BFF BANKING GROUP

2020 CONSOLIDATED CONDENSED INTERIM FINANCIAL REPORT

BANCA FARMAFACTORING S.P.A.
Parent Company of the "Banca Farmafactoring S.p.A." Banking Group
Registered Office in Milan - Via Domenichino n. 5
Share Capital €131.400.196,62 (fully paid-in)
Milan Company Register No.,
Tax Code and VAT No. 07960110158

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BOARD OF DIRECTORS

Chairperson	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairperson	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.

(*) He was appointed Vice Chairperson of the Board of Directors on December 11, 2019 to replace Luigi Sbrozzi resigning from office (end of term of office on December 9, 2019).

(**) Director co-opted on December 11, 2019 to replace Luigi Sbrozzi resigning as Director (end of term of office on December 9, 2019); her appointment was confirmed by the Shareholders' Meeting held on April 2, 2020.

BOARD OF STATUTORY AUDITORS

Chairperson	Paola Carrara
Acting Auditors	Marco Lori Patrizia Paleologo Oriundi
Alternate Auditors	Giancarlo De Marchi Fabrizio Riccardo Di Giusto

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

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

FINANCIAL REPORTING OFFICER

Carlo Maurizio Zanni

COMMITTEES

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

REMUNERATION COMMITTEE

NAME	OFFICE	POSITION
Barbara Poggiali	Independent Director	Chairperson
Isabel Aguilera	Independent Director	Committee Member
Giorgia Rodigari (*)	Non-Executive Director	Committee Member

(*) appointed, following co-option, by the Board of Directors on December 11, 2019, and confirmed as a member of the Committee by the Board of Directors on April 18, 2020, following the confirmation of her appointment as Director by the Meeting on April 2, 2020.

RELATED PARTY TRANSACTIONS COMMITTEE

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

APPOINTMENTS COMMITTEE

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

CONTROL AND RISK COMMITTEE

NAME	OFFICE	POSITION
Michaela Aumann	Independent Director	Chairperson
Federico Fornari Luswergh	Independent Director	Committee Member
Giorgia Rodigari (*)	Non-Executive Director	Committee Member

(*) appointed, following co-option, by the Board of Directors on December 11, 2019, and confirmed as a member of the Committee by the Board of Directors on April 18, 2020, following the confirmation of her appointment as Director by the Meeting on April 2, 2020.

BOARD OF DIRECTORS

ROLE OF BOARD OF DIRECTOR'S MEMBERS AND INDEPENDENCE REQUIREMENTS

NAME	OFFICE IN BFF	EXECUTIVE	NON-EXECUTIVE	INDEPENDENCE	
				PURSUANT TO CONSOLIDATED LAW ON FINANCE	PURSUANT TO CORPORATE GOVERNANCE CODE
SALVATORE MESSINA	Chairperson		✓	✓	
FEDERICO FORNARI LUSWERGH[1]	Vice Chairperson		✓	✓	✓
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] Mr Fornari served as a Director of the Bank for more than 9 (nine) out of the last 12 (twelve) years. According to the Board Regulation (Article 3.4.1, paragraph 7, e)), exceeding such limit, although it disqualifies the person concerned as independent under the application criterion 3.C.1 of the Corporate Governance Code, does not result per se in the failure to meet such requirement.
In addition, as explicitly set out in said application criterion 3.C.1 of the Corporate Governance Code, the assessment of independence shall focus more on the substance rather than the form. Considering the high professional standing, experience, and independence of Mr Fornari, the Bank did not deem it critical that he has served as a Director of the Company for more than 9 (nine) out of the last 12 (twelve) years, giving prominence to substance over form, as explicitly required by the mentioned Corporate Governance Code.

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 the 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, the 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 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, 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. The merger became effective for accounting and tax purposes on September 30, 2019, i.e. the closing date.

On May 13, 2020, the Group announced it had finalized a binding agreement to acquire DEPObank - Banca Depositaria Italiana S.p.A. ("**DEPObank**") from Equinova UK HoldCo Limited and subsequently merge the acquiree into BFF. The Deal will create the leading independent specialty finance firm in Italy, give further momentum to DEPObank's business, and add additional funding and capital at the service of BFF's traditional customers.

At June 30, 2020, 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 - Paseo de la Castellana 81	1	Banca Farmafactoring S.p.A.	100%	100%
2. BFF SPV S.r.l.	Milan – Via V. Betteloni 2	4	Banca Farmafactoring S.p.A.	0%	0%
3. BFF Polska S.A.	Łodz - Jana Kilińskiego, 66	1	Banca Farmafactoring S.p.A.	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 Wspólnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

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

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

Key:

(1) Relationship type:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = having a dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control

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

As mentioned before, BFF Banking Group is active in Europe through various companies. The Bank offers non-recourse factoring services in Italy, in Spain through BFF Finance Iberia, in Portugal through a branch, as well as in Greece, Croatia, and France under the freedom to provide services.
The Group is also active in Poland, Slovakia and the Czech Republic through BFF Polska and its associated companies. The so-called BFF Polska group, acquired by BFF in 2016, is a leading specialist in financial

services designed for ensuring access to credit as well as providing liquidity and solvency support to healthcare companies.
It also offers an online deposit service in Italy, Spain, Germany, Ireland, the Netherlands and Poland, based on the regulations on the freedom to provide services. Therefore, the Group’s geographical reach extends to 12 countries across Europe. It also offers an online deposit service in Italy, Spain and Poland through its branches, and in Germany, Ireland, the Netherlands and Poland based on the regulations on the freedom to provide services. Therefore, the Group’s geographical reach extends to 12 countries across Europe.

The International Economic Scenario [2]

The COVID-19 pandemic and the containment measures it has required have severely disrupted people's lives and the economy. Global demand, supply chains, labor supply, industrial output, commodity prices, international trade, and capital flows have all been affected. The pandemic hit the European economy at a time when it was on a moderate growth path and still vulnerable to new shocks. Given the severity of this unprecedented global shock, it is now clear that the European Union has entered the deepest economic recession in its history.

The macroeconomic data published by the European Commission and Eurostat suggest that business activity in Europe has declined at an unusually fast rate in recent weeks, as the containment measures enacted in response to the crisis by most Member States in mid-March put the economy on ice. Economic output has plummeted year on year in the first half of 2020, with most of the contraction occurring in the second quarter. Activity is expected to recover, assuming that (i) containment measures are gradually lifted, (ii) the pandemic remains under control after relaxing said measures, and (iii) the unprecedented monetary and fiscal measures implemented by Member States and the EU actually mitigate the short-term economic impact of the crisis and limit permanent damage to the economic fabric.

