BFF BANKING GROUP

Consolidated Annual Report

2019

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Banca Farmafactoring S.p.A.
Parent Company of the “Banca Farmafactoring” Banking Group
Registered Office in Milan - Via Domenichino 5

Share Capital €131,364,092.09 (fully paid-in)
Milan Company Register no.,
Tax Code and VAT no. 07960110158

Consolidated Financial Statements and Reports 2019

Contents

Board of Directors (*)

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Federico Fornari Luswergh (**)
Directors	Isabel Aguilera Michaela Aumann Ben Carlton Langworthy Carlo Paris Barbara Poggiali Giorgia Rodigari (***)

(*) *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-except for the co-opted Director.*

(**) *Appointed Vice Chairman of the Board of Directors on December 11, 2019 to replace the resigning Luigi Sbrozzi (end of term of office December 9, 2019).*

(***) *Director co-opted on December 11, 2019 to replace the resigning Luigi Sbrozzi (end of term of office December 9, 2019); her term of office ends on the date of the Meeting convened to approve the Financial Statements at December 31, 2019.*

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

Remuneration Committee (*)

Name	Office	Position
Barbara Poggiali	Independent Director	Chairperson
Isabel Aguilera	Independent Director	Committee Member
Giorgia Rodigari (**)	Non-Executive Director	Committee Member

(*) *Committee members were appointed by the Board of Directors on April 5, 2018.*
(**) *Appointed by the Board of Directors on December 11, 2019 to replace the resigning Luigi Sbrozzi.*

Related Party Transactions Committee (*)

Name	Office	Position
Carlo Paris	Independent Director	Chairperson
Michaela Aumann	Independent Director	Committee Member
Barbara Poggiali	Independent Director	Committee Member

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

Appointments Committee (*)

Name	Office	Position
Federico Fornari Luswergh	Independent Director	Chairperson
Isabel Aguilera	Independent Director	Committee Member
Ben Carlton Langworthy	Non-Executive Director	Committee Member

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

Control and Risk Committee (*)

Name	Office	Position
Michaela Aumann	Independent Director	Chairperson
Federico Fornari Luswergh	Independent Director	Committee Member
Giorgia Rodigari (**)	Non-Executive Director	Committee Member

(*) *Committee members were appointed by the Board of Directors on April 5, 2018.*
(**) *Appointed by the Board of Directors on December 11, 2019 to replace the resigning Luigi Sbrozzi.*

Board of Directors

Role of Board of Directors 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		✓	✓	
Federico Fornari Luswergh	Vice Chairman		✓	✓	✓[1]
Massimiliano Belingheri	Chief Executive Officer	✓			
Isabel Aguilera	Director		✓	✓	✓
Michaela Aumann	Director		✓	✓	✓
Ben Carlton Langworthy	Director		✓		
Carlo Paris	Director		✓	✓	✓
Barbara Poggiali	Director		✓	✓	✓
Giorgia Rodigari	Director		✓		

[1] *According to the Board of Directors, exceeding the 9-year office term requirement did not result in non-compliance with the independence requirement pursuant to the Corporate Governance Code, for the purpose of participating in the Committees.*

01
Report on Operations

Group Structure

The Banca Farmafactoring Banking Group (hereinafter also referred to as "BFF Banking Group", "the Group" or "the 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 and France through Banca Farmafactoring S.p.A., in Spain through BFF Finance Iberia S.A., and in Poland, the Czech Republic and Slovakia through BFF Polska S.A. and its associated companies (the so-called "BFF Polska Group").

BFF Banking Group also offers deposit products to its retail and corporate customers in Italy, Spain, Poland, Germany, the Netherlands and Ireland.

BFF Polska, acquired by Banca Farmafactoring S.p.A. 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.

Thanks to BFF Polska Group, BFF Banking Group operates in a position of leadership in the Polish market, where it provides healthcare entities with alternative financing solutions to traditional banking services. Other specialized operators are also active in this market segment, and, in a limited manner, some traditional banks, too.

With reference to Italian Legislative Decree 58/1998 (Consolidated Law on Finance) on provisions enabling the definition of "SME" issuers of listed shares and regulations applicable to 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, BFF Banking Group 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).

On September 30, 2019, BFF Banking Group finalized the acquisition of 100% of the Spanish company IOS Finance S.A.U. ("IOS Finance").
At the same date, the application for withdrawing the EFC (*Establecimiento financiero de crédito*) license held by IOS Finance was filed with the Bank of Spain. Following the withdrawal of the EFC status, authorized by the Bank of Spain on December 18, 2019, the deed of merger of IOS Finance into BFF Finance Iberia S.A.U. ("BFF Iberia", 100% owned by the Parent Banca Farmafactoring S.p.A.) was filed and registered with the *Registro Mercantil* in Madrid and became effective on December 31, 2019.
Therefore, starting from January 1, 2020, BFF Iberia has taken over all the assets and liabilities belonging to IOS Finance. Accounting effects of the merger have been accounted for starting from September 30, 2019 (the closing date).

At December 31, 2019, BFF Banking Group included the Parent Banca Farmafactoring and the following companies:

Company name	Registered and operating office	Relationship type (1)	Investment relationship		Voting rights % (2)
			Investor	Invest. %	
COMPANIES CONSOLIDATED LINE-BY-LINE					
1. BFF Finance Iberia, S.A.U.	Madrid - C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. BFF SPV S.r.l.	Milano - Via V. Betteloni 2	4	Banca Farmafactoring	0%	0%
3. BFF Polska S.A.	Łodz - Jana Kilińskiego 66	1	Banca Farmafactoring	100%	100%
4. BFF Medfinance S.A.	Łodz - Jana Kilińskiego 66	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 - Jana Kilińskiego 66	4	BFF Polska S.A.	99%	99%
11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

As far as 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

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

The International Economic Scenario[2]

For the European economy, 2019 brought subdued growth and low inflation, as well as structural shifts mainly affecting the manufacturing sector. International trade has been stagnant during 2019, as trade tensions and geopolitical conflicts escalated during the summer and the uncertainty related to trade policies and "Brexit" has continued until the end of the year (Boris Johnson secured an absolute majority at the General Election held in Great Britain in December 2019 and announced that "Brexit" would formally happen on 31 January 2020. The United Kingdom has therefore started a transition period, which is due to end on December 31, 2020, in order to officially leave the European Union.) Leading indicators suggest that the weakness in global manufacturing will continue in the near term. Hence, the EU economy, which slowed down in the second quarter of 2019, is likely to stagnate in the near term.

Labor markets in Europe, however, have remained strong and the unemployment rate has fallen to below its pre-crisis level, fueling robust wage growth, which has allowed domestic demand to expand at a relatively steady pace, in a context of historically low borrowing costs. In combination with more limited increases in the labor force than in previous years, the aggregate Euro Area unemployment rate is expected to fall slightly further from 7.6% in 2019 to 7.3% in 2021.

As some Member States have introduced growth-enhancing fiscal measures, more domestically oriented sectors are expected to remain resilient. All these measures are however unlikely to be strong enough to power growth to a higher level than in 2019.

Lingering trade policy uncertainty, including on future relations between the UK and the rest of the EU, could dampen growth and inflation in the Euro Area for a protracted period.
Euro Area (19 Member States) GDP growth is thus forecast to slow from 1.9% in 2018 to 1.1% in 2019 and to stabilize at 1.2% in the next two years, with 2020 (a leap year) flattered by a higher number of working days. Given the weakness in the second half of 2019, the projections for 2019 and 2020 are lower than in the European Commission's spring forecast and slightly below the summer interim forecast.

Over the summer of 2019, the intensification of economic tensions between the US and China and elevated policy uncertainty took their toll on global investment, manufacturing and trade. Policy stimuli in a number of major economies, including the US and China, as well as resilient labor markets and easy financing conditions in advanced economies, should limit the depth of the global slowdown. Global GDP growth (excluding the EU) is set to decrease from 3.8% in 2018 to 3.2% in 2019, markedly lower than in previous forecasts.

Over the next two years, elevated uncertainty around US trade policy and geopolitical tensions in the Middle East are all set to linger and weigh on global growth. As these will be compounded by structural factors-such as population aging and low productivity trends, the slowdown in China, protectionist tendencies, and the impact of climate change-, the global economy (excluding the EU) is set to continue expanding below trend at 3.3% in 2020 and 3.4% in 2021.

In response to concerns about slowing growth and the escalation in trade tensions, central banks across the world have recently shifted to more accommodative policies. Government bonds have rallied remarkably in recent months, leading to lower yields around the world. Stock markets have been

[2] *European Commission – European Economic Forecast, Autumn 2019. Institutional Paper 115 | November 2019 – Overview*

volatile, reflecting the ups and downs in the US-China economic confrontation but, overall, equity indices in advanced economies have recently hovered near record highs.

In Europe, financial markets have shown significant volatility, driven by similar factors. Equity markets recovered their substantial summer losses on expectations that the ECB would come up with a significant policy package, and recovered further after the subsequent announcement of the resumption of net asset purchases and the strengthening of the ECB's forward guidance. In the bond market, the perception of a deteriorating outlook, expectations of a prolonged period of monetary policy accommodation and a further decline in the term premium put pressure on sovereign yields over the summer. As demand outpaced the supply of safe assets, a large share of sovereign bonds is trading at negative yields.

Inflation in the Euro Area has been on a downward trend in 2019, failing to pick up during the third quarter, largely because of the fall in energy prices and the lack of pass-through from robust wage growth to core inflation. In a context of weak demand, firms have been absorbing these increases by accepting lower profit margins rather than by raising prices. In the Euro Area, inflation is projected at 1.2% in both 2019 and 2020 (0.2 percentage points lower than last spring and slightly below the summer interim forecast) and to pick up only marginally to 1.3% in 2021. Given the outlook for subdued economic growth and inflation as well as recent ECB decisions, including renewed monthly net asset purchases, upward pressure on nominal interest rates is expected to be very limited and real short- and long-term rates should remain negative.

Euro Area export growth is forecast to decrease by about one percentage point in 2019 and to edge down further in 2020, before increasing modestly in 2021. The contribution of net exports to GDP growth is forecast to be negative in 2019 and almost neutral in 2020 and 2021. The current account surplus of the Euro Area is set to decline from 3.8% of GDP in 2018 to 3.1% in 2021, largely mirroring the fall in the merchandise trade surplus.

The Euro Area's general government deficit is expected to increase gradually, rising from the historical low of 0.5% of GDP recorded in 2018 to 1.0% in 2021, based on a no-policy-change assumption.
The projected fall in the revenue-to-GDP ratio is the dominant factor behind this expected increase, as below-potential economic growth and somewhat loose discretionary fiscal policies in some Member States affect structural revenues while structural expenditures should remain broadly stable.
The Euro Area aggregate debt-to-GDP ratio is projected to continue declining steadily over the forecast period. Based on a no-policy-change assumption, it is set to fall to about 84% in 2021.

The Economy, National Debt Stock and Public Expenditure on Goods and Services in Italy in 2019

According to the estimates released by the Bank of Italy in January 2020, Italian economic activity was all but stagnant during the third quarter of 2019. It was hampered by the protracted weakness of the business cycle across the Euro Area and moderately supported by services and construction.

Italy's GDP, estimated at €1,615 billion in 2019, reportedly remained all but flat in the third quarter of the year, growing by 0.1% compared with the previous three months and by 0.3% year-on-year.

GDP growth was reportedly supported by domestic demand and above all by household spending; the change in inventories also positively contributed to growth. Investments decreased, in particular in relation to capital goods. Trade with foreign countries contributed negatively, due to a slight decrease in exports and a significant increase in imports. Added value decreased in the industry sector in the strict sense and in agriculture; it slightly increased in construction and services sectors.

Based on available information, GDP reportedly remained flat in the fourth quarter.

Bank surveys show that in the second quarter of 2019 credit institutions moderately tightened their lending criteria for businesses as a result of the slightly higher perceived risk among intermediaries. On the other hand, demand for credit by firms saw a modest increase.

The level of bad loans improved remarkably: banks continue disposing of NPLs at a steady pace and bad loans were down 23.3% in the year through July thanks to further securitization transactions.

According to official estimates, the 2020-2022 budget approved in December 2019 would cause the deficit to exceed its trendline by 0.7% as a proportion of GDP every year on average. The Government forecasts that net borrowing and debt as a proportion of GDP will stabilize in 2020 and then fall over the next two years.
Based on the estimates of the quarterly accounts released by ISTAT, in the first nine months of 2019 net borrowing decreased to 3.2% of GDP from 3.4% in the same period of 2018.

Public expenditure on goods and services for 2019, including social transfers in kind, is estimated at €142.8 billion, up by 1.4% compared to the previous year (€140.7 billion).

The borrowing requirements of Italian public administrations for the first 11 months of 2019 totaled €48.5 billion, down €3.4 billion compared to the same period in 2018. Considering the preliminary data for December and the main factors used to reconcile borrowing requirements with net borrowing (financial transactions and the differences between cash and accrual accounting), we can estimate that in 2019 net borrowing as a proportion of GDP was down slightly year-on-year and below the level estimated by the Government.
Considering public sector borrowing requirements and the change in the Italian Treasury's cash and cash equivalents for the month of December, we can estimate that in 2019 the debt-to-GDP ratio registered an increase-as already expected by the Government.

According to the 2019 Economic and Financial Document (DEF, *Documento di Economia e Finanza*), approved on April 9, 2019 and revised on September 30, 2019, net borrowing is set to fall considerably between 2020 and 2022 under current legislation, resulting in a nominal deficit-to-GDP ratio of 0.9% at the end of the period compared to the April DEF's target of a net borrowing-to-GDP ratio of 1.5%.
The primary surplus would rise to 1.9% of GDP in 2020, 1.9% in 2021, and 2.0% in 2020 on the back of rising tax revenues and the slower growth in primary expenditures.

Following the approval of the 2020 Budget Law, the Bank of Italy revised these percentages slightly downwards: according to the 1-2020 Economic Bulletin, the primary surplus is projected to stand at 1.1% in 2020, 1.3% in 2021, and 1.6% in 2022 as a proportion of GDP.

As part of the resolution approving the 2019 DEF, Italy's Parliament invited the Government to cancel the VAT hike planned for January 2020. The new Government confirmed it would do so. Combined with the funding for the so-called "unchanged policies", the cancellation of the VAT hike will bring the estimated net borrowing of the public administration to 2.7% of GDP in 2020.

According to the Bank of Italy, in December 2019 Italy's national debt increased to €2,409.2 billion, compared to €2,380.6 billion at the end of 2018 and €2,263 billion at the end of 2017, accounting for 135.7% of GDP.
As far as the segment breakdown is concerned, government agencies' consolidated debt increased by €32.1 billion to €2,324.8, while local public administration agencies' debt decreased by €3.4 billion to €84.4; social security agencies' debt was almost stable.
Finally, as at November 2019, the average residual maturity of Italy's public debt was estimated at 7.3 years, in line with the end of 2018; meanwhile, the average debt servicing cost edged down from 2.8% at the end of 2018 to 2.7% at the end of September 2019.

As for national health spending, the update to the DEF dated September 30, 2019 estimated it at €118.5 billion in 2019 (compared to €116.0 billion in 2018), €120 billion in 2020, €122 billion in 2021, and €123 billion in 2022.

Since April 2019, the Italian Government has passed several urgent measures which have caused additional impacts relative to the estimates in the 2019 Economic and Financial Document. The most important measures are intended to promote economic growth and boost Italy's production system by streamlining the regulatory framework that governs the contracting and design of public works as well as through tax reliefs and initiatives to revive public and private investments.

Among the public administration's sub-sectors (government agencies, local public administration agencies, and social security agencies), the net borrowing of government agencies has improved thanks to measures aimed at raising additional tax revenues and reducing certain funds on the Government's balance sheet.

The deficit of the local public administration agencies is largely attributable to the resources allocated to Municipalities to finance energy efficiency improvements, sustainable local development projects, and initiatives to ensure the safety of public buildings-as well as to the reduced contribution of Friuli-Venezia Giulia and Sicily to Italy's public finances.
To revive the investments of Local Authorities, starting from 2020 a fund will be reserved specifically for Municipalities to promote energy efficiency improvements, sustainable local development proj-

ects, and initiatives to ensure the safety of public infrastructure and buildings. In 2019 said Authorities also received additional resources from the Development and Cohesion Fund for similar purposes. In each year from 2019 through 2033, the national Government will also contribute to the payment of installments on loans entered into by the county seats of metropolitan cities in financial distress to cover investment spending.

With respect to the other measures, as far as the Bank is concerned, the following stand out:

- The applications of the SIOPE+ project-governed by the Italian Ministry of Economy and Finance (MEF)'s decree of June 14, 2017 and the MEF's decree of September 25, 2017-required all Municipal and Provincial Governments, Metropolitan Cities, and Regional Governments as well as National Healthcare System Entities to join the project during 2018. Both decrees also govern how the SIOPE+ procedures are to be tested and the relief from the requirement to disclose information on the settlement of invoices through SIOPE+ to the "PCC – Piattaforma Crediti Commerciali" system. The MEF's decree of May 30, 2018 required also all additional entities considered to be public administrations as per Art. 1 paragraph 2 of Italian Law 196/2009 to join SIOPE+ effective January 1, 2019. Said entities include Associations of Municipalities, Park administrators, Universities, and Chambers of Commerce. The PCC system is continuing to evolve through the integration with the Purchase Orders Routing Node (NSO, *Nodo di Smistamento degli Ordini di acquisto*), through which all purchase orders, placed exclusively in electronic form, will be forwarded to the public administrations pursuant to Art. 1 paragraphs 411-415 of the 2018 Budget Law (Italian Law no. 205 of December 27, 2017). This integration, already planned for 2019, and the requirement for National Healthcare System entities to use the NSO node will allow to verify the information included in purchase orders directly within the PCC system and to match it with the invoices issued to public administrations-specifically with the tender identification codes (CIG, *Codice Identificativo Gara*) issued by the National Database of Public Contracts. Starting from 2019, to ensure the timely payment of the Italian public administration's commercial debts, under Art. 1, paragraphs 849 through 857 of Italian Law 145/2018 (2019 Budget Law), municipal and provincial governments, metropolitan cities, and regional and autonomous provincial governments, including on behalf of the respective National Healthcare System entities, may apply for cash advances from banks, financial intermediaries, Cassa depositi e prestiti Spa, and financial institutions within the European Union for the purposes of settling debts that are certain, liquid, enforceable, and payable as at December 31, 2018 associated with procurement agreements, contracts, and obligations for professional services. In addition, starting from 2020, the PCC system will calculate the indicators required by the mentioned budget law (paragraphs 859 et seq.) concerning the monitoring of the debt stock as well as payment times and late payments.
  Said data on past-due amounts refer to 2018 and to the first quarter of 2019, and they show the amount of cash receipts as a proportion of the invoices settled by public administrations 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 regional and 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, maintaining the same average payment period of 42 days.

The National Healthcare System has not yet confirmed any final figures to date.

Looking at the debt stock outstanding to date, in the first quarter of 2019 there were approximately €24 billion worth of unpaid invoices, divided among the public administration, the National Healthcare System, and Municipalities (including €4 billion associated with invoices more than 12 months past due).

Looking at the stock, Municipalities have nearly €6.1 worth of unpaid invoices (26% of the stock), the National Healthcare System €4.8 billion (20%), the Ministers approximately €3 billion, and Regional Governments €1 billion.

On August 8, 2019, the Ministry of Economy and Finance signed the new "SIOPE decree" concerning the codes to be used by the Independent Administrative Authorities on the list of public administrations as per Article 1, paragraph 3 of Italian law no. 196 of December 31, 2009 as amended, excluding the Authority regulating strikes in essential public services (CGSSE) and the National Agency for the Evaluation of the University and Research System (ANVUR). The decree won the approval of the Agency for a Digital Italy and the Joint Conference as per Article 8 of Italian Legislative Decree no. 281 of August 28, 1997.
The new SIOPE codes have been prepared in accordance with the structure of the chart of accounts pursuant to Article 4, paragraph 4 of Italian Legislative Decree no. 91 of 2011.
The SIOPE monitoring of Independent Administrative Authorities is to become effective on January 1, 2020.

- 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, last June, it authorized the application of the split payment mechanism, but only until December 31, 2017. Following a request on the part of the Italian government 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. To date, no request has been filed with the European Commission for an additional extension by way of derogation from EU law and no amendments to the budget bill and the Fiscal Law Decree on this topic have been proposed. Therefore, in the absence of further developments, the split payment mechanism should expire on June 30, 2020.

- According to the 2020 Draft Budgetary Plan, the Government is to completely sterilize the safeguard clause for the year 2020 and partially reduce those for 2021 and 2022, pursue initiatives to promote public and private investments, reduce the tax wedge, increase the resources for education as well as scientific and technological research, and implement a plan to combat tax evasion. In addition, the so-called "unchanged policies" have been refinanced. Specifically, with respect to public investments, the Government has set aside approximately €9 billion in additional resources between 2020 and 2022-and more than €55 billion over a 15-year time period-for two new investment funds to be operated by the Central Government as well as Local Authorities. Concerning specifically the environment, one of the Government's priorities is implementing a Green New Deal involving first and foremost public investments that are synergistic with private ones. The measures outlined in the 2020 Budget Law are consistent with a 2.2% target for net borrowing. As for the following two years, under the updated budget plan presented in this document the government's deficit is expected to fall to 1.8% of GDP in 2021 and 1.4% in 2022. This decline in the deficit is the result of, among other things, the permanent impacts of structural measures to be implemented with the 2020 budget as well as the relevant laws.

Comments on the Economy, National Debt Stock and Public Expenditure on Goods and Services in the Other Countries in which BFF Banking Group Operates[3]

Poland

Poland's growth rates are among the highest in the European Union.

Real GDP is expected to grow by 4.0% to €466 billion 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%. According to the European Commission, private consumption is set to remain the key growth driver in 2019 and 2020, supported by a solid trend in the labor market and tax incentives. Investments are set to grow at a moderate pace due to the expected softness of private-sector demand, whereas public investments should continue expanding-driven primarily by EU funds-albeit at a slower rate. The nominal budget deficit is forecast to end 2019 higher.

The country is seeing a decline in interest rates on 10-year government bonds, from an average of 3.221% in 2018 to an average of 2.410% in 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 European Union.

Gross public administration agencies' debt is set to continue falling from over 50% of GDP in 2017 to around 47.8% of GDP in 2019 and 47.3% in 2020. This movement is supported by strong nominal GDP growth and relatively low nominal deficit.

Public spending for 2018 as a whole amounted to €207 billion, of which €28.2 billion can be attributed to expenditure on public administration goods and services, and €9.1 billion can be attributed to social transfers in kind.
In regards to this topic, public spending is estimated to decrease up to €194 billion in 2019, and to €200 billion in 2020.

[3] *Sources:*
- *International Monetary Fund, IMF – World Economic Outlook Database (October 2019), to which reference should be made for figures on GDP at constant prices, real GDP growth, government debt-to-GDP ratio, structural balance and unemployment rate (data extraction date: January 23, 2020). The Polish zloty, Czech koruna and Croatian kuna were converted based on the exchange rate to the euro at 12/31/2019 as published by the Bank of Italy.*
- *Eurostat – Government revenue, expenditure and main aggregates, to which reference should be made for 2018 figures on public spending as a whole, expenditure on goods and services and social transfers in kind (data extraction date: January 23, 2020).*
- *Internal forecasts based on data from Eurostat – Government revenue, expenditure and main aggregates, to which reference should be made for forward-looking figures concerning public spending (data extraction date: January 23, 2020).*
- *European Commission – European Economic Forecast, Autumn 2019. Institutional Paper 115 | November 2019.*

The governing conservative party, Law and Justice (PiS), won the European elections in May 2019 with more than 43% of votes. The conservatives won the general election in October and maintain an absolute majority. Jaroslaw Kaczynski's PiS party won 43.6% of the votes and 235 out of 460 seats in the Lower House of Parliament (48 out of 100 seats in the Senate), securing another 4-year term to implement its reform program.

Slovakia

Slovakia's buoyant economic expansion is expected to slow down starting from 2019, with real GDP set to decline from 4.1% in 2018-driven primarily by domestic demand-to 2.6% (€87 billion) in 2019 and 2.7% in 2020. Even though it will lose momentum, domestic demand will continue driving growth, with steadily rising real wages supporting consumer spending. Investments are expected to normalize following a slow first half of 2019. Wage rises and robust private-sector demand should fuel consumer price inflation, which, similarly to 2017 and 2018, is set to be the main driver of GDP growth over the forecast horizon-even though it is expected to decelerate. The government's deficit is set to increase, especially because of rising public-sector wages and welfare benefits.

The government debt-to-GDP ratio is forecast to decline from 48.9% in 2018 to 48.4% in 2019, and to 47.8% in 2020, driven by nominal GDP growth.

Public spending for 2018 as a whole amounted to €37.5 billion, of which €5.0 billion can be attributed to expenditure on public administration goods and services, and €4.5 billion can be attributed to social transfers in kind.
Public spending as a whole is estimated to stand at €37.5 billion for 2019, and increase to €38.5 billion in 2020.

In December 2017, Slovakia's government set aside €585 million for settling hospital debts, and in July 2018, during the first stage of the plan, €338 million were paid to creditors - suppliers. The claims were settled in two forms: by means of a so-called fixed discount agreement, or through an electronic auction. In the first stage of the electronic auction, €93.2 million worth of claims were settled at a fixed discount of €19.4 million. According to the Ministry, the auction allowed to save more than €2.5 million.
Healthcare suppliers, which are the hospitals' largest creditors, have criticized the settlement program as discriminatory and turned to the Constitutional Court.
The overall settlement program was due to finish at the end of 2019.

On March 30, 2019, Zuzana Čaputová's pro-European Progressive Slovakia party came out on top in the presidential election with 58% of the votes to the 42% of her rival from the center-left Direction - Social Democracy (SMER) party.
At the European elections in May 2019, the Progresivne Slovensko-Spolu coalition overtook not only the right-wing parties but also the social democratic party SMER.
The country is to hold parliamentary elections in late February 2020.

Czech Republic

In 2018, strong growth in investment allowed the Czech economy to expand by 3.0% over the previous year. Furthermore, household consumption also made a significant contribution, supported by strong labor market conditions and rising real wages.
IMF estimates confirm that moderate real GDP growth is expected in 2019 and 2020, at 2.5% and 2.6%, respectively. GDP is estimated at €191 billion in 2019.

The country is seeing a decline in interest rates on 10-year government bonds, from an average of 2.004% in 2018 to an average of 1.572% in 2019 (Source: Refinitv). It should be noted that since September 2018, the Czech 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 European Union: at the end of 2018, the registered unemployment rate was equal to 2.2% of the total labor force, with the IMF estimating that the rate will remain substantially stable in 2019 and 2020, at 2.2% and 2.3%, respectively.

The Czech Republic's gross national debt was 32.6% of GDP for 2018, and it is projected to decrease to 31.6% and 30.5% of GDP in 2019 and 2020, respectively.
After four years in positive territory, according to the IMF, the country's structural balance is expected to turn slightly negative in both 2020 and 2021, with estimates reaching -0.1% and -0.25% of GDP, respectively.

Public spending for 2018 as a whole amounted to €84.5 billion, of which €12.7 billion can be attributed to expenditure on public administration goods and services, and €6.2 billion can be attributed to social transfers in kind.

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

Spain

Despite some slowdown, for the sixth year in a row real GDP in Spain is estimated to have grown by 2.2% in 2019, above the Euro Area average of 1.1%. GDP is estimated at €1,195 billion in 2019.
Overall, a slowdown is expected for real GDP growth, which is forecast at 1.8% in 2020 and 1.7% in 2021.

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 13.2% in 2020. This would allow the country to reach its lowest rate since 2007, when the unemployment rate was 8.2%.

As for the gross national debt, the debt-to-GDP ratio is expected to gradually decrease to 95.2% in 2020, as compared to 97.1% recorded in 2018 and 96.4% expected for 2019. This decline will be driven by the growth in nominal GDP and the decrease in interest expense, while the primary surplus will probably remain unchanged at around zero.

Public spending for 2018 as a whole amounted to €501 billion, of which €61.5 billion can be attributed to expenditure on public administration goods and services, and €31.1 billion can be attributed to social transfers in kind.
Public spending as a whole is estimated to increase up to €512 billion for 2019, and to €522 billion in 2020.

After 10 months of stalemate, during which Spain went without a Government-even though in November 2019 the country held its fourth election in 5 years, just six months after the last one-on January 7, 2020, the socialist Pedro Sànchez Castejòn finally won a vote of confidence in Parliament with 167 votes in favor, 165 against, and 18 abstentions. Mr. Sànchez has formed a Government based on a thin left-wing majority consisting of the PSOE and *Unidas Podemos*, with the backing of certain regional parties- the first coalition government in the history of Spanish democracy.

Portugal

Portugal's real GDP growth is estimated to shrink from 2.4% in 2018 to 1.9% in 2019 and 1.6% in 2020. GDP is estimated at €202 billion in 2019. This slowdown has been driven by the negative impact of net exports. Domestic demand should continue contributing strongly to economic growth also in 2019 thanks to the significant rebound in investments during the first quarter of the year. Consumer spending and investments are set to remain the main growth drivers in 2020 and 2021, albeit at a weaker pace. The expected decline in consumer spending is associated with the recent slowdown in job creation. Investments are suffering from a deterioration in business sentiment, especially in the industrial sector, but should benefit from EU funding over the forecast horizon.

After falling steadily by 3.8 percentage points in 2018, the gross public debt-to-GDP ratio is forecast to further decline by around 2.5%, to 117.6% in 2019 and 114.8% in 2020, thanks to persistent primary surpluses and favorable differentials between growth and interest rates.

In regards to the budget deficit, according to the European Commission's forecasts, it is likely to decrease to -0.1% of GDP in 2019 and to 0% of GDP in 2020, as compared to -0.4% in 2018.

Public spending for 2018 as a whole amounted to €88.6 billion, of which €11.1 billion can be attributed to expenditure on public administration goods and services, and €3.6 billion can be attributed to social transfers in kind.
Public spending as a whole is estimated to increase up to €94 billion for 2019, and to €96 billion in 2020.

The European elections of May 2019 were won by the incumbent Socialist Party.
At the legislative election held on October 6, 2019, the Prime Minister Antonio Costa's Socialist Party once again came out on top with 38% of the votes and 108 seats (+22 seats compared to the previous election in 2015), leading a minority government without the direct involvement of other parliamentary groups.

Greece

Greece's economic recovery continues, with the IMF expecting real GDP to expand by 2.0% (to €195 billion) in 2019 compared to 2018-largely driven by rising investments and employment. The IMF expects real GDP to strengthen further to 2.2% in 2020, and to reach 1.7% in 2021.

Gross public debt peaked at 184.9% of GDP in 2018, and is expected to decline in 2019 and 2020, at a level of 176.6% and 171.4%, respectively.

According to the European Commission, Greece could achieve a budget surplus of 1.3% of GDP in 2019-making it the fourth positive year in a row. This forecast is supported by the increase in tax revenues, thanks to steadily rising disposable income, as well as the lowering of spending ceilings. The budget surplus is estimated at 3.8% of GDP in 2019. This development has led to an improvement in Greece's international credibility, with a corresponding reduction in government bond yields.

Public spending for 2018 as a whole amounted to €86.7 billion, of which €8.5 billion can be attributed to expenditure on public administration goods and services, and €3.9 billion can be attributed to social transfers in kind.
Public spending as a whole is estimated to be stable in 2019 and 2020 at around €91-92 billion.

Four years after their introduction, capital controls were lifted on September 1, 2019. In 2015, the former Prime Minister Alexīs Tsipras had limited cash withdrawals to €420 per week and the amount of cash that every Greek citizen could bring with them when traveling abroad to €2,000.
The removal of the capital controls imposed in July 2015 and gradually relaxed over time will likely be key to entrenching the recovery of Greece's economy. This has outperformed expectations in recent years under the previous Administration largely because of exports-thanks to the competitiveness boost provided by the implementation of reforms under the bailout program, including in the labor market-but is still reeling from the severe crisis of the last decade.

And finally, it should be noted that Prime Minister Alexīs 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, 2019 and they were won by the right-wing party headed by current Prime Minister Kyriakos Mītsotakīs, Nea Demokratia (ND), with 39.85% of votes.
The new ND Government won a confidence vote in Parliament on July 22, 2019 and relies on a robust 158-seat majority.

The economic policy of the Mītsotakīs Government is intended to implement reforms that can help consolidate growth by slashing taxes, attracting more foreign investments (including by relaunching abandoned privatization efforts), and making the public administration more efficient.

Croatia

Croatia's real GDP is estimated to have grown from 2.6% in 2018 to 3.0% in 2019, essentially in line with expectations, reaching €49 billion.
For 2020 and 2021, the European Commission estimates that real GDP growth will be 2.6% and 2.4%, respectively.

In relation to the expected surplus and GDP growth, Croatia's debt-to-GDP ratio is expected to decrease from 74.6% in 2018 to 71.1% in 2019, and then to 68.3% in 2020. Croatia reached an overall surplus of 0.3% of GDP in 2018, with a fall of around 0.5% when compared to the previous year. As regards 2019 and 2020, the European Commission estimates a target value of 0.1% and 0% of GDP, respectively.

The most recent parliamentary elections were held in September 2016 and saw Andrej Plenković's national conservatives come out on top.
Croatia held presidential elections on December 22, 2019 (first round) and January 5, 2020 (second round). Zoran Milanović (SDP), who served as Prime Minister from 2012 through 2015, beat the incumbent Kolinda Grabar-Kitarovic (the candidate of the center-right majority party) with 29.6% of the votes to his rival's 26.7% and subsequently won the runoff with 52.6% of the votes, becoming President with the support of a united center-left coalition.

Public spending for 2018 as a whole amounted to €24 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.
Public spending as a whole is estimated to slightly increase up to €23 billion for 2019, and to €24 billion in 2020.

France

French real GDP is expected to decline from 1.7% in 2018 to 1.2% in 2019 and 1.3% in 2020. France's deficit-to-GDP ratio is estimated to fall from 3.1% in 2019 to 2.2% in 2020, 1.8% in 2021, 1.5% in 2022, and 1.1% in 2023. This decline comes as the one-off impact of the transformation of the tax reliefs for hiring minimum-wage earners from a tax credit into a structural tax cut wears off. In 2019, this decision had a two-fold impact on the country's finances, as the government granted a credit based on the taxes paid in 2018 as well as collected less revenue during 2019. The impact had accounted for 0.9% of GDP. No significant changes are expected in relation to the structural deficit, which excludes non-recurring effects and those arising from the economic cycle.

