06/30/2018 | | | Total 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Debt securities** | | | | | | |
| 1.1 Structured securities | | | | | | |
| 1.2 Other debt securities | | | | | | |
| **2. Equity securities** | | | | | | |
| **3. Units in CIUs** | | | **37** | | | **546** |
| **4. Loans** | | | | | | |
| 4.1 Repos | | | | | | |
| 4.2 Other | | | | | | |
| **Total** | | | **37** | | | **546** |

## 2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

*(Amounts in € thousands)*

| Items/Amounts | Total 06/30/2018 | Total 12/31/2017 |
|---|---|---|
| **1. Equity securities** | | |
| of which: banks | | |
| of which: other financial companies | | |
| of which: non-financial companies | | |
| **2. Debt securities** | | |
| a) Central Banks | | |
| b) Public administration agencies | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non-financial companies | | |
| **3. Units in CIUs** | **37** | **546** |
| **4. Loans** | | |
| a) Central Banks | | |
| b) Public administration agencies | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non-financial companies | | |
| f) Households | | |
| **Total** | **37** | **546** |

## Section 3 – Financial assets measured at fair value through OCI – Item 30

*€159,161 thousand*

The item mainly includes government securities purchased by Banca Farmafactoring to hedge the liquidity risk and to optimize the cost of money, for a total face value of €165 million.
These securities are Italian government securities earning interest at variable rates (CCT) and have residual maturity dates within five years.

The securities are classified as HTC&S (Held to Collect and Sell—previously AFS under IAS 39) and, therefore, they are measured at fair value. The interest earned is recognized in the income statement according to the effective rate of return.
At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity as part of the revaluation reserves, after tax.
At June 30, 2018, the negative reserves on the AFS government securities amounted to approximately €5,384 thousand, after tax.

The item also includes:

- the amount charged to Banca Farmafactoring as part of its contributions to the Voluntary Scheme established by FITD in relation to the actions taken to support Cassa di Risparmio di Cesena for an amount of €147 thousand, equal to the fair value communicated directly by FITD during the preparation of the financial statements at December 31, 2017;

* the amount held by Banca Farmafactoring in Nomisma S.p.A. - Società di Studi Economici, equal to €17 thousand, accounted for at cost, in the absence of other measurement inputs.

### 3.1 Financial assets measured at fair value through OCI: broken down by type

*(Amounts in € thousands)*

| Items/Amounts | Total 06/30/2018 | | | Total 12/31/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Debt securities** | | | | | | |
| 1.1 Structured securities | | | | | | |
| 1.2 Other debt securities | 158,997 | | | 101,285 | | |
| **2. Equity securities** | | **147** | **17** | | **147** | **17** |
| **3. Loans** | | | | | | |
| **Total** | **158,997** | **147** | **17** | **101,285** | **147** | **17** |

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

*(Amounts in € thousands)*

| Items/Amounts | 06/30/2018 | 12/31/2017 |
|---|---|---|
| **1. Debt securities** | | |
| a) Central Banks | 158,997 | 101,285 |
| b) Public administration agencies | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non-financial companies | | |
| **2. Equity securities** | | |
| a) Banks | | |
| b) Other issuers: | | |
| - other financial companies | 147 | 147 |
| of which: insurance companies | | |
| - non-financial companies | 17 | 17 |
| - other | | |
| **3. Loans** | | |
| a) Central Banks | | |
| b) Public administration agencies | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non-financial companies | | |
| f) Households | | |
| **Total** | **159,161** | **101,449** |

## *Section 4 – Financial assets measured at amortized cost - Item 40*
*€3,983,273 thousand*

This item is broken down as follows:

- receivables due from banks of €19,214 thousand;
- receivables due from customers of €3,964,058 thousand, which also includes the Held to Collect (HTC) securities portfolio of €964,043 thousand (formerly HTM) from January 1, 2018 based on guidance provided under the new IFRS 9.

### *Due from banks*
*€19,215 thousand*

Receivables due from banks mainly refer to Banca Farmafactoring and derive from current account liquidity generated by amounts collected in the closing days of the reporting period, and from fixed-term deposits.

### *4.1 Financial assets measured at amortized cost: due from banks broken down by type*

(Amounts in € thousands)

| Type of transactions/Amounts | Total 06/30/2018 | | | | | | Total 12/31/2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | | Fair value | | | Carrying amount | | | Fair value | | |
| | Stage 1 and 2 | Stage 3 | of which: impaired assets acquired or internally generated | L1 | L2 | L3 | Stage 1 and 2 | Stage 3 | of which: impaired assets acquired or internally generated | L1 | L2 | L3 |
| **A. Due from central banks** | | | | | | | | | | | | |
| 1. Fixed-term deposits | | | | | | | | | | | | |
| 2. Mandatory reserve | | | | | | | | | | | | |
| 3. Repos | | | | | | | | | | | | |
| 4. Other | | | | | | | | | | | | |
| **B. Due from banks** | | | | | | | | | | | | |
| 1. Loans | | | | | | | | | | | | |
| 1.1. Current acc. and demand dep. | 8,941 | | | | | | 35,508 | | | | | |
| 1.2. Fixed-term deposits | 10,273 | | | | | | 9,284 | | | | | |
| 1.3. Other loans: | | | | | | | | | | | | |
| - Reverse repos | | | | | | | | | | | | |
| - Finance lease | | | | | | | | | | | | |
| - Other | 1 | | | | | | | | | | | |
| 2. Debt securities | | | | | | | | | | | | |
| 2.1. Structured securities | | | | | | | | | | | | |
| 2.2. Other debt securities | | | | | | | | | | | | |
| **Total** | **19,215** | | | | | | **44,792** | | | | | |

The restricted deposits mainly include €5,782 thousand relating to the Mandatory Reserve deposit with ICBPI, as Banca Farmafactoring is an indirect participant in that system, and €3,492 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.
"Current accounts and unrestricted deposits" refer for €3,872 thousand to the BFF Polska Group.
This item does not include any impaired assets.

### *Due from customers*
*€3,964,058 thousand, including Held to Collect securities of €964,043 thousand*

Starting from January 1, 2018, the item "Financial assets measured at amortized cost –Due from customers" includes debt securities in the Held to Collect (HTC) portfolio in addition to loans to customers, pursuant to the updates of Bank of Italy's Circular no. 262, in compliance with the new IFRS 9.

This item therefore includes loans to customers of €3,000 million (mainly receivables due from debtors in relation to factoring activities) and €964 million in debt securities in the HTC portfolio.

The BFF Banking Group's receivables due from customers are measured at amortized cost, determined based on the present value of estimated future cash flows.
Banca Farmafactoring and BFF Finance Iberia's non-recourse receivables include both principal and late payment interest accruing as from the due date of the receivable. In order to compute the 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 this analysis based on time series, the collection percentage of 45% for late payment interest and 1,800 days for collection times have been confirmed for 2018.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian National Healthcare System. However, since the sample observed was relatively small, a prudent decision was made to consider, also for 2018, the use of the same 45% collection percentage, and the same collection times, 1,800 days, as used by Banca Farmafactoring.

BFF Polska Group—a group acquired in 2016—recognizes late payment interest accrued on past due trade receivables when there is reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or when decided by a court of law.
Notwithstanding the minor significance of late payment interest to the total of the BFF Polska Group's receivables, as part of the activities to complete the integration of the BFF Banking Group's processes, which also includes synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the estimation criteria decided locally by management when the BFF Polska Group was listed were adopted. These confirm a substantially full recovery of the late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €551 million, of which only €193 million were recognized in the income statement of the reporting period and in previous periods.

The total net amount of impaired receivables for the BFF Banking Group is €167.1 million. Of this amount, €29.6 million relates to non-performing loans (including €22.8 million concerning municipalities in financial distress, of which €5.7 million were purchased already impaired) and €9.2 million to unlikely-to-pay exposures. Past due exposures amounted to €128.3 million, of which 81% referring to the Italian public administration counterparties and public sector companies. Measurement of such exposures is carried out at the portfolio level since there are no objective indications of individual impairment.

Debt securities classified in the HTC portfolio, equal to €964 million, are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement.
At June 30, 2018, this portfolio consists exclusively of government securities purchased to hedge liquidity risk and to optimize the cost of money. It has a total face value of €928 million and fair value of €950 million, with a negative difference (before taxes) of around €15 million compared to the carrying amount on the same date. This difference has not been recognized in the financial statements.
These securities are at a fixed rate (BOT, BTP and CTZ), with maturity dates related to the sources of committed and unsecured funding.

### 4.1 Financial assets measured at amortized cost: due from customers broken down by type

The breakdown is as follows:

- Performing factoring amounted to a total €2,171,617 thousand for the BFF Banking Group. This included non-recourse receivables purchased as "performing", registered under the name of the assigned debtor, with the conditions for "derecognition", and measured at "amortized cost", worth a total of €1,845,920 thousand for Banca Farmafactoring and €190,832 thousand for the subsidiary BFF Finance Iberia.
  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 €82,625 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 €49,357 thousand.

  Performing recourse and non-recourse factoring of the BFF Polska Group totaled €127,629 thousand.

- Other performing loans due from customers amounted to €656,208 thousand; they mainly include:
  – accrued late payment interest of about €101,610 thousand, including €87,219 thousand relating to Banca Farmafactoring and €14,392 thousand relating to the Spanish subsidiary. This amount has already been recognized in the income statement in the current and prior periods and refers only to late payment interest accrued on principal already collected. Therefore, of the €193 million late payment interest recognized in the income statement, and referring to the provision existing at June 30, 2018, €101.6 million refers to the item under review, while the remaining amount of €91.4 million was recognized under "factoring";
  – amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €63,306 thousand;
  – financing activities of the BFF Polska Group of €477,588 thousand.

- Performing finance leases of the BFF Polska Group totaled €5,099 thousand.

- The BFF Banking Group's net "Impaired assets" amounted to a total of €167,093 thousand. They include:
  - 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 made by the company.
    At June 30, 2018, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €29,554 thousand, of which €5,710 thousand purchased already impaired. Net non-performing loans concerning municipalities in financial distress amounted to €22,818 thousand, accounting for 77.2% of the total.

    Gross non-performing loans amounted to €39,570 thousand. Relevant impairment totaled €10,016 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 €12,347 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 €51,917 thousand and relevant adjustments totaled €22,363 thousand.

With reference to the Bank, at June 30, 2018 total non-performing loans, net of any estimated impairment losses, amounted to €23,824 thousand, of which €22,818 thousand concerned Italian municipalities in financial distress.

Specifically, the amount of €5,710 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.

- The remaining positions referring to Banca Farmafactoring were impaired based only on the time value, as they consist of exposures relating to local entities in financial distress, for which no provisions were recognized as the distressed condition is expected to be remedied, resulting in the collection of 100% of receivables. Gross non-performing loans relating to the BFF Polska Group amounted to €11,183 thousand; after estimated impairment losses of €5,453 thousand, the net amount totaled €5,730 thousand.

The BFF Banking Group's unlikely to pay exposures mainly refer to the BFF Polska Group's positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that—absent such actions as the enforcement of guarantees—the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).

At June 30, 2018, gross exposures classified as unlikely to pay amounted to €12,615 thousand, of which €12,009 thousand attributable to the BFF Polska Group, €438 thousand to Banca Farmafactoring and €167 thousand to BFF Finance Iberia. The total net amount was €9,210 thousand, relating mainly to the BFF Polska Group, since the gross exposures of Banca Farmafactoring and BFF Finance Iberia were almost entirely impaired.

Net past due exposures of the Banking Group totaled €128,328 thousand, of which €104,320 thousand, corresponding to 81.3%, attributable to public administration counterparties and public sector companies in the various countries where the banking Group operates. These consist of exposures, which, at the end of the reporting period, were overdue by more than 90 days.

More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Banca Farmafactoring's overall amount of past due exposures at June 30, 2018 was equal to €105,402 thousand. Of this amount, €89,440 thousand (equal to 84.9%) concerned counterparties of the Italian public administration and Italian public sector companies. As far as the BFF Polska Group is concerned, net past due exposures amounted to €22,235 thousand. Of this amount, €14,196 thousand (equal to 63.9%) concerned public administration counterparties and public sector companies. The remaining past due exposures for a net amount of €691 thousand refer to BFF Finance Iberia, and almost entirely concerned public administration counterparties.