Under these unfavorable assumptions, the EU's GDP should shrink by nearly 7.5% this year (a much deeper contraction than the one seen during the 2009 global financial crisis) and bounce back by 6% in 2021. However, this would leave Europe's economy some 3 percentage points below the level implicit in last fall's projections at the end of the forecast period. Likewise, the volume of investments is projected to be approximately 7% below the level estimated in the fall. In 2021, employment across the EU will be nearly 1% lower than in 2019. The decline in employment and investments reduces output potential, while the record uncertainty surrounding jobs, incomes, and sales will hold back demand for a certain period of time. There remains massive uncertainty about the pandemic, and assumptions other than those underlying the analysis of the baseline scenario on which this forecast is based would lead to very different projections.

The crisis caused by the COVID-19 pandemic is a symmetric shock that affects all Member States. Their deep economic interconnections are amplifying the shocks to aggregate demand and supply. While the recovery appears bound to be partial in nearly all countries, there will be differences in the impact of the crisis and how Member States will overcome it. How countries will emerge from the crisis will depend not only on the severity of the pandemic and the rigorousness of containment measures, but also their specific economic exposures and initial conditions, as well as discretionary policy responses. Given their strong interdependence, a partial recovery in one country would have repercussions on all other Member States, holding back growth everywhere.

As coronavirus spread across the globe, several governments had to take extremely aggressive public health measures to save human lives and prevent healthcare systems from being overwhelmed. These measures have disrupted economic life, all but shutting down large parts of the economy. The crisis has also caused the price of oil and several other commodities to collapse as well as financial turmoil. This has been especially damaging to commodity-exporting countries and emerging economies with high government debt denominated in dollars. Combined, these shocks pushed the world economy into a deep recession in the first half of 2020. However, the massive health and macroeconomic policy measures taken by most leading

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

economies are expected to contain the pandemic and limit its negative impact on the world economy to a deep, but ultimately temporary, recession. Overall, global GDP (excluding the EU) is estimated to shrink. by nearly 3% this year—a more pronounced decline than the one seen during the 2008-2009 global financial crisis. The economy should then bounce back by 5% in 2021, implying that global output is expected to return above the 2019 level but remain far short of the fall 2019 forecasts.

Both advanced economies and emerging markets are in for a downturn this year, but the recovery will be gradual and uneven across countries and regions. In most advanced economies outside the EU, the rebound will not be enough to bring production back to pre-pandemic levels by the end of the forecast period.
Growth trends are expected to "normalize" in China, whereas Latin America, the Middle East and Africa will experience a limited recovery. In several emerging and low-income countries with limited ability to deal with a health crisis of this magnitude and limited political room to absorb the relevant macroeconomic impact, the economic shock will be more persistent, as it is compounded by a more subdued outlook for commodity prices and more stringent financial conditions.

The monetary and fiscal policy response to the crisis has been swift and strong both globally and within the EU, as unprecedented measures were taken to mitigate the macroeconomic fallout and ease liquidity pressures. In the EU, policy announcements have helped stabilize financial markets, driving down credit spreads for corporations and sovereign bond issuers, while stock markets recouped part of their losses in April. In the Euro Area, in mid-March the ECB started rolling out a broad range of monetary and credit policy measures. One specific aim was to ensure banks continued lending to non-financial firms, thus preventing temporary liquidity shortages from turning into solvency crises. The PEPP (Pandemic Emergency Purchase Programme) announced by the ECB is intended to prevent the fragmentation of credit markets and the deterioration of the monetary policy transmission mechanism. In response to these liquidity constraints, EU Member States have also taken a series of steps to support liquidity, such as partial or full guarantees on bank loans. These liquidity measures amount to 22% of the EU's GDP and were supplemented by existing budgetary instruments providing support worth up to approximately 4.5% of the EU's GDP.

As for European labor markets, the COVID-19 pandemic and the relevant containment measures have completely changed the outlook. Governments have enacted national policy measures such as reduced work hours, income subsidies for the self-employed, and liquidity measures for businesses to limit job losses during the pandemic. Assuming these measures turn out to be effective, the decline in employment this year should be modest in terms of headcount given the dramatic reduction in work hours. However, more precarious workers, who have often been the first to lose their job, and newcomers to the world of work are likely to be permanently affected. The Euro Area's unemployment rate is expected to climb from 7.5% in 2019, the lowest level in over a decade, to approximately 9.5% this year and then fall in the next one, although it will remain far above pre-pandemic levels in 2021.

Combined with the assumption that oil prices will be significantly lower, Euro Area inflation forecasts have been dramatically revised downward to 0.2% this year. Inflation is expected to rise by 1.1% in 2021, largely thanks to the positive impact of energy prices.

Overall government deficit is set to rise from 0.6% of GDP in 2019 to 8.5% in both the Euro Area and the EU this year. This sharp increase largely reflects the impact of automatic stabilizers as well as considerable discretionary fiscal measures. In 2021, the nominal deficit should fall to 3.5% of GDP in both areas as a result of the expected rebound in economic activity and the lifting of most temporary measures implemented in response to the COVID-19 crisis. After falling from its peak in 2014, the Euro Area's aggregate debt as a percentage of GDP is expected to reach a new high at approximately 103% in 2020 and then decline by nearly 4 percentage points in 2021 assuming policies remain unchanged.

On March 18, 2020 the European Central Bank announced an expansive package of support measures, saying it was ready to introduce additional ones and do whatever it takes within its mandate to support the Euro Area during this crisis.
Among EU Member States, the governments in France, Germany, Italy, and Spain, among others, have introduced income subsidies for individuals and businesses (amounting to 1-2% of GDP) as well as loan guarantee schemes for firms worth over 10% of GDP overall.
At the proposal of the European Commission, the EU Council has authorized the activation of the general escape clause under the Stability and Growth Pact; this allows EU Member States to deviate from the

adjustment path towards the Pact's medium-term targets and appropriate the resources necessary to address the health and economic emergency as well as support businesses and households.
Financial market conditions remain fragile, but have benefited from monetary and fiscal policy actions as well as the relaxing of the measures intended to contain the pandemic.
In the Euro Area, share prices and interest rates received a boost from the strengthening of the ECB's purchase program and the Next Generation EU scheme proposed by the European Commission to finance the recovery of EU Member States through loans and grants. The new instrument would allow to considerably expand the EU's budget capacity in order to mitigate the fallout of the pandemic.
Italian government bond yields have declined—and so have the borrowing costs of businesses and banks. Bond issues have resumed, spurred also by the purchases made by the Eurosystem.
The measures taken by the ECB and the Government have supported lending to businesses, which has picked up as liquidity needs have grown steadily. The growth in lending to Italian businesses, which remained negative throughout 2019, reached 11.5% in May (annualized three-month rate).
The expansion in lending, which initially concerned medium-large entities, subsequently included also individual and family businesses as the delays in implementing the measures enacted by the Government have been gradually reduced.