The gross public debt-to-GDP ratio is below 100%: 98.4% in 2018, and estimated at 99.3% in 2019 and 99.2% in 2020.

Public spending as a whole is the higher in Europe: €1,319 billion in 2018 (56% of GDP), of which €116 billion can be attributed to expenditure on public administration goods and services, and €142 billion can be attributed to social transfers in kind.

France's Budget Law is accommodating: it includes a commitment to limit the annual increase in public spending to an average of 0.4% through 2022; public expenditures are forecast to rise by 0.7% in 2020 (in line with 2019), 0.5% in 2021, 0.2% in 2022, and 0.4% in 2023.

Infringement Procedures in Relation to Directive 2011/7/EU

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

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 slightly decreased. 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.

Receivables due from public administration agencies amounted to €10 billion at September 2019, representing more than 19% of total receivables transferred in relation to all the various types of factoring services. Of these receivables, 35% were past due and 21% were more than a year past due.

BFF's market share in the industry, in terms of outstanding receivables, was 28.1% at September 2019 (22.5% at September 2018), with reference to the non-recourse segment.
Within the public administration and National Healthcare System subsegments, BFF's market share accounted for 18.7% in terms of outstanding receivables due from government agencies (13% at September 2018), 35.1% in relation to local public administration agencies (30.2% at September 2018), and 37.2% with reference to the National Healthcare System (33.4%).

At September 30, 2019, according to Assifact figures, non-performing exposures for factoring (before value adjustments) accounted for 5.42% of total gross exposures, of which 2.14% are non-performing loans, 2.07% unlikely to pay exposures, and 1.21% more than 90 days past due.
The coverage ratio for impaired past due exposures is limited and reflects a high recovery percentage in relation to this kind of exposures for factoring; specifically: about 72% for non-performing loans, 55% for unlikely to pay exposures, and 7% for impaired past due exposures.

After analyzing the preliminary figures for the factoring market at December 31, 2019 (Assifact figures), the positive trend relating to cumulative turnover has been once again confirmed with an increase of 6.44% compared to the same month in the prior year, and reaching €256 billion.
The corresponding outstanding receivables decreased by about 2.11% compared to the same month in the prior year, for an amount of around €66 billion (of which €28 billion referring to non-recourse transactions).

Results of Operations

The consolidated financial statements at December 31, 2019 include the consolidated figures from the balance sheet and income statement of Banca Farmafactoring S.p.A., BFF Finance Iberia S.A.U. (a wholly-owned subsidiary of Banca Farmafactoring S.p.A., integrating IOS Finance S.A.U. acquired by the Group on September 30, 2019 and merged at December 31, 2019), the special purpose vehicle BFF SPV S.r.l., and the companies of BFF Polska Group, acquired in 2016.

At December 31, 2019, the Group's net profit amounted to €93.2 million, compared to €92.2 million recognized in the prior-year period. The normalized profit of the Group (representing the Group's results of operations net of non-recurring income and expenses) amounted to €98.8 million, up 8.0% from €91.8 million in 2018. This figure and the following income indicators include IOS Finance's results.

(Amounts in € thousands)

	12/31/2018	12/31/2019
Profit (loss)	**92.2**	**93.2**
Exchange differences covered by Translation reserve in Equity	(1.9)	0.5
Stock Option and Stock Grant Plan	0.9	1.3
Resolution Fund 2017 – extraordinary contribution	0.5	0.5
M&A costs		3.2
Tax realignment of IOS Finance's goodwill		(1.5)
Retention bonus paid to the CEO after the IPO		1.7
Normalized profit (loss)	**91.8**	**98.8**

Compared to the consolidated profit for the period, the normalized profit at December 31, 2019 includes:

- €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;

- €0.5 million charges arising from a change in the PLN/€ exchange rate relating to the loan entered into to acquire BFF Polska Group. Such impact was offset by a positive change in the equity reserve (included in capital ratios), which reflects the natural hedging between these two balance sheet items;

- charges related to extraordinary contributions to the National Resolution Fund for 2017 (as per the Bank of Italy's request of June 7, 2019) amounting to €0.5 million after tax, paid in June 2019;

- M&A costs of €3.2 million;

- tax realignment of IOS goodwill: the income statement took account of €1.5 million as positive effects arising from the decision to opt for tax realignment of goodwill arising from the IOS acquisition;

- €1.7 million as retention bonus to be paid to the Chief Executive Officer, after the Initial Public Offering.

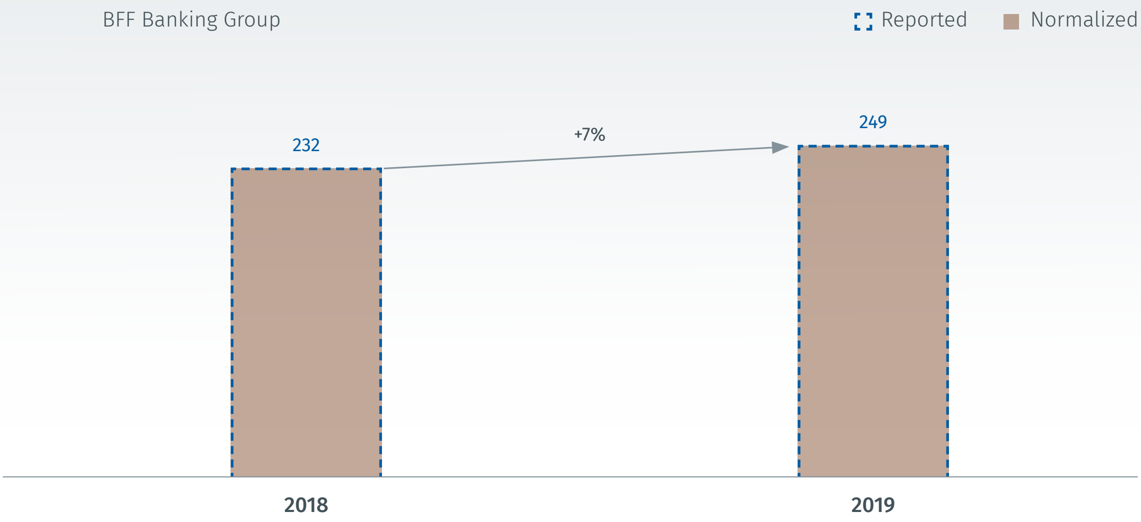
Interest income totaled €249.0 million, compared to €231.6 million in 2018. Normalized interest income is the same as that recognized at December 31, 2019, in line with the previous year, showing an increase of 7.5%.

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;
- interest charged to the assignors as per the relevant contract in the event that purchased receivables are transferred back.

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

Normalized Interest Income

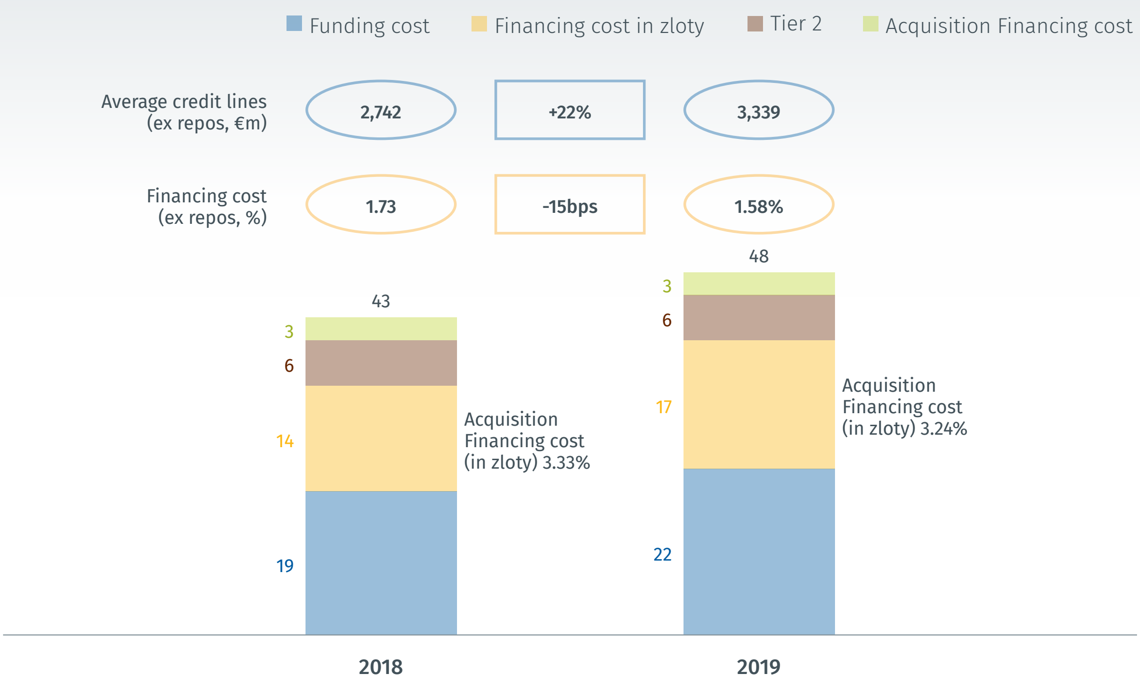


Collections of late payment interest amounted to €88.4 million at December 31, 2019, compared to the previous year's €90.1 million.
Specifically, €73.1 million were collected in Italy, €14.7 million in Spain (of which €11.1 million in relation to BFF Iberia and €3.6 million in relation to IOS Finance), and €0.6 in Portugal.
The difference between gains and reschedulings recognized in 2019 by BFF Banking Group amounted to €16.8 million. In 2018, such difference amounted to €19.5 million.
Late payment interest accrued on receivables purchased without recourse by Banca Farmafactoring and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €634 million, of which €57 million related to Spanish debtors, €48 million to Portuguese debtors, €1 million to Greek debtors, and €527 million to Italian debtors.
Of this interest, a total of €238 million was recorded in the income statement in current and prior years.
The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €563 million at December 31, 2018, of which €207 million were recognized in the income statement of the reporting period and in previous years.
The provision for late payment interest increased by 13% compared to the previous year. Of this provision at December 31, 2019, late payment interest not yet recognized in the income statement amounts to €396 million.

Normalized Interest Expense (BFF + BFF Polska)

Interest expense increased from €42.9 million at December 31, 2018 to €48.4 million at December 31, 2019. This increase in absolute terms is primarily due to the increase in average drawn funding (from €2.7 to €3.3 billion) as a result of the business growth, and to the increase in loans denominated in zloty which are granted at a higher base rate, whose impacts amounted to €2.6 million and €3.2 million, respectively. The cost of funding relating to BFF Polska Group's Acquisition Financing decreased by €0.2 million.

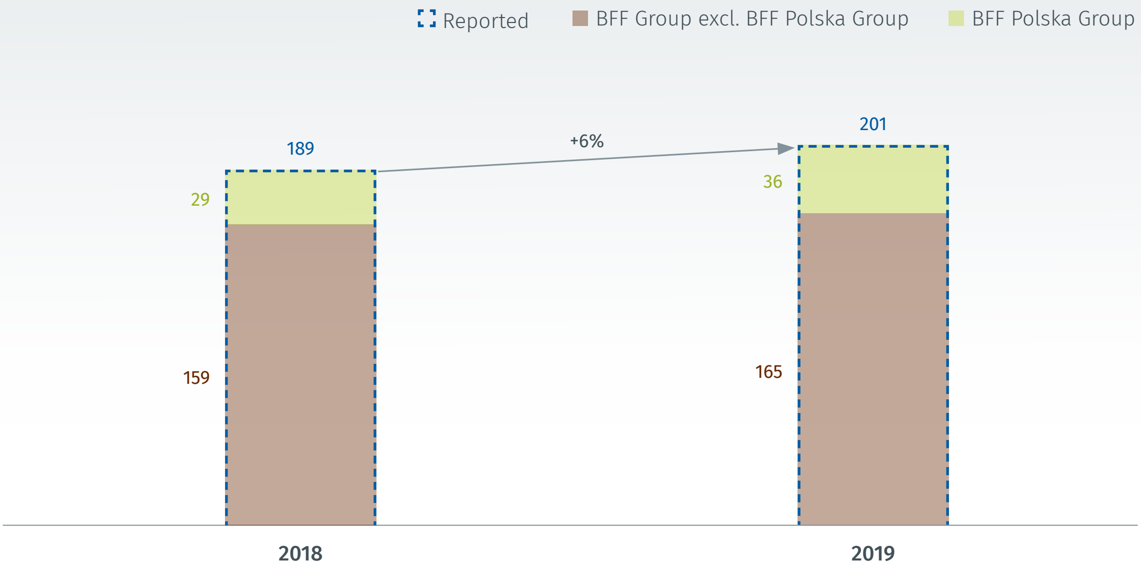
At December 31, 2019, the ratio of BFF Banking Group's financial expenses to average credit lines used was 1.58%, compared to 1.73% at December 31, 2018, showing a reduction of 15 basis points. The average credit lines used increased by 22% from €2,742 million at December 31, 2018 to €3,339 million at December 31, 2019. This figure also includes costs to acquire BFF Polska Group.



Under the current funding structure, some of the more expensive lines, such as the Tier 2 bond issue, the loan 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. The cost of zloty-denominated funding partially reflects the benefits of local funding started in September 2019 after the opening of the Polish branch, dedicated to raising funding through deposit accounts.

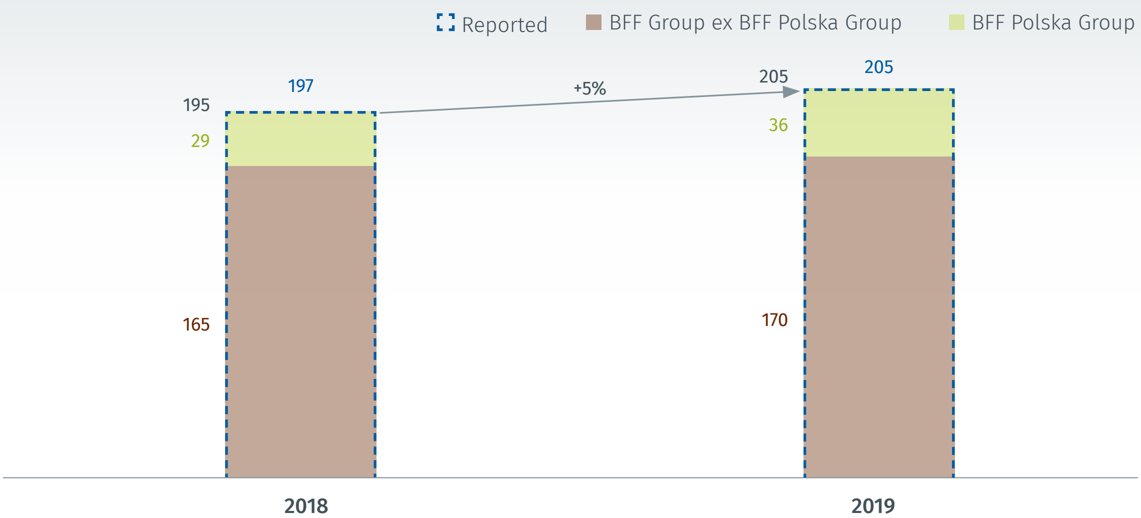
Normalized Net Interest Margin

The net interest margin totaled €201 million at December 31, 2019, compared to €189 million at December 31, 2018.
The normalized net interest margin at December 31, 2019 and December 31, 2018 is the same as the carrying amount. The figure at December 31, 2019 showed a 6% increase compared to the normalized net interest margin at December 31, 2018.



Normalized 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 €205 million at December 31, 2019 compared to €197 million at December 31, 2018.
Normalized net banking income, as presented in the chart below, increased by 5% from €195 million recognized at December 31, 2018 to €205 million recognized at December 31, 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 €0.7 million, compared to €2.6 million in 2017.



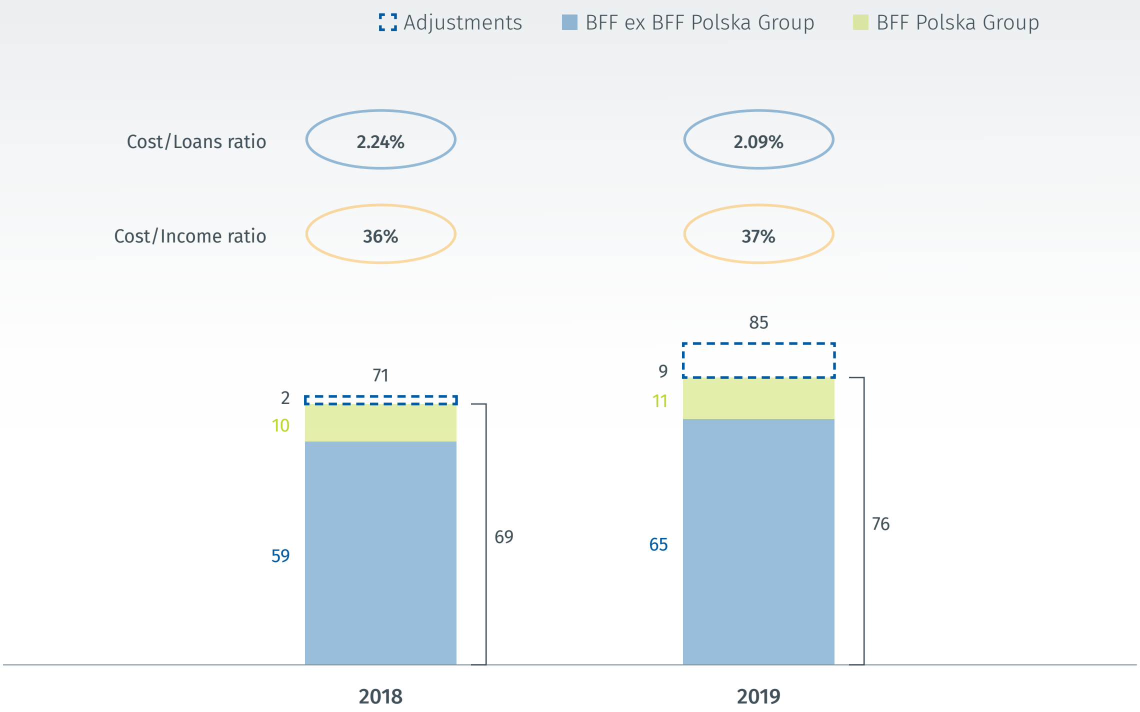
Normalized Operating Costs

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 include administrative expenses, personnel costs, amortization of intangible assets and depreciation of property, plant and equipment. At December 31, 2019, they totaled €76.0 million, increasing by €6.7 million compared to €69.3 million in the previous year. Such 10% increase was mainly due to the growth in personnel costs (+16%) and new business development costs (+5%).

These normalized costs do not take into account extraordinary costs of €8.5 million, broken down as follows: €1.7 million concerning the stock options and stock grants granted in the first half of the year (generating an equity reserve of the same amount), €0.6 million related to extraordinary contributions requested by the National Resolution Fund for 2017, €4.5 million concerning M&A costs, and €1.7 million related to the post-IPO retention bonus paid to the CEO (the residual amount is allocated to the provision for risks and charges).

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 2.24% to 2.09%. Finally, these investments, also relating to projects that will start in subsequent years, will allow the Group to grow in the future.



Due from Customers

The following is a summary of receivables due from customers of BFF Banking Group, which amounted to €4,118 million at December 31, 2019 showing an increase of 15% compared to €3,583 million at December 31, 2018, broken down by product line. The 2019 amount includes receivables due from IOS Finance's customers of €137 million. Net of IOS Finance's merger, such amount increased by 11%. IOS Finance's receivables increased 40% year on year. Including IOS Finance, Group's growth reached 12% year on year.

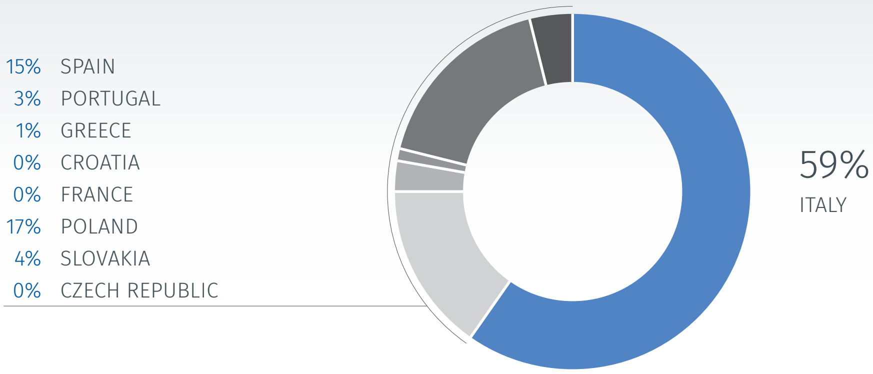
The above-mentioned figures do not include the "Held to Collect" portfolio, which was reclassified to receivables due from customers starting from January 1, 2018, following the provisions of the new Bank of Italy Circular no. 262/2005 as subsequently amended.

(In € millions)

	12/31/2018	12/31/2019
Factoring	2,896	3,355
Loans to customers	616	688
Other receivables	66	72
Finance leases	5	3
Due from customers	**3,583**	**4,118**

The following chart gives a geographical breakdown of receivables due from customers in 2019. Such figures include receivables due from IOS Finance's customers. The Bank's main market is Italy, which accounts for 59% of assets under administration. The Bank's international footprint is also growing steadily: banking operations at the European level (excluding Italy) account for 41% of total assets under administration (up 35% from 2018).

Geographical breakdown of receivables



In 2019, the Group expanded 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 August 2019, BFF Banking Group acquired its first pilot non-recourse credit portfolio, consisting of trade receivables due from the French healthcare system. At the end of 2019, such receivables amounted to €1 million.

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 at December 31, 2019 compared to December 31, 2018.

(In € millions)

	12/31/2018	12/31/2019
Non-performing loans (NPLs)	**40.3**	**61.9**
Of which purchased performing	32.4	56.3
Of which purchased already impaired	7.9	5.7
Unlikely to pay exposures	**6.7**	**9.5**
Past due exposures	**72.7**	**34.7**
Total	**119.7**	**106.2**
Total NPL/RECEIVABLES	**1.1%**	**1.5%**
Total NPE/RECEIVABLES	**3.3%**	**2.6%**

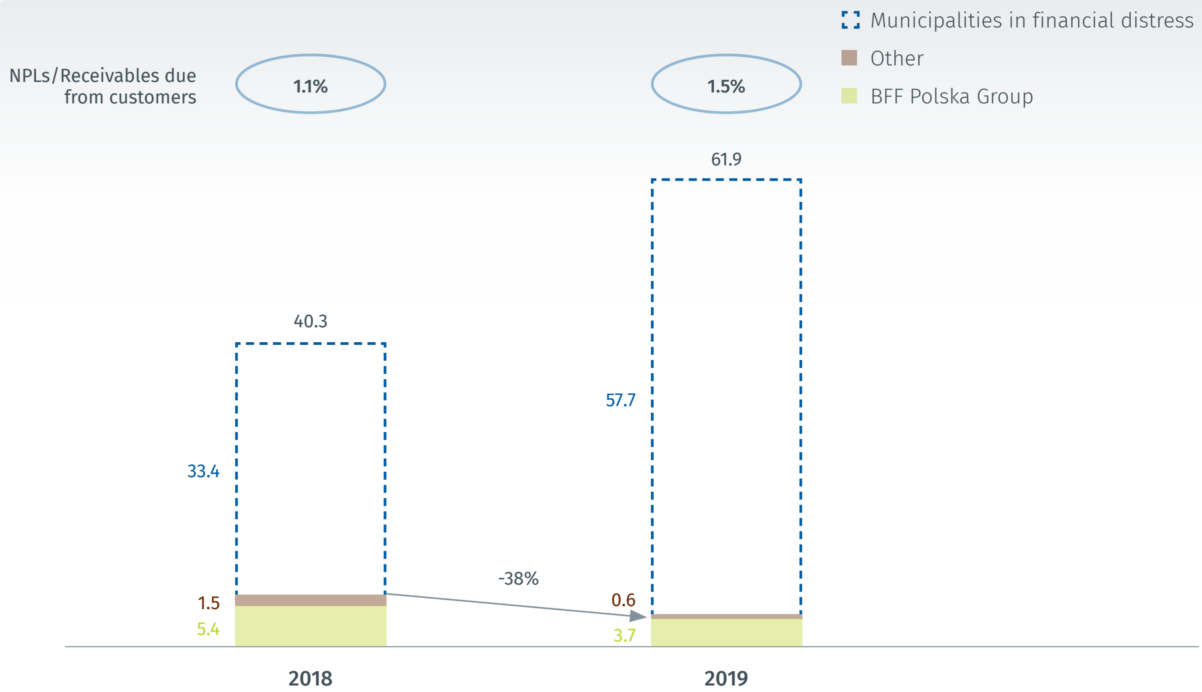
Total impaired exposures amounted to €106.2 million compared to €119.7 million in 2018.

Past due exposures of €34.7 million mainly consist of amounts due from public administration agencies (mostly local entities) and other public sector companies, accounting for 87% of the total.

Non-performing loans totaled €61.9 million at December 31, 2019, with an NPL ratio of 1.5% of total receivables due from customers. Of this amount, €57.7 million relates to receivables concerning "municipalities in financial distress", of which €5.7 million were purchased already impaired. Without the amount concerning municipalities in financial distress, the NPL ratio would be 0.1% instead of 1.5%, in line with the previous year's figures.

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.

The following chart shows the change in non-performing loans and the ratio of NPLs to receivables due from customers.



Adjustments to impaired assets in the year (risk cost) accounted for 5.8 bps; excluding 2.4 bps relating to the run-off "SME-Factoring for business" product in Poland (net residual exposure of €2 million and 71% hedging), adjustments to impaired assets accounted for 3.4 bps.

Funding

At December 31, 2019, the total amount of available funding, net of Acquisition Financing (PLN 378 million dedicated to the acquisition of BFF Polska Group) was €4,229 million (net of PLN 378 million and €26 million dedicated to the acquisitions of BFF Polska and IOS Finance), increasing by €622 million compared to the amount available at December 31, 2018 of €3,607 million. This amount consists of deposit-taking activity for €1,354 million, bond issues for €950 million-including the Tier 2 issue of €100 million-, financial resources from the wholesale funding of Banca Farmafactoring and its subsidiaries, equal to €1,128 million and €647 million respectively, and securitization for €150 million.
In particular, at the same date, credit lines with local banks in favor of BFF Polska Group subsidiaries in euro, Polish zloty and Czech koruna amounted to an equivalent value of €412 million. Total repayment of bonds issued in Polish zloty by BFF Polska was completed in September 2019.

Overall use was equal to €3,787 million net of exposures arising from repo transactions and Acquisition Financing exposures.

Specifically, below are the main activities carried out in 2019 aimed at optimizing the Group's financial structure and making it more efficient as well as extend lines of credit coming to maturity during the period:

- secured €68 million worth of new revolving lines denominated in Euros, including €38 million in multi-borrower lines available also in currencies other than the Euro and accessible by the Group's subsidiaries;
- secured PLN 405 million (€95 million) worth of new lines of credit available to the Polish subsidiaries;
- agreed on a new credit limit for the refinancing of €40 million in recourse receivables with MPS Leasing&Factoring;
- in October, Banca Farmafactoring launched a new €300 million senior preferred unsecured bond issue rated "Ba1" under the EMTN Program, with a fixed-rate coupon of 1.75% and maturity on May 23, 2023 (see the "Senior Unsecured and Preferred Bond Issue Under the EMTN Program" section);
- in November, the Group voluntarily repaid the €50 million term credit line with Mediobanca earlier than the original maturity date in February 2020 to streamline its resources and the cost of money;
- in the final quarter of 2019, Banca Farmafactoring laid the groundwork for extending the €150 million Flexible Note BFF SPV S.r.l. securitization transaction (in private placement with the Bayerische Landesbank group). Said work was successfully completed on February 6, 2020, extending the program's revolving period through the Note Payment Date, i.e. February 15, 2021 (the original maturity was scheduled for February 2020);
- laid the groundwork for the renewal of the "EMTN – European Medium Term Notes Program"-which supports the strategy to diversify and expand the Group's funding-in order to ensure access to the bond market throughout 2020 as occurred in the case of the senior preferred unsecured bond issue carried out during 2019. The work that resulted in the annual extension of the Program and involved Banca IMI as Sole Arranger was completed on January 17, 2020. The issues to be carried out under the Program may concern several categories of financial instruments (Preferred Senior Bonds, Non-Preferred Senior Bonds, or Subordinated - Tier 2 Bonds) and will be reserved for institutional investors in Italy and abroad with the exclusion of the United States of America, pursuant to Regulation S of the United Securities Act. The bonds may be issued under Italian and/or UK law (so as to be in line with the position adopted by other Italian financial issuers) in euros and zlotys or other currencies to be defined from time to time, at either a floating or fixed rate.

During 2019, the Bank has continued to work for the expansion, diversification and optimization of the deposit-taking structure to support the core business.
Specifically, 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 in euro on the Spanish market (Cuenta Facto), also aimed at retail and corporate customers and guaranteed by the FITD. The Spanish branch also operates in Germany, and starting from September 2019, in the Netherlands and Ireland, in compliance with regulations on the freedom to provide services, using the online Weltsparen platform.

Following the authorization granted by the Polish Supervisory Authority (KNF) in the second half of 2019, BFF Polish branch started its operations by launching and online deposit account in Polish zloty (Lokata Facto), also aimed at retail and corporate customers and guaranteed by the FITD.

At December 31, 2019, the deposit-taking activity relating to Conto Facto, Cuenta Facto and Lokata Facto, including the deposits of the German platform in Germany, the Netherlands and Ireland, totaled a face value of €1,354 million, compared to €924 million at December 31, 2018, thus showing an increase.

This represents 34% of Group's funding sources (net of Acquisition Financing), up from 29% in 2018.

In addition, following the end of the year and in order to optimize funding sources, on January 29, 2020 the Group repaid the PZU lines of credit of the subsidiary BFF Medfinance S.A. early, for a total of PLN 200 million (approximately €47 million); moreover, on February 7, 2020, it repaid the lines of credit maintained by the subsidiary BFF Polska SA with Santander upon maturity, for a total of PLN 100 million (approximately €24 million).

Equity and Own Funds

BFF Banking Group's equity amounted to €377 million at December 31, 2019, compared to €366 million at December 31, 2018, which included consolidated 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 €400 million at December 31, 2019. This amount includes the portion of the Bank's profit for 2019 allocated to Own funds (€52.8 million out of €65.2 million). The resulting 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.
The following table shows the Group's key ratios at December 31, 2019 and a comparison with the prior year.
In addition, the column "12/31/2019 Proforma" shows how the dividends expected to be distributed to shareholders out of the Bank's profits for the first quarter of 2020 will impact capital ratios. For more details, see "Appropriation of the Banking Group's Profit" in the report on operation.

(In € millions)

	12/31/2018	12/31/2019	12/31/2019 PROFORMA UNAUDITED
Own funds	345	400	362.1
CET1 Capital Ratio	10.90%	12.50%	10.9%
Tier 1 Capital Ratio	10.90%	12.50%	10.9%
Total Capital Ratio	15.20%	16.60%	15.0%

The increase in BFF Banking Group's own funds, as compared to December 31, 2018, was mainly influenced by the allocation of part of profit to own funds to the tune of €52.8 million, by the HTC&S securities valuation reserves, which generated a positive impact of €4 million, after taxes (such reserve amounted to -4.1 million at December 31, 2018 and -3.1 million at June 30, 2019), by a €2.6 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 were offset by more significant deductions from own funds for the recognition of IOS Finance's goodwill to the tune of €8.7 million, and further movements in the reserves.

With reference to the CRR Group, which includes the shareholder BFF Luxembourg S.à r.l., the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio are 12.5%, 13.7% and 16.6%, respectively.

It should be noted that the shareholder BFF Luxembourg S.à r.l. 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

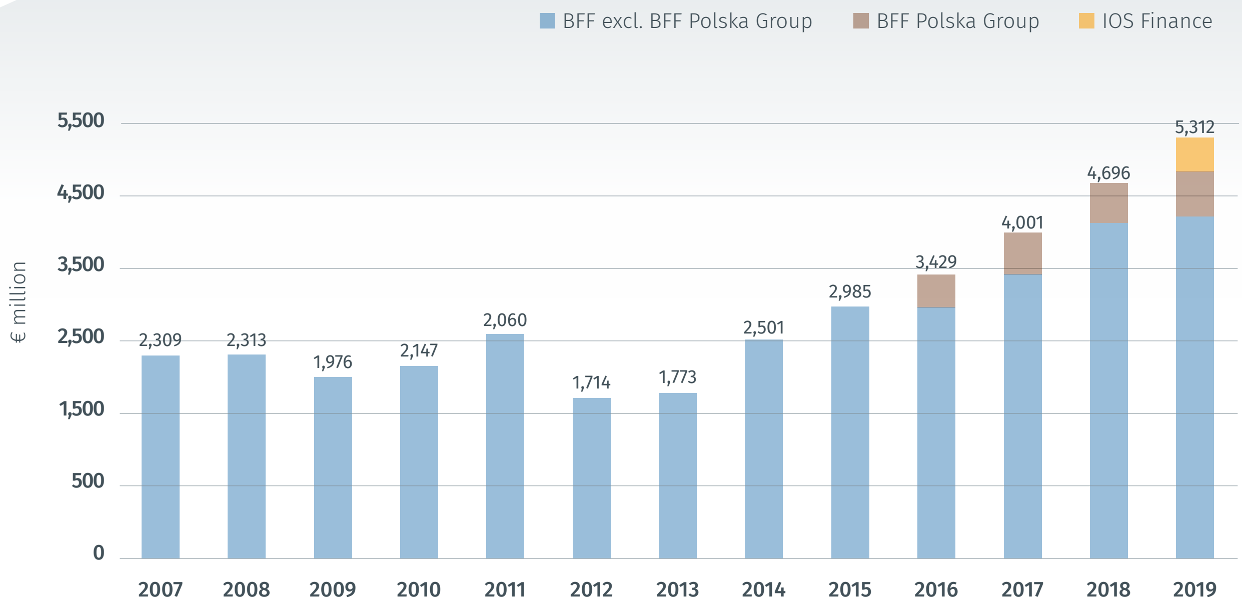
At December 31, 2019, consolidated net profit amounted to €93.2 million and included Banca Farmafactoring's profit of €65.2 million, the subsidiary BFF Finance Iberia's profit of €5.3 million (of which €0.1 million recognized as IOS Finance's profit for the last quarter), and BFF Polska Group's profit of €19.8 million.
With reference to BFF Polska Group, consolidated profit amounted to PLN 84.9 million at December 31, 2019, equal to €19.8 million at the average exchange rate for the period (4.2976), compared to PLN 59.5 million at December 31, 2018, equal to €13.9 million at the same exchange rate, thus increasing by 43%.