*(Amounts in € thousands)*

| Type of transaction/Amounts | Total 06/30/2018 | | | | | | Total 12/31/2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | | *Fair value* | | | Carrying amount | | | *Fair value* | | |
| | Stages 1 and 2 | Stage 3 | of which: impaired assets acquired or inter-nally gener-ated | L1 | L2 | L3 | Stages 1 and 2 | Stage 3 | of which: impaired assets acquired or inter-nally gener-ated | L1 | L2 | L3 |
| **1. Loans** | **2,833,617** | **166,398** | **5,710** | | | **3,000,016** | **2,923,756** | **94,731** | **2,824** | | | |
| 1. Current accounts | 1 | | | | | | | | | | | |
| 2. Reverse repos | | | | | | | | | | | | |
| 3. Mortgages | | | | | | | | | | | | |
| 4. Credit cards, personal loans, salary-backed loans (*cessione del quinto*) | | | | | | | | | | | | |
| 5. Finance leases | 5,099 | 165 | | | | | 5,733 | 31 | | | | |
| 6. Factoring | 2,171,617 | 138,995 | 5,710 | | | | 2,278,165 | 81,121 | 2,824 | | | |
| 7. Other loans | 656,901 | 27,239 | | | | | 639,858 | 13,579 | | | | |
| **2. Debt securities** | **964,043** | | | **964,043** | | | **1,120,610** | | | | | |
| 2.1. Structured securities | | | | | | | | | | | | |
| 2.2. Other debt securities | 964,043 | | | 964,043 | | | 1,120,610 | | | | | |
| **Total** | **3,797,660** | **166,398** | **5,710** | **964,043** | | **3,000,016** | **4,044,366** | **94,731** | **2,824** | | | |

*Fair value*

The financial statement item "Due from customers" mainly refers to non-recourse receivables, for which an active and liquid market is not available. In particular, these are past due receivables due from public administration agencies for which the price in a hypothetically independent transaction cannot be easily determined, partly due to difficulties in reasonably assessing the liquidity risk that would be accepted by the market for such transactions.
Consequently, the carrying amount (determined based on "amortized cost" and taking into account any individual and collective impairment), in relation to the nature, type, duration of such assets and related collection projections, was deemed to be substantially representative of the fair value of these receivables on the reporting date.

## Section 5 – Hedging derivatives – Item 50

*€0*

### 5.1 Hedging derivatives: breakdown by type of hedge and by level

*(Amounts in € thousands)*

| | Fair value 06/30/2018 | | | NA 06/30/2018 | Fair value 12/31/2017 | | | NA 12/31/2017 |
|---|---|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | | L1 | L2 | L3 | |
| **A. Financial derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | 0 | | 0 | | 322 | | 84,928 |
| 3) Foreign investments | | | | | | | | |
| **B. Credit derivatives** | | | | | | | | |
| 1) Fair value | | | | | | | | |
| 2) Cash flows | | | | | | | | |
| **Total** | | **0** | | **0** | | **322** | | **84,928** |

As the BFF Banking Group has not entered into any derivative contracts, this item was zero at June 30, 2018.

## Section 7 – Equity investments - Item 70

*€150 thousand*

The amount refers to the equity investment in two law firms, in which BFF Polska is general partner.

### 7.1 Equity investments: information on investment relationships

| Name | Registered office | Operating office | Relation-ship type | Investment relationship | | Voting rights % |
|---|---|---|---|---|---|---|
| | | | | Investor | Invest. % | |
| A. Jointly controlled companies | | | | | | |
| B. Companies over which significant influence is exercised | | | | | | |
| C. Exclusively controlled companies | | | | | | |
| 1. Kancelaria Prawnicza Karnowski i Wspólnik sp.k. | Łodz (Poland) | Łodz (Poland) | Other forms of control | BFF Polska S.A. | 99% | 99% |
| 2. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k. | Łodz (Poland) | Łodz (Poland) | Other forms of control | Debt-Rnt sp. Z.O.O. | 99% | 99% |

## *Section 9 - Property, plant and equipment - Item 90*

*€12,482 thousand*

At June 30, 2018, the item "Property, plant and equipment" amounted to a total of €12,482 thousand. Of this amount, €11,487 thousand related to the Bank, €779 thousand to the BFF Polska Group and €216 thousand to BFF Finance Iberia. At June 30, 2018 the item relating to Banca Farmafactoring was mainly composed of:

- land of €3,685 thousand, unchanged from December 31, 2017;
- buildings (including capitalized extraordinary maintenance) of €6,658 thousand, compared to €6,820 thousand at December 31, 2017.

Upon 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. Such amount is depreciated at the end of each reporting period based on the assets' estimated useful life.
The measurement upon first-time adoption resulted in a revaluation of the buildings for approximately €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 10 - Intangible assets – Item 100*

*€25,278 thousand*

This item mainly consists of goodwill of €22,146 thousand, which was generated following BFF Banking Group's acquisition of the BFF Polska Group.

In May 2017, in accordance with the provisions of IFRS 3, the Purchase Price Allocation (PPA) process was completed, at the end of which the allocation of the purchase price entirely to goodwill was confirmed, as applied during the initial recognition of the acquisition of the BFF Polska Group and recorded in BFF Banking Group's consolidated financial statements at December 31, 2016, since, following the aforementioned provisional PPA, no further assets were identified to which reasonably allocate the investment purchase price.
In line with what was described in the section on accounting policies and with IAS 36, an impairment test was carried out on goodwill in order to determine its recoverable amount.
This verification, which must be carried out on an annual basis or when there is evidence of an impairment loss, is performed by comparing the carrying amount of goodwill and the recoverable amount of the Cash Generating Unit (CGU) to which goodwill refers.

Therefore, the equity investment in the BFF Polska Group was considered, in accordance with international accounting standards, as a Cash Generating Unit and the measurement of the equity investment as a whole thus made it possible to determine the recoverable amount of goodwill.
At December 31, 2017, the recoverable amount of the equity investment held by BFF in the BFF Polska Group 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 June 30, 2018, there were no indications that goodwill cannot be fully recovered.

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

## *Section 11 - Tax assets and liabilities – Item 110 of assets and Item 60 of liabilities*

Current tax assets totaled €11,292 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring for the 2018 tax period.
Current tax liabilities amounted to €14,017 thousand; they include the provision for taxes of the BFF Banking Group's companies for the first half of 2018.

### *11.1 Deferred tax assets: breakdown*

*€7,968 thousand*

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

### *11.2 Deferred tax liabilities: breakdown*

*€58,592 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 IRES taxable income in future years subsequent to collection, in accordance with Article 109, paragraph 7, of Presidential Decree no. 917 of 1986.

## *Section 13 - Other assets - Item 130*

*€12,496 thousand*

*13.1 Other assets: breakdown*

*(Amounts in € thousands)*

| Details | 06/30/2018 | 12/31/2017 |
|---|---|---|
| Security deposits | 53 | 44 |
| Inventories | 466 | 624 |
| Other receivables | 8,308 | 6,828 |
| Accrued income and prepaid expenses | 3,669 | 2,299 |
| **Total** | **12,496** | **9,796** |

Other receivables refer primarily to non-trade receivables due from sundry debtors, pending items, and legal fees to be recovered.
Accrued income and prepaid expenses mainly refer to the deferral of costs relating to administrative expenses.

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

## LIABILITIES AND EQUITY

### *Section 1 – Financial liabilities measured at amortized cost – Item 10*
*€3,791,271 thousand*

Starting from January 1, 2018 (and based on guidance provided in the new IFRS 9) this item is broken down as follows:

- due to banks of €687,295 thousand;
- due to customers of €2,386,327 thousand;
- outstanding securities of €617,649.

### *Due to banks*
*€687,295 thousand*

### *1.1 Financial liabilities measured at amortized cost: due to banks broken down by type*

*(Amounts in € thousands)*

| Type of transaction/Amounts | Total 06/30/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | Fair value | | | CA | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Due to central banks** | | | | | | | | |
| **2. Due to banks** | | | | | | | | |
| 2.1 Current accounts and demand deposits | 52,738 | | | | 22,413 | | | |
| 2.2 Fixed-term deposits | 634,557 | | | | 635,580 | | | |
| 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** | **687,295** | | | | **657,993** | | | |

"Due to banks" mainly refers to loans granted by the banking system at current market rates.
The item also includes the loan contract in zloty used to acquire the BFF Polska Group, which was partially entered into with the Unicredit Group (for PLN 185 million , equivalent to €42 million) and partially with the Intesa Sanpaolo Group (PLN 170 million, equivalent to €39 million).

### *1.2 Financial liabilities measured at amortized cost: due to customers broken down by type*
*€2,386,327 thousand*

*(Amounts in € thousands)*

| Type of transaction/Amounts | Total 06/30/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | Fair value | | | CA | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1. Current accounts and demand deposits | 59,854 | | | | 46,526 | | | |
| 2. Fixed-term deposits | 837,880 | | | | 953,059 | | | |
| 3. Loans | | | | | | | | |
| 3.1 repos | 1,041,947 | | | | 1,162,912 | | | |
| 3.2 other | 391,926 | | | | 264,435 | | | |
| 4. Payables following commitments to repurchase treasury shares | | | | | | | | |
| 5. Other payables | 54,719 | | | | 69,055 | | | |
| **Total** | **2,386,327** | | | | **2,495,987** | | | |

"Due to customers" includes €899 million for online deposit accounts offered in Italy, Spain and Germany (restricted deposits and current accounts), compared to €999 million at December 31, 2017.
The counterparty in repos, amounting to €1,042 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance Banca Farmafactoring's securities portfolio.

Other loans of €392 million refer to payables due to financial entities.

Other payables principally refer to collections of managed receivables due to clients.

## *1.3 Financial liabilities measured at amortized cost: debt securities issued broken down by type*
*€717,649 thousand*

*(Amounts in € thousands)*

| Type of securities/Amounts | Total 06/30/2018 | | | | Total 12/31/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | Fair value | | | CA | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **A. Securities** | | | | | | | | |
| 1 bonds | | | | | | | | |
| 1.1 structured | | | | | | | | |
| 1.2 other | 717,649 | 699,355 | 20,738 | | 790,139 | 654,873 | 121,316 | |
| 2. other securities | | | | | | | | |
| 2.1 structured | | | | | | | | |
| 2.2 other | | | | | | | | |
| **Total** | **717,649** | **699,355** | **20,738** | | **790,139** | **654,873** | **121,316** | |

Debt securities issued consist of bonds issued by Banca Farmafactoring, the subsidiary BFF Polska Group, and the relevant SPV. They have a total face value of €720 million and are recognized in the financial statements (to the tune of €718 million) at amortized cost using the effective interest rate method.

The item includes:

- €100 million subordinated unsecured and unrated Tier 2 bonds (ISIN XS1572408380) issued by Banca Farmafactoring in March 2017. The 10-year bonds due March 2027 have 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%;
- €200 million senior unsecured and unrated bonds (ISIN XS1639097747) issued by Banca Farmafactoring in June 2017, due in 2022. The bonds pay an annual fixed coupon of 2%.
- €200 million senior unsecured and unrated bonds (ISIN XS1731881964) issued by Banca Farmafactoring, due June 5, 2020. The bonds pay a quarterly variable coupon based on 3M Euribor + 145 bp spread.
- €150 million bonds (ISIN XS1435298275) issued by Banca Farmafactoring in June 2016, due in 2021;
- bonds issued by the subsidiary BFF Polska Group for about PLN 91 million (€21 million);
- €50 million flexible senior notes issued by the vehicle BFF SPV S.r.l. created together with the Bayerische Landesbank Group (Bayern LB). As far as the securitization transaction is concerned, the receivables were sold to the vehicle company and were not derecognized from the assets of Banca Farmafactoring since the sale did not transfer the relevant risks and rewards.

## *Section 2 – Financial liabilities held for trading - Item 20*

*€0*

### *2.1 Financial liabilities held for trading: breakdown by type*

*(Amounts in € thousands)*

| Type of transaction/Amounts | Total 06/30/2018 | | | | | Total 12/31/2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NA | Fair value | | | Fair Value* | NA | Fair value | | | Fair Value* |
| | | 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 | | | | | | | | | | |
| 1.1 Held for trading | | | | | | | | 535 | | |
| 1.2 Related to fair value option | | | | | | | | | | |
| 1.3 Other | | | | | | | | | | |
| 2. Credit derivatives | | | | | | | | | | |
| 2.1 Held for trading | | | | | | | | | | |
| 2.2 Related to fair value option | | | | | | | | | | |
| 2.3 Other | | | | | | | | | | |
| **Total (B)** | | | | | | | | **535** | | |
| **Total (A+B)** | | | | | | | | **535** | | |

As the Banking Group has not entered into any derivative contracts, this item was zero at June 30, 2018. At December 31, 2017, the amount referred to foreign exchange swap derivative contracts entered into by BFF Polska to hedge the principal and interest on bonds issued (to be repaid in euros) against the fair value changes arising from fluctuations in the euro-zloty exchange rate.

## *Section 6 – Tax liabilities – Item 60*

*€72,609 thousand*

See "*Section 11 – Tax assets and liabilities*" of the consolidated balance sheet assets.

## Section 8 – Other liabilities – Item 80

*€68,926 thousand*

### 8.1 Other liabilities: breakdown

*(Amounts in € thousands)*

| Details | Total 06/30/2018 | Total 12/31/2017 |
|---|---|---|
| Payables to suppliers | 2,545 | 3,992 |
| Invoices to be received | 5,008 | 5,234 |
| Payables to the tax authorities | 1,547 | 2,177 |
| Payables to social security agencies | 381 | 610 |
| Payables to employees | 4,071 | 3,138 |
| Payables for receivables management | 2,036 | 3,647 |
| Collections pending allocation | 35,913 | 14,434 |
| Other payables | 15,327 | 15,644 |
| Accrued liabilities and deferred income | 2,099 | 807 |
| **Total** | **68,926** | **49,683** |

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

"Collections pending allocation" refer to payments received by June 30, 2018 but still outstanding since they had not been cleared and recorded by that date.

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

"Other payables" include portions of collections to be transferred, stamp duties to be paid, payables to directors and other pending items.

