BFF BANKING GROUP

2019 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 €131.222.266,56 (fully paid-in)
Milan Company Register No.,
Tax Code and VAT No. 07960110158

BFF BANKING GROUP

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CERTIFICATION BY THE FINANCIAL REPORTING OFFICER

INDEPENDENT AUDITORS’ REPORT

BOARD OF DIRECTORS

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Luigi Sbrozzi
Directors	Isabel Aguilera Michaela Aumann Federico Fornari Luswergh Ben Carlton Langworthy Carlo Paris 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

Chairperson	Paola Carrara
Acting Auditors	Marco Lori Patrizia Paleologo Oriundi
Alternate Auditors	Giancarlo De Marchi 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

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

REMUNERATION COMMITTEE

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

RELATED PARTY TRANSACTIONS COMMITTEE

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

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

CONTROL AND RISK COMMITTEE

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

BOARD OF DIRECTORS

ROLE OF BOARD OF DIRECTOR'S MEMBERS AND INDEPENDENCE REQUIREMENTS

NAME	OFFICE 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		✓	✓	✓

Report on Operations

Structure of the Group

The BFF Banking Group (hereinafter also referred to as "BFF 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, Croatia, Spain, Poland, the Czech Republic and Slovakia.
BFF Banking Group also offers deposit products to its retail and corporate customers in Italy, Spain and Germany.

With reference to Italian Legislative Decree 58/1998 (Consolidated Law on Finance) on provisions enabling the definition of "SME" issuers of listed shares and the regulations applicable to the issuers of financial instruments having wide public circulation, the Bank qualifies as "SME - Small Medium Enterprise" based on the size parameters (and the relevant thresholds) set by lawmakers.

Specifically, at June 30, 2019, Banca Farmafactoring S.p.A. (hereinafter referred to as "BFF") exceeds the "medium capitalization" threshold, set at €500 million, but remains below the €300 million threshold of the "turnover" parameter (i.e., the sum of (1) interest and similar income, (2) gains on securities, (3) commission income, (4) gains on financial transactions, and (5) other operating income).

At June 30, 2019, BFF Banking Group included the Parent BFF 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.	Madrid - C/ Luchana 23	1	BFF	100%	100%
2. BFF SPV S.r.l.	Milan – Via V. Betteloni 2	4	BFF	0%	0%
3. BFF Polska S.A.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	1	BFF	100%	100%
4. BFF Medfinance S.A.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
5. BFF Česká republika s.r.o.	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o.	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 Wspólnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

As far as points 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 Italian Legislative Decree 87/92
6 = centralized management as per Article 26, paragraph 2 of Italian Legislative Decree 87/92

(2) Voting rights at ordinary shareholders’ meetings, distinguishing between actual and potential voting rights or percentage of shares.

As mentioned before, BFF Banking Group is active in Europe through various companies. The Group is active in Italy, Portugal, Greece and Croatia through BFF; in Spain through BFF Finance Iberia and the BFF’s branch; in Poland, the Czech Republic and Slovakia through BFF Polska and its associated companies (the so-called “BFF Polska Group”). Furthermore, BFF Banking Group is also active in Germany, where it offer deposit-taking services based on regulations on the freedom to provide services.

BFF Polska, acquired by BFF in 2016, is a specialized operator, leader in the provision of financial services to companies operating in the healthcare sector in Poland, Slovakia and the Czech Republic.

The International Economic Scenario [1]

In line with the European Commission's forecasts, the economic activity in the EU slowed further in the second half of 2018 as growth in the global economy and trade weakened amid unresolved trade tensions, high uncertainty, and as a result of exceptional weakness in the manufacturing sector that extended into the start of 2019.
The slowdown was even more pronounced in the euro area as the region is not only highly dependent on external demand, but has also been hit by a number of sector-and country-specific factors, which include disruptions in the car manufacturing sector, social tensions, policy uncertainty, and in particular, uncertainty related to Brexit.

Overall, real GDP growth outside the EU is expected to continue, albeit slower. Growth is expected to decrease from 3.9% in 2018 to 3.6% in 2019.
In 2020, the global economy (excluding the EU) is forecast to return to a somewhat higher growth path, with annual real GDP growth of 3.8%. This uptick should come from a slight rebound in emerging markets, whereas economic growth in major advanced economies, including the US (+1.9%) and Japan (+0.6%), is expected to be moderate.

As far as the euro area (19 Member States) is concerned, based on 2018 results, projections for 2019 have been revised downwards. Specifically, from 1.9% in 2018, euro area real GDP growth is forecast to moderate to 1.2% this year and to pick up to 1.5% in 2020.

Inflation in the main advanced economies moderated, despite the trend in energy prices. In 2019 consumer price inflation is expected to decrease in the United States (from 2.4% in 2018 to 2.0%), in the United Kingdom (from 2.5% in 2018 to 2.0%), in Japan (from 1.0% in 2018 to 0.7%) and in general in the euro area (from 1.8% in 2018 to 1.4%).

There are several sources of uncertainty at a global level.
The negotiations taking place between the United States and China have not dispelled fears that there may be new protectionist measures. In combination with possibly sudden changes in expectations about the Federal Reserve's stance on monetary policy, these concerns will potentially weigh on international trade in the coming months.
Europe must also tackle the Brexit issue and decide how to handle future relations with the United Kingdom, particularly in light of Prime Minister Theresa May's resignation on June 7, 2019, when she left office in favor of newly elected Boris Johnson.

Monetary and financial conditions have eased in recent months.
The decline in yields within the euro area continued with the German 10-year sovereign bond yield even turning negative at the end of March 2019.
Corporate bond spreads have narrowed since January 2019 in line with the current risk aversion, resulting in somewhat lower financing costs for non-financial corporations compared to the autumn.

In the first half of 2019 the euro has weakened in nominal effective terms against most major currencies, as compared to the rates recorded for 2017 and 2018. After appreciating by 2.4% in 2017 and 4.8% in 2018 on average, the euro's nominal effective exchange rate is estimated to depreciate by around 1.5% in 2019 and 0.1% in 2020.

The growth of euro area exports almost halved in 2018, as both extra and intra-euro area trade flows slowed sharply, dragged down by lower demand from China and other trading partners, as well as by disruptions in the manufacturing sector. Leading indicators, such as new export orders, signal that euro area exports are likely to remain sluggish in 2019 before picking up in 2020, in line with demand in export markets. The contribution of net exports to euro area GDP growth is forecast to be negative this year and

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[1] Source: European Commission – European Economic Forecast, Spring 2019 (Institutional Paper 102, May 2019) – Overview.

neutral in 2020. The current account surplus of the euro area is set to decline from its historical high of 3.9% of GDP in 2017 to 3.2% in 2020, largely mirroring the fall in the trade surplus.

After having declined last year to its lowest level since 2000, the euro area's general government deficit is expected to rise from 0.5% of GDP in 2018 to 0.9% in 2019, and to remain unchanged in 2020, based on a "no-policy-change" assumption. The increase this year reflects slower, and below potential, economic growth as well as expansionary discretionary fiscal policies in some Member States. Debt to GDP ratios are forecast to continue falling in most Member States in 2019 and 2020. Based on a "no-policy-change" assumption, the euro area debt-to-GDP ratio is set to fall to 84.25% in 2020.

The Economy, National Debt Stock and Public Expenditure on Goods and Services in Italy in the first half of 2019

According to Bank of Italy's estimates of July 2019, Italian economic performance has slightly recovered in the first half of 2019, after a contraction in the second half of 2018.
In 2018 real GDP actually expanded by 0.9% as a whole (down from 1.7% in 2017) with modest increases in the first two quarters of 2018 being followed by mild contractions in GDP for the third and fourth quarters. GDP growth did return to being slightly positive in the first quarter of 2019 (with an increase of 0.1% over the prior period).

Nonetheless, based on the most recent information provided in Economic Bulletin 3/2019 (prepared using the Bank of Italy's forecasting models), Italian GDP probably either stagnated or decreased slightly in the second quarter of 2019.

According to the Bank of Italy's estimates, 2019 GDP is expected at 0.3% on a year-on-year basis, while the projections released by the European Commission and the International Monetary Fund indicate 0.1%.

There was a decline in economic activity in 2018, which intensified in the second half of the year. This was followed by a modest increase being recorded for the first three months of 2019, but by the end of spring economic activity in Italy was found to be stationary once again.

Weakness in the industrial cycle (which reflects persisting international trade tensions) has only partially been offset by favorable performance in the services sector and construction industry.

Thanks to higher production of capital and consumer goods, industrial activity grew by 0.9% in May, only partially offsetting the fall of the previous two months. Based on Bank of Italy's estimates, industrial production for the second quarter as a whole has decreased by 0.7%.

In the first quarter of 2019, investment in machinery, equipment and means of transport declined, reflecting a fall in spending on motor vehicles.
This slowdown in consumption may have been impacted by declines in household wealth, down by around 130 billion in the fourth quarter of 2018, as compared to the previous quarter.

Growth in business lending remains contained. Rising bond yields recorded in Italian financial markets over the last year are very gradually influencing credit conditions, thanks to abundant liquidity and the strong capital positions of intermediaries. However, qualitative surveys have shown signs of tightening, and this can be attributed to both a worsening macroeconomic scenario and an increase in borrowing costs. The amount of impaired exposures was lower and profitability has improved.

In the first quarter of 2019 loans to the private sector (excluding financial corporations) grew by 1.3%. This weak growth in loans can mainly be traced to loans to non-financial corporations, unlike the more robust trend for household borrowings (for both mortgages and customer credit facilities).

The increase in loans to businesses was close to nil in 2018. This sharp slowdown as compared to the end of last year was mainly attributable to the flow recognized in January 2018 (when the second TLTRO

allotment ended), with a more pronounced deterioration for smaller companies. Furthermore, in the most recent surveys conducted by the Italian national institute of statistics (ISTAT) and the Bank of Italy, businesses reported that conditions for accessing credit had tightened further in the second quarter of 2019, particularly for smaller businesses and businesses in the construction industry.

The amounts collected by Italian banks increased moderately between February and May 2019.
The increase in personal savings more than offset the decline in net wholesale funding consisting in repurchase agreements with clearing houses. Overall, the funding gap, the share of loans not financed by retail funding, was further reduced, reaching values close to zero. Yields on Italian bank bonds declined markedly in the secondary market, after rising in May along with renewed tensions over government bonds. However, Italian bank bonds were still about 10 basis points higher in early July than they had been in April 2018, while bank bonds for the rest of the euro area were 50 basis points lower.

The flow of new impaired exposures over total loans once again decreased slightly in the first quarter of 2019, net of seasonal factors and on an annual basis. At 1.3%, this rate was lower than the average level seen in the two years prior to the global financial crisis.
The ratio fell even more for total loans to businesses (by two tenths of a point to 1.9%), notwithstanding a slight increase in the construction and manufacturing sectors.

Since the beginning of the year the general Italian stock market index has increased by 19.3% (making up for the sharp decline recorded in autumn) as compared to an increase of 15.2% in the major companies index for the euro area. Share price performance was supported by a reduction in long-term interest rates for securities with higher credit ratings, and by the decrease in risk premium, in line with international financial markets.

Among the main innovations for the banking sector was the recently completed reform of the cooperative bank sector. Collectively more than 220 financial intermediaries were involved, with two groups being established and headed by ICCREA and Cassa Centrale Banca, respectively.
Following these transactions Cassa Centrale Banca became the twelfth group to be considered significant for regulatory purposes. Another 143 banks joined the ICCREA group, which had already been classified as significant prior to the reform.

The 2019 Economic and Financial Document (*Documento di Economia e Finanza*, DEF) approved on April 9 showed the government revising the net borrowing estimate for the current year from 2.0% to 2.4%, with the debt-to-GDP ratio continuing to increase in 2019, too. According to the draft plan, both deficit and debt should reduce over the next three years, partially thanks to the expected tax proceeds from what are known as ‘safeguard’ clauses. In the same document, the debt-to-GDP ratio has increased to 132.2%. This increase is 0.3 percentage points higher than the government forecast in December 2018, mainly due to nominal GDP growth being lower than official expectations. The increase in debt in 2018 (€52.9 billion) largely reflects public administration agencies’ needs along with increased Treasury liquidity, plus the overall impact of revaluing securities indexed to inflation, and discounts and premiums due to issuing and redeeming securities.

For upcoming years the Italian Government has indicated net indebtedness targets of 2.1% for 2020, 1.8% for 2021 and 1.5% for 2022. According to the draft plan, the debt ratio should reduce by more than a percentage point each year over the 2020-2022 period, coming to stand at 128.9% at the end of the forecast timeframe. This reduction reflects an increase in primary surpluses (moving from 1.5% in 2020 to 2.3% in 2022) along with nominal GDP results of around 2.5% on average over the three-year period.

According to the Bank of Italy, the national debt stood at €2,365 billion in May 2019, down by almost €9 billion as compared to the €2,373 billion of the previous month. For comparison, debt at December 31, 2018 was €2,322 billion.

National healthcare spending is expected to amount to €118 billion for 2019 (according to the Economic and Financial Document of April 9, 2019) with a growth rate of 2.3% over the previous year. In the three-year period 2020-2022, healthcare spending is expected to grow at an average annual rate of 1.4% with forecasts of €119.9 billion for 2020, €121.3 billion for 2021, and €123 billion for 2022.
In 2018, public sector requirements stood at €41,107 million (2.3% of GDP), decreasing by €9,605 million compared to 2017 figures (€50,711 million; 2.9% of GDP).
Compared to forecast requirements of €44,364 million for 2018 (as detailed in the Technical Explanatory Notes to the 2019-2021 Budget Law), the final result is €3,257 million better than expected due to more favorable results for actual payments, with actual receipts remaining in line with forecast. In terms of payments, final data showed payments at levels which were lower than expected for the current portion (-€4,241 million) and financial transactions (-€1,949 million). By contrast, payments were higher on capital account (+€3,172 million). In regards to receipts, the current portion came in below estimate (-€1,894 million) but was offset by higher than expected receipts on capital account (+€559 million) and financial transactions (+€1,574 million).
In order to monitor economic and financial balance, 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 Abruzzo, Apulia and Sicily, in addition to Lazio, Molise, Campania and Calabria, regions for which an administrator (*Commissario ad acta*) is also required for the continuation of the Repayment Plan.
Specifically, a particular provision applied to Molise, and an Extraordinary Operating Plan for the period 2015-2018 was defined.

Concerning the Lazio Region, with the Resolution dated December 1, 2017 the Italian Prime Minister's Office had tasked the administrator with bringing the temporary receivership to an end and allow normal operations to resume by December 31, 2018. However, according to the most recent update dated January 4, 2019, the Italian Health Ministry still lists Lazio among the Regions put under temporary receivership.

It should be noted that on December 7, 2017, the European Commission decided to refer Italy to the Court of Justice for breach, by Italian public administration agencies, of the provisions of Directive 2011/7/EU on combating late payment in commercial transactions, implemented in Italy through Legislative Decree 192/2012, which amended Legislative Decree 231/2002.

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

The monitoring of days payables outstanding for Italian public administration agencies has been improved also by enhancing the IT system through the Accounts Receivable Platform (*Piattaforma Crediti Commerciali*, PCC) of the Ministry of Economy and Finance.
This allows to automatically obtain payment data through an automatic system (the so-called SIOPE+), which transfers to the Platform all the information on the invoices paid by the public administration agencies.

Furthermore, SIOPE+ complements the information on receipts and payments with the data on invoices payable registered with the Accounts Receivable Platform, fueled by the Exchange System (SDI, *Sistema di interscambio*).

SIOPE+ asks all public administration agencies to:

a. order their treasurer or cashier to receive and make payments exclusively by using the electronic order forms issued in accordance with the relevant standard;
b. transmit the computer orders to the treasurer or cashier only and exclusively through the SIOPE infrastructure, managed by the Bank of Italy.

Following a testing period which began July 2017 and involved approximately 30 public entities, in 2018 the implementation of SIOPE was extended to all public administration agencies, according to the following timeline:

a. full operation from January 1, 2018 for all regional governments, autonomous provincial governments, metropolitan cities and provincial governments;
b. full operation from April 1, 2018 for municipalities of over 60,000 inhabitants;
c. full operation from July 1, 2018 for municipalities of 10,001 to 60,000 inhabitants;
d. full operation from October 1, 2018 for municipalities of up to 10,000 inhabitants;
e. full operation from October 1, 2018 for local healthcare entities and hospitals.

Said data on past-due amounts refer to 2018 and to the first quarter of 2019, and they shows the amount of cash receipts as a proportion of the invoices settled by public administration agencies during the period (and not the total invoices issued), without any reference to the age of unpaid and/or outstanding receivables.
Public administration agencies (including all regional governments, autonomous provincial governments, metropolitan cities and provincial governments) recorded around €13 billion in total invoices owed, and €10 billion in invoices paid. The resulting average payment period was around 37 days (excluding unsettled and/or disputed invoices). For municipalities of over 60,000 inhabitants, invoices owed were 11 billion and invoices paid were 9.7 billion (with an average payment period of 42 days).
For municipalities of over 10,000 inhabitants, payments of 4.42 billion have been made on the 5 billion of invoices owed, while maintaining the same average payment period of 42 days.
The National Healthcare System has not yet confirmed any final figures to date.

At April 8, 2019 the remaining accounts payable from 2018 was significant, with around 26 billion in unpaid invoices shared between public administration agencies, the National Healthcare System and the municipalities. The majority of these residual payables are held by municipalities, with nearly 9 billion in unpaid invoices (33% of total payables).
The National Healthcare System takes second place with around 8 billion outstanding (30%).

Finally, among the measures intended to speed up the payment of the commercial debts of Italian public administration, the 2019 Budget Law establishes that, if certain conditions are met, regional governments, autonomous provincial governments (including on behalf of the respective National Health Service entities), municipalities, metropolitan cities, and provincial governments may apply for cash advances from, among others, Cassa Depositi e Prestiti in order to settle debts that are certain, liquid, enforceable, and registered with the PCC, whose purpose is to certify and monitor all transactions on payables due from the public administration as a result of public contracts, procurement agreements, and professional services, pursuant to Italian law no. 64 of June 6, 2013.

Said law specifies that the above cash advances do not qualify as borrowing as per Article 3, paragraph 17 of Italian law no. 350 of December 24, 2003.
The total amount of cash advanced by Cassa Depositi e Prestiti on request from public entities amounts to around €2 billion—an amount which will not greatly impact the reduction of public administration’s debt overall. Nonetheless, given that the entities will need to return said amounts by the end of this year, a negative effect on the timing of payments to end creditors is expected.

It should also be noted that, 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 2018, 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 in May 2017, the Council of the European Union extended the deadline for the application of the split payment mechanism for VAT to June 30, 2020, and also extended the parties involved and the scope of application of the mechanism.

Nonetheless, the new Italian government has recently 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” (converted into Law, Official Gazette no. 186 of August 11, 2018), but for the moment, the only category where split payments will be eliminated is professionals working with the public administration.

Comments on the Economy, National Debt Stock and Public Expenditure on Goods and Services in the Countries in which BFF Banking Group Operates [2]

Poland

Since it joined the EU, Poland 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 EU.

Real GDP is expected to grow by 3.8% in 2019 compared to 2018 figures—one of the highest rates in Europe. In relation to 2020, the IMF expects growth to be slightly slower at 3.1%.
Private consumption is set to remain the key growth driver in 2019 and 2020, supported by robust research and development activities and an increase in wages.
Investment growth is projected to gradually moderate, due to slowing expansion of EU-funded projects, only partially offset by the strengthening of private investment.

The country is seeing a decline in interest rates on 10-year government bonds, which rose from an average of 3.277% in the first half of 2018 to an average of 2.783% in the first half of 2019 (Source: Refinitiv). The Polish Central Bank was in favor of this contraction as they have been supporting an expansionary monetary policy since 2014, in order to cope with weak prices (which signal a potentially deflationary situation) and revitalize the economy. The Central Bank has been encouraging private investments which are destined to partially offset the slowing but still positive pace of public investment funded by the EU.

Gross public administration agencies' debt is set to continue falling from over 50% of GDP in 2017 to around 47.5% of GDP in 2019, before rebounding slightly to 48.2% in 2020. This movement is supported by low nominal deficit and strong nominal GDP growth.

Public spending for 2018 as a whole amounted to €205 billion, of which €27.6 billion can be attributed to expenditure on public administration goods and services, and €9.5 billion can be attributed to social transfers in kind.
In regards to this topic, the OECD estimates that public spending may increase up to €225 billion in 2019, and to €237 billion in 2020.

Through the National Healthcare System (Narodowy Fundusz Zdrowia - NFZ), healthcare spending in 2018 was approximately €19.7 billion, registering an increase of 5.5% as compared to 2017. In 2018, the NFZ ran a €0.4 billion deficit, in line with the previous year.

The governing conservative party, Law and Justice (PiS), won the European elections in May 2019 with more than 43% of votes. The next parliamentary elections are planned for October.

2. Sources:
- International Monetary Fund, IMF – Dataset – World Economic Outlook (April 2019). Data at July 22, 2019.
- European Commission – European Economic Forecast, Spring 2019 (Institutional Paper 102, May 2019).
- Organization for Economic Co-operation and Development (OECD).
- DEF and MEF for Italy; Actualización del Programa de Estabilidad, Ministerio de Hacienda y Administraciones Públicas and Actualización del Programa de Estabilidad 2018-2021 for Spain; Direção-Geral do Orçamento and Instituto Nacional de Estatistica-Portugal for Portugal; Eurostat for Poland, Slovakia, the Czech Republic, and Croatia; Eurostat and Hellenic Statistical Authority for Greece.

Slovakia

Slovakia's real GDP expanded by 4.1% in 2018, mainly driven by domestic demand. Nonetheless, for 2019 and 2020 the economy is forecast to moderate to 3.7% in 2019 and 3.5% in 2020. Further improvements in the labor market are necessary to maintain private consumption as the key source of GDP growth over the forecast horizon, as was already the case in 2017 and 2018.

The government debt-to-GDP ratio is forecast to decline from 48.8% in 2018 to 46.9% in 2019, and to 45.1% in 2020, driven by relatively stable primary surpluses and swift nominal GDP growth.

Public spending for 2018 as a whole amounted to €36 billion, of which €4.9 billion can be attributed to expenditure on public administration goods and services, and €4.5 billion can be attributed to social transfers in kind.
For 2019, the OECD estimates that public spending may increase up to €38 billion in 2019, and €40 billion in 2020.

At the European elections in May 2019, the Progresivne Slovensko-Spolu coalition overtook not only the right-wing parties (which were unable to ally) but also the social democratic party Smer.

Czech Republic

In 2018, strong growth in investment allowed the Czech economy to expand by 2.9% over the previous year. Furthermore, household consumption also made a significant contribution, supported by very strong labor market conditions and rising real wages.
IMF estimates confirm that moderate real GDP growth is expected in 2019 and 2020, at 2.9% and 2.7%, respectively.

The country is seeing a slight decline of 0.25% in interest rates on 10-year government bonds, which fell from an average of 1.88% in the first half of 2018 to an average of 1.798% in the first half of 2018. It should be noted that since September 2018, the Central Bank has been pursuing a monetary policy intended to lower inflation and protect the value of the local currency.

The unemployment rate for the Czech Republic is the lowest in the EU. At the end of 2018, the registered unemployment rate was equal to 2.5% of the total labor force, with the IMF estimating that the rate may undergo a slight increase for the 2019 and 2020 years, reaching 3.1% and 3.2%, respectively.

The Czech Republic's gross national debt was 33% of GDP for 2018, and it is projected to decrease to 31.6% and 30.7% of GDP in 2019 and 2020, respectively.
After three years in positive territory, the country's structural balance is expected to turn slightly negative in both 2019 and 2020, with estimates reaching 0.2% and -0.2% of GDP, respectively.

Public spending for 2018 as a whole amounted to €83 billion, of which €12.7 billion can be attributed to expenditure on public administration goods and services, and €6.3 billion can be attributed to social transfers in kind.
For 2019, the OECD estimates that public spending may increase up to €88 billion in 2019, and €93 billion in 2020.

In May 2019, the party of Czech Prime Minister Andrej Babis (ANO 2011) won the European elections in the Czech Republic.

Spain

Despite some slow down over the course of the previous year, real GDP in Spain grew by 2.5% in 2018, above the euro area average of 1.8% for the fourth year in a row.
Overall, a moderate slow down is expected for real GDP growth, which is forecast at 2.1% in 2019 and 1.9% in 2020.

Employment growth has continued to exceed expectations, and job creation is expected to remain constant. The unemployment rate is set to continue falling slightly from 15.3% in 2018 to 14.1% in 2020. This will then allow the country to reach 14% of the workforce—the lowest rate since 2007 when the unemployment rate was 8.2%.

As for the Spanish gross national debt, it is expected that the debt-to-GDP ratio will gradually decrease to 94.9% in 2020, as compared to the 97% recorded in 2018 and the 96% expected for 2019. This change is expected to be mainly driven by nominal GDP growth.

Days Sales Outstanding (DSO) in the sector continued to shorten in 2018, through extraordinary regional funding mechanisms such as the FLA (*Fondo de Liquidez Autonómico*) and the FFF (*Fondo de Facilidad Financiera*). However, significant stability has been noted in the DSO for the National Healthcare System, which stands at around 86 days, as indicated in the FENIN report "Observatorio de Deuda de Fenin a cierre del ejercicio 2018". By contrast, the Federación Nacional de Asociaciones de Trabajadores Autónomos recorded delays in receiving government payments for the first quarter of 2019, averaging 39 days with reference to central and regional authorities, and 60 days for local public administration agencies.
In 2017, the same indicators were 71 days, 52 days and 91 days, respectively.

Public spending for 2018 as a whole amounted to €500 billion, of which €60.6 billion can be attributed to expenditure on public administration goods and services, and €30.9 billion can be attributed to social transfers in kind.
For 2019, the OECD estimates that public spending as a whole may increase up to €514 billion in 2019, and €532 billion in 2020.

At the parliamentary elections held on April 28, 2019, and again at the European elections in May 2019, the winner was the PSOE socialist party headed by current Prime Minister Pedro Sánchez. The party achieved 29% and more than 30% of votes, respectively. After months of negotiations, Spain is still without a government, inasmuch as no agreement has been reached with Pablo Iglesias, the leader of left-wing party Unidas Podemos (UP). Sánchez and Iglesias now have only two months left to reach an agreement. If they fail to reach it, Spain will go back to the polls on November 10.

Portugal

Real GDP growth in Portugal eased to 2.1% in 2018 from a peak of 2.8% in 2017. Further contractions are expected over the coming years, with growth projected to reach around 1.7% in 2019 and 1.5% in 2020. This slowdown has been driven by the negative impact of net exports. Nonetheless, domestic demand remained solid, particularly with reference to private consumption, while investment growth slowed after an exceptional performance in 2017. In 2019 and 2020, investment and private consumption are set to continue supporting growth, offsetting most of the negative impact from external trade.