The chart below shows the total volumes of new purchases made by BFF Banking Group: they amounted to €5,312 million overall, and, excluding IOS Finance's volumes for the full year, to €4,850 million (including €587 million related to BFF Polska Group), +3% on a like-for-like basis compared to 2018 (€4,697 million, including €548 million related to BFF Polska Group). In 2019, IOS Finance purchased €461 million worth of trade receivables without recourse, compared to €366 million in 2018 (+26% y/y).

Total non-recourse purchases in Italy amounted to €3,082 million, down 3% from €3,162 million at December 31, 2018.
BFF Polska Group's volumes amounted to €587 million in 2019, up 7% compared to previous year's figures (€548 million).
As for Spanish receivables, purchase volumes amounted to €1,413 million (including IOS Finance with purchases to the tune of €461 million), up 32 % compared to €1,068 million in 2018 (always including IOS Finance). In Spain, concerted commercial efforts have managed to compensate for the effect of reduced payment times following the liquidity injections made by the Government over the years.
Purchase of receivables due from the Portuguese public sector amounted to €174 million, decreasing by 34% compared to €266 million in 2018, due to the Government cash injection at the end of 2019.
Purchases made in Greece amounted to €54 million (+208%).

The volume of receivables due from the Croatian healthcare system purchased during the year amounted to €1 million. Finally, in the second half of 2019, the first trade receivables due from the French healthcare system were purchased; they amounted to €1 million.

New volumes

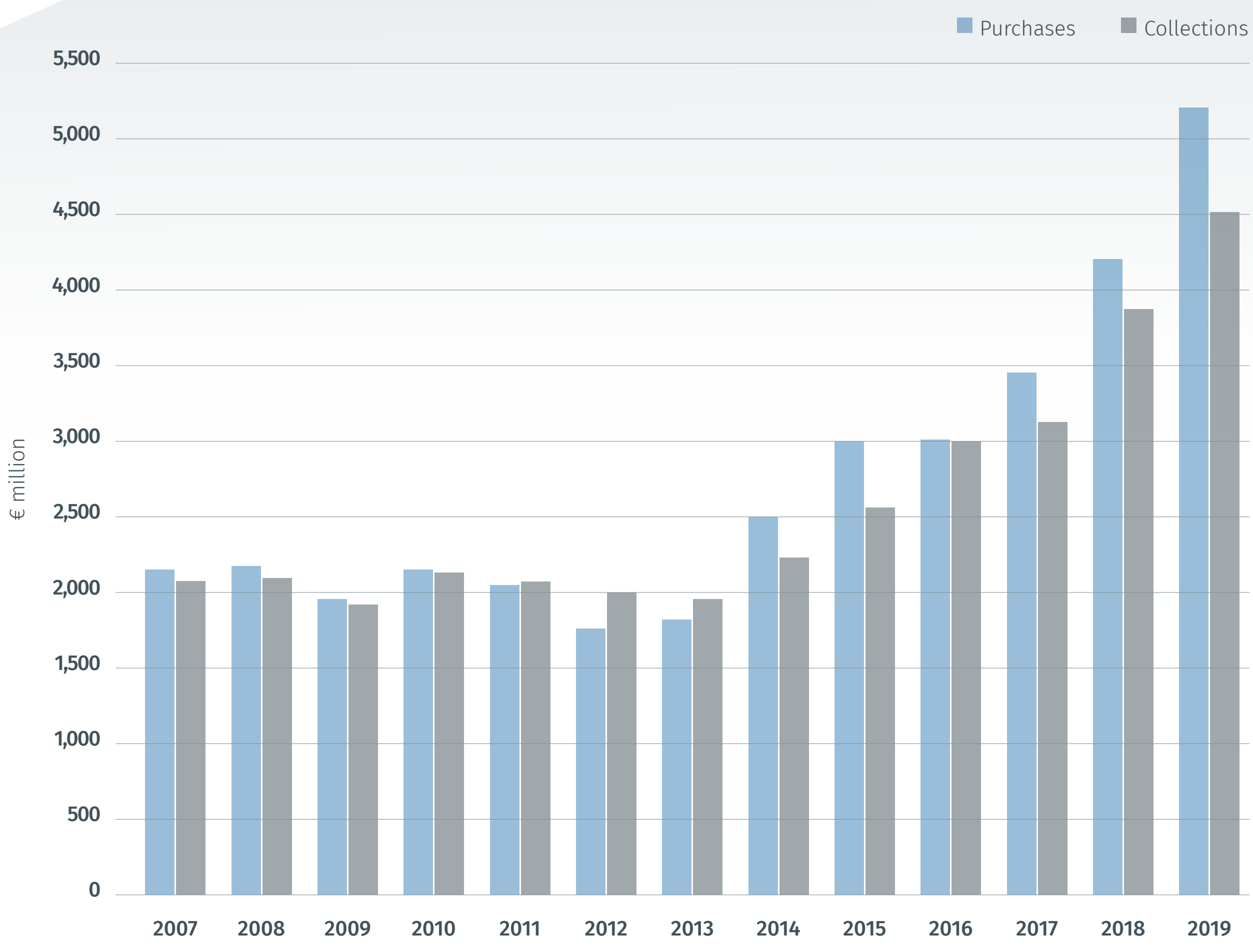


The BFF Group's purchase volumes-excluding BFF Polska Group-amounted to €4,725 million in 2019 (including €461 million relating to IOS Finance), up 5% compared to 2018 volumes (€4,515 million, including €366 million relating to IOS Finance).

Volumes at December 31, 2019, broken down by country in which BFF Polska Group operates, are as follows: €567 million in Poland (up 17% compared to 2018), €17 million in Slovakia (down 67% compared to 2018 due to the Government extraordinary plan to curb debt), €3 million in Czech Republic (down 68% compared to the previous year).

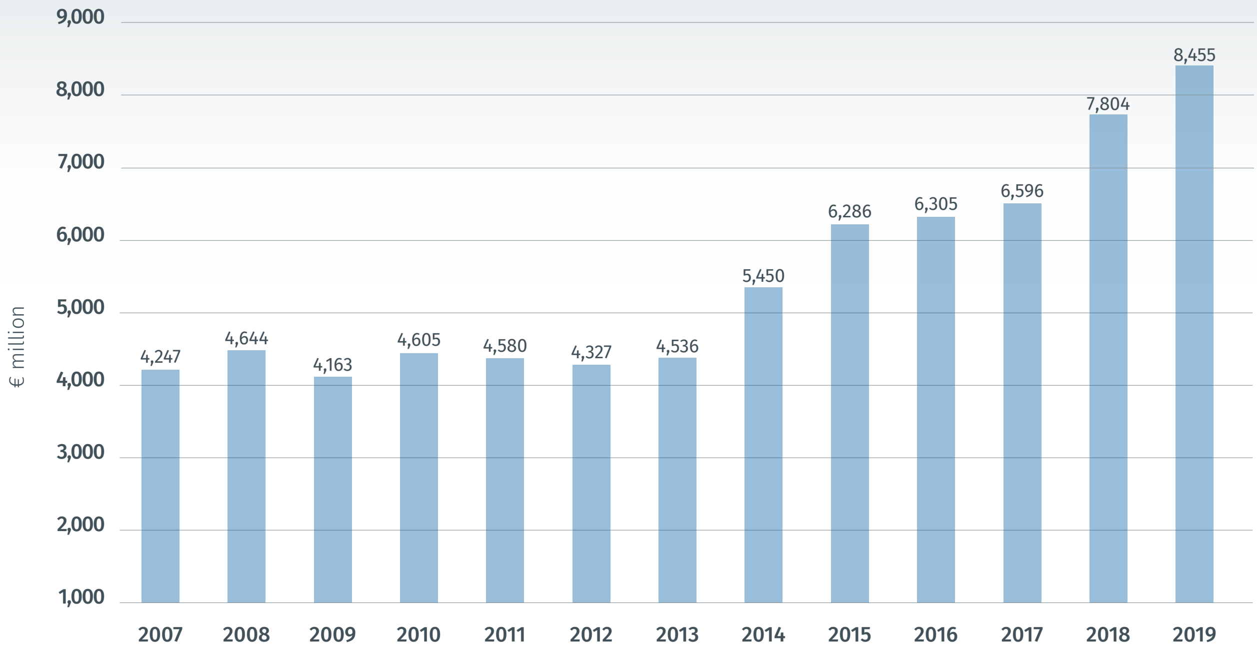
Also considering management activities, overall volumes amounted to €8,455 million (including €243 million in receivables managed by IOS Finance in 2019), compared to €7,804 million in 2018, increasing by 8%.

Non-recourse receivables: Purchases and Collections



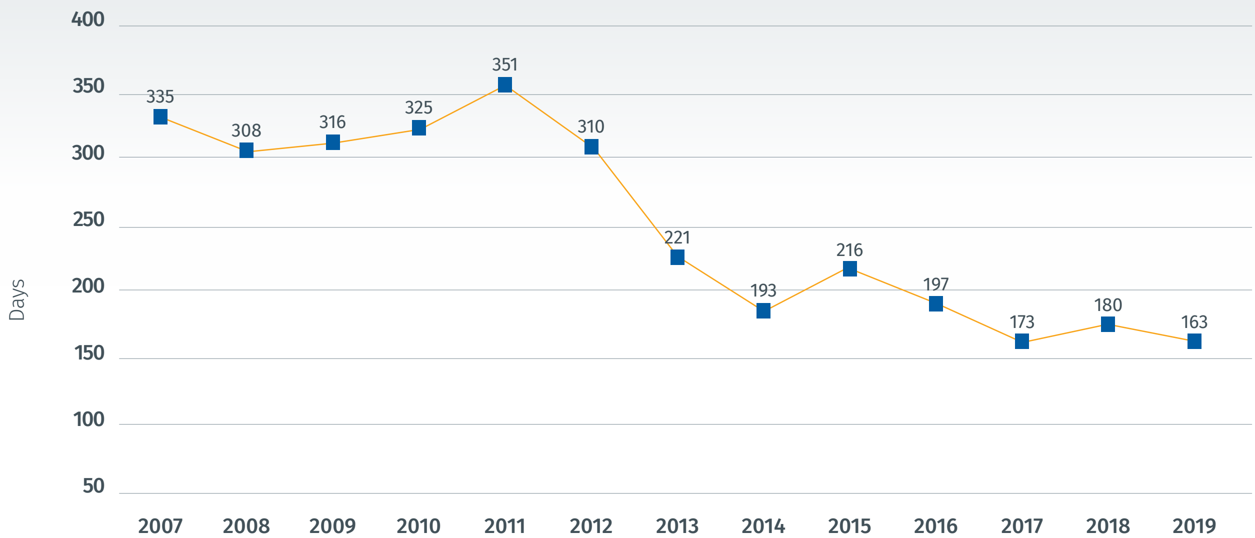
In 2019, the average days sales outstanding concerning receivables managed by Banca Farmafactoring directly and on behalf of third parties, were equal to 163 in Italy, compared to 180 in 2018, as shown in the chart below, which shows the average days sales outstanding over the last 13 years.

Overall volumes



Significant Events during the Period

Average days sales outstanding, Italy - Management and Non-recourse



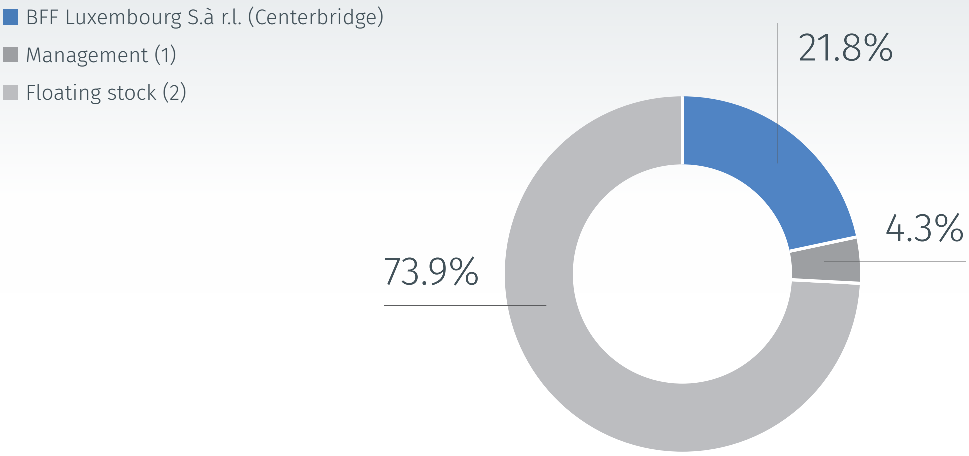
Shareholder Structure

On April 3, 2019, BFF Luxembourg S.à r.l., an entity incorporated under the laws of Luxembourg owned by Centerbridge Partners Europe L.P. (a fund that is part of the family of private equity funds comprised in the investment platform of Centerbridge Capital Partners) and ultimately operated by BFF JE GP Ltd. (Jersey)-which is in turn the Bank's shareholder, informed that it completed the sale initiated on March 29, 2019 of 22,000,000 BFF shares, equivalent to 12.9% of the Bank's capital at the same date, through an accelerated book build (ABB).
Subsequent to the transaction, the stake held in BFF Group by BFF Luxembourg S.à r.l. decreased from 45.792% to 32.859%.
On January 14, 2020 another ABB took place (for further information, reference should be made to the section "Events subsequent to the end of the reporting period") and the stake held in BFF Group by BFF Luxembourg S.à r.l. reached 21.80%.

The composition of BFF shareholders at February 6, 2020 is shown in the following diagram. This reflects the status after the two transactions described above, and after the share capital increases (both free and against payment) which took place in 2019 and early 2020 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 2019 Stock Grant), 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 (2018 MBO);
(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.
The Stock Option Plan provided for the granting of 8,960,000 stock options by December 31, 2019, and it should be noted in particular that since the beginning of the exercise period (April 8, 2019) to February 5, 2020, 315,875 newly issued shares were granted in the face of the 1,259,874 cashless options and 182,960 ordinary options that were exercised over the same period. At February 6, 2020, the number of options allocated and not yet exercised amounted to 7,108,746, of which 1,011,068 were vested and able to be exercised.

Shareholding structure



Source: formal notification received by BFF (Form 120A-120B) and "Banca Farmafactoring Banking Group's Annual Report on Remuneration and Incentive Policies". Percentage is calculated based on the total number of shares issued at 02/06/2019.
(1) Shares held by the CEO, close relatives, and 6 other executives with key management responsibilities at 12/31/2019.
(2) Including treasury shares.

Approval of the new strategic plan for 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 through the start of operations of the Polish branch for online deposit-taking on September 19, 2019 and the provision of services-in compliance with regulations on the freedom to provide services-also in the Netherlands and Ireland through the Raisin platform as in Germany;
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 year;
- adjusted net profit growth of around 10% on average per year;
- 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 potential market penetration;
- identification of new markets (France, where operations started in August 2019, 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 collection 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").

Cost of funding has further improved thanks to:
- geographical diversification arising from the launch of online deposit services in Poland, the Netherlands and Ireland in September 2019;
- increase in drawn funding, other than Tier II funding and BFF Polksa's acquisition financing;
- assignment of a public credit rating by Moody's on October 2, 2019 (for further information, reference should be made to the "Rating" section).

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.

Acquisition of IOS Finance and relevant merger

On September 30, 2019, BFF Banking Group finalized the acquisition of 100% of IOS Finance S.A.U. ("IOS Finance"). The acquisition price of €26.4 million (all-cash consideration) represents a pre-synergy P/E multiple of 8.3x for 2018 and a P/TBV multiple of 1.5x, for a business with a high RoTE, low risk, low capital absorption and strong potential synergies. At the closing date, BFF also redeemed IOS Finance's credit line issued by Deutsche Bank AG to the tune of €81 million.
The acquisition caused the Group to recognize €11 million in additional assets, including €8.7 million in goodwill and €2 million[4] associated with the consolidation of IOS Finance's risk-weighted assets (RWAs) (totaling €13 million as at September 2019).

At the same date, the application for withdrawing the EFC (*Establecimiento financiero de crédito*) license held by IOS Finance was filed with the Bank of Spain. Following the revocation, approved by the Bank of Spain, of IOS Finance's status as an EFC, on December 31, 2019 the deed of merger of IOS Finance S.A. into BFF Finance Iberia S.A.U. ("BFF Iberia", 100%-owned by the parent Banca Farmafactoring S.p.A.) was filed and registered with Madrid's *Registro Mercantil*, thereby becoming effective.

Therefore, effective January 1, 2020, BFF Iberia has taken over all the assets and liabilities of IOS Finance. The merger became effective for accounting and tax purposes on September 30, 2019, i.e. the closing date.

[4] *Calculated on the basis of the target Total Capital Ratio of 15% for dividend payout purposes.*

Since the acquisition of IOS Finance closed on September 30, 2019 and the company was merged into BFF effective December 31, 2019, the consolidated income statement of BFF Banking Group for the year 2019 (including both accounting and restated information) comprise IOS Finance only for the fourth quarter of 2019, with a negligible impact on the Group's results. All one-off costs associated with the acquisition (including those actually incurred as well as the estimated costs of the business combination), totaling €1.3 million (after taxes), and the €1.5 million one-off net positive impact of the realignment of goodwill have already been recognized in the 2019 consolidated income statement.

Opening of 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 3, 2018, BFF notified the Bank of Italy of its intention to open a branch in Poland.
The Polish Supervisory Authority KNF authorized the opening of the Polish branch on July 5, 2019.
The Polish branch started operations in September 2019 by launching the Lokata Facto deposit account.

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, consisting of large international and domestic businesses.

In light of this application, on July 5, 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, joining Italy, Croatia, Greece, Poland, Portugal, Czech Republic, Slovakia and Spain.

Furthermore, the Bank offers, through its Spanish branch and in compliance with regulations on the freedom to provide services, the Cuenta Facto product, using the Raisin online platform, in Germany and starting from October 1, 2019 also in the Netherlands and Ireland.

Rating

On October 2, 2019, Banca Farmafactoring S.p.A. received its first official public rating from the ratings agency Moody's France SAS, specifically:
- Long-term issuer rating: "Ba1", positive outlook;
- Long-term deposit rating: "Baa3", positive outlook;
- Short-term deposit rating: "P-3";
- Baseline credit assessment (BCA): "Ba3".

The issuer rating is only one notch below the Italian Republic's sovereign rating and is the highest rating of any Italian lender not directly supervised by the European Central Bank. In addition, the positive outlook implies that the agency could raise its rating should BFF manage to maintain its fundamentals (and specifically the CET1 ratio) at current levels.

Obtaining an official public rating has allowed the Bank to access debt markets more easily and seize favorable market conditions in a timely manner through the mentioned €300 million senior unsecured preferred bond issue under the EMTN Program launched in November 2018, with the goal of further reducing the cost of funding and diversifying funding sources.

Senior Unsecured and Preferred Bond Issue Under the EMTN Program

On October 23, 2019, the Bank successfully sold the first senior preferred unsecured bond issue with Italian and international institutional investors, totaling €300 million, at a fixed rate of 1.75% per year with maturity on May 23, 2023 (the “Bonds”) under the €1 billion EMTN (Euro Medium Term Note) Program launched by the Issuer on November 30, 2018 and updated on October 8, 2019.
The Bonds have a minimum denomination of €100,000 and were sold at par with a reoffer yield and a coupon rate of 1.75% (corresponding to a 209 basis point spread relative to the benchmark mid-swap rate), payable annually. The bonds are reserved for eligible institutional investors in Italy and abroad, pursuant to Regulation S of the United States Securities Act of 1933 as amended.
The ratings agency Moody's has assigned a “Ba1” rating to the Bonds.

The issue attracted bids exceeding €850 million overall (€750 million on the reoffer) from a geographically diverse group of high-quality institutional investors.
The Bonds are listed under the ISIN code XS2068241400 on the Main Securities Market (MSM) of the Irish Stock Exchange (ISE) as well as the Professional Segment of the non-regulated ExtraMOT market (ExtraMOT Pro), organized and operated by Borsa Italiana S.p.A.

Purchase of treasury shares

At December 31, 2019, the Bank owned 330,776 treasury shares, accounting for 0.19% of share capital.

At December 31, 2018, the Bank owned 41,552 treasury shares, accounting for 0.02% of share capital. 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, the Bank acquired 319,752 treasury shares from February 8 to February 14, 2019, totaling a combined €1,679,999 net of fees. The treasury share purchase plan aimed 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 Group.

In 2019, the Bank granted 30,528 treasury shares (of which 21,803 to the CEO as per the MBO, 7,063 in relation to non-competition agreements, and 1,662 for the exercise of stock options as per the relevant Stock Option Plan). The Bank has not sold any treasury shares during the reporting period.

Greek Branch

On January 29, 2019, Banca Farmafactoring S.p.A.'s Board of Directors approved the filing with the Bank of Italy for the purposes of opening a branch in Greece.

Consolidated Non-Financial Disclosure

In order to provide more comprehensive and transparent disclosure as well as improve its communication with stakeholders, BFF Banking Group voluntarily prepares and presents its first Consolidated Non-Financial Disclosure, in accordance with Italian Decree 254/2016. BFF Banking Group's Consolidated Non-Financial Disclosure is separate from this Report on Operations, as per Art. 5, paragraph 3, letter b) of Italian Legislative Decree 254/16, and available at **www.bffgroup.com**

Shareholders' Meeting Resolutions

On March 28, 2019, the Ordinary 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 purchase a maximum of 17,010,740 BFF shares for purposes as indicated under "Purchase of treasury shares";
- allocate a one-off stock grant for a maximum 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 the 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 free share capital increase.

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, for a period of up to five years, 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 total maximum amount of €3,003,000.00. This will be achieved through the issue of

up to a maximum of 3.9 million ordinary shares for the following purposes connected with the remuneration and incentive policies of the Group:

(i) meeting 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.

- 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, 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").
- 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 reallocation 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 designated 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 December 3, 2019, the aforesaid mandate was partially executed. A Capital Increase Against Payment took place with the issue of 446,378 new 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 provided for the granting of 8,960,000 stock options by December 31, 2019, and it should be noted in particular that since the beginning of the exercise period (April 8, 2019) to December 3, 2019 (the period considered for the purposes of the most recent capital change disclosure in 2019), 266,936 new shares were granted in the face of the 921,046 cashless options and 182,960 ordinary options that were exercised over the same period. Following these transactions, the number of options allocated and not yet exercised amounted to 7,457,574, of which 1,359,896 were vested and able to be exercised.

Share capital

In 2019 share capital increased from €130,982,698.00 (at December 31, 2018) to €131,326,409.06. This increase was due to the partial execution of the following activities in the period between April 16, 2019 and December 3, 2019:

- Capital Increase Against Payment for an amount of €140,879.20, and
- Free Capital Increase for an amount of €202,831.86.

Following partial execution of the Free Capital Increase in January and February 2020 for an amount of €37,683.03, share capital amounted to €131,364,092.09 (corresponding to 170,602,717 ordinary shares) at the date this report was approved.

New Organizational Structure

To support business growth and development targets, the Bank adopted a new organizational structure in the second quarter of 2019.

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 debtors belonging to 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.

It should be noted that in February 2020, the organizational structure of the Credit Management Operating Unit within the Factoring Department was revised. Within this framework, the organization and activities of structures belonging to the Credit Management Operating Unit were revised aiming at both constantly improving processes and systems to make them more effective and concentrating efforts on value recovery.

Audit of the Bank of Italy as Supervisory Authority

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 positive 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.

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 the Interbank Deposit Protection Fund (*Fondo Interbancario di Tutela dei Depositi*, FITD)'s bylaws, establishes the setting up of a mandatory contribution mechanism ensuring that, by July 3, 2024, available financial resources shall 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 covered 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 for Reports and Risk-based Contributions by Member Banks to FITD" available on the FITD website.

For 2018, the ordinary contribution due from BFF amounted to €653 thousand. In 2017 such contribution was €546 thousand. The contribution for 2019 amounted to €913 thousand.

As concerns extraordinary contributions, Article 23 of 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 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 system 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 system.
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 System

The CEO is the Director responsible for the Banking Group's Internal Control system, as envisaged by the Corporate Governance Code.
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 Function:*** 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; oversees the realization of the internal process for determining adequacy of capital and liquidity risk governance and management systems ("ICAAP/ILAAP"); monitors the controls over the management of risks, in order to define methods to measure those risks; assists corporate bodies in designing the Risk Appetite Framework (RAF); verifies that the limits assigned to the various operating functions are being observed; and checks that the operations of the individual areas are consistent with the assigned risk and return objectives.

- ***Financial Reporting Officer:*** under 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. In particular, the team carries out assessment and monitoring at a Group level, 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 view of the financial position, financial performance and cash flows of the Group on a consolidated level and of 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) Function:*** 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 relevant corporate bodies. 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 corporate 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 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.

For 2019, the Internal Audit function carried out 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, 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 a function of the Parent Company, 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, Portuguese and Polish 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. As a function of the Parent Company, it carried out a general purpose audit on the subsidiary BFF Central Europe, in addition to the audits provided for the 2019 Audit 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 Italian 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 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 identified within the operations defined as "sensitive" for the purposes of 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 Legislative Decree 231/2001, which detail the operations, audits, and reporting mechanisms intended to ensure that the Bank's organizational and control system-including the foreign branches in Spain, Portugal and Poland-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 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 Legislative Decree 231/2001.
The activities of the Supervisory Body carried out in 2019 aimed mainly to assess the adequacy of the Model (which was updated in 2019), to monitor information flows, and to carry out audits also with the support of the Internal Audit function. On a six-month basis, the Supervisory Body reported to the Board of Directors on its work, specifically stating it did not receive any complaint relevant to 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 part, special part 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 first half of 2019: at the date of this Report, the Supervisory Body consisted 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 already has a presence, and to make internal processes and IT systems more efficient.

More specifically, the following main projects were implemented in 2019:
- start of operations relating to the purchase of non-recourse receivables in France by the Bank, based on the regulations on the freedom to provide services;
- start of online deposit-taking activities by the Bank in Poland through a new branch;
- start of online deposit-taking activities by the Bank in the Netherlands and Ireland through the Bank's Spanish branch and based on the regulations on the freedom to provide services;
- development of new software systems, including aimed at making the contract preparation and approval process automatic, at Asset Liability 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 December 31, 2019, the total number of BFF Banking Group employees amounted to 517 staff members, of which: 235 in Italy, 8 at the BFF branch in Portugal, 58 in Spain (9 at the BFF branch in Madrid, 30 at BFF Finance Iberia and 19 at IOS Finance, now merged into BFF Iberia), 195 in Poland, 17 in Slovakia, and 4 in the Czech Republic.
In 2019, the Bank hired 55 people, of whom 17 in Italy, 4 in Spain, and 34 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.

Category	2018							2019						
	Italy	Spain	Poland	Slovakia	Czech Republic	Portugal	**TOTAL**	Italy	Spain	Poland	Slovakia	Czech Republic	Portugal	**TOTAL**
Senior Executives/ Executives	15	1	5	-	-		21	18	1	6	-	-	-	25
Managers/Middle Managers/Coordinators	20	9	29	2	-	1	61	37	17	36	5	-	2	97
Professionals/Specialists	182	25	145	12	4	2	370	180	40	153	12	4	6	395
Total by country	**217**	**35**	**179**	**14**	**4**	**3**	**452**	**235**	**58**	**195**	**17**	**4**	**8**	**517**
Group total for the year	**452**							**517**						

Such figures do not include 16 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 7, 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

and of the following STOXX indexes:

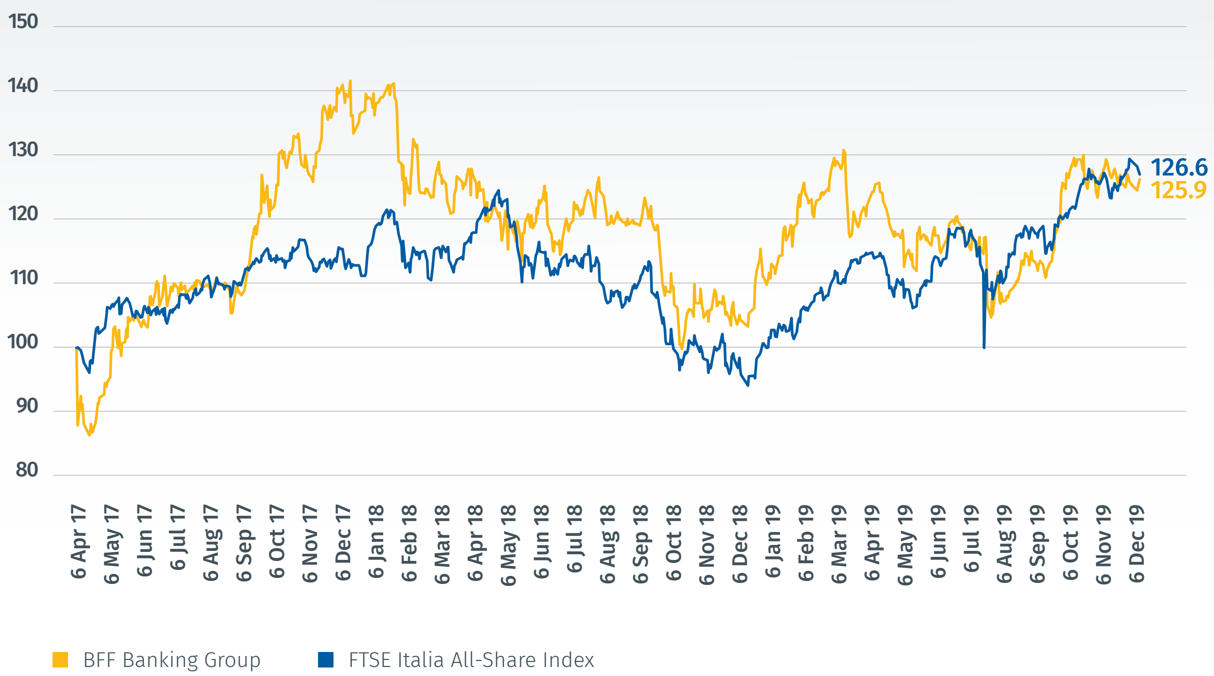
- EURO STOXX Total Market
- EURO STOXX Total Market ESG-X
- EURO STOXX Total Market Financial Services
- EURO STOXX Total Market Financials
- EURO STOXX Total Market General Financial
- EURO STOXX Total Market Small
- EURO STOXX Total Market Value

- EURO STOXX Total Market Value Small
- STOXX All Europe Total Market
- STOXX Developed Markets Total Market
- STOXX Developed Markets Total Market ESG-X
- STOXX Developed Markets Total Market Small
- STOXX Developed and Emerging Markets Total Market
- STOXX Europe IPO (60 months)
- STOXX Europe TMI Value
- STOXX Europe TMI Value Small
- STOXX Europe Total Market
- STOXX Europe Total Market ESG-X
- STOXX Europe Total Market Financial Services
- STOXX Europe Total Market Financials
- STOXX Europe Total Market General Financial
- STOXX Europe Total Market Small
- STOXX Europe ex UK Total Market
- STOXX Europe ex UK Total Market Small
- STOXX Global Total Market
- STOXX Italy Total Market

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

The share price at December 30, 2019 (last trading day in 2019) was €5.34, increasing by 13.6% compared to the IPO share placement price of €4.7. Since listing, the Bank has distributed total gross dividends of €1.031 per share (€0.492 per share in April 2018 and €0.539 per share in April 2019). Taking into consideration the distributed dividends, and assuming them to be reinvested in the BFF share on ex-date, total return for shareholders at December 30, 2019 compared to the placement price was 25.9%. The FTSE Italia All-Share Index total return was 26.6% in the same period.

Total Return



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	12/31/2019	Change
Government securities - (HTC&S)	160,592	82,748	(77,844)
Equity investments	17	17	0
Equity securities	147	147	0
Total	**160,756**	**82,912**	**(77,844)**

The item mainly includes government securities purchased by Banca Farmafactoring S.p.A. to hedge liquidity risk and to optimize the cost of money, for a total face value of €82 million. The average duration of such securities is 35.4 months.
These securities earn interest at variable rates (CCT) and have residual maturity dates within five years.

At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity under “Revaluation reserves”.

At December 31, 2019, the negative reserves on HTC&S government securities amounted to approximately €80 thousand, net of taxes.

Financial assets measured at amortized cost

(Amounts in € thousands)

Items	12/31/2018	12/31/2019	Change
Government securities - (HTC)	948,206	996,022	47,816
Due from banks	62,758	136,680	73,922
Due from customers	3,582,806	4,118,015	535,209
Total	**4,593,770**	**5,250,717**	**656,947**

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 the Bank of Italy Circular no. 262, in compliance with the new IFRS 9.

The amount consists entirely of government securities, classified in the Held to Collect (HTC) portfolio, purchased to hedge liquidity risk and to optimize the cost of money, for a total face value of €958 million. The average duration of such securities is 25.9 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 were 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 fair value of the HTC securities at December 31, 2019 amounted to €1,008 million, with a positive difference, after tax, over the carrying amount at the same date, of approximately €7.7 million that has not been recognized in the financial statements.

“Due from banks” consists of current account balances of BFF Banking Group companies at the end of the year, as well as receivables due from a leading credit institution for tax receivables transferred back.

The item includes €2,192 thousand in the mandatory reserve deposit with DepoBank, as Banca Farmafactoring S.p.A. is an indirect participant in that system, and €6,105 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	12/31/2019	Change
Non-recourse receivables	2,890,308	3,323,948	433,640
Receivables purchased below par value	43,567	30,367	(13,200)
Other receivables	648,930	763,700	114,770
Total	**3,582,805**	**4,118,015**	**535,210**

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 collection percentages and times.

Since 2014, every year the Bank has been updating the analysis of the time series concerning the average collection percentage and time for late payment interest. In 2019, 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 2019, the Bank added more depth to its time series by including the reference basis for 2019 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 2020, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times. Late payment interest for tax receivables has been fully recognized, because of its particular nature and the characteristics of the relevant counterpart as well as based on evidence of collection.
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 Banca Farmafactoring.
Other receivables mainly refer to loans of BFF Polska Group.