## Section 9 – Employee severance benefits – Item 90

*€869 thousand*

The liability recorded in the financial statements at June 30, 2018 was equal to the current value of the obligation, estimated by an independent actuary.
As a matter of fact, 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 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.

## *Section 10 – Provisions for risks and charges – Item 100*

*€4,226 thousand*

### *10.1 Provisions for risks and charges: breakdown*

*(Amounts in € thousands)*

| Items/Amounts | Total 06/30/2018 | Total 12/31/2017 |
|---|---|---|
| 1. Provisions for credit risk on commitments and financial guarantees provided | 202 | 0 |
| 2. Provisions for other commitments and guarantees provided | | |
| 3. Pension funds | 3,195 | 4,366 |
| 4. Other provisions for risks and charges | | |
| 4.1 legal and tax disputes | | |
| 4.2 personnel expenses | | |
| 4.3 other | 829 | 1,079 |
| **Total** | **4,226** | **5,445** |

Starting from January 1, 2018, this item also includes provisions for credit risk associated with financial guarantees issued by BFF Polska to the subsidiary BFF Medfinance, based on impairment requirements provided for by the new IFRS 9.
The pension fund refers mainly to the non-compete agreement entered into with the Banking Group's managers and provisions relating to the deferred payment incentive scheme envisaged for specific Banca Farmafactoring employees.
The decrease in this item was attributable to payments made during the reporting period, and to the reversals which became necessary after staff benefitting from deferred MBO left the service.

## *Section 13 – Equity – Items 120, 130, 140, 150, 160, 170 and 180*

*€312,854*

### *13.1 "Share capital" and "Treasury shares": breakdown*

*€130,983 thousand and €-267 thousand*

*(Amounts in € thousands)*

| Type | Amount |
|---|---|
| **1. Share capital** | **130,983** |
| 1.1 Ordinary shares | 130,983 |
| **2. Treasury shares** | **(267)** |

In the first half of 2018 the Bank purchased 50,938 treasury shares (accounting for 0.03% of share capital) at an average price of €5.8895 per share, for a total amount of €299,999.35. As also described in Part I of this document, the treasury share purchase plan aims to equip the Bank with sufficient financial instruments to be granted to the BFF Group's "Risk Takers" in order to meet the relevant variable remuneration percentage requirements, in implementation of the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of the BFF Banking Group".
The total amount of shares purchased was equal to the maximum amount authorized for the plan by the Bank of Italy (€300,000).
After the variable remuneration for the year 2017 was paid to Risk Takers in 2018, the "Treasury share" reserve amounted to €267 thousand at June 30, 2018.
.

## 13.2 Share capital – Number of shares of the Parent Company: year-over-year change

(Amounts in euros)

| Items/Types | Ordinary | Other |
|---|---|---|
| **A. Shares at the beginning of the period** | | |
| - fully paid | 170,107,400 | |
| - not fully paid | | |
| A.1 Treasury shares (-) | | |
| **A.2 Shares outstanding: opening balance** | 170,107,400 | |
| **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 | | |
| **C. Decrease** | | |
| C.1 Cancellation | | |
| C.2 Purchase of treasury shares | | |
| C.3 Transactions for sale of companies | | |
| C.4 Other changes | | |
| **D. Shares outstanding: closing balance** | 170,107,400 | |
| D.1 Treasury shares (+) | | |
| D.2 Shares outstanding at the end of the period | | |
| - fully paid | 170,107,400 | |
| - not fully paid | | |

## *13.4 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)*

| | 06/30/2018 | Possibility of use (a) | Amount available | Summary of use in the three previous years | |
|---|---|---|---|---|---|
| | | | | For absorption of losses | For other reasons |
| **Share capital** | **130,983** | | | | |
| **Reserves** | **142,809** | | | | |
| - Legal reserve | 43,041 | *B* | | | |
| - Extraordinary reserve | 89 | *A, B, C* | 89 | | |
| - Retained earnings reserve | 85,328 | *A, B, C* | 85,328 | | |
| - Stock option and financial instrument reserves | 4,295 | *A* | | | |
| - Other reserves | 10,056 | | | | |
| **Revaluation reserves** | **(1,992)** | | | | |
| - HTCS securities | (5,384) | | | | |
| - Other | 3,393 | | | | |
| **Treasury share reserve** | **(267)** | | | | |
| **Total share capital and reserves** | **271,533** | | **85,417** | | |

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

Changes in Reserves are as follows:

*(Amounts in € thousands)*

| | Legal reserve | Retained earnings | Other | Total |
|---|---|---|---|---|
| **A. Opening balance** | **27,417** | **99,448** | **2,757** | **129,621** |
| **B. Increase** | | | | |
| B.1 Appropriation of profit | | 15,454 | | 15,454 |
| B.2 Other changes | | | 1,949 | 1,949 |
| **C. Decrease** | | | | |
| C.1 Uses | | | | |
| - absorption of losses | | | | |
| - distribution | | (4,215) | | (4,215) |
| - transfer to share capital | | | | |
| C.2 Other changes | | | | |
| **D. Closing balance** | **27,417** | **110,687** | **4,706** | **142,809** |

**Retained earnings reserve**

The net increase of €11,239 thousand was attributable to retained earnings of subsidiaries and to the distribution to shareholders from the retained earnings reserve by Banca Farmafactoring, as per the relevant shareholders' meeting resolution of April 5, 2018 in regards to the 2017 financial statements.

**Other reserves**

Changes refer mainly to the granting during the first half of 2018 of option rights related to the stock option plan, worth a total of €1.3 million, recorded in accordance with the provisions of IFRS 2 through recognition in the income statement, with a corresponding increase in equity. The remaining €300 thousand amount 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 through financial instruments.
The corresponding accounting treatment, in accordance with IFRS 2, resulted, during the period, in the above-mentioned positive effect on consolidated equity.

# Part C - Consolidated Income Statement

## *Section 1 – Interest – Items 10 and 20*

### *1.1 Interest and similar income: breakdown*
*€108,326 thousand*

*(Amounts in € thousands)*

| Items/Types | Debt securities | Loans | Other transactions | Total 06/30/2018 | Total 06/30/2017 |
|---|---|---|---|---|---|
| **1. Financial assets measured at fair value through profit or loss:** | | | | | |
| 1.1. Financial assets held for trading | | | | | |
| 1.2. Financial assets designated at fair value | | | | | |
| 1.3. Other financial assets mandatorily measured at fair value | | | | | |
| **2. Financial assets measured at fair value through OCI** | 48 | | | **48** | **115** |
| **3. Financial assets measured at amortized cost:** | | | | | |
| 3.1 Due from banks | | 219 | | **219** | **79** |
| 3.2 Due from customers | 2,570 | 105,130 | | **107,700** | **126,482** |
| **4. Hedging derivatives** | | | 0 | **0** | **43** |
| **5. Other assets** | | | 359 | **359** | **0** |
| **6. Financial liabilities** | | | | | |
| **Total** | **2,618** | **105,349** | **359** | **108,326** | **126,720** |

### *1.2 Interest and similar income: other information*

Interest income concerning “Financial assets measured at fair value through OCI” of €48 thousand was generated by government securities purchased by Banca Farmafactoring to hedge liquidity risk and optimize the cost of money.
The securities are classified as HTC&S (Held to Collect and sell - previously AFS under IAS 39) and, therefore, measured at fair value. The interest earned is recorded in the income statement according to the effective rate of return.
Interest income concerning receivables “Due from banks” refers to credit balances on BFF Banking Group current accounts held with the banking system.

Interest income on receivables “Due from customers” for loans amounted to €107,700 thousand and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse receivables and late payment interest for the year, relating to Banca Farmafactoring and BFF Finance Iberia.

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. The outcome of this analysis has confirmed for 2018, on the basis of the times series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower

than those recorded for receivables due from the Italian public administration. However, since the sample observed was relatively small, a prudent decision was made to consider, also for 2018, the use of the same 45% collection percentage, and the same collection time, 1,800 days, as used by Banca Farmafactoring.
The amount also includes interest income calculated at amortized cost, generated by the BFF Polska Group's portfolio, for a total amount of €23 million.

### *1.3 Interest and similar expenses: breakdown*
*€21,356 thousand*

*(Amounts in € thousands)*

| Items/Types | Payables | Securities | Other transactions | Total 06/30/2018 | Total 06/30/2017 |
|---|---|---|---|---|---|
| 1. Financial liabilities measured at amortized cost | | | | | |
| 1.1 Due to central banks | | | | | |
| 1.2 Due to banks | 7,287 | | | **7,287** | **4,373** |
| 1.3 Due to customers | 5,295 | | | **5,295** | **5,453** |
| 1.4 Debt securities issued | | 8,774 | | **8,774** | **9,508** |
| 2. Financial liabilities held for trading | | | 0 | **0** | **798** |
| 3. Financial liabilities designated at fair value | | | | | |
| 4. Other liabilities and provisions | | | 0 | **0** | **1** |
| 5. Hedging derivatives | | | | | |
| 6. Financial assets | | | | | |
| **Total** | **12,582** | **8,774** | **0** | **21,356** | **20,133** |

Interest expense increased from €20 million at June 30, 2017 to €21 million at the end of the reporting period.
This increase in absolute terms is primarily due to a higher outstanding balance, interest expense on the Tier 2 bonds of €3 million in the first half of 2018 compared to €2 million in the prior-year period, and to the increase in loans denominated in zloty which are granted at a higher base rate.
The reporting period benefited from the reduction in rates offered on the new deposit accounts opened by customers, especially those offered on the 12-month online deposit accounts, which decreased from 1.00% in the first half of 2017 to the current 0.30% in Italy, and from 1.15% in the first half of 2017 to the current 0.75% in Spain. Such effects will have greater impact over the next quarters when customers renew their positions.

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 expense relating to the online deposit accounts of Banca Farmafactoring: specifically, €2,139 thousand for Conto Facto, offered in Italy, and €3,430 thousand for Cuenta Facto, offered in Spain by the Spanish branch of Banca Farmafactoring.

This item also includes interest expense of €91 thousand on loans granted by other factoring companies, in addition to interest (income) on repurchase agreements to the tune of €2,376 thousand.

## Section 2 – Fees and commissions – Items 40 and 50

### 2.1 Fee and commission income: breakdown
*€3,761 thousand*

*(Amounts in € thousands)*

| Type of service/Amounts | Total 06/30/2018 | Total 06/30/2017 |
|---|---|---|
| a) guarantees provided | 2 | |
| b) credit derivatives | | |
| c) management, brokerage and consulting services: | | |
| 1. financial instruments trading | | |
| 2. currency trading | | |
| 3. portfolio management | | |
| 3.1 individual | | |
| 3.2 collective | | |
| 4. custody and administration of securities | | |
| 5. custodian bank | | |
| 6. placement of securities | | |
| 7. receipt and transmission of orders | | |
| 8. advisory services | | |
| 8.1 related to investments | | |
| 8.2 related to financial structure | | |
| 9. distribution of third-party services | | |
| 9.1. portfolio management | | |
| 9.1.1. individual | | |
| 9.1.2. collective | | |
| 9.2. insurance products | | |
| 9.3. other products | | |
| d) collection and payment services | 3,759 | 3,970 |
| e) securitization servicing | | |
| f) factoring services | | |
| g) tax collection services | | |
| h) management of multilateral trading facilities | | |
| i) management of current accounts | | |
| j) other services | | |
| **Total** | **3,761** | **3,970** |

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

### *2.2 Fee and commission expenses: breakdown*
*€769 thousand*

*(Amounts in € thousands)*

| Services/Amounts | Total 06/30/2018 | Total 06/30/2017 |
|---|---|---|
| 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 | 769 | 501 |
| **Total** | **769** | **501** |

The item mainly refers to expenses on existing banking relationships.

## *Section 3 – Dividends and similar income – Item 70*
*€2 thousand*

Dividends and similar income refer to BFF Polska's equity investment in two law firms.

## *Section 4 – Gains (losses) on trading – Item 80*
*€4,082 thousand*

### *4.1 Gains (losses) on trading: breakdown*

*(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 | | | | | |
| **Financial assets and liabilities: exchange differences** | | | | | **4,051** |
| **3. Derivative instruments** | | | | | |
| 3.1 Financial derivatives: | | | | | |
| - on debt securities and interest rates | | | | | |
| - on equity securities and equity indices | | | | | |
| - on currency and gold | | | | | 31 |
| - other | | | | | |
| 3.2 Credit derivatives | | | | | |
| of which: natural hedging related to the fair value option | | | | | |
| **Total** | | | | | **4,082** |

Gains (losses) on trading mainly arise from the positive exchange effect recognized in the income statement, arising from the revaluation of exchange rates applied the loans payable in Polish zloty used for the acquisition of the BFF Polska Group and amounting, at June 30, 2018, to €4 million, before taxes, offset by a negative effect from the revaluation of the exchange rates applied to the BFF Polska Group's equity in consolidated equity.

## *Section 5 – Gains (losses) on hedge accounting – Item 90*
*€111 thousand*

At June 30, 2018 the BFF Banking Group did not have any derivative hedging contracts. The gains in this category relate to an Interest Rate Swap contract which Banca Farmafactoring entered into for the hedging of cashflows, and this contract was finalized during the first quarter of 2018.