After falling by 3.4 percentage points in 2018, the gross public debt-to-GDP ratio is forecast to further decline by around 1.9%, to 119.5% in 2019 and 117.3% in 2020, mainly due to primary budget surpluses and the favorable growth-interest rate differential.

In regards to the budget deficit, according to the European Commission's forecasts, it is likely to decrease to 0.4% of GDP in 2019 and to 0.1% of GDP in 2020, as compared to -0.5% in 2018.

Public spending for 2018 as a whole amounted to €88 billion, of which €10.9 billion can be attributed to expenditure on public administration goods and services, and €3.6 billion can be attributed to social transfers in kind.
The OECD estimates that public spending may increase up to €92 billion in 2019, and to €94 billion in 2020.

The European elections of May 2019 were won by the incumbent Socialist Party.

Greece

Greece's economic recovery continues: real GDP grew by 2.1% in 2018, driven mainly by the positive effect of exports. The IMF expects real GDP to strengthen further to 2.4% in 2019, and 2.2% in 2020.

Gross public debt peaked at 183.3% of GDP in 2018, and is expected to decline in the years 2019, and 2020, at a level of 174.2% and 167.3%, respectively.

The general government balance reached 1.1% of GDP in 2018, recording a surplus for the third year in a row with Greece projected to achieve its agreed fiscal targets in 2019 and 2020. The main drivers of the projected primary surpluses are the still large output gap, the growing benefits of past pension reforms, and the ceilings on healthcare spending, which help to keep expenditure dynamics in check. This development has led to an improvement in Greece's international credibility, with a corresponding reduction in government bond yields. In 2019, Greece is forecast to run a total surplus of 0.5% of GDP.

Public spending for 2018 as a whole amounted to €90 billion, of which €8.1 billion can be attributed to expenditure on public administration goods and services, and €3.9 billion can be attributed to social transfers in kind.
The OECD estimates that public spending in 2019 and 2020 as a whole will be stable, at around €91-92 billion.

And finally, it should be noted that Prime Minister Alexis Tsipras decided to call for new parliamentary elections in Greece following the defeat of his Syriza party at the European elections in May 2019. These elections took place on July 7, and they were won by the right-wing party headed by current Prime Minister Kyriakos Mitsotakis, Nea Demokratia, with 39.78% of votes.

Croatia

In Croatia, real GDP growth almost came close to a halt in the fourth quarter of 2018, yielding a lower-than-expected real GDP growth of 2.7% for the year as a whole. The slowdown owed to the negative contribution of exports, while growth of imports accelerated.
For the 2019 and 2020 years, the European Commission and the IMF estimate that real GDP growth will be 2.6% and 2.5%, respectively.

In relation to the expected surplus and GDP growth, Croatia's debt-to-GDP ratio is expected to decrease from 73.9% in 2018 to 70.7% in 2019, and then to 67.8% in 2020. Croatia reached an overall surplus of 0.2% of GDP in 2018, with a fall of around 0.6% when compared to the previous year. As regards 2019 and 2020, the European Commission forecasts are estimating a target value of 0.1% and 0.5% of GDP, respectively.

Public spending for 2018 as a whole amounted to €52 billion, of which €4.2 billion can be attributed to expenditure on public administration goods and services, and €1.1 billion can be attributed to social transfers in kind.
The OECD estimates that public spending as a whole may increase up to €53 billion for 2019, and to €55 billion in 2020.

It should be recalled that the European Commission has opened infringement procedures against Italy, Portugal, Greece and Slovakia for failure to implement or improper application of Directive 2011/7/EU on combating late payment in commercial transactions.

The Factoring Market in Italy

BFF Banking Group is the leader in Italy in the factoring sector and specializes in the management and non-recourse sale of trade receivables due from the National Healthcare System and the public administration.

Factoring, in Italy, has boosted the financial support provided to the real 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.

Based on the final figures provided by the Italian factoring association Assifact, 2018 finished up being a year of sustained growth for the factoring industry. Turnover increased by 8.32% over the previous year and therefore stands at €230.03 billion. Outstanding receivables increased by 8.57% (€67.68 billion).

Against this backdrop, BFF's market share in the industry, in terms of outstanding receivables, was 28.2% at March 2019, with reference to the public administration segment.
Within the public administration subsegments, BFF’s market share accounted for 34.6% in terms of outstanding receivables due from local public administration agencies, and 38.6% with reference to the National Healthcare System.

Final figures available in May 2019 still confirm a positive growth trend for the factoring market as a whole, based on a sample of 30 companies. The data shows an increase in turnover of 15.76% as compared to the same period in the prior year (equal to €94.5 billion, with €48 billion referring to non-recourse transactions). Outstanding receivables increased by 4.47% to €54 billion (with €23 billion referring to non-recourse transactions).

Finally, after analyzing also the initial preliminary figures provided at a summary level for June 2019, the positive trend relating to cumulative turnover has been confirmed with an increase of 11.38% compared to the same month in the prior year, and reaching €122 billion.
The corresponding outstanding receivables increased by 2% compared to the same month in the prior year, for an amount of around €62 billion (of which €27 billion referring to non-recourse transactions).

Receivables due from public administration agencies amounted to €10.7 billion at March 2019, representing more than 20% of total receivables transferred in relation to all the various types of factoring services. 37% of these receivables were past due and 23% were more than a year past due.

At March 31, 2019, according to Assifact figures, impaired exposures for factoring (before value adjustments) accounted for 5.56% of total gross exposures, of which 2.54% are non-performing loans.

Results of Operations

The consolidated interim financial report at June 30, 2019 includes the consolidated figures from the balance sheet and income statement of BFF, BFF Finance Iberia (a wholly-owned subsidiary of BFF), the special purpose vehicle BFF SPV S.r.l., and the companies of BFF Polska Group.

At June 30, 2019, the Group’s profit amounted to €38.1 million, compared to €41.3 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 €41.2 million, up 3% compared to the normalized profit in the prior-year period.

Compared to the previous year, profit at June 30, 2019 did not benefit from the fiscal aid arising from ACE (*Aiuto alla Crescita Economica*, Aid to Economic Growth), which was applicable up to 2018.

In € millions

	06/30/2018	06/30/2019
Profit for the period	**41.3**	**38.1**
Stock options & Stock grants	0.9	1.3
Exchange differences covered by Translation reserve in Equity	(2.8)	0.8
2016 Resolution fund – non-recurring contribution	0.5	0.5
Ios Finance acquisition costs		0.6
Normalized profit for the period	**39.9**	**41.2**

Compared to the consolidated profit, the normalized profit for the first half of 2019 does not include:

- €1.3 million expenses for the Stock Option Plan reserved to some beneficiaries and for the Stock Grant Plan involving all the Group employees and granted in the first half of 2019. Such costs are recognized in the income statement and generate an increase, before taxes, in equity;
- €0.8 million expenses for Exchange differences covered by Translation reserve in Equity;
- charges related to extraordinary contributions to the National Resolution Fund for 2017 (as per the Bank of Italy's request of June 07, 2019) amounting to €0.5 million after tax, and paid in June 2019;
- €0.6 million non-recurring costs borne to acquire Ios Finance.

Normalized profit for the first half of 2019 amounted to €41.2 million, up 3% compared to €39.9 million at June 30, 2018.

Collections of late payment interest amounted to €23.3 million at June 30, 2019, compared to the prior-year period's €37.5 million.
Of these €23.3 million, €19.4 million were collected in Italy, €3.8 million in Spain and €0.1 in Portugal.
The difference between gains and reschedulings recognized in the first half of 2019 by BFF Banking Group was negative and amounted to €(0.7) million, due to lower late payment interest. In the prior-year period, such difference was positive and amounted to €6.8 million.

Late payment interest on receivables purchased without recourse by BFF and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €616 million, of which €44 million related to Spanish debtors, €41 million to Portuguese debtors, €2 million to Greek debtors, and €0.4 million to Croatian debtors.
Of this late payment interest, a total of €225 million was recorded in the income statement in current and prior years.
The cumulative amount of late payment interest due to BFF and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €551 million at June 30, 2018, of which €193 million were recognized in the income statement of the reporting period and in previous years.

The provision for late payment interest increased by 12% in the first half of 2019 compared to the prior-year period. Of this provision at June 30, 2019, late payment interest not yet recognized in the income statement amounts to €391 million.

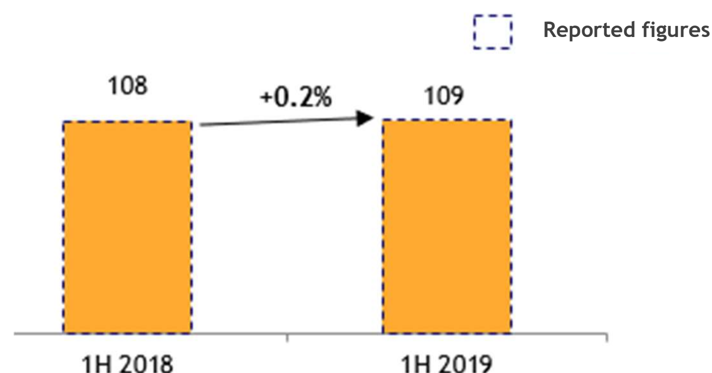
Interest income

Interest income totaled €108.6 million, compared to €108.3 million in 2018.

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 Group.

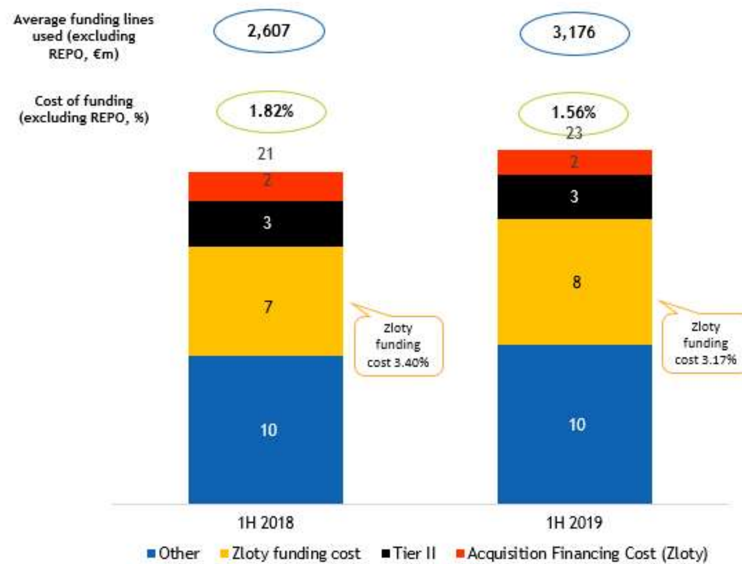
The following chart shows the changes in interest income in relation to the last two years.



Interest expense

Interest expense increased from €21.4 million at June 30, 2018 to €22.7 million at June 30, 2019. In absolute terms, this increase was mainly due to higher outstanding loans due to growth in the total loan portfolio in zloty—a currency which has a higher base rate than the euro—along with borrowing costs in zloty, which rose to €8 million in the first half of 2019, as compared to €7 million for the previous six months. This includes financing in zloty for acquiring BFF Polska group.

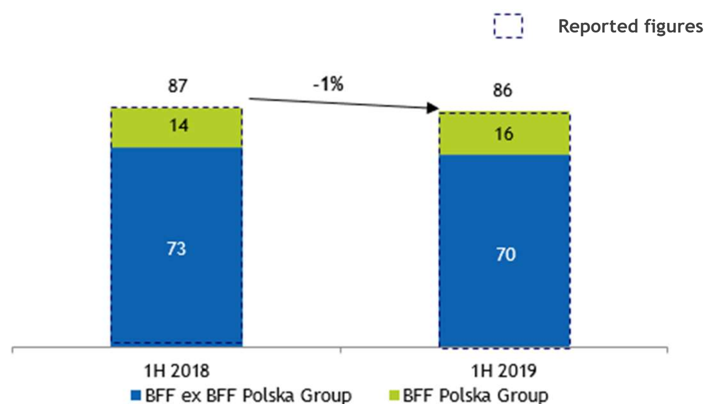
At June 30, 2019, the average credit lines used increased by 18% from €2,607 million at June 30, 2018 to €3,176 million at June 30, 2019. At June 30, 2019, financial charges had an impact of 1.6% on the average credit lines in use for BFF Banking Group (net of refinancing operations for the government securities portfolio), as compared to 1.8% for June 30, 2018. The average base interest rate spread at June 30, 2019 was around 1.6%, in a reduction of ≈30 bps as compared to June 30, 2018 (equal to 1.9%).



Under the current funding structure, some of the more expensive lines, such as the Tier 2 bond issue, the loans denominated in zloty for the acquisition of BFF Polska Group, and the senior notes issued by the Group, refer to instruments with a fixed cost and/or set margin conditions that decline relative to borrowing costs as business volumes grow. In addition, the cost of zloty-denominated funding does not yet reflect the benefits of local deposit accounts funding: this is scheduled to start in the third quarter of 2019 after the opening of the Polish branch, which will be dedicated to raising funding through deposit accounts. The group is not exposed to significant risks associated with the refinancing of its bonds: these carry maturities from 2020 onwards, except for €2.3 million worth of bonds issued by BFF Polska before its acquisition by the Group with maturity in the second half of 2019.

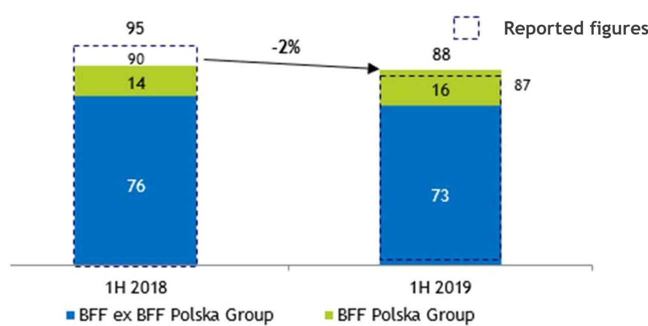
Net Interest Margin

The net interest margin totaled €85.9 million at June 30, 2019, compared to €87.0 million in the first half of 2018, thus decreasing by 1%.
The normalized net interest margin at June 30, 2019 is equal to the net interest margin, decreasing by 1% compared to the normalized net interest margin recognized at June 30, 2018 of €87.0 million (equal to the net interest margin).



Net Banking Income

Net banking income—which, compared to the net 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 €87.3 million at June 30, 2019 compared to €94.5 million at June 30, 2018. Normalized net banking income, as presented in the chart below, decreased by 2% from €90.5 million recognized at June 30, 2018 to €88.4 million recognized at June 30, 2019.
The latter figure does not consider the negative exchange effect arising from the write-down of the loan payable in Polish zloty for the acquisition of BFF Polska Group, amounting to €1.1 million.



Please also note that BFF recognized an amount of €1.2 million under the item "Other operating income (expenses)" in relation to the collection of invoices for reimbursement of costs incurred when recovering amounts not promptly paid by debtors.

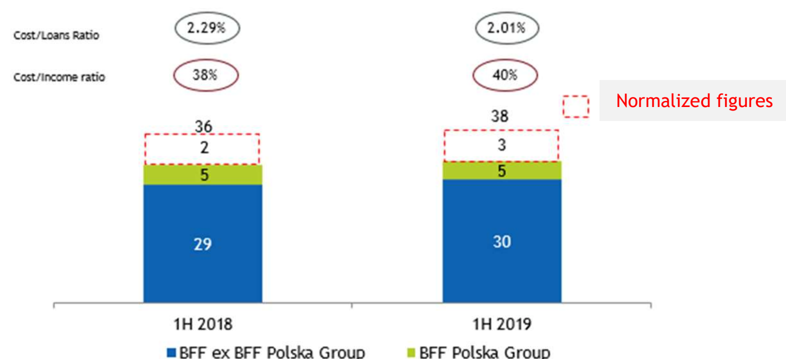
Operating Costs

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, 2019, they slightly increased by 3% to €35 million compared to €34 million in the prior-year period.

Normalized costs do not take into account €1.7 million expenses for the Stock Option Plan reserved to some beneficiaries and for the Stock Grant Plan involving all the Group employees and granted in the first half of 2019, as well as the charges related to extraordinary contributions to the National Resolution Fund for 2017 (as per the Bank of Italy's request in June 2019) amounting to €0.6 million, and the €0.9 million costs to acquire Ios Finance.

The following chart shows normalized operating costs and the main ratios indicating the Bank's operating efficiency. The latter include the "Costs/Loans" ratio, which decreased from 2.29% to 2.01%. The "Cost/Income" ratio, on the other hand, increased from 38% to 40%.



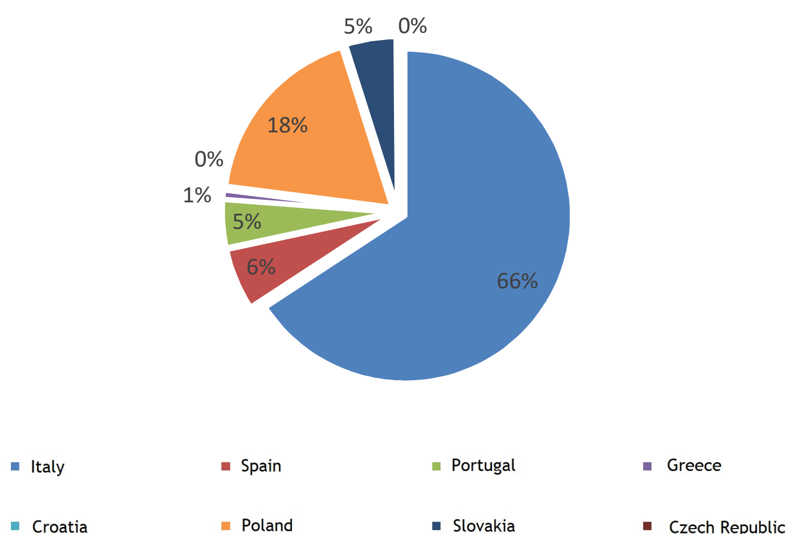
Due from customers

The following is a summary of receivables due from BFF Banking Group's customers, which amount to €3,454 million at June 30, 2019, an increase of 15% compared to €3,000 million at June 30, 2018, broken down by product line.
The above-mentioned figures do not include the "Held to Collect" portfolio, which was included in receivables due from customers starting from January 1, 2018.

(In € millions)

	06/30/2018	06/30/2019
Factoring	2,415	2,735
Loans to customers	515	646
Other receivables	65	68
Finance leases	5	4
Due from customers	**3,000**	**3,454**

The following chart gives a geographic breakdown of receivables due from customers. The Bank's main market is Italy, which accounts for 66% of the stock of receivables. The Bank's international footprint is also growing steadily: banking operations at the European level (excluding Italy) account for 34% of total assets under administration (up 32% from 2018).



Please also note that BFF Banking Group acquired its first pilot non-recourse credit portfolio in the month of August 2019. This portfolio consists of trade receivables due from the French healthcare system.
With this transaction, the Group expands its non-recourse factoring services to the French market, where it operates under the freedom to provide services scheme. This arrangement supports local and multinational companies that deal with the public sector.
In line with the Group's international expansion strategy, France became the Group's ninth market, joining Italy, Croatia, Greece, Poland, Portugal, Czech Republic, Slovakia and Spain.

Credit quality

In 2019, 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, 2018.

(In € millions)

	06/30/2018	12/31/2018	06/30/2019
Net non-performing loans (NPLs)	**29.6**	**40.3**	**45.2**
Of which non-performing loans purchased performing	23.8	32.4	39.4
Of which non-performing loans purchased already impaired	5.7	7.9	5.8
Unlikely to pay exposures	**9.2**	**6.8**	**10.3**
Past due exposures	**128.3**	**72.6**	**38.7**
Total	**167.1**	**119.7**	**94.2**
Total NPL/RECEIVABLES	**1.00%**	**1.10%**	**1.30%**
Total NPE/RECEIVABLES	**5.57%**	**3.30%**	**2.73%**

A remarkable improvement in credit quality was achieved in the first half year. The total net amount of impaired receivables decreased to €94.2 million at June 30, 2019, compared to €119.7 million at December 31, 2018 and €167.1 million at June 30, 2018.

Of such impaired receivables, at June 30, 2019, €70.7 million were due from public sector entities, down from €80.1 million at December 31, 2018.

At June 30, 2019 non-performing loans amounted to €45.2 million. This is an increase when compared to previous periods due to higher numbers of exposures from municipalities in financial distress, which amounted to €40.1 million at June 30, 2019. Excluding these exposures, the value of non-performing loans was found to be about €5.1 million which is an improvement as compared to the same figure at December 31, 2018 (of €6.9 million).

Municipalities in financial distress are classified as non-performing loans, in compliance with the Supervisory Authority's regulations, although BFF Banking Group is entitled to receive 100% of principal and late payment interest at the end of the insolvency procedure.

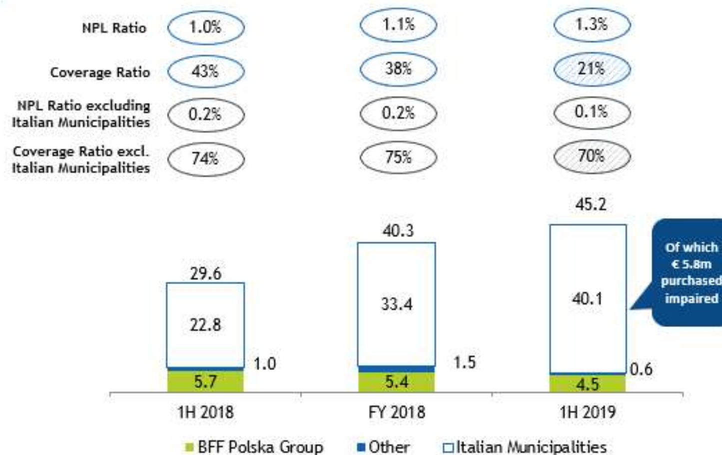
In particular, €0.3 million is due from Ospedale San Raffaele, which the Bank expects to recover in full.

At June 30, 2019, the NPL ratio was found to be 1.3% of total receivables due from customers. However if the same figure is considered net of municipalities in financial distress, then the NPL ratio at June 30, 2019 would be 0.1%, which is substantially in line with that of December 31, 2018.

Net past due exposures amounted to €38.7 million at June 30, 2019, showing a significant improvement as compared to the figure at December 31, 2018 (of €72.6 million). This improvement was a result of more timely monitoring of past due exposures.
79% of this amount relates to public administration agencies (local entities for the most part) and other public sector companies.

Adjustments to impaired assets in the year (risk cost) account for 3 annualized bps, of which 2 bps concern the run-off "SME-Factoring for business" product (net residual exposure of €3 million).
The NPL coverage ratio was 21% at June 30, 2019 and 38% at December 31, 2018. However the coverage ratio net of municipalities in financial distress would be 70% at June 30, 2019, showing a decrease as compared to December 31, 2018 when it was 75%.

Owned securities, classified in the HTC&S (Held to Collect and Sell) and HTC (Held To Collect) portfolios, exclusively included Italian government securities and amounted to a total of €1,094 million, decreasing by €15 million (-1%) compared to €1,109 million at December 31, 2018 and by €29 million compared to €1,123 million at June 30, 2018.



At June 30, 2019, the fair value of HTC&S securities, equal to €162 million, generated negative reserves for HTC&S government securities of €3.1 million after tax. The average remaining contract duration, in days, of government securities recorded in the HTC&S and HTC portfolios, at June 30, 2019, was 38.5 and 25.8 months, respectively.

Funding

During the reporting period, the Bank has continued to work for the expansion, diversification and optimization of the deposit-taking structure. BFF Banking Group offers an online deposit account on the Italian market (Conto Facto), aimed at retail and corporate customers and guaranteed by the FITD.
Furthermore, BFF's Spanish branch offers a similar online deposit account on the Spanish market (Cuenta Facto), also aimed at retail and corporate customers and guaranteed by the FITD.
Moreover, in Germany BFF's Spanish branch offers, in compliance with regulations on the freedom to provide services, deposit-taking services aimed exclusively at retail customers, using the Weltsparen online platform.

It should also be noted that during the first week of July 2019, the Polish Authority KNF authorized the opening of a new branch in Poland, which will allow further business diversification and reduction in the cost of zloty-denominated funding.
Besides the Polish branch, a request for authorization to provide services in Ireland and the Netherlands was also recently submitted based on the regulations on the freedom to provide services (as in Germany). BFF Banking Group expects to be authorized to operate in such new markets in the third quarter of 2019.
At June 30, 2019, the deposit-taking activity relating to Conto Facto and Cuenta Facto, together with the deposits of the German platform, totaled a face value of €879 million, compared to €924 million at December 31, 2018, thus showing a decrease. This accounts for 25% of the Group's corporate funding sources.

At June 30, 2019, the total amount of available funding (net of Acquisition Financing) was €3,511 million, increasing by €396 million compared to the amount available at June 30, 2018 of €3,115 million (net of Acquisition Financing for PLN 378 million). As already pointed out, this amount consists of deposit-taking activity for €879 million, bond issues for €652 million (including the €100 million Tier 2 bond issue), financial resources from the wholesale funding of BFF Banking Group and its subsidiaries, equal to €1,829 million, and securitizations for €150 million.

Overall use was equal to €3,075 million at June 30, 2019, net of exposures arising from repurchase agreements for refinancing operations involving BFF's government security portfolio and Acquisition Financing.

At June 30, 2019 credit lines with local banks in favor of Group subsidiaries in Poland, Czech Republic and Slovakia, in euro, Polish zloty and Czech koruna, net of multi-borrower lines, amount to an equivalent value of €347 million. Furthermore, as far as local zloty-denominated funding is concerned, another portion of outstanding bonds to the tune of €9.1 million was repaid at due date. Therefore, at June 30, 2019, the bonds issued by the subsidiary BFF Polska currently outstanding are denominated in Polish zloty (equal to €2.3 million), and they are expected to be fully repaid in September 2019.

Equity and Own Funds

BFF Banking Group's equity amounted to €315 million at June 30, 2019, down from €366 million at December 31, 2018, which included profit for the year of €92 million, of which €91.8 million distributed.
The following table shows the own funds of BFF Banking Group pursuant to the Consolidated Law on Banking, amounting to €350 million at June 30, 2019; 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 CRR Group remains above 15%.