Credit quality

In order to correctly recognize 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 €120.0 million at December 31, 2019, with impairment losses totaling €13.8 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 December 31, 2019, the total non-performing loans of the Banking Group, net of impairment, amounted to €61.9 million, of which €5.7 million purchased already impaired. Among these non-performing exposures, €57.7 million (93% of the total) concerned municipalities and provincial governments in financial distress.
Gross non-performing loans amounted to €73.4 million and were adjusted to the tune of €11.4 million. Among these gross NPLs, €0.1 million concerned municipalities and provincial governments in financial distress and €4.5 million referred to BFF Polska's factoring-for-business product which was being amortized.
Please note that, as for the exposures to Local Authorities (Municipalities and Provincial Governments), the portion subject to the relevant settlement procedure is classified as Bad Loan in accordance with the Bank of Italy 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 December 31, 2019, gross exposures classified as unlikely to pay totaled €11.8 million; adjustments to the tune of €2.3 million were recognized, thus determining a net amount of €9.5 million.

Impaired past due exposures
These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days.
At December 31, 2019, total net past due exposures amounted to €34.7 million for the whole Banking Group, of which 87% referring to public administration counterparties and public sector companies of the countries where the Banking Group operates.
The Banking Group's gross exposures totaled €34.8 million and relevant adjustments amounted to €0.1 million.

In 2019 credit quality remained good: total net non-performing loans amounted to €61.9 million, thus increasing compared to 2018, mainly due to the increase in purchases of non-recourse receivables due from local entities by the Parent Company. The ratio of net NPLs to receivables due from customers was 1.5%, up from 1.1% in 2018.

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 (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 Gross amount	12/31/2018 Adjustments	12/31/2018 Net amount	12/31/2019 Gross amount	12/31/2019 Adjustments	12/31/2019 Net amount
Impaired exposures purchased performing (Stage 3)	125,388	(13,560)	111,828	114,113	(13,608)	100,505
Impaired exposures purchased non-performing (Stage 3)	10,561	(2,699)	7,862	5,879	(224)	5,655
Performing exposures (Stage 1 and 2)	3,465,716	(2,601)	3,463,115	4,015,618	(3,763)	4,011,855
Total	**3,601,665**	**(18,860)**	**3,582,805**	**4,135,610**	**(17,594)**	**4,118,015**

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)

Property, plant and equipment	12/31/2018	Increase	Decrease	12/31/2019
Land	3,685	-	-	3,685
Buildings	6,495	4,623	(1,258)	9,859
Furniture and fixtures	181	154	(138)	198
Electronic systems	649	573	(634)	587
Other	979	2,960	(1,157)	2,782
Total	**11,988**	**8,310**	**(3,188)**	**17,109**

The Group-owned buildings used by the Group in its business activities were measured at cost.
The measurement at first-time adoption resulted in an approximately €4 million revaluation of the buildings, from €5 million to €9 million.
The increase in buildings is mainly due to the recognition of company right-of-use assets, after the new IFRS 16 has become effective.

(Amounts in € thousands)

Intangible assets	LIFE	12/31/2018	Increase	Decrease	12/31/2019
Goodwill		22,146	8,728		30,874
Other intangible assets: internally generated	FINITE				
	INDEFINITE				
Other intangible assets: other	FINITE	4,259	2,397	(2,264)	4,392
	INDEFINITE				
Total		**26,406**	**11,127**	**(2,264)**	**35,268**

Intangible assets amounted to €35.2 million and include goodwill of €30,874 thousand, of which €22,146 thousand arising from the acquisition of BFF Polska Group by BFF in May 2016 and €8,728 thousand from the acquisition of IOS Finance by BFF in September 2019. Such goodwill was recognized after the completion of the PPA process carried out in compliance with IFRS 3 during 2017 as far BFF Polska Group is concerned and in September 2019 as for IOS Finance.
The residual amount refers to investments in new multi-year programs and software.

Tax assets and liabilities

(Amounts in € thousands)

Items	12/31/2018	12/31/2019	Change
Tax assets	**34,227**	**35,060**	**833**
current	26,045	23,494	(2,551)
prepaid	8,182	11,566	3,384
Tax liabilities	**88,302**	**98,999**	**10,697**
current	22,585	28,883	6,298
deferred	65,717	70,116	4,399

Current tax assets totaled €35,060 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amounted to €98,999 thousand; they include the accrual of income taxes for the year of Group companies.
Deferred tax liabilities amounted to €70,116 thousand; they mainly include the taxes calculated on Banca Farmafactoring'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 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	12/31/2019	Change
Due to banks	1,237,996	1,142,841	(95,155)
Due to customers	2,349,856	2,713,663	363,807
Of which due to financial institutions	230,497	258,359	27,862
Debt securities issued	815,177	1,105,692	290,515
Total	**4,403,029**	**4,962,195**	**587,029**

"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 €1,354 million for the online deposit accounts Conto Facto, Cuenta Facto, and Lokata Facto, and €996 million for repurchase agreements with the counterparty *Cassa di Compensazione e Garanzia*, executed to refinance the Bank's securities portfolio.

"Debt securities issued" amounted to €1,106 million at December 31, 2019, for a total face value of €1,100 million.

The item includes:
- the 2016-2021 bond issued by Banca Farmafactoring for a total face value of €150 million;
- the first subordinated unsecured and unrated €100 million Tier 2 bond issued by Banca Farmafactoring, with a duration of 10 years and the right to an issuer call date in the fifth year;
- the five-year senior unsecured and unrated €200 million bond issued in June 2017;
- the 30-month senior unsecured €200 million bond issued in December 2017;
- the €150 million Flexible Notes arising from the new securitization transaction;
- the new senior preferred, unsecured bond, with Ba1 rating assigned by Moody's, issued by Banca Farmafactoring for a total amount of €300 million, with a duration of over 3 years.

During the reporting period, repayment of bonds for an overall amount of €11 million was made by BFF Polska. At December 31, 2019, bonds issued by BFF Polska Group were totally repaid.

Provisions for risks and charges

At December 31, 2019, "Provisions for risks and charges" totaled €6,412 thousand. They mostly include allocations to "Pension and other post-employment benefits" of €4,313 thousand and "Other provisions" of €1,519 thousand.

(Amounts in € thousands)

Items	12/31/2018	Increase	Decrease	12/31/2019
Commitments and other guarantees provided	198	606	(224)	580
Employee benefits	3,977	1,849	(1,514)	4,313
Other provisions	806	763	(49)	1,519
Total	**4,980**	**3,218**	**(1,787)**	**6,412**

"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 income statement items is provided below, while for a more in-depth description reference should be made to the section relating to the results of operations and to Part C of the Notes.
At December 31, 2019, the Group's profit amounted to €93.2 million, compared to €92.2 million recognized in the prior-year period.

Net banking income

(Amounts in € thousands)

Items	12/31/2018	12/31/2019	Change
Maturity commissions and late payment interest on non-recourse receivables	174,567	169,484	(5,083)
Interest income on securities	5,494	6,292	798
Other interest	51,542	73,181	21,639
Interest income	**231,603**	**248,957**	**17,354**
Interest expense	**(42,866)**	**(48,449)**	**(5,583)**
Net fees and commissions	**5,693**	**4,498**	**(1,195)**
Dividends and similar income	2	0	(2)
Gains (losses) on trading	2,535	(752)	(3,287)
Gains (losses) on hedge accounting	111	0	(111)
Gains (losses) on disposal or repurchase of:			0
a) financial assets measured at amortized cost		371	371
b) financial assets measured at fair value through OCI	386	(1)	(387)
Net banking income	**197,464**	**204,623**	**7,159**

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.
The net impact of "over-recovery" (i.e., late payment interest collected exceeding 45%, net of reschedulings) on late payment interest recognized in profit or loss was €16.8 million at December 31, 2019 compared to €19.5 million at December 31, 2018. Specifically, late payment interest collected at December 31, 2019 amounted to €88.4 million (including IOS Finance's figures recognized in the last three months of 2019, i.e. €3.6 million) compared to €90 million at December 31, 2018. Over-recovery net impact of €2.7 million was lower than in the previous year due to the combined effect of (i) recovery rates higher than late payment interest, and (ii) more reschedulings in 2019 compared to 2018.

At the end of 2019, the provision of off-balance-sheet late payment interest not recognized in profit or loss amounted to €396 million, i.e. 11% more than the figures recognized at the end of 2018 (€356 million).

The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia (including IOS Finance), but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €634 million at December 31, 2019, of which approximately €527 million relating to Italian debtors, €57 million relating to Spanish debtors (of which €12 million relating to IOS Finance), €48 million to Portuguese debtors, and €3 million to Greek debtors. Of this interest, a total of €238 million was recorded in the income statement in current and prior years.

Interest income on securities, amounting to €5.5 million, originates from government securities classified in the HTC&S and HTC portfolios. They are measured at amortized cost, and interest calculated using the effective rate of return is recognized in the income statement.

Interest expense increased from €42.9 million at December 31, 2018 to €48.4 million at December 31, 2019. This increase in absolute terms is primarily due to the increase in outstanding amounts, and to the interest expense relating to loans denominated in zloty which are granted at a higher base rate.

Net fees and commissions show a €1.2 million decrease compared to the prior year, as presented in the following table.

(Amounts in € thousands)

Items	12/31/2018	12/31/2019	Change
Fee and commission income	7,193	6,298	(895)
Fee and commission expenses	(1,500)	(1,800)	(300)
Net fees and commissions	**5,693**	**4,498**	**(1,195)**

Gains on trading were negative and amounted to €0.7 million; they include the exchange differences on foreign currency loans, notably the loan payable in Polish zloty secured for the acquisition of BFF Polska Group, equal to €83 million at December 31, 2019. This corresponds to a related positive effect deriving from the revaluation of the exchange rates applied to the equity of BFF Polska Group in consolidated equity.

Gains on disposal of securities refer to the sale of government securities in the HTC portfolio made during the reporting period, which generated a gain of €370 thousand, before the tax effect.

Administrative expenses

(Amounts in € thousands)

Items	12/31/2018	12/31/2019	Change
Personnel costs	32,577	40,098	7,521
Other administrative expenses	35,579	39,426	3,153
Total administrative expenses	**68,156**	**79,525**	**10,674**

The increase in this item can mainly be traced to an increased number of employees and to higher personnel costs over the year, to higher expenses incurred for training, and to the costs relating to the retention bonus paid to the CEO after the IPO.

This amount also includes the charges relating to the stock option plan assigned to selected beneficiaries and the stock grant plan assigned to all employees.

Other administrative expenses amounted to €39.4 million at December 31, 2019, showing an increase compared to 2018. They include the €0.9 million extraordinary contribution to the Single Resolution Fund for 2017, before taxes.

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

Going concern

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

A performance review of the last few years shows a continuing positive trend.
The data can be summarized as follows:

- growing trend for equity;
- capital adequacy in relation to the risks connected with lending activities;
- sufficient availability of financial resources;
- positive commercial prospects associated with the trend in demand;
- high credit quality.

A summary of relevant quantitative information is provided below.

(Amounts in € millions, unless otherwise indicated)

Items	12/31/2018	12/31/2019
Net interest margin	188.7	200.5
Net banking income	197.5	204.6
EBTDA	132.3	129.2
Profit for the year	**92.2**	**93.2**
ROE (Return On Equity) (%)	**34%**	**33%**
Net banking income / Non-recourse volumes (%)	4.5%	4.5%
Net interest margin / Interest and similar income (%)	81.5%	80.5%
NPLs (net of impairment) / Due from customers (%)	1.1%	1.5%
Own funds / Due from customers (%)	19.1%	21.4%
Leverage	18.0	19.4
Equity	**366.2**	**377.3**
Own funds	**344.6**	**399.8**

Risk management and compliance with Prudential Supervision regulations

The prudential supervision regulations are mainly governed by the Bank of Italy Circular no. 285 "*Supervisory provisions for banks*" and Circular no. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*", both dated December 17, 2013, which adopt the harmonized regulation for banks and investment firms contained in the EC Regulation CRR ***Processo Verbale di Constatazione*** (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 December 31, 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 Company of the Banking Group-has prepared the "ICAAP/ILAAP 2017 Report" on internal processes for determining adequacy of capital and of 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 Banca Farmafactoring has approved a dedicated procedure denominated “Disclosure to the Public (Pillar III)”.

Pursuant to this procedure, the disclosure should be:
- approved by the Board of Directors before it is made public;
- published on the website **www.bffgroup.com** at least once a year, within 30 days of the date of approval of the financial statements by the Shareholders’ Meeting.

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

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

As previously mentioned in the section on the Group structure, the Bank is active in Italy, Portugal, Greece, France and Croatia through Banca Farmafactoring, in Spain through BFF Finance Iberia (including IOS Finance, acquired in late September 2019 and consolidated at September 30, 2019 by BFF, and subsequently merged into BFF Finance Iberia at December 31, 2019), and in Poland, the Czech Republic and Slovakia through BFF Polska and its associated companies (the so-called "BFF Polska Group").

The following table shows the reconciliation of the Parent Company's balances (as far as equity and profit or loss for the year are concerned) to the corresponding balances of BFF Banking Group.

(Amounts in € thousands)

	Equity at 12/31/2018	Of which Profit (loss) at 12/31/2018	Equity at 12/31/2019	Of which Profit (loss) at 12/31/2019
Parent Company's balances	**319,670**	**73,390**	**301,674**	**65,226**
Effect of transactions among Group companies (including dividends)				
BFF Finance Iberia - adjustment due to derecognition of equity investment	16,844		21,286	
BFF Finance Iberia - profit	4,386	4,386	5,333	5,333
BFF Polska - adjustment due to derecognition of equity investment	9,841		23,175	
BFF Polska - profit	13,969	13,969	19,751	19,751
Exchange differences - translation reserves	1,026		2,682	
Other consolidation adjustments	505	408	3,352	2,847
Equity attributable to non-controlling interests				
Group consolidated figures	**366,240**	**92,153**	**377,252**	**93,157**

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 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 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/Related-Party Transactions.
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 December 31, 2019.

On January 14, 2020, BFF Luxembourg S.à r.l. (Centerbridge) informed that it completed the sale initiated on January 9, 2020 of 18,700,000 BFF shares, equivalent to 11.0% of the Bank's capital at the same date, through an accelerated book build. Following the sale, BFF Luxembourg S.à r.l.'s equity interest in BFF has fallen from 32.773% to 21.809% and the amendments to the essential information concerning the Shareholders' Agreement dated April 11, 2018 have been disclosed pursuant to Article 131, paragraph 2, of CONSOB Regulation no 11971/1999 as amended ("Issuers' Regulation"), in the section Investors > Share Info > Shareholders' Agreements of the BFF Group's website.

Furthermore, after this transaction, the condition provided for by the contract entered into between the Bank and the Chief Executive Officer and involving the payment of a Retention Bonus was met. The Bank committed to pay the Retention Bonus to the Chief Executive Officer in the event of a "Change in Control", i.e. if the stake directly or indirectly held by Centerbridge in BFF would fall below 25% of the Bank's share capital.

Please note that:

- At a meeting held on February 5, 2020, BFF Finance Iberia S.A.U.'s Board of Directors proposed distributing to Banca Farmafactoring S.p.A. the profit for the year 2019, amounting to €5,794,779, as well as €37,668,600 in Reserves, resulting in a combined total of €43,463,379. Such proposal was approved by the Sole Shareholder Meeting on February 13, 2020.
- At a meeting held on February 4, 2020, BFF Polska S.A.'s Supervisory Board proposed distributing €15,000,000 in dividends to Banca Farmafactoring S.p.A. out of the profits for the year 2019. Such proposal will be submitted to the Sole Shareholder Meeting due on March 18, 2020.
- The Bank's Board of Directors has directed the Chief Executive Officer to approve said proposals at the Shareholders' Meetings of the subsidiaries. The resolutions of the Shareholders' Meetings will enable Banca Farmafactoring S.p.A. to recognize €58,463,379 in dividends as revenue for the first quarter of 2020.

Audit of the Guardia di Finanza

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 years ended December 31, 2013 and December 31, 2014, in October 2018 and October 2019, respectively, the Italian Tax Police issued a formal notice of assessment stating that "the audit reported no adverse findings" for both the fiscal years concerned. Therefore, the years 2013 and 2014 are to be considered closed for tax purposes, as the time period for assessing taxes has expired. In addition, in July 2019 the Italian Tax Police notified the Bank that the audit had been expanded to include the fiscal year 2018.

On January 29, 2020, the Bank was served a Formal Notice of Assessment (PVC, *Processo Verbale di Constatazione* in Italian) outlining the findings of the audits conducted by the Italian Tax Police with reference to the fiscal years from 2015 through 2018.

In said PVC, the Italian Tax Police examined, among other things, whether withholding taxes were duly paid on the dividends distributed to the Luxembourg-based parent BFF Luxembourg S.à r.l. in the fiscal years from 2016 through 2018, arguing that the Group did not correctly apply the reduced withholding tax rate of 1.375% in 2016 as well as the exemption for the subsequent fiscal years. No other objection was raised for the fiscal years covered by the audit.

Please note that, should the above objection lead to a tax assessment by the Italian Revenue Agency, the Bank will be entitled to seek recourse under the law against BFF Luxembourg S.à r.l. for the amount of taxes and interest due as per the law. Therefore, without prejudice to the above, the Bank did not consider it necessary to recognize any specific provision in the 2019 financial statements.

Covid 19 (“Coronavirus”)

Significant events after the end of the reporting period must include some factors that have recently emerged and may affect stability.

In particular, among others, we note the emergence and spread of Covid19 (the “Coronavirus”): in early 2020 it broke out in China and spread to other countries, negatively affecting their economies.

If such instability factors became significant, they could remarkably affect the country’s growth prospects, with repercussions on the economy and the financial markets because of the decisions taken by government authorities to limit the spread of the infection.

2019 financial statement balances will not be amended pursuant to IAS 10, because although the Coronavirus broke out in China close to year end, it has become a global health emergency since the end of January 2020.

At the time being and based on assessments made, this health emergency and its economic consequences are not deemed to impact Banca Farmafactoring’s future results, because the Bank has adopted all the necessary measures to guarantee business continuity-also through remote working procedures-and operations have not been interrupted.

Furthermore, the continuation of such a crisis could generate an increase in the demand of the Bank’s services, because the health system is in need of extra goods and resources during this period. Therefore, BFF could better play its role in supporting firms impacted by this scenario.

Treasury shares

At December 31, 2019, BFF owned 330,776 treasury shares, accounting for 0.194% of share capital.

At December 31, 2018, the Bank owned 41,552 treasury shares. In 2019:

- 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, the Bank acquired 319,752 treasury shares from February 8 to February 14, 2019. The treasury share purchase plan aimed 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 Group;

- the Bank granted 30,528 treasury shares (of which 21,803 to the CEO as per the MBO, 7,063 in relation to non-competition agreements, and 1,662 for the exercise of stock options).

BFF has not sold any treasury shares in the reporting period.

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 (new offices since July 2019). The Bank opened a Spanish branch in Madrid in 2015 and a Portuguese branch in Lisbon in July 2018. Furthermore, in July 2019, the Polish branch in Lodz started its operations (new offices at Brama Miasta city gate in Lodz). Subsequently, in November 2019, most of BFF Polska Group's operations were transferred to the Brama Miasta site.

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

Business Outlook

As per the five-year strategic plan approved by BFF's Board of Directors on May 29, 2019 ("BFF 2023" or the "Plan"), BFF Banking Group's goals up to 2023 include:

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 through the start of operations of the Polish branch for online deposit-taking on September 19, 2019 and the provision of services-in compliance with regulations on the freedom to provide services-also in the Netherlands and Ireland through the Raisin platform as in Germany;
3. consolidate the existing business and/or expand into other market niches via acquisitions.

Growth opportunities for 2020 include opening a new branch in Greece-the Bank of Italy was notified of the Bank's intention on February 13, 2020. Further assessments to penetrate other European markets are also underway.

Appropriation of the Banking Group’s Profit

The Banking Group’s Profit for the year ended December 31, 2019 amounted to €93,156,528. This figure includes, as mentioned before, the negative exchange rate effect arising from the revaluation of the loan payable in Polish zloty used for the acquisition of BFF Polska Group; the charges relating to the stock option plan assigned to selected beneficiaries and the stock grant plan assigned to all employees in the first half of 2019; the contribution to the European Single Resolution Fund (SRF) for 2017; non-recurring costs attributable to M&A transactions; the positive effect arising from the tax realignment of IOS Finance’s goodwill; and costs relating to the retention bonus paid to the CEO after the IPO.

Consistently with the dividend policy approved by the Bank's Board of Directors, which allows to pay out to Shareholders the portion of the Group's consolidated net profit for the year not necessary to maintain a minimum Total Capital Ratio of 15% (calculated by considering the scope of the Banking Group, pursuant to the Consolidated Law on Banking and/or the CRR), the Banking Group intends to distribute €70,874,784 in dividends to Shareholders out of €93,156,528 in consolidated net profit for 2019. This overall amount may be paid out following the meeting of the Board of Directors scheduled for May 8, 2020 to approve the financial statements for the first quarter of 2020 after verifying whether the conditions as per Art. 2433-bis of the Italian Civil Code are met.

For the purposes of distributing said amount to Shareholders, the Board of Directors:
- Proposes distributing to Shareholders €12,411,405 out of Banca Farmafactoring S.p.A.'s profit for the year 2019, resulting in a €0.0727 dividend for each of the 170,602,717 shares outstanding.
- Commits to taking all actions-some of which are already under way (as explained below)-necessary to distribute an additional €58,463,379 as an advance payment of dividends out of the Bank's profit for the first quarter of 2020, in accordance with Art. 2433-bis of the Italian Civil Code. In this regard, to date-considering also the resolutions passed by the subsidiaries mentioned below-it appears reasonable to deem such a goal feasible, as no known events and/or circumstances are likely to negatively impact it.

In this regard, please note that:
- At a meeting held on February 5, 2020, BFF Finance Iberia S.A.U.'s Board of Directors proposed distributing to Banca Farmafactoring S.p.A. the profit for the year 2019, amounting to €5,794,779, as well as €37,668,600 in Reserves, resulting in a combined total of €43,463,379. Such proposal was approved by the Sole Shareholder Meeting on February 13, 2020.
- At a meeting held on February 4, 2020, BFF Polska S.A.'s Supervisory Board proposed distributing €15,000,000 in dividends to Banca Farmafactoring S.p.A. out of the profits for the year 2019. Such proposal will be submitted to the Sole Shareholder Meeting due on March 18, 2020.
- The Bank's Board of Directors has directed the Chief Executive Officer to approve said proposals at the Shareholders’ Meetings of the subsidiaries. The resolutions of the Shareholders’ Meetings will enable Banca Farmafactoring S.p.A. to recognize €58,463,379 in dividends as revenue for the first quarter of 2020.

Considering the proposed appropriation of part of the Bank's profit for 2019, the Group is to set aside €52,814,344 in consolidated Tier 1 Capital.

The following proposal for the appropriation of Banca Farmafactoring’s profit will be submitted to the Shareholders’ Meeting of the Bank on April 2, 2020.

Proposal for the Appropriation of Banca Farmafactoring's Profit

Dear Shareholders,

The financial statements of the Company at December 31, 2019 show a profit of €65,225,749, which we propose to allocate as follows:
i) €52,814,344 to the Retained earnings reserve;
ii) €12,411,405 to Shareholders.

Shareholders will therefore be entitled to a dividend of €0.0727 for each of the 170,602,717 shares held (third ex-date: May 18, 2020).
Pursuant to Article 83-terdecies of Italian Legislative Decree no. 58 of February 24, 1998, as subsequently amended and supplemented (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary as referred to in Article 83-quater, paragraph 3 of the Consolidated Law on Finance, at the end of the accounting date of May 19, 2020 (record date).
The aforementioned dividend-before tax provided for by the law-will be paid on May 20, 2020 (payment date).

* * *

Therefore, we submit the following resolution proposal for your approval:
"The Shareholders' Meeting of Banca Farmafactoring S.p.A., having examined the report on operations prepared by the Board of Directors,

resolved

i. *to distribute to Shareholders part of the net profit for the year of €12,411,405, equal to €0.0727-before tax provided for by the law-for each for each of the 170,602,717 ordinary shares outstanding at the third ex-date (May 18, 2020). Such dividend includes the portion attributable to any treasury share held by the Company at the record date. Pursuant to Article 83-terdecies of Italian Legislative Decree no. 58 of February 24, 1998 (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary as referred to in Article 83-quater, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting date of May 19, 2020 (record date);*
ii. *to allocate the residual amount of €52,814,344 to the "Retained earnings reserve";*
iii. *that such dividend be paid as of May 20, 2020 (payment date). Payment will be made through authorized intermediaries with which shares have been registered in the Monte Titoli system.*

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

02

Consolidated Financial Statements at December 31, 2019

Consolidated Balance Sheet

(Amounts in euros)

Assets		12/31/2019	12/31/2018
10.	Cash and cash equivalents	78,305,302	99,457,728
30.	Financial assets measured at fair value through OCI	82,911,963	160,755,859
40.	Financial assets measured at amortized cost	5,250,716,578	4,593,770,324
	a) due from banks	*136,679,774*	*62,758,477*
	b) due from customers	*5,114,036,805*	*4,531,011,848*
70.	Equity investments	94,437	172,037
90.	Property, plant and equipment (*)	17,109,160	11,988,426
100.	Intangible assets	35,268,054	26,405,901
	of which		
	- goodwill	*30,874,236*	*22,146,189*
110.	Tax assets	35,059,591	34,226,870
	a) current	*23,493,938*	*26,044,837*
	b) deferred	*11,565,653*	*8,182,033*
130.	Other assets	11,561,531	14,747,460
	TOTAL ASSETS	**5,511,026,616**	**4,941,524,605**

(*) *The item "Property, plant and equipment" includes right-of-use assets relating to leases recognized at December 31, 2019, in compliance with the new standard IFRS16. 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.*

(Amounts in euros)

Liabilities and Equity	12/31/2019	12/31/2018
10. Financial liabilities measured at amortized cost	4,962,195,474	4,403,029,388
a) due to banks	*1,142,840,644*	*1,237,996,379*
b) due to customers (*)	*2,713,662,678*	*2,349,855,548*
c) debt securities issued	*1,105,692,152*	*815,177,461*
60. Tax liabilities	98,999,134	88,301,821
a) current	*28,882,984*	*22,584,878*
b) deferred	*70,116,150*	*65,716,944*
80. Other liabilities	65,324,506	78,123,708
90. Employee severance benefits	843,205	848,841
100. Provisions for risks and charges:	6,412,030	4,980,559
a) commitments and guarantees provided	*580,428*	*197,735*
b) pension and other post-employment benefits	*4,313,009*	*3,977,004*
c) other provisions for risks and charges	*1,518,593*	*805,820*
120. Revaluation reserves	6,569,790	843,738
150. Reserves	147,269,189	142,505,681
160. Share premium	693,106	0
170. Share capital	131,326,409	130,982,698
180. Treasury shares	(1,762,756)	(244,721)
200. Profit (loss) for the period	93,156,528	92,152,892
TOTAL LIABILITIES AND EQUITY	**5,511,026,616**	**4,941,524,605**

(*) *The item "Financial liabilities measured at amortized cost – due to customers" includes the financial liability relating to leases recognized at December 31, 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		12/31/2019	12/31/2018
10.	Interest and similar income	248,956,841	231,603,472
	of which: interest income calculated using the effective interest rate method	*211,252,427*	*195,472,036*
20.	Interest and similar expenses	(48,448,932)	(42,866,119)
30.	**Net interest margin**	**200,507,909**	**188,737,353**
40.	Fee and commission income	6,297,736	7,193,486
50.	Fee and commission expenses	(1,799,928)	(1,500,612)
60.	**Net fees and commissions**	**4,497,808**	**5,692,874**
70.	Dividends and similar income	0	2,409
80.	Gains (losses) on trading	(752,359)	2,534,971
90.	Gains (losses) on hedge accounting	0	110,652
100.	Gains (losses) on disposal or repurchase of:	369,770	385,291
	a) financial assets measured at amortized cost	*371,090*	*(459)*
	b) financial assets measured at fair value through OCI	*(1,320)*	*385,750*
120.	**Net banking income**	**204,623,128**	**197,463,551**
130.	Net adjustments/reversals of impairment for credit risk relating to:	(2,371,538)	(4,812,599)
	a) financial assets measured at amortized cost	*(2,382,840)*	*(4,804,281)*
	b) financial assets measured at fair value through OCI	*11,302*	*(8,318)*
150.	**Net profit from financial activities**	**202,251,590**	**192,650,952**
180.	**Net profit from financial and insurance activities**	**202,251,590**	**192,650,952**
190.	Administrative expenses:	(79,524,661)	(68,156,319)
	a) personnel costs	*(40,098,036)*	*(32,577,445)*
	b) other administrative expenses	*(39,426,625)*	*(35,578,874)*
200.	Net allocations to provisions for risks and charges	(3,190,458)	(960,125)
	a) commitments and guarantees provided	*(375,731)*	*(30,416)*
	b) other net allocations	*(2,814,727)*	*(929,709)*
210.	Net adjustments to/reversals of impairment of property, plant and equipment	(3,173,576)	(1,486,671)
220.	Net adjustments to/reversals of impairment of intangible assets	(1,887,121)	(1,728,877)
230.	Other operating income (expenses)	7,233,967	3,945,939
240.	**Operating costs**	**(80,541,849)**	**(68,386,053)**
290.	**Profit (loss) before tax from continuing operations**	**121,709,741**	**124,264,899**
300.	Income taxes on profit (loss) from continuing operations	(28,553,213)	(32,112,007)
310.	**Profit (loss) after tax from continuing operations**	**93,156,528**	**92,152,892**
330.	**Profit (loss) for the period**	**93,156,528**	**92,152,892**
350.	**Profit (loss) for the period attributable to owners of the Parent**	**93,156,528**	**92,152,892**
	Basic earnings per share	0.55	0.54
	Diluted earnings per share	0.52	0.53

Consolidated Statement of Comprehensive Income

(Amounts in euros)

Items		12/31/2019	12/31/2018
10.	**Profit (loss) for the period**	**93,156,528**	**92,152,892**
	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	(15,881)	17,675
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	1,652,193	(2,747,544)
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	4,089,737	(4,237,866)
150.	Non-current assets and disposal groups held for sale		
160.	Portion of revaluation reserves from equity investments measured using the equity method		
170.	**Total other comprehensive income, after tax**	**5,726,050**	**(7,161,890)**
180.	**Comprehensive income (Items 10+170)**	**98,882,578**	**84,991,001**
190.	Consolidated comprehensive income attributable to non-controlling interests		
200.	**Consolidated comprehensive income attributable to the Parent**	**98,882,578**	**84,991,001**

Consolidated Statement of Changes in Equity

(Amounts in euros)

At 12/31/2018

	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 12/31/2018	Equity attributable to non-controlling interests at 12/31/2018
							Equity transactions									
				Reserves	Dividends and other allocations	Change in reserves	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	Consolidated comprehensive income for the year 2019		
Share capital:																
- ordinary shares	130,982,698		130,982,698				0								**130,982,698**	
- other shares																
Share premium							0								**0**	
Reserves:																
- from profits	126,907,657		126,907,657	11,854,962		(463,526)									**138,299,093**	
- other	2,713,829		2,713,829			(5,267)	0					1,498,026			**4,206,588**	
Revaluation reserves	7,693,804	311,238	8,005,042			587								(7,161,890)	**843,738**	
Equity instruments																
Treasury shares	0		0			0		(244,721)							**(244,721)**	
Profit (loss) for the year	95,547,803		95,547,803	(11,854,962)	(83,692,841)									92,152,892	**92,152,892**	
Group equity	**363,845,791**	**311,238**	**364,157,029**		**(83,692,841)**	**(468,207)**	**0**	**(244,721)**				**1,498,026**		**84,991,001**	**366,240,288**	
Equity attributable to non-controlling interests	10,000		10,000										(10,000)			

(*Amounts in euros*)

At 12/31/2019

	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 12/31/2019	Equity attributable to non-controlling interests at 12/31/2019
							Equity transactions									
				Reserves	Dividends and other allocations	Change in reserves	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	Consolidated comprehensive income for the year 2019		
Share capital:																
- ordinary shares	130,982,698		130,982,698				343,711								131,326,409	
- other shares																
Share premium							693,106								693,106	
Reserves:																
- from profits	138,299,093		138,299,093	399,658		1,802,383									140,501,134	
- other	4,206,588		4,206,588			1,486,811	662,012					412,644			6,768,055	
Revaluation reserves	843,738	0	843,738			0								5,726,050	6,569,790	
Equity instruments																
Treasury shares	(244,721)		(244,721)			163,644		(1,681,679)							(1,762,756)	
Profit (loss) for the year	92,152,892		92,152,892	(399,658)	(91,753,234)									93,156,528	93,156,528	
Group equity	**366,240,288**	**0**	**366,240,288**		**(91,753,234)**	**3,452,838**	**1,698,829**	**(1,681,679)**				**412,644**		**98,882,578**	**377,252,266**	
Equity attributable to non-controlling interests	0		0										0			

Consolidated Statement of Cash Flows Indirect Method

(Amounts in euros)

	Amount	
A. OPERATING ACTIVITIES	12/31/2019	12/31/2018
1. Operations	**103,769,495**	**101,141,165**
- profit or loss for the period (+/-)	93,156,528	92,152,892
- capital gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)		
- capital gains/losses on hedge accounting (-/+)		
- net adjustments/reversals of impairment for credit risk (+/-)	2,361,813	4,812,599
- net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-)	5,060,697	3,215,548
- net allocations to provisions for risks and charges and other expenses/income (+/-)	3,190,458	960,125
- 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 (+/-)		
2. Liquidity generated/absorbed by financial assets	**579,089,336**	**481,395,052**
- financial assets held for trading		
- financial assets designated at fair value	0	(545,846)
- other financial assets mandatorily measured at fair value		
- financial assets measured at fair value through OCI	(77,843,896)	0
- financial assets measured at amortized cost	659,308,066	414,694,847
- other assets	(2,374,834)	67,246,051
3. Liquidity generated/absorbed by financial liabilities	**567,588,535**	**497,230,679**
- financial liabilities measured at amortized cost	560,965,487	458,911,620
- financial liabilities held for trading	0	(535,073)
- financial liabilities designated at fair value		
- other liabilities	6,623,048	38,854,132
Net liquidity generated/absorbed by operating activities	**92,268,695**	**116,976,791**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	**(77,600)**	**(86,447)**
- sale of equity investments	(77,600)	(88,857)
- dividends collected on equity investments	0	2,409
- sale of property, plant and equipment		
- sale of intangible assets		
- sale of subsidiaries and business branches		
2. Liquidity absorbed by	**(20,845,768)**	**(2,572,926)**
- purchase of equity investments	160,771	(23,911)
- purchase of property, plant and equipment	(10,233,289)	(481,496)
- purchase of intangible assets	(10,773,250)	(2,067,519)
- purchase of subsidiaries and business branches		
Net liquidity generated/absorbed by investing activities	**(20,923,368)**	**(2,659,374)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(1,381,679)	(244,721)
- issue/purchase of equity instruments	1,036,817	0
- distribution of dividends and other	(92,152,892)	(95,547,803)
- sale/purchase of ownership interests in subsidiaries		
Net liquidity generated/absorbed by funding activities	**(92,497,753)**	**(95,792,524)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**(21,152,426)**	**18,524,893**

Reconciliation

(Amounts in euros)

Item	Amount	
	12/31/2019	12/31/2018
Cash and cash equivalents at the beginning of the period	99,457,728	80,932,835
Total net liquidity generated/absorbed during the period	(21,152,426)	18,524,893
Cash and cash equivalents: effect of change in exchange rate		
Cash and cash equivalents at the end of the period	**78,305,302**	**99,457,728**

Notes to the Consolidated Financial Statements

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

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

Part A - Accounting Policies

A.1 – GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

The consolidated financial statements at December 31, 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.