## *Section 6 – Gains (losses) on disposal or repurchase – Item 100*
*€359 thousand*

### *6.1 Gains (losses) on disposal or repurchase: breakdown*

*(Amounts in € thousands)*

| Items/Income components | Total 06/30/2018 | | | Total 06/30/2017 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Net result | Gains | Losses | Net result |
| **Financial assets** | | | | | | |
| 1. Financial assets measured at amortized cost | | | | | | |
| 1.1 Due from banks | | | | | | |
| 1.2 Due from customers | | | | | | |
| 2. Financial assets measured at fair value through OCI | | | | | | |
| 2.1 Debt securities | 403 | (43) | 359 | 66 | (45) | 20 |
| 2.2 Loans | | | | | | |
| **Total assets (A)** | **403** | **(43)** | **359** | **66** | **(45)** | **20** |
| **Financial liabilities measured at amortized cost** | | | | | | |
| 1. Due to banks | | | | | | |
| 2. Due to customers | | | | | | |
| 3. Debt securities issued | | | | | | |
| **Total liabilities (B)** | | | | | | |

The amount refers to the sale of government securities in the *Held to collect and sell* (HTC&S) portfolio during the half year, resulting in a net gain of €359 thousand, before the tax effect.

## *Section 8 – Net adjustments/reversals of impairment – Item 130*
*€3,220 thousand*

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

*(Amounts in € thousands)*

| Transactions/Income components | Adjustments (1) | | | Reversals of impairment (2) | | 06/30/2018 | 6/30/2017 |
|---|---|---|---|---|---|---|---|
| | Stages 1 and 2 | Stage 3 | | Stages 1 and 2 | Stage 3 | | |
| | | Write-off | Other | | | | |
| **A. Due from banks:** | **(32)** | | | | | **(32)** | |
| **- loans** | **(32)** | | | | | **(32)** | |
| **- debt securities** | | | | | | | |
| **of which: impaired loans acquired or internally generated** | | | | | | | |
| **B. Due from customers:** | **(1,993)** | **(43)** | **(4,489)** | **1,742** | **1,594** | **(3,188)** | **(1,905)** |
| **- loans** | **(1,981)** | **(43)** | **(4,489)** | **1,742** | **1,594** | **(3,176)** | **(1,905)** |
| **- debt securities** | **(12)** | | | | | **(12)** | |
| **of which: impaired loans acquired or internally generated** | | | | | | | |
| **Total** | **(2,025)** | **(43)** | **(4,489)** | **1,742** | **1,594** | **(3,220)** | **(1,905)** |

Adjustments at June 30, 2018 mainly consist of write-downs in relation to municipalities in financial distress and specific positions of the BFF Polska Group for a particular operational segment that is being discontinued.

## *Section 12 – Administrative expenses – Item 190*

*€34,327 thousand*

### *12.1 Personnel costs: breakdown*

*€16,364 thousand*

*(Amounts in € thousands)*

| Type of expense/Sectors | Total 06/30/2018 | Total 06/30/2017 |
|---|---|---|
| 1) Employees | | |
| a) wages and salaries | 10,109 | 9,142 |
| b) social security contributions | 2,621 | 2,359 |
| c) employee severance benefits | | |
| d) pension | | |
| e) allocation to employee severance benefits | 253 | 202 |
| f) provision for pension and other post-employment benefits: | | |
| - defined contribution | | |
| - defined benefit | | |
| g) payments to external supplementary pension funds: | | |
| - defined contribution | 0 | 87 |
| - defined benefit | 83 | 0 |
| h) costs of share-based payment agreements | | |
| i) other employee benefits | 2,096 | 2,211 |
| 2. Other staff in service | 276 | 278 |
| 3. Directors and Statutory Auditors | 925 | 917 |
| 4. Early retirement costs | | |
| **Total** | **16,364** | **15,195** |

The increase in this item can mainly be traced to an increased number of employees over the half year.
The amount also includes expenses for employee stock options, equal to €1.3 million for the current year, before taxes. Such cost also generates an increase, before taxes, in equity.

### *12.5 Other administrative expenses: breakdown*
*€17,963 thousand*

*(Amounts in € thousands)*

| Details | Total 06/30/2018 | Total 06/30/2017 |
|---|---|---|
| Legal fees | 1,014 | 1,264 |
| Data processing services | 1,294 | 1,162 |
| External credit management services | 514 | 602 |
| Supervisory Body fees | 34 | 22 |
| Legal fees for receivables under management | 160 | 280 |
| Notary fees | 345 | 438 |
| Notary fees to be recovered | 400 | 91 |
| Entertainment expenses and donations | 443 | 477 |
| Maintenance expenses | 703 | 579 |
| Non-deductible VAT | 1,509 | 1,773 |
| Other taxes | 882 | 1,030 |
| Consulting fees | 3,060 | 4,176 |
| Head office operating expenses | 800 | 803 |
| Resolution Fund and FITD | 3,531 | 1,507 |
| Other expenses | 3,274 | 3,980 |
| **Total** | **17,963** | **18,184** |

Other administrative expenses at June 30, 2018 amounted to €17.9 million, basically in line with the same period in the previous year.

Furthermore, with regards to contributions to the Deposit Guarantee Scheme, a cost of €2.8 million before taxes was recorded at June 30, 2018. This cost was made up of:

- €1.8 million as ordinary annual contribution to the Resolution Fund, and €0.7 million as extraordinary contribution for 2016 (both already paid);
- €0.3 million to the FITD, arising from monthly estimates of ordinary contribution (not yet paid).

These amounts are recorded under other administrative expenses, as indicated in the Bank of Italy note of January 19, 2016 “Contributions to Resolution Funds: treatment in the financial statements and in regulatory reporting”.

## Section 13 – Net allocations to provisions for risks and charges – Item 200

*€549 thousand*

### 13.1 Net allocations for credit risk concerning commitments to disburse funds and guarantees provided: breakdown

(Amounts in € thousands)

| Details | 06/30/2018 | 06/30/2017 |
|---|---|---|
| Provision for risk on commitments and guarantees | 36 | 0 |
| **Total** | **36** | **0** |

### 13.3 Net allocations to provisions for risks and charges: breakdown

(Amounts in € thousands)

| Details | 06/30/2018 | 06/30/2017 |
|---|---|---|
| Pension and other post-employment benefits | 513 | 374 |
| Other provisions | 0 | 1 |
| **Total** | **513** | **375** |

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

## Section 14 – Net adjustments to/reversals of impairment of property, plant and equipment – Item 210

*€718 thousand*

This item includes half yearly depreciation relating to property, plant and equipment held by the BFF Banking Group, recorded in the financial statements at the same date.

## Section 15 – Net adjustments to/reversals of impairment of intangible assets – Item 220

*€940 thousand*

This item includes half yearly amortization relating to intangible assets held by the BFF Banking Group, recorded in the financial statements at the same date.

## *Section 16 – Other operating income (expenses) – Item 230*
*€1,621 thousand*

### *16.1 Other operating expenses: breakdown*

*(Amounts in € thousands)*

| **Details** | 06/30/2018 | 06/30/2017 |
|---|---|---|
| Contingent expenses | (381) | 0 |
| Rounding off and allowance expenses | (40) | (50) |
| Other expenses | | (242) |
| Deposit guarantee scheme expenses | | |
| Tax expenses | (889) | 0 |
| **Total** | **(1,310)** | **(292)** |

### *16.2 Other operating income: breakdown*

*(Amounts in € thousands)*

| **Details** | 06/30/2018 | 06/30/2017 |
|---|---|---|
| Recovery of legal fees for purchases of non-recourse receivables | 973 | 282 |
| Recovery of operational legal fees | 716 | 280 |
| Receivables realized at other than face value | | |
| Contingent assets | 746 | 954 |
| Recovery of assignor notary expenses | 452 | 138 |
| Other income | 43 | 551 |
| **Total** | **2,930** | **2,205** |

## Section 21 – Income taxes on profit (loss) from continuing operations – Item 300

*€15,053 thousand*

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

*(Amounts in € thousands)*

| Income components/Sectors | | Total 06/30/2018 | Total 06/30/2017 |
|---|---|---|---|
| 1. | Current taxes (-) | 12,710 | 15,825 |
| 2. | Change in current taxes of prior years (+/-) | | |
| 3. | Reduction in current taxes for the year (+) | | |
| 3.bis | Reduction in current taxes for the year due to tax credit under Law 214/2011 (+) | | |
| 4. | Change in deferred tax assets (+/-) | 0 | 36 |
| 5. | Change in deferred tax liabilities (+/-) | 2,342 | 4,018 |
| **6.** | **Taxes for the year (-) (-1+/-2+3+3 bis+/-4+/-5)** | **15,053** | **19,880** |

## Part D - Consolidated Comprehensive Income

### Consolidated Statement of Comprehensive Income

*(Amounts in euros)*

| | Items | 06/30/2018 | 06/30/2017 |
|---|---|---|---|
| 10. | **Profit for the period** | **41,321,474** | **50,653,574** |
| | **Other comprehensive income that will not be reclassified to profit or loss** | | |
| 20. | Equity securities designated at fair value through OCI: | | |
| | *a)* fair value changes | | |
| | *b)* transfers to other equity components | | |
| 30. | Financial liabilities designated at fair value through profit or loss (change in credit quality rating): | | |
| | *a)* fair value changes | | |
| | *b)* transfers to other equity components | | |
| 40. | Hedging of equity securities designated at fair value through OCI: | | |
| | *a)* fair value changes (hedged instrument) | | |
| | *b)* fair value changes (hedging instrument) | | |
| 50. | Property, plant and equipment | | |
| 60. | Intangible assets | | |
| 70. | Defined benefit plans | 11,641 | (13,768) |
| 80. | Non-current assets and disposal groups held for sale | | |
| 90. | Portion of revaluation reserves from equity investments measured using the equity method | | |
| 100. | Income taxes on OCI that will not be reclassified to profit or loss | (3,201) | 3,786 |
| | **Other comprehensive income that will be reclassified to profit or loss** | | |
| 110. | Hedges of foreign investments: | | |
| | *a)* fair value changes | | |
| | *b)* reclassification to profit or loss | | |
| | *c)* other changes | | |
| 120. | Exchange rate differences: | | |
| | *a)* fair value changes | | |
| | *b)* reclassification to profit or loss | | |
| | *c)* other changes | (4,548,095) | 3,340,159 |
| 130. | Cash flow hedges: | | |
| | *a)* fair value changes | (290,088) | (184,579) |
| | *b)* reclassification to profit or loss | | |
| | *c)* other changes | | |
| | of which: result of net positions | | |
| 140. | Hedging instruments (not designated): | | |
| | *a)* fair value changes | | |
| | *b)* reclassification to profit or loss | | |
| | *c)* other changes | | |
| 150. | Financial assets (other than equity securities) measured at fair value through OCI: | | |
| | *a)* fair value changes | (8,146,876) | (824,431) |
| | *b)* reclassification to profit or loss | | |
| | - adjustments for credit risk | | |
| | - capital gains (losses) | | |

| | | | |
|---|---|---|---|
| | *c)* other changes | | |
| 160. | Non-current assets and disposal groups held for sale: | | |
| | *a)* fair value changes | | |
| | *b)* reclassification to profit or loss | | |
| | *c)* other changes | | |
| 170. | Portion of revaluation reserves relating to equity investments measured using the equity method: | | |
| | *a)* fair value changes | | |
| | *b)* reclassification to profit or loss | | |
| | - adjustments due to impairment | | |
| | - capital gains (losses) | | |
| | *c)* other changes | | |
| 180. | Income taxes on OCI that will be reclassified to profit or loss | 2,979,305 | 194,729 |
| 190. | **Total other comprehensive income** | **(9,997,315)** | **2,515,896** |
| 200. | **Comprehensive income (Items 10+190)** | **31,324,159** | **53,169,470** |
| 210. | Consolidated comprehensive income attributable to non-controlling interests | | |
| 220. | **Consolidated comprehensive income attributable to owners of the Parent** | **31,324,159** | **53,169,470** |

# Part E - Risks and Related Risk Management Policies

## *Introduction*

The Banking Group has 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, consistently with the characteristics, dimensions and complexity of the business activities carried out by the Group.

With this in mind, the Group formalized its risk management policies and periodically reviews them to ensure their effectiveness over time. It 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 Group is exposed, the measuring and stress testing methods, and the information flows that summarize the monitoring activities;
- the annual assessment process on the adequacy of internal capital;
- the activities for the assessment of the prospective capital adequacy, associated with the strategic planning process.

The corporate governance bodies of the Bank—as Banca Farmafactoring Banking Group's Parent Company—define the risk governance and management model at the Group level, taking into account the specific types of operations and the related risk profiles characterizing all the Group's entities, with the aim of creating an integrated and consistent risk management policy.
Within this framework, the Parent Company's corporate governance bodies perform the functions entrusted to them not only with regard to their specific business activities but also taking into account the Group's operations as a whole and the risks to which it is exposed and involving, as appropriate, the governance bodies of the subsidiaries in the decisions concerning risk management procedures and policies.

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

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

- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Group risks (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all risks identified;
- providing an assessment of the capital absorbed, also under stress conditions, and of 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.

The Risk Management Function reports to the Chief Executive Officer, the person responsible for the Banking Group's Internal Control system. It is independent of the Internal Audit Function, and subject to its control.