On July 21, 2020, following the Special European Council meeting held from July 17 to 21, a summary of the conclusions was made public.
Said document details the measures intended to support the economic recovery in response to the COVID-19 crisis as well as the EU's new long-term budget (so-called "MFF-Multiannual Financial Framework") for 2021-2027.
The conclusions present a balanced solution catering for the interests and positions of all Member States.
It is an ambitious and comprehensive package combining the classical MFF with an extraordinary recovery effort destined to tackle the effects of an unprecedented crisis in the best interest of the EU, i.e. Next Generation EU (so-called "NGEU", an instrument designed to tackle the effects of an unprecedented crisis in the interest of the EU).

Below are the NGEU's highlights:

- The Commission will be authorized to borrow funds on behalf of the European Union on the capital markets. The proceeds will be transferred to European Union programs in accordance with NGEU.
- The Commission shall be empowered in the Own Resources Decision to borrow funds on the capital markets on behalf of the European Union up to the amount of €750 billion in 2018 prices. New net borrowing activity will stop at the latest at the end of 2026. The Union shall use the funds borrowed on the capital markets for the sole purpose of addressing the consequences of the COVID-19 crisis.
- Specifically, Next Generation EU shall include the resources of the "Recovery and Resilience Facility" (so-called "RRF"), the funds that have been discussed in recent days and should support the States that have been hit the hardest by the COVID-19 crisis.
- The Recovery and Resilience Facility (RRF) consists in borrowed funds that may be used for loans up to an amount of €360 billion in 2018 prices and for expenditure up to an amount of €390 billion in 2018 prices. This new composition would make €209 billion available to Italy, including €81.4 billion in grants and €127.4 billion in loans.
- The remaining funds are destined to other programs: "ReactEU" €47.5 billion, "Horizon Europe" €5 billion, "InvestEU" €5.6 billion, "Rural Development" €7.5 billion, "Just Transition Fund" (so-called "JTF") €10 billion, "RescEU" €1.9 billion.
- Under the Recovery and Resilience Facility (RRF): 70% of the grants provided by the RRF shall be committed in the years 2021 and 2022. The remaining 30% shall be fully committed by the end of 2023.
- The RRF commitment allocation key for the years 2021-2022 shall be established according to the Commission proposal. In the allocation key for the year 2023, the 2015-2019 unemployment criterion is replaced, in equal proportion, by the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the period 2020-2021 and will be calculated by June 30, 2022.
- Member States shall prepare national recovery and resilience plans setting out the reform and investment agenda of the Member State concerned for the years 2021-23. The plans will be reviewed and adapted as necessary in 2022 to take account of the final allocation of funds for 2023.

With respect to the 2021-2027 Multiannual Financial Framework (MFF), it will cover a period of seven years from 2021 through 2027 and the overall amount of commitments is €1,074.3 billion.

The Economy, National Debt Stock and Public Expenditure on Goods and Services in Italy in the First Half of 2020

Early this year, the Bank of Italy estimated [3]that economic activity, which grew slightly in the third quarter of last year, was essentially flat in the fourth quarter of 2019, as it continued suffering especially from the weakness of the manufacturing industry.
The surveys conducted by Istat (the Italian statistics bureau) and the Bank of Italy covering the same period showed that companies were slightly more optimistic with respect to orders and foreign demand, but still considered the uncertainty and trade tensions as factors hindering their business. Firms were planning to expand their investments in 2020.

However, starting from late February 2020, with the outbreak of COVID-19 (so-called "Coronavirus") in Italy, the ensuing lockdown that begun on March 8, 2020, the WHO's declaration that the COVID-19 epidemic is a global pandemic, and the closing of all "non-essential" economic sectors starting on March 22, all forecasts have been necessarily revised downwards.
There is still significant uncertainty surrounding the economic fallout of the COVID-19 pandemic.

In Italy, GDP was down 5.3% in the first quarter of 2020 and then declined even further in the second quarter, shrinking by approximately 10%. The most recent qualitative and quantitative indicators show signs of improvement starting from May, as the measures suspending business activity were gradually relaxed.
Istat estimates that Industrial output tumbled by 19.1% in April and started recovering in May and June, rising by nearly 40% relative to April.
Businesses expect the contraction in demand to slow down in the upcoming months: investments would continue declining in the second half of the year, albeit to a lesser extent than in the first six months.

The actual impact on the economy, as well as the timing and intensity of the recovery of business activity, will depend on several factors, whose evolution is still hard to predict: the length and extent of the contagion (since May, the epidemic has intensified in some emerging markets and the United States), the outlook for the world economy, the impact on the confidence and spending decisions of individuals as well as the investment decisions of corporations, and potential financial repercussions; they will also heavily depend on the effectiveness of the economic policies implemented.
Under these conditions, it is extremely hard to make macroeconomic forecasts; simulations are mostly scenario analyses based on the assessment of the impact of alternative epidemiological and economic assumptions, which are necessarily largely arbitrary.
The range of estimates made by analysts with respect to Italy's GDP growth in 2020 and 2021 is unusually wide; from -6 to -15 percentage points for this year, and from 2 to 13 percentage points for the recovery in the next one.
Other Euro Area countries are facing just as much uncertainty (source Bank of Italy, Covid 19 Notes of May 15, 2020).

Under a baseline (so-called "soft") scenario, where the spread of the pandemic remains under control at the global level and in Italy, GDP would contract by 9.5% on average in 2020, entirely because of the downturn registered in the first half of the year, and then bounce back over the next two years (4.8% in 2021 and 2.4% in 2022). Inflation would be all but flat in both 2020 and 2021, and prices would then rise again by 1% in 2022.

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[3] (sources: Bank of Italy, Economic Bulletin 1/2020, 2/2020 and 3/2020)

Under a second, more severe (so-called "hard") scenario, which helps understand the consequences of more pessimistic assumptions, a prolonged epidemic would cause negative effects, requiring to manage potential new outbreaks, with repercussions on the confidence and spending decisions of individuals as well as the investment decisions of corporations. This would result in more dramatic declines in international trade and bottlenecks within global supply chains—and further deteriorating financial conditions.
Under this more severe scenario, GDP would shrink by over 13% this year and stage a more moderate recovery over the next two years compared to the baseline scenario[4].

Italian Decree Law ("DL") 18/2020 and DL 23/2020 offered financial relief for businesses and households; specifically, they introduced initiatives to ease liquidity tensions caused by the emergency and strengthen government guarantee schemes.

To ensure an efficient and rapid use of the support measures under the decrees, the Ministry of Economy and Finance, the Bank of Italy, the Italian Banking Association, Mediocredito Centrale, the Ministry for Economic Development, and SACE have set up a joint task force.