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

Section 2 – General preparation principles

The consolidated financial statements at December 31, 2019 were prepared in accordance with the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", as subsequently amended.
The consolidated financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity 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 the notes are in thousands of euros, unless otherwise stated; prior-year figures are provided for the purposes of comparison.
The financial statements were prepared based on the general principle of prudence and on an accrual and going concern basis, since, with reference to the operations and the financial and equity position of the Group, and after examining the risks to which it is exposed, the Directors have not identified any issue that could raise doubts on the Group's ability to meet its obligations in the foreseeable future.

Main measurement criteria

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

ACCOUNTING STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2019

The following standards, interpretations and amendments are effective in 2019 and beyond:

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 balance sheet as if it was owned. 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. Where the rate is not expressly stated, reference is made to the cost of funding for the period; in addition, the liability is reduced by the amount of lease payments made during the reporting 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 could 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 defined the lease term, based on the facts and circumstances existing at such date and impacting the reasonable certainty that the options included in the 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 balance sheet 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 consolidated financial statements at December 31, 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.

Amendments to IFRS 9 – Financial Instruments - Prepayment Features with Negative Compensation

Adopted by Regulation (EU) 498/2018, these amendments are intended to clarify the classification of particular prepayable financial assets when applying IFRS 9.
The above amendments did not impact the Group's accounts.

IFRIC 23 – Uncertainty over Income Tax Treatments

Adopted by Regulation (EU) 2018/1595, the interpretation IFRIC 23 specifies how to apply IAS 12 recognition and measurement requirements in the event of uncertainty in accounting for income taxes. In this case, the entity shall recognize and measure its current or deferred tax assets or liabilities by applying the requirements of IAS 12 based on taxable income and other amounts relevant for tax purposes determined by applying IFRIC 23.
The above amendments did not impact the Group's accounts.

Annual Improvements to IFRS Standards 2015-2017 Cycle

Adopted by Regulation (EU) 2019/412, this document contains the following amendments to IFRSs:

- Amendments to IFRS 3 – Business Combinations: the amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, the transaction is a business combination achieved in stages.
- Amendments to IFRS 11 – Joint Arrangements: the amendments clarify that when a party that participates in, but does not have joint control of, a joint operation obtains joint control of the joint operation, it has to remeasure the previously held interest at fair value.
- Amendments to IAS 12 - Income Taxes: the amendments specify that an entity shall recognize the income tax consequences of dividends as defined in IFRS 9 when it recognizes a liability to pay a dividend.
- Amendments to IAS 23 - Borrowing Costs: according to these amendments, to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset,

the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

Amendments to IAS 28 - Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures

Adopted by Regulation (EU) 2019/237, these amendments clarify that an entity shall apply IFRS 9 to financial instruments in an associate or joint venture to which the equity method is not applied without taking account of any adjustments to the carrying amount of such long-term interests.

Amendments to IAS 19 – Employee Benefits – Plan Amendment, Curtailment or Settlement

Adopted by Regulation (EU) 2019/402, these amendments clarify that, after a defined-benefit plan amendment, curtailment or settlement occurs, an entity should apply the updated assumptions from the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period.

Upcoming accounting standards and interpretations

At the approval date of these consolidated 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.

Section 3 – 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

Subsidiaries are companies over which BFF Banking Group exercises control. 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 and the notes of the companies that are consolidated on a line-by-line basis are prepared in accordance with the IASs/IFRSs used for the consolidated financial statements.

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

- assets and liabilities, revenues and costs of the entities that are fully consolidated are recognized on a line-by-line basis, attributing to non-controlling interests, if applicable, their share of net equity and profit (loss) for the period, which are disclosed separately in 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;
- exchange differences arising from the translation of the financial statements of these subsidiaries, resulting 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 exchange differences on the subsidiaries' equity. All exchange differences are recognized in profit or loss in the period in which the investment is disposed of.

Company acquisitions are accounted for by applying the "acquisition method" under IFRS 3, as amended by Regulation 495/2009, which requires the identifiable assets acquired and the liabilities assumed (including contingent liabilities) to be measured at their acquisition-date fair values.

Any excess of the consideration transferred (being the fair values of the assets transferred, the liabilities incurred and the equity instruments issued) over the fair values of the assets and liabilities acquired are recognized as goodwill. If the price is lower, the difference is recognized in the income statement.

The "acquisition method" is applied from the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Therefore, the profit of a subsidiary acquired during the reference period are included in the consolidated financial statements from the date on which it is acquired. Similarly, the profit of a subsidiary transferred are included in the consolidated financial statements until control ceases.

Acquisition of IOS Finance EFC and merger into BFF Iberia S.A.

On September 30, 2019, Banca Farmafactoring finalized the acquisition of 100% of the share capital of IOS Finance, E.F.C., S.A. ("IOS Finance"), in line with the timing and terms already agreed upon pursuant to the share Sale and Purchase Agreement (SPA) announced by the press release dated April 10, 2019 and following the non-opposition by the Bank of Spain and the Bank of Italy.

On November 18, 2019, withdrawal of the EFC (*Establecimiento financiero de crédito*) license held by IOS Finance was confirmed by the Bank of Spain. After such withdrawal, the Bank decided to merge the newly-acquired IOS Finance into BFF Finance Iberia. The merger was finalized on December 31, 2019, with accounting and fiscal effects starting from September 30, 2019.

Following the acquisition of IOS Finance on September 30, 2019 and the conclusion of the PPA conducted on the same date, the Bank did not find any significant assets and/or liabilities that had not been already recognized in IOS Finance's financial statements at the acquisition date. Therefore, the comparison between the consideration for the business combination of €26.4 million and the value of net assets of €17.7 million, as recognized in IOS Finance's balance sheet at fair value at September 30, 2019, generated a difference of €8.7 million to be allocated to goodwill.

As for such goodwill, the Bank realigned-by paying a substitute tax of 16%-the highest values accounted for in the consolidated financial statements as goodwill of the relevant subsidiary.

The consolidated financial statements took account of the effects on the financial position and performance of the decision to opt for tax realignment of goodwill arising from the acquisition.

It should also be noted that BFF's consolidated financial statements include a restructuring provision relating to the effects on its financial position and performance of IOS Finance's acquisition and of the integration process that has led to the latter's merger into BFF Finance Iberia.

1. Investments in subsidiaries under exclusive control

At December 31, 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.U.	Madrid - C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. BFF SPV S.r.l.	Milano - Via V. Betteloni 2	4	Banca Farmafactoring	0%	0%
3. BFF Polska S.A.	Łodz - Jana Kilińskiego 66	1	Banca Farmafactoring	100%	100%
4. BFF Medfinance S.A.	Łodz - Jana Kilińskiego 66	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 - Jana Kilińskiego 66	4	BFF Polska S.A.	99%	99%
11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

On September 30, 2019, the Parent BFF acquired the Spanish company IOS Finance EFC S.A.U. On November 18, 2019, Banco de España withdrew the EFC license held by IOS Finance (as per IOS Finance EFC Board of Directors' resolution of September 30, 2019) and the latter became IOS Finance S.A.U. On December 31, 2019, IOS Finance S.A.U. was merged into BFF Finance Iberia S.A.U.
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
(2) Voting rights at ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.

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

There are no events or facts subsequent to December 31, 2019 such as to require an adjustment to the results recognized at the end of the reporting period.

Audit of the Guardia di Finanza

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 years ended December 31, 2013 and December 31, 2014, in October 2018 and October 2019, respectively, the Italian Tax Police issued a formal notice of assessment stating that "the audit reported no adverse findings" for both the fiscal years concerned. Therefore, the years 2013 and 2014 are to be considered closed for tax purposes, as the time period for assessing taxes has expired. In addition, in July 2019 the Italian Tax Police notified the Bank that the audit had been expanded to include the fiscal year 2018.

On January 29, 2020, the Bank was served a Formal Notice of Assessment (PVC, *Processo Verbale di Constatazione* in Italian) outlining the findings of the audits conducted by the Italian Tax Police with reference to the fiscal years from 2015 through 2018.

In said PVC, the Italian Tax Police examined, among other things, whether withholding taxes were duly paid on the dividends distributed to the Luxembourg-based parent BFF Luxembourg S.à r.l. in the fiscal years from 2016 through 2018, arguing that the Group did not correctly apply the reduced withholding tax rate of 1.375% in 2016 as well as the exemption for the subsequent fiscal years. No other objection was raised for the fiscal years covered by the audit.

Please note that, should the above objection lead to a tax assessment by the Italian Revenue Agency, the Bank will be entitled to seek recourse under the law against BFF Luxembourg S.à r.l. for the amount of taxes and interest due as per the law. Therefore, without prejudice to the above, the Bank did not consider it necessary to recognize any specific provision in the 2019 financial statements.

On January 14, 2020, BFF Luxembourg S.à r.l. (Centerbridge) informed that it completed the sale initiated on January 9, 2020 of 18,700,000 BFF shares, equivalent to 11.0% of the Bank's capital at the same date, through an accelerated book build. Following the sale, BFF Luxembourg S.à r.l.'s equity interest in BFF has fallen from 32.773% to 21.809% and the amendments to the essential information concerning the Shareholders' Agreement dated April 11, 2018 have been disclosed pursuant to Article 131, paragraph 2, of CONSOB Regulation no 11971/1999 as amended ("Issuers' Regulation"), in the section Investors > Share Info > Shareholders' Agreements of the BFF Group's website.

Please note that:

- At a meeting held on February 5, 2020, BFF Finance Iberia S.A.U.'s Board of Directors proposed distributing to Banca Farmafactoring S.p.A. the profit for the year 2019, amounting to €5,794,779, as well as €37,668,600 in Reserves, resulting in a combined total of €43,463,379. Such proposal was approved by the Sole Shareholder Meeting on February 13, 2020.
- At a meeting held on February 4, 2020, BFF Polska S.A.'s Supervisory Board proposed distributing €15,000,000 in dividends to Banca Farmafactoring S.p.A. out of the profits for the year 2019. Such proposal will be submitted to the Sole Shareholder Meeting due on March 18, 2020.
- The Bank's Board of Directors has directed the Chief Executive Officer to approve said proposals at the Shareholders' Meetings of the subsidiaries. The resolutions of the Shareholders' Meetings will enable Banca Farmafactoring S.p.A. to recognize €58,463,379 in dividends as revenue for the first quarter of 2020.

Covid 19 ("Coronavirus")

Significant events after the end of the reporting period must include some factors that have recently emerged and may affect stability.
In particular, among others, we note the emergence and spread of Covid19 (the "Coronavirus"): in early 2020 it broke out in China and spread to other countries, negatively affecting their economies.

If such instability factors became significant, they could remarkably affect the country's growth prospects, with repercussions on the economy and the financial markets because of the decisions taken by government authorities to limit the spread of the infection.

2019 financial statement balances will not be amended pursuant to IAS 10, because although the Coronavirus broke out in China close to year end, it has become a global health emergency since the end of January 2020.

At the time being and based on assessments made, this health emergency and its economic consequences are not deemed to impact Banca Farmafactoring's future results, because the Bank has adopted all the necessary measures to guarantee business continuity-also through remote working procedures-and operations have not been interrupted.

Furthermore, the continuation of such a crisis could generate an increase in the demand of the Bank's services, because the health system is in need of extra goods and resources during this period. Therefore, BFF could better play its role in supporting firms impacted by this scenario.

Section 5 – Other issues

Audit of the Bank of Italy as Supervisory Authority

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 positive 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.

Authorization for issue

Pursuant to IAS 10 par. 17, please note that Banca Farmafactoring S.p.A.'s Board of Directors authorized these consolidated financial statements for issue on February 25, 2020.

A.2 - MAIN ITEMS OF THE FINANCIAL STATEMENTS

Disclosure of the accounting policies adopted to prepare the consolidated financial statements at December 31, 2019, 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;
- Financial assets measured at fair value through OCI;
- Financial assets measured at amortized cost.

2 – Financial assets measured at fair value through OCI

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 in 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 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.

Equity instruments included in this category are measured at fair value, and the amounts recognized through equity (statement of comprehensive income) do not need to be transferred to the income statement, even in case of sale. The only components of the equity instruments concerned which are recognized in the income statements are the relevant dividends.

For the purposes of IFRS 9, the impairment of financial assets included in these categories 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 impairment.
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 loss 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”.

Equity securities are not tested for impairment.

Derecognition criteria

Available-for-sale financial assets are derecognized when the contractual rights expire and when, following disposal, substantially all of the risks and rewards relating to the financial asset sold are transferred. On the other hand, if the risks and rewards arising from the financial assets sold are substantially retained, the financial assets sold will continue to be recognized in the financial statements, even though legal title to these assets is effectively transferred.

3 - Financial assets measured at amortized cost

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 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 the laws in force (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 business model concerned), 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 specified in the RAF (Risk Appetite Framework), that is the framework that defines-consistently with the risk capacity, the business model, and the strategic plan-the risk appetite, risk tolerance, risk limits, risk governance policies, and the relevant processes required to define and implement them, including at the Group level.

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 of the amounts granted, 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 of impairment 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 estimated 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.

As for the newly-acquired IOS Finance, subsequently merged into BFF Finance Iberia on December 31, 2019, BFF Iberia has aligned the measurement basis for the acquired portfolio of IOS with the measurement basis of BFF Group.
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 a probability-weighted estimate of credit losses over the expected life of the financial instrument. According to this concept, a loss does not necessarily have to occur before it is recognized in the financial statements; therefore, 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 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 impairment, 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 for credit risk relating to: a) financial assets measured at amortized cost”.
If, in a subsequent period, the amount of impairment 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 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.

4 - Hedging

Recognition criteria

In compliance with IFRS 9, the Group has opted to continue to apply IAS 39 hedge accounting even after IFRS 9 came into force.
A hedging transaction is the designation of a financial instrument having as its purpose to offset, in whole or in part, the profit or loss arising from the changes in the fair value or cash flows of the hedged item. The intent of hedging must be formally designated, not retroactive and consistent with the risk hedging strategy set out by BFF Banking Group's management. Hedge accounting is permitted by IAS 39 only under certain circumstances provided that the hedging relationship is:
- clearly designated and documented;
- measurable;
- currently effective.

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

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

Derivative contracts (including purchased options) may be designated as hedging instruments, while non-derivative financial instruments may not be designated as hedging instruments except as a hedge of foreign currency risk. Hedging derivatives are classified in the balance sheet under item 50 “Hedging derivatives” among assets or item 40 “Hedging derivatives” among liabilities, respectively, according to whether their fair value is positive or negative on the reporting date.

Measurement criteria

Derivative financial instruments designated as hedges are recognized and measured at their fair value.
When a financial instrument is designated as a hedge, the Group, as noted above, formally documents the relationship between the hedging instrument and the hedged item, and assesses the hedging instrument’s effectiveness, both at inception and during its life, in achieving offsetting changes in the fair value or cash flows of the hedged item. A hedge is considered effective if, both at inception and during its life, the changes in the hedged item’s fair value or cash flows are offset by the changes in the hedging derivative’s fair value.
Consequently, the hedge’s effectiveness is assessed by comparison of the above changes, taking into account the objective pursued by the entity when the hedge was put into place. It is effective (within a range of 80-125%) when the estimated and effective changes in the fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item.

The hedge’s effectiveness is assessed at the end of each reporting period (at the closing of annual financial statements or interim financial reports), by using:

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

Gains and losses arising from changes in fair value are accounted for differently depending on the type of hedge:
- fair value hedge: changes in the fair value of the hedged item attributable exclusively to the hedged risk are recognized in profit or loss, the same as the fair value change of the hedging derivative; any difference, which represents the partial ineffectiveness of the hedge, consequently corresponds to the net gain or loss;
- cash flow hedge: changes in the fair value of the derivative are recognized in equity, for the effective portion of the hedge, and are recognized in profit or loss only when, with regard to the hedged item, there is variability in cash flows that needs to be offset, or for the ineffective portion of the hedge;
- hedge of a net investment in a foreign operation: cash flow hedge accounting is applied.

The allocation of gains or losses to the pertinent items of the income statement is made in accordance with the following guidelines:
- differences accrued on derivative instruments hedging interest rate risk (in addition to the interest of the hedged positions) are allocated to item 10 “Interest and similar income” or item 20 “Interest and similar expenses” based on whether the difference is positive or negative;
- gains and losses in fair value arising from the measurement of hedging derivatives designated as a fair value hedge and the hedged positions are allocated to item 90 “Gains (losses) on hedge accounting”;

- gains and losses in fair value originating from the measurement of hedging derivatives designated as a cash flow hedge, for the effective portion, are allocated to a special equity revaluation reserve called “Cash flow hedge reserve”, net of the deferred tax effect. For the ineffective portion, the gains and losses are recorded in the income statement under item 90 “Gains (losses) on hedge accounting”.

Derecognition criteria

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or repaid; c) early revocation of the designation; d) the hedging instrument expires or is sold, terminated or exercised.
If the hedge is not effective, the portion of the derivative contract no longer hedging (over hedging) is reclassified to trading instruments. If the interruption in the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be hedged and is again measured in the portfolio to which it belongs.
The hedging financial assets and liabilities are derecognized when there are no longer any contractual rights (e.g., expiration of the contract, early closing exercised according to the contractual clauses-unwinding) to receive cash flows from the financial instruments, the hedged assets/liabilities, and/or the derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and rewards connected thereto.

6 - Property, plant and equipment

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.

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 costs incurred by a manufacturer or dealer lessor in connection with a 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 the 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 the 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.

7 - 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, net of accumulated amortization and impairment losses, if any.
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. 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.
The goodwill recognized derived from the acquisition of BFF Polska in 2016 and IOS Finance (now merged into BFF Iberia) during the reporting period.

In accordance with the provisions of IFRS 3 (revised), the goodwill relating to the acquisition of IOS Finance was recognized following completion, during the reporting period, of the Purchase Price Allocation (PPA) process, which confirmed the allocation of the difference between the purchase cost and the fair value of the assets and liabilities acquired wholly to goodwill.

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.

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.

Following the outcomes of the annual impairment test performed at the end of the reporting period on the amount of goodwill recorded in the financial statements and relating to the allocation of the acquisition cost of BFF Polska Group and IOS Finance (merged into BFF Iberia at December 31, 2019), the Group did not recognize any impairment loss on the aforementioned goodwill.

Derecognition criteria

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

9 - Current and deferred taxes

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.

10 - Provisions for risks and charges

Recognition and measurement criteria

Provisions for risks and charges cover costs and expenses of a determinate nature, the existence of which is certain or probable, which, at the end of the reporting period, are uncertain as to amount or timing.
Accruals to the provisions for risks and charges are recognized only when:
- a present obligation has arisen as a result of a past event;
- upon its manifestation, the obligation is onerous;
- 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 financial 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.

11 - 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 fair value on the settlement date. This amount usually 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 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 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.

16 - 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 December 31, 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 December 31, 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 the Company Bylaws, in order to:
  - Empower the Board of Directors under Article 2443 of the Italian Civil Code, for a period of up to five years, 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 total maximum amount of €3,003,000.00. This will be achieved through the issue of a maximum

of up to 3.9 million ordinary shares for the following purposes connected with the remuneration and incentive policies of the Group:

(i) meeting 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, 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").

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.

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 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-competition 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 consolidated financial statements at December 31, 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 consolidated financial statements at December 31, 2019 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 accrued 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 active markets, determined with measurement models;
- expenses recorded on the basis of provisional values that are not definitive at the date of the report;
- any impairment of equity investments and recognized goodwill;
- employee benefit provisions based on actuarial assumptions, and provisions for risks and charges;
- the recoverability of deferred tax assets.

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 in Stage 3. The Group shall recognize adjustments equal to lifetime expected credit losses for these exposures, consisting in financial assets classified as bad loans, unlikely to pay, and exposures more than 90 days past due as per the Bank of Italy Circular no. 262/2005.

The impairment model is characterized by:
- the allocation of the transactions in the portfolio to different stages 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 does not exist, the financial asset is classified in 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".
- if such an indication exists, the financial asset is classified in 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".

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:
- Quantitative criterion: definition of a relative threshold and an absolute threshold.
- Qualitative criterion: use of transfer logic triggers, i.e., identification of events triggering transfers between stages;

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 measuring 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 divides 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 is assigned according to the time series of external ratings provided by the ECAI employed and referring to sovereign and sub-sovereign counterparties. The rating is assigned based on an external assessment carried out on 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 considers the Bank of Italy's quarterly decay rate [5].
- 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 are 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.

[5] *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 persons 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)".*

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 TTC PD 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 in Stage 1 (1-year time horizon), and for those that have undergone a significant increase in credit risk and were therefore classified in 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 the 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 and 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 recoverable late payment interest, including that concerning tax authorities, 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 2019. This confirmed the suitability of 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. Late payment interest for tax receivables has been fully recognized, because of its particular nature and the characteristics of the relevant counterpart as well as based on evidence of collection.

As for the newly-acquired IOS Finance, subsequently merged into BFF Finance Iberia on December 31, 2019, BFF Iberia has aligned the measurement basis for the acquired portfolio of IOS with the measurement basis of BFF Group.

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 accrued 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

Financial assets measured at fair value through OCI (government securities and investment in the FITD Voluntary Scheme), recognized at December 31, 2019, are mostly classified as Level 1, since they refer to government securities, and to a lesser extent as Level 2, as the measurements were made using inputs other than the quoted prices used in Level 1 and observable directly or indirectly for the assets and liabilities.
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 December 31, 2019, BFF Banking Group did not 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 December 31, 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 Fair value hierarchy

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

(Amounts in € thousands)

Financial assets/liabilities measured at fair value	12/31/2019			12/31/2018		
	L1	L2	L3	L1	L2	L3
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	82,748	147	17	160,592	147	17
3. Hedging derivatives						
4. Property, plant and equipment						
5. Intangible assets						
Total	**82,748**	**147**	**17**	**160,592**	**147**	**17**
1. Financial liabilities held for trading						
2. Financial liabilities measured at fair value						
3. Hedging derivatives						
Total						

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

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

(Amounts in € thousands)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through OCI	**Hedging derivatives**	**Property, plant and equipment**	**Intangible assets**
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance					**17**			
2. Increase								
2.1. Purchases								
2.2. Gains recognized in:								
2.2.1. Profit or loss								
- of which capital gains								
2.2.2. Equity		X	X	X				
2.3. Transfers from other levels								
2.4. Other increases								
3. Decrease								
3.1. Sales								
3.2. Redemptions								
3.3. Losses recognized in:								
3.3.1 Profit or loss								
- of which capital losses								
3.3.2. Equity		X	X	X				
3.4. Transfers to other levels								
3.5. Other decreases								
4. Closing balance					**17**			

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

(Amounts in € thousands)

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	12/31/2019				12/31/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	5,250,717	1,007,580		4,254,695	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	**5,250,717**	**1,007,580**		**4,254,695**	**4,593,770**	**940,907**		**3,645,564**
1. Financial liabilities measured at amortized cost	4,962,195	966,893	0	4,006,526	4,403,029	615,472	11,507	3,737,883
2. Liabilities associated with assets held for sale								
Total	**4,962,195**	**966,893**	**0**	**4,006,526**	**4,403,029**	**615,472**	**11,507**	**3,737,883**

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

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 - Consolidated Balance Sheet

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

ASSETS

Section 1 – Cash and cash equivalents – Item 10

€78,305 thousand

1.1 Cash and cash equivalents: breakdown

(Amounts in € thousands)

	Total 12/31/2019	Total 12/31/2018
a) Cash	3	3
b) Demand deposits with Central Banks	78,302	99,455
Total	**78,305**	**99,458**

The balance includes the cash on hand at the different Group companies and unrestricted deposits with the Bank of Italy, amounting to €78,305 thousand.

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

€82,912 thousand

The item mainly includes government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €82 million.
They totaled €82.9 million, decreasing by €77.8 million compared to the previous year (€160.7 million).
These securities earn interest at variable rates (CCT) and have residual maturity dates of maximum five years.
The securities are classified as HTC&S (Held to Collect and Sell) and, therefore, they are measured at fair value. Only the interest calculated using the effective rate of return is recognized in the income statement.
At the end of the reporting period, the value of securities is compared to their fair value and any difference is recognized in OCI and in equity as part of the revaluation reserves, after tax.
At December 31, 2019, the negative reserves on the HTC&S government securities amounted to approximately €80 thousand, after tax.
During the reporting period, HTC&S securities were sold, realizing a negligible charge, before the tax effect, recorded in the income statement under item 100 “Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through OCI”.

The item also includes:

- the amount charged to Banca Farmafactoring as part of its contributions to the Voluntary Scheme established by FITD in relation to the actions taken to support Cassa di Risparmio di Cesena for a total of €147 thousand, equal to the fair value communicated directly by FITD in January 2018. As already mentioned, the Bank has already announced its intention to withdraw from the Voluntary Scheme on September 17, 2017. For this reason, the Bank will no longer be forced to make any additional payments to the aforesaid Voluntary Scheme;
- the amount held by Banca Farmafactoring in Nomisma S.p.A. - Società di Studi Economici, equal to €17 thousand, accounted for at cost, in the absence of other measurement inputs.

As regards the valuation of equity securities, it is specified that, as envisaged by IFRS 9, any changes in value (with the exception of dividends) will directly impact equity, without being carried on the income statement, with an indication on the statement of comprehensive income.

Nomisma S.p.A.'s highlights are as follows:

(Amounts in euros, unless otherwise stated)

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cent)	Percentage of equity investment
Nomisma S.p.A.	17,335.18	72,667	0.239	0.250%

Registered office	Bologna - Strada Maggiore n. 44
Share capital	Euro 6,963,499.89 fully paid in

(Amounts in euros, at 12/31/2018)

Equity	8,512,263
Profit (loss) for the period	667,811

3.1 Financial assets measured at fair value through OCI: breakdown by type

(Amounts in € thousands)

Items/Amounts	Total 12/31/2019			Total 12/31/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**82,748**			**160,592**		
1.1 Structured securities						
1.2 Other debt securities	82,748			160,592		
2. Equity securities		**147**	**17**		**147**	**17**
3. Loans						
Total	**82,748**	**147**	**17**	**160,592**	**147**	**17**

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

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

(Amounts in € thousands)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
1. Debt securities	**82,748**	**160,592**
a) Central Banks	82,748	160,592
b) Public administration agencies		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	**164**	**164**
a) Banks		
b) Other issuers:		
- other financial companies	147	147
of which: insurance companies		
- non-financial companies	17	17
- other		
3. Loans		
a) Central Banks		
b) Public administration agencies		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	**82,912**	**160,756**

3.3 Financial assets measured at fair value through OCI: 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	82,759				(11)			
Loans								
Total 12/31/2019	**82,759**				**(11)**			
Total 12/31/2018	**160,614**				**(22)**			
of which: impaired financial assets acquired or internally generated	X	X			X			

* *Provided for disclosure purposes*

Section 4 – Financial assets measured at amortized cost - Item 40

€5,250,717 thousand

This item is broken down as follows:

- receivables due from banks of €136,680 thousand;
- receivables due from customers of €5,114,037 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Held to Collect (HTC) securities portfolio (formerly HTM) of €996,022 thousand.

Due from banks

€136,680 thousand

At December 31, 2019, receivables due from banks refer to transactions relating to the current accounts held by the BFF Banking Group's companies at the end of the reporting period, as well as other receivables due from a banking counterparty for previously purchased tax receivables transferred back.

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2019						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	**136,680**			**136,680**			**62,759**			**62,759**		
1. Loans												
1.1. Current accounts and demand deposits	55,363			X	X	X	20,461			X	X	X
1.2. Fixed-term deposits	9,294			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	72,023			X	X	X	33,294			X	X	X
2. Debt securities												
2.1. Structured securities												
2.2. Other debt securities												
Total	**136,680**			**136,680**			**62,759**			**62,759**		

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

In particular, “Current accounts and demand deposits” mainly refer for €20,804 thousand to Banca Farmafactoring, for €6,145 thousand to BFF Polska Group, for €20,387 thousand to securitization vehicles, and €8,024 thousand to BFF Finance Iberia.

Restricted deposits mainly include €2,192 thousand in the mandatory reserve deposit with Depobank (formerly ICBPI/Nexi), as Banca Farmafactoring is an indirect participant in that system, and €6,105 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 in relation to receivables transferred back.

This item does not include any impaired assets.

Due from customers

€5,114,037 thousand, including Held to Collect securities of €996,022 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 Circular no. 262, in compliance with the new IFRS 9.
This item therefore includes loans to customers of €4,118 million (mainly receivables due from debtors in relation to factoring activities) and €996 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.
Banca Farmafactoring and BFF Finance Iberia’s non-recourse receivables include both principal and late payment interest accruing as from the due date of the receivable. In order to compute amortized cost, including late payment interest recognized on an accrual basis, Banca Farmafactoring updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. 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 Banca Farmafactoring.

BFF Polska Group-a group acquired in 2016-recognizes late payment interest accrued on past due trade receivables when there is reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or when decided by a court of law.
Notwithstanding the minor significance of late payment interest to the total of BFF Polska Group’s receivables, as part of the activities to complete the integration of BFF Banking Group’s processes, which also includes synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the estimation criteria decided locally by management when BFF Polska

Group was listed were adopted. These confirm a substantially full recovery of the late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €634 million, of which only €238 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 €106.2 million. Of this amount, €61.9 million relates to non-performing loans (including €57.7 million concerning municipalities and provincial governments in financial distress, of which €5.7 million were purchased already impaired) and €9.5 million to unlikely-to-pay exposures. Past due exposures amounted to €34.7 million, of which 87% referring to Italian public administration counterparties and public sector companies. Measurement of such exposures is carried out at the portfolio level since there are no objective indications of individual impairment.

Debt securities classified in the HTC portfolio, equal to €996 million, are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement.
At December 31, 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 €958 million and fair value of €1,007 million, with a negative difference (before taxes) of around €7.6 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

€5,114,037

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2019						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	**4,011,855**	**106,160**	**5,655**			**4,118,015**	**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	3,092	0		X	X	X	5,176	152		X	X	X
1.6. Factoring	3,074,535	89,984	5,655	X	X	X	2,690,253	89,923	7,862	X	X	X
1.7. Other loans	934,226	16,175		X	X	X	767,685	29,615		X	X	X
2. Debt securities	**996,022**			**1,007,580**			**948,206**			**940,907**		
2.1. Structured securities												
2.2. Other debt securities	996,022			1,007,580			948,206			940,907		
Total	**5,007,877**	**106,160**	**5,655**	**1,007,580**		**4,118,015**	**4,411,322**	**119,690**	**7,862**	**940,907**		**3,582,805**

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

The breakdown is as follows:

- Performing factoring amounted to a total of €3,074,535 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 derecognition, and measured at amortized cost, worth a total of €2,328,603 thousand for Banca Farmafactoring and €594,542 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 and accruing late payment interest is acquired upon purchase.
  These receivables include receivables sold, totaling €219,243 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 €30,367 thousand.

Performing recourse and non-recourse factoring of BFF Polska Group totaled €151,390 thousand.

- Other performing loans due from customers amounted to €934,226 thousand; they mainly include:
  - receivables for accrued late payment interest of about €136,683 thousand, including €117,433 thousand relating to Banca Farmafactoring and €19,250 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 €238 million late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2019, €136.7 million refers to the item under review, while the remaining amount of €101 million was recognized under "factoring";
  - amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €64,342 thousand;
  - financing activities of BFF Polska Group of €719,280 thousand.

- Performing finance leases of BFF Polska Group totaled €3,092 thousand.

- BFF Banking Group's net impaired assets amounted to a total of €106,160 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 December 31, 2019, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €61,943 thousand, of which €5,655 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €57,659 thousand, accounting for 93.0% of the total.

    Gross non-performing loans amounted to €73,376 thousand. Relevant impairment totaled €11,433 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 €1,568 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €74,944 thousand and relevant adjustments totaled €13,001 thousand.
    With reference to the Bank, at December 31, 2019 total non-performing loans, net of any estimated impairment losses, amounted to €58,210 thousand, of which €57,659 thousand concerned Italian municipalities and provincial governments 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 capital and late payment interest at the end of the insolvency procedure.
    Specifically, the amount of €5,655 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 Banca Farmafactoring are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €13,090 thousand; after estimated impairment losses of €9,385 thousand, the net amount totaled €3,705 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 December 31, 2019, gross exposures classified as unlikely to pay amounted to €11,836 thousand, of which €11,386 thousand attributable to BFF Polska Group and €450 thousand to BFF Finance Iberia. The total net amount was €9,526 thousand, relating mainly to BFF Polska Group, since the gross exposures of Banca Farmafactoring and BFF Finance Iberia were almost entirely impaired.