(In € millions)

	12/31/2018	06/30/2019
Own funds	345	350
CET1 Capital Ratio	10.9%	11.6%
Tier 1 Capital Ratio	10.9%	11.6%
Total Capital Ratio	15.2%	16.1%

The 1.5% increase in BFF Banking Group's own funds, as compared to December 31, 2018, was mainly influenced by the HTC&S securities valuation reserves, which generated a positive impact of €1 million, after taxes (such reserve decreased from €4.1 million at December 31, 2018 to €3.1 at June 30, 2019), by a €1.2 million increase in the reserves relating to the remuneration of employees and other staff in financial instruments, as well as by the €1.7 million increase in the translation reserve due to the change in the exchange rates applied to BFF Polska Group's equity in consolidated equity.

Such movements also benefited from a €0.6 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 BFF Banking Group's own funds, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio would be 13.3%, 13.3% and 17.8%, 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 13.4%, 14.6% and 17.6%, respectively.

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 BFF Banking Group and within the CRR Group framework.

Performance of BFF Banking Group

At June 30, 2019, the consolidated net profit amounted to €38.1 million, and included BFF's profit of €26.6 million, the subsidiary BFF Finance Iberia's profit of €2.0 million, and BFF Polska Group's profit of €9.4 million.
With reference to BFF Polska Group, consolidated profit amounted to PLN 40.3 million at June 30, 2019, compared to PLN 27.5 million at June 30, 2018, thus increasing by 46%.

BFF Banking Group's total new purchase and provision volumes amounted to €1,969 million, decreasing compared to €2,059 million for the same period in 2018. These figures refer to the non-recourse purchases of BFF, BFF Finance Iberia and the volumes generated by BFF Polska Group in 2019.

Total non-recourse purchases in Italy amounted to €1,337 million, up from €1,392 million at June 30, 2018. BFF Polksa Group's volumes amounted to €247 million in the first half of 2019, compared to €279 million in the prior-year period.

As for Spanish receivables, purchase volumes amounted to €313 million compared to €318 million in 2018. Purchase of receivables due from the Portuguese public sector amounted to €51 million compared to €65 million in the same period in 2018.
Purchases made in Greece amounted to €21 million (+420%). Croatian operations started in December 2018 and no volumes were generated.

In relation to non-recourse purchases by BFF Banking Group (BFF Polska Group excluded), they decreased to €1,722 million at June 30, 2019 from €1,780 million at June 30, 2018.

Volumes at June 30, 2019 broken down by country in which BFF Polska Group operates are as follows: €244 million in Poland (in line with 2018), €2 million in Slovakia (down 93% compared to the same period in 2018), €1 million in Czech Republic (down 66% compared to the prior-year period).

Also considering management activities, overall volumes amounted to €3,519 million, compared to €3,655 million in the prior-year period.

Significant Events during the Period

Shareholder Structure

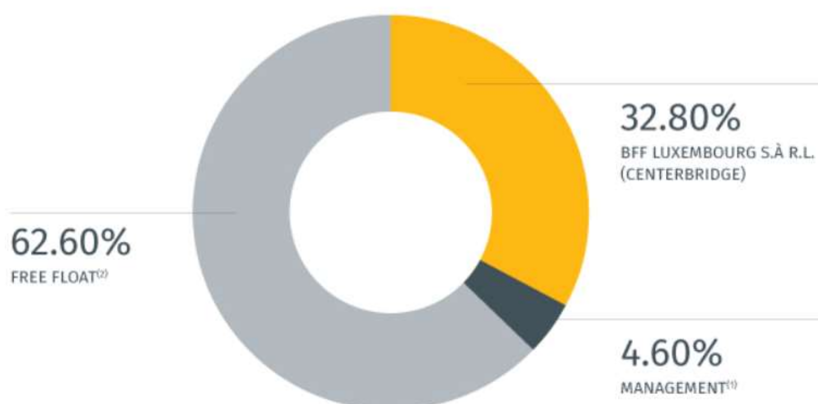
On April 3, 2019, BFF Luxembourg S.à r.l. informed that it completed the sale initiated on March 29, 2019 of 22 million BFF shares, equivalent to 12.9% of the Bank's capital, through an accelerated book build. Subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 45.792% to 32.859%.

The composition of BFF shareholders at July 29, 2019 is shown in the following diagram. This reflects the status after the transaction described above, and after the share capital increases (both free and against payment) which took place in 2019 and were communicated to the market. These increases relate to:

(i) the one-off free allocation of BFF ordinary shares to the general majority of employees of the Bank and its subsidiaries (the so-called Stock Grant 2019), in execution of the resolution adopted at the Shareholders' Meeting of March 28, 2019;

(ii) the implementation of the staff incentive scheme for Group employees, for reasons connected with the variable remuneration and incentive policies of the Company (MBO 2018);

(iii) the Stock Option Plan of BFF Banking Group, originally approved by the Shareholders' Meeting on December 5, 2016, as amended at the Shareholders' Meeting on March 28, 2019.
In particular, the Stock Option Plan provides for the allocation of 8,960,000 stock options. It should be noted in particular that since the beginning of the exercise period (April 8, 2019) to July 19, 2019, 131,686 new shares were allocated in the face of the 597,682 cashless options and 80,640 ordinary options that were exercised over the same period. Following these transactions, the number of options allocated and not yet exercised amounted to 7,975,788 of which 1,696,118 were vested and able to be exercised.



Total number of shares issued 170,418,528

Source: official communication to BFF (Modello 120A - 120B) and "Annual report on remuneration and incentive policy of Banca Farmafactoring banking Group". Percentage stake is calculated on total issued shares as of 07/29/2019.

(1) Shares hold by the CEO and by other 6 managers with strategic responsibilities as of 12/31/2019, as indicated in the "Annual report on remuneration and incentive policy of Banca Farmafactoring banking Group".

(2) Includes the treasury shares.

Acquisition of IOS Finance

On April 10, 2019, BFF signed a Sale and Purchase Agreement ("SPA") for the acquisition of 100% of the share capital of IOS Finance, E.F.C., S.A. ("IOS Finance" or the "Target"), on the terms already agreed, under the Agreement signed and communicated to the market on March 27. Pursuant to this agreement BFF is expected to acquire IOS Finance for an all-cash consideration of €25.0 million (subject to a price adjustment mechanism based on NAV—Net Asset Value—at closing). Closing is expected to take place within the third quarter of 2019. The Italian Supervisory Authority authorized BFF to acquire IOS Finance on July 19, 2019. The Bank is awaiting authorization from the Spanish Authority.
IOS Finance, established in 2007, is one of the leading providers of factoring for trade receivables due from the public sector in Spain, with offices in Barcelona and Madrid, and with a team of 23 employees. Its offering includes both non-recourse factoring and credit management solutions for trade receivables due from public hospitals and other public administration agencies in Spain.

In 2018[3] IOS Finance acquired €366 million of trade receivables without recourse, and managed an additional €273 million on behalf of its customers. Over the same period, the company recorded a normalized net banking income of €7.1 million[4], operating costs of €2.6 million and a normalized net profit of €3.2 million[5]. Net receivables due from customers and tangible shareholders' equity (before a pre-closing dividend for a maximum amount of up to €27 million) at December 31, 2018 amounted to €97.8 million and €43 million, respectively.

IOS Finance is an *Establecimiento Financiero de Crédito* ("EFC"), a financial entity supervised by the Bank of Spain.

A pre-closing dividend for a maximum amount of up to €27 million will be distributed to IOS Finance's existing shareholders before completion, and will therefore reduce shareholders' equity for the Group at closing by an equivalent amount. At closing BFF will reimburse the Target's funding facility currently provided by Deutsche Bank AG. Both the price and the reimbursement will be funded with BFF's existing funding. After completion, BFF plans to merge the Target into its Spanish business.

The fixed transaction price of €25.0 million represents a pre-synergy P/E multiple of 8.3x for 2018 and a P/TBV multiple of 1.6x, for a business with a high RoTE (about 19%), low risk, low capital absorption and strong potential synergies.

Authorization request to open the Polish branch and start of operations in France, Ireland and the Netherlands based on the regulations on the freedom to provide services

On October 03, 2018, BFF notified the Bank of Italy of its intention to open a branch in Poland.
The Polish Authority KNF authorized the opening of the Polish branch on July 05, 2019.

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[3] Source: Management figures at December 31, 2018, in accordance with IFRS standards.
[4] Equal to the sum of net interest and net commission income. Net banking income has been adjusted to (i) exclude the cost of guarantees provided by Deutsche Bank AG which ended in January 2019, and (ii) include additional interest expense (assuming the IOS Finance cost of funding for the period) in relation to the distribution of the pre-closing dividend, for a maximum amount of up to €27 million.
[5] Net profit has been adjusted to (i) exclude the cost of guarantees provided by Deutsche Bank AG which ended in January 2019, and (ii) include additional interest expense (assuming the IOS Finance cost of funding for the period) in relation to the distribution of the pre-closing dividend, for a maximum amount of up to €27 million.

On May 13, 2019, BFF notified the Supervisory Authority of its intention to offer non-recourse factoring to suppliers of the French public administration agencies and National Healthcare System. BFF will operate under the freedom to provide services scheme, serving suppliers including large national and multinational companies.

In light of this application, on July 05, 2019 the Italian Supervisory Authority advised that the relevant notification had been sent to the French Supervisory Authority.
On August 7, 2019, BFF Banking Group acquired its first pilot non-recourse credit portfolio, consisting of trade receivables due from the French healthcare system.

In line with the Group's international expansion strategy, France became the Group's ninth market with this transaction, joining Italy, Croatia, Greece, Poland, Portugal, Czech Republic, Slovakia and Spain.
Furthermore, as already mentioned, in Germany the BFF's Spanish branch offers, in compliance with regulations on the freedom to provide services, deposit-taking services aimed exclusively at retail customers, using the Weltsparen online platform.
BFF also requested authorization recently to freely provide deposit-taking services in Ireland and the Netherlands, operating under the German model. The Bank filed notification with the Italian Supervisory Authority on June 28, 2019.
Operational, contractual and IT set-up activities are moving forward in parallel during the regulatory waiting period, so as to be able to launch the business in both countries in September 2019.

Approval of the new strategic plan "BFF 2023" and of "2021 Financial Targets"

On May 29, 2019, BFF's Board of Directors approved the five-year strategic plan ("BFF 2023" or the "Plan") and the three-year financial plan ("2021 Financial Targets") for BFF Banking Group.

Strategic goals up to 2023 are detailed under the plan, including:

1. Continue to develop the current core business and improve operating efficiency, so as to further strengthen the group's leadership position in Italy, by
    - expanding the business in Southern Europe;
    - capturing the growth potential of BFF Polska's business in Central Eastern Europe;
    - strengthening the relationships with customers' headquarters and increasing cross-border deals;
    - expanding the business into other geographical areas;
    - expanding the target customer base to include smaller suppliers, leveraging off digital platforms;
    - widening the product offering to include segments and business lines adjacent to current operations.
2. Continue to optimize funding and capital, including opening a Polish branch for online deposit-taking (with authorization obtained from the Polish authority KNF on July 5, 2019).
3. Consolidate the existing business and/or expand into other market niches via acquisitions.

The primary financial targets up to 2021, as identified by the Board of Directors, are:

- Growth of volumes and receivables due from customers of more than 10% per annum;
- Adjusted net profit growth of around 10% on average per annum;
- Average Return on Tangible Equity (RoTE) of more than 30%, on a solid capital base (Total Capital Ratio target of 15% and a growing CET1 ratio), along with a low credit risk profile and high operational efficiency.

The main growth opportunities identified by the group for the three business areas in which BFF operates are described below.

Non-recourse factoring

The addressable market can be represented by public expenditure on goods and services, which was around €270 billion in 2018. Only an estimated 10% of this amount is transferred by resorting to non-recourse factoring.

The group expects to expand the potential market to €436 billion in 2023, at around 10 times that of 2013, thanks to:

- nominal growth in public expenditure on goods and services, at around 2% per year;
- increased market penetration;
- identification of new markets (France, where the first pilot non-recourse transaction was performed in August, Romania, Bulgaria and Hungary). These new markets represent an additional amount of around €140 billion in public expenditure on goods and services.

Further growth opportunities include expanding product coverage to:

- private hospitals and pharmacies with trade receivables due from the healthcare sector;
- suppliers with trade receivables due from pharmacies and distributors.

Credit management

The growth opportunities for credit management services consist of:

- extending the offering to other countries where the group operates (e.g. Spain and Portugal);
- in Italy, extending the service to include trade receivables due from pharmacies and distributors;
- offering customers the ability to outsource their entire credit management and deposit-taking process for the entire public administration;
- including ancillary services in addition to the current offering.

Lending

The main growth opportunities for this business area consist of:

- further developing the offering to Polish local entities;
- acquiring niche lending platforms or operators.

The growth of the business will be supported by a broad and diversified funding base. The Group is extending the online deposit service offering also by leveraging off third-party platforms in other geographical areas (e.g., Poland, Ireland and the Netherlands), where interest rates offered are lower than those being offered in markets already covered by the Group. BFF Banking Group can also rely on the EMTN program for €1 billion to rapidly benefit from market opportunities and issue new bonds.

Within this context, the Group has confirmed its previously stated dividend policy, aiming to self-finance growth and pay shareholders any capital in excess of 15% of Total Capital ("TC").

Funding costs should improve thanks to the:

- launch of the online deposit offering in Poland;
- increase in drawn funding (other than Tier II funding and acquisition financing);
- possible assignment of a public credit rating.

Furthermore, BFF Banking Group does not expect any significant impact from the new regulations on past due receivables and calendar provisioning over the financial plan horizon.

Purchase of treasury shares

Pursuant to the Shareholders' Meeting resolution of April 5, 2018 and after the launch of the purchase program authorized by the Board of Directors on February 8, 2019, as already disclosed in compliance with Regulation (EU) 2016/1052, from February 8 to February 14, 2019, BFF acquired 319,752 treasury shares, totaling a combined €1,679,999 net of fees.

The treasury share purchase plan aims to equip the Bank with sufficient financial instruments in order to meet the requirements of the remuneration and incentive systems as per the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of BFF Banking Group" adopted by the BFF Group.
At June 30, 2019, the Bank owned 334,550 treasury shares, accounting for 0.196% of share capital.

Shareholder's Meeting Resolutions

On March 28, 2019, the Shareholders' Meeting of the Bank resolved to

- allocate the Banking Group's profit for the year ended December 31, 2018 amounting to €92,152,892 as follows:
    - €91,753,234 to Shareholders, who will be entitled to a dividend of €0.539 for each of the 170,107,400 shares held; dividend payment date: April 2, 2019;
    - €399,658 to BFF S.p.A.'s retained earnings reserve;
- authorize the Board of Directors to acquire a maximum number of 17,010,740 BFF shares for purposes as indicated under "Purchase of treasury shares";
- allocate a one-off stock grant for a maximum number of 240,000 shares without payment for Group company employees, on a date to be set by the Board of Directors by December 31, 2019 (on May 14, 2019, the Bank did allocate 150,800 shares to employees);
- approve the 2019 remuneration and incentive policies and amendments to the Stock Option Plan—with the latter in particular being aimed at giving the Board of Directors the power to grant to beneficiaries of the plan, upon request, the right to exercise options on a cashless basis, where they will receive newly issued shares sourced from the designated increase in share capital.

On March 28, 2019, the Extraordinary Shareholders' Meeting of the Bank resolved to:

- amend Article 5 of the Company Bylaws, in order to:
    - a) Empower the Board of Directors under Article 2443 of the Italian Civil Code to increase the share capital of the Bank without payment, in one or more installments, without requiring all shares to be subscribed, pursuant to Article 2349 of the Italian Civil Code, for a period of up to five years, for a total maximum amount of €3,003,000.00. This will be achieved through the issue of a maximum number of up to 3.9 million ordinary shares for the following purposes connected with the remuneration and incentive policies of the Group:
        - (i) balancing needs between the cash component and the financial instrument component potentially payable to Group Risk Takers as variable remuneration pursuant to the "Management by Objective" provisions in the "*Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of BFF Banking Group*";
        - (ii) potentially granting shares to Group employees (within the scope of stock grant plans, for example); and
        - (iii) exercising cashless options under the SOP.

    - b) Increase paid share capital for a maximum amount of €6,899,200 through issuing up to a maximum of 8,960,000 new shares, and in one or more installments, without requiring all shares to be subscribed, with the exclusion of pre-emption rights pursuant to Article 2441

paragraphs 5 and 6 of the Italian Civil Code, for the purpose of servicing the Stock Option Plan (as approved at the Shareholders' Meeting of December 5, 2016, and as subsequently amended at the Ordinary Shareholders' Meeting of March 28, 2019), before the expiry date, being within 12 years of December 5, 2016 ("Capital increase against payment").

- amend Article 15 of the Company Bylaws, aimed at allowing the outgoing Board of Directors to present a list of candidates for the position of Director.

Partial execution of the mandate to increase share capital free of charge, as granted by the Extraordinary Shareholders' Meeting of March 28

On April 8, 2019, the Board of Directors resolved (among other things) to increase share capital, free of charge, without requiring all shares to be subscribed, for an amount equal to €1,015,272.72, in partial execution of the mandate granted pursuant to Article 2443 of the Italian Civil Code by the Extraordinary Shareholders' Meeting of the Bank, which was held on March 28, 2019. The increase was achieved by means of a capital re-allocation of the same amount from the retained earnings reserve, using unallocated profit declared in the most recently approved financial statements. This resulted in the issue of up to a maximum of 1,318,536 new BFF ordinary shares, to be assigned to BFF Group employees in relation to variable remuneration and incentive policies ("Free capital increase").

This share issue and free capital increase was to allow for:

- balancing needs between the cash component and the financial instrument component of variable remuneration payable to BFF Group's key personnel (Risk Takers);
- exercising options on a cash-less basis, by employees previously authorized by the Board of Directors or by the Chief Executive Officer according to the Stock Option Plan;
- the free one-off stock grant approved by the Ordinary Shareholders' Meeting on March 28, 2019.

In the period between April 16, 2019 and July 19, 2019, the aforesaid mandate was partially executed. A paid increase in share capital took place with the issue of 311,128 ordinary shares, without nominal value and with dividend rights, and having the same characteristics as shares already in circulation at the time of allocation.

The Stock Option Plan also provides for the granting of 8,960,000 stock options, and it should be noted in particular that since the beginning of the exercise period (April 8, 2019) to July 19, 2019, 131,686 new shares were issued in the face of the 597,682 cashless options and 80,640 ordinary options that were exercised over the same period. Following these transactions, the number of options allocated and not yet exercised amounted to 7,975,788 of which 1,696,118 were vested and able to be exercised.

Between July 4 and July 19, 2019, following the Free capital increase, company share capital to increase by an amount of €5,765.76 in total. This was done through the issue of 7,488 new ordinary shares in total, for allocation to BFF Group staff under the scope of (i) free one-off stock grant as approved by the Ordinary Shareholders' Meeting on March 28, 2019 and (ii) exercising options on a cashless basis, as authorized under the scope of the Stock Option Plan.

Share capital

In the first half of 2019 the company's share capital increased from €130,982,698.00 (at December 31, 2018) to €131,216,500.80. This increase was due to the partial execution of the following activities in the period between April 16, 2019 and June 20, 2019:

- a capital increase against payment for an amount of €62,092.80, and
- a free capital increase for an amount of €171,710.00.

Following partial execution of the Free capital increase in July for an amount of €5,765.76, the company's share capital amounted to €131,222,266.56 at the date that this report was approved.

New Organizational Structure

To support business growth and development targets, the Bank adopted a new organizational structure in quarter two.

In particular, to support the target of being a more integrated and responsive organization, changes adopted were as follows:

- Four departments and eight corporate functions were defined (direct reports to the Chief Executive Officer), and the roles of Chief Financial Officer and Chief of Staff were introduced for the first time.

- The logic behind a functional organizational structure was strengthened, and the different types of reporting relationships in existence were clarified (direct report, functional report, dotted line report, hierarchical report).

Among the main organizational changes, the following aspects should be highlighted:

- Creation of a Human Resources and Organizational Development function (direct report of the Group Chief Executive Officer), with functional management of Human Resources in Spain and Poland.

- The Investor Relations and M&A function shall also include activities related to defining and supporting Group strategy.

- The Operations Department shall have responsibility for managing the project portfolio and deposit-taking activities for deposit accounts in Spain and Poland.

- The Factoring Department shall continue to focus on business in Italy, along with operational support for international development. Two new specializations were created, for suppliers of the National Healthcare System and the Public Administration, respectively.

- The International Markets Department shall manage all international Group operations.

- The Finance & Credit Department and the Planning & Administration Department have been merged into a single department, renamed the Finance & Administration Department (under direction of the CFO). The Financial Reporting Officer reports to the Group Chief Executive Officer in this regard.

Audit of the Guardia di Finanza and the Bank of Italy as Supervisory Authority

In May 2018, the Guardia di Finanza, Italy’s tax police, began an audit for fiscal years 2013 through 2017. After completing the audit for the year ended December 31, 2013, in October 2018 the tax police issued a formal notice of assessment declaring that “the audit reported no adverse findings”. Therefore, the year 2013 is to be considered closed for tax purposes, as the time period for assessing taxes has expired. The audit will continue in 2019; initially focusing on years 2013 to 2017, it was further extended to 2018.

In addition, please note that between September 24 and December 21, 2018, the Bank of Italy conducted an audit whose findings led the Supervisory Body to issue a “partially favorable” opinion and were presented to the Bank's Board of Directors on April 8, 2019.
On that occasion, the Bank of Italy requested that the audit report be submitted to the consideration of the Bank's bodies with strategic supervision, management and control functions at a meeting held specifically for that purpose, inviting them to comment on the findings and observations raised within 30 days (subsequently extended to 60 days at the Bank’s request), disclosing also any resulting actions already taken or to be taken.

On May 29, 2019, the Bank submitted its comments on the audit findings to the Supervisory Body, presenting the actions taken in the meantime and/or to be taken to address the observations raised by the Bank of Italy as necessary and appropriate.

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, by July 3, 2024, 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.

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 2018, the ordinary contribution due from BFF amounted to €653 thousand. In 2017 such contribution was €546 thousand. At the date of this Report, the amount due in 2019 has not been communicated yet.

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. BFF has decided to participate in the scheme. It then withdrew on September 17, 2017. For this reason, starting from such date, 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 (Bank 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 BFF in 2019 by the Bank of Italy with its Note of April 26, 2019 was €1,734 thousand, paid in May 2019.
The ordinary annual contribution requested in 2018 was €1,872 thousand, while in 2017 it was €1,171 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 2016 Budget Law)

requires the banks to make additional contributions to such Fund, with the amount to be determined by the Bank of Italy.

In June 2019, the Bank of Italy requested the banking industry to provide an additional extraordinary contribution of €310 million for 2017, taking into account the upcoming financial needs of the Fund.
The amount charged to BFF, paid in June 2019, totaled €635 thousand. In 2018, the extraordinary contribution for 2016 was €701 thousand, while in 2017 no extraordinary contributions were requested of the banking sector.
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, requested an extraordinary contribution equal to twice the amount of the ordinary annual contribution established for 2016. For BFF, this amounted to €2,179 thousand.

Internal Control

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

First-level controls

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

Second-level controls

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

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

- **Financial Reporting Officer:** in the context of the provisions and terms of the Law, Staff reporting to the Financial Reporting Officer evaluate the effectiveness of the oversight being provided by the Internal Control System in regards to Financial Reporting Risk. The team carries out assessment and monitoring at a Group level in particular, as necessary for evaluating the adequacy of coverage against potential risk on an ongoing basis. They test the adequacy and effectiveness of key control processes, and identify any areas where accounting management can be improved within the Internal Control System. In this context, the Financial Reporting Officer and the Chief Executive Officer of the Parent Company together certify the following aspects through specific reports attached to the annual and consolidated financial statements, and interim reporting: the suitability of the accounting procedures used in preparing the annual, consolidated and interim financial statements; compliance of documentation with applicable international accounting standards endorsed by the European Union; whether accounting books and records are suitable for

providing a true and fair representation of the balance sheet, income statement and financial position of the Group on a consolidated level, and for the individual subsidiaries included under the scope of the consolidation; and the reliability of content in relation to specific aspects of the Director's report on operations and interim reporting.

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

Third-level controls

Internal audit activities are carried out by the Group's **Internal Audit** function, directly reporting to the Board of Directors. The Internal Audit function carries out independent controls, not only at the Parent Company but also at the subsidiary BFF Finance Iberia under a specific service agreement which governs the provision of the audit service, and, in an institutional framework, as a function of the Parent Company for the subsidiary BFF Polska. The regulation approved by the Board of Directors specifies that the Internal Audit function, within the third-level controls, evaluates the overall functioning of the internal control system and brings to the attention of the corporate bodies any possible improvements, with particular reference to the RAF (Risk Appetite Framework), the process for the management of risks, and the tools for their measurement and control.
The Head of the Internal Audit function has the necessary autonomy and is independent of the operating structures, in compliance with Bank of Italy's regulation on internal controls, the Governance Code and internal regulations, and is vested with the organizational powers to monitor company processes.
The Internal Audit function carried out, for the first half of 2019, the testing activities provided for by the Group's multi-year 2019-2021 Audit Plan, prepared according to a risk-based approach and approved by the Board of Directors in March 2019, by carrying out follow-up activities and reporting on the results of its testing on a quarterly basis to the Bank's governance and control bodies, through its dashboard.
In particular, the Internal Audit function, as function of the Parent, was in charge of the management and coordination of the activities carried out by BFF Polska's Internal Audit function.
The checks envisaged for 2019 in the Group Audit Plan were carried out by the function on the internal structures of the Bank, on the subsidiary BFF Finance Iberia, on the Spanish branch, on BFF Polska and its subsidiaries. Moreover, such function carried out the audits provided for by banking regulations on remuneration and incentive policies, outsourcers of important operating functions, ICAAP and ILAAP processes and on the Recovery Plan.
The Head of the Internal Audit function is also responsible for the internal reporting system (so-called whistle-blowing process) in accordance with the reference banking regulations.