Below are the highlights of the two DLs:

DL 18/2020 (so-called "Cure Italy") governs, among other things, forbearance on certain kinds of financing, the extension of loans and the suspension of debt repayments for small and medium enterprises (SMEs) without impaired positions at the effective date of the decree and that face self-certified temporary liquidity shortages as a result of the epidemiological emergency.
In addition, the DL allows to: (a) freeze the agreed amounts of revocable lines of credit and advances on receivables through September 30, 2020; (b) extend the maturity of loans due prior to September 30, 2020 to that date; (c) suspend loan and lease payments during the same period;
33% of the amounts of these transactions is covered by the ancillary guarantee of a special section of the Central Guarantee Fund for SMEs. The fund has been increased by an additional €1.5 billion for the year 2020. The guarantee allows banks to halve expected credit losses on the loans subject to the moratorium, considering that the average loss on impaired loans to businesses is approximately 70% of the nominal amount.
Overall, considering the loan moratorium and the new guarantees together, the Cure Italy decree backs an estimated €350 billion in credit.
With respect to factoring, large entities and, more generally, assigned debtors are excluded. Trade payables are apparently outside the scope of the relief as per Article 56 of the decree concerned (unless the debtor has entered into a separate loan agreement to further extend payment terms).

Under **DL 23/2020 (so-called "Liquidity Decree")**, most Italian businesses have access to loans backed by "first-demand" guarantees provided by the government to intermediaries through December 31, 2020. Specifically, the decree bolsters the Central Guarantee Fund for SMEs, which is now accessible also to firms with up to 499 employees. Here are the highlights: the maximum amount guaranteed for each individual firm has been raised from €2.5 to €5 million; the coverage for fixed-amount loans up to 6 years has been raised to 90% (and 100% if mutual guarantee societies are involved); certain categories of loans, and especially small ones, are fully covered; guarantees are free; individuals whose business has been affected by the health emergency can access the Fund; the relief has been extended to debt renegotiations, as long as certain conditions are met; the Fund will no longer assess the creditworthiness of companies; firms with loans that became impaired after January 31, 2020 are also eligible for the guarantee, although those with exposures classified as non-performing are excluded.
Besides mitigating credit risk, the first-demand guarantee allows intermediaries to offset the capital absorption on the share of the loan backed by the Fund.

With respect to factoring, the Commission passed an amendment that adds paragraph 1-bis to Article 1, expanding the scope of the so-called Italy Guarantee to include "also assignments of receivables with

[4] (Source Bank of Italy 05/15/2020, Note on the "Impact of the covid-19 pandemic on Italy's economy: explanatory scenarios" and Boleco no. 3/2020])

recourse finalized after the effective date of the law" up to the "amount of the consideration paid to the assignor for the assignment of the receivables".
Finally, the Liquidity Decree has made recourse factoring transactions eligible for SACE's guarantee and the government's counter-guarantee.
As a result, SACE S.p.A., owned by Cassa Depositi e Prestiti, will provide guarantees in accordance with EU state aid rules as well as the requirements and conditions as per paragraphs 2 to 11 of DL 23/2020 through December 31, 2020:
it will provide guarantees to banks, Italian and international financial institutions, and other authorized lenders in Italy with respect to any form of loans extended to businesses.

Overall, €200 billion will be available, of which at least €30 billion will support small and medium enterprises—including self-employed individuals and independent contractors, registered for VAT purposes, that have used up their ability to access the fund.
The guarantees are provided on favorable terms in accordance with the DL and backed by the Italian government.

Against this backdrop, the impact on the Bank is limited, as virtually all BFF customers are large corporations or multinational entities.

On May 19, Italian DL 34/2020 was published in the Official Journal (O.J. no.128 of May 19, 2020, so-called "**Relaunch Decree**"). The decree includes "Urgent measures with respect to health, supporting jobs and the economy, and social policies associated with the COVID-19 epidemiological emergency".
Among several other things, it establishes a Liquidity Fund for the settlement of the debts of local authorities outstanding at December 31, 2019.
The fund, named "Fund to provide liquidity for the payment of certain, liquid, and enforceable claims", has a €12 billion budget for 2020 and is divided into two sections, corresponding to two items of the relevant chapter of the government's budget:

- the first is named "Section to provide liquidity for the payment of certain, liquid, and enforceable claims against local authorities, regional governments, and autonomous provincial governments for payables other than financial and healthcare liabilities", with a budget of €8 billion;
- the second is named "Section to provide liquidity to regional and autonomous provincial governments for the payment of certain, liquid and enforceable claims against National Healthcare System entities", with a budget of €4 billion.

The requested cash advance may be repaid over a period of up to 30 years, with the first repayment scheduled for 2022. In addition, to provide the National Healthcare System with the liquidity required for its operations associated with the emergency, including paying its debts in a timely manner, no enforcement actions can be commenced or pursued against National Healthcare System entities. Garnishments and claims relating to financial resources that the regional governments transferred to the entities of their respective regional health service, filed before the effective date of the Relaunch Decree, are null and void from said date and are not binding on Regional Healthcare System entities and treasurers, who, for the purposes of the mentioned entities associated with managing the health emergency and settling debts, may use the funds transferred to them during said period. The above stay on garnishments will remain in place through December 31, 2020.

With the Relaunch Decree, the government's net borrowing rises by €55 billion in 2020 and €5 billion in 2021, excluding the increase in debt-servicing costs.
The measures for 2020 amount to 3.3% as a percentage of GDP, and, combined with Cure Italy, bring the overall economic support package to 4.5% of GDP, on top of which there are guarantees worth approximately 40% of GDP.
As for the net amount to be appropriated under the government's budget, on an accrual and a cash basis, the impact of the decree totals €155 billion in 2020 and €25 billion in 2021.

The Relaunch Decree as amended was converted into law no.77 of July 17, 2020.

Italy's public sector requirements stood at €39.4 billion (2.2% of GDP), down €1.7 billion from €41.1 billion in 2018 (2.3% of GDP).

Compared to the estimated 2019 requirements in the Technical-Explanatory Note to the 2020-2022 Budget Law, totaling €41.2 billion, the actual amount was €1.8 billion lower even though payments were ultimately higher (+€3.0 billion), as actual receipts exceeded expectations (+€4.9 billion).
Concerning receipts, actual results exceeded expectations with respect to the current portion (+€7.0 billion) and the capital account (+€436 million), whereas financial transactions were down (-€2.5 billion). Tax revenues were affected by the increase in revenues from direct taxes settled through the reverse charge mechanism, despite the adjustment to the estimated tax payment for the entities subject to Synthetic Reliability Indicators introduced by the Tax Decree attached to the Budget Law.
In terms of payments, final data showed payments at levels which were higher than expected for the current portion (+€2.7 billion) and financial transactions (+€1,3 billion). By contrast, payments were lower on capital account (-€945 million).
Interest expense payments were up because the Update to the 2019 Economic and Financial Document, detailed in the Technical Explanatory Note to the 2020-2022 Budget Law, changed the accounting treatment of interest on the interest-bearing bonds issued by the Italian Post Office (BPF, *Buoni Postali Fruttiferi*) and transferred to the Ministry of Economy and Finance after Cassa Depositi e Prestiti turned into a joint-stock company in 2003.