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

# Section 1 – Banking Group Risks

## 1.1 - Credit risk

### *Qualitative information*

### 1. General information

The main activity of the Banking Group is factoring, which is governed, in Italy, by the Italian Civil Code (Book IV, Chapter V, Articles 1260–1267) and Law no. 52 of February 21, 1991 and subsequent amendments, and which consists of a plurality of financial services that can be structured in various ways, mainly through the sale of trade receivables. The Group mainly offers non-recourse factoring services with debtors belonging to public administration agencies.
Moreover, for the purpose of diversifying its business and its geographical presence, the Banking Group comprises the companies of the BFF Polska Group, which provide financial services to companies operating in the healthcare sector and to public administration agencies in the countries in which they operate.
At this time, non-recourse factoring represents approximately 77% of all the exposures of the Group.

### 2. Credit risk management policies

#### *2.1 Organizational issues*

The assessment of a transaction, for the different products offered by the Banking Group, is conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial relationship underlying the credit quality and the customer's ability to repay.
The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on December 29, 2017, and by the "Credit Regulation" of subsidiaries. A further organizational measure tackling credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the aforementioned "Credit Regulation".

Credit risk is therefore monitored at various levels within the framework of the multiple operating processes.

### 2.2 Management, measurement and control systems

The management, measurement and control system relating to credit risk has been created to ensure control over the main types of risks belonging to the credit risk category.
For this purpose, it must be noted that the core business carried out by the Group consists, as mentioned above, in the purchase of receivables on a non-recourse basis[2] due from debtors belonging to public administration agencies.

Based on the above, in particular, credit risk is linked to the possibility that an unexpected change in the creditworthiness of a counterparty, to which the Company is exposed, generates a corresponding decrease in the value of the credit position. It can be broken down as follows:

- credit risk in the strict sense: the risk of default of counterparties to which the Group is exposed, which is fairly limited considering the nature of the Group's counterparties, the majority of which are not subject to bankruptcy proceedings or other procedures that could undermine their substantial solvency;
- dilution risk: the risk that the amounts owed by the assigned debtor are reduced due to allowances or offsets arising from returns and/or disputes concerning the quality of the product or service or any other issue;
- factorability risk: the risk related to the nature and characteristics of the commercial relationship subject to factoring/sale, affecting the ability of the receivable sold to self-liquidate (e.g. risk of direct payments from the debtor to the potentially insolvent assignor);
- risk of late payment: the risk of a delay in the collection times of the receivables sold compared to those expected by the Group.

In light of the risks detailed above, the Group has internal regulations that describe the phases that industry regulations identify as components of the credit process:

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

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.

The Group also marginally offers these two types of services: "receivables management only" and "recourse factoring".

In the "receivables management only" service, credit risk is considerably reduced because it is limited to the Group's exposure to 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

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[2] For the purposes of classifying factoring transactions as "non-recourse" or "recourse", regardless of the contractual form, transactions involving the full transfer of the risks and rewards associated with the assets involved, pursuant to IAS 39 and the new standard IFRS 9 (derecognition), are considered as "non-recourse" transactions.
On the other hand, transactions that do not involve the aforementioned transfer of risks and rewards are considered as "recourse" transactions.

management only" follows the normal procedures used in the credit process, although the credit line can be approved by a single-person body.

"Recourse factoring" is a marginal activity for the BFF Banking Group since this type of factoring is only included in the BFF Polska S.A. product portfolio.

With specific reference to BFF Polska, it should be noted that the company operates in Poland, and also in Slovakia and the Czech Republic through its subsidiaries.
BFF Polska S.A. mainly operates in three sectors:

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

Also with regards to the specific types of investment by BFF Polska S.A. and its subsidiaries, credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin and receivables portfolio value. As a general rule, the Banking Group's customers have a suitable credit standing and, if necessary, adequate guarantees are requested to mitigate the risk of financial losses arising from customers' non-performance.
Exposure to the customers' credit risk is constantly monitored. The credit quality of public sector entities is analyzed within the framework of the risk of delay in repaying liabilities.

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

- In particular, the BFF Banking Group applies the following weighting factors, envisaged by the CRR:
- 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 due from local entities located in a European Union member state, denominated and financed in the local currency, and for receivables due from the public administration of countries with Credit Quality Step 1.
- The non-recourse receivables due from the Spanish Healthcare System fall into this category because the counterparties of these exposures are represented by the "*Comunidad*" (the Regions);
- 50% for receivables due from the public administration (other than the above) of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector. For exposures with an original duration of three months or less a weight of 20% is applied;
- 100% for countries in Credit Quality Step 3-5 (Portugal and Italy). Greece is also included in this cluster from May 4, 2018 following DBRS's initial upgrade of the country to B, and subsequent upgrade to BH on June 29, 2018. Prior to the initial upgrade, Greek receivables had been weighted at 150%. For exposures with an original duration of three months or less a weight of 20% is applied;
- 50% or 100% for receivables due 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 weight of 20% is applied;

- 75% for receivables due from retail and small business counterparties;
- 100% for receivables due 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.

The Group adopted the Dominion Bond Rating Service (DBRS) as reference ECAI in order to assign the risk weights subject to ratings relating to the counterparties (e.g. Article 116 of the CRR concerning the exposures to public sector entities).
For this purpose, it should be noted that the unsolicited rating attributed to the Republic of Italy by DBRS on January 13, 2017 was "BBB high". Starting from such date, exposures to the Italian public sector entities, which include receivables due from the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%, compared to 50% adopted when such receivables fell within the Credit Quality Step 2 (assigned to exposures concerning Polish public sector entities). If the rating of the Republic of Italy was subject to a one-notch upgrade or if the Parent Company opted for an ECAI with a rating one notch higher, returning to a 50% weighting for public sector entities, this would result in an estimated 2.6% improvement of CET1 with reference to the Banking Group pursuant to the Consolidated Law on Banking (1.6% for the CET1 with reference to the CRR Group).

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

Based on the method described above, the capital requirement covering credit risk at June 30, 2018 is €132.4 million for the Banking Group.

Furthermore, the credit risk management process abides 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.

In particular:

- "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, each risk position must not be greater than 25% of the eligible capital.

Considering the fact that the Group's exposure consists almost entirely of receivables purchased on a non-recourse basis and due from individual public administration entities, portfolio risk is considered limited, since the derecognition of receivables entails the allocation of the exposure to a higher number of counterparties (i.e. the assigned debtors), which, in the case of certain exposures, receive preferential treatment in terms of weighting for large exposures.

Finally, the Bank files a monthly report with the Central Credit Register (in compliance with Bank of Italy's 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). For the purposes of improving the monitoring of credit performance, complying with this requirement also allows to have visibility of the financial position of the entities reported by the Bank.

## 2.3 Qualitative assessment of receivables

The Group performs an impairment test on the receivables portfolio, aimed at identifying any impairment of its assets, in line with the provisions of the applicable accounting standards (IAS 39) and the prudential criteria required by supervisory regulations and the internal policies adopted by the Group.

This assessment is based on the distinction between these two categories of exposures:

- *Receivables subject to generic adjustments (“collective assessment”);*
- *Receivables subject to specific adjustments.*

It should be noted that IFRS 9 came into force on January 1, 2018. This standard replaces the concept of incurred losses, envisaged by IAS 39, with that of expected losses.

The approach adopted by the Group is based on a prospective model that may require the recognition of expected losses over the lifetime of the receivable on the basis of supportable information that is available without undue cost or effort and includes historical, current and forward-looking data. In this context, an approach based on the use of credit risk parameters (Probability of Default, Loss Given Default, Exposure at Default) redefined based on a multi-period perspective has been adopted.

More specifically, according to IFRS 9, impairment of receivables is recognized in three stages, each with different methods for calculating the losses to be recorded.

As for stage 1, expected losses are measured over a 12-month period. As for stage 2 (including financial assets whose credit risk increased significantly since initial recognition), expected losses are measured over the full lifetime of the instrument (lifetime expected losses). Stage 3 includes all financial assets that show objective impairment at the reporting date (non-performing exposures).

### *Exposures subject to generic and specific adjustments*

The consolidated methodology for the purposes of IFRS 9 mainly applies to the Group's performing exposures, and, specifically to:

- financial assets measured at amortized cost (for the Banca Farmafactoring Group this is receivables due from customers, receivables due from banks, and HTC securities);
- financial assets measured at fair value through other comprehensive income (FVOCI—for the Group, securities classified as HTC&S);
- commitments and guarantees provided not measured at FVPL;
- lease receivables governed by IAS 17.

Impairment, based on the new expected loss model, prospectively considers credit losses over the life of the financial instrument and requires their immediate recognition, through the recognition of a loss allowance, rather than on the occurrence of a trigger event as required by the incurred loss model pursuant to IAS 39.

The new expected losses impairment model 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 includes exposures showing no significant increase in credit risk in the period between the initial recognition date and the reporting date. In this case, expected losses are measured over a period no longer than 12 months.

Stage 2 includes exposures showing 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 includes financial instruments whose credit risk deteriorated significantly, to the point that the exposure is considered impaired. For exposures classified in this stage too, expected loss is calculated over the lifetime of the asset but, unlike the positions recorded in Stage 2, impairment is measured on a case-by-case basis.

The asset allocation to Stage 1 rather than Stage 2 and the transfers between these Stages are not linked to absolute risk (in terms of probability of default), but rather to the (positive or negative) change in the risk occurring since initial recognition.

Therefore, the impairment model is characterized by:

- the allocation of the transactions in the portfolio to different buckets, based on an assessment of the increase in the level of exposure/counterparty risk;

- the use of multi-period risk parameters (e.g. lifetime PD, LGD and EAD) to quantify expected credit losses (ECL) for financial instruments subject to a significant increase in credit risk since initial recognition.

The Group carried out a review of the assets classified as non-performing according to current regulatory oversight provisions, classified in Stage 3, in order to identify any objective impairment of individual positions.

The Banking Group's impaired receivables consist of non-performing, unlikely to pay and past due exposures, whose overall amount, net of any individual impairment, amounted to €167.1 million, broken down as follows:

- non-performing loans to the tune of €29.6 million, of which €5.7 million relating to the BFF Polska Group;
- unlikely to pay exposures to the tune of €9.2 million, mainly relating to the BFF Polska Group;
- past due exposures to the tune of €128.3 million, of which €22.2 million relating to the BFF Polska Group and €0.7 million relating to BFF Finance Iberia.

As regards the impairment policies adopted, the BFF Polska Group and BFF Finance Iberia submit specific periodic reports to the Parent Company, so that the corresponding functions of the parent can report on the activities conducted in this area and check the correctness of the conclusions.

With reference to past due receivables, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures referred to in this section were carried out. This decision is supported by the fact that, in consideration of the Bank's core business, positions past due by over 90 days, identified according to objective criteria, do not necessarily represent a deterioration of the risk position with individual objective impairment elements. The results of such impairment are then individually associated with each counterparty with this risk position.

## *2.4 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 rewards were eliminated from the respective contracts.

## *2.5 Impaired financial assets*

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 impaired assets and forbearance measures.

These definitions were adopted by the Bank of Italy with the seventh Update to Circular no. 272 of January 20, 2015.

The BFF Banking Group's net "Impaired assets" amounted to a total of €167,093 thousand. They include:

- 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 June 30, 2018, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €29,554 thousand, of which €5,710 thousand purchased already impaired. Net non-performing loans concerning municipalities in financial distress amounted to €22,818 thousand, accounting for 77.2% of the total.

  Gross non-performing loans amounted to €39,570 thousand. Relevant impairment totaled €10,016 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 €12,347 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 €51,917 thousand and relevant adjustments totaled €22,363 thousand.
  With reference to the Bank, at June 30, 2018 total non-performing loans, net of any estimated impairment losses, amounted to €23,824 thousand, of which €22,818 thousand concerned Italian municipalities in financial distress.
  Specifically, the amount of €5,710 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.
- The remaining positions referring to the Bank were impaired based only on the time value, as they consist of exposures relating to local entities in financial distress, for which no provisions were recognized as the distressed condition is expected to be remedied, resulting in the collection of 100% of receivables. Gross non-performing loans relating to the BFF Polska Group amounted to €11,183 thousand; after estimated impairment losses of €5,453 thousand, the net amount totaled €5,730 thousand.

  The BFF Banking Group's unlikely to pay exposures mainly refer to the BFF Polska Group's positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that—absent such actions as the enforcement of guarantees—the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
  At June 30, 2018, gross exposures classified as unlikely to pay amounted to €12,615 thousand, of which €12,009 thousand attributable to the BFF Polska Group, €438 thousand to Banca Farmafactoring, and €167 thousand to BFF Finance Iberia. The total net amount was €9,210 thousand, relating mainly to the BFF Polska Group, since the gross exposures of Banca Farmafactoring and BFF Finance Iberia were almost entirely impaired.

  Net past due exposures of the BFF Banking Group totaled €128,328 thousand, of which €104,320 thousand, corresponding to 81.3%, attributable to public administration counterparties and public sector companies in the various countries where the banking Group operates. These consist of exposures which, at the end of the reporting period, were overdue by more than 90 days.
  More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Banca

Farmafactoring's overall amount of past due exposures at June 30, 2018 was equal to €105,402 thousand. Of this amount, €89,440 thousand (equal to 84.9%) concerned Italian public administration counterparties and Italian public sector companies. As far as the BFF Polska Group is concerned, net past due exposures amounted to €22,235 thousand. Of this amount, €14,196 thousand (equal to 63.9%) concerned public administration counterparties and public sector companies. The remaining past due exposures for a net amount of €691 thousand refer to BFF Finance Iberia, and almost entirely concerned public administration counterparties.