Supervisory Body pursuant to Italian Legislative Decree 231/2001

The Bank has an Organization, Management and Control Model pursuant to Legislative Decree 231/2001 (hereinafter referred to as the "Model"), prepared in compliance with the provisions of the above-mentioned Legislative Decree 231/2001 as well as with the guidelines issued by ASSIFACT, ABI and Confindustria, in accordance with industry best practice.
The Model includes a General Part, which provides a summary description of the reference regulatory framework, the key characteristics and features of the Model—i.e., operations defined as "sensitive" for the purposes of Italian Legislative Decree 231/2001—, and the structure of the Supervisory Body as well as of the system of sanctions to prevent violation of the provisions contained in the Model.
In addition, the Model includes Special Parts comprising: i) the Matrix of operations at risk of committing a criminal offense, intended to identify the criminal offenses that may potentially be committed as part of the Bank's operations; ii) the Protocols as per Italian Legislative Decree 231/2001, which detail the operations, audits, and reporting mechanisms intended to ensure the Bank's organizational and control system—including the foreign branches in Spain and Portugal—complies with the rules in the Decree; iii) the Information Flows to the Supervisory Body.
The Code of Ethics is part of the Model: this document defines the set of ethical values embraced by the Group and that allow, among other things, to prevent the criminal offenses as per Italian Legislative Decree 231/2001.
The Bank makes sure that all employees receive adequate training, especially in the event of updates to external and internal regulations concerning the topics set out in Italian Legislative Decree 231/2001.
The activities of the Supervisory Body carried out in the first half of 2019 aimed mainly to assess the adequacy of the Model, to monitor information flows, and to carry out audits also with the support of the Internal Audit function. In the first half of the year, the Supervisory Body reported to the Board of Directors on its work, specifically stating it did not receive any complaint relevant to Italian Legislative Decree 231/2001.
As far as the Group's administrative liability is concerned, the following should be noted:
the Spanish subsidiary BFF Finance Iberia adopted its own Organizational Model in accordance with Article 31-bis of the Spanish Penal Code, similar in its structure to the Bank's 231 Organizational Model (general section, specific section on activities at risk and information flows), with an independent, single-person Supervisory Body;
the Polish subsidiary BFF Polska and its subsidiaries adopted specific guidelines to govern "anti-corruption" issues, with the identification of a relevant, single-person body, represented by BFF Polska's Compliance and AML function.
The Supervisory Body's members changed during the reporting period: at the date of this Report, the Supervisory Body consists of two external members, one of whom acts as Chair, and one internal member (the Head of the Internal Audit function).

Systems Development

In 2019, various initiatives were implemented to develop the Group's business in new markets, to increase the market share where the Group has a presence and to make internal processes and IT systems more efficient.

More specifically, the following main projects were implemented in the first half of 2019:

- completion of the analysis on the French market aimed at starting non-recourse factoring services;
- completion of the feasibility analysis aimed at starting non-recourse factoring services through a digital platform in Spain;
- development of new software systems, including aimed at making the contract preparation and approval process automatic, at Asset Liquidity Management, as well as at managing Group companies' compliance with relevant regulations.

Change in Staff Headcount

In order to support the development plans of BFF Banking Group and seize growth opportunities, the number of staff has been steadily increased over the years.
At June 30, 2019, the total number of BFF Group employees amounted to 477 staff members, of which 229 in Italy, 7 at the BFF branch in Lisbon, 38 in Spain (10 at the BFF branch in Madrid, and 28 at BFF Finance Iberia), 187 in Poland, 13 in Slovakia, and 3 in the Czech Republic. During the first half of 2019, the Bank added 26 people, of whom 12 in Italy, 4 in Spain, and 10 in Poland.
The following table shows the composition of the Group's staff broken down by the countries in which BFF Banking Group operates through a permanent establishment.

	2018						2019						
CATEGORY	Italy	Spain	Poland	Slovakia	Czech Rep.	TOT	Italy	Spain	Poland	Slovakia	Czech Rep.	Portugal	TOT
Senior Executives/Executives	16	1	6	-	-	23	18	1	5	-	-	-	25
Managers/Middle Managers/ Professionals	77	14	25	2	-	118	89	13	32	3	-	4	139
Specialists	121	20	145	10	4	300	122	24	150	10	3	3	312
Total by country	**214**	**35**	**176**	**12**	**4**		**229**	**38**	**187**	**13**	**3**	**7**	
Group total for the year	**441**						**477**						

Such figures do not include 17 staff working at Kancelaria Prawnicza Karnowski i Wspólnik sp.k. and Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.

Share Performance

BFF shares (ISIN code IT0005244402) have been traded on the Mercato Telematico Azionario (MTA) of Borsa Italiana in the Blue Chips segment since April 07, 2017, and are part of the following FTSE indexes:

- FTSE All-Share Capped;
- FTSE Italia All-Share;
- FTSE Italia Mid Cap;
- FTSE Italia Finanza;
- FTSE Italia Servizi Finanziari;
- FTSE Italia PIR Mid Cap;
- FTSE Italia PIR Mid Small Cap;
- FTSE Italia PIR PMI All;
- FTSE Italia PIR PMI Plus;
- FTSE Italia PIR Benchmark;
- FTSE Italia PIR Large and Mid Cap.

BFF shares are also included in various S&P and MSCI indexes (including MSCI WORLD IMI/SPECIAL FINANCE).

The share price at June 28, 2019 (Friday) was €4.9, increasing by 4.3% compared to the share placement price of €4.7. Since listing, the Bank has distributed total gross dividends of €1.031 per share. Taking into consideration the distributed dividends, and assuming them to be reinvested in the BFF share on ex-date, total return for shareholders at June 28, 2019 compared to the placement price was 15.5%. The FTSE Italia All Share Index total return was 13.6% in the same period.

BFF BANKING GROUP

Main Balance Sheet Items

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

Financial assets measured at fair value through OCI

(Amounts in € thousands)

Items	12/31/2018	06/30/2019	Change
Government securities - (HTC&S)	160,592	162,093	1,501
Equity investments	17	17	0
Equity securities	147	147	0
Total	**160,756**	**162,257**	**59,307**

The average duration of such securities is 38.5 months. These securities earn interest at variable rates (CCT).
At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity under “Revaluation reserves”.
At June 30, 2019, the negative reserves on HTC&S government securities (formerly AFS) amounted to approximately €3.1 thousand, net of taxes.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such securities were classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.

Financial assets measured at amortized cost

(Amounts in € thousands)

Items	12/31/2018	06/30/2019	Change
Government securities - (HTC)	948,206	931,746	(16,460)
Due from banks	62,758	58,745	(4,013)
Due from customers	3,582,806	3,453,580	(129,226)
Total	**4,593,770**	**4,444,071**	**(149,699)**

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. Such government securities were classified in the category belonging to the Held to Collect (HTC) business model.

The amount consists entirely of government securities, classified in the Held to Collect (HTC) portfolio, purchased to hedge liquidity risk, for a total face value of €905 million. The average duration of such securities is 25.8 months.

These securities are at a fixed rate (BOT, BTP and CTZ), with maturity dates related to the sources of committed and unsecured funding. They are classified in the HTC portfolio and, therefore, they are measured at amortized cost, and interest calculated using the effective rate of return is recognized in the income statement.

The HTC portfolio includes financial assets that the Bank intends to hold until the maturity date set in the contract, for the collection of fixed and determinable amounts. In accordance with IFRS 9, an entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of HTC investments before maturity.

The fair value of the HTC securities at June 30, 2019 amounted to €931.6 million, with a negative difference, after tax, over the carrying amount at the same date, of approximately €0.2 million that has not been recognized in the financial statements.

"Due from banks" mainly consists of current account balances of BFF Banking Group companies at the end of the year.
The item includes €2,125 thousand in the mandatory reserve deposit with DepoBank, as BFF is an indirect participant in that system, and €5,044 thousand deposited with Banco de España as CRM (*Coeficiente de Reservas Mínimas)* for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto.

Details of "Due from customers" are as follows:

(Amounts in € thousands)

Items	12/31/2018	06/30/2019	Change
Non-recourse receivables	2,890,309	2,736,021	(154,288)
Receivables purchased below face value	43,567	41,809	(1,758)
Other receivables	648,949	675,750	26,801
Total	**3,582,805**	**3,453,580**	**(129,244)**

Receivables purchased without recourse are measured at amortized cost based on the present value of estimated future cash flows, and include both principal and late payment interest accruing from the receivable due date for the amount considered recoverable based on the time series analysis on the percentages and recoverability times.

The Bank has updated the analysis of the time series concerning the average collection percentage and time for late payment interest on an annual basis since 2014. In 2018, it once again reviewed the average collection percentage and time for late payment interest, updating the existing time series.

Concerning this review, please consider the following:

- for the year 2018, the Bank further added more depth to its time series by including the reference basis for 2018 in the existing time series;
- the depth of the time series appears to be significant for all existing relationships: the database for the Italian Public Administration, which dates back to 2010, is especially deep.

The outcome of this analysis has confirmed for 2019, on the basis of the time 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, a prudent decision was made to consider, also for 2019, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF.
Other receivables mainly refer to loans of the subsidiary BFF Polska Group.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such receivables were classified in the category belonging to the Held to Collect (HTC) business model.

Credit quality

In the first half of 2019 a remarkable improvement in credit quality was achieved.
It should be highlighted that the total net amount of impaired receivables was €94.2 million at June 30, 2019, as compared to €119.7 million at December 31, 2018, and €167.1 million for the same period last year.

In order to assess its credit exposures, with the goal of—among others—identifying any potential impairment losses on financial assets in accordance with IFRS 9, the Banking Group classifies exposures as Performing and Non-Performing.
Non-Performing exposures, whose overall gross amount was €107.3 million at June 30, 2019, with impairment losses totaling €13.1 million, are divided into the following categories.

Non-performing loans

These are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the Bank.
At June 30, 2019, the total non-performing loans of the Banking Group, net of impairment, amounted to €45.2 million, of which €5.8 million purchased already impaired. Among these non-performing exposures, €40.1 million (89% of the total) concerned municipalities in financial distress.
Gross non-performing loans amounted to €55.5 million and were adjusted to the tune of €10.3 million, of which €0.1 million concerned municipalities in financial distress and €3.7 million referred to the BFF Polska's factoring-for-business product which was being disposed of.
Please note that, as for the exposures to Local Authorities (Municipalities and Provincial Governments), as far as the portion subject to the relevant settlement procedure is concerned, loans included in the liabilities of the Extraordinary Settlement Body (OSL, *Organo Straordinario di Liquidazione*) are classified as Non-performing loans in accordance with the Bank of Italy's Circular no. 272, even though all receivables can be collected under the law.

Unlikely to pay exposures

Unlikely to pay exposures reflect the judgment made by the intermediary about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments). Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor.
At June 30, 2019, gross exposures classified as unlikely to pay totaled €12.9 million; adjustments to the tune of €2.6 million were recognized, thus determining a net amount of €10.3 million.

Impaired past due exposures

Impaired past due exposures are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days.
At June 30, 2019, total net past due exposures amounted to €38.7 million for the whole Group, of which 30.5% referring to the public administration and public sector companies of the countries where the Banking Group operates.
The Banking Group's gross exposures totaled €38.9 million and relevant adjustments amounted to €0.2 million.

With reference to measurements and calculation of impairment, in compliance with IFRS 9, methodology is 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 loss 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 performing 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 (lifetime parameter).
Stage 3 includes financial instruments whose credit risk deteriorated significantly, to the point that the exposure is considered impaired (non performing). 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. Stage 3 also includes impaired past due exposures (since they are non performing), which are however subject to specific adjustments calculated on a collective basis (Stage 2), since—despite volatility and the Banking Group's core business—specific measurement is not needed for impaired past due exposures.
The following table shows the amount of receivables due from customers, with an indication of any adjustment, broken down into "Performing exposures" and "Impaired assets".

(Amounts in € thousands)

Type	12/31/2018			06/30/2019		
	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount
Impaired exposures purchased performing (Stage 3)	125,388	(13,560)	111,828	101,218	(12,834)	88,384
Impaired exposures purchased non-performing (Stage 3)	10,561	(2,699)	7,862	6,067	(231)	5,837
Performing exposures (Stage 1 and 2)	3,465,716	(2,601)	3,463,115	3,362,133	(2,871)	3,359,263
Total	**3,601,665**	**(18,860)**	**3,582,805**	3,469,418	(15,935)	3,453,484

Furthermore, besides classifying exposures as performing and non-performing, the Banking Group also measures exposures as forborne in compliance with relevant Implementing Technical Standards.

Property, plant and equipment and intangible assets

(Amounts in € thousands)

Items	12/31/2018	06/30/2019	Change
Property, plant and equipment	11,988	14,662	2,674
Intangible assets	26,406	25,610	(796)
- of which Goodwill	*22,146*	*22,146*	*0*
Total	**38,394**	**40,272**	**1,878**

At the date of IFRS first-time adoption (January 1, 2005), the buildings owned by the Group and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.
The measurement at first-time adoption resulted in an approximately €4 million revaluation of the buildings, from €5 million to €9 million.

Intangible assets amounted to €25,610 million and include goodwill of €22,146 thousand, fully arising from the acquisition of BFF Polska Group by BFF in May 2016. Such goodwill was recognized after the completion of the PPA process carried out in compliance with IFRS 3. The residual amount refers to investments in new multi-year programs and software.

Tax assets and liabilities

(Amounts in € thousands)

Items	12/31/2018	06/30/2019	Change
Tax assets	**34,227**	**20,900**	**(13,327)**
current	*26,045*	*12,598*	*(13,447)*
prepaid	*8,182*	*8,302*	*120*
Tax liabilities	**88,302**	**79,665**	**(8,637)**
current	*22,585*	*10,417*	*(12,168)*
deferred	*65,717*	*69,248*	*3,531*

Current tax assets totaled €12,598 thousand; they mainly include advance payments for IRES and IRAP taxes made by BFF.
Current tax liabilities amounted to €10,417 thousand; they include the accrual of income taxes for the year of Group companies.
Deferred tax liabilities amounted to €69,248 thousand; they mainly include the taxes calculated on BFF's late payment interest accrued and to be accrued, and will be paid upon collection.

Financial liabilities measured at amortized cost

Starting from January 1, 2018, pursuant to the updates of the Bank of Italy's Circular no. 262 of 2005 in compliance with the new IFRS 9, the item is broken down as follows:

(Amounts in € thousands)

Items	12/31/2018	06/30/2019	Change
Due to banks	1,237,996	1,168,510	(69,486)
Due to customers	2,349,856	2,298,787	(51,069)
Of which due to financial institutions	*230,497*	*285,763*	*55,268*
Debt securities issued	815,177	779,718	(35,559)
Total	**4,403,029**	**4,247,015**	**(156,014)**

"Due to banks" refers to loans granted by the banking system to the Parent Company and the subsidiary BFF Polska.
"Due to financial institutions" mainly refers to cooperation agreements with financial entities other than banks.
"Due to customers" includes €879 million for the online deposit accounts Conto Facto and Cuenta Facto, and €1,036 million for repurchase agreements with the counterparty *Cassa di Compensazione e Garanzia*, executed to refinance the Bank's securities portfolio.

Debt securities issued consist of bonds issued by the Parent BFF, the subsidiary BFF Polska, and the relevant SPV. They have a total face value of €777 million and are recognized in the financial statements (to the tune of €780 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 BFF in March 2017. The 10-year bonds due in March 2027 have the right to an issuer call date (one-off) in the fifth year after issue (in March 2022). The bonds pay an annual fixed coupon of 5.875%;
- €200 million senior unsecured and unrated bonds (ISIN XS1639097747) issued by BFF in June 2017, due in June 2022. The bonds pay an annual fixed coupon of 2%;
- €200 million senior unsecured and unrated bonds (ISIN XS1731881964) issued by BFF in December 2017, due in June 2020. The bonds pay a quarterly variable coupon based on 3M Euribor + 145 bp spread;
- €150 million bonds (ISIN XS1435298275) issued by BFF in June 2016, due in June 2021. The bonds pay an annual fixed coupon of 1.25%;
- PLN 10 million (€2.3 million) bonds issued by the subsidiary BFF Polska, due in September 2019;
- €150 million flexible senior notes issued by the vehicle BFF SPV S.r.l. created together with the Bayerische Landesbank Group (Bayern LB) and partly paid to the tune of €125 million at June 30, 2019. As far as the securitization transaction is concerned, the receivables were sold to the vehicle company and were not derecognized from the assets of BFF since the sale did not transfer the relevant risks and rewards.

Provisions for risks and charges

At June 30, 2019, “Provisions for risks and charges” totaled €4,353 thousand. They mostly include allocations to “Pension and other post-employment benefits” of €3,538 thousand and “Other provisions” of €685 thousand.

(Amounts in € thousands)

Items	12/31/2018	06/30/2019	Change
Commitments and guarantees provided	198	130	(68)
Employee benefits	3,977	3,538	(439)
Other provisions	806	685	(121)
Total	**4,980**	**4,352**	**(628)**

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

Main Consolidated Income Statement Items

A brief comment on the main consolidated income statement items is provided below, while for a more in-depth description reference should be made to the section relating to the results of operations and to Part C of the Notes.
At June 30, 2019, the Group's profit amounted to €38.1 million, compared to €41.3 million recognized in the prior-year period.

Net interest margin amounted to €85.9 million at June 30, 2019, down 1.4% compared to €87.0 million at June 30, 2018. Net banking income for the first half of 2019 amounted to €87.3 million, down 10% compared to €94.5 million at June 30, 2018.

The recognition of maturity commissions and late payment interest on purchases of non-recourse receivables in the income statement reflects the effective return from the application of the "amortized cost" criterion for measuring non-recourse receivables purchased, in accordance with IFRS 9. This implies that the income is recognized in relation to the return deriving from the expected cash flows.

BFF 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 time 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, a prudent decision was made to consider, also for 2019, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF.

The difference between gains and reschedulings recognized in the first half of 2019 by BFF Banking Group was negative and amounted to €(0.7) million, due to lower late payment interest. In the prior-year period, such difference was positive and amounted to €6.8 million.

Late payment interest on receivables purchased without recourse by BFF and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €616 million.
Of this late payment interest, a total of €224 million was recorded in the income statement in current and prior years.
The cumulative amount of late payment interest due to BFF and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €551 million at June 30, 2018, of which €193 million were recognized in the income statement of the reporting period and in previous years.
The provision for late payment interest increased by 12% in the first half of 2019 compared to the prior-year period. Of this provision at June 30, 2019, late payment interest not yet recognized in the income statement amounts to €392 million.

Interest income on securities, amounting to €3.1 million, originates from government securities classified in the HTC&S (formerly AFS) and HTC (formerly HTM) portfolios. HTC&S securities are measured at amortized cost, and interest calculated using the effective rate of return is recognized in the income statement.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's funding, for a total amount of €26.4 million.

Interest expense increased from €21.4 million at June 30, 2018 to €22.7 million at June 30, 2019. This increase in absolute terms is primarily due to a higher outstanding balance, interest expense on the Tier 2 bonds of €2.9 million at June 30, 2019, compared to €2.9 million in the first half of 2018.

Net fees and commissions show a €0.6 million decrease compared to the prior year.

Gains (losses) on trading mainly arise from the negative exchange effect recognized in the income statement, arising from the devaluation of exchange rates applied to the loans payable in Polish zloty used for the acquisition of BFF Polska Group and amounting, at June 30, 2019, to €(1.2) million, before taxes, compared to €4 million at the end of the prior-year period, offset by a positive effect from the revaluation of the exchange rates applied to BFF Polska Group's equity in consolidated equity.

Fair value measurement in 2019 of BFF Polska Group's derivatives for which hedge accounting was not applied was also included.
At June 30, 2019, BFF Banking Group did not have any derivative hedging contracts.

Gains on disposal of securities refer to the sale of government securities in the HTC&S (formerly AFS) portfolio made during the reporting period, which generated a gain of €385 thousand, before the tax effect.

Administrative expenses

Administrative expenses amounted to €36 million at June 30, 2019, increasing by 5% compared to the prior-year period (€34.3 million).

The amount also includes expenses for stock options reserved to some employees and for the stock grant plan, equal to €0.9 million and €0.8 million before taxes, respectively. Such cost also generates an increase, before taxes, in equity.

Please also note that BFF recognized an amount of €1.2 million under the item "Other operating income (expenses)" in relation to the collection of invoices for reimbursement of costs incurred when recovering amounts not promptly paid by debtors.

Bank's Objectives and Policies on the Assumption, Management and Hedging of Risks

Risk management and compliance with Prudential Supervision regulations

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

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

The regulation applicable at June 30, 2019 is based on three pillars.

Pillar I – Capital adequacy to meet the typical risks associated with financial operations
From the standpoint of operations, the absorption of risks is calculated using various methods:
- "Standardized approach" for credit risk;
- "Standardized approach" for counterparty risk;
- "Basic approach" for operational risk;
- "Standardized approach" for market risk.

Pillar II – The ICAAP/ILAAP Report
In accordance with prudential supervisory provisions, and in order to allow the Supervisory Authority to carry out an accurate and comprehensive assessment of the fundamental qualitative characteristics of the equity and financial planning process, the risk exposure and the consequent calculation of total internal capital and relevant liquidity reserves, the Bank—as Parent of the Banking Group—has prepared the "ICAAP/ILAAP 2017 Report" on internal processes for determining adequacy of capital and liquidity risk governance and management systems.

Pillar III – Disclosure to the public
Pursuant to Article 433 of the CRR, banks shall publish the disclosures required by EU regulations at least on an annual basis, in conjunction with the date of publication of the financial statements.
Pillar III provisions establish specific periodic disclosure obligations concerning capital adequacy, risk exposure and the general features of the related systems for the identification, measurement and management of such risks.

BFF Banking Group draws up this document, in accordance with the provisions in effect, on a consolidated basis, with reference to a scope of consolidation that is significant for the purposes of prudential supervision.

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

Pursuant to this procedure, the disclosure should be:
- ✓ approved by the Board of Directors before it is made public;
- ✓ published on the website www.bffgroup.com at least once a year, within the deadline established for the publication of the financial statements, i.e., within 21 days of the date of approval of the financial statements by the Shareholders' Meeting.

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

Information concerning Calendar Provisioning and Past Due Exposures

As part of a general effort by European banks to contain the stock of NPEs, a series of measures have been put in place by regulators. They are united towards the goal of ensuring prudent management of NPEs, while simultaneously preventing an excessive accumulation of impaired receivables on bank balance sheets, where such receivables are long past due and/or lacking in guarantees. More specifically, the measures are aimed at a better definition of prudential standards on one hand, and at validating the implementation of aforesaid legal provisions on the other. This is achieved by outlining the framework in which the regulations will be positioned in a more precise manner. As regards the prudential scope, in April 2019 the European Commission approved an update to Regulation (EU) 575/2013 (CRR) regarding minimum loss coverage for impaired receivables. For the purpose of calculating prudential provisions, the proposal

in question provides that loans granted after April 26, 2019 which are classified as impaired shall be subject to “calendar provisioning”. Exposures granted before this date, and which are subsequently classified as NPEs, will not be subject to the provisions contained under the amendments to Regulation no. 575 (CRR). This update requires banks to maintain an adequate level of provisions, by deducting from their CET 1 any positive difference between their prudential provisions (identified by weighting the gross value of NPEs with and without guarantees by a certain percentage) and any adjustment provisions and other equity elements (balance sheet provisions, prudential valuations, other CET1 deductions).

According to the regulations, the way a default is defined (past due, unlikely to pay or non-performing) is genuinely meaningful to the level of deterioration in the credit quality of an exposure. The regulations do not provide for any discretion, and they do not guarantee that certain items which may not be representative of a deterioration in credit risk (as for most of the Group's exposures) will be treated any differently.

- Past due exposures

On June 27, 2019 the Bank of Italy introduced a number of amendments to Circular no. 272 regarding credit quality and the provisions relating to the new way a default is defined. These amendments take into account the provisions of Commission Delegated Regulation (EU) 2018/171 of October 19, 2017.

It is of particular note that amendments to Circular no. 272 will apply to regulatory reporting on a consolidated basis, and to bank financial statements (circulars 115 and 262 respectively) with effect from reporting for December 31, 2020.

The new way a default is defined establishes criteria for classifying past due receivables which are more restrictive than the criteria that have been adopted by Italian financial intermediaries up to this point.

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

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

The Regulation is aimed at overseeing the risk that proximity, if any, of such parties to the Banking Group’s decision-making centers may compromise the objectivity and impartiality of the decisions taken on transactions involving those parties, with possible distortions in the resource allocation process, exposure of the Bank to risks not adequately measured or supervised, and potential damage for shareholders and stakeholders.
The Regulation for the management of transactions with parties that may be in a conflict of interest and the Group Policy to manage conflicts of interest are communicated to the public via the Bank’s website under the section Governance/Procedures and regulations – Transactions with associated parties.

Information on related party transactions is provided in Part H of 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 amended in July 2018—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 year ended June 30, 2019.

As described in paragraph "Significant Events during the Period", the Polish Authority KNF authorized the opening of the Polish branch on July 5, 2019. The deposit-taking service is expected to be launched in the third quarter of 2019.

Treasury shares

At June 30, 2019, the Bank owned 334,550 treasury shares (accounting for 0.196% of share capital), purchased as part of the buyback program launched on February 8, 2019 and ended on February 14, 2019. During the first half of 2019 the Bank purchased 319,752 treasury shares and awarded 26,754. For further information, please refer to the relevant section in the Notes to the Financial Statements.

Other offices

BFF has an office in Rome, Via di San Basilio, 41. 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. Furthermore, in July 2019 the Polish branch in Lodz started its operations.

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

at of 30 June 2019

Consolidated Balance Sheet

(Amounts in euros)

	Assets	06/30/2019	12/31/2018
10.	Cash and cash equivalents	36,138,184	99,457,728
30.	Financial assets measured at fair value through OCI	162,256,669	160,755,859
40.	Financial assets measured at amortized cost	4,444,071,299	4,593,770,324
	a) due from banks	*58,745,225*	*62,758,477*
	b) due from customers	*4,385,326,074*	*4,531,011,848*
70.	Equity investments	220,727	172,037
90.	Property, plant and equipment (*)	14,661,892	11,988,426
100.	Intangible assets	25,609,503	26,405,901
	of which		
	- goodwill	*22,146,189*	*22,146,189*
110.	Tax assets	20,899,917	34,226,870
	a) current	*12,597,699*	*26,044,837*
	b) deferred	*8,302,218*	*8,182,033*
130.	Other assets	16,145,126	14,747,460
	TOTAL ASSETS	**4,720,003,317**	**4,941,524,605**

(*) The item "Property, plant and equipment" includes right-of-use assets relating to leases recognized at June 30, 2019, in compliance with the new standard IFRS 16. The figure recognized at December 31, 2018 does not include the effects arising from the application of the new standard, which is effective for annual periods beginning on or after January 1, 2019.