In order to monitor economic and financial balance, Regions may be subject to Repayment Plans in relation to the healthcare sector. On the basis of the recognition of the causes that structurally determined significant management deficits on a regional level, such plans identify and selectively address the various problems that have arisen in each region.

Currently, this procedure still applies to seven regions in Italy: Abruzzo, Apulia, Calabria, Campania, Lazio, Molise, and Sicily), of which four are under temporary receivership (Campania, Lazio, Molise, and Calabria). With respect to these four, an administrator (Commissario ad acta) will oversee the continuation of the Debt Repayment Plan.
An especially severe budget shortfall was addressed by Italian DL 35/2019 (so-called "**Calabria Decree**"), whose Chapter I is entirely dedicated to special provisions concerning the Calabria Regional Government: these are intended to ensure that essential healthcare levels are met as well as accomplish the goals of the plan to close the deficits of the Regional Healthcare System in accordance with the relevant operational programs.
All the proposed measures represent extraordinary regulatory actions covering a period of up to 18 months that are intended to help Calabria's health service return to "normal" administrative conditions.

Concerning the Lazio Region, with the Resolution dated December 1, 2017 the Italian Prime Minister's Office had tasked the administrator with bringing the temporary receivership to an end and allow normal operations to resume by December 31, 2018. However, according to the most recent update dated January 4, 2019, the Italian Health Ministry still lists Lazio among the Regions put under temporary receivership.
On January 30, 2020, as the Italian Ministry of Regional Affairs gave a favorable opinion on the resolution passed by the Regional Government with respect to the 2019-2021 regional plan, after 11 years the regional health service formally emerged from receivership.
However, under the current debt repayment plan, which will remain in place, the Regional Government is to repay €1.2 billion every year to service the debts incurred to settle past liabilities. Moreover, an interministerial working group will continue auditing the Regional Government's accounts as well as ensuring that acceptable essential levels of care are met for an additional two years.

Italy's healthcare funding needs have been set at €114.4 billion for 2019, and this amount is scheduled to rise by €2 billion in 2020 and an additional €1.5 billion in 2021. In the wake of the COVID-19 epidemiological emergency, as confirmed by the 2020 Economic and Financial Document (2020 DEF - *Documento di Economia e Finanza*), the Italian Government has enacted several measures that caused standard healthcare funding needs for 2020 to reach €119.6 billion. In 2021 government healthcare spending is expected to increase by 1.3% compared to 2020, accounting for 6.9% of GDP.

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

The Commission's 2017 decision comes three years after the initiation of the infringement procedure (starting with decision 2014/2143).

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

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

SIOPE+ asks all public administration agencies to:

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

Following a testing period which began July 2017 and involved approximately 30 public entities, in 2018 the implementation of SIOPE was extended to all public administration agencies.
The data provided so far by the Ministry of the Economy through its website on past due receivables 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 all regional governments, autonomous provincial governments, metropolitan cities and provincial governments) recorded around €13 billion in total invoices owed, and €10 billion in invoices paid. The resulting average payment period was around 37 days (excluding unsettled and/or disputed invoices).
For municipalities of over 60,000 inhabitants, invoices owed were €11 billion and invoices paid were €9.7 billion (with an average payment period of 42 days). For municipalities of over 10,000 inhabitants, payments of €4.42 billion have been made on the €5 billion of invoices owed, while maintaining the same average payment period of 42 days.
The National Healthcare System has not yet confirmed any final figures to date.

The most recent data on the debt stock point to approximately €26 billion in unpaid invoices across the Public Administration, the National Healthcare System, and Municipalities. The majority of these residual payables are held by municipalities, with nearly €9 billion in unpaid invoices (33% of total payables). The National Healthcare System takes second place with around €8 billion outstanding (30%).

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

Said law specifies that the above cash advances do not qualify as borrowing as per Article 3, paragraph 17 of Italian law no. 350 of December 24, 2003.

The total amount of cash advanced by Cassa Depositi e Prestiti on request from public entities amounts to around €2 billion—an amount which will not greatly impact the reduction of public administration's debt overall.
Nonetheless, given that the entities will need to return said amounts by the end of this year, a negative effect on the timing of payments to end creditors is expected.
In this regard, the impact on the Bank will be negligible, considering the modest amount of the measure concerned.

Beginning January 1, 2015, as established by the 2015 Budget Law, a split payment mechanism was introduced (Article 17-ter of Presidential Decree 633/1972), on the basis of which the public entities, and no longer the suppliers, must pay VAT to the tax authorities on certain sales of goods and on services rendered to those entities. The payment of invoices is therefore split between the tax authorities, with regard to VAT, and the supplier, for the taxable amount.
Since this area is regulated by EU laws, the European Commission examined the Italian law and, in June 2015, it authorized the application of the split payment mechanism until December 31, 2017. Following a request on the part of the Italian government in May 2017, the Council of the European Union extended the deadline for the application of the split payment mechanism for VAT to June 30, 2020, and also extended the parties involved and the scope of application of the mechanism.
Nonetheless, the Italian government has announced its intention to explore the elimination of the split payment mechanism, which puts pressure on company liquidity management. However, the "Covid19" emergency has forced the Government to abruptly change course, abandoning the original idea of restricting the split payment only to supplies provided to Public Administrations. Indeed, in a communication dated March 27, 2020 addressed to the European Commission, Italy asked that "the scope of the authorization should remain identical to that granted by Council Implementing Decision (EU) 2017/784", thus requesting to apply the "derogation from Articles 206 and 226 of the VAT Directive for supplies of goods and services made to public authorities, to companies controlled by central and local public authorities, and to a list of companies listed on the stock exchange".
The European Commission then published the proposed Council Implementing Decision amending implementing decision (EU) 2017/84 authorizing the Italian Republic to apply a special measure derogating from Articles 206 and 226 of Directive 2006/112/EC on the common system of value added tax, thus extending the derogation to the period "from July 1, 2020 until June 30, 2023" and specifying that "by September 30, 2021, Italy shall submit a report to the Commission on the overall situation of VAT refunds to taxable persons affected by the measures [...]". At the reporting date, such extension was still pending final approval from the Italian Cabinet. However, such confirmation is just a formality. The split payment will revert as soon as possible to its original scope, thus concerning only transactions with the Public Administration, and its extension to subsidiaries and listed entities introduced by the attachment to the 2018 budget law will lapse.

Comments on the Economy, National Debt Stock and Public Expenditure on Goods and Services in the Other Countries in which BFF Banking Group Operates[5]

Poland

Poland's growth rates are among the highest in the European Union, including after the COVID-19 pandemic.