*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)*

| Portfolios/ Quality | Non-performing loans | Unlikely to pay exposures | Impaired past due exposures | Past due but not impaired exposures | Other not impaired exposures | **Total** |
|---|---|---|---|---|---|---|
| 1. Financial assets measured at amortized cost | 29,554 | 9,210 | 128,328 | 544,253 | 3,271,927 | **3,983,273** |
| 2. Financial assets measured at fair value through OCI | | | | | 158,997 | **158,997** |
| 3. Financial assets designated at fair value | | | | | | |
| 4. Other financial assets mandatorily measured at fair value | | | | | 37 | **37** |
| 5. Financial assets held for sale | | | | | | |
| **Total 06/30/2018** | **29,554** | **9,210** | **128,328** | **544,253** | **3,430,961** | **4,142,307** |
| **Total 12/31/2017** | **18,175** | **6,760** | **69,794** | **-** | **4,190,990** | **4,285,719** |

## A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

*(Amounts in € thousands)*

| Portfolios/ Quality | Impaired | | | | Not impaired | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Total adjustments | Net exposure | Total partial write-offs* | Gross exposure | Total adjustments | Net exposure | |
| 1. Financial assets measured at amortized cost | 181,120 | 14,028 | 167,093 | | 3,819,215 | 3,034 | 3,816,181 | **3,983,273** |
| 2. Financial assets measured at fair value through OCI | | | | | 158,997 | | 158,997 | **158,997** |
| 3. Financial assets designated at fair value | | | | | | | | |
| 4. Other financial assets mandatorily measured at fair value | | | | | | | 37 | **37** |
| 5. Financial assets held for sale | | | | | | | | |
| **Total 06/30/2018** | **181,120** | **14,028** | **167,093** | **-** | **3,978,212** | **3,034** | **3,975,215** | **4,142,307** |
| **Total 12/31/2018** | **106,003** | **11,273** | **94,730** | **-** | **4,195,675** | **5,232** | **4,190,989** | **4,285,719** |

# 1.2 Banking Group – Market risks

## 1.2.1 Interest rate risk and price risk – Trading portfolio

### *Qualitative information*

### 1. General information

At June 2018, financial assets held for trading include financial instruments held to hedge against interest rate risk, for which hedge accounting is not applied.
The financial instruments recorded in this category are exclusively derivative contracts executed by the BFF Polska Group, before acquisition by Banca Farmafactoring, 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 should be considered as risk hedging instruments.

## 1.2.2 Interest rate risk and price risk – Banking portfolio

### *Qualitative information*

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

For assessing interest rate risk, potentially linked to fluctuations in interest rates, the Group adopted the method used to determine internal capital set forth in Annex C of Bank of Italy's Circular no. 285/2013 (Part I, Title III, Chapter I) and provided for by recent guidelines issued by EBA[3]. 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 1st percentile (decrease) or the 99th percentile (increase) and ensuring that rates are not negative.

The sensitivity analysis of the interest rate requires the construction of a 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, while for variable-rate assets and liabilities, based on the interest rate renegotiation date.
- Weighting of net exposures within each period: assets and liabilities are offset, thus obtaining a net position. Each net position, for each period, is multiplied by the weighs, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period.
- Sum of weighted exposures of different periods: weighted exposures of different periods are summed to yield 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

[3] EBA/GL/2015/08: "Guidelines on the management of interest rate risk arising from non-trading activities"; EBA/CP/2017/19: "Consultation paper on the Draft Guidelines on the management of interest rate risk arising from non-trading book activities".

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 Top 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 Top 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.

### 1.2.3 Exchange rate risk

### *Qualitative information*

#### A. General information, operational processes and methods for measuring exchange rate risk

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

The Group's asset portfolio at June 30, 2018 is denominated as follows:

- Euro;
- Polish zloty;
- Czech koruna.

The Group thus manages and monitors the risk of fluctuations in such exchange rates. The Group has a specific internal regulation for the management of exchange risk referring to exposures arising from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency, and any other type of transaction in a currency other than the reference currency. Specifically, the Group uses specific hedging instruments in order to mitigate exchange rate risk.

With regard to the acquisition of the BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty is hedged by a loan contract secured with the Unicredit Group, so that the asset and liability positions offset each other and, consequently, there is an open position in currency that is practically nil (natural hedging).

The currency effect, recognized in the income statement, arising from the revaluation of the zloty loan payable, corresponds to a related effect with the opposite sign in consolidated equity (the so-called "Translation reserve"), which comes from the revaluation of the exchange rates applied to the equity of the BFF Polska Group.

Exchange rate risk is hedged by instruments that are linear and without optional components, such as forex swaps. These offer the Group an adequate hedge against 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.

## 1.3 Banking Group – Liquidity risk

### *Qualitative information*

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

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

As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the Group adopted a Group Risk Management Policy and a Group Treasury and Finance Regulation, aimed at maintaining a high degree of diversification in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.
To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

- separation of processes for the management of liquidity and processes for the control of liquidity risk;
- development of processes to manage and control liquidity risk, consistent with the hierarchical structure and through a process for the delegation of powers;
- sharing of decisions and clear responsibilities among management, control and operational bodies;
- making liquidity risk management and monitoring processes consistent with prudential supervisory requirements.

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

The LCR and NSFR of the BFF Banking Group at June 30, 2018 were equal to 251% and 111%, respectively, compared to 287% and 117% at December 31, 2017.

## 1.4 Banking Group – Operational risks

### *Qualitative information*

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

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.
With regard to the Banking Group, exposure to this category of risk is generated predominantly by failure in work processes, in organization, governance—human errors, computer software malfunctions, inadequate organization and control measures—as well as by any loss of human resources in key corporate management positions. Exposure to operational risks deriving from external sources appears to be of negligible importance, partly due to the mitigation tools adopted

to address such adverse events (such as, by way of example: the business continuity plan, data storage processes, back up tools, insurance policies, etc.).

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

The operational risk assessment model adopted is of the “mixed” type, meaning a model based both on qualitative assessments—linked to process mapping, at-risk activities and the corresponding controls adopted—and on quantitative assessment.
Within the framework of the measures adopted regarding the exposure to operational risk, the following specific risks are also monitored by the Group:

- Money laundering risk: the risk that the Bank’s financial and commercial counterparties, suppliers, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities.

- Compliance risk: the risk of legal and administrative penalties, significant financial losses or reputational damage due to failure to comply not only with laws and regulations but also with internal and conduct standards applicable to corporate activities. For this type of risk, a periodic update of the relevant assessment methodology is performed. Such methodology is developed for all activities falling within the Bank’s regulatory framework, in accordance with a risk-based approach. More specifically, as for the relevant provisions that do not envisage the establishment of specialized control measures (i.e. privacy and occupational health and safety), the Compliance Function provides consulting support to the Bank’s functions (ex ante) and assesses the adequacy of the organizational measures and control activities adopted (ex post). As for laws and regulations monitored by specialized functions, the Compliance Function carries out an indirect control by cooperating with the specialized functions in defining compliance risk assessment methods in addition to mapping risks and the corresponding control measures (Compliance Risk Control Matrix).

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

The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems, and mitigates the consequent operational risk that may arise through the preventive involvement of the Corporate Control Functions and the definition of specific policies and regulations on various subjects and topics.
In addition, in order to control the above mentioned risks, the Group adopts specific Organization Models for the management of the risks regarding money laundering, occupational health and safety, and information security.

# Part F - Consolidated Equity

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation used solely for prudential supervisory reporting includes the Group companies and envisages that BFF Luxembourg S.à r.l. is the parent.
For the purpose of preparing the other parts of the consolidated interim financial report and for the submission of “non-harmonized” reporting, the Banking Group will continue to act as the reference party pursuant to the Consolidated Law on Banking.
As for this Part F, therefore, Section 1 reports the data of the Banking Group pursuant to the Consolidated Law on Banking, while Section 2 refers to the scope of consolidation envisaged by the CRR for prudential supervisory purposes, unless otherwise indicated.

## *Section 1 – Consolidated Equity*

### *A. Qualitative information*

The equity of the Banking Group pursuant to the Consolidated Law on Banking includes the aggregated share capital, reserves, revaluation reserves and profit for the period of the companies in the Group.

### *B. Quantitative information*

### *B.1 Consolidated equity: breakdown by type of company*

*(Amounts in € thousands)*

| Equity items | Consolidated for prudential supervision | Insurance companies | Other companies | Consolidation derecognition and adjustments | Total |
|---|---|---|---|---|---|
| 1. Share capital | 130,983 | | | | **130,983** |
| 2. Share premium | | | | | |
| 3. Reserves | 142,809 | | | | **142,809** |
| 4. Equity instruments | | | | | |
| 5. (Treasury shares) | (267) | | | | **(267)** |
| 6. Revaluation reserves: | | | | | |
| - Equity securities designated at fair value through OCI | | | | | |
| - Hedging of equity securities designated at fair value through OCI | | | | | |
| - Financial assets (other than equity securities) measured at fair value through OCI | (5,384) | | | | **(5,384)** |
| - Property, plant and equipment | | | | | |
| - Intangible assets | | | | | |
| - Hedges of foreign investments | | | | | |
| - Cash flow hedges | 0 | | | | **0** |
| - Hedging instruments [not designated] | | | | | |
| - Exchange differences | (586) | | | | **(586)** |
| - Non-current assets and disposal groups held for sale | | | | | |
| - Financial liabilities designated at fair value through profit or loss (change in credit quality rating) | | | | | |
| - Actuarial gains/losses relating to defined benefit plans | (156) | | | | **(156)** |
| - Portion of revaluation reserves from equity investments measured using the equity method | | | | | |
| - Special revaluation laws | 4,135 | | | | **4,135** |
| 7. Profit (Loss) for the period (+/-) attributable to the group and non-controlling interests | 41,321 | | | | **41,321** |
| **Total** | **312,854** | | | | **312,854** |

## *Section 2 – Own funds and banking regulatory ratios*

### *2.1 Scope of application of the regulation*

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

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

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

### *2.2 Own funds*

### *A. Qualitative information*

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

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

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

- paid-in share capital;
- reserves (legal reserve, extraordinary reserve, retained earnings reserve, stock option reserve, and financial instruments reserve);
- undistributed portion of profit for the period, if any;
- revaluation reserves (IAS/IFRS 9 transition reserve, reserve for actuarial gains/losses relating to defined benefit plans, and revaluation reserve for HTC&S securities);
- any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets, including goodwill, if any, are deducted from the above.
January 1, 2018 (the date on which the IFRS 9 accounting standard was adopted) marked the end of the Bank of Italy's transitional period which allowed intermediaries to "not include unrealized profit or loss under any component of own funds, where that profit or loss was in relation to exposures to government agencies classified as available-for-sale financial assets under IAS 39 and as approved by the EU".
Therefore, as provided by the CRR, these revaluation reserves (referring to HTC&S securities) are to be included in the calculation of own funds from that date.

Additional Tier 1 (AT1) and Tier 2 (T2) capital include exclusively the non-controlling interests which can be recognized in consolidated own funds, in accordance with the CRR, Part 2, Title II "Minority interests and additional Tier 1 and Tier 2 instruments issued by subsidiaries".
In relation to the determination of non-controlling interests in additional Tier 1 and in Tier 2 capital, account is no longer taken of the transitional factor applicable pursuant to Article 480, paragraphs 2 and 3 of CRR, equal to 0.8 for 2017.

Own funds of the Banking Group pursuant to the Consolidated Law on Banking amounted to €344.5 million, compared to €352.2 million at December 31, 2017. This change was mainly affected by the inclusion of the revaluation reserve relating to HTC&S securities in the calculation of own funds from January 1, 2018. Following the reduction in fair value of government securities, this resulted in a negative impact of €5.4 million after tax, in addition to a €4.2 million decrease in the translation reserve due to exchange rate revaluations applied when consolidating BFF Polska net assets for the Group accounts. Such movements were offset by a €0.8 million reduction in deductions from own funds for intangible assets, and further movements in the reserves. It should be noted that current year's profit has not been included as part of own funds.