Consolidated Balance Sheet

(Amounts in euros)

	Liabilities and Equity	06/30/2019	12/31/2018
10.	Financial liabilities measured at amortized cost	4,247,014,594	4,403,029,388
	a) due to banks	*1,168,509,981*	*1,237,996,379*
	b) due to customers (*)	*2,298,787,112*	*2,349,855,548*
	c) debt securities issued	*779,717,501*	*815,177,461*
60.	Tax liabilities	79,665,144	88,301,821
	a) current	*10,417,445*	*22,584,878*
	b) deferred	*69,247,699*	*65,716,944*
80.	Other liabilities	72,540,037	78,123,708
90.	Employee severance benefits	906,252	848,841
100.	Provisions for risks and charges:	4,352,123	4,980,559
	a) commitments and guarantees provided	*129,697*	*197,735*
	b) pension and other post-employment benefits	*3,537,806*	*3,977,004*
	c) other provisions for risks and charges	*684,620*	*805,820*
120.	Revaluation reserves	3,594,863	843,738
150.	Reserves	144,111,746	142,505,681
160.	Share premium	296,755	0
170.	Share capital	131,216,501	130,982,698
180.	Treasury shares	(1,782,985)	(244,721)
200.	Profit (loss) for the period	38,088,286	92,152,892
	TOTAL LIABILITIES AND EQUITY	**4,720,003,317**	**4,941,524,605**

(*) The item “Financial liabilities measured at amortized cost - due to customers” includes the financial liability relating to leases recognized at June 30, 2019 in compliance with the new standard IFRS 16. The figure recognized at December 31, 2018 does not include the effects arising from the application of the new standard, which is effective for annual periods beginning on or after January 1, 2019.

Consolidated Income Statement

(Amounts in euros)

	Items	06/30/2019	06/30/2018
10.	Interest and similar income	108,576,102	108,326,049
	of which: interest income calculated using the effective interest rate method	*100,055,664*	*93,729,064*
20.	Interest and similar expenses	(22,720,062)	(21,356,074)
30.	**Net interest margin**	**85,856,040**	**86,969,975**
40.	Fee and commission income	3,217,358	3,760,536
50.	Fee and commission expenses	(793,558)	(769,012)
60.	**Net fees and commissions**	**2,423,800**	**2,991,524**
70.	Dividends and similar income	0	2,433
80.	Gains (losses) on trading	(1,204,795)	4,082,159
90.	Gains (losses) on hedge accounting	0	110,652
100.	Gains (losses) on disposal or repurchase of:	207,343	359,336
	a) financial assets measured at amortized cost	*0*	*(459)*
	b) financial assets measured at fair value through OCI	*207,343*	*359,795*
120.	**Net banking income**	**87,282,388**	**94,516,079**
130.	Net adjustments/reversals of impairment for credit risk relating to:	(447,172)	(3,228,888)
	a) financial assets measured at amortized cost	*(448,894)*	*(3,219,795)*
	b) financial assets measured at fair value through OCI	*1,722*	*(9,093)*
150.	**Net profit from financial activities**	**86,835,216**	**91,287,192**
180.	**Net profit from financial and insurance activities**	**86,835,216**	**91,287,192**
190.	Administrative expenses:	(36,013,627)	(34,327,056)
	a) personnel costs	*(18,097,633)*	*(16,363,771)*
	b) other administrative expenses	*(17,915,994)*	*(17,963,285)*
200.	Net allocations to provisions for risks and charges	(289,028)	(548,919)
	a) commitments and guarantees provided	*68,470*	*(35,909)*
	b) other net allocations	*(357,498)*	*(513,010)*
210.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,463,301)	(718,331)
220.	Net adjustments to/reversals of impairment of intangible assets	(937,495)	(940,229)
230.	Other operating income (expenses)	2,552,851	1,621,443
240.	**Operating costs**	**(36,150,600)**	**(34,913,092)**
290.	**Profit (loss) before tax from continuing operations**	**50,684,616**	**56,374,100**
300.	Income taxes on profit (loss) from continuing operations	(12,596,330)	(15,052,626)
310.	**Profit (loss) after tax from continuing operations**	**38,088,286**	**41,321,474**
330.	**Profit (loss) for the period**	**38,088,286**	**41,321,474**
350.	**Profit (loss) for the period attributable to owners of the Parent**	**38,088,286**	**41,321,474**
	Basic earnings per share	**0.22**	**0.24**
	Diluted earnings per share	**0.21**	**0.23**

Consolidated Statement of Comprehensive Income

(Amounts in euros)

Items		06/30/2019	06/30/2018
10.	**Profit (loss) for the period**	**38,088,286**	**41,321,474**
	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	(35,531)	8,440
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	1,750,349	(4,358,895)
120.	Cash flow hedges	0	(194,156)
130.	Hedging instruments (not designated)		
140.	Financial assets (other than equity securities) measured at fair value through OCI	1,036,306	(5,452,704)
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**	**2,751,124**	**(9,997,315)**
180.	**Comprehensive income (Items 10+170)**	**40,839,410**	**31,324,159**
190.	Consolidated comprehensive income attributable to non-controlling interests		
200.	**Consolidated comprehensive income attributable to the Parent**	**40,839,410**	**31,324,159**

Consolidated Statement of Changes in Equity

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 year									Group equity at 06/30/2018	Equity attributable to non-controlling interests at 06/30/2018
						Change in reserves	Equity transactions							Consolidated comprehensive income for the year 2018		
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in shareholding interests			
Share capital:																
- ordinary shares	130,982,698		130,982,698												130,982,698	0
- other shares															0	0
Share premium															0	0
Reserves:																
- from profits	126,907,657		126,907,657	11,854,962		(246,599)									138,516,020	0
- other	2,713,829		2,713,829			(1,874)						1,581,172			4,293,127	0
Revaluation reserves	7,693,804	311,238	8,005,042			587								(9,997,315)	(1,991,686)	0
Equity instruments															0	0
Treasury shares								(267,207)							(267,207)	0
Profit (loss) for the period	95,547,803		95,547,803	(11,854,962)	(83,692,841)									41,321,474	41,321,474	0
Group equity	363,845,791	311,238	364,157,029		(83,692,841)	(247,886)	0	(267,207)	0	0	0	1,581,172	0	31,324,159	312,854,426	
Equity attributable to non-controlling interests	10,000		10,000											0		0

At June 30, 2019

(Amounts in euros)

	Balance at 12/31/2018	Change in opening balance	Balance at 01/01/2019	Retained earnings (accumulated losses)		Change during the year									Group equity at 06/30/2019	Equity attributable to non-controlling interests at 06/30/2019
						Change in reserves	Equity transactions							Consolidated comprehensive income for the year 2019		
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options	Change in shareholding interests			
Share capital:																
- ordinary shares	130,982,698		130,982,698				233,803								131,216,501	0
- other shares															0	0
Share premium							296,755								296,755	0
Reserves:																
- from profits	138,299,093		138,299,093	399,658		(45,054)									138,653,696	0
- other	4,206,588		4,206,588			(229,097)	662,628					817,931			5,458,050	0
Revaluation reserves	843,738		843,738											2,751,124	3,594,863	0
Equity instruments															0	0
Treasury shares	(244,721)		(244,721)			143,414		(1,681,679)							(1,782,985)	0
Profit (loss) for the period	92,152,892		92,152,892	(399,658)	(91,753,234)									38,088,286	38,088,286	0
Group equity	366,240,288	0	366,240,288		(91,753,234)	(130,737)	1,193,186	(1,681,679)	0	0	0	817,931	0	40,839,410	315,525,166	
Equity attributable to non-controlling interests	0		0											0		0

Consolidated Statement of Cash Flows

(Amounts in euros)

A. OPERATING ACTIVITIES	Amount	
	06/30/2019	06/30/2018
1. Operations	**41,315,314**	**46,983,080**
- profit or loss for the period (+/-)	38,088,286	41,321,474
- capital gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	90,031	-
- capital gains/losses on hedge accounting (-/+)	-	(110,652)
- net adjustments/reversals of impairment for credit risk (+/-)	447,173	3,228,888
- net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-)	2,400,796	1,658,561
- net allocations to provisions for risks and charges and other expenses/income (+/-)	289,028	548,919
- 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
2. Liquidity generated/absorbed by financial assets	**(159,680,330)**	**(149,351,737)**
- financial assets held for trading		
- financial assets designated at fair value		
- other financial assets mandatorily measured at fair value	-	(508,574)
- financial assets measured at fair value through OCI	1,500,810	-
- financial assets measured at amortized cost	(149,251,852)	(197,395,193)
- other assets	(11,929,288)	48,552,029
3. Liquidity generated/absorbed by financial liabilities	**(166,792,940)**	**(154,410,507)**
- financial liabilities measured at amortized cost	(156,014,793)	(152,846,851)
- financial liabilities held for trading	(90,031)	(535,073)
- financial liabilities designated at fair value		
- other liabilities	(10,688,117)	(1,028,583)
Net liquidity generated/absorbed by operating activities	**34,202,704**	**41,924,310**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	**48,690**	**(107,541)**
- sale of equity investments	48,690	(109,974)
- dividends collected on equity investments	-	2,433
- sale of property, plant and equipment		
- sale of intangible assets		
- sale of subsidiaries and business branches		
2. Liquidity absorbed by	**(3,349,225)**	**(170,555)**
- purchase of equity investments	384,456	(40,869)
- purchase of property, plant and equipment	(3,343,603)	(65,906)
- purchase of intangible assets	(390,079)	(63,781)
- purchase of subsidiaries and business branches		
Net liquidity generated/absorbed by investing activities	**(3,300,535)**	**(278,096)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(1,538,264)	(267,207)
- issue/purchase of equity instruments	(530,558)	-
- distribution of dividends and other	(92,152,892)	(83,692,841)
- sale/purchase of ownership interests in subsidiaries		
Net liquidity generated/absorbed by funding activities	**(94,221,714)**	**(83,960,048)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**(63,319,545)**	**(42,313,834)**

Reconciliation

Item	06/30/2019	06/30/2018
Cash and cash equivalents at the beginning of the period	99,457,728	80,932,835
Total net liquidity generated/absorbed during the period	(63,319,545)	(42,313,834)
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at the end of the period	**36,138,184**	**38,619,001**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Notes are arranged in the following order:

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

Part A - Accounting Policies

A.1 – GENERAL INFORMATION

Statement of compliance with international accounting standards

The condensed consolidated interim financial statements at June 30, 2019 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 related interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period. Specifically, interim financial reporting is based on IAS 34.

IFRSs have been applied based on the Framework for the Preparation and Presentation of Financial Statements (the Framework), 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 have been prepared, to the extent applicable to interim reporting, in accordance with the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005 “Banks’ financial statements: layout and preparation”, as subsequently amended.

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

In accordance with the provisions of Article 5, paragraph 2, of Italian Legislative Decree no. 38 of February 28, 2005, the financial statements are denominated in euros, which is the functional currency of the Group.

All amounts included in notes are in thousands of euros, unless otherwise stated; prior-year figures are provided for the purposes of comparison.

The condensed consolidated interim financial statements have been prepared based on the general principle of prudence and on an accrual and going concern basis since, with reference to the operations and the financial and equity position of the Group, and after examining the risks to which it is exposed, the Directors have not identified any issue that could raise doubts on the Group’s ability to meet its obligations in the foreseeable future.

Accounting standards and interpretations effective as of January 1, 2019

The following standards, interpretations and amendments are effective from January 1, 2019:

IFRS 16 – Leases

Regulatory requirements

The new standard aims to improve the accounting for leases, by giving a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of a lessee.

IFRS 16 changes the accounting substantially for lessees, as it eliminates a lessee’s classification of leases as either operating leases or finance leases.

Lessees are required to comply with the following main provisions:

a) For contracts within the standard's scope, the identified asset is classified as a right-of-use asset and presented in the statement of financial position as investment property. The relevant financial liability shall also be recognized.

b) At the commencement date, a lessee shall measure the financial liability at the present value of the lease payments agreed by the parties to use the asset over the term of the contract that is reasonably certain. The initial measurement of the right-of-use shall be equal to the value of the financial liability, less some specific items—e.g., those relating to the direct costs incurred in obtaining the lease.

c) For subsequent measurement of the asset and over the lease term, the asset is depreciated on a systematic basis, while interest expense on the financial liability is calculated based on the interest rate implicit in the lease where expressly stated. If the amount is not expressly stated, reference should be made to the cost of funding for the period.

d) When lease payments are made, the financial liability is reduced by that amount.

The scope of this standard does not include so-called "short-term leases" (with a lease term of 12 months or less) and "leases for which the underlying asset is of low value" (with assets worth 5,000 dollars, conventionally assumed to correspond to 5,000 euros, or less). For such contracts, the lessee may elect not to apply IFRS 16, thus continuing to comply with the current accounting treatment provisions. Although they qualify as leases, a lessee may elect not to apply this standard to leases of intangible assets other than those expressly excluded (such as rights on motion picture films, video recordings, plays, manuscripts, patents and copyrights).

With respect to the first-time adoption (FTA), the lessee may elect one of two options for the transition:

- applying the standard retrospectively to each prior reporting period presented applying IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors – "Full Retrospective Approach"; in this case, the lessee shall restate comparative information in the financial statements of the reporting period in which it first applies the standard;
- applying the standard retrospectively with the cumulative effect of applying the standard recognized at the date of initial application, without restating comparative information in the financial statements of the reporting period in which it first applies IFRS 16 – "Modified Retrospective Approach".

The choices of BFF Banking Group

In 2018, BFF Banking Group (hereinafter also referred to as the "Group"), including with the help of external advisors, launched a project to understand and measure the qualitative and quantitative impacts of the first-time adoption of the new accounting standard IFRS 16.

Specifically, the project consisted of two main stages:

- Assessment: in which the Group i) defined a masterplan and the project's governance, and ii) identified the scope of the project;
- Gap Analysis: in which the Group i) defined specific checklists with a series of information required of subsidiaries and branches, essentially based on the requirements under the new standard; ii) gathered qualitative and quantitative information from said entities; iii) examined and assessed the above information, and measured the accounting impacts of the first-time adoption of the standard for the parent as well as both subsidiaries and branches, based on the methodological choices presented below.

In adopting the new accounting standard, BFF Banking Group elected to apply the new accounting model to all leases with the exception of those for which the underlying asset is of low value (less than 5,000 euros) or that have a short lease term (12 months or less).

For the purposes of the first-time adoption (FTA) of IFRS 16, among the transitional options allowed under the accounting standard, on January 29, 2019 the Board of Directors resolved that the company adopt the "Modified Retrospective Approach".

Under this approach, a) the Group does not need to apply the standard retrospectively (therefore considering complex comparative information), and b) the measurement of the right-of-use asset is considered aligned with the lease liabilities (i.e., the remaining lease payments accruing to the lessor and discounted as appropriate).

Lease term

The lease term is the period for which the Group has the right to use the underlying asset, considering also: (i) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (ii) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. At the date of transition and the commencement date of each lease entered into on or after January 1, 2019, each Group Company has defined the lease term, based on the facts and circumstances existing at such date and impacting the reasonable certainty that the options included in lease agreements will be exercised.

Discount rate

At the date of initial application of the new accounting standard, the Group measured the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The incremental borrowing rate used is the Group's cost of funding for the year 2018, amounting to 1.89%.

Effects of the first-time adoption of IFRS 16

Based on the mapping of leases across the entire Group at the date of first-time adoption of the new accounting standard, and considering the exceptions for low-value and short-term leases, the impact on the statement of financial position at January 1, 2019 was as follows:

A) Property, plant and equipment - Right-of-use: €3.103 million
B) Financial liabilities measured at amortized cost – Lease liabilities: €3.103 million.

Therefore, the first-time adoption of the standard had no impact on equity as, following the decision to adopt the "Modified Retrospective Approach" (option B), at the date of initial application assets and liabilities are matched in terms of amount.

The economic effects of applying the new standard IFRS 16 are included in the scope of the condensed consolidated interim financial statements at June 30, 2019. For more details on the accounting impacts related to Property, plant and equipment and Financial liabilities measured at amortized cost, please refer to the relevant accounting policies.

Upcoming accounting standards and interpretations

At the approval date of these interim financial statements, the following accounting standards, amendments and interpretations were issued by the IASB, although not yet endorsed by the European Commission:

- Amendments to References to the Conceptual Framework;
- IFRS 17 – Insurance Contracts;
- Amendments to IFRS 3: Business Combinations;
- Amendments to IAS 1 and IAS 8: Definition of Material.

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

Scope and basis of consolidation

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

Subsidiaries

The subsidiaries are companies controlled by BFF Banking Group. 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. BFF Banking Group's subsidiaries also include special purpose entities for which BFF is exposed to substantially all the risks and rewards deriving from their activities or 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 BFF Banking Group. Conversely, they are excluded from the scope of consolidation when such control ceases.

The financial statements of the companies that are consolidated on a line-by-line basis are prepared in compliance with the IASs/IFRSs used for the condensed consolidated interim 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 consolidated 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 with 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 are translation differences on the subsidiaries' equity. All translation differences are recognized in profit or loss in the period in which the investment is disposed of.

Investments in subsidiaries under exclusive control

At June 30, 2019, BFF Banking Group included the Parent BFF S.p.A. 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.	Madrid - C/ Luchana 23	1	BFF	100%	100%
2. BFF SPV S.r.l.	Milan – Via V. Betteloni 2	4	BFF	0%	0%
3. BFF Polska S.A.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	1	BFF	100%	100%
4. BFF Medfinance S.A.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
5. BFF Česká republika s.r.o.	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o.	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 Wspólnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

As far as points 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 Italian Legislative Decree 87/92
6 = centralized management as per Article 26, paragraph 2 of Italian Legislative Decree 87/92

(2) Voting rights at ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.

Events subsequent to the end of the reporting period

There are no events or facts subsequent to June 30, 2019 such as to require an adjustment to the results recognized at the end of the reporting period.

Other issues

Acquisition of IOS Finance

On April 10, 2019, BFF S.p.A. entered into a shares Sale and Purchase Agreement ("SPA") to acquire 100% of IOS Finance, E.F.C., S.A.. The Agreement had already been disclosed to the market with a press release dated March 27, 2019, to which reference should be made for additional details.

After the non-controlling shareholder owning 27.6% of IOS Finance that is not party to the Agreement dated March 27, 2019 waived its Right of First Refusal ("ROFR"), the SPA was entered into by all shareholders in the Target Company and involves the transfer of shares representing 100% of IOS Finance to BFF.

The Supervisory Authority authorized BFF to acquire IOS Finance on July 19, 2019. The Bank is awaiting authorization from the Spanish Authority.

Audit of the Guardia di Finanza and the Bank of Italy as Supervisory Authority

In May 2018, the Guardia di Finanza, Italy's tax police, began an audit for fiscal years 2013 through 2017. After completing the audit for the year ended December 31, 2013, in October 2018 the tax police issued a formal notice of assessment declaring that "the audit reported no adverse findings". Therefore, the year 2013 is to be considered closed for tax purposes, as the time period for assessing taxes has expired. The audit will now focus on years 2014 to 2017.

In addition, please note that between September 24 and December 21, 2018, the Bank of Italy conducted an audit whose findings led the Supervisory Body to issue a "partially favorable" opinion and were presented to the Bank's Board of Directors on April 8, 2019.
On that occasion, the Bank of Italy requested that the audit report be submitted to the consideration of the Bank's bodies with strategic supervision, management and control functions at a meeting held specifically for that purpose, inviting them to comment on the findings and observations raised within 30 days, disclosing also any resulting actions already taken or to be taken.
In a request dated April 9, 2019, BFF asked to extend the deadline originally set by the Supervisory Body by 30 days, so as to provide the above comments in due time and manner. In a subsequent communication, the Bank of Italy granted this request.
On May 29, 2019, BFF submitted its comments on the audit findings to the Supervisory Body, presenting the actions taken in the meantime and/or to be taken to address the observations raised by the Bank of Italy as necessary and appropriate.

Statutory 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 accordance with IAS 34 and are subject to limited audit.

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

Disclosure of the accounting policies adopted to prepare the condensed consolidated interim financial statements at June 30, 2019, especially with reference to the criteria for recognizing, classifying, measuring and derecognizing the main assets and liabilities as well as for recognizing revenues and costs, is provided below along with other information.

Financial assets

With respect to financial assets, the accounting standard IFRS 9 divides them into three categories:

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

The following two paragraphs set out the guidelines for presenting, recognizing, and measuring financial assets at fair value through OCI and financial assets measured at amortized cost, in accordance with the 6th Update to the Bank of Italy's Circular no. 262 of December 22, 2005 as far as recognition is concerned, since the Group had no financial assets measured at fair value through profit or loss at the reporting date:

Financial assets measured at fair value through OCI (FVOCI)

Classification criteria

According to IFRS 9, a financial asset is included in this category 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 are solely 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.

Specifically, the main items in this category are:

- government securities classified in the HTC&S portfolio and that passed the SPPI test,
- the equity investment in Nomisma S.p.A. (since this company is not subject to significant influence) and the contributions required by the FITD Voluntary Scheme.

- *HTC&S business model*

Financial assets classified within the HTC&S business model are held to collect contractual cash flows and to sell the financial assets. Sales are therefore more frequent and significant compared to a Hold to Collect Business Model. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. These assets can be held for an indefinite period of time and can fulfill the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.
Therefore, unlike in the case of financial assets measured at amortized cost (HTC), IFRS 9 does not require defining thresholds in terms of frequency and significance of sales for the HTC&S Business Model.
That said, taking a prudent approach, the Group defined a maximum annual turnover ratio for the securities portfolio allowing to distinguish this Business Model from the Other Model (i.e., assets held for Trading), calculated as the ratio of the total value of sales to the average stock for the year ((opening stock + closing stock)/2).

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.

Recognition criteria

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.

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, which 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 in Revaluation reserves until the financial asset is disposed of, when 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 without significant increase in credit risk since initial recognition), 12-month expected credit losses are recognized at the initial recognition date and at each subsequent reporting date.

For Stage 2 instruments (assets with significant increase in credit risk since initial recognition but not credit-impaired) and Stage 3 instruments (credit-impaired exposures), lifetime expected credit losses are recognized instead.

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 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 the income statement, 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.

Adjustments/reversals of impairment are recognized according to the staging allocation criteria and the following risk parameters: probability of default (PD), loss given default (LGD), and exposure at default (EAD)—defined in accordance with the subsequent paragraph "Measurement of impairment losses on financial assets".

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.

Financial assets measured at amortized cost

Classification criteria

According to IFRS 9, a financial asset is included in this category 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 specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (meeting the SPPI test).

On the basis of the accounting statements provided for by the 6th Update of Bank of Italy's Circular no. 262 of December 22, 2005, this financial statement item includes:

- receivables due from banks;
- receivables due from customers, including debt securities classified in the HTC business model and that passed the SPPI test.

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

BFF Banking Group's receivables from factoring transactions almost exclusively refer to non-recourse purchase transactions involving the full transfer of all the risks and rewards relating to receivables.

Debt securities classified as HTC consist of government securities.

- *HTC Business model*

Financial assets measured at amortized cost are held within a business model whose objective is to obtain 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.

The Group identified thresholds of significance for frequency and volumes of sales, required to analyze whether the HTC business model has been maintained.

Therefore, in the event of sales (consistently with the relevant business model), by virtue of common market practice, a percentage of significance for annual sales volumes has been defined, determined as the sum of the value of sales made during the year/the carrying amount of the HTC portfolio at the beginning of the year.
With respect to the frequency of sales, BFF Banking Group has defined a monthly threshold.

As far as the reclassification of financial assets is concerned, 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.

Recognition criteria

With respect to receivables from factoring transactions, 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.

Specifically, 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, are recognized for the amount actually paid at the time of purchase.

As for financial assets related to loans originated by the Group, they are initially recognized at the loan date. On initial recognition, the assets are measured at fair value, including transaction costs or income directly attributable to the instrument. Specifically, as far as receivables are concerned, the loan date usually coincides with the date of the relevant agreement. Should this not be the case, when entering into the agreement the Group shall recognize a loan commitment to be settled on the date the loan is originated.

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.

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, taking into account 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 and deemed recoverable.
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 assignment contract.

Pursuant to IFRS 15, interest income (including late payment interest) are 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", BFF and BFF Finance Iberia also included the estimate of recoverable 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 ancillary element of non-recourse purchase transactions, and has been considered for a complete analysis of the prospective profitability profiles.

Furthermore, BFF 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 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.

As far as the receivables of the Parent BFF and the subsidiary BFF Finance Iberia are concerned, the updating of the time series, which was undertaken considering the collections for 2018, confirmed the suitability of the existing collection percentage (45%).

With reference to BFF Polska Group, acquired in 2016, despite the minor significance of late payment interest to the total of receivables, as part of the activities to complete the integration of Group 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 BFF Polska 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 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, HTC securities 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. IFRS 9 introduced 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 a provision.
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.
For assets classified in Stage 1, the loss allowance relating to each individual financial asset is 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 amount of the loss is determined on the basis of an individual assessment and then individually attributed to each position, accounting for forward-looking information and potential alternative recovery scenarios. Credit-impaired assets include financial instruments that have been assigned the status of bad loan, unlikely to pay, or past-due/overdrawn by more than 90 days in accordance with the Bank of Italy's rules, which are consistent with IAS/IFRS and European Supervisory provisions. The estimated future cash flows take into account the estimated recovery time and the estimated realizable value of any guarantees.

When recognizing the loss, 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 income statement item.

Adjustments/reversals of impairment are recognized according to the staging allocation criteria and the following risk parameters: probability of default (PD), loss given default (LGD), and exposure at default (EAD)—defined in accordance with the subsequent paragraph “Measurement of impairment losses on financial assets”.

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 in the financial statements, even though legal title to these assets is effectively transferred.

Property, plant and equipment

Classification criteria

Property, plant and equipment includes movable property and industrial buildings, plant and other machinery and equipment held for use by the Banking Group's companies for more than one period.
Finally, this line item includes the right-of-use assets acquired under leases and related to the use of an item of property, plant and equipment.

Recognition criteria

Property, plant and equipment is initially recognized at cost, which includes all costs necessary to bring the asset to working condition for its intended use (transaction costs, professional fees, direct delivery costs incurred to bring the asset to the assigned location, installation costs, dismantling costs).

Costs incurred subsequently are added to the asset's carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be measured reliably (e.g., extraordinary maintenance costs). Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized, in the period incurred, in the income statement under item 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 Group as the lessee in lease agreements - "Right-of-Use" (RoU) (IFRS 16).

At the commencement date, the Group, as lessee, shall recognize the "right-of-use (RoU) asset" at cost, which shall comprise: a) the amount of the initial measurement of the lease liability; b) any lease payments made at or before the commencement date, less any lease incentives received; c) any initial direct costs incurred by the lessee, i.e., incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for such costs incurred by a manufacturer or dealer lessor in connection with a finance lease; and d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories".
The RoU asset referring to leases outstanding at the date of initial application of IFRS 16 was recognized under the "Modified Retrospective Approach".
The Group does not consider VAT as a component of lease payments for the purposes of calculating IFRS 16 measures (RoU Asset and Lease Liability, for which reference should be made to the line item Financial liabilities measured at amortized cost).

Measurement criteria

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

- buildings: maximum 40 years;
- furniture: maximum 9 years;
- plant: maximum 14 years;
- office machines: maximum 3 years;
- other: maximum 11 years.