Real GDP is estimated at approximately €441 billion in 2020, -4.6% compared to 2019—one of the less pronounced declines in Europe. The IMF expects it to recover by 4.2% in 2021.
The nominal budget deficit rose to €3.9 billion at the end of 2019, amounting to 0.7% as a proportion of GDP.

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.
The Polish Central Bank cut the benchmark interest rate by 50 basis points on April 9, 2020 and by an additional 40 bps on May 28, resulting in a nearly identical decline in the WIBOR. The Euro/Zloty exchange rate depreciated during the reporting period.

According to Eurostat data, gross public administration agencies' debt continued falling from over 50% of GDP in 2017 to around 48.8% of GDP in 2018 and 46% in 2019. This movement is supported by strong nominal GDP growth and relatively low nominal deficit.

Public spending for 2019 as a whole amounted to €222 billion, of which €29.4 billion can be attributed to expenditure on public administration goods and services, and €10.4 billion can be attributed to social transfers in kind.

In the upcoming quarters the budget of the National Health Fund, an agency of the Health Ministry, will face challenges associated with declining healthcare contributions as a result of mounting unemployment. According to the IMF's latest forecasts, unemployment is set to skyrocket from 3.3% in 2019 to 9.9% in 2020 and then fall down to 8% in 2021.

The measures taken by the Polish government in response to the coronavirus have:
- introduced a "Liquidity Package" through Poland's National Bank to ensure the liquidity of the banking sector as well as reduce the benchmark interest rate and the reserve requirement ratio.
- introduced an "anti-crisis shield" to provide aid in the form of PLN 212 billion in support to local authorities for current spending and investments and PLN 7.5 billion earmarked for the National Healthcare System.
- allocated funds to provide government loan guarantees and debt moratoriums

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2. Sources:
- International Monetary Fund, IMF -World Economic Outlook, June 2020 Update for the data on positive or negative real GDP growth.
- International Monetary Fund, IMF - World Economic Outlook Database, April 2020: *The Great Lockdown* for the historical data on GDP at constant prices and the unemployment rate. The forward-looking amounts denominated in Polish zloty, Czech koruna, and Croatian kuna were converted based on the exchange rate with the Euro at May 2020 published by the Bank of Italy.
- Eurostat for the data (at May 26, 2020) on: government debt/GDP ratio, overall government spending, government spending on goods and services, social transfers in kind, and budget deficit/surplus.
- European Commission - European Economic Forecast, Spring 2020. Institutional Paper 125, May 2020.

- in terms of fiscal policy, supported domestic demand through direct transfers to households and by suspending employees' tax payments

On Sunday, June 28, after a delay of nearly one and a half months due to the coronavirus health emergency, Poland held presidential elections. No candidate won over 50% of the votes, therefore the two top **candidates, Andrzej Duda (43.5%) and Rafał Trzaskowski (30.5%), went to a runoff on July 12. The** incumbent president Andrzej Duda, an independent associated with the radical right-wing Law and Justice party that has been in power since 2015, got 51% of the votes; his opponent Rafal Trzaskowski, a member of the center-right liberal party Civic Platform that governed from 2007 through 2014, received 49% of the votes.

Slovakia

The buoyant economic expansion Slovakia saw in recent years started losing momentum in 2019, as real GDP rose by 2.3% compared to 2018. GDP is expected to shrink by 6.2% in 2020 and recover by 5% in 2021. The government deficit is growing, and so is unemployment.

The government debt-to-GDP ratio declined from 49.4% in 2018 to 48% in 2019, driven by nominal GDP growth.

Public spending for 2019 as a whole amounted to €40.3 billion, of which €5.2 billion can be attributed to expenditure on public administration goods and services, and €4.8 billion can be attributed to social transfers in kind.

Days Sales Outstanding (*DSOs*) within the NHS currently exceed 120 days, whereas Public Administration entities generally pay their invoices more quickly.
No cash transfers to public-sector entities were planned at June 30, 2020. Support schemes have focused on private-sector entities in the form of government guarantees totaling €500 million per month, and businesses affected by COVID 19 have received €350 million in state aid—mainly to help preserve jobs.

The measures taken by Slovakia's government in response to the coronavirus have led to the largest ever reduction in the debt of healthcare system and local authorities, cutting it by €600 million. Parliament gave its approval on July 14, 2020.

The parliamentary elections for the National Council of the Slovak Republic were held on February 29, 2020. The right-wing populist and anti-corruption party Ordinary People and Independent Personalities (OL'aNO) came out on top with nearly 25% of the vote (11% in 2016) and 53 seats, beating the social-democratic party Direction - Social Democracy (SMER), which had been governing for the last 15 years, by almost 7 percentage points. Igor Matovic, the leader of OL'aNO, formed a coalition government with three other right-wing or center-right parties: the conservatives of "We Are Family", the centrist party "For People", and the liberal center-right party "Freedom and Solidarity" (Sas).

Czech Republic

In 2019 GDP grew by 2.6% on an annual basis to approximately €190 billion. The IMF forecasts real GDP will shrink by 6.5% in 2020 and subsequently recover by 7.5% in 2021.

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: in 2019 it declined further to 2% of the overall workforce, compared to 2.2% in 2018, and the IMF estimates that it will jump to 7.5% and 6% in 2020 and 2021, respectively.

The Czech Republic's gross national debt fell to 30.8% of GDP in 2019 from 32.6%.
Public spending for 2019 as a whole amounted to €92.2 billion, of which €13.2 billion can be attributed to expenditure on public administration goods and services, and €6.9 billion can be attributed to social transfers in kind.

DSOs within the NHS fell significantly thanks to the debt reduction provided by the government, and the number is now lower than 60 days.
The government provided CZK 1,200 (€47) per capita to each municipality, payable through the end of July 2020, and an additional injection to the public-sector suppliers of the NHS: the country's 6 largest hospitals received €258 million in cash to cover past due receivables.

Spain

Despite some slowdown, for the sixth year in a row real GDP in Spain grew by 2.2% in 2019, above the Euro Area average of 1.2%. GDP totaled approximately €1,200 billion in 2019.
Overall, the IMF estimates real GDP growth will slow down to -12.8% in 2020 and then bounce back by 6.3% in 2021.

The growth in jobs in 2019 had boded well, pushing the unemployment rate down from 15.3% in 2018 to 14.1%—the lowest level since 2007 (when it stood at 8.2%); however, the IMF expects it to soar to 20.8% in 2020 and 17.5% in 2021.

As for the gross national debt, in 2019 it fell to 95.5% as a proportion of GDP from 97.6% in 2018. This decline was primarily driven by the growth in nominal GDP.

Public spending for 2019 as a whole amounted to €522 billion, of which €63.7 billion can be attributed to expenditure on public administration goods and services, and €32.7 billion can be attributed to social transfers in kind.