- Net past due exposures of BFF Banking Group totaled €34,691 thousand, of which €30,226 thousand (87.1%) 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. Banca Farmafactoring's overall amount of net past due exposures at December 31, 2019 was equal to €30,592 thousand. Of this amount, €29,483 thousand (equal to 96.4%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €3,438 thousand. The remaining past due exposures, for a net amount of €661 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 the amortized cost and taking into account any individual and collective impairment), in relation to the nature, type, duration of such assets and related collection projections, was deemed to be substantially representative of the fair value of these receivables on the reporting date.

4.3 Financial assets measured at amortized cost: due from customers broken down by debtor/issuer

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2019			Total 12/31/2018		
	Stages 1 and 2	Stage 3	of which impaired assets acquired or internally generated	Stages 1 and 2	Stage 3	of which impaired assets acquired or internally generated
1. Debt securities	**996,022**			**948,206**		
a) Public administration agencies	996,022			948,206		
b) Other financial companies						
of which: insurance companies						
c) Non-financial companies						
2. Loans due from:	**4,011,855**	**106,160**	**5,655**	**3,463,115**	**119,690**	**7,862**
a) Public administration agencies	3,690,765	88,051	5,655	3,216,347	73,825	7,862
b) Other financial companies	64,363			64,725		
of which: insurance companies						
c) Non-financial companies	240,806	17,374		180,534	35,736	
d) Households	15,922	735		1,509	10,129	
Total	**5,007,877**	**106,160**	**5,655**	**4,411,322**	**119,690**	**7,862**

4.4 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	996,148				126			
Loans	3,995,297		157,011	119,992	2,328	1,446	13,832	
Total 12/31/2019	**4,991,445**		**157,011**	**119,992**	**2,454**	**1,446**	**13,832**	
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		5,879	X		224	

* Provided for disclosure purposes

Section 7 – Equity investments - Item 70
€94 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 SA	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%

7.4 Minor equity investments: accounting information

(Amounts in € thousands)

Name	Carrying amount of equity investments	Total assets	Total liabilities	Total revenue	Profit (loss) after tax from continuing operations	Profit (loss) after tax	Profit (loss) for the period (1)	Other comprehensive income, after tax (2)	Comprehensive income (3) = (1) + (2)
A. Jointly controlled companies									
B. Companies over which significant influence is exercised									
C. Exclusively controlled companies									
1. Kancelaria Prawnicza Karnowski I Wspolnik sp.k.	5	347	108	767	233		233		233
2. Restrukturyzacyjna Prawnicza Karnowski I Wspolnik sp.k.	89	85	8	-	(13)		(13)		(13)

7.5 Equity investments: year-over-year change

(Amounts in € thousands)

	Total 12/31/2019	Total 12/31/2018
A. Opening balance	**172**	**261**
B. Increase		
B.1 Purchases		
B.2 Reversals of impairment		
B.3 Revaluations		
B.4 Other changes		
C. Decrease	**(78)**	**(89)**
C.1 Sales		
C.2 Adjustments		
C.3 Impairment		
C.4 Other changes	(78)	(89)
D. Closing balance	**94**	**172**
E. Total revaluations		
F. Total adjustments		

Section 9 - Property, plant and equipment - Item 90

€17,109 thousand

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

(Amounts in € thousands)

Assets/Amounts	Total 12/31/2019	Total 12/31/2018
1. Owned assets	**12,373**	**11,694**
a) land	3,685	3,685
b) buildings	6,169	6,494
c) furniture and fixtures	196	180
d) electronic systems	588	650
e) other	1,735	685
2. Right-of-use assets acquired under leases	**4,736**	**295**
a) land		
b) buildings	3,843	0
c) furniture and fixtures		
d) electronic systems		
e) other	893	295
Total	**17,109**	**11,988**
of which: obtained from enforcement of guarantees received		

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

(Amounts in € thousands)

	Land	Buildings	Furniture and fixtures	Electronic systems	Other	Total
A. Gross opening balance	**3,685**	**16,822**	**2,498**	**7,727**	**6,189**	**36,921**
A.1 Net total impairment	0	(10,327)	(2,316)	(7,078)	(5,211)	(24,932)
A.2 Net opening balance	**3,685**	**6,495**	**181**	**649**	**979**	**11,988**
B. Increase:	**0**	**4,623**	**154**	**573**	**2,960**	**8,310**
B.1 Purchases			154	454	1,246	1,854
B.2 Capitalized improvements						
B.3 Reversals of impairment						
B.4 Positive fair value changes recognized in:						
a) equity						
b) income statement						
B.5 Positive exchange differences						
B.6 Transfers from properties held for investment			X	X	X	
B.7 Other changes		4,623		118	1,715	6,456
C. Decrease:	**0**	**(1,258)**	**(138)**	**(634)**	**(1,157)**	**(3,188)**
C.1 Sales				(6)	(8)	(14)
C.2 Depreciation		(1,258)	(138)	(628)	(1,149)	(3,174)
C.3 Adjustments from impairment recognized in:						
a) equity						
b) income statement						
C.4 Negative fair value changes recognized in:						
a) equity						
b) income statement						
C.5 Negative exchange differences						
C.6 Transfers to:						
a) property, plant and equipment held for investment			X	X	X	
b) non-current assets and disposal groups held for sale						
C.7 Other changes						
D. Net closing balance	**3,685**	**9,859**	**198**	**587**	**2,782**	**17,109**
D.1 Net total impairment	0	(11,585)	(2,495)	(7,685)	(7,152)	(28,916)
D.2 Gross closing balance	**3,685**	**21,444**	**2,692**	**8,272**	**9,933**	**46,026**
E. Measured at cost	3,685	21,444	2,692	8,272	9,933	46,026

At December 31, 2019, the item "Property, plant and equipment" amounted to a total of €17,109 thousand. Of this amount, €12,983 thousand related to BFF, €2,869 thousand to BFF Polska Group, and €1,257 thousand to BFF Finance Iberia. At December 31, 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 €6,169 thousand, compared to €6,495 thousand at December 31, 2018;
- right-of-use assets relating to adoption of the new IFRS 16 on leases of €1,990 thousand. For further information on this topic, please refer to section M.

Upon 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. Such amount is depreciated at the end of each reporting period based on the assets' 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

€35,268 thousand

10.1 Intangible assets: breakdown by type of asset

(Amounts in € thousands)

Assets/Amounts	Total 12/31/2019		Total 12/31/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**30,874**	**X**	**22,146**
A.1.1 attributable to the group	X	30,874	X	22,146
A.1.2 attributable to non-controlling interests	X		X	
A.2 Other intangible assets	**4,394**		**4,260**	
A.2.1 Assets measured at cost:				
a) Intangible assets generated internally				
b) Other assets	4,394		4,260	
A.2.2 Assets measured at fair value:				
a) Intangible assets generated internally				
b) Other assets				
Total	**4,394**	**30,874**	**4,260**	**22,146**

The line item largely consists of the goodwill arising from BFF's acquisition of BFF Polska Group in 2016 and the former IOS Finance (now merged into BFF Finance Iberia) in 2019, totaling respectively €22,146 thousand and €8,728 thousand.

On September 30, 2019 BFF Banking Group finalized the acquisition of 100% of IOS Finance S.A.U. ("IOS Finance"). Furthermore, at the same date, the Purchase Price Allocation (PPA) process was completed, at the end of which the allocation of the purchase price entirely to goodwill was confirmed, as applied during the initial recognition of the acquisition of the company formerly known as IOS Finance and recorded in BFF Banking Group's consolidated financial statements at December 31, 2019, since, following the aforementioned provisional PPA, no further assets were identified to which reasonably allocate the investment purchase price.

After the acquisition, the application for withdrawing the EFC (*Establecimiento financiero de crédito*) license held by IOS Finance was filed with the Bank of Spain. Following the withdrawal of the EFC status, authorized by the Bank of Spain, the deed of merger of IOS Finance into BFF Finance Iberia S.A.U. ("BFF Iberia", 100% owned by the Parent Banca Farmafactoring S.p.A.) was filed and registered with the *Registro Mercantil* in Madrid and became effective on December 31, 2019. Therefore, starting from January 1, 2020, BFF Finance Iberia has taken over all the assets and liabilities belonging to IOS Finance. Accounting effects of the merger have been accounted for starting from September 30, 2019 (the closing date).

In line with what was described in the section on accounting policies and with IAS 36, an impairment test was carried out on goodwill concerning BFF Polska Group and BFF Iberia (formerly IOS Finance) in order to determine the relevant recoverable amount.
Pursuant to the relevant Standard, this verification must be carried out on an annual basis or when there is evidence of an impairment loss, and is performed by comparing the carrying amount of goodwill and the recoverable amount of the Cash Generating Unit (CGU) to which goodwill refers.

Therefore, each equity investment was considered, in accordance with international standards, as a Cash Generating Unit and their measurement as a whole thus made it possible to determine the recoverable amounts of goodwill. The latter amount was calculated in terms of Value in Use, i.e. the present value of future cash flows expected to be generated by the CGUs.

The Group adopted a policy, for which the latest update was submitted for the approval of the Board of Directors on December 20, 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 two CGUs as at December 31, 2019 was calculated on the basis of the Dividend Discount Model (DDM) outlined in the Group's "Goodwill Impairment Testing" policy

The DDM determines the value of an entity or a branch based on the dividend flow which is expected to be generated prospectively.

Specifically, the economic value of an entity or a branch is calculated as the sum of:

- present value of future cash flows generated over an explicit planning period and payable to shareholders accounting for a minimum level of capitalization, consistent with the guidance provided by the Supervisory Authority and compatible with the nature and outlook of business operations;
- terminal value calculated as the present value of a perpetuity defined on the basis of a dividend that is sustainable for the years following the explicit planning period.

In this specific case, the explicit planning period consists of two forecast years (2020 and 2021), based on the amounts reported in the 2020 budget and information from the Strategic Plan for the year 2021. Both BFF Polska Group and BFF Iberia contribute to the calculation of the RWAs of BFF Banking Group, an entity subject to prudential supervision-which affects its capital requirements.

In addition, the Bank performed a sensitivity analysis on both investments.

With respect to BFF Polska Group, the analysis shows the value in use of the CGU as the cost of capital (ke) and growth rate change. In addition, assuming a Ke of 10%-corresponding to the cost of capital financial analysts attribute to BFF Banking Group-the value in use amounted to €237 million. Moreover, the Bank conducted a stress test to identify the maximum cost of capital (ke) for the Value in Use of the CGU tested for impairment to be at least equal to the Carrying Amount.
Said maximum amount turned out to be 15.9%.

The main assumptions used in relation to BFF Polska are as follows:
- the Risk-free rate of 2.06%, based on the annual gross return of the Polish 10-year government bond benchmark at December 31, 2019;
- the average market return (5.2%) determined on the basis of the difference between the long-term return of shares and bonds;
- the beta coefficient (1.16) 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 over 23/35 months, on a monthly basis, for a sample comprising 5 listed comparables;
- the country risk premium of 0.84% corresponding to the country risk of the countries in which BFF Polska operates;
- the growth rate (g, 2.4%) 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.

With respect to BFF Iberia, the analysis shows the value in use of the CGU as the cost of capital (ke) and growth rate change. Assuming a Ke of 10%-corresponding to the cost of capital financial analysts attribute to BFF Banking Group-the value in use amounted to €121 million.
As for the stress test conducted to identify the maximum cost of capital (ke) for the Value in Use of the CGU tested for impairment to be at least equal to the Carrying Amount, said maximum amount turned out to be 20.8% for BFF Iberia.

The main assumptions used in relation to BFF Finance Iberia are as follows:
- the Risk-free rate of 0.47%, based on the annual gross return of the Spanish government bond benchmark at December 31, 2019;
- the average market return (5.2%) determined on the basis of the difference between the long-term return of shares and bonds;

- the beta coefficient (1.16) 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 over 23/35 months, on a monthly basis, for a sample comprising 5 listed comparables;
- the country risk premium of 1.57% corresponding to the country risk of the countries in which BFF Finance Iberia operates;
- the growth rate (g, 1.4%) on the basis of the inflation rate forecast for Spain, used to calculate the terminal value with the "Perpetuity" method, determined considering the expected long-term inflation rate.

Therefore, in line with the findings of the impairment test conducted on the two CGUs, at December 31, 2019 there was no indication that goodwill cannot be fully recovered.

Other intangible assets with a finite life refer to investments in new multi-year software, amortized on a straight-line basis over their estimated useful lives (not exceeding 4 years).

10.2 Intangible assets: year-over-year change

(Amounts in € thousands)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**22,146**			**6,664**		**28,811**
A.1 Net total impairment	0			(2,405)		(2,405)
A.2 Net opening balance	**22,146**			**4,259**		**26,406**
B. Increase	**8,728**			**2,398**		**11,127**
B.1 Purchases	8,728			2,398		11,127
B.2 Increase in intangible assets generated internally	X					
B.3 Reversals of impairment	X					
B.4 Positive fair value changes in						
- equity	X					
- income statement	X					
B.5 Positive exchange differences						
B.6 Other changes						
C. Decrease	**0**			**(2,265)**		**(2,265)**
C.1 Sales				(200)		(200)
C.2 Adjustments						
- Amortization	X			(2,064)		(2,064)
- Impairment						
+ equity	X					
+ income statement						
C.3 Negative fair value changes in						
- equity	X					
- income statement	X					
C.4 Transfers to non-current assets held for sale						
C.5 Negative exchange differences						
C.6 Other changes						
D. Net closing balance	**30,874**			**4,394**		**35,268**
D.1 Net total adjustments	0			(2,973)		(2,973)
E. Gross closing balance	**30,874**			**7,366**		**38,240**
F. Measured at cost	30,874			7,366		38,240

Key:
FIN = finite
INDEF = indefinite

Intangible assets are recognized at cost, net of amortization, calculated based on its estimated useful life.
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 €23,494 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amounted to €28,883 thousand; they include the accrual of income taxes for the year of Group companies.

11.1 Deferred tax assets: breakdown

€11,566 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

€70,116 thousand

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

11.3 Change in deferred tax assets (through the income statement)
€10,944 thousand

(Amounts in € thousands)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**5,540**	**4,679**
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies	0	229
c) reversals of impairment	2,708	875
d) other	4,851	775
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax assets derecognized in the year		
a) reversals	(615)	(1,018)
b) impairment of unrecoverable tax assets		
c) due to changes in accounting policies		
d) other	(1,540)	0
3.2 Tax rate reductions		
3.3 Other decreases		
a) conversion into tax credit under Law 214/2011		
b) other		
4. Closing balance	**10,944**	**5,540**

11.4 Change in deferred tax assets under Law 214/2011

(Amounts in € thousands)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**686**	**686**
2. Increase		
3. Decrease		
3.1 Reversals	(95)	0
3.2 Conversion into tax credit		
a) due to losses in the year		
b) due to tax losses		
3.3 Other decreases		
4. Closing balance	**591**	**686**

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

€69,943 thousand

(Amounts in € thousands)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**65,616**	**56,699**
2. Increase		
2.1 Deferred tax liabilities recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	11,313	11,773
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	(1,527)	(827)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases	(5,459)	(2,030)
4. Closing balance	**69,943**	**65,616**

11.6 Change in deferred tax assets (through equity)

€622 thousand

(Amounts in € thousands)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**2,643**	**354**
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies	0	201
c) other	13	2,094
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax assets derecognized in the year		
a) reversals	(2,034)	(7)
b) impairment of unrecoverable tax assets		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**622**	**2,642**

11.7 Change in deferred tax liabilities (through equity)
€173 thousand

(Amounts in € thousands)

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**101**	**129**
2. Increase		
2.1 Deferred tax liabilities recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	0	130
2.2 New taxes or tax rate increases		
2.3 Other increases	72	69
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	0	(226)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**173**	**101**

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown
€11,562 thousand

(Amounts in € thousands)

Breakdown	12/31/2019	12/31/2018
Security deposits	132	54
Inventories	333	848
Other receivables	7,081	10,464
Accrued income and prepaid expenses	4,016	3,381
Total	**11,562**	**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.

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LIABILITIES

Section 1 – Financial liabilities measured at amortized cost – Item 10

€4,962,195 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 €1,142,841 thousand;
- due to customers of €2,713,663 thousand;
- debt securities issued of €1,105,692 thousand.

Due to banks

€1,142,841 thousand

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2019				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	**1,142,841**	X	X	X	**1,237,996**	X	X	X
2.1 Current accounts and demand deposits	109,200	X	X	X	83,243	X	X	X
2.2 Fixed-term deposits	1,033,640	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	**1,142,841**			**1,142,841**	**1,237,996**			**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 €43 million) and partially with the Intesa Sanpaolo Group (PLN 170 million, equivalent to €40 million).

Due to customers
€2,713,663 thousand

1.2 Financial liabilities measured at amortized cost: due to customers broken down by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2019				Total 12/31/2018			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	53,760	X	X	X	55,468	X	X	X
2. Fixed-term deposits	1,304,551	X	X	X	871,313	X	X	X
3. Loans		X	X	X		X	X	X
3.1 repos	995,513	X	X	X	1,030,719	X	X	X
3.2 other	306,792	X	X	X	291,784	X	X	X
4. Payables following commitments to repurchase treasury shares	0	X	X	X	0	X	X	X
5. Lease payables	5,060	X	X	X		X	X	X
6. Other payables	47,986	X	X	X	100,572	X	X	X
Total	**2,713,663**			**2,713,663**	**2,349,856**			**2,349,856**

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

"Due to customers" includes €1,358 million for online deposit accounts offered in Italy, Spain, Germany, Poland, the Netherlands and Ireland (restricted deposits and current accounts), compared to €926 million at December 31, 2018.
The counterparty in repos, amounting to €996 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

Other loans, worth a total of €307 million, mainly refer to payables due to financial institutions deriving from existing cooperation between Banca Farmafactoring and other Italian factoring companies.

Other payables principally refer to collections of managed receivables due to clients.
Lease payables, totaling €5 million at the group level, refer to the recognition of lease liabilities arising from right-of-use assets, included under line item 90 "Property, plant and equipment" in the balance sheet, following the application of the new IFRS 16 effective January 1, 2019.

Debt securities issued
€1,105,692 thousand

1.3 Financial liabilities measured at amortized cost: debt securities issued broken down by type

(Amounts in € thousands)

Type of securities/ Amounts	Total 12/31/2019				Total 12/31/2018			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	1,105,692	966,893	0	150,023	815,177	615,472	11,507	150,031
1.1 structured								
1.2 other	1,105,692	966,893	0	150,023	815,177	615,472	11,507	150,031
2. other securities								
2.1 structured								
2.2 other								
Total	**1,105,692**	**966,893**	**0**	**150,023**	**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 Banca Farmafactoring, and the relevant SPV. They have a total face value of €1,100 million and are recognized in the financial statements (to the tune of €1,105 million) at amortized cost using the effective interest rate method.

The item includes:

- €100 million subordinated unsecured and unrated Tier 2 bonds (ISIN XS1572408380) issued by Banca Farmafactoring in March 2017. The 10-year bonds due March 2027 have the right to an issuer call date (one-off) in the fifth year (in March 2022). The bonds pay an annual coupon of 5.875%;
- €200 million senior unsecured and unrated bonds (ISIN XS1639097747) issued by Banca Farmafactoring in June 2017, due in June 2022. The bonds pay an annual coupon of 2%;
- €200 million senior unsecured and unrated bonds (ISIN XS1731881964) issued by Banca Farmafactoring in December 2017, due in June 2020. The bonds pay a quarterly variable coupon based on 3M Euribor + 145 bp spread;
- €150 million senior unsecured and unrated bonds (ISIN XS1435298275) issued by Banca Farmafactoring in June 2016, due in June 2021. The bonds pay an annual coupon of 1.25%;
- €300 million senior unsecured bonds (ISIN XS2068241400) with Moody's Ba1 rating issued by Banca Farmafactoring in October 2019, due in May 2023. The bonds pay an annual coupon of 1.75%;
- €150 million flexible senior notes issued by the vehicle BFF SPV S.r.l. created together with the Bayerische Landesbank Group (Bayern LB). As far as the securitization transaction is concerned, the receivables were sold to the vehicle company and were not derecognized from the assets of Banca Farmafactoring since the sale did not transfer the relevant risks and rewards.

Section 6 – Tax liabilities – Item 60

€98,999

See “Section 11 - Tax assets and liabilities – Item 110” of the consolidated balance sheet assets.

See “Section 11 – Tax assets and liabilities” of the consolidated balance sheet assets.

Section 8 – Other liabilities – Item 80

€65,325 thousand

8.1 Other liabilities: breakdown

(Amounts in € thousands)

Breakdown	Total 12/31/2019	Total 12/31/2018
Payables to suppliers	1,321	1,891
Invoices to be received	12,289	8,341
Payables to tax authorities	1,323	864
Payables to social security agencies	743	876
Payables to employees	6,524	5,200
Payables for receivables management	0	6,950
Collections pending allocation	30,495	28,933
Other payables	11,813	23,227
Accrued liabilities and deferred income	817	1,843
Total	**65,325**	**78,124**

“Payables to suppliers” and “invoices to be received” refer to payables for purchases of goods and services. The latter were up largely because of the greater costs recognized in 2019 with respect to the one-off transactions carried out by BFF Banking Group.
“Collections pending allocation” refer to payments received by December 31, 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 interest relating to the online deposit accounts and on employee earnings from employment.
“Other payables” include portions of collections to be transferred, stamp duties to be paid, payables to directors and other pending items.

Section 9 – Employee severance benefits – Item 90

€843 thousand

9.1 Employee severance benefits: year-over-year change

(Amounts in € thousands)

	Total 12/31/2019	Total 12/31/2018
A. Opening balance	**849**	**848**
B. Increase	**743**	**655**
B.1 Allocation for the year	552	579
B.2 Other changes	191	75
C. Decrease	**(749)**	**(654)**
C.1 Settlements	(23)	(30)
C.2 Other changes	(726)	(624)
D. Closing balance	**843**	**849**
Total	**843**	**849**

The liability recorded in the financial statements at December 31, 2019 in relation to employee severance benefits of Banca Farmafactoring only 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 December 31, 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 7-10 Index (in line with the duration of the items measured).

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

€6,412 thousand

10.1 Provisions for risks and charges: breakdown

(Amounts in € thousands)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
1. Provisions for credit risk on commitments and financial guarantees provided	580	198
2. Provisions for other commitments and guarantees provided		
3. Pension funds	4,313	3,977
4. Other provisions for risks and charges		
4.1 legal and tax disputes		
4.2 personnel expenses		
4.3 other	1,519	806
Total	**6,412**	**4,981**

Starting from January 1, 2018, this item also includes provisions for credit risk associated with commitments/financial guarantees provided 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 Banca Farmafactoring employees.

The line item rose because of the higher provisions associated with the deferred portion of the incentive system (deferred MBO) for the year 2019.

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

(Amounts in € thousands)

	Provisions for other commitments and guarantees provided	Pension funds	Other provisions for risks and charges	**Total**
A. Opening balance	**198**	**3,977**	**806**	**4,981**
B. Increase	**606**	**1,849**	**763**	**3,218**
B.1 Allocation for the year	606	1,849	763	3,218
B.2 Change due to passing of time				
B.3 Variation due to change in the discount rate				
B.4 Other changes				
C. Decrease	**(224)**	**(1,514)**	**(49)**	**(1,787)**
C.1 Use in the year	(224)	(1,012)	(49)	(1,285)
C.2 Variation due to change in the discount rate		(143)		(143)
C.3 Other changes		(359)		(359)
D. Closing balance	**580**	**4,313**	**1,519**	**6,412**

10.3 Provisions for credit risk on commitments and financial guarantees provided

(Amounts in € thousands)

	Provisions for credit risk on commitments and financial guarantees provided			
	Stage 1	Stage 2	Stage 3	**Total**
Commitments to disburse funds				
Financial guarantees provided	580			580
Total	**580**			**580**

10.5 Defined benefit pension funds

Below are the main changes in this provision:

- €195 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;
- €1,654 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;

- €142 thousand decrease related to the discounting of the non-compete agreement and the deferred MBO as calculated by an external advisor at December 31, 2019;
- €1,012 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 demographic assumptions used are the following:

Non-compete agreement

The annual discount rate used to calculate the present value of the obligation was deduced, in compliance with paragraph 83 of IAS 19, from the iBoxx Corporate AA Index with 10+ duration, reported at December 31, 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 -0.11%.

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

€377,252 thousand

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

(Amounts in € thousands)

Type	12/31/2019	12/31/2018
1. Share capital	**131,326**	**130,983**
1.1 Ordinary shares	131,326	130,983
2. Treasury shares	**(1,763)**	**(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: year-over-year change

(Number)

Items/Types	Ordinary	Other
A. Shares at the beginning of the year	**170,065,848**	
- 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	**476,906**	
B.1 New issues		
- against payment:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other	182,960	
- free:		
- to employees	263,418	
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes	30,528	
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	**170,223,002**	
D.1 Treasury shares (+)	(330,776)	
D.2 Shares outstanding at the end of the year		
- fully paid	170,553,778	
- 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)

	12/31/2019	Possibility of use *(a)*	Amount available	Summary of use in the last three years	
				For absorption of losses	For other reasons
Share capital	**131,326**				
Reserves	**147,269**				
- Legal reserve	27,417	*B*			
- Extraordinary reserve	89	*A,B,C*	89		
- Retained earnings reserve	112,996	*A,B,C*	89,412		25,009 (*)
- Stock option and financial instrument reserves	6,779	*A*			
- Other reserves	(11)				
Revaluation reserves	**6,570**				
- HTC&S securities	(80)				
- Other	6,650				
Treasury share reserve	**(1,763)**				
Share premium	**693**	*A,B,C*	693		
Total share capital and reserves	**284,096**		**89,501**		

(a) Possibility of use: A = for share capital increases; B = for absorption of losses; C = for distribution to shareholders.
(*) The amounts used during the last three years, totaling €25,009 thousand, include €203 thousand used in the wake of the capital increases carried out in 2019 for the stock options exercised by certain beneficiaries as well as the stock grant plan.

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**	**21,061**	**2,576**	**23,638**
B.1 Appropriation of profit		20,319		20,319
B.2 Other changes		742	2,576	3,319
C. Decrease	**0**	**(18,859)**	**(15)**	**(18,874)**
C.1 Uses				
- absorption of losses				
- distribution		(18,763)		(18,763)
- transfer to share capital				
C.2 Other changes		(96)	(15)	(111)
D. Closing balance	**27,417**	**112,995**	**6,857**	**147,270**

Retained earnings reserve

The net increase of €2,202 thousand was attributable to retained earnings of subsidiaries and to the distribution to shareholders from the retained earnings reserve by Banca Farmafactoring, as per the relevant shareholders' meeting resolution of March 28, 2019 in regards to the financial statements at December 31, 2018.

Other reserves

The changes largely refer to the following events occurred during the period:
- the granting of €1.1 million worth of option rights related to the stock option plan during 2019, recognized pursuant to IFRS 2 through profit or loss with a corresponding increase in equity. This was partially offset by €0.6 million in drawdowns from the stock option reserve after certain beneficiaries exercised their options;
- the allocation of €1,502 thousand related to the variable remuneration of so-called Risk Takers, in accordance with the provisions set forth in Part I, Title IV, Chapter 2, Section III, paragraphs 2.1 and 3 of Bank of Italy Circular 285/2013, as subsequently updated, according to which a portion must be paid in financial instruments.
- the allocation of €662 thousand for the Stock Grant plan during 2019.

The corresponding accounting treatment, in accordance with IFRS 2, resulted, during the period, in the above-mentioned positive effect on consolidated equity.

Other information

1. Commitments and financial guarantees provided

(Amounts in € thousands)

	Notional amount of commitments and financial guarantees provided			Total 12/31/2019	Total 12/31/2018
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	**182,565**			**182,565**	**89,321**
a) Central Banks					
b) Public administration agencies	49,572			49,572	31,676
c) Banks					
d) Other financial companies				0	
e) Non-financial companies	132,993		1,872	134,865	57,645
f) Households					
2. Financial guarantees provided	**4,200**			**4,200**	**3,391**
a) Central Banks					
b) Public administration agencies					
c) Banks	4,200			4,200	3,391
d) Other financial companies					
e) Non-financial companies					
f) Households					

Financial guarantees provided to banks of €4.2 million relate to the amount communicated by the FITD in relation to the extraordinary contributions provided for by Article 23 of the Fund bylaws.
The commitments to disburse funds largely refer to commitments towards clients of BFF Polska Group.

3. Assets pledged to secure own liabilities and commitments

(Amounts in € thousands)

Portfolios	Amount 12/31/2019	Amount 12/31/2018
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through OCI	82,748	155,746
3. Financial assets measured at amortized cost	1,703,449	1,932,021
4. Property, plant and equipment		
of which: inventories		

"Financial assets measured at amortized cost through OCI" and "Financial assets measured at amortized cost" consist of government securities used as collateral in operations with the ECB and repos. The item "Due from customers" includes receivables sold but not derecognized as part of the current securitization transaction and receivables pledged to secure financing transactions with other financial intermediaries.

5. Asset management and trading on behalf of others

(Amounts in € thousands)

Type of services	Amount
1. Execution of orders on behalf of customers	
a) purchases	
1. settled	
2. unsettled	
b) sales	
1. settled	
2. unsettled	
2. Individual portfolio management	
3. Custody and administration of securities	**1,040,000**
a) third-party securities on deposit: connected to bank operations as custodian (excluding portfolio management)	
1. securities issued by companies included in the scope of consolidation	
2. other securities	
b) third-party securities on deposit (excluding portfolio management): other	
1. securities issued by companies included in the scope of consolidation	
2. other securities	
c) third-party securities deposited with third parties	
d) owned securities deposited with third parties	1,040,000
4. Other transactions	

The amount refers to the face value of owned securities classified in the HTC&S and HTC portfolios deposited with Depobank.

BFF BANKING GROUP

Part C - Consolidated Income Statement

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

Section 1 – Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

€248,957 thousand (of which interest income calculated using the effective interest rate method: €211,252 thousand)

(Amounts in € thousands)

Items/Types	Debt securities	Loans	Other transactions	Total 12/31/2019	Total 12/31/2018
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	119		X	**119**	**100**
3. Financial assets measured at amortized cost:					
3.1 Due from banks		13,946	X	13,946	6,105
3.2 Due from customers	6,358	228,532	X	234,890	225,395
4. Hedging derivatives	X	X			
5. Other assets	X	X	2	**2**	**3**
6. Financial liabilities	X	X	X		
Total	**6,476**	**242,479**	**2**	**248,957**	**231,603**
of which: interest income on impaired financial assets					
of which: interest income on finance leases		380		380	0

1.2 Interest and similar income: other information

Interest income concerning "Financial assets measured at fair value through OCI" of €119 thousand was generated by government securities purchased by Banca Farmafactoring to hedge liquidity risk and optimize the cost of money.
These securities were classified as HTC&S (Held to Collect and Sell) 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.
Such interest includes interest on credit exposures, arising from receivables transferred back in relevant transactions, due by BFF Banking Group from third party counterparties.

Interest income on receivables “Due from customers” for loans amounted to €241,759 thousand and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse receivables, and late payment interest for the year, relating to Banca Farmafactoring and BFF Finance Iberia. Interest income on debt securities linked to receivables due from customers and totaling approximately €6.4 million derive from government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, relating to the HTC (Held to Collect) portfolio.

Banca Farmafactoring 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 €58 million.

1.3 Interest and similar expenses: breakdown
€48,449 thousand

(Amounts in € thousands)

Items/Types	Payables	Securities	Other transactions	**Total 12/31/2019**	**Total 12/31/2018**
1. Financial liabilities measured at amortized cost					
1.1 Due to central banks		X	X		
1.2 Due to banks	20,891	X	X	**20,891**	**15,755**
1.3 Due to customers	10,505	X	X	**10,505**	**9,874**
1.4 Debt securities issued	X	17,052	X	**17,052**	**17,210**
2. Financial liabilities held for trading	0	0	0	**0**	**0**
3. Financial liabilities designated at fair value	0	0	0	**0**	
4. Other liabilities and provisions	X	X	0	**0**	**27**
5. Hedging derivatives	X	X	0	**0**	
6. Financial assets	X	X	X		
Total	**31,396**	**17,052**	**0**	**48,449**	**42,866**
of which: interest expense relating to lease payables	56				

Interest expense increased from €42.8 million at December 31, 2018 to €48.4 million at December 31, 2019.

Interest expense on payables “Due to banks” referred 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, which were partially entered into with the Unicredit Group and partially with the Intesa Sanpaolo Group. Payables due to banks rose steadily compared to the end of the previous year in order to support the growth of the business in Italy and abroad.

The interest expense on payables “Due to customers” mainly refers to interest expense relating to the online deposit accounts of Banca Farmafactoring: specifically, €1,931 thousand for Conto Facto, offered in Italy, €8,468 thousand for Cuenta Facto, offered in Spain by the Spanish branch of Banca Farmafactoring, and around €100 thousand for the deposit account offered in Poland, through the opening of the new branch in the second half of 2019.

This item also includes interest expense of €765 thousand on loans granted by other factoring companies, in addition to interest (income) on repurchase agreements to the tune of €4,342 thousand.

Section 2 – Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

€6,298 thousand

(Amounts in € thousands)

Type of service/Amounts	Total 12/31/2019	Total 12/31/2018
a) guarantees provided	10	6
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	6,287	7,187
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	**6,298**	**7,193**

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

2.2 Fee and commission expenses: breakdown
€1,800 thousand

(Amounts in € thousands)

Services/Amounts	Total 12/31/2019	Total 12/31/2018
a) guarantees received	267	179
b) credit derivatives	0	
c) management and brokerage services:		
1. financial instruments trading	0	
2. currency trading	0	
3. portfolio management:		
3.1 own portfolio	0	
3.2 third-party portfolio	0	
4. custody and administration of securities	0	
5. placement of financial instruments	0	
6. off-site distribution of financial instruments, products and services	0	
d) collection and payment services	0	
e) other services	1,533	1,322
Total	**1,800**	**1,501**

The item mainly refers to expenses on existing banking relationships.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown
€0

(Amounts in € thousands)

	Total 12/31/2019		Total 12/31/2018	
Items/Income	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading				
B. Other financial assets mandatorily measured at fair value	0		2	
C. Financial assets measured at fair value through OCI				
D. Equity investments				
Total	**0**		**2**	

The amount (equal to zero in 2019) referred to the income arising from BFF Polska's equity investment in two law firms at December 31, 2018, as described in Section 7 – Item 70 of balance sheet assets.