Land and buildings are treated separately for accounting purposes, even if purchased together. Land is not depreciated since, as a rule, it has an indefinite useful life.
The estimated useful life of property, plant and equipment is reviewed at the end of each reporting period, taking into account the conditions of use of the assets, maintenance conditions, expected obsolescence etc., and, if expectations differ from previous estimates, the depreciation expense for the current and subsequent periods is adjusted.

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

If there is objective evidence that an asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 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.

With respect to the RoU asset, resulting from the application of IFRS 16, subsequent to the commencement date the Group shall measure the Right of Use (RoU) asset by applying a cost model as follows: a) less any accumulated depreciation, calculated over a time horizon aligned with the lease term, considering any exercise of the options included in lease agreements, and any accumulated impairment losses; b) adjusting for any remeasurement of the lease liability.

Derecognition criteria

An item of property, plant and equipment shall be derecognized on disposal or when permanently retired from use and no future economic benefits are expected from its disposal.

Intangible assets

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.

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.

Measurement criteria

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

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 is evidence of impairment). To this end, the cash-generating unit is identified to which goodwill is to be allocated.
The amount of any impairment is determined on the basis of the difference between the carrying amount and the recoverable amount, if lower, and is taken to the income statement under item 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.

The Group carries out the impairment test annually. Following the outcomes of the impairment test performed at the end of 2018 on the amount of goodwill recorded in the financial statements and relating to the allocation of the acquisition cost of 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".

Current and deferred taxes

Income taxes are computed in accordance with the tax legislation in force in the different countries where the 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 that 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 tax assets and liabilities consists normally of the income statement item 300 "Income taxes on profit (loss) from continuing operations".

In cases where deferred tax assets and liabilities concern transactions that directly concerned equity without impacting profit or loss (such as the adjustments resulting from the first-time adoption of IAS/IFRS, and the measurements of financial instruments at fair value through OCI or cash flow hedging derivatives), these are recognized through equity, impacting any relevant reserves (e.g. valuation reserves).

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

Provisions for risks and charges

Recognition and measurement criteria

Provisions for risks and charges cover costs and expenses of a determinate nature, the existence of which is certain or probable, which, at the end of the reporting period, are uncertain as to amount or 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;
- a reliable estimate can be made of the amount of the obligation.

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 financial statements is made, when necessary, based on actuarial calculations, by determining the charge at the measurement date based on demographic and financial assumptions.

The provisions for risks and charges include also the provisions for credit risk set aside for loan commitments and guarantees provided that fall within the scope of the impairment rules in IFRS 9. 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. As a general rule, in this case the Group adopts the same methods for allocating items to the three credit risk stages and calculating expected credit losses as the ones described for assets measured at amortized cost or at fair value through OCI.

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.

Financial liabilities measured at amortized cost

Classification criteria

This item includes "Due to banks", "Due to customers" and "Debt securities issued". Financial instruments (other than trading liabilities and those measured at fair value) representing the different forms of third-party funding are allocated to these items.
In addition, the payables incurred by the Group as lessee under leases are also included.
Interest expense is recorded in the income statement under item 20 "Interest and similar expenses".

Recognition criteria

Such liabilities are initially recognized at their fair value on the settlement date. This amount 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.
This line item includes also the payables relating to the assets used by the Group as lessee under leases—the so-called “Lease Liability” (IFRS 16), which comprises the following payments for the right to use the underlying asset: a) fixed payments, less any lease incentives receivable; b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; c) amounts expected to be payable by the Group in its capacity as lessee under residual value guarantees; d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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.

During the period of use of the asset, the carrying amount of the Lease Liability is increased by the interest expense accrued and decreased by the payments made to the lessor.

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 or 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.

Other information

Treasury shares

The treasury shares held shall be deducted from equity. Similarly, their original cost and the gains or losses from their subsequent sale shall be recognized as changes in equity.

Employee severance benefits

As a result of the legislative framework introduced by Law no. 296 of 2006, the employee severance benefits accrued up to June 30, 2019 (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, 2019, 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 vesting starting on January 1, 2007 must be transferred to the Italian social security institute (INPS) or to supplemental pension funds, they qualify as a "defined contribution plan", since the employer's obligation ceases once payment is made and the contribution is recorded in the income statement on an accrual basis.

The costs for servicing the plan are recorded under personnel costs, item 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 Arrangements

On March 28, 2019, the Extraordinary Shareholders' Meeting of the Bank resolved to:

- amend Article 5 of Company Bylaws in order to:
    - Empower the Board of Directors under Article 2443 of the Italian Civil Code to increase the share capital of the Bank without payment, in one or more installments, without requiring all shares to be subscribed, pursuant to Article 2349 of the Italian Civil Code, for a period of up to five years, for a total maximum amount of €3,003,000.00. This will be achieved through the issue of a maximum number of up to 3.9 million ordinary shares for the following purposes connected with the remuneration and incentive policies of the Group:
        (i) balancing needs between the cash component and the financial instrument component potentially payable to the Group's Risk Takers as variable remuneration pursuant to the "Management by Objective" provisions in the "*Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of BFF Banking Group*";
        (ii) potentially granting shares to Group employees (within the scope of stock grant plans, for example); and
        (iii) exercising cashless options under the SOP.

    - Increase paid share capital for a maximum amount of €6,899,200 through issuing up to a maximum of 8,960,000 new shares, and in one or more installments, without requiring all shares to be subscribed, with the exclusion of pre-emption rights pursuant to Article 2441 paragraphs 5 and 6 of the Italian Civil Code, for the purpose of servicing the Stock Option Plan (as approved at the Shareholders' Meeting of December 5, 2016, and as subsequently amended by the Ordinary Shareholders' Meeting of March 28, 2019), before the expiry date, being within 12 years of December 5, 2016 ("Capital increase against payment").

During the first half of 2017, following the listing, the option rights relating to the aforementioned stock option plan were assigned for the first tranche only. The option rights relating to the second tranche were assigned during the first quarter of 2018, while in the first quarter of 2019 the Group recognized the options rights associated with the third tranche because the qualitative and quantitative aspects of the grant were essentially known at the reporting date.

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 duration of the option, the current price of the shares and their expected volatility, the expected dividends, and the risk-free interest rate—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.

BFF BANKING GROUP

In compliance with the provisions as set out in the First Part, Title IV, Chapter 2, Section III, paragraph 2.1, 3 of Bank of Italy's Circular no. 285, art. 8.4 of the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of BFF Banking Group" establishes that at least 50% of variable remuneration of so-called "Key Personnel" (or Risk Takers) must be paid in financial instruments, in particular:

(i) BFF'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 BFF 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-compete agreements ("NCAs"), should in the future Risk Takers who have signed such agreements leave the Group.

Use of estimates and assumptions in the preparation of financial reporting

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, 2019. 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 condensed consolidated interim 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 multi-year 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 an active market, through the use of assessment 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.

Measurement of impairment losses on financial assets

At each reporting date, in accordance with IFRS 9, financial assets other than those measured at fair value through profit or loss are tested to assess whether there is evidence that the carrying amount of the assets may not be fully recoverable. A similar analysis is conducted also for loan commitments and guarantees provided that fall within the scope subject to impairment in accordance with IFRS 9. If such evidence exists (so-called "evidence of impairment"), the financial assets concerned—consistently with any remaining assets of the same counterparty—are considered to be impaired and classified within stage 3. The Group shall recognize adjustments equal to lifetime expected credit losses for these exposures, consisting of financial assets classified as bad loans, unlikely to pay, and exposures more than 90 days past due as per the Bank of Italy's Circular no. 262/2005.

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, considering the "staging allocation criteria";
- 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.

Below are the staging allocation criteria as well as the criteria for determining the parameters that BFF Banking Group uses as the basis for measuring expected credit losses, i.e., probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Stage Allocation Criteria:
In the case of financial assets for which there is no evidence of impairment (non-impaired financial instruments), the Group shall assess whether there is an indication that the credit risk of the individual transaction has increased significantly since initial recognition.

Such assessment has the following consequences in terms of classification (or, more appropriately, staging) and measurement:
- if such an indication exists, the financial asset is classified within stage 2. In this case, in accordance with international accounting standards and even in the absence of apparent impairment losses, the Group shall recognize adjustments equal to lifetime expected credit losses. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is no longer an indication that credit risk has "increased significantly";
- if such an indication does not exist, the financial asset is classified within stage 1. In this case, in accordance with international accounting standards and even in the absence of apparent impairment losses, the Group shall recognize 12-month expected credit losses on the specific financial instrument. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is an indication that credit risk has "increased significantly".

Therefore, the allocation of an asset 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 credit risk since initial recognition.

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

- Qualitative criterion: use of transfer logic triggers, i.e., identification of events triggering transfers between stages;
- 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, i.e., extensions of payment terms granted to the counterparty in light of the deterioration in its financial situation, shall be allocated to Stage 2. The standard specifies that a significant deterioration in credit risk can occur even before this deadline, which is therefore 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.

As far as the quantitative criterion is concerned:

- 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 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, which at the reporting date are exempt from IFRS 9, are not subject to the control of a rating downgrade between the date of analysis and the date of origin of the transaction. In the absence of transfer logic 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 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).

Impairment Criteria:

The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment are as follows:

- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the instrument. 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;
- ECL measured by incorporating point-in-time and forward-looking information as well as macroeconomic factors;
- 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;
- a multi-period LGD model;
- a deterministic and stochastic EAD model allowing to define a multi-period distribution as well as a 12-month horizon.

In addition, at the reporting date, ECLs shall be discounted using the effective interest rate ("EIR") of the transaction as at the date of initial recognition.

Below is a description of the Group's methodological decisions for the purposes of determining the above parameters and measures.

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 (so-called risk bucket and rating). The multi-period PD also incorporates Point-In-Time conversion adjustments 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.

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:

- 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 BFF S.p.A. and BFF Finance Iberia S.A. exposures, the Group considered the quarterly decay rate[6] from 1996 to the present.

[6] In accordance with the definition adopted by the Bank of Italy's Statistical Bulletin: *"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 subjects who entered into adjusted impairment during the quarter of recognition. The denominator is net of any receivables assigned in 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)".*

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 is 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 conversion) 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.

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 identifies 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 (12-month time horizon), 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 segmentation, 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.

Exposure at Default (EAD)

When defining and modeling the parameters to be used over multiple periods to measure credit risk, the Group considers also Exposure at Default (EAD).

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 allowance also for transactions for which the standard requires lifetime recognition.

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, lifetime EAD is defined using the repayment plan and its effective cash flows. Stochastic modelling is therefore not necessary for these transactions. If the repayment plan is not available at the reporting date (despite it being provided for by contract), the impairment is calculated by assuming a lifetime EAD for a bullet loan.

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.

- According to IFRS 15, revenue shall be recognized only when its amount can be reliably estimated when total "control" on the exchanged goods or services is transferred. 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", BFF and BFF Finance Iberia also included the estimate of late payment interest in the calculation of amortized cost. As a matter of fact, BFF 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 are updated on an annual basis when the financial statements are prepared, in order to determine the collection percentages and times to be used to calculate late payment interest. The change in collections is then analyzed on a quarterly basis to confirm such percentages in periodic reporting.

With reference to the estimated total late payment interest that is expected to be collected by BFF and BFF Finance Iberia, the time series were updated with collection amounts for the year 2018. This confirmed the weighted average collection percentage of 45% already used for the preparation of the financial statements for the year ended December 31, 2018, with average collection times at an estimated 1,800 days.

As regards BFF Polska Group, acquired in 2016, despite the minor significance of late payment interest to the total of receivables, as part of the activities to complete the integration of Group 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 BFF Polska 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 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 BFF Banking Group 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

Available-for-sale financial assets measured at fair value through OCI (only investment in the FITD Voluntary Scheme) are classified as Level 2, as the measurements were made using inputs other than quoted prices, used in Level 1, and observable directly or indirectly for the assets and liabilities.
Level 3 financial assets refer to the equity investment in Nomisma S.p.A. - Società di Studi Economici, accounted for at cost, in the absence of other observable valuation inputs.

A.4.2 Measurement processes and sensitivity

At June 30, 2019, BFF Banking Group did no longer have any financial instruments held for trading, whose fair value changes could impact the income statement at the end of the reporting period.

A.4.3 Fair value hierarchy

At June 30, 2019, as in 2018, 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

(Amounts in € thousands)

Financial assets/liabilities measured at fair value	06/30/2019 L1	06/30/2019 L2	06/30/2019 L3	12/31/2018 L1	12/31/2018 L1	12/31/2018 L1
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						
2. Financial assets measured at fair value through OCI	162,093	147	17	162,592	147	17
3. Hedging derivatives						
4. Property, plant and equipment						
5. Intangible assets						
Total	**162,093**	**146**	**17**	**162,592**	**147**	**17**
1. Financial liabilities held for trading						
2. Financial liabilities measured at fair value						
3. Hedging derivatives						
Total						

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

(Amounts in € thousands)

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	06/30/2019				12/31/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	4,444,071	935,789		3,512,326	4,593,770	940,907		3,645,564
2. Property, plant and equipment held for investment								
3. Non-current assets and disposal groups held for sale								
Total	**4,444,071**	**935,789**		**3,512,326**	**4,593,770**	**940,907**		**3,645,564**
1. Financial liabilities measured at amortized cost	4,247,015	640,118	2,388	3,592,323	4,403,029	615,472	11,507	3,737,883
2. Liabilities associated with assets held for sale								
Total	**4,247,015**	**640,118**	**2,388**	**3,592,323**	**4,403,029**	**615,472**	**11,507**	**3,737,883**

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"

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
€36,138 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 €36,138 thousand.

Section 3 – Financial assets measured at fair value through OCI - Item 30
€162,257 thousand

The item mainly includes government securities purchased by BFF to hedge 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, 2019, the negative reserves on the HTC&S government securities amounted to approximately €3,133 thousand, after tax.

The item also includes:

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

Section 4 – Financial assets measured at amortized cost – Item 40
€4,444,071 thousand

This item is broken down as follows:
- due from banks of €58,745 thousand;
- due from customers of €4,385,326 thousand, which from January 1, 2018, based on guidance provided under the new IFRS 9, also include the Held to Collect (HTC) securities portfolio of €931,746 thousand (formerly HTM).

Due from banks
€58,745 thousand

At June 30, 2019, receivables due from banks mainly refer to transactions relating to the current accounts held by BFF Banking Group's companies at the end of the reporting period.

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 06/30/2019						Total 12/31/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3	Stages 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				X	X	X				X	X	X
2. Mandatory reserve				X	X	X				X	X	X
3. Repos				X	X	X				X	X	X
4. Other				X	X	X				X	X	X
B. Due from banks	**58,745**						**62,759**					
1. Loans												
1.1. Current accounts and demand deposits	13,639			X	X	X	20,461			X	X	X
1.2. Fixed-term deposits	8,168			X	X	X	9,004			X	X	X
1.3. Other loans:				X	X	X				X	X	X
- Reverse repos				X	X	X				X	X	X
- Lease financing activities				X	X	X				X	X	X
- Other	36,938			X	X	X	33,294			X	X	X
2. Debt securities												
2.1. Structured securities												
2.2. Other debt securities												
Total	**58,745**						**62,759**					

In particular, "Current accounts and demand deposits" mainly refer for €7,276 thousand to BFF, for €5,828 thousand to BFF Polska Group.

Fixed-term deposits consist almost entirely of restricted deposits. Such deposits mainly include €2,125 thousand in the mandatory reserve deposit with Depobank (formerly ICBPI/Nexi), as BFF is an indirect participant in that system, and €5,044 thousand deposited with Banco de España as CRM (Coeficiente de Reservas Mínimas) for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto.

Other loans relate to credit exposures that BFF Banking Group has with regards to banking counterparties.

This item does not include any impaired assets.

Due from customers
€4,385,326 thousand, including Held to Collect securities of €931,746 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 €3,454 million (mainly receivables due from debtors in relation to factoring activities) and €932 million in debt securities in the HTC portfolio.

BFF Banking Group's receivables due from customers are measured at amortized cost, determined based on the present value of estimated future cash flows.
BFF 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 amortized cost, including late payment interest recognized on an accrual basis, BFF 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 2019, on the basis of the time 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 National Healthcare System. However, a prudent decision was made to consider, also for 2019, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF.

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.
Despite the minor significance of late payment interest to the total of BFF Polska Group's receivables, as part of the activities to complete the integration of BFF Banking Group 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 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.

The cumulative amount of late payment interest due to BFF and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables (the so-called Provision for late payment interest), amounted to €616 million, of which only €225 million were recognized in the income statement of the reporting period and in previous periods.

The total net amount of impaired receivables for BFF Banking Group is €94.2 million. Of this amount, €45.2 million relates to non-performing loans (including €40.1 million concerning municipalities in financial distress, of which €5.8 million were purchased already impaired) and €10.3 million to unlikely-to-pay exposures. Past due exposures amounted to €38.7 million, of which 88% referring to Italian public administration counterparties and public sector companies. Measurement of such past due 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 €932 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, 2019, 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 €905 million and fair value of €935.8 million, with a positive difference (before taxes) of around €3.9 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.
The HTC portfolio consists of government securities purchased to hedge liquidity risk and to optimize the cost of money.

4.2 Financial assets measured at amortized cost: due from customers broken down by type €4,385,326

(Amounts in € thousands)

Type of transaction/Amounts	Total 06/30/2019						Total 12/31/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3
1. Loans	**3,359,666**	**94,221**	**5,934**			**3,453,581**	**3,463,115**	**119,690**	**7,862**			**3,582,805**
1.1. Current accounts	2			X	X	X	1			X	X	X
1.2. Reverse repos				X	X	X				X	X	X
1.3. Mortgages				X	X	X				X	X	X
1.4. Credit cards, personal loans, salary-backed loans (*cessione del quinto*)				X	X	X				X	X	X
1.5. Lease financing activities	3,620			X	X	X	5,176	152		X	X	X
1.6. Factoring	2,539,682	73,435	5,934	X	X	X	2,690,253	89,923	7,862	X	X	X
1.7. Other loans	816,056	20,785		X	X	X	767,685	29,615		X	X	X
2. Debt securities	**931,746**			**935,789**			**948,206**			**940,907**		
2.1. Structured securities												
2.2. Other debt securities	931,746			935,789			948,206			940,907		
Total	**4,291,105**	**94,221**	**5,934**	**935,789**		**3,453,581**	**4,411,321**	**119,690**	**7,862**	**940,907**		**3,582,805**

The breakdown is as follows:

- Performing factoring amounted to a total of €2,539,682 thousand for BFF Banking Group.
  This included non-recourse receivables purchased as "performing", registered under the name of the assigned debtor, with the conditions for recognition, and measured at "amortized cost", worth a total of €2,042,557 thousand for BFF and €189,851 thousand for the subsidiary BFF Finance Iberia. Non-recourse receivables are mainly 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 €188,419 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 €41,809 thousand.

  Performing recourse and non-recourse factoring of BFF Polska Group totaled €151,261 thousand.

- Other performing loans due from customers amounted to €816,056 thousand; they mainly include:
  - accrued late payment interest of about €121,121 thousand, including €107,478 thousand relating to BFF and €13,643 thousand relating to the Spanish subsidiary. This amount has already been recognized in the income statement in the current and prior years and refers only to late payment interest accrued on principal already collected. Therefore, of the €225 million late payment interest recognized in the income statement over the years, and referring to the provision existing at June 30, 2019, €121.1 million refers to the item under review, while the remaining amount of €104.0 million was recognized under "factoring";
  - amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €64,116 thousand;
  - financing activities of BFF Polska Group of €617,263 thousand.

- Performing finance leases of BFF Polska Group totaled €3,620 thousand.

- BFF Banking Group's net "Impaired assets" amounted to a total of €94,221 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, 2019, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €45,210 thousand, of which €5,837 thousand purchased already impaired. Net non-performing loans concerning municipalities in financial distress amounted to €40,099 thousand, accounting for 88.7% of the total.
    Gross non-performing loans amounted to €55,471 thousand. Relevant impairment totaled €10,260 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 €1,545 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €57,015 thousand and relevant adjustments totaled €11,805 thousand.
    With reference to the Bank, at June 30, 2019 total non-performing loans, net of any estimated impairment losses, amounted to €40,686 thousand, of which €40,099 thousand concerned Italian municipalities in financial distress; this case is classified as non-performing, in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the interest at the end of the insolvency procedure.
    Specifically, the amount of €5,837 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.
    The remaining positions referring to BFF are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €12,756 thousand; after estimated impairment losses of €8,259 thousand, the net amount totaled €4,497 thousand.

  - BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group 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, 2019, gross exposures classified as unlikely to pay amounted to €12,874 thousand, of which €12,719 thousand attributable to BFF Polska Group, and €155 thousand to BFF Finance Iberia. The total net amount was €10,315 thousand, relating mainly to BFF Polska Group, since the gross exposures of BFF and BFF Finance Iberia were almost entirely impaired. Net past due exposures of BFF Banking Group totaled €38,695 thousand, of which €30,445 thousand (78.7%) attributable to public administration counterparties and public sector companies in the various countries where BFF Banking Group operates. They consist of exposures that, at the end of the reporting period, were more than 90 days past

due. More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. BFF's overall amount of net past due exposures at June 30, 2019 was equal to €30,757 thousand. Of this amount, €29,611 thousand (equal to 72.8%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €7,154 thousand. The remaining past due exposures, for a net amount of €784 thousand, refer to BFF Finance Iberia and entirely concerned public administration counterparties.

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 the best approximation of the fair value of these receivables on the reporting date.

4.5 Financial assets measured at amortized cost: gross amount and total adjustments

(Amounts in € thousands)

	Gross amount				Total adjustments *			Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	931,888				142			
Loans	3,245,404		175,274	107,282	1,661	1,218	13,061	
Total 06/30/2019	4,177,292		175,274	107,282	1,804	1,218	13,061	
Total 12/31/2018	4,266,620		210,211	135,949	1,945	804	16,258	
of which: impaired financial assets acquired or internally generated	X	X		6,164	X		231	

Section 7 – Equity investments - Item 70

€221 thousand

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

7.1 Equity investments: information on investment relationships

Name	Registered office	Operating office	Relationship 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
€14,662 thousand

At June 30, 2019, the item “Property, plant and equipment” amounted to a total of €14,662 thousand. Of this amount, €13,101 thousand related to BFF, €1,180 thousand to BFF Polska Group, and €381 thousand to BFF Finance Iberia. At June 30, 2019, the item relating to BFF was mainly composed of:

- land of €3,685 thousand, unchanged from December 31, 2018;
- buildings (including capitalized extraordinary maintenance) of €6,333 thousand, compared to €6,495 thousand at December 31, 2018;
- right-of-use assets relating to adoption of the new IFRS 16 on leases amounted to €2,696 thousand. For further information on this topic, please refer to section M.

At the date of IFRS first-time adoption (January 1, 2005), the buildings owned by BFF 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. They are depreciated over their estimated useful life.
The measurement at first-time adoption resulted in a revaluation of the buildings for about €4 million, from about €5 million to about €9 million.
In the financial statements, the land and building owned in Milan (Via Domenichino 5) were recognized separately based on an appraisal conducted by the same company that determined their value. The land on which the Rome building sits was not separated because BFF is not the owner of the entire building.

Section 10 - Intangible assets – Item 100
€25,610 thousand (of which goodwill of €22,146 thousand)

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

The Group adopted a policy, for which the latest update was submitted for the approval of the Board of Directors in January 2019, which regulates the impairment testing process and incorporates the guidelines issued jointly by the Bank of Italy, Consob, IVASS (document no. 4 of March 3, 2010) and the suggestions made by Consob communication no. 3907 of January 19, 2015.
The recoverable amount of the equity investment held by BFF in BFF Polska Group was estimated during preparation of the financial statements for the year ended December 31, 2018 by using the value-in-use calculation method, identified based on the Dividend Discount Model (DDM). The DDM determines the value of an entity or a branch based on a dividend flow which is expected to be generated prospectively.

Cash flows have been forecast over a time frame referring to 2019 and are also impacted by recent market scenarios.

To estimate the cost of capital, the following parameters were used:

- the risk-free rate (3.22%), identified as the 12-month average of Poland Government Bonds, so as to also include the contribution of the risk applicable to the country in which the CGU operates;
- the average market return (5.96%) determined on the basis of the difference between the long-term return of shares and bonds;
- the growth rate (g, 2.20%) on the basis of the inflation rate forecast for Poland and Slovakia, used to calculate the terminal value with the "Perpetuity" method, determined considering the expected long-term inflation rate;
- the beta coefficient, which indicates the risk level of a specific share with respect to the stock market as a whole. This was estimated on the basis of the historic average weekly betas for 2 years, recorded at December 31, 2018, for a sample comprising 5 listed comparables.

The comparison between the result of the DDM analysis and the carrying amount of the investment confirms the identified recoverable amount reported in the financial statements. A sensitivity analysis was also performed to verify the outcome of the test where scenarios vary, in the event of a cost of equity +/- 0.50% and stressed growth rates (+/- 0.25%) with positive outcome.

At June 30, 2019, based on the qualitative and quantitative analysis performed, no items were found that would make it necessary for goodwill to be tested for impairment. The test will be carried out on the usual annual basis as planned, within the framework of the activities that will take place to prepare the financial statements at December 31, 2019.

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 €12,597 thousand; they mainly include advance payments for IRES and IRAP taxes made by BFF.
Current tax liabilities amounted to €10,417 thousand; they include the accrual of current income taxes for the first half of 2019 of Group companies.

11.1 Deferred tax assets: breakdown
€8,302 thousand

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

11.2 Deferred tax liabilities: breakdown
€69,248 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
€16,145 thousand

13.1 Other assets: breakdown

(Amounts in € thousands)

Breakdown	06/30/2019	12/31/2018
Security deposits	99	54
Inventories	1,124	848
Other receivables	9,656	10,464
Accrued income and prepaid expenses	5,266	3,381
Total	**16,145**	**14,747**

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

Section 1 – Financial liabilities measured at amortized cost – Item 10
€4,247,015 thousand

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

- due to banks of €1,168,510 thousand;
- due to customers of €2,298,787 thousand;
- debt securities issued of €779,718 thousand.