The measures taken by the Spanish government in response to the coronavirus have introduced:
- an €11.8 billion cash injection in the first half of 2020 through the "FLA – fondo de liquidez autonómica" to pay suppliers. An additional €3.6 billion debt reduction has been proposed for the third quarter of 2020.
- a fiscal package to prop up domestic demand (e.g., direct transfers to households, suspensions of tax payments) as well as government loans and guarantees for businesses
- funding for government loan guarantees and debt moratoriums.

Against this backdrop, the implications for the Group caused a reduction in the Public Administration's DSO and an increase in receipts.

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. 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

In Portugal real GDP grew by 2.2% in 2019, essentially in line with 2018, but it is expected to shrink by 8% in 2020. GDP amounted to nearly €200 billion in 2019.

The unemployment rate is a sore point for 2020: the IMF forecasts it will more than double to 13.9% from 6.5% in 2019, and then gradually normalize in 2021 (8.7%).

According to Eurostat data, after falling steadily by 4.1% in 2018, Portugal's gross national debt/GDP ratio continued declining in 2019, reaching 117.7%.

As for the budget deficit, the data point to a substantial improvement, as the government reported a €0.4 billion surplus (+0.2% of GDP) compared to a €0.9 billion deficit (-0.4% of GDP) in 2018.

Public spending for 2019 as a whole amounted to €90.6 billion, of which €10.9 billion can be attributed to expenditure on public administration goods and services, and €4.0 billion can be attributed to social transfers in kind.

The measures taken by the Portuguese government in response to the coronavirus have introduced:
- a €200 million cash injection for local authorities in March 2020, with a potential second injection scheduled for the fourth quarter of this year but not yet officially confirmed by government authorities.
- government guarantees and moratoriums for the period from March 26 through September 30.

Against this backdrop, the Group saw a slight increase in receipts.

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

After totaling approximately €194 billion at the end of 2019 (+1.9% compared to 2018), the IMF expects Greece's real GDP to shrink by 10% in 2020 and then partially bounce back in 2021 (+5.1%).

Gross public debt peaked at 181.2% of GDP in 2018, and declined at a level of 176.6% in 2019.

The government reported a budget surplus for the fourth year in a row, amounting to 1.5% of GDP in 2019. This development has led to an improvement in Greece’s international credibility, with a corresponding reduction in government bond yields.
In late May 2020, the primary budget deficit stood at €4.84 billion, compared to a €43 million surplus target, because of the impact of the state aid package that, among other things, deferred tax and VAT payments. Net tax revenues fell 14.5% or €2.7 billion short of the target and totaled €16 billion.

Public spending for 2019 as a whole amounted to €86.7 billion, of which €8.4 billion can be attributed to expenditure on public administration goods and services, and €4.3 billion can be attributed to social transfers in kind.

Please note that the capital controls introduced in July 2015 were lifted on September 1, 2019.

In response to the coronavirus epidemic, the Greek government has introduced a government loan at a 109 bps interest rate for all companies reporting at least a 30% decline in sales and with less than 500 employees at March 30, 2020.

Greece is enjoying a spell of political stability: in July 2019, Syriza's Alexīs Tsipras was replaced as Prime Minister by Kyriakos Mītsotakīs of the center-right party Nea Dimokratia (ND), who now has a comfortable 158-seat majority.

Croatia

In 2019, real GDP rose by 2.9% to approximately €50 billion, essentially in line with expectations, but it is set to shrink by 9% this year and then bounce back by 4.9% in 2021.

The Debt/GDP ratio was down from 74.7% in 2018 to 73.2% in 2019. Croatia reached an overall surplus of 0.4% of GDP in 2019, up from 0.2% in the previous year.

Public spending for 2019 as a whole amounted to €25.4 billion, of which €4.5 billion can be attributed to expenditure on public administration goods and services, and €1.2 billion can be attributed to social transfers in kind.
According to the latest unofficial data, based on comments provided by the health and finance ministers, total hospital debt has risen to €1.24 billion. In addition, the Finance Minister said that the Government has seen a 25% decline in mandatory healthcare contributions compared to 2019. The mandatory contribution is key to Croatia's National Health Insurance Fund, which in March appropriated an additional HRK 400 million for hospitals to settle past liabilities.
DSOs within the NHS are deteriorating, as approximately €20 million worth of new debt is added every month (Source: Croatian Employers' Association - official letter to the Prime Minister).

To address the coronavirus epidemic, the Croatian government has approved an HRK 500 million cash injection into the national healthcare system.

Croatia held presidential elections on December 22, 2019 (first round) and January 5, 2020 (second round). Zoran Milanović (SDP, united center-left), who served as Prime Minister from 2012 through 2015, won 52.6% of the vote in the runoff, beating the incumbent president Kolinda Grabar-Kitarovic (candidate of the ruling center-right party HDZ).
In the most recent elections for the Croatian parliament, held on July 5, 2020, the incumbent prime minister Andrej Plenković of the HDZ (Croatian Democratic Union) came out on top, as his party won 66 seats out of 151. The center-left "Restart Coalition", headed by the leader of the Socialdemocratic Party (SDP) Davor Bernardić, came in second with 41 seats.
The Croatian elections were one of the first polls held amid the coronavirus pandemic after the presidential elections in Poland and the administrative elections in France. Croatia has seen a low number of infections, thanks also to the total lockdown imposed by the government in March.

France

France's real GDP is expected to shrink by 12.5% in 2020 after growing by 1.3% in 2019. The IMF anticipates a downturn ranging from 4% to 7.3% in 2021.
France's deficit-to-GDP ratio increased from 2.3% in 2018 to 3.1% in 2019.

The gross public debt/GDP ratio is below 100% and stood at 98.4% in both 2018 and 2019.

There should be no significant repercussions on the unemployment rate, which the IMF estimates at 10.4% in both 2020 and 2021 compared to 8.5% in 2019.

Public spending as a whole is the higher in Europe: €1,349 billion in 2019 (55.6% of GDP), of which €120 billion can be attributed to expenditure on public administration goods and services, and €144 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.

In response to the coronavirus epidemic, the French government has introduced a €300 billion state guarantee applicable to all loans extended since March 16, 2020.

BFF BANKING GROUP

The second round of local elections, originally scheduled for March, was delayed due to the pandemic and held on June 28. Although 59% of voters abstained, the Green party came out on top: backed by various center-left coalitions, its candidates won in major cities. Jean Castex was sworn in as Prime Minister on July 3.

During the COVID-19 period, the government has decided to focus on partial unemployment schemes and to offer state-backed loans to most firms.

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 remained largely stable. While national debt and impaired loans narrow the margin of maneuver of the state and financial intermediaries, factoring distinguishes itself for the lower risk involved, as validated by a modest non-performing loan percentage.