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

4.1 Gains (losses) on trading: breakdown

€752 thousand

(Amounts in € thousands)

Transactions/Income components	Capital gains (A)	Gains on trading (B)	Capital losses. (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in CIUs					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**(689)**
4. Derivative instruments					
4.1 Financial derivatives:					
- on debt securities and interest rates					
- on equity securities and equity indices					
- on currency and gold	X	X	X	X	(63)
- other					
4.2 Credit derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total					**(752)**

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 December 31, 2019, to €689 thousand, before taxes, compared to the positive effect of €2.6 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

5.1 Gains (losses) on hedge accounting: breakdown

(Amounts in € thousands)

Income components/Amounts	Total 12/31/2019	Total 12/31/2018
A. Income from:		
A.1 Fair value hedging derivatives		
A.2 Hedged financial assets (fair value)		
A.3 Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives	0	116
A.5 Assets and liabilities denominated in currency		
Total income from hedging activities (A)	**0**	**116**
B. Charges related to:		
B.1 Fair value hedging derivatives		
B.2 Hedged financial assets (fair value)		
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives	0	(5)
B.5 Assets and liabilities denominated in currency		
Total charges from hedging activities (B)	**0**	**(5)**
C. Net result of hedging activities (A - B)	**0**	**111**
of which: result of hedging of net positions		

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

€370 thousand

6.1 Gains (losses) on disposal or repurchase: breakdown

(Amounts in € thousands)

Items/Income components	Total 12/31/2019			Total 12/31/2018		
	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	371	0	371	0	(1)	(1)
2. Financial assets measured at fair value through OCI						
2.1 Debt securities	2,958	(2,959)	(1)	386	0	386
2.2 Loans						
Total assets (A)	**3,329**	**(2,959)**	**370**	**386**	**(1)**	**385**
Financial liabilities measured at amortized cost						
1. Due to banks						
2. Due to customers						
3. Debt securities issued						
Total liabilities (B)	**0**	**0**	**0**	**0**	**0**	**0**

The amount refers to the sale of government securities in the Held to Collect and Sell (HTC&S) and Held to Collect (HTC) portfolio during the year, resulting in a net gain of €370 thousand, before the tax effect.

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

€2,383 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 12/31/2019	Total 12/31/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Due from banks	**(4)**			**2**		**(3)**	**(4)**
- Loans	(4)			2		(3)	(4)
- Debt securities							
of which: impaired loans acquired or internally generated							
B. Due from customers	**(1,315)**	**(26)**	**(2,326)**	**51**	**1,237**	**(2,380)**	**(4,800)**
- Loans	(1,308)	(26)	(2,326)	51	1,237	(2,373)	(4,804)
- Debt securities	(7)					(7)	5
of which: impaired loans acquired or internally generated					178	178	(1,408)
Total	**(1,320)**	**(26)**	**(2,326)**	**52**	**1,237**	**(2,383)**	**(4,804)**

Stage 3 adjustments and reversals of impairment largely refer to changes in specific positions of BFF Polska Group.
The adjustments to Stage 1 and Stage 2 positions resulted from an increase in the portfolio subject to impairment under IFRS9 as well as its different composition.

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 12/31/2019	Total 12/31/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	**0**			**11**	**0**	**11**	**(8)**
B. Loans							
- to customers							
- to banks							
of which: financial assets impaired or internally generated							
Total	**0**			**11**	**0**	**11**	**(8)**

Section 12 – Administrative expenses – Item 190
€79,525 thousand

12.1 Personnel costs: breakdown
€40,098 thousand

(Amounts in € thousands)

Type of expense/Sectors	Total 12/31/2019	Total 12/31/2018
1) Employees		
a) wages and salaries	24,106	20,697
b) social security contributions	6,228	5,314
c) employee severance benefits		
d) pension		
e) allocation to employee severance benefits	552	579
f) provision for pension and other post-employment benefits:		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds:		
- defined contribution		
- defined benefit	185	185
h) costs of share-based payment arrangements	778	0
i) other employee benefits	3,921	3,144
2) Other staff in service	579	652
3) Directors and Statutory Auditors	3,749	2,038
4) Early retirement costs		
Total	**40,098**	**32,577**

The increase in this item can mainly be traced to an increased number of employees over the year. The amount also includes expenses for employee stock options, equal to approximately €1 million, before taxes, for the current year, and for the stock grant plan, equal to €778 thousand. Both costs also generate an increase, before taxes, in equity.

12.2 Average number of employees by category

Employees

(number)

BFF BANKING GROUP FTE	2019	2018
Senior Executives/Executives	24	
Managers/Coordinators	83	
Professionals/Specialists	368	
Total	**475**	**401**

The number of staff shown in the previous table refers to FTE staff and it arises from a calculation based on the instructions of the Bank of Italy Circular no. 262.

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

Identification criteria applying to staff categories were revised in 2019 to make them uniform for the entire group. Therefore, 2019 staff numbers are not comparable with 2019 figures.

The average number of employees increased from 401 in 2018 to 475 in 2019 (+74 staff members, +18%).

12.4 Other employee benefits

The amount of €3,144 thousand mainly refers to costs of stock options granted to some employees, to expenses incurred for training, to insurance on behalf of staff, to meal tickets and donations to employees.

12.5 Other administrative expenses: breakdown

€39,426 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2019	Total 12/31/2018
Legal fees	2,964	2,434
Data processing services	2,045	2,711
External credit management services	1,097	1,043
Supervisory Body fees	42	42
Legal fees for receivables under management	229	275
Notary fees	1,475	1,192
Notary fees to be recovered	1,579	1,323
Entertainment expenses and donations	1,533	932
Maintenance expenses	1,815	1,605
Non-deductible VAT	3,896	3,141
Other taxes	1,105	1,742
Advisory fees	10,504	7,415
Head office operating expenses	1,299	1,827
Resolution Fund and FITD	3,299	3,235
Other expenses	6,545	6,661
Total	**39,426**	**35,578**

Other administrative expenses at December 31, 2019 amounted to €39.4 million, up from the same period in the previous year.

Furthermore, with regards to contributions to the Deposit Guarantee Scheme, a cost of €3.3 million before taxes was recorded at December 31, 2019. This cost was made up of:
- €1.7 million as ordinary annual contribution to the Resolution Fund, and €0.6 million as extraordinary contribution for 2017 (both paid in the first half of 2019);
- around €1 million as contribution to the FITD, paid in June and December 2019.

These amounts are recognized 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”.

This item also includes legal fees of €229 thousand and notary fees of €1,579 thousand, incurred on behalf of corporate customers, which were fully recovered and included in other operating income.

“Other administrative expenses” mainly include services outsourced in 2019, which are listed below.

(Amounts in € thousands)

Breakdown	Total 12/31/2019
Fees paid to external company for support to Internal Audit	89
Fees paid to external companies for Data Processing	2,090
Fees paid to external companies for Credit Checks	1,097

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

€3,190 thousand

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

€376 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2019	Total 12/31/2018
Provision for risk on commitments and guarantees	376	30
Total	**376**	**30**

13.3 Net allocations to provisions for risks and charges: breakdown

€2,815 thousand

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

(Amounts in € thousands)

Breakdown	Total 12/31/2019	Total 12/31/2018
Pension and other post-employment benefits	2,052	930
Other provisions	763	0
Total	**2,815**	**930**

The allocation to "Pension and other post-employment benefits" refers to deferred employee benefits.
"Other provisions" include the expenses recognized in 2019 with respect to the restructuring costs arising from the acquisition of the former IOS Finance (now merged into BFF Finance Iberia).

Section 14 – Net adjustments to/reversals of impairment of property, plant and equipment – Item 210
€3,174 thousand

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

(Amounts in € thousands)

Assets/Income components	Depreciation (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a + b - c)
A. Property, plant and equipment				
1. Used in the business	3,107			**3,107**
- Owned	1,552			**1,552**
- Right-of-use assets acquired under leases	1,555			**1,555**
2. Held for investment	66			**66**
- Owned	66			**66**
- Right-of-use assets acquired under leases				
3. Inventories	x			
Total	**3,174**			**3,174**

The steady increase in impairment losses on property, plant and equipment relative to the prior-year period was largely attributable to the impact through profit or loss of the €1.5 million depreciation of right-of-use assets recognized under property, plant and equipment pursuant to the new IFRS 16.

Section 15 – Net adjustments to/reversals of impairment of intangible assets – Item 220
€1,887 thousand

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

(Amounts in € thousands)

Assets/Income components	Amortization (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a + b - c)
A. Intangible assets				
A.1 Owned assets				
- Internally generated				
- Other	1,887			**1,887**
A.2 Right-of-use assets acquired under leases				
Total	**1,887**			**1,887**

Section 16 – Other operating income (expenses) – Item 230
€7,234 thousand

16.1 Other operating expenses: breakdown
€6,486 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2019	Total 12/31/2018
Contingent expenses	(488)	(492)
Rounding off and allowance expenses	(18)	(74)
Other expenses	(5,563)	(4,533)
Deposit guarantee scheme expenses	0	0
Tax expenses	(417)	(688)
Total	**(6,486)**	**(5,788)**

Other expenses largely refer to taxes associated with the legal actions initiated by the Bank and other Group companies, as well as the costs incurred by BFF MedFinance S.A. with respect to the leasing business. Specifically, the latter refer to the costs incurred by BFF MedFinance S.A. to manage/sell the vehicles leased to clients, which were partly offset by the other income showed in the table below. Compared to the prior-year period, the Bank decided to present such expenses and income separately in order to provide a clearer representation. To this end, the Bank restated the amount reported in the same table at December 31, 2018, where said costs had been presented net of the relevant revenue.

16.2 Other operating income: breakdown
€13,720 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2019	Total 12/31/2018
Recovery of legal fees for purchases of non-recourse receivables	1,395	1,768
Recovery of operational legal fees	194	275
Receivables realized at other than face value	0	0
Contingent assets	1,088	854
Recovery of assignor notary expenses	1,577	1,324
Other income	9,466	5,513
Total	**13,720**	**9,733**

"Other income" includes the tax contribution relative to systems development, for approximately €230 thousand. The disclosure is given in accordance with the requirements of Italian Law 124/2017, which, starting 2018, requires a compulsory publication of said contribution in the Notes.

In addition, the line item includes also the revenue from the management/sale of vehicles leased to clients by BFF MedFinance (for more details, see the previous table concerning "Other operating expenses").

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

€28,553 thousand

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

(Amounts in € thousands)

Income components/Sectors		Total 12/31/2019	Total 12/31/2018
1.	Current taxes (-)	25,592	22,908
2.	Change in current taxes of prior years (+/-)	0	0
3.	Reduction in current taxes for the year (+)	0	0
3.*bis*	Reduction in current taxes for the year due to tax credit under Law 214/2011 (+)	0	0
4.	Change in deferred tax assets (+/-)	(6,470)	(628)
5.	Change in deferred tax liabilities (+/-)	9,431	9,831
6.	**Taxes for the year (-) (-1+/-2+3+3 bis +/-4+/-5)**	**28,553**	**32,113**

21.2 Reconciliation of theoretical and effective tax expense

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

(Amounts in € thousands)

Breakdown	IRES	IRAP
Taxable profit used for purposes of tax calculations	87,594	7,981
Theoretical tax: 27.5% IRES – 5.57% IRAP	**24,088**	**445**
Permanent non-deductible differences	(1,979)	0
Deductible IRAP	(474)	0
Temporary differences taxable in future years	(24,355)	0
Temporary differences deductible in future years	5,395	675
Reversal of temporary differences from previous years	1,852	2,372
Taxable profit	**68,034**	**11,028**
Current taxes for the year: 27.5% IRES – 5.57% IRAP	**18,709**	**614**

Section 25 – Earnings per share

25.1 Average number of diluted ordinary shares

(Number)

Breakdown	12/31/2019	12/31/2018
Average number of shares outstanding	170,553,778	170,107,400
Average number of potentially dilutive shares	7,457,574	2,458,721
Weighted average number of potentially dilutive shares	178,011,352	172,566,121

25.2 Other information

(Integer numbers, unless otherwise stated)

Breakdown	12/31/2019	12/31/2018
Consolidated net profit for the period (in euros)	93,156,528	92,152,892
Average number of shares outstanding	170,553,778	170,107,400
Average number of potentially dilutive shares	7,457,574	2,458,721
Weighted average number of potentially dilutive shares	178,011,352	172,566,121
Basic earnings per share (in euros)	**0,55**	**0,54**
Diluted earnings per share (in euros)	**0,52**	**0,53**

Part D - Consolidated Comprehensive Income

Statement of Comprehensive Income

(Amounts in euros)

	Items	12/31/2019	12/31/2018
10.	**Profit (loss) for the period**	**93,156,528**	**92,152,892**
	Other comprehensive income that will not be reclassified to profit or loss		
20.	Equity securities designated at fair value through OCI:		
	a) fair value changes		
	b) transfers to other equity components		
30.	Financial liabilities designated at fair value through profit or loss (change in credit quality rating):		
	a) fair value changes		
	b) transfers to other equity components		
40.	Hedging of equity securities designated at fair value through OCI:		
	a) fair value changes (hedged instrument)		
	b) fair value changes (hedging instrument)		
50.	Property, plant and equipment		
60.	Intangible assets		
70.	Defined benefit plans	(21,904)	24,380
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	6,024	(6,704)
	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	1,724,093	(2,866,803)
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	6,110,470	(6,331,788)
	b) reclassification to profit or loss		
	- adjustments for credit risk		
	- capital gains (losses)		
	c) other changes		

Follows on the next page >>

(Amounts in euros)

Items	12/31/2019	12/31/2018
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	(2,092,632)	2,309,113
190. **Total other comprehensive income**	**5,726,050**	**(7,161,890)**
200. **Comprehensive income (Items 10+190)**	**98,882,578**	**84,991,001**
210. Consolidated comprehensive income attributable to non-controlling interests		
220. **Consolidated comprehensive income attributable to the Parent**	**98,882,578**	**84,991,001**

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 – Risks of consolidated accounts

Quantitative information

A. Credit quality

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

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 past due but not impaired exposures	Not impaired exposures	Total
1. Financial assets measured at amortized cost	61,943	9,526	34,691	684,637	4,459,919	**5,250,717**
2. Financial assets measured at fair value through OCI					82,748	**82,748**
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets held for sale						
Total 12/31/2019	**61,943**	**9,526**	**34,691**	**684,637**	**4,542,667**	**5,333,465**
Total 12/31/2018	**40,344**	**6,774**	**72,572**	**596,718**	**4,037,954**	**4,754,362**

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	119,992	13,832	106,160		5,148,456	3,900	5,144,557	5,250,717
2. Financial assets measured at fair value through OCI					82,759	11	82,748	82,748
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 12/31/2019	**119,992**	**13,832**	**106,160**	**0**	**5,231,216**	**3,911**	**5,227,305**	**5,333,465**
Total 12/31/2018	**135,949**	**16,258**	**119,690**	**0**	**4,637,423**	**2,749**	**4,634,674**	**4,754,362**

SECTION 2 – RISKS OF CONSOLIDATED ACCOUNTS FOR PRUDENTIAL SUPERVISION

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 represents approximately 77% 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 carried out by the Group consists, as mentioned above, in the purchase of receivables on a non-recourse basis 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 the following 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, Group credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin and receivables portfolio value. As a general rule, the Banking Group’s customers have a suitable credit standing and, if necessary, adequate guarantees are requested to mitigate the risk of financial losses arising from customers’ non-performance.
Exposure to the customers’ credit risk is constantly monitored. The credit quality of public sector entities is analyzed within the framework of the risk of delay in repaying liabilities.

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

In particular, BFF Banking Group applies the following weighting factors, envisaged by the CRR:

- 0% for exposures to 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 public sector entities and other local authorities 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 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 2.7% improvement of CET1 with reference to the Banking Group pursuant to the Consolidated Law on Banking (1.5% 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 December 31, 2019 is €160.6 million for BFF Banking Group.

Furthermore, the credit risk management process abides by external regulations (CRR, Bank of Italy Circulars no. 285 "*Supervisory provisions for banks*" and no. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*" and subsequent amendments) regarding risk concentration.

In particular:

- "large exposure" means any risk 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 and 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 compared to previous accounting standards are as follows:
- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the 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;
- a deterministic and stochastic EAD model, for which it is possible 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 €106.2 million-net of individual impairment-and are broken down as follows:
- €61.9 million NPLs;
- €9.5 million unlikely to pay exposures;
- €34.7 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.

3. Non-performing exposures

In compliance with Bank of Italy Circular no. 272, BFF Banking Group's net "Impaired assets" amounted to a total of €106,160 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 December 31, 2019, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €61,943 thousand, of which €5,655 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial governments in financial distress amounted to €57,659 thousand, accounting for 93.0% of the total.

Gross non-performing loans amounted to €73,376 thousand. Relevant impairment totaled €11,433 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 €1,568 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €74,944 thousand and relevant adjustments totaled €13,001 thousand.
With reference to the Bank, at December 31, 2019 total non-performing loans, net of any estimated impairment losses, amounted to €58,210 thousand, of which €57,659 thousand concerned Italian municipalities and provincial governments 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 capital and late payment interest at the end of the insolvency procedure.
Specifically, the amount of €5,655 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 Banca Farmafactoring are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €13,090 thousand; after estimated impairment losses of €9,385 thousand, the net amount totaled €3,705 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 December 31, 2019, gross exposures classified as unlikely to pay amounted to €11,836 thousand, of which €11,386 thousand attributable to BFF Polska Group and €450 thousand to BFF Finance Iberia. The total net amount was €9,526 thousand, relating mainly to BFF Polska Group, since the gross exposures of Banca Farmafactoring and BFF Finance Iberia were almost entirely impaired.

- Net past due exposures of BFF Banking Group totaled €34,691 thousand, of which €30,226 thousand (87.1%) 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. Banca Farmafactoring's overall amount of net past due exposures at December 31, 2019 was equal to €30,592 thousand. Of this amount, €29,483 thousand (equal to 96.4%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €3,438 thousand. The remaining past due exposures, for a net amount of €661 thousand, refer to BFF Finance Iberia and entirely concerned public administration counterparties.

Quantitative information

A. Credit quality

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

A.1.1 Consolidated accounts for prudential supervision - Financial assets broken down by past due amounts (carrying amounts)

(Amounts in € thousands)

Portfolios/Risk Stages	Stage 1			Stage 2			Stage 3		
	1 to 30 days	30 to 90 days	over 90 days	1 to 30 days	30 to 90 days	over 90 days	1 to 30 days	30 to 90 days	over 90 days
1. Financial assets measured at amortized cost	39,784	42,050	479,249	847	11,274	111,434	1,905	449	88,447
2. Financial assets measured at fair value through OCI									
3. Financial assets held for sale									
Total 12/31/2019	**39,784**	**42,050**	**479,249**	**847**	**11,274**	**111,434**	**1,905**	**449**	**88,447**
Total 12/31/2018	**19,070**	**49,099**	**370,514**	**10**	**17,137**	**140,893**	**816**	**2,600**	**69,402**

A.1.2 Consolidated accounts for prudential supervision – Financial assets, commitments to disburse funds and financial guarantees provided: change in total adjustments and allocations

(Amounts in € thousands)

Sources/Risk Stages	Total adjustments													Total allocations for commitments to disburse funds and financial guarantees provided			Total
	Stage 1 assets				Stage 2 assets				Stage 3 assets				Of which: impaired financial assets acquired or internally generated				
	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment	of which: collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment	of which: collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance	**1,942**			**1,942**	**804**			**804**	**16,258**		**16,258**		**2,699**	**177**		**21**	**19,203**
Increase of financial assets acquired or internally generated																	
Derecognition other than write-off																	
Net adjustments/reversals of impairment for credit risk (+/-)	514	11		514	642			642	1,089		1,089			383			2,638
Contractual changes without derecognition																	
Change in estimate methods																	
Write-off																	
Other changes									(3,516)				2,475				(3,516)
Closing balance	**2,456**	**11**		**2,456**	**1,446**			**1,446**	**13,832**		**17,348**		**224**	**560**		**21**	**18,325**
Collections of financial assets subject to write-off																	
Write-off directly recognized in profit or loss																	

A.1.3 Consolidated accounts for prudential supervision – Financial assets, commitments to disburse funds and financial guarantees provided: transfers among the various credit risk stages (gross amounts and face values)

(Amounts in € thousands)

	Gross amount / Face value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
Portfolios/Risk Stages	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortized cost	14,322	30,231	8,549	4,399	17,341	8,806
2. Financial assets measured at fair value through OCI						
3. Commitments to disburse funds and financial guarantees provided						
Total 12/31/2019	**14,322**	**30,231**	**8,549**	**4,399**	**17,341**	**8,806**
Total 12/31/2018	**210,078**	**0**	**0**	**128**	**86,238**	**56,952**

A.1.4 Consolidated accounts for prudential supervision - On- and off-balance sheet credit exposures with banks: gross and net amounts

(Amounts in € thousands)

Type of exposure/Amounts	Gross exposure		Total adjustments and allocations	Net exposure	Total partial write-offs *
	Impaired	Not impaired			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing loans		X			
- of which: forborne exposures		X			
b) Unlikely to pay exposures		X			
- of which: forborne exposures		X			
c) Impaired past due exposures		X			
- of which: forborne exposures		X			
d) Past due but not impaired exposures	X				
- of which: forborne exposures	X				
e) Other not impaired exposures	X	116,303	11	116,293	
- of which: forborne exposures	X				
TOTAL A		**116,303**	**11**	**116,293**	
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Impaired		X			
b) Not impaired	X	4,200	3	4,197	
TOTAL B		**4,200**	**3**	**4,197**	
TOTAL A+B		**120,503**	**14**	**120,489**	

* Provided for disclosure purposes

A.1.5 Consolidated accounts for prudential supervision - On- and off-balance sheet credit exposures with customers: gross and net amounts

(Amounts in € thousands)

Type of exposure/Amounts	Gross exposure		Total adjustments and allocations for credit risk	Net exposure	Total partial write-offs *
	Impaired	Not impaired			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing loans	73,376	X	11,433	61,943	
- of which: forborne exposures	180	X	102	78	
b) Unlikely to pay exposures	11,836	X	2,310	9,526	
- of which: forborne exposures	1,083	X	915	168	
c) Impaired past due exposures	34,780	X	88	34,691	
- of which: forborne exposures	231	X	1	230	
d) Past due but not impaired exposures	X	684,761	124	684,637	
- of which: forborne exposures	X	247	0	246	
e) Other not impaired exposures	X	4,409,764	3,776	4,405,987	
- of which: forborne exposures	X	16,571	745	15,826	
TOTAL A	**119,992**	**5,094,525**	**17,732**	**5,196,785**	
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Impaired	1,872	X	21	1,851	
b) Not impaired	X	182,565	557	182,008	
TOTAL B	**1,872**	**182,565**	**577**	**183,859**	
TOTAL A+B	**121,864**	**5,277,090**	**18,309**	**5,380,644**	

* Provided for disclosure purposes

A.1.7 Consolidated accounts for prudential supervision - On-balance sheet credit exposures with customers: changes in gross impaired exposures

(Amounts in € thousands)

Sources/Categories	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures
A. Opening gross exposures	**53,424**	**8,680**	**73,845**
- of which: exposures sold but not derecognized	14,113		5,485
B. Increase	**30,478**	**5,654**	**27,770**
B.1 transfer from not impaired exposures	27,848	805	27,130
B.2 transfer from impaired financial assets acquired or internally generated			
B.3 transfers from other categories of impaired exposures	2,292	4,806	
B.4 contractual changes without derecognition			
B.5 other increases	338	43	640
C. Decrease	**10,526**	**2,498**	**66,835**
C.1 transfer to not impaired exposures	669		57,573
C.2 write-off			
C.3 collections	9,857	2,498	
C.4 proceeds on disposal			
C.5 losses on disposal			
C.6 transfers to other categories of impaired exposures			7,098
C.7 contractual changes without derecognition			
C.8 other decreases			2,164
D. Closing gross exposures	**73,376**	**11,836**	**34,780**
- of which: exposures sold but not derecognized	273		2,420

A.1.7 bis Consolidated accounts for prudential supervision – On-balance sheet exposures with customers: changes in gross forborne exposures broken down by credit quality

(Amounts in € thousands)

Sources/Quality	Forborne exposures: impaired	Forborne exposures: not impaired
A. Opening gross exposures	**3,579**	**43,657**
- of which: exposures sold but not derecognized		
B. Increase	**411**	**1,477**
B.1 transfer from not impaired exposures non included in the forborne exposures category	411	1,477
B.2 transfer from not impaired forborne exposures		X
B.3 transfer from impaired forborne exposures	X	
B.4 other increases		
C. Decrease	**2,495**	**28,316**
C.1 transfer to not impaired exposures non included in the forborne exposures category	X	26,670
C.2 transfer to not impaired forborne exposures		X
C.3 transfer to impaired forborne exposures	X	
C.4 write-off		
C.5 collections	2,495	1,646
C.6 proceeds on disposal		
C.7 losses on disposal		
C.8 other decreases		
D. Closing gross exposures	**1,495**	**16,818**
- of which: exposures sold but not derecognized		

A.1.9 Consolidated accounts for prudential supervision – On-balance sheet impaired credit exposures with customers: changes in total adjustments

(Amounts in € thousands)

Sources/Categories	Non-performing loans		Unlikely to pay exposures		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total adjustments	**13,080**		**1,906**	**1,475**	**1,273**	
- of which: exposures sold but not derecognized	1,757				14	
B. Increase	**2,457**		**964**		**98**	
B.1 adjustments from impaired financial assets acquired or internally generated						
B.2 other adjustments	728					
B.3 losses on disposal						
B.4 transfers from other categories of impaired exposures	384		565			
B.5 contractual changes without derecognition						
B.6 other increases	1,345		399		98	
C. Decrease	**4,104**		**560**		**1,282**	
C.1 reversals of impairment from revaluations						
C.2 reversals of impairment from collections	243				28	
C.3 gains on disposal						
C.4 write-off						
C.5 transfers to other categories of impaired exposures	345				949	
C.6 contractual changes without derecognition						
C.7 other decreases	3,516		560		305	
D. Closing total adjustments	**11,433**		**2,310**	**1,475**	**88**	
- of which: exposures sold but not derecognized	1				4	

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

A.2.1 Consolidated accounts for prudential supervision – Credit exposures, commitments to disburse funds and financial guarantees provided broken down by external rating classes (gross amounts)

(Amounts in € thousands)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost	**815**	**1,325,569**	**3,530,352**		**30,015**		**361,310**	**5,248,061**
- Stage 1	815	1,290,714	3,362,538		29,931		286,943	4,970,940
- Stage 2		34,113	79,959		68		42,989	157,129
- Stage 3		743	87,855		16		31,378	119,992
B. Financial assets measured at fair value through OCI			**82,759**					**82,759**
- Stage 1			82,759					82,759
- Stage 2								
- Stage 3								
C. Financial assets held for sale								
- Stage 1								
- Stage 2								
- Stage 3								
Total (A+B+C)	**815**	**1,325,569**	**3,613,112**		**30,015**		**361,310**	**5,330,820**
of which: impaired financial assets acquired or internally generated			5,879					5,879
D. Commitments to disburse funds and financial guarantees provided							**188,636**	**188,636**
- Stage 1							186,765	186,765
- Stage 2								
- Stage 3							1,872	1,872
Total D							**188,636**	**188,636**
Total (A+B+C+D)	**815**	**1,325,569**	**3,613,112**		**30,015**		**549,946**	**5,519,457**

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

	ECAI
Parent Company's balances	DBRS Ratings Limited
1	from AAA to AAL
2	from AH to AL
3	from BBBH to BBBL
4	from BBH to BBL
5	from BH to BL
6	CCC

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

A.3.2 Consolidated accounts for prudential supervision - On- and off-balance sheet guaranteed credit exposures with customers

(Amounts in € thousands)

			Collaterals (1)					Personal guarantees (2)									
								Credit derivatives					Endorsement credits				
									Other derivatives								
	Gross exposure	Net exposure	Mortgaged property	Property – lease financing activities	Property under finance leases	Securities	Other collaterals	CLN	Clearing house	Banks	Other financial companies	Other	Public administration agencies	Banks	Other financial companies	Other	**Total (1)+(2)**
1. Guaranteed on-balance sheet credit exposures:	**3,139**	**3,138**					**3,092**								**46**	**3,138**	**6,276**
1.1 totally guaranteed	3,139	3,138					3,092								46	3,138	6,276
- of which impaired																	
1.2 partially guaranteed																	
- of which impaired																	
2. Guaranteed off-balance sheet credit exposures:																	
2.1 totally guaranteed																	
- of which impaired																	
2.2 partially guaranteed																	
- of which impaired																	

B. Breakdown and concentration of credit exposures

B.1 Consolidated accounts for prudential supervision – Breakdown by segment of on- and off-balance sheet credit exposures with customers

(Amounts in € thousands)

Exposures/Counterparties	Public administration agencies		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	57,825	532					3,732	9,759	385	1,142
- of which: forborne exposures							78	102		
A.2 Unlikely to pay exposures							9,526	2,310		
- of which: forborne exposures							168	915		
A.3 Impaired past due exposures	30,226	31					4,116	52	350	5
- of which: forborne exposures							230	1		
A.4 Not impaired exposures	4,769,535	928	64,363	44			240,806	2,810	15,922	118
- of which: forborne exposures	1,138	1					14,935	744		
Total A	**4,857,586**	**1,491**	**64,363**	**44**			**258,180**	**14,931**	**16,657**	**1,265**
B. Off-balance sheet credit exposures										
B.1 Impaired exposures							1,851	21		
B.2 Not impaired exposures	49,571	1					132,437	556		
Total B	**49,571**	**1,346**					**134,289**	**576**		
Total (A+B) 12/31/2019	**4,907,157**	**1,493**	**64,363**	**44**			**392,468**	**15,507**	**16,657**	**1,265**
Total (A+B) 12/31/2018	**4,430,646**	**4,819**	**64,725**	**47**			**273,730**	**13,092**	**11,638**	**1,230**

B.2 Consolidated accounts for prudential supervision – Breakdown by geographical area of on- and off-balance sheet credit exposures with customers

(Amounts in € thousands)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	58,210	1,958	3,732	9,475						
A.2 Unlikely to pay exposures			9,526	2,310						
A.3 Impaired past due exposures	30,575	40	4,116	49						
A.4 Not impaired exposures	3,428,265	716	1,662,360	3,184						
Total A	**3,517,051**	**2,714**	**1,679,734**	**15,018**						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures			1,851	21						
B.2 Not impaired exposures			182,008	557						
Total B			**183,859**	**577**						
Total (A+B) 12/31/2019	**3,517,051**	**2,714**	**1,863,594**	**15,596**						
Total (A+B) 12/31/2018	**3,453,735**	**6,187**	**1,327,004**	**13,001**						

(Amounts in € thousands)

Exposures/Geographical areas	Italy Northwest		Italy Northeast		Italy Central part		Italy South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures								
A.1 Non-performing loans	393	324	161	60	1,692	1,214	55,964	361
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures	3,704	13	1,351	1	5,486	5	20,035	21
A.4 Not impaired exposures	212,363	192	110,629	8	2,065,362	354	1,039,911	162
Total A	**216,460**	**528**	**112,141**	**68**	**2,072,540**	**1,573**	**1,115,909**	**545**
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures								
Total B								
Total (A+B) 12/31/2019	**216,460**	**528**	**112,141**	**68**	**2,072,540**	**1,573**	**1,115,909**	**545**
Total (A+B) 12/31/2018	**229,389**	**565**	**115,324**	**48**	**2,096,957**	**1,605**	**1,012,064**	**3,969**

B.3 Consolidated accounts for prudential supervision – Breakdown by geographical area of on- and off-balance sheet credit exposures with banks

(Amounts in € thousands)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay exposures										
A.3 Impaired past due exposures										
A.4 Not impaired exposures	77,349	4	38,943	7						
Total A	**77,349**	**4**	**38,943**	**7**						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures	4,197	3								
Total B	**4,197**	**3**	**0**	**0**						
Total (A+B) 12/31/2019	**81,546**	**7**	**38,943**	**7**						
Total (A+B) 12/31/2018	**43,254**	**17**	**13,498**	**1**						

(*Amounts in € thousands*)

Exposures/Geographical areas	Italy Northwest		Italy Northeast		Italy Central part		Italy South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures								
A.4 Not impaired exposures	4,646	3			72,697		6	
Total A	**4,646**	**3**			**72,697**		**6**	
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures					4,197	3		
Total B					**4,197**	**3**		
Total (A+B) 12/31/2019	**4,646**	**3**	**0**		**76,894**	**3**	**6**	
Total (A+B) 12/31/2018	**5,490**	**4**	**190**		**37,480**	**13**	**105**	

B.4 Large exposures

At December 31, 2019, the CRR Group had 18 “large exposures”, meaning-as specified in the Bank of Italy Circular no. 263 of December 27, 2006 “New prudential supervision regulations for banks” and subsequent amendments-risk positions equal to or higher than 10% of eligible capital.
The nominal unweighted amount of these positions was €3,638,721 thousand, while the weighted amount was €595,333 thousand.
However, none of these positions exceed the individual concentration limit of 25% of eligible capital of the CRR Group.

C. Securitization transactions

Information on the transaction with “Bayerische Landesbank – BFF SPV S.r.l.”

Qualitative information

Strategies, processes and objectives

In July 2017, the private placement of a securitization transaction was concluded with the Bayerische Landesbank (BayernLB) Group for €150 million-the maximum amount of the flexible senior note-with the aim of diversifying funding activities. It was renewed in December 2018.

Transaction details

The receivables, due from Local Healthcare Entities and Hospitals, are sold without recourse to a special purpose vehicle pursuant to Law 130/99, BFF SPV, which finances the purchase of the receivables by issuing securities up to a total of €150 million, underwritten by Corelux, a special purpose vehicle in the BayernLB Group, using liquidity made available by BayernLB AG.

The securitization structure provides for a revolving period during which sales of revolving receivables will be made against collections of the receivables in order to maintain the collateralization ratio provided for by the contract.
The revolving phase, started in September 2017 and originally valid through January 15, 2019, was renewed in December 2018: as a result, the revolving phase outstanding at December 31, 2018 is to end on February 17, 2020. On February 6, 2020, the revolving phase was once again renewed and it is to end on February 15, 2021.

Description of the risk profile

Banca Farmafactoring, as the originator, maintains a role in the securitization transaction, even though it sells receivables on a non-recourse basis.
This transaction includes a minimum credit enhancement mechanism (the minimum overcollateralization ratio at December 31, 2019 is equal to 138.05% of the amount of the securities issued) and a subordinated loan by Banca Farmafactoring.