Due to banks
€1,168,510 thousand

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 06/30/2019				Total 12/31/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**0**	X	X	X	**0**	X	X	X
2. Due to banks	**1,168,510**	X	X	X	**1,237,996**	X	X	X
2.1 Current accounts and demand deposits	108,321	X	X	X	83,243	X	X	X
2.2 Fixed-term deposits	1,060,189	X	X	X	1,154,754	X	X	X
2.3 Loans		X	X	X		X	X	X
2.3.1 Repos		X	X	X		X	X	X
2.3.2 Other		X	X	X		X	X	X
2.4 Payables following commitments to repurchase treasury shares		X	X	X		X	X	X
2.5 Lease payables		X	X	X		X	X	X
2.6 Other payables		X	X	X		X	X	X
Total	**1,168,510**				**1,237,996**			

Key
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

"Due to banks" primarily refers to loans provided by the banking system at current market rates.
"Fixed-term deposits" represent the funding requested from third-party banks to support BFF Banking Group's core business. Specifically, the item also includes the loan agreements in zloty used to acquire BFF Polska Group, which were partially entered into with the Unicredit Group (for PLN 185 million, equivalent to €44 million) and partially with the Intesa Sanpaolo Group (PLN 170 million, equivalent to €40 million). Payables due to banks decreased compared to the end of the previous year.

1.2 Financial liabilities measured at amortized cost: due to customers broken down by type €2,298,787 thousand

(Amounts in € thousands)

Type of transaction/Amounts	Total 06/30/2019				Total 12/31/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	86,061	X	X	X	55,468	X	X	X
2. Fixed-term deposits	797,659	X	X	X	871,313	X	X	X
3. Loans		X	X	X		X	X	X
3.1 repos	1,035,651	X	X	X	1,030,719	X	X	X
3.2 other	341,940	X	X	X	291,784	X	X	X
4. Payables following commitments to repurchase treasury shares		X	X	X		X	X	X
5. Lease payables	2,829	X	X	X	0	X	X	X
6. Other payables	34,646	X	X	X	100,572	X	X	X
Total	**2,298,787**				**2,349,856**			

"Due to customers" includes €879 million for online deposit accounts offered in Italy, Spain and Germany (restricted deposits and current accounts), compared to €924 million at December 31, 2018.
The counterparty in repos, amounting to €1,036 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

Other loans, worth a total of €342 million, mainly refer to payables due to financial institutions deriving from existing cooperation between BFF and other Italian factoring companies.

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

1.3 Financial liabilities measured at amortized cost: debt securities issued broken down by type
€779,718 thousand

(Amounts in € thousands)

Type of securities/Amounts	Total 06/30/2019				Total 12/31/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds								
1.1 structured								
1.2 other	779,718	640,118	2,388	125,026	815,177	615,472	11,507	150,031
2. other securities								
2.1 structured								
2.2 other								
Total	**779,718**	**640,118**	**2,388**	**125,026**	**815,177**	**615,472**	**11,507**	**150,031**

Key
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

Debt securities issued consist of bonds issued by the Parent BFF, the subsidiary BFF Polska, and the relevant SPV. They have a total face value of €777 million and are recognized in the financial statements to the tune of €780 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 BFF in March 2017. The 10-year bonds due in 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 BFF in June 2017, due in June 2022. The bonds pay an annual fixed coupon of 2%;
- €200 million senior unsecured and unrated bonds (ISIN XS1731881964) issued by BFF in December 2017, due in June 2020. The bonds pay a quarterly variable coupon based on 3M Euribor + 145 bp spread;
- €150 million bonds (ISIN XS1435298275) issued by BFF in June 2016, due in June 2021. The bonds pay an annual fixed coupon of 1.25%;
- bonds issued by the subsidiary BFF Polska Group for PLN 10 million (€2.3 million), due in September 2019;
- €150 million flexible senior notes issued by the vehicle BFF SPV S.r.l. created together with the Bayerische Landesbank Group (Bayern LB) and partly paid to the tune of €125 million at June 30, 2019. As far as the securitization transaction is concerned, the receivables were sold to the vehicle company and were not derecognized from the assets of BFF since the sale did not transfer the relevant risks and rewards.

Section 6 – Tax liabilities – Item 60

€79,665

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

Section 8 – Other liabilities – Item 80

€72,540 thousand

8.1 Other liabilities: breakdown

(Amounts in € thousands)

Breakdown	Total 06/30/2019	Total 12/31/2018
Payables to suppliers	308	1,891
Invoices to be received	7,308	8,341
Payables to tax authorities	944	864
Payables to social security agencies	481	876
Payables to employees	5,087	5,200
Payables for receivables management	645	6,950
Collections pending allocation	44,668	28,933
Other payables	12,019	23,227
Accrued liabilities and deferred income	1,080	1,843
Total	**72,540**	**78,124**

"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, 2019 but still outstanding since they had not been cleared and recorded by that date.

"Payables to 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, payables to directors and other pending items.

Section 9 – Employee severance benefits – Item 90

€906 thousand

The liability recorded in the financial statements at June 30, 2019 in relation to employee severance benefits is equal to the current value of the obligation, estimated by an independent actuary on the basis of demographic and economic assumptions.
Other decreases include outflows from the provision for employee severance benefits to pension funds and the differences resulting from actuarial valuation recognized directly in equity.
Actuarial assumptions used to determine the liability at June 30, 2019 are shown below.

Actuarial assumptions

Annual discount rate

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

Annual increase rate of employee severance benefits

In compliance with Article 2120 of the Italian Civil Code, such rate is equal to 75% of inflation plus 1.5 percentage points.

The demographic assumptions used are as follows:

- Death: mortality tables RG48 published by the Italian State General Accounting Office (*Ragioneria Generale dello Stato*);
- Disability: tables INPS 2000 broken down by age and sex;
- Retirement: 100% upon reaching AGO requisites, as updated by Decree-Law 4/2019.

Section 10 – Provisions for risks and charges – Item 100

€4,352 thousand

10.1 Provisions for risks and charges: breakdown

(Amounts in € thousands)

Items/Amounts	Total 06/30/2019	Total 12/31/2018
1. Provisions for credit risk on commitments and financial guarantees provided	130	198
2. Provisions for other commitments and guarantees provided		
3. Pension funds	3,538	3,977
4. Other provisions for risks and charges		
4.1 legal and tax disputes		
4.2 personnel expenses		
4.3 other	685	806
Total	**4,352**	**4,981**

Starting from January 1, 2018, this item also includes provisions for credit risk associated with commitments/financial guarantees issued by BFF Polska to its customers, based on impairment requirements provided for by the new IFRS 9.
The pension fund refers mainly to the non-compete agreement entered into with BFF Banking Group's managers and the provision relating to the deferred payment incentive scheme envisaged for specific BFF employees.
The decrease in this item was attributable to payments made during the reporting period in relation to the deferred MBO.

10.5 Defined benefit pension funds

Below are the main changes in this provision:

- €135 thousand increase as a result of the funds set aside for the non-compete agreement with the managers of the companies that are part of BFF Banking Group;
- €391 thousand increase as a result of the funds set aside for the deferred payment of a portion of the annual bonuses for first- and second-level staff;
- €277 thousand decrease related to the discounting of the non-compete agreement and the deferred MBO as calculated with the support of an external advisor at June 30, 2019;
- €610 thousand decrease resulting from the use of the provision for payments.

The system involving deferral of a portion of the annual bonuses envisages, for risk takers, medium-term restrictions, according to which 30% of the annual bonus will be paid after three years, provided that the Bank achieves specific targets relating to its profitability, regulatory capital requirements established by existing regulations, and the employee's continued employment at the company. In accordance with the provisions of IAS 19, accruals were quantified based on an actuarial calculation performed externally by a specialized firm. The Bank's obligations were computed using the "Projected Unit Credit Method", which treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to compute the final obligation, in accordance with paragraphs 67-69 of IAS 19. This actuarial method entails valuation aimed at determining the average present value of the Bank's obligations. The main economic and demographic assumptions used for actuarial valuation purposes are the following:

Non-compete agreement

The annual discount rate used to calculate the present value of the obligation was deduced, in compliance with paragraph 83 of IAS 19, from the iBoxx Corporate AA Index with 10+ duration, reported at June 30, 2019 and equal to 0.77%. In determining the rate, the yield with a duration comparable to that of the items measured was used.

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

Deferred bonus

Discount rate

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA Index (in line with the duration of the plan). Discount rate used was equal to -0.15%.

Mortality and disability

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

Frequency of resignations and dismissals

Equal to 3%.

Section 13 – Equity – Items 120, 130, 140, 150, 160, 170 and 180
€315,525

13.1 "Share capital" and "Treasury shares": breakdown
€130,983 thousand and €-267 thousand

(Amounts in € thousands)

Type	06/30/2019	12/31/2018
1. Share capital	**131,217**	**130,983**
1.1 Ordinary shares	131,217	130,983
2. Treasury shares	**(1,783)**	**(245)**

As regards the purchase of treasury shares and the disclosure pursuant to Article 78, paragraph 1-bis of the Issuers' Regulation, reference is made to the information given in the Report on Operations, under the section on "Treasury Shares".

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

Items/Types	Ordinary	Other
A. Shares at the beginning of the year	**170,107,400**	
- fully paid	170,107,400	
- not fully paid		
A.1 Treasury shares (-)	(41,552)	
A.2 Shares outstanding: opening balance	**170,065,848**	
B. Increase	**330,394**	
B.1 New issues		
- against payment:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other	80,640	
- free:		
- to employees	223,000	
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes	26,754	
C. Decrease	**(319,752)**	
C.1 Cancellation		
C.2 Purchase of treasury shares	(319,752)	
C.3 Transactions for sale of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**170,076,490**	
D.1 Treasury shares (+)	(334,550)	
D.2 Shares outstanding at the end of the year		
- fully paid	170,411,040	
- 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 previous years (the three-year period before the date of preparation of these financial statements).

(Amounts in € thousands)

	06/30/2019	Possibility of use (a)	Amount available	Summary of use in the last three years	
				For absorption of losses	For other reasons
Share capital	**131,217**				
Reserves	**144,112**				
- Legal reserve	27,417	*B*			
- Extraordinary reserve	89	*A, B, C*	89		
- Retained earnings reserve	111,148	*A, B, C*	87,402		25,040 (*)
- Stock option and financial instrument reserves	5,467	*A*			
- Other reserves	(9)				
Revaluation reserves	**3,595**				
- HTC&S securities	(3,133)				
- Other	6,728				
Treasury share reserve	**(1,783)**				193
Total share capital and reserves	**277,140**		**87,491**		

(a) Possibility of use: *A* = for share capital increases; *B* = for absorption of losses; *C* = for distribution to shareholders.
(*) The uses made in the last three years, equal to €25,040 thousand, also include €233 thousand relative to share capital increases made in the first half of 2019.

Changes in Reserves are as follows:

(Amounts in € thousands)

	Legal reserve	Retained earnings	Other	Total
A. Opening balance	**27,417**	**110,793**	**4,296**	**142,506**
B. Increase	**0**	**19,270**	**1,602**	**20,872**
B.1 Appropriation of profit		18,691		18,691
B.2 Other changes		579	1,602	2,181
C. Decrease	**0**	**(18,915)**	**(350)**	**(19,265)**
C.1 Uses				0
- absorption of losses		0	0	0
- distribution		(18,763)	0	(18,763)
- transfer to share capital		(152)	0	(152)
C.2 Other changes		0	(350)	(350)
D. Closing balance	**27,417**	**111,148**	**5,547**	**144,112**

Retained earnings reserve

The net increase of €355 thousand was attributable to retained earnings of subsidiaries and to the distribution to shareholders from the retained earnings reserve by BFF, as per the relevant shareholders' meeting resolution of March 28, 2019 in regards to the 2018 financial statements.

Other reserves

The net increase in this item mainly refers to the positive impact arising from the granting, during the first half of 2019, of option rights related to the stock option plan and of BFF's shares to all the Group's employees within the stock grant plan—as per Shareholders' Meeting resolution dated March 28, 2019—, for a total of €1.5 million (recorded in accordance with the provisions of IFRS 2 through the recognition of personnel costs in the income statement, and a corresponding increase in equity), and to the negative impact (€350 thousand) arising from the use of reserves to pay 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, 3 of Circular no. 285/2013, as subsequently amended, issued by the Bank of Italy, according to which a portion must be paid in financial instruments.

Part C - Consolidated Income Statement

Section 1 – Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

€108,576 thousand

(Amounts in € thousands)

Items/Types	Debt securities	Loans	Other transactions	Total 06/30/2019	Total 06/30/2018
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	64		X	**64**	**48**
3. Financial assets measured at amortized cost:					
3.1 Due from banks		244	X	**244**	**219**
3.2 Due from customers	3,037	105,231	X	**108,268**	**107,700**
4. Hedging derivatives	X	X			
5. Other assets	X	X			**359**
6. Financial liabilities	X	X	X		
Total	**3,101**	**105,475**		**108,576**	**108,326**
of which: interest income on impaired financial assets					
of which: interest income on finance leases		209		209	

1.2 Interest and similar income: other information

Interest income concerning "Financial assets measured at fair value through OCI" of €64 thousand was generated by government securities purchased by BFF 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, they are measured at fair value. The interest earned is recognized 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 €105,231 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 BFF and BFF Finance Iberia.
Interest income on debt securities linked to receivables due from customers and totaling approximately €3.3 million derive from government securities purchased by BFF to hedge liquidity risk and to optimize the cost of money, relating to the HTC portfolio (Held to Collect—previously HTM under IAS 39). As already mentioned, government securities classified according to the HTC business model have been reclassified as receivables due from customers starting January 1, 2018.

BFF and BFF Finance Iberia update 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 2019, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's portfolio, for a total amount of €26.4 million.

1.3 Interest and similar expenses: breakdown
€22,720 thousand

(Amounts in € thousands)

Items/Types	Payables	Securities	Other transactions	Total 06/30/2019	Total 06/30/2018
1. Financial liabilities measured at amortized cost					
1.1 Due to central banks		X	X		
1.2 Due to banks	9,804	X	X	**9,804**	**7,287**
1.3 Due to customers	4,810	X	X	**4,810**	**5,295**
1.4 Debt securities issued	X	8,106	X	**8,106**	**8,774**
2. Financial liabilities held for trading					
3. Financial liabilities designated at fair value					
4. Other liabilities and provisions	X	X			
5. Hedging derivatives	X	X			
6. Financial assets	X	X	X		
Total	**14,613**	**8,106**		**22,720**	**21,356**
of which: interest expense relating to lease payables	22				

Interest expense increased from €21.4 million at June 30, 2018 to €22.7 million at June 30, 2019.

Interest expense on payables "Due to banks" refers to the additional funding requested from third-party banks to support the business of both the Parent and its subsidiaries. Specifically, the item includes interest on the loan agreements in zloty used to acquire BFF Polska Group.

The interest expense on payables "Due to customers" mainly refers to interest expense relating to the online deposit accounts of BFF: specifically, €906 thousand for Conto Facto, offered in Italy, and €3,750 thousand for Cuenta Facto, offered in Spain by the Spanish branch of BFF.
This item also includes interest expense of €377 thousand on loans granted by other factoring companies, in addition to interest (income) on repurchase agreements to the tune of €2,094 thousand.

2.1 Fee and commission income: breakdown

€3,217 thousand

(Amounts in € thousands)

Type of service/Amounts	Total 06/30/2019	Total 06/30/2018
a) guarantees provided		
b) credit derivatives		
c) management, brokerage and consulting services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management		
3.1 individual		
3.2 collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. receipt and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third-party services		
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other products		
d) collection and payment services	3,217	3,759
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	**3,217**	**3,759**

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
€794 thousand

(Amounts in € thousands)

Services/Amounts	Total 06/30/2019	Total 06/30/2018
a) guarantees received	74	0
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	720	769
Total	**794**	**769**

The item mainly refers to expenses on existing banking relationships.

4 - Gains (losses) on trading - Item 80
€1,205 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 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	X	X	X	X	**(1,115)**
4. Derivative instruments					
3.1 Financial derivatives:					
- on debt securities and interest rates					
- on equity securities and equity indices					
- on currency and gold	X	X	X	X	(90)
- Other					
3.2 Credit derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total					**(1,205)**

Gains (losses) on trading mainly arise from the negative exchange effect recognized in the income statement, arising from the devaluation of exchange rates applied to the loans payable in Polish zloty used for the acquisition of BFF Polska Group and amounting, at June 30, 2019, to €1.2 million, before taxes, compared to the positive effect of €4 million recorded at the end of the prior-year period, offset by a positive effect from the revaluation of the exchange rates applied to BFF Polska Group's equity in consolidated equity.

Section 5 – Gains (losses) on hedge accounting - Item 90
€0

At June 30, 2019, BFF Banking Group did not have any derivative hedging contracts. This item is equal to zero. It is recognized in these accounts only to compare it with prior-year figures. The gains in this category at June 30, 2018 relate to an Interest Rate Swap contract which BFF entered into for the hedging of cashflows, terminated during the first quarter of 2018.

Section 6 – Gains (losses) on disposal or repurchase – Item 100
€207 thousand

6.1 Gains (losses) on disposal or repurchase: breakdown

(Amounts in € thousands)

Items/Income components	Total 06/30/2019			Total 06/30/2018		
	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	3,101	(2,893)	207	403	(43)	359
2.2 Loans						
Total assets (A)	**3,101**	**(2,893)**	**207**	**403**	**(43)**	**359**
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 year, resulting in a net gain of €207 thousand, before the tax effect.

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

€447 thousand

8.1 Net adjustments for credit risk on financial assets measured at amortized cost: breakdown

(Amounts in € thousands)

Transactions/Income components	Adjustments (1)			Reversals of impairment (2)		Total 06/30/2019	Total 06/30/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Due from banks						0	**(32)**
- Loans							(32)
- Debt securities							
of which: impaired loans acquired or internally generated							
B. Due from customers:	**(225)**	**(7)**	**(861)**	**313**	**331**	**(449)**	**(3,188)**
- Loans	(224)	(7)	(861)	313	331	(448)	(3,176)
- Debt securities	(1)					(1)	(12)
of which: impaired loans acquired or internally generated							
Total	**(225)**	**(7)**	**(861)**	**313**	**331**	**(449)**	**(3,220)**

8.2 Net adjustments for credit risk on financial assets measured at fair value through OCI: breakdown

(Amounts in € thousands)

Transactions/Income components	Adjustments (1)			Reversals of impairment (2)		Total 06/30/2019	Total 06/30/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		rite-off	Other				
A. Debt securities				2		2	**(9)**
B. Loans							
- to customers							
- to banks							
of which: financial assets impaired or internally generated							
Total				2		2	**(9)**

Section 12 – Administrative expenses – Item 190

€36,014 thousand

12.1 Personnel costs: breakdown

€18,098 thousand

(Amounts in € thousands)

Type of expense/Sectors	Total 06/30/2019	Total 06/30/2018
1) Employees		
a) wages and salaries	10,762	10,109
b) social security contributions	2,983	2,621
c) employee severance benefits		
d) pension		
e) employee severance benefits	224	253
f) provision for pension and other post-employment benefits:		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds:		
- defined contribution		
- defined benefit	81	83
h) costs of share-based payment arrangements	778	
i) other employee benefits	1,919	2,096
2) Other staff in service	295	276
3) Directors and statutory auditors	1,055	925
4) Early retirement costs		
Total	**18,098**	**16,364**

The increase in this item can mainly be traced to an increased number of employees compared to the prior-year period.
The amount also includes expenses for stock options reserved to some employees and for the stock grant plan, equal to €0.9 million and €0.8 million before taxes, respectively. Such cost also generates an increase, before taxes, in equity.

12.5 Other administrative expenses: breakdown
€17,916 thousand

(Amounts in € thousands)

Breakdown	Total 06/30/2019	Total 06/30/2018
Legal fees	1,313	1,014
Data processing services	800	1,294
External credit management services	519	514
Supervisory Body fees	20	34
Legal fees for receivables under management	112	160
Notary fees	279	345
Notary fees to be recovered	707	400
Entertainment expenses and donations	558	443
Maintenance expenses	803	703
Non-deductible VAT	1,624	1,509
Other taxes	641	882
Advisory fees	4,016	3,060
Head office operating expenses	667	800
Resolution Fund and FITD	2,731	3,531
Other expenses	3,124	3,274
Total	**17,916**	**17,963**

Other administrative expenses at June 30, 2019 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 €2.7 million before taxes was recorded at June 30, 2019. This cost was mainly made up of:

- €1.7 million as ordinary annual contribution to the Resolution Fund, and €0.6 million as extraordinary contribution for 2017 (both already paid);
- €0.4 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

€289 thousand

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

(Amounts in € thousands)

Breakdown	Total 06/30/2019	Total 06/30/2018
Provision for risk on commitments and guarantees	68	(36)
Total	**68**	**(36)**

13.3 Net allocations to provisions for risks and charges: breakdown

(Amounts in € thousands)

Breakdown	Total 06/30/2019	Total 06/30/2018
Pension and other post-employment benefits	(357)	(513)
Other provisions	0	0
Total	**(357)**	**(513)**

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

€1,463 thousand

This item includes half-yearly depreciation relating to property, plant and equipment held by BFF Banking Group, recorded in the financial statements at the same date.
Starting from January 1, 2019, this item includes the adjustments required for leases that are accounted for as Property, plant and equipment under the new IFRS 16 (for further details, reference should be made to the specific paragraph on IFRS 16 in the "Accounting policies" section).

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

€937 thousand

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

Section 16 – Other operating income (expenses) – Item 230
€2,553 thousand

16.1 Other operating expenses: breakdown

(Amounts in € thousands)

Breakdown	Total 06/30/2019	Total 06/30/2018
Contingent expenses	(390)	(381)
Rounding offs and allowance expenses	(13)	(40)
Other expenses	(391)	
Deposit guarantee scheme expenses		
Tax expenses	(147)	(889)
Total	**(941)**	**(1,310)**

16.2 Other operating income: breakdown

(Amounts in € thousands)

Breakdown	Total 06/30/2019	Total 06/30/2018
Recovery of legal fees for purchases of non-recourse receivables	738	973
Recovery of management legal fees	110	716
Receivables realized at other than face value		
Contingent assets	170	746
Recovery of assignor notary expenses	714	452
Other income	1,762	43
Total	**3,494**	**2,930**

BFF recognized an amount of €1.2 million under the item “Other income” in relation to the collection of invoices for reimbursement of costs incurred when recovering amounts not promptly paid by debtors.

Section 21 – Income taxes on profit (loss) from continuing operations – Item 300
€12,596 thousand

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

(Amounts in € thousands)

	Income components/Sectors	Total 06/30/2019	Total 06/30/2018
1.	Current taxes (-)	8,090	12,710
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 (+/-)	(68)	0
5.	Change in deferred tax liabilities (+/-)	4,574	2,342
6.	**Taxes for the year (-) (-1+/-2+3+3.bis+/-4+/-5)**	**12,596**	**15,053**

Section 25 – Earnings per share

25.1 Average number of diluted ordinary shares

Breakdown	06/30/2019	06/30/2018
Average number of shares outstanding	170,076,490	170,107,400
Average number of potentially dilutive shares	8,049,738	6,237,522
Weighted average number of potentially dilutive shares	178,126,228	176,344,922

25.2 Other information

Breakdown	06/30/2019	06/30/2018
Consolidated net profit for the period (in euros)	38,088,286	41,321,474
Average number of shares outstanding	170,076,490	170,107,400
Average number of potentially dilutive shares	8,049,738	6,237,522
Weighted average number of potentially dilutive shares	178,126,228	176,344,922
Basic earnings per share (in euros)	**0.22**	**0.24**
Diluted earnings per share (in euros)	**0.21**	**0.23**

Part D - Consolidated Comprehensive Income

Consolidated Statement of Comprehensive Income

(Amounts in euros)

	Items	06/30/2019	06/30/2018
10.	**Profit (loss) for the period**	**38,088,286**	**41,321,474**
	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 (changes 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	(49,008)	11,641
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	13,477	(3,201)
	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 differences:		
	a) fair value changes		
	b) reclassification to profit or loss		
	c) other changes	1,826,324	(4,548,095)
130.	Cash flow hedges:		
	a) fair value changes	0	(290,088)
	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	1,548,343	(8,146,876)
	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		
	- impairment losses		
	- capital gains (losses)		
	c) other changes		
180.	Income taxes on OCI that will be reclassified to profit or loss	(588,012)	2,979,305
190.	**Total other comprehensive income**	**2,751,124**	**(9,997,315)**
200.	**Comprehensive income (Items 10+190)**	**40,839,410**	**31,324,159**
210.	Consolidated comprehensive income attributable to non-controlling interests		
220.	**Consolidated comprehensive income attributable to the Parent**	**40,839,410**	**31,324,159**

Part E - Risks and Related Risk Management Policies

Introduction

BFF 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.

Such 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 prospective capital adequacy, associated with the strategic planning process.

The corporate governance bodies of the Bank—as BFF 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 he or she has to monitor, and his or her tasks and responsibilities are governed by specific Internal Regulations.

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

- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Group risks (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;
- providing an assessment of the capital absorbed, also under stress conditions, and 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 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. that 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 - Title I, 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 BFF Polska Group, which mostly 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 accounts for approximately 76% of all the exposures to customers 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/debtor'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 June 24, 2019, 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 of the Group consists, as mentioned above, in the purchase of receivables on a non-recourse basis[7] 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 may generate 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 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 BFF Banking Group, since this type of factoring is only included in BFF Polska S.A.'s 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's 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, 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, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish local authorities and public sector entities as provided for by EBA lists "*EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013*" and "*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013*";
- 20% for *(i)* exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the local currency, *(ii)* exposures to public sector entities of countries with credit quality step 1, *(iii)* exposures to public sector entities and supervised intermediaries with an original duration of three months or less;
- 50% for exposures to the public administration agencies of countries with credit quality step 2, which include the exposures to entities of the Polish and Slovakian public sector.
- 100% for *(i)* exposures to the public administration agencies of countries with credit quality step 3, 4 and 5 (including Italy, Portugal and Greece—please note that on May 3, 2019 DBRS upgraded Greece's rating from BH to BBL, thus improving the credit quality step from 5 to 4, but leaving the capital absorption percentage unchanged at 100%) and *(ii)* exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Czech Republic and Croatia);
- 50% or 100% for receivables due from supervised intermediaries, according to the credit quality step of the country in which they have their offices;
- 75% for retail exposures and exposures to SMEs;
- 100% for exposures to private debtors (i.e., businesses);
- 100% for property, plant and equipment, equity investments, collective investment undertakings and other;
- 150% for non-performing exposures, if the specific value adjustments are 20% less than the non-collateralized portion, before any adjustments;
- 100% for non-performing exposures, if the specific value adjustments are 20% or more than 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).

BFF Banking Group constantly maintains, as a capital requirement for 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 for credit risk at June 30, 2019 is €144.4 million for BFF Banking Group.

Furthermore, the credit risk management process abides by external regulations (CRR, Bank of Italy's 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.

Credit quality assessment

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, the prudential criteria required by supervisory regulations, and the internal policies adopted by BFF Banking 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 – PD, Loss Given Default – LGD, Exposure at Default – EAD) has been adopted, redefined based on a multi-period perspective.

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).