## B. Quantitative information

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

| ITEMS/AMOUNTS | Total 06/30/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Common Equity Tier 1 (CET1) capital before the application of prudential filters** | **271,533** | **280,003** |
| 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)** | 271,533 | 280,003 |
| **D. Items to be deducted from CET1** | **(25,278)** | **(26,034)** |
| **E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions** | | |
| **F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)** | **246,255** | **253,969** |
| **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 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions** | | |
| **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 (+/-)(+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions** | 98,224 | 98,224 |
| **P. Total Tier 2 (T2) capital (M - N +/- O)** | *98,224* | *98,224* |
| **Q. Total own funds (F + L + P)** | **344,479** | **352,193** |

Own funds of the CRR Group are presented below.

| ITEMS/AMOUNTS | Total 06/30/2018 | Total 12/31/2017 |
|---|---|---|
| **A. Common Equity Tier 1 (CET1) capital before the application of prudential filters** | 367,516 | **354,539** |
| 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)** | 367,516 | 354,539 |
| **D. Items to be deducted from CET1** | -130,258 | **-153,979** |
| **E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions** | | **10,765** |
| **F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)** | 237,258 | **211,325** |
| **G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects** | 19,544 | **16,051** |
| of which AT1 instruments subject to transitional provisions | | |
| **H. Items to be deducted from AT1** | | |
| **I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions** | | **-3,210** |
| **L. Total Additional Tier 1 (AT1) capital (G - H +/- I)** | 19,544 | **12,841** |
| **M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects** | 26,094 | **21,402** |
| of which T2 instruments subject to transitional provisions | | |
| **N. Items to be deducted from T2** | | |
| **O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions** | 44,979 | **59,219** |
| **P. Total Tier 2 (T2) capital (M - N +/- O)** | 71,073 | **80,620** |
| **Q. Total own funds (F + L + P)** | 327,874 | **304,786** |

In addition to that which has already been reported for the Group pursuant to the Consolidated Law on Banking, the change in the CRR Group's own funds was also affected by the sale of 17.25 million Banca Farmafactoring shares by BFF Luxembourg S.à r.l. This took place on February 21, 2018, and was equivalent to 10.1% of shareholdings. Subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 55.8% to 45.8%.
At CRR Group level, minority equity interests cannot be recognized in entirety under own funds, and should only be shown proportional to the risk borne.

## 2.3 Capital adequacy

### A. Qualitative information

Compliance with Group capital adequacy limits for the CET1 Capital Ratio, Tier 1 Capital Ratio, and Total Capital Ratio is constantly monitored by the relevant corporate bodies.

The CET1 Capital Ratio is the ratio of Common Equity Tier 1 capital to Risk-Weighted Assets.

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

The Total Capital Ratio is the ratio of Total Own Funds to Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular no. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).
The Group's total exposure to risks at June 30, 2018, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.
With regard to the Banking Group, the CET1 Capital Ratio is 12.3%, the Tier 1 Capital Ratio is 12.3% and the Total Capital Ratio is 17.2%.
With regard to the CRR Group, the CET1 Capital Ratio is 11.7%, the Tier 1 Capital Ratio is 12.7%, and the Total Capital Ratio is 16.2%.
Current year profits are not included in own funds, and as a result they are not taken into account for the above ratios.
It should be noted that the majority shareholder, BFF Luxembourg, has formalized its commitment to maintain a dividend payment policy such as to preserve, over time, a total capital ratio of not less than 15% both at the level of the BFF Banking Group and within the CRR Group framework.

*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 credit risk;
- "Standardized approach" for counterparty risk;
- "Basic approach" for operational risk;
- "Standardized approach" for market risk.

*Credit risk*

This risk is described in detail 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 includes, among

other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk excludes not strategic and reputational risks.
Operational risk, therefore, refers to various types of events that would not be significant unless analyzed together and quantified for the entire risk category.
The Group measures operational risk using the “Basic” approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statement items of the last three years, in accordance with Regulation (EU) no. 575/2013.
Continuing the developmental path of the Group’s Operational Risk Management framework that was launched in recent years, in 2018 the BFF Banking Group focused attention on strengthening the identification and forward-looking assessment components, along with introducing an internal statistical management model for quantifying exposure to operational risk. This was done for the purpose of verifying that the method used for regulatory purposes did value capital adequately against assumed and assumable risk. Actions carried out in regards to the scope of Banca Farmafactoring, BFF Finance Iberia, and the BFF Polska Group (and of its subsidiaries) focused on the methodological evolution of the Risk Self Assessment process, in order to use the output from this process to quantify the exposure to operational risk in economic and capital terms. The operational risk results obtained from the forward-looking assessment process have also been used for quantifying the adequacy of internal capital against operational risk for ICAAP purposes. This value, from a forward-looking perspective, was found to be below capital requirements, confirming that there are suitable levels of capital available to cover this type of risk.

*Market risk*

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

*Pillar II – The ICAAP Report*

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

The Banking Group annually submits the “ICAAP Report” to the Bank of Italy, thus updating the risk management system aimed at determining the adequacy of capital.
In accordance with prudential supervisory provisions, the Group has prepared a “Report on internal processes for determining adequacy of capital and liquidity risk governance and management systems”. This report was approved by the Banca Farmafactoring Board of Directors on June 28, 2018. It is specifically noted that the Bank of Italy opened consultation for a new update on prudential supervisory provisions on April 6, 2018 while also postponing the date for approving and sending the Report to June 30, 2018. The consultation ended on May 7, 2018, and a legislative update was issued by the Bank of Italy and specifically published to their website on June 19, 2018. The Group’s Report has therefore been prepared in compliance with the new requirements introduced by Circular no. 285. In particular, the new updates propose—inter alia—regulatory changes in regards to ”Prudential supervision” (Part I, Title III, Chapter 1) which are mainly linked to the introduction of (i) an internal process for determining the adequacy of the liquidity risk governance and management systems (“ILAAP” - Internal Liquidity Adequacy Assessment Process),

(ii) new content in the area of internal processes for determining capital adequacy ("ICAAP" - Internal Capital Adequacy Assessment Process) and (iii) different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy. These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) 468/2014, which includes the BFF Banking Group.

On April 24, 2018, on the basis of guidance received from the Bank of Italy, the BFF Banking Group approved an updated "Recovery plan" as compared to the version in place, and this was approved by the Board of Directors on May 31, 2017.

In relation to the "Supervisory Review and Evaluation Process" (SREP), on April 5, 2018 the Bank of Italy informed the Group that it decided not to adopt new capital decisions for 2018, and apply only the increase in the Capital Conservation Buffer (1.875% for 2018, as compared to the 1.250% which was forecast for 2017). Therefore, the Overall Capital Ratios with which the BFF Banking Group must comply are the CET1 Ratio of 7.175%, the Tier1 Ratio of 8.975%, and the Total Capital Ratio of 11.375%.

## B. Quantitative information

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

| CATEGORIES/AMOUNTS | Unweighted assets | | Weighted assets/Requirements | |
|---|---|---|---|---|
| | 06/30/2018 | 12/31/2017 | 06/30/2018 | 12/31/2017 |
| **A. RISK ASSETS** | | | | |
| **A.1 Credit and counterparty risk** | | | | |
| 1. Standardized approach | 4,294,718 | 4,453,457 | 1,655,121 | 1,667,828 |
| 2. Approach based on internal ratings | | | | |
| 2.1 Basic | | | | |
| 2.2 Advanced | | | | |
| 3. Securitizations | | | | |
| **B. REGULATORY CAPITAL REQUIREMENTS** | | | | |
| **B.1 Credit and counterparty risk** | | | 132,410 | 133,426 |
| **B.2 Credit valuation adjustment risk** | | | | 24 |
| **B.3 Settlement risk** | | | | |
| **B.4 Market risk** | | | | |
| 1. Standardized approach | | | | |
| 2. Internal models | | | | |
| 3. Concentration risk | | | | |
| **B.5 Operational risk** | | | | |
| 1. Basic approach | | | 27,983 | 27,983 |
| 2. Standardized approach | | | | |
| 3. Advanced approach | | | | |
| **B.6 Other calculation items** | | | | |
| **B.7 Total regulatory capital requirements** | | | **160,392** | **161,433** |
| **C. RISK ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Risk-weighted assets | | | 2,004,906 | 2,017,910 |
| **C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)** | | | **12.3%** | **12.6%** |
| **C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)** | | | **12.3%** | **12.6%** |
| **C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)** | | | **17.2%** | **17.5%** |

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

| CATEGORIES/AMOUNTS | Unweighted assets | | Weighted assets/Requirements | |
|---|---|---|---|---|
| | 06/30/2018 | 12/31/2017 | 06/30/2018 | 12/31/2017 |
| **A. RISK ASSETS** | | | | |
| **A.1 Credit and counterparty risk** | | | | |
| 1. Standardized approach | 4,387,169 | 4,521,157 | 1,673,615 | 1,681,377 |
| 2. Approach based on internal ratings | | | | |
| 2.1 Basic | | | | |
| 2.2 Advanced | | | | |
| 3. Securitizations | | | | |
| **B. REGULATORY CAPITAL REQUIREMENTS** | | | | |
| **B.1 Credit and counterparty risk** | | | 133,889 | 134,510 |
| **B.2 Credit valuation adjustment risk** | | | | 24 |
| **B.3 Settlement risk** | | | | |
| **B.4 Market risk** | | | | |
| 1. Standardized approach | | | | |
| 2. Internal models | | | | |
| 3. Concentration risk | | | | |
| **B.5 Operational risk** | | | | |
| 1. Basic approach | | | 27,983 | 27,983 |
| 2. Standardized approach | | | | |
| 3. Advanced approach | | | | |
| **B.6 Other calculation items** | | | | |
| **B.7 Total regulatory capital requirements** | | | **161,872** | **162,517** |
| **C. RISK ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Risk-weighted assets | | | 2,023,400 | 2,031,459 |
| **C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)** | | | **11.7%** | **10.4%** |
| **C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)** | | | **12.7%** | **11.0%** |
| **C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)** | | | **16.2%** | **15.0%** |

# Part G - Business Combinations

## *Section 1 – Transactions performed during the period*

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

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

## Part H - Related Party Transactions

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

The following table provides the income and balance sheet amounts arising from related party transactions performed by the Group at June 30, 2018, broken down by type of related party pursuant to IAS 24, and the percentage of 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 June 30, 2018 | 5 | | **5** | **12,496** | **0.0%** |
| ***Financial liabilities measured at amortized cost*** | | | | | |
| At June 30, 2018 | | (100) | **(100)** | **(3,791,271)** | **0.0%** |
| ***Provisions for risks and charges*** | | | | | |
| At June 30, 2018 | | (2,092) | **(2,092)** | **(4,226)** | **49.5%** |
| ***Other liabilities*** | | | | | |
| At June 30, 2018 | | (211) | **(211)** | **(68,926)** | **0.3%** |
| ***Reserves*** | | | | | |
| At June 30, 2018 | | (1,186) | **(1,186)** | **(142,809)** | **0.8%** |
| **Impact of transactions on the consolidated income statement** | | | | | |
| ***Interest and similar expenses*** | | | | | |
| At June 30, 2018 | | (1) | **(1)** | **(21,356)** | **0.0%** |
| ***Administrative expenses a) personnel costs*** | | | | | |
| At June 30, 2018 | | (3,112) | **(3,112)** | **(16,364)** | **19.0%** |
| ***Net allocations to provisions for risks and charges: b) other net allocations*** | | | | | |
| At June 30, 2018 | | 0 | **0** | **(513)** | **0.0%** |
| ***Other operating income (expenses)*** | | | | | |
| At June 30, 2018 | 5 | | **5** | **1,621** | **0.3%** |

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

At June 30, 2018, the awarded option rights relating to the aforementioned stock option plan accounted for 4.34% of fully diluted capital, equal to 7,727,522 options awarded.

In order to optimize the Group's funding activities, the Parent Company has entered into intercompany loan agreements with subsidiaries, regulated at arm's length.
More specifically, the balances of the intercompany positions at June 30, 2018 are as follows:

- BFF Finance Iberia (through Banca Farmafactoring Sucursal en España): €173 million;
- BFF Polska: PLN 370 million;
- BFF Central Europe: €100.35 million.

Banca Farmafactoring and BFF Finance Iberia have entered into a license agreement, which grants the latter the right to use, under license, the software, organizational methods and communication lines of Banca Farmafactoring (IT rights), as well as the assistance, maintenance and monitoring of such IT rights. The consideration is based on royalties, which at June 30, 2018 amounted to about €428 thousand.
During 2016, BFF Finance Iberia purchased Italian healthcare receivables from the Parent for about €82 million. At the end of the reporting period, these receivables were already collected for about €80.1 million (of which €67 million in 2016, €12.2 million in 2017 and €0.9 million in 2018), with an outstanding balance of about €1.9 million.
Banca Farmafactoring and the BFF Polska Group have entered into an intra-group service and cost-sharing agreement, which covers service provision and optimal cost sharing between the participating companies. The costs charged back to the BFF Polska Group at June 30, 2018 amounted to approximately €456 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 BFF Finance Iberia, for €6,400 per year;
- risk activities for the subsidiary BFF Finance Iberia, for €12,000 per year;
- administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year.

The Group has also entered into agreements with its shareholder companies in relation to factoring services and the management and collection of receivables at arm's length.
Lastly, it should be noted that the conditions of deposit accounts relating to Group directors and other related parties correspond to those recorded in the relevant prospectus at the time the deposit accounts were opened.

## Part I - Share-based Payments

### A. Qualitative information

#### 1. Description of the share-based payment agreements

**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, already submitted to the Supervisory Authority pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular no. 285 of 17 December 2013. 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 bodies, 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 bodies, and personnel of the Banking Group, and in accordance with the law.
The vesting conditions of the 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;
- 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.

At June 30, 2018, option rights to the stock option plan awarded were equal to 7,727,522 options awarded, accounting for 4.34% of fully diluted capital.

# Part L - Segment Reporting

At June 30, 2018, the BFF Banking Group is composed of Banca Farmafactoring S.p.A., the parent company, and the subsidiaries BFF Finance Iberia and BFF Polska Group.