At the end of the revolving period, there will be an amortization period of up to one year related to the receivables collection performance, until full repayment of securities.
Through the exercise of a put option, the vehicle may also transfer back to Banca Farmafactoring S.p.A. any receivables outstanding after the 12 months set as the maximum limit for the amortization period.

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

Quantitative information

Type of financial instruments held

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

Sub-servicer activity

Banca Farmafactoring, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A.

Following the sales of receivables during the revolving phase of the transaction, the net amount of the outstanding receivables totaled €219 million at December 31, 2019.

C.1 Consolidated accounts for prudential supervision –Exposures arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

(Amounts in € thousands)

Types of securitized assets /Exposures	On-balance sheet exposures						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Adj./Revers. of impair	Carrying amount	Adj./Revers. of impair	Carrying amount	Adj./Revers. of impair	Carrying amount	Adj./Revers. of impair	Carrying amount	Adj./Revers. of impair	Carrying amount	Adj./Revers. of impair	Carrying amount	Adj./Revers. of impair	Carrying amount	Adj./Revers. of impair	Carrying amount	Adj./Revers. of impair
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**89,468**	**(7)**																
C.1 BFF SPV I - *Factoring*	89,468	(7)																

C.3 Consolidated accounts for prudential supervision – Interests in securitization SPVs

(Amounts in € thousands)

Securitization name/ SPV name	Registered office	Scope of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
BFF SPV S.r.l.	Milan Via V. Betteloni, 2	Full	262,078		5	150,023		

D. Sales transactions

A. Financial assets sold and not fully derecognized

Qualitative Information

The disclosure required by IFRS 7, paragraph 42D, letters a), b) and c), regarding the nature of the transferred assets, the relationship between them and the associated liabilities, and corresponding risks to which the Group is exposed, is provided below.
With reference to the above-mentioned securitization transaction, the value of the receivables sold and not derecognized amounts to €219 million.

The other amounts in "Due from customers" refer for a total of €260 million to the receivables pledged as collateral for loans with financial intermediaries and for a total of €311 million for the loans granted as collateral by BFF Polska and its subsidiaries.
The counterparty in repurchase agreements, amounting to €996 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

Quantitative Information

D.1. Consolidated accounts for prudential supervision - Financial assets sold and fully recognized and relevant financial liabilities: carrying amounts

(Amounts in € thousands)

	Financial assets sold and fully recognized				Relevant financial liabilities		
	Carrying amount	of which subject to securitiza-tion	of which subject to sale and repurchase agreements	of which impaired	Carrying amount	of which subject to securitiza-tion	of which subject to sale and repurchase agreements
A. Financial assets held for trading							
1. Debt securities				X			
2. Equity securities				X			
3. Loans				X			
4. Derivatives				X			
B. Other financial assets mandatorily measured at fair value							
1. Debt securities							
2. Equity securities				X			
3. Loans							
C. Financial assets designated at fair value							
1. Debt securities							
2. Loans							
D. Financial assets measured at fair value through OCI	**82,748**		**82,748**		**82,245**		**82,245**
1. Debt securities	82,748		82,748		82,245		82,245
2. Equity securities				X			
3. Loans							
E. Financial assets measured at amortized cost	**1,703,449**	**219,243**	**913,274**		**1,531,401**	**129,775**	**913,268**
1. Debt securities	913,274		913,274		913,268		913,268
2. Loans	790,175	219,243		2,688	618,134	129,775	
Total (12/31/2019)	**1,786,197**	**219,243**	**996,022**	**2,688**	**1,613,647**	**129,775**	**995,513**
Total (12/31/2018)	**2,087,767**	**187,044**	**1,103,952**	**17,826**	**1,648,331**	**140,678**	**1,030,719**

E. Consolidated accounts for prudential supervision – credit risk assessment models

1.2 Market risks

1.2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

A. General information

At December 31, 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 procedures 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 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 the parties authorized to operate within the Finance Department and Deposit account areas.

The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance and 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.

Quantitative information

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

Currency: EURO *(Amounts in € thousands)*

Type/ Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspe-cified maturity
1. On-balance sheet assets	**1,051,287**	**363,107**	**464,191**	**884,567**	**1,353,648**	**452,695**	**27,740**	
1.1 Debt securities		56,346	82,748	141,841	797,835			
- *with early repayment option*								
- *other*		56,346	82,748	141,841	797,835			
1.2 Loans to banks	109,177	663						
1.3 Loans to customers	942,110	306,099	381,443	742,726	555,813	452,695	27,740	
- *current account*	3							
- *other loans*	942,107	306,099	381,443	742,726	555,813	452,695	27,740	
- *with early repayment option*								
- *other*	942,107	306,099	1,097,280	408,738	336,527	301,601	16,271	
2. On-balance sheet liabilities	**294,280**	**2,075,424**	**478,707**	**384,421**	**903,487**	**103,484**		
2.1 Due to customers	267,488	1,554,383	368,707	384,421	201,396			
- *current account*	56,971	328,116	368,707	356,053	201,396			
- *other payables*	210,517	1,226,267		28,368				
- *with early repayment option*								
- *other*	210,517	1,226,267		28,368				
2.2 Due to banks	26,792	320,946	110,000		50,000			
- current account	958				-			
- other payables	25,834	320,946	110,000		50,000			
2.3 Debt securities		200,095			652,091	103,484		
- *with early repayment option*		200,095			201,188	103,484		
- *other*					450,903			
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ *long positions*								
+ *short positions*								
- Other derivatives								
+ *long positions*								
+ *short positions*								
3.2 Without underlying security								
- Options								
+ *long positions*								
+ *short positions*								
- Other derivatives								
+ *long positions*								
+ *short positions*								
4. Other off-balance sheet transactions								
+ *long positions*								
+ *short positions*								

Currency: OTHER *(Amounts in € thousands)*

Type/ Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspe-cified maturity
1. On-balance sheet assets	**308,490**	**240,652**	**63,211**	**22,716**	**36,292**	**44,481**		
1.1 Debt securities								
- with early repayment option								
- other								
1.2 Loans to banks	6,453							
1.3 Loans to customers	302,038	240,652	63,211	22,716	36,292	44,481		
- current account								
- other loans	302,038	240,652	63,211	22,716	36,292	44,481		
- with early repayment option								
- other	302,038	240,652	63,211	22,716	36,292	44,481		
2. On-balance sheet liabilities	**84,366**	**550,438**	**47,937**	**9,709**	**9,693**			
2.1 Due to customers	144	850	47,937	8,417	9,693			
- current account	144	850	951	8,417	9,693			
- other payables			46,987					
- with early repayment option								
- other			46,987					
2.2 Due to banks	84,222	549,588		1,292				
- current account								
- other payables	84,222	549,588		1,292				
2.3 Debt securities								
- with early repayment option								
- other								
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
4. Other off-balance sheet transactions								
+ long positions								
+ short positions								

1.2.3 Exchange rate risk

Qualitative information

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

The Group's asset portfolio at December 31, 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 operates under a natural hedging approach and has entered into hedging instruments to hedge exchange rate risk where the natural hedging strategy cannot be pursued and/or is not effective.
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.
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 December 31, 2019.

Quantitative information

1. Breakdown by currency of derivatives and of assets and liabilities

	Currencies					
Items	US dollar	British pound	Japanese yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets						**707,628**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						7,124
A.4 Loans to customers						700,504
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities						**(705,355)**
C.1 Due to banks						(638,313)
C.2 Due to customers						(67,042)
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ *long positions*						
+ *short positions*						
- Other derivatives						
+ *long positions*						
+ *short positions*						
Total assets						**707,628**
Total liabilities						**(705,355)**
Difference (+/-)						**2,273**

1.4 Liquidity risk

Qualitative information

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

Liquidity risk is represented by the possibility that the Group may not be able to 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 December 31, 2019 were equal to 476.9% and 106.6%, respectively, compared to 234.6% and 108.5% at December 31, 2018.

Quantitative information

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

Currency: EURO *(Amounts in € thousands)*

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
A. Balance sheet assets	**1,012,972**	**57,544**	**8,391**	**52,149**	**244,873**	**386,206**	**891,535**	**1,402,990**	**488,400**	
A.1 Government securities	9		40		60,699	5,104	149,588	844,000		
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	1,012,964	57,544	8,351	52,149	184,174	381,103	741,946	558,990	488,400	
- Banks	109,187	663								
- Customers	903,777	56,881	8,351	52,149	184,174	381,103	741,946	558,990	488,400	
B. Balance sheet liabilities	**292,170**	**314,098**	**254,877**	**481,109**	**481,082**	**644,005**	**569,498**	**951,396**	**271,585**	
B.1 Deposits and current accounts	81,653	9,738	7,801	91,521	419,490	432,364	482,736	301,396		
- Banks	26,790	3,333	0	75,000	121,167	60,000	121,446	100,000		
- Customers	54,863	6,405	7,801	16,521	298,323	372,364	361,290	201,396		
B.2 Debt securities					6,328	211,641		650,000	100,000	
B.3 Other liabilities	210,517	304,360	247,076	389,588	55,264		86,762		171,585	
C. Off-balance sheet transactions	**4,197**									
C.1 Financial derivatives with exchange of capital										
- long positions										
- short positions										
C.2 Financial derivatives without exchange of capital										
- long positions										
- short positions										
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees provided	4,197									
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

Currency: OTHER *(Amounts in € thousands)*

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
A. Balance sheet assets	**142,843**	**235**	**101**	**6,051**	**7,511**	**21,150**	**25,528**	**181,323**	**346,667**	
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	142,843	235	101	6,051	7,511	21,150	25,528	181,323	346,667	
- Banks	6,453									
- Customers	136,389	235	101	6,051	7,511	21,150	25,528	181,323	346,667	
B. Balance sheet liabilities	**84,322**	**5**	**38,944**	**124,717**	**28,753**	**104,282**	**135,433**	**185,892**		
B.1 Deposits and current accounts	84,322	5	38,944	124,717	28,753	104,282	117,813	156,525		
- Banks	84,222		38,768	124,527	28,271	103,321	109,161	146,832		
- Customers	101	5	176	189	482	961	8,652	9,693		
B.2 Debt securities										
B.3 Other liabilities							17,620	29,367		
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions										
- short positions										
C.2 Financial derivatives without exchange of capital										
- long positions										
- short positions										
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

1.5 - Operational risks

Qualitative information

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

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

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

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

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

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

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

Section 4 – Risks of the other companies

Qualitative information

The consolidated financial statements include the aggregated balance sheet items of Banca Farmafactoring S.p.A., BFF Finance Iberia S.A., the special purpose vehicle BFF SPV I S.r.l., and BFF Polska Group.
The SPV, established for the securitization transactions structured by the Bank, was included in the scope of consolidation, pursuant to the requirements of IASs/IFRSs providing for the obligation to consolidate a special purpose entity when-absent an investment relationship-the company that prepares the financial statements substantially controls the special purpose entity.
These companies do not show further and relevant risk factors other than those mentioned in the preceding paragraphs.

Part F - Consolidated Equity

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation used solely for prudential supervisory reporting includes BFF Banking 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 financial statements 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 recognized: 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	131,326				131,326
2. Share premium	693				693
3. Reserves	147,269				147,269
4. Equity instruments					
5. (Treasury shares)	(1,763)				(1,763)
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	(80)				(80)
- Property, plant and equipment					
- Intangible assets					
- Hedges of foreign investments					
- Cash flow hedges	-				-
- Hedging instruments [not designated]					
- Exchange differences	2,678				2,678
- 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	(163)				(163)
- Portion of revaluation reserves relating to equity investments measured using the equity method					
- Special revaluation laws	4,135				4,135
7. Profit (Loss) for the period (+/-) attributable to the group and non-controlling interests	93,157				93,157
Total	**377,252**				**377,252**

B.2 Revaluation reserves relating to financial assets measured at fair value through OCI: breakdown

(Amounts in € thousands)

Assets/Amounts	Consolidated for prudential supervision		Insurance companies		Other companies		Consolidation derecognition and adjustments		**Total 12/31/2019**	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		(80)								(80)
2. Equity securities										
3. Loans										
Total		**(80)**								**(80)**
Total 12/31/2018		**(4,170)**								**(4,170)**

Financial assets measured at fair value through OCI (HTC&S) are recognized at fair value. At the end of the reporting period, the carrying amount of securities must be compared with the previous period's fair value changes, and any difference is recognized in the revaluation reserves of the balance sheet. This measurement led to the recognition at December 31, 2019 of a negative reserve of €80 thousand relating to government securities recorded in the Parent's HTC&S portfolio.

B.3 Revaluation reserves relating to financial assets measured at fair value through OCI: year-over-year change

(Amounts in € thousands)

	Debt securities	Equity securities	Loans
1. Opening balance	**(4,170)**		
2. Positive change			
2.1 Increase in fair value	4,090		
2.2 Adjustments for credit risk		X	
2.3 Reclassification of negative reserves to income statement:			
following disposal		X	
2.4 Transfers to other equity components (equity securities)			
2.5 Other changes			
3. Negative change			
3.1 Decrease in fair value			
3.2 Reversals of impairment for credit risk			
3.3 Reclassification of positive reserves to income statement:			
following disposal		X	
3.4 Transfers to other equity components (equity securities)			
3.5 Other changes			
4. Closing balance	**(80)**		

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

IAS 19 envisages the booking of actuarial gains and losses on the statement of comprehensive income for the year of competence.
The results of the actuarial valuation reflect the impact of the provisions of Law 296/2006 and the computation, for IAS 19 purposes, refers solely to accrued employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.
At December 31, 2019, this revaluation reserve is negative to the tune of €163 thousand.

Section 2: Own funds and banking regulatory ratios

Scope of application of the regulation

Own funds are computed-starting from January 1, 2014, in accordance with Bank of Italy Circular no. 285 "*Supervisory provisions for banks*" and Circular no. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*", both dated December 17, 2013-based on

Regulation (EU) no. 575/2013, relating to the new harmonized regulations for banks and investment companies, included in the EU Capital Requirements Regulation (CRR) and in the EU Capital Requirements Directive (CRD IV) of June 26, 2013.

These regulations include the standards set forth by the Basel Committee 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.

Own funds

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);
- any undistributed portion of profit for the period;
- 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 interest and Additional Tier 1 and Tier 2 instruments issued by subsidiaries".

The increase in BFF Banking Group's own funds compared to December 31, 2018 was mainly influenced by including in the calculation a portion of the profit for the year (€52.8 million), the HTC&S securities revaluation reserve, which led to a positive impact of €4 million after taxes (the reserve amounted to -€4.1 million at December 31, 2018 and -€3.1 million at June 30, 2019), a €2.6 million increase in Reserves relating to the remuneration of employees and other staff in financial instrument, and a €1.7 million increase in the translation reserve due to the revaluation of the exchange rates applied to the BFF Polska Group's equity in consolidated equity.

Such changes were offset by higher deductions from own funds due to the recognition of IOS Finance's goodwill of €8.7 million and further changes in reserves.

Quantitative information

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

(Amounts in € thousands)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	**336,910**	**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)	336,910	272,795
D. Items to be deducted from CET1	**(35,351)**	**(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)	**301,559**	**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)	**399,783**	**344,614**

Own funds of the CRR Group are presented below.

(Amounts in € thousands)

Items/Amounts	Total 12/31/2019	Total 12/31/2018
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	**415,759**	**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)	415,759	377,176
D. Items to be deducted from CET1	**(110,485)**	**(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)	**305,275**	**245,790**
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects	**29,051**	**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)	**29,051**	**22,054**
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects	**71,187**	**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)	71,187	74,422
Q. Total own funds (F + L + P)	**405,512**	**342,266**

The change in the CRR Group's own funds at December 31, 2019 was affected by the sale of 22,000,000 BFF shares by BFF Luxembourg S.à r.l. (Centerbridge), which took place on March 29, 2019 (i.e. 12.9% of the Bank's share capital at that date), through an accelerated bookbuilding procedure.
Subsequent to the transaction, the stake held in BFF Group by BFF Luxembourg S.à r.l. decreased from 45.792% to 32.859%. After the share capital increases which took place during the reporting period, the stake held by BFF Luxembourg S.à r.l. was equal to 32.773% at December 31, 2019.

Above mentioned own funds do not take account of the accelerated bookbuilding procedure which took place on January 14, 2020. As a result of this procedure, the stake held by BFF Luxembourg S.à r.l. in BFF Group was equal to 21.80%.

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

Qualitative information

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

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

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

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

In accordance with the provisions of Bank of Italy Circular no. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).
The Group's total exposure to risks at December 31, 2019, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.
With regard to the Banking Group, the CET1 Capital Ratio is 12.5%, the Tier 1 Capital Ratio is 12.5% and the Total Capital Ratio is 16.6%.
With regard to the CRR Group, the CET1 Capital Ratio is 12.5%, the Tier 1 Capital Ratio is 13.7%, and the Total Capital Ratio is 16.6%.
It should be noted that the majority shareholder, BFF Luxembourg S.à r.l., 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, counterparty risk can be generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the standardized approach.

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" approach.

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 providing an update on the internal processes for determining adequacy of capital and of liquidity risk governance and management systems of the Group. In accordance with prudential supervisory provisions, the Group has prepared the "ICAAP/ILAAP Report" approved by the BFF Board of Directors on April 19, 2019. The Report has been prepared in compliance with the new requirements introduced in 2018 by Circular no. 285. In particular, the updates involve, among other, 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 line with the update timeframe pursuant to the reference provisions and the commitments assumed with the Bank of Italy.
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 1.875% 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%.

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, unless otherwise stated)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	5,522,227	4,947,451	2,007,897	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			160,632	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			32,453	29,644
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			**193,085**	**180,990**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,413,558	2,262,371
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)			**12.5%**	**10.9%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**12.5%**	**10.9%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**16.6%**	**15.2%**

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

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	5,678,038	5,039,498	2,039,329	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			163,146	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			32,453	29,644
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			**195,599**	**182,463**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,444,990	2,280,784
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)			**12.5%**	**10.8%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**13.7%**	**11.7%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**16.6%**	**15.0%**

Part G - Business Combinations

Section 1 – Transactions performed during the year

On September 30, 2019, Banca Farmafactoring (hereinafter referred to as "BFF" or "the Bank") finalized the acquisition of 100% of IOS Finance EFC S.A (hereinafter referred to as "IOS" or the "Company") for €26.4 million.

IOS was a leader in the market for non-recourse factoring services for receivables due from public administrations in Spain, offering its clients a diverse range of not only financial services, but also the servicing and collection of receivables due to the suppliers of the healthcare industry and local public administrations. IOS operated across all of Spain's regions, covering over (both public and private) and 70 public administration entities. In 2018, it serviced approximately €273 million worth of loans and factored nearly €366 million in receivables without recourse. At September 30, 2019, purchases of receivables without recourse amounted to €290 million, while the loans serviced totaled €216 million.

The following table shows IOS's operating and financial highlights for the years ended December 31, 2018 and 2017 as well as for the first nine months of 2019 prior to the acquisition process.

(Amounts in € millions)

	9/30/2019	12/31/2018	12/31/2017
Total assets	107.0	98.4	124.5
Equity	17.7	43.4	44.6
Profit for the year	1.3	2.8	3.9

Pursuant to the revised IFRS 3 (“Business Combination”), following the acquisition of IOS the Bank performed the Purchase Price Allocation (PPA) with respect to IOS in light of the in-depth analyses conducted as part of the due diligence prior to the acquisition as well as based on the additional audits carried out after acquiring the Company.
The recognition of business combinations is governed by the international accounting standards IAS/IFRS issued by the IASB and endorsed by the European Commission and, specifically, by IFRS 3 Business Combinations.
In accordance with IFRS 3, each business combination requires the identification of an acquirer, i.e., the entity that obtains control over another business or group of assets.
The acquisition, and therefore the first-time consolidation of the acquiree, is accounted for on the date in which the acquirer obtains effective control of the business or the assets acquired. When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.
The consideration transferred in a business combination is measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed, and the equity instruments issued by the acquirer in exchange for control.
Business combinations are accounted for using the “acquisition method”, which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and identifiable liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.
The accounting for a business combination can be made on a provisional basis by the end of the year in which the combination is effected, but must be perfected within 12 months of the acquisition date.

As defined above, as a general rule IFRS 3 requires business combinations to be accounted for using the acquisition method.
To apply said method, BFF worked through the following stages:
- identifying the acquirer;
- determining the acquisition date;
- recognizing and measuring, at fair value, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- determining the consideration for the business combination;
- recognizing and measuring goodwill or a gain from a bargain purchase.

In this specific case:

- As a result of acquiring 100% of IOS, BFF has obtained exclusive control over its assets and liabilities. Therefore, the business combination has been accounted for by identifying BFF as the acquirer pursuant to IFRS 3.
- The Purchase Agreement for IOS was signed on September 30, 2019. Based on the transaction documents, no agreements or other deeds were entered into that would have caused the date on which BFF obtained control to be different from the date of the agreement. Therefore, as part of the PPA process, the date considered for the purposes of the business combination was September 30, 2019. As a result, only the balance sheet of IOS at that date and the income statement starting from said date have been consolidated into BFF.

- The comparison between the consideration for the business combination of €26.4 million and the value of net assets of €17.7 million, as recognized in IOS's balance sheet at fair value at September 30, 2019, generated a difference of €8.7 million to be allocated (PPA).
- The allocation process did not generate any significant differences between fair value and carrying amount of assets and liabilities at September 30 and no other intangible assets that could be subject to price allocation were identified. The difference was therefore recognized as goodwill, considering the benefit arising from the increased size and, therefore, visibility with current and prospective clients.

It should also be noted that, on November 18, 2019, withdrawal of the EFC (*Establecimiento financiero de crédito*) license held by IOS Finance was confirmed by the Bank of Spain.
After such withdrawal, the Bank decided to merge the newly-acquired IOS Finance into BFF Finance Iberia.
The merger was finalized on December 31, 2019, with accounting and fiscal effects starting from September 30, 2019, for the purposes of BFF Finance Iberia's separate financial statements.

Part H - Related Party Transactions

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

The following table provides the income and balance sheet amounts arising from related party transactions performed by the Group at December 31, 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 December 31, 2019	11		11	11,562	0.1%	(2,375)	0.4%
Due to customers							
At December 31, 2019		(391)	(391)	(4,962,195)	0.0%	560,965	0.1%
Provisions for risks and charges: a) pension and other post-employment benefits							
At December 31, 2019		(1,238)	(1,238)	(6,412)	19.3%	6,623	18.7%
Other liabilities							
At December 31, 2019		(1,180)	(1,180)	(65,325)	1.8%	6,623	17.8%
Reserves							
At December 31, 2019		(1,488)	(1,488)	(147,269)	1.0%	6,623	22.5%
Impact of transactions on the consolidated income statement							
Interest and similar expenses							
At December 31, 2019		(1)	(1)	(48,449)	0.0%	0	
Administrative expenses a) personnel costs							
At December 31, 2019		(4,255)	(4,255)	(40,098)	10.6%	0	
Net allocations to provisions for risks and charges							
At December 31, 2019		(678)	(678)	(3,190)	21.2%	3,190	21.2%
Other operating income (costs)							
At December 31, 2019	11		11	7,234	0.1%	0	

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

At December 31, 2019, the awarded option rights relating to the aforementioned stock option plan accounted for 4.37% of fully diluted capital, equal to 7,457,574 options awarded.

In order to optimize the Group's funding activities, the Parent Company has entered into intercompany loan agreements with subsidiaries, regulated at arm's length.
More specifically, the balances of the intercompany positions at December 31, 2019 are as follows:
- BFF Finance Iberia (through Banca Farmafactoring Sucursal en España): €586 million;
- BFF Polska: PLN 117 million;
- BFF Central Europe: €122.9 million.

Banca Farmafactoring 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 Banca Farmafactoring (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at December 31, 2019 amounted to about €814 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, €1.7 million in 2018), with an outstanding balance of about €1.1 million.
Banca Farmafactoring 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 December 31, 2019 amounted to approximately €695 thousand.

It should be noted that Banca Farmafactoring provides the following:
- administrative support services to the Parent BFF Luxembourg S.à r.l. for the preparation of CRR Group consolidated reporting. The consideration under the service agreement is €10,500 per year;
- internal 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

Stock Option Plan

On December 5, 2016, the Bank's Ordinary Shareholders' Meeting approved the adoption of a 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*: ordinary or cashless exercise. 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 (so-called 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, which is subject to a series of conditions detailed in the plan, and assuming:
  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 December 31, 2019, option rights to the stock option plan awarded were equal to 7,457,574 options awarded.

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 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).

Part L - Segment Reporting

At December 31, 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, Portugal and in Spain.
At December 31, 2019 BFF also operates in Greece, Croatia and France pursuant to the regulations on the freedom to provide factoring services.
The two companies provide financial and management support to leading Italian and international companies operating in various sectors (primarily pharmaceutical and biomedical) through non-recourse factoring.
Customers are mainly multinational companies in the pharmaceutical and biomedical sectors which generate receivables from the provision of goods and services to the National Healthcare System or the public administration. Banca Farmafactoring is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table shows the 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 December 31, 2019, receivables due from BFF and BFF Finance Iberia customers amounted to €3,227 million, compared to €2,253 million at June 30, 2018, thus increasing by approximately 10%.

(Amounts in € millions)

	12/31/2019			12/31/2018		
	Managed turnover	Outstanding	Receivables purchased	Managed turnover	Outstanding	Receivables purchased
Italy	**5,982,110**	**2,438,580**	**3,082,208**	**6,268,920**	**2,359,264**	**3,161,770**
National Healthcare System	4,263,722	911,732	1,938,091	4,698,343	997,278	1,932,908
Public administration agencies	1,086,053	1,402,540	1,067,350	1,248,780	1,330,672	1,172,440
Other	632,336	124,308	76,767	321,796	31,314	56,422
Spain	**1,655,893**	**613,953**	**1,412,893**	**701,235**	**255,276**	**701,235**
National Healthcare System	1,249,660	464,964	1,020,261	321,848	169,107	321,848
Public administration agencies	393,082	125,494	392,631	379,386	86,170	379,386
Other	13,151	23,496	0			
Portugal	**174,251**	**142,156**	**174,251**	**266,024**	**207,892**	**266,024**
National Healthcare System	171,198	140,789	171,198	263,940	206,605	263,940
Public administration agencies	3,052	1,272	3,052	2,084	1,287	2,084
Other	0	94	0			
Greece	**53,523**	**30,542**	**53,523**	**17,363**	**17,137**	**17,363**
National Healthcare System	42,957	20,601	42,957	14,708	13,915	14,708
Public administration agencies	10,567	8,899	10,567	2,655	3,222	2,655
Other		1,042	0			
Croatia	**996**	**1,715**	**996**	**2,092**	**2,092**	**2,092**
National Healthcare System	996	1,715	996	2,092	2,092	2,092
Public administration agencies						
Other						
France	**812**	**831**	**812**			
National Healthcare System	676	679	676			
Public administration agencies	136	136	136			
Other		17				
Total	**7,867,585**	**3,227,778**	**4,724,683**	**7,255,634**	**2,841,661**	**4,148,484**

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 December 31, 2019, BFF Polska Group's receivables due from customers amounted to €890 million (at the exchange rate of December 31, 2019), up by 17.1% compared to €760 million at December 31, 2018. BFF Polska Group's new business at December 31, 2019 amounted to €587 million (based on the average exchange rate recorded in the year), up by 7.1% compared to €548 million at December 31, 2018.

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

(Amounts in € millions)

	12/31/2019		12/31/2018	
	Due from customers	*New Business*	Due from customers	*New Business*
Poland	704	567	589	486
Slovakia	182	17	164	52
Czech Republic	4	3	7	10
Total	**890**	**587**	**760**	**548**

Part M – Lease Reporting

On January 1, 2019, the new accounting standard IFRS 16 with the new definition and accounting model for "leases" came into effect. This standard is based on transferring the right-of-use for a leased asset, and applies to all leases with the exception of leases with a lease term of 12 months or less or those for which the underlying asset is of 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 changed 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 balance sheet as if it was owned. 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 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 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 does not need to apply the standard retrospectively (therefore considering complex comparative information), 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 December 31, 2019 are shown below.

(Amounts in € millions)

	Right of use 01/01/2019 (FTA)	Right of use 12/31/2019
BFF	2,018	1,990
BFF Finance Iberia	297	973
BFF Polska Group	788	1,553
BFF Banking Group Total	**3,103**	**4,516**

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 12/31/2019	Total 12/31/2018
Time periods	Lease payments to be received	Lease payments to be received
Up to 1 year	436	
1 to 2 years		
2 to 3 years	1,093	
3 to 4 years		
4 to 5 years		
Over 5 years	57	
Total lease payments to be received	**1,587**	
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)		
Unguaranteed residual value (-)		
Lease financing activities	3,092	

Other information

Audit fees to the independent auditors and other companies in their network.

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 2019 for audit and non-audit services provided by the audit firm and other companies in its network. Such fees represent the costs incurred and recorded in the consolidated financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

(Amounts in € thousands)

Type of services	Banca Farmafactoring SpA				Group companies			
	PwC SpA		PwC Network		PwC SpA		PwC Network	
	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy
Audit	227			37				120
Certification services (*)	81							
Tax advice services								
Other services (**)	60		466					
Total	**368**		**466**	**37**				**120**

(*) Amounts referring to the comfort letters for bond issues, to the opinion issued in compliance with Article 2441, paragraphs 5 and 6 of the Italian Civil Code and Article 158 of the Consolidated Law on Finance, and to the audit of the statement of costs incurred by the Bank for research and development.
(**) Amounts referring to agreed verification procedures, due diligence activities and methodological support.

03

Certification by the Financial Reporting Officer

Certification of the Consolidated Financial Report in accordance with article 81-ter of CONSOB regulation n. 11971 of 14 May 1999 as amended and supplemented

1) The undersigned

- Massimiliano Belingheri, in his capacity as 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 employed to draw up the 2019 Consolidated Financial Statement.

2) The suitability and effective application of the administrative and accounting process employed to draw up the 2019 Consolidated Financial Statements was verified based on internally defined method adopted by Banca Farmafactoring S.p.A., in accordance with the Internal Control - *Integrated Framework* model issued by *Committee of Sponsoring Organizations of Tradeway Commission (COSO)* of the reference standards for the internal audit system generally accepted on an international level.

3) Moreover, the undersigned hereby certify that:

3.1 the Consolidated Financial Statement

a. was drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b. corresponds to the results of the accounting books and records;

c. is suitable for providing a true and fair view of the financial position of the issuer and all the companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the important events and their impact on the Consolidated Financial Statement, together with a description of the main risks and uncertainties to which they are exposed. The report on operations, moreover, a reliable analysis of the information concerning major transactions with related parties.

Milan, 25 February 2020

Massimiliano Belingheri	Carlo Zanni
Chief Executive Officer	Financial reporting officer

04

Independent Auditors' Report

Independent auditor's report
in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

Banca Farmafactoring SpA

Report on the Audit of the Consolidated Financial Statements as of 31 December 2019

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banca Farmafactoring SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of BFF Banking Group (the Group), which comprise the consolidated balance sheet as of 31 December 2019, the consolidated income statement, the consolidated comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banca Farmafactoring SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recognition of late-payment interest on non-impaired non-recourse purchases of receivables	
Notes to the consolidated financial statements: Part A – Accounting policies, "3 - Financial assets measured at amortized cost" and "Revenue recognition criterion" sections; Part B – Notes to the consolidated balance sheet, Asset, section 4; Part C – Notes to the consolidated income statement, section 1. Within the calculation of the amortized cost of non-recourse receivables from customers of the parent company Banca Farmafactoring and its subsidiary BFF Finance Iberia, the Group also considered the estimate of late-payment interest accrued and deemed recoverable in accordance with the provisions of the Bank of Italy/Consob/Ivass Document no. 7 of 9 November 2016" regarding the "Treatment in the financial statements of late-payment interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables". We focused our attention on this matter since, on the one hand, the amount of late-payment interest recognised but not yet collected is significant and, on the other hand, the parameters selected to estimate this revenue component implies the availability of statistically reliable historical series, built on the basis of collection's flows and times observable at the measurement date and includes judgemental elements of the management. Specifically, in order to select the key parameters for recognising the late-payment interest considered recoverable, Banca Farmafactoring made use of internal databases consisting of historical series about the recovery percentages and actual collection times in the last ten years for the Italian National Healthcare System and in the last six years for the Italian and Spanish Public Administration sector.	In conducting the audit, we took into account the internal control relevant to the preparation of the financial statements, to design the appropriate audit procedures in the circumstances, considering also the international accounting standards IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers". In particular, as part of our analysis of this key audit matter, also supported by the PwC network experts, we carried out the following main activities: • analysis of internal documentation regarding the management of late-payment interest's recovery, including limits set for the transactions with debtors; • understanding, evaluating and validating of the process including the controls about the historical series elaboration and the determination of the parameters for the estimate of this revenues stream; • analysis of the IT/management systems from which the historical data relating to the collection flows and times of the late-payment interest were extracted and check of the adequacy of the extracted data bases used in determining the parameters; • examination and reperforming of the processing of the extracted data bases, as well as controls performed, to verify that the adjustments to the extracted data are not arbitrary and are supported by evidence; • critical analysis of the model used by the Company to determine the parameters resulting from the historical series and verification of statistical value of this model;

Key Audit Matters	Auditing procedures performed in response to key audit matters
	• critical analysis of the findings of the historical series used to determine the recovery percentages and collection times to be considered in the calculation of the amortized cost; • verification of the correct allocation of the parameters in the management system and of the algorithm for calculating the amortized cost.

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

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Banca Farmafactoring SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 3 May 2012, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the statutory audit of the Company's separate financial statements for the years ending 31 December 2012 to 31 December 2020; after the registration of the banking group, on 20 February 2015, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the audit of the Group's consolidated financial statements for the years ending 31 December 2014 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Banca Farmafactoring SpA is responsible for preparing a report on operations and a corporate governance and share ownership report of BFF Banking Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the corporate governance and share ownership report referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of BFF Banking Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the corporate governance and share ownership report mentioned above are consistent with the consolidated financial statements of BFF Banking Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of Banca Farmafactoring SpA is responsible for preparing, on a voluntary basis, the consolidated non-financial statement pursuant to article 7 of Legislative Decree No. 254 of 30 December 2016. We have verified that the Management approved the consolidated non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the consolidated non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 12 March 2020

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

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

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