2.3 Expected credit loss measurement methods

Receivables subject to generic adjustments (“collective impairment”)

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.

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modeling approach. Therefore, by analyzing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Group's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.
The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment are as follows:

- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the receivable, 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;
- deterministic and stochastic EAD model allowing to define a multi-period distribution as well as a 12-month horizon.

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.

Furthermore, in compliance with IFRS 9, the ECL calculation shall include Point-in-Time (PIT) adjustments and Forward-Looking Information (FLI).

Receivables subject to specific adjustments (“Individual impairment”)

As required by IFRS 9 and in line with current supervisory provisions, the Group carried out a review of the assets classified as non-performing in order to identify any objective impairment of individual positions.

It should be noted that, 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 Group’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 arising from impairment are then individually attributed to each single counterparty classified in such risk position.
BFF Banking Group’s impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €94.2 million—net of individual impairment—and are broken down as follows:

- €45.2 million NPLs;
- €10.3 million unlikely to pay exposures;
- €38.7 million impaired past due exposures.

As regards the impairment policies adopted, 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.

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.

BFF BANKING GROUP

2.5 Impaired financial assets

In compliance with Bank of Italy's Circular no. 272, BFF Banking Group's net "Impaired assets" amounted to a total of €94,221 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, 2019, the overall total of BFF Banking Group's non-performing loans, net of impairment, amounted to €45,211 thousand, of which €5,837 thousand purchased already impaired. Net non-performing loans concerning municipalities in financial distress amounted to €40,099 thousand, accounting for 88.8% of the total.

  Gross non-performing loans amounted to €55,471 thousand. Relevant impairment totaled €10,260 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 €1,545 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €57,015 thousand and relevant adjustments totaled €11,805 thousand.

  With reference to the Bank, at June 30, 2019 total non-performing loans, net of any estimated impairment losses, amounted to €40,686 thousand, of which €40,099 thousand concerned Italian municipalities in financial distress.
  Specifically, the amount of €5,837 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.
  The remaining positions referring to BFF are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €12,756 thousand; after estimated impairment losses of €8,259 thousand, the net amount totaled €4,497 thousand.

- BFF Banking Group's unlikely to pay exposures mainly refer to 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, 2019, gross exposures classified as unlikely to pay amounted to €12,874 thousand, of which €12,719 thousand attributable to BFF Polska Group, and €155 thousand to BFF Finance Iberia. The total net amount was €10,315 thousand, relating mainly to BFF Polska Group, since the gross exposures of BFF and BFF Finance Iberia were almost entirely impaired.

- BFF Banking Group's net past due exposures totaled €38,695 thousand, of which €30,445 thousand (78.7%) attributable to public administration counterparties and public sector companies in the various countries where BFF 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. BFF's overall amount of net past due exposures at June 30, 2019 was equal to €30,757 thousand. Of this amount, €29,611 thousand (equal to 72.8%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €7,154 thousand. The remaining past due exposures, for a net amount of €784 thousand, refer to BFF Finance Iberia and 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	Other impaired exposures	Not impaired exposures	Total
1. Financial assets measured at amortized cost	45,211	10,315	38,695	828,492	3,521,359	4,444,071
2. Financial assets measured at fair value through OCI	-	-	-	-	162,093	162,093
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total 06/30/2019	45,211	10,315	38,695	828,492	3,683,452	4,606,164
Total 12/31/2018	40,344	6,774	72,572	596,718	4,198,546	4,914,954

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	107,285	13,064	94,221		4,352,869	3,019	4,349,851	4,444,071
2. Financial assets measured at fair value through OCI					162,115	22	162,093	162,093
3. Financial assets designated at fair value					X	X		
4. Other financial assets mandatorily measured at fair value					X	X		
5. Financial assets held for sale								
Total 06/30/2019	107,285	13,064	94,221		4,514,984	3,041	4,511,943	4,606,164
Total 12/31/2018	135,949	16,258	119,690		4,637,423	2,749	4,634,674	4,754,362

1.2 – Banking Group - Market risks

1.2.1 Interest rate risk and price risk – Trading portfolio

Qualitative information

1. General information

At June 30, 2019 no financial assets held for trading were recognized.

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 the European Banking Authority (EBA). 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 interest rate sensitivity analysis 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 BFF's funding activity can only occur in compliance with the policies and limits set by the Board of Directors. It is governed by specific powers delegated in this area, which set autonomy limitations for those 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 Administration 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 BFF.

The interest rate risk position is reported on a quarterly basis to BFF'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 Administration 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

The Group's asset portfolio at June 30, 2019 is denominated as follows:

- Euro;
- Polish zloty;
- Czech koruna;
- Croatian kuna.

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 BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty was hedged by loan agreements secured with the Unicredit Group and the IntesaSanPaolo Group, so that the asset and liability positions offset each other and, consequently, there is an open position in currency within the limits set by the Risk Appetite Framework approved by the Bank's BoD (natural hedging).
The currency effect, recognized in the income statement, arising from the revaluation of the zloty loans 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 BFF Polska Group's equity.

No hedging transactions using derivative instruments were recognized at June 30, 2019.

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.

BFF Banking Group's LCR and NSFR at June 30, 2018 were equal to 499% and 107%, respectively, compared to 251% and 111% at June 30, 2018.

1.4 Banking Group – Operational risks

Qualitative information

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

Operational risk is the risk of incurring a loss due to inadequacy or 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, reference has been made to the Banking Group pursuant to the Consolidated Law on Banking.
As for this Part F, therefore, Section 1 reports the data of the Banking Group 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	131,217				131,217
2. Share premium	297				297
3. Reserves	144,112				144,112
4. Equity instruments					
5. (Treasury shares)	(1,783)				(1,783)
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	(3,133)				(3,133)
- Property, plant and equipment					
- Intangible assets					
- Hedges of foreign investments					
- Cash flow hedges	-				-
- Hedging instruments [not designated]					
- Exchange differences	2,776				2,776
- 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	(183)				(183)
- Portion of revaluation reserves relating to equity investments measured using the equity method					
- Special revaluation laws	4,135				4,135
Profit (Loss) for the period (+/-) attributable to the group and non-controlling interests	38,088				38,088
Equity	**315,525**				**315,525**

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's 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 on Banking Supervision (Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways in 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 year, if any;
- revaluation reserves (IASs/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.

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".

Own funds of the Banking Group pursuant to the Consolidated Law on Banking amounted to €349.9 million, compared to €344.6 million at December 31, 2018. This positive change was mainly due to (i) the HTC&S securities revaluation reserve which, following the increase in the fair value of Italian government securities, generated a positive impact of €1.0 million after taxes, (ii) a €1.7 million change in the translation reserve due to the fluctuation of the exchange rates applied to BFF Polska Group's equity in consolidated equity, (iii) further changes in the reserves relating to the stock option plans reserved to some beneficiaries and to the stock grant plan involving all Group employees and granted in the first half of 2019, and to (iv) the deduction from own funds of intangible assets with a positive impact of €0.6 million. 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.

(Amounts in € thousands)

	Total	Total
	06/30/2019	12/31/2018
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	277,437	272,795
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)	277,437	272,795
D. Items to be deducted from CET1	-25,772	**-26,405**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	251,665	246,390
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	98,224	98,224
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		
P. Total Tier 2 (T2) capital (M - N +/- O)	98,224	98,224
Q. Total own funds (F + L + P)	349,889	344,614

Own funds of the CRR Group are presented below.

(Amounts in € thousands)

	Total	Total
	06/30/2019	12/31/2018
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	396,706	377,176
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)	396,706	377,176
D. Items to be deducted from CET1	-100,967	-131,386
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	295,739	245,790
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects	26,148	22,054
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)	26,148	22,054
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects	67,408	74,422
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		
P. Total Tier 2 (T2) capital (M - N +/- O)	67,408	74,422
Q. Total own funds (F + L + P)	389,295	342,266

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, communicated on April 3, 2019 by BFF Luxembourg S.à r.l., of 22 million BFF shares, equivalent to 12.9% of the Bank's capital. Subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 45.8% to 32.8%.
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's 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 11.6%, the Tier 1 Capital Ratio is 11.6% and the Total Capital Ratio is 16.1%.
With regard to the CRR Group, the CET1 Capital Ratio is 13.4%, the Tier 1 Capital Ratio is 14.6%, and the Total Capital Ratio is 17.6%.
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 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 thoroughly described in Part E of this document.

Counterparty risk

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.
For BFF, 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 includes legal risk but excludes 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 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 BFF, BFF Finance Iberia, and 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.

BFF Banking Group annually submits the "ICAAP/ILAAP 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 BFF Board of Directors on April 19, 2019. The Group's Report has been prepared in compliance with the relevant requirements introduced in 2018 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) no. 468/2014, which include BFF Banking Group.
On June 24, 2019, BFF Banking Group approved a new "Recovery plan" in accordance with the updating requirements provided for by applicable regulations.
In relation to the "Supervisory Review and Evaluation Process" (SREP), on June 28, 2019 the Bank of Italy informed the Group that it decided not to adopt new capital decisions for 2019, and apply only the increase in the Capital Conservation Buffer (2.5% for 2019, as compared to the 1.875% which was forecast for 2018). Therefore, the Overall Capital Ratios with which BFF Banking Group must comply are the CET1 Ratio of 7.80%, the Tier1 Ratio of 9.60%, and the Total Capital Ratio of 12.00%.

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.

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	06/30/2019	12/31/2018	06/30/2019	12/31/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	5,781,462	4,947,451	1,805,270	1,891,820
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			144,422	151,346
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risks				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			29,644	29,644
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			**174,066**	**180,990**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,175,821	2,262,371
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)			**11.57%**	**10.89%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**11.57%**	**10.89%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**16.08%**	**15.23%**

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

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	06/30/2019	12/31/2018	06/30/2019	12/31/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	5,937,566	5,039,498	1,836,765	1,910,233
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			146,941	152,819
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risks				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			29,644	29,644
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			**176,585**	**182,463**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,207,316	2,280,784
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)			**13.40%**	**10.78%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**14.58%**	**11.74%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**17.64%**	**15.01%**

Part G - Business Combinations

Section 1 – Transactions performed during the year

At June 30, 2019, no transactions relating to business combinations were recognized.

In May 2017, in accordance with the provisions of IFRS 3, the Purchase Price Allocation (PPA) process was completed. At the end of this process, the allocation of the purchase price entirely to goodwill was confirmed, as applied during the initial recognition of the acquisition of 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, 2018 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 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, 2019, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statement item.

(Amounts in € thousands)

	Parent Company	Directors and Executives with key management responsibilities (1)	Total related parties	Financial statement item	% of financial statement item	Cash flow statement item	% of cash flow statement item
Impact of transactions on the consolidated balance sheet							
Other assets							
At June 30, 2019	5		5	16,145	0.0%	**(11,929)**	0.0%
Due to customers							
At June 30, 2019		(183)	**(183)**	**(4,247,015)**	0.0%	**(156,015)**	0.1%
Provisions for risks and charges: a) pension and other post-employment benefits							
At June 30, 2019		(1,654)	**(1,654)**	**(4,352)**	38.0%	**(10,688)**	15.5%
Other liabilities							
At June 30, 2019		(376)	**(376)**	**(72,540)**	0.5%	**(10,688)**	3.5%
Reserves							
At June 30, 2019		(1,206)	**(1,206)**	**(144,112)**	0.8%	**(10,688)**	11.3%
Impact of transactions on the consolidated income statement							
Interest and similar expenses							
At June 30, 2019		(1)	**(1)**	**(22,720)**	0.0%	0	
Administrative expenses a) personnel costs							
At June 30, 2019		(3,443)	**(3,443)**	**(18,098)**	19.0%	0	
Net allocations to provisions for risks and charges							
At June 30, 2019		(164)	**(164)**	**(289)**	56.9%	289	56.9%
Other operating income (expenses)							
At June 30, 2019	5		5	2,553	0.2%	0	

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

At June 30, 2019, option rights to the stock option plan were equal to 8,049,738 options awarded and unexercised, accounting for 4.34% of fully diluted capital, of which 1,770,078 vested.

BFF BANKING GROUP

In particular, since the beginning of the exercise period (April 8, 2019) to June 30, 2019, 124,998 new shares were issued in the face of the 523,722 cashless options and 80,640 ordinary options that were exercised over the same period, for a total of 604,362 options exercised overall.

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, 2019 are as follows:

- BFF Finance Iberia (through BFF Sucursal en España): €169.5 million;
- BFF Polska: PLN 107 million (€500 thousand);
- BFF Central Europe: €113.9 million.

BFF and BFF Finance Iberia have entered into a license agreement. Such agreement allows the use, under license, of the software, organizational methods and communication lines of BFF (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at June 30, 2019 amounted to about €588 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 €80.9 million (of which €67 million in 2016, €12.2 million in 2017 and €1.7 million in 2018), with an outstanding balance of about €1.1 million.
BFF and BFF Polska Group have entered into an intra-group service and cost-sharing agreement. Such agreement focuses on service provision and optimal cost sharing between the participating companies. The costs charged back to BFF Polska Group at June 30, 2019 amounted to approximately €455 thousand.

It should be noted that BFF 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 Payment Arrangements

A. Qualitative information

1. Description of the share-based payment arrangements

Stock Option Plan

On December 5, 2016, the Bank's Ordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards. 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 for newly issued ordinary shares of the Bank or shares that have already been issued and are included in the company portfolio when the option is exercised;
- *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 directors, senior executives and executives directly reporting to the Chief Executive Officer;
    - b) the Chief Executive Officer, within the limits of his/her powers, with reference to other beneficiaries whose remuneration falls within his/her duties;
- *type of exercise*: cashless. On March 28, 2019 the Ordinary Shareholders' Meeting approved the introduction of an alternative method for exercising options under the plan, in addition to the ordinary option (cashless). According to the new exercise option, authorized beneficiaries who requested it can be allocated a number of shares determined based on the market value of the shares at the exercise date, with no obligation for them to pay the exercise price.

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; therefore, the plan is 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 8,049,738 options awarded, accounting for 4.34% of fully diluted capital.

Stock Grant Plan

On March 28, 2019 the Ordinary Shareholders' Meeting approved a one-off stock grant without payment for Group employees, involving a maximum of 240,000 parent company shares. This corresponds to a maximum corresponding amount of €2,065 for each beneficiary, to be fully allocated on a single date to be set by the Board of Directors by December 31, 2019 (the "Stock Grant").

The one-off grant is intended for all natural persons (employees, middle managers or executives) who on that date are linked to BFF or one of its subsidiaries based on a permanent employment relationship, and who meet the additional subjective requirements provided for by the stock grant regulations.

On May 14, 2019, a partial execution of the aforesaid shareholders' meeting resolution took place. In particular, 150,800 BFF shares were granted to each beneficiary, with the price being determined on the basis of an arithmetical average of prices recorded in the month before that date (pursuant to the "Stock Grant" regulations).

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Part L - Segment Reporting

At June 30, 2019, BFF Banking Group is composed of BFF S.p.A., the parent company, and the subsidiaries BFF Finance Iberia and BFF Polska Group.

BFF 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, 2019 BFF 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. The Group is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table shows the breakdown, at June 30, 2019 and June 30, 2018, of managed turnover, receivables due from customers and receivables purchased, relating to BFF and the subsidiary BFF Finance Iberia, by debtor and geographical area.

At June 30, 2019, receivables due from BFF and BFF Finance Iberia customers amounted to €2,660 million, compared to €2,253 million at June 30, 2018, thus increasing by approximately 10%.

(Amounts in € millions)

	06/30/2019			06/30/2018		
	Managed turnover	Outstanding	Receivables purchased	Managed turnover	Outstanding	Receivables purchased
Italy	**2,887**	**2,271**	**1,337**	**2,988**	**1,969**	**1,392**
National Healthcare System	2,152	812	855	2,406	784	861
Public administration agencies	418	1,344	439	524	1,149	504
Other	318	115	43	58	35	27
Spain	**313**	**204**	**313**	**318**	**190**	**318**
National Healthcare System	122	85	122	101	47	101
Public administration agencies	191	118	191	217	143	217
Other		0				
Portugal	**51**	**157**	**51**	**65**	**87**	**65**
National Healthcare System	51	157	51	65	87	65
Public administration agencies	0	1	0	0	0	0
Other		0				
Greece	**21**	**27**	**21**	**5**	**8**	**5**
National Healthcare System	18	23	18	4	7	4
Public administration agencies	3	4	3	0	1	0
Other		0				
Croatia	**0**	**1**	**0**	**0**	**0**	**0**
National Healthcare System	0	1	0	0	0	0
Public administration agencies						
Other						
Total	3,272	2,660	1,722	3,376	2,253	1,780

BFF BANKING GROUP

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, BFF Polska Group also has a significant presence in Slovakia and the Czech Republic.

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 sector.

At June 30, 2019, BFF Polska Group's receivables due from customers amounted to €794 million (at the exchange rate of June 30, 2019), up by 22.6% compared to €647 million at June 30, 2018.
BFF Polska Group's new business at June 30, 2019 amounted to €247 million (based on the average exchange rate recorded in the first half of the year), down by 11.2% compared to €279 million at June 30, 2018.

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

(Amounts in € millions)

	06/30/2019		06/30/2018	
	Due from customers	New Business	Due from customers	New Business
Poland	626	244	505	248
Slovakia	165	2	140	28
Czech Republic	4	1	2	3
Total	**794**	**247**	**647**	**279**

Part M – Lease Reporting

On January 1, 2019, the new accounting standard IFRS 16 with the new definitions and accounting models for "leases" came into effect. This standard is based on transferring the right-of-use for a leased asset, and applies to all leases (except for lease contracts of 12 months or less, or the underlying asset has a low value (<5,000).

Based on this accounting model, the "right of use" is recognized in the balance sheet as an asset, and future payments relating to the same leased asset shall be entered as a liability. Any depreciation relating to the right-of-use asset, and any relevant interest expenses shall be recognized in the income statement. The application of IFRS 16 changes the accounting substantially for lessees, as it eliminates a lessee's classification of leases as either operating leases or finance leases.

In particular, lessees are required to comply with the following main provisions:

- the identified asset is classified as a right-of-use asset and presented in the statement of financial position as investment property. The relevant financial liability shall also be recognized.
- at the commencement date, a lessee shall measure the financial liability at the present value of the lease payments agreed by the parties to use the asset over the term of the contract that is reasonably certain. The initial measurement of the right-of-use shall be equal to the value of the financial liability, less some specific items—e.g., those relating to the direct costs incurred in obtaining the lease;
- for subsequent measurement of the asset and over the lease term, the asset is depreciated on a systematic basis, while the financial liability includes any interest expense, calculated based on the interest rate implicit in the lease where expressly stated or on the cost of funding for the period, and any periodical lease payments.

Section 1 - Lessee

Qualitative information

During 2018, BFF Banking Group launched a project initiative aimed at understanding and defining the qualitative and quantitative impact of first-time adoption of the new IFRS 16. Following on from this project, a new accounting model has been defined for use in relation to all lease contracts, except for those with low-value underlying assets (€5,000 or less) or short lease term (12 months or less).

For the purpose of first-time adoption (FTA), on January 29, 2019 the Board of Directors resolved that BFF and all companies belonging to BFF Banking Group shall adopt the "Modified Retrospective Approach". As a result, the Group elected not to apply the standard retrospectively (having considered comparative information overall), and the amount relating to right-of-use assets under "Property, plant and equipment" is equal to the financial liability amount.

Quantitative information

BFF Banking Group's right-of-use assets accounted for as "Property, plant and equipment" at first-time adoption and at June 30, 2019 are shown below.

(Amounts in € millions)

	Right of use 01/01/2019 (FTA)	Right of use 06/30/2019
BFF	2,018	1,961
BFF Finance Iberia	297	193
BFF Polska Group	788	542
BFF Banking Group Total	**3,103**	**2,696**

For more details on the accounting impacts related to Property, plant and equipment and Financial liabilities measured at amortized cost, please refer to the "Accounting Policies" section.

Section 1 - Lessor

Please note that this section only refers to BFF Polska Group's activities.

Quantitative information

(Amounts in € millions)

	Total 06/30/2019	Total 12/31/2018
Time periods	Lease payments to be received	Lease payments to be received
Up to 1 year		
1 to 2 years		
2 to 3 years	485	
3 to 4 years		
4 to 5 years		
Over 5 years	79	
Total lease payments to be received	564	
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)		
Unguaranteed residual value (-)		
Lease financing activities	3,620	

BFF'S FINANCIAL STATEMENTS

Separate Balance Sheet

(Amounts in euros)

	Assets	06/30/2019	12/31/2018
10.	Cash and cash equivalents	36,137,091	99,456,450
30.	Financial assets measured at fair value through OCI	162,256,669	160,755,859
40.	Financial assets measured at amortized cost	3,747,193,873	3,934,396,480
	a) due from banks	*52,382,242*	*47,345,594*
	b) due from customers	*3,694,811,631*	*3,887,050,886*
70.	Equity investments	115,487,012	115,487,012
80.	Property, plant and equipment (*)	13,100,501	11,100,569
90.	Intangible assets	3,039,519	3,762,199
	of which		
	- goodwill	*0*	*0*
100.	Tax assets	17,197,796	31,840,480
	a) current	*11,661,733*	*25,872,800*
	b) deferred	*5,536,063*	*5,967,680*
120.	Other assets	12,387,250	9,028,769
	TOTAL ASSETS	**4,106,799,711**	**4,365,827,818**

(*) The item "Property, plant and equipment" includes right-of-use assets relating to leases recognized at June 30, 2019, in compliance with the new standard IFRS 16. The figure recognized at December 31, 2018 does not include the effects arising from the application of the new standard, which is effective for annual periods beginning on or after January 1, 2019.

BFF BANKING GROUP

Separate Balance Sheet

(Amounts in euros)

	Liabilities and Equity	06/30/2019	12/31/2018
10.	Financial liabilities measured at amortized cost	3,689,832,806	3,888,257,146
	a) due to banks	*688,907,897*	*806,238,473*
	a) due to customers (*)	*2,348,621,239*	*2,428,378,977*
	c) debt securities issued	*652,303,670*	*653,639,696*
60.	Tax liabilities	77,228,024	85,700,811
	a) current	*8,125,023*	*20,052,590*
	b) deferred	*69,103,001*	*65,648,221*
80.	Other liabilities	77,855,843	66,102,156
90.	Employee severance benefits	906,252	848,841
100.	Provisions for risks and charges	5,389,183	5,249,087
	a) commitments and guarantees provided	*1,342,867*	*805,294*
	b) pension and other post-employment benefits	*3,431,235*	*3,828,712*
	c) other provisions	*615,081*	*615,081*
110.	Revaluation reserves	722,313	-278,463
140.	Reserves	99,135,362	115,820,526
150.	Share premium	296,755	0
160.	Share capital	131,216,501	130,982,698
170.	Treasury shares	-1,782,985	-244,721
180.	Profit (loss) for the period	25,999,657	73,389,737
	TOTAL LIABILITIES AND EQUITY	**4,106,799,711**	**4,365,827,818**

(*) The item “Financial liabilities measured at amortized cost - due to customers” includes the financial liability relating to leases recognized at June 30, 2019 in compliance with the new standard IFRS 16. The figure recognized at December 31, 2018 does not include the effects arising from the application of the new standard, which is effective for annual periods beginning on or after January 1, 2019.

BFF BANKING GROUP

Separate Income Statement

(Amounts in euros)

	Items	06/30/2019	06/30/2018
10.	Interest and similar income	78,077,464	82,427,029
	of which: interest income calculated using the effective interest rate method	71,646,706	70,325,294
20.	Interest and similar expenses	(14,776,084)	(15,407,534)
30.	**Net interest margin**	**63,301,380**	**67,019,495**
40.	Fee and commission income	3,949,619	4,170,124
50.	Fee and commission expenses	(789,275)	(764,962)
60.	**Net fees and commissions**	**3,160,344**	**3,405,162**
80.	Gains (losses) on trading	(1,114,764)	4,051,013
90.	Gains (losses) on hedge accounting	0	110,652
100.	Gains (losses) on disposal or repurchase of:		
	a) financial assets measured at amortized cost	0	(459)
	b) financial assets measured at fair value through OCI	207,343	359,795
120.	**Net banking income**	**65,554,303**	**74,945,658**
130.	Net adjustments/reversals of impairment for credit risk relating to:		
	a) financial assets measured at amortized cost	(181,351)	(1,288,302)
	b) financial assets measured at fair value through OCI	1,722	(9,093)
150.	**Net profit from financial activities**	**65,374,674**	**73,648,263**
160.	Administrative expenses:		
	a) personnel costs	(14,228,142)	(12,901,644)
	b) other administrative expenses	(15,680,864)	(15,023,856)
170.	Net allocations to provisions for risks and charges		
	a) commitments and guarantees provided	(536,178)	(286,516)
	b) other net allocations	(357,498)	(479,427)
180.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,003,411)	(542,586)
190.	Net adjustments to/reversals of impairment of intangible assets	(930,824)	(873,141)
200.	Other operating income (expenses)	3,595,019	2,603,004
210.	**Operating costs**	**(29,141,898)**	**(27,504,166)**
260.	**Profit (loss) before tax from continuing operations**	**36,232,776**	**46,144,097**
270.	Income taxes on profit (loss) from continuing operations	(10,233,119)	(13,164,093)
280.	**Profit (loss) after tax from continuing operations**	**25,999,657**	**32,980,004**
300.	**Profit (loss) for the period**	**25,999,657**	**32,980,004**
	Basic earnings per share	**0.153**	**0.194**
	Diluted earnings per share	**0.146**	**0.187**

Statement of Comprehensive Income

(Amounts in euros)

	Items	06/30/2019	06/30/2018
10.	**Profit (loss) for the period**	**25,999,657**	**32,980,004**
	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	(35,531)	8,440
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	0	(194,156)
130.	Hedging instruments (not designated)		
140.	Financial assets (other than equity securities) measured at fair value through OCI	1,036,306	(5,452,704)
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**	**1,000,775**	**(5,638,421)**
180.	**Comprehensive income (Items 10+170)**	**27,000,432**	**27,341,583**

CERTIFICATION BY THE FINANCIAL REPORTING OFFICER

BFF BANKING GROUP

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 Chief Executive Officer;
   - 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 2019.

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 2019 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 2019
   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 report on operations 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 half-year report on operations includes, moreover, a reliable analysis of the information concerning major transactions with related parties.

Milan, 08 August 2019

MASSIMILIANO BELINGHERI

Chief Executive Officer

CARLO ZANNI

Financial Reporting Officer

INDEPENDENT AUDITORS' REPORT

Review report on consolidated condensed interim financial statements

Banca Farmafactoring SpA

Review report on consolidated condensed interim financial statements

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 2019, 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 2019 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, 9 August 2019

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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