Banca Farmafactoring and its subsidiary BFF Finance Iberia are engaged in the management and sale of receivables due from the National Healthcare System and the public administration in Italy and in Spain.
At June 30, 2018 Banca Farmafactoring also operates in Portugal, Greece and Croatia pursuant to the regulations on the freedom to provide services.
The two companies provide financial and management support to leading Italian and international companies operating in various sectors (primarily drugs and biomedical) through non-recourse factoring.
Customers are mainly multinational companies in the pharmaceutical and biomedical sectors which generate receivables from the provision of goods and services to the National Healthcare System or the public administration. Banca Farmafactoring is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table shows the composition, at June 30, 2018 and June 30, 2017, of managed turnover, receivables due from customers and receivables purchased, relating to Banca Farmafactoring and the subsidiary BFF Finance Iberia, broken down by debtor and geographical area. At June 30, 2018, receivables due from Banca Farmafactoring and BFF Finance Iberia customers amounted to €2,253 million, compared to €2,050 million at June 30, 2017, thus increasing by approximately 10%.

*(Amounts in € millions)*

| | 06/30/2018 | | | 06/30/2017 | | |
|---|---|---|---|---|---|---|
| | Managed turnover | *Outstanding* | Receivables purchased | Managed turnover | *Outstanding* | Receivables purchased |
| **Italy** | **2,988** | **1,969** | **1,392** | **2,646** | **1,864** | **1,209** |
| National Healthcare System | 2,406 | 784 | 861 | 2,160 | 771 | 832 |
| Public administration agencies | 524 | 1,149 | 504 | 425 | 970 | 350 |
| Other | 58 | 35 | 27 | 61 | 122 | 26 |
| **Spain** | **318** | **190** | **318** | **149** | **105** | **149** |
| National Healthcare System | 101 | 47 | 101 | 54 | 100 | 54 |
| Public administration agencies | 217 | 143 | 217 | 95 | 4 | 95 |
| Other | | | | | 1 | |
| **Portugal** | **65** | **87** | **65** | **71** | **82** | **71** |
| National Healthcare System | 65 | 87 | 65 | 71 | 82 | 71 |
| Public administration agencies | 0 | 0 | 0 | | 0 | |
| Other | | | | | | |
| **Greece** | **5** | **8** | **5** | | | |
| National Healthcare System | 4 | 7 | 4 | | | |
| Public administration agencies | 0 | 1 | 0 | | | |
| Other | | | | | | |
| **Total** | **3,376** | **2,253** | **1,780** | **2,866** | **2,050** | **1,429** |

The BFF Polska Group is an independent specialized operator, leader in the provision of financial services to companies operating in the healthcare sector in Poland.
In the European Union, the BFF Polska Group also has a significant presence in Slovakia and the Czech Republic.

The BFF Polska Group mainly operates in three areas:

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

At June 30, 2018, the BFF Polska Group's receivables due from customers amounted to €647 million (at the exchange rate of June 30, 2018), up by 28% compared to €506 million at June 30, 2017. The BFF Polska Group's new business at June 30, 2018 amounted to €279 million (based on the average exchange rate recorded in the first half of the year), up by 17% compared to €238 million at June 30, 2017.

The breakdown of receivables due from customers and the BFF Polska Group's new business volumes by geographical region is presented below:

*(Amounts in € millions)*

| | 06/30/2018 | | 6/30/2017 | |
|---|---|---|---|---|
| | Due from customers | *New Business* | Due from customers | *New Business* |
| Poland | 505 | 248 | 397 | 208 |
| Slovakia | 140 | 28 | 107 | 28 |
| Czech Republic | 2 | 3 | 3 | 2 |
| **Total** | **647** | **279** | **506** | **238** |

# STATUTORY FINANCIAL STATEMENTS OF BANCA FARMAFACTORING

## Separate Balance Sheet

(Amounts in euros)

| Assets | 06/30/2018 | 12/31/2017 (*) |
|---|---|---|
| **10.** Cash and cash equivalents | 38,614,135 | 80,928,000 |
| **30.** Financial assets measured at fair value through OCI | 159,160,707 | 101,449,267 |
| **40.** Financial assets measured at amortized cost | 3,483,148,430 | 3,724,524,786 |
| *a) due from banks* | *14,886,755* | *16,194,697* |
| *b) due from customers* | *3,468,261,675* | *3,708,330,089* |
| **50.** Hedging derivatives | 0 | 321,839 |
| **70.** Equity investments | 115,487,012 | 115,487,012 |
| **80.** Property, plant and equipment | 11,486,906 | 11,872,992 |
| **90.** Intangible assets | 2,724,158 | 3,439,560 |
| of which | | |
| *- goodwill* | *0* | *0* |
| **100.** Tax assets | 16,140,982 | 28,408,962 |
| *a) current* | *9,665,965* | *24,679,709* |
| *b) deferred* | *6,475,017* | *3,729,253* |
| **120.** Other assets | 10,725,977 | 7,678,847 |
| **TOTAL ASSETS** | **3,837,488,307** | **4,074,111,265** |

(*) Figures at December 31, 2017 were restated based on the financial statement format provided for by the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) in line with the new IFRS 9 requirements.

# Separate Balance Sheet

*(Amounts in euros)*

| Liabilities and Equity | 06/30/2018 | 12/31/2017 (*) |
|---|---|---|
| **10.** Financial liabilities measured at amortized cost | 3,420,321,747 | 3,611,483,088 |
| a) due to banks | *411,250,420* | *460,386,581* |
| a) due to customers | *2,362,171,650* | *2,499,059,328* |
| c) debt securities issued | *646,899,677* | *652,037,179* |
| **60.** Tax liabilities | 70,000,990 | 80,866,182 |
| *a) current* | *11,407,286* | *24,459,003* |
| *b) deferred* | *58,593,704* | *56,407,179* |
| **80.** Other liabilities | 63,805,752 | 42,889,583 |
| **90.** Employee severance benefits | 869,178 | 848,138 |
| **100.** Provisions for risks and charges | 4,390,617 | 5,146,149 |
| *a) commitments and guarantees provided* | *755,272* | *0* |
| *b) pension and other post-employment benefits* | *3,013,920* | *4,218,868* |
| *c) other provisions* | *621,425* | *927,281* |
| **110.** Revaluation reserves | (1,502,537) | 3,920,581 |
| **140.** Reserves | 115,907,065 | 118,497,150 |
| **160.** Share capital | 130,982,698 | 130,982,698 |
| **170.** Treasury shares | (267,207) | 0 |
| **180.** Profit (loss) for the period | 32,980,004 | 79,477,696 |
| **TOTAL LIABILITIES AND EQUITY** | **3,837,488,307** | **4,074,111,265** |

(*) Figures at December 31, 2017 were restated based on the financial statement format provided for by the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) in line with the new IFRS 9 requirements.

# Separate Income Statement

*(Amounts in euros)*

| Items | | 06/30/2018 | 06/30/2017 (*) |
|---|---|---|---|
| **10.** | Interest and similar income | 82,427,029 | 101,099,130 |
| | of which: interest income calculated using the effective interest rate method | 70,325,294 | 83,977,873 |
| **20.** | Interest and similar expenses | (15,407,534) | (15,759,114) |
| **30.** | **Net interest margin** | **67,019,495** | **85,340,016** |
| **40.** | Fee and commission income | 4,170,124 | 3,969,413 |
| **50.** | Fee and commission expenses | (764,962) | (460,727) |
| **60.** | **Net fees and commissions** | **3,405,162** | **3,508,686** |
| **80.** | Gains (losses) on trading | 4,051,013 | (3,767,267) |
| **90.** | Gains (losses) on hedge accounting | 110,652 | 26,955 |
| **100.** | Gains (losses) on disposal or repurchase of: | | |
| | *a)* financial assets measured at amortized cost | (459) | 0 |
| | *b)* financial assets measured at fair value through OCI | 359,795 | 20,340 |
| **120.** | **Net banking income** | **74,945,658** | **85,128,730** |
| **130.** | Net adjustments/reversals of impairment for credit risk concerning: | | |
| | a) financial assets measured at amortized cost | (1,288,302) | (689,688) |
| | b) financial assets measured at fair value through OCI | (9,093) | 0 |
| **150.** | **Net profit from financial activities** | **73,648,263** | **84,439,042** |
| **160.** | Administrative expenses: | | |
| | *a)* personnel costs | (12,901,644) | (12,536,888) |
| | *b)* other administrative expenses | (15,023,856) | (15,330,257) |
| **170.** | Net allocations to provisions for risks and charges: | | |
| | *a)* commitments and guarantees provided | (286,516) | 0 |
| | *b)* other net allocations | (479,427) | (403,383) |
| **180.** | Net adjustments to/reversals of impairment of property, plant and equipment | (542,586) | (579,587) |
| **190.** | Net adjustments to/reversals of impairment of intangible assets | (873,141) | (884,205) |
| **200.** | Other operating income (expenses) | 2,603,004 | 2,359,682 |
| **210.** | **Operating costs** | **(27,504,166)** | **(27,374,638)** |
| **260.** | **Profit (loss) before tax from continuing operations** | **46,144,097** | **57,064,404** |
| **270.** | Income taxes on profit (loss) from continuing operations | (13,164,093) | (16,671,349) |
| **280.** | **Profit (loss) after tax from continuing operations** | **32,980,004** | **40,393,055** |
| **300.** | **Profit (loss) for the period** | **32,980,004** | **40,393,055** |

(*) Figures at June 30, 2017 were restated based on the financial statement format provided for by the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) in line with the new IFRS 9 requirements.

## Statement of Comprehensive Income

*(Amounts in euros)*

| Items | | 06/30/2018 | 06/30/2017 |
|---|---|---|---|
| 10. | **Profit (loss) for the period** | **32,980,004** | **40,393,055** |
| | **Other comprehensive income, after tax, that will not be reclassified to profit or loss** | | |
| 20. | Equity securities designated at fair value through OCI | | |
| 30. | Financial liabilities designated at fair value through profit or loss (change in credit quality rating) | | |
| 40. | Hedging of equity securities designated at fair value through OCI | | |
| 50. | Property, plant and equipment | | |
| 60. | Intangible assets | | |
| 70. | Defined benefit plans | 8,440 | (9,982) |
| 80. | Non-current assets and disposal groups held for sale | | |
| 90. | 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** | | |
| 100. | Hedges of foreign investments | | |
| 110. | Exchange differences | | |
| 120. | Cash flow hedges | (194,156) | (123,539) |
| 130. | Hedging instruments (not designated) | | |
| 140. | Financial assets (other than equity securities) measured at fair value through OCI | (5,452,704) | (551,791) |
| 150. | Non-current assets and disposal groups held for sale | | |
| 160. | Portion of revaluation reserves from equity investments measured using the equity method | | |
| 170. | **Total other comprehensive income, after tax** | **(5,638,421)** | **(685,312)** |
| 180. | **Comprehensive income (Items 10+170)** | **27,341,583** | **39,707,743** |

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

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

1. The undersigned:

- Massimiliano Belingheri, in his capacity as CEO;
- Carlo Zanni, as Financial reporting officer of Banca Farmafactoring S.p.A., hereby certify, having taken into account the provisions of art. 154-bis, paragraphs 3 e 4, of legislative decree no. 58 of 24 february 1998:
  - the suitability as regards the characteristics of the company, and
  - the effective implementation of the administrative and accounting procedures for the drafting of the condensed consolidated half-year financial report, during the first half of 2018.

2. The suitability and effective application of the administrative and accounting process for the drafting of the consolidated condensed interim financial statements as of 30 June 2018 was verified based on internally defined method adopted by Banca Farmafactoring S.p.A., in accordance with the Internal Control - *Integrated Framework* model issued by *Committee of Sponsoring Organizations of Tradeway Commission (COSO)* of the reference standards for the internal audit system generally accepted on an international level.

3. Moreover, the undersigned hereby certify that:

   3.1 the consolidated condensed interim financial statements as of 30 June 2018
   a) were drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b) correspond to the results of the accounting books and records;
   c) are suitable for providing a true and fair view of the financial position of the issuer and all the companies included in the scope of consolidation.

   3.2 The half-year consolidated financial report includes a reliable analysis of the important events which occurred during the first half of the year and their impact on the consolidated condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim directors' report includes, moreover, a reliable analysis of the information concerning major transactions with related parties.

Milan, 07 august 2018

MASSIMILIANO BELINGHERI
Chief Executive Officer

CARLO ZANNI
Financial reporting officer

# INDEPENDENT AUDITORS' REPORT

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# Review report on consolidated condensed interim financial statements as of 30 June 2018

## Banca Farmafactoring SpA

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## *Review report on consolidated condensed interim financial statements as of 30 June 2018*

To the shareholders of
Banca Farmafactoring SpA

### *Foreword*

We have reviewed the accompanying consolidated condensed interim financial statements of Banca Farmafactoring SpA and its subsidiaries (BFF Banking Group) as of 30 June 2018, comprising the consolidated balance sheet, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows and related notes. The directors of Banca Farmafactoring SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with the International Accounting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

### *Scope of review*

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of the consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of the BFF Banking Group as of 30 June 2018 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 8 August 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*

*PricewaterhouseCoopers SpA*

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