Based on the final figures provided by the Italian factoring association Assifact, 2019 finished up being another year of growth for the factoring industry, with turnover up 6.44% (compared to 8.32% in the prior year) to €255.5 billion, while the outstanding declined by 2.11% (to €66.2 billion).
Against this backdrop, at December 31, 2019, receivables due from the Public Administration amounted to approximately €9.5 billion and accounted for 16% of total factored receivables.
Of these receivables, almost 33% were past due, 21% of which were more than a year past due.
There was a decline in the share of past due exposures corresponding to receivables less than 90 days past due.
At December 31, 2019, gross impaired exposures for factoring accounted for 4.44% of total gross exposures.
Non-performing loans continued declining as a proportion of total factoring exposures, accounting for 1.83% at the end of 2019.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 [Source Assifact, "Factoring by the numbers – data at December 31, 2019"].

Against this backdrop, BFF's market share in the industry, in terms of outstanding receivables, was 29% at March 2020 with reference to the public administration segment (31% at the end of 2019).
Within the public administration subsegments, BFF's market share accounted for 35% in terms of outstanding receivables due from local public administration agencies, and 40% with reference to the National Healthcare System.

The statistical indicators for May 2020, based on a sample of 32 companies, point to a contraction in the factoring market in terms of both turnover and outstanding, as the former was down 10.7% year-on-year (to €84 billion, including €42.2 billion relating to non-recourse factoring) and the latter decreased by 8.4% (to €49.9 billion, with €19.1 billion in non recourse factoring) (source Assifact - Statistical Circular no. 31/20).

Preliminary statistical data for June 2020 confirm the decline in turnover (-13.45% year-on-year) and outstanding (-11.63%), which totaled €106 billion (including €53 billion relating to non-recourse factoring) and €55 billion (with €21 billion in non-recourse factoring), respectively [6]

Factoring market forecasts reflect the extraordinarily uncertain overall economic scenario as a result of the COVID-19 pandemic. The reliability of these forecasts depends on how the overall scenario evolves and whether factoring transactions are actually covered by the economic policy measures currently being implemented, with outcomes that are currently impossible to predict. The factoring market expects turnover to fall sharply by -11.91% in the second quarter of 2020 and volumes to recover in the second half of the year, although the full-year performance will be negative.

The post-COVID-19 epidemic work environment

As already mentioned in the opening paragraphs of this Consolidated Condensed Interim Financial Report, the current global state of emergency caused by Covid-19 (so-called Coronavirus) represents a source of instability that, in general, heavily affects the macroeconomic outlook of the countries in which the BFF Group operates.
The emergency and the spread of Coronavirus, first in China and then in other countries—chief among them Italy—is and will continue affecting the growth outlook of the countries in which the Group operates to a significant degree, with repercussions on the real economy and financial markets. Since February and throughout the first half of 2020, the domestic and international scenario has been dominated by the spread of the virus and the ensuing stringent containment measures imposed by public authorities.
At the reporting date of the Consolidated Condensed Interim Financial Report at June 30, 2020, also in light of ESMA's Public Statement dated May 20, 2020 "Implications of the COVID-19 outbreak on the half-yearly financial reports" and Consob's Document dated July 16, 2020 "Covid-19 - Warning notice on financial reporting", the Coronavirus emergency is to be considered an event requiring detailed disclosure.

Management believes Covid-19 has not significantly affected the Group.
The main effects are summarized below:
- receipts from the Public Administration have declined in percentage terms, largely because PAs have been working remotely and courts have remained closed, delaying the collection of late payment interest;
– demand could potentially rise as a result of a) increased government healthcare spending to address the implications of the pandemic, b) a greater perception of risk, and c) longer DSOs in several countries;
- there are potential opportunities deriving from emergency government measures, such as liquidity injections that could speed up the collection of late payment interest.

a) The business continuity of BFF Banking Group

BFF Banking Group has been constantly monitoring the situation, and it has continued operating without issues. Against this backdrop, the Group, which pays particular attention to operational risks, has gathered feedback from the Heads of the various Operating Units as part of the regular Risk Self Assessment through the Risk Management function, concluding that there has been a significant increase in risk exposure associated with the changes required by the recent pandemic. Specifically, the assessors appeared to be more sensitive to ICT risks deriving from potential business disruptions, external cyber threats, and the unavailability of specific applications. However, thanks to the strategy adopted by the Group, such increased perception has not translated into a deterioration in the risk assessment (in terms of both expected loss and internal capital) compared to the previous one—and in any case not as a result of the emergency situation. The Group has taken appropriate steps to guarantee business continuity, and to date there have been no issues in this regard. BFF has upgraded its ICT structure; these costs were offset by savings on travel and entertainment expenses, utility bills, and consumables.

[6] (source Assifact - Statistical Circular no.36/20).

ICT staff have been monitoring the services rendered by the companies to which the Group has outsourced key organizational functions, finding no deterioration in the quality of the service in terms of availability of supporting IT systems.
The Group has urged critical suppliers to take specific measures required to guarantee the services performed for BFF. With respect to Cybersecurity, the Group has been regularly communicating with employees about potential frauds as well as practices to avoid so as not to increase the company's exposure to potential risks; to this end, it has required all employees to complete mandatory online training.
The Safety and Security Committee has been holding regular meetings in recent months and has decided to activate work-from-home policies for all the Group's employees; these decisions were made prior to the requirements imposed by the Governments of the countries in which the Group operates.

To date:

- employees are fully operational through smart working (all staff have the tools required to work remotely);
- the services rendered by suppliers and outsourcers have seen no downgrades in terms of quality or curtailment;
- there have been no service interruptions; any downgrades in the quality of the service—which have not compromised the Group's operations—are properly tracked and assessed/resolved using a dedicated internal application;
- during the emergency, BFF as well as its subsidiaries and branches have not received any complaints from customers associated with the Coronavirus pandemic.
- finally, please note that the Bank, as the Parent company, has adopted a "Protocol governing the measures to address and contain the spread of the Covid-19 virus in the Banking Group's work environments". This protocol forms part of the measures required by the emergency regulations issued by the Italian Government since it declared a state of emergency on January 31, 2020. The safety measures outlined in the protocol have been monitored and audited by a dedicated Internal Committee comprised of the Safety Representative, the Head of the Human Resources Function, the Head of the Prevention and Protection Service, and the Occupational Physician, to ensure they are updated in accordance with any new potential legal or contractual provisions negotiated by the social partners and, in any case, to confirm whether they are effective in the specific case of the Group. The safety measures under the protocol apply to all the Bank's offices and, where compatible with local laws, the offices of the Banking Group's entities.

With respect to the international markets in which the Group operates

- the Bank has implemented employee and occupational safety policies similar to those adopted in Italy, defining a specific protocol that has been disseminated at the Group level. Specifically, since May 15 employees have been able to seek authorization to go to the office on a voluntary basis, in accordance with the above protocol;
- as for **sales and loan management operations**, as the reopening gradually continues, teams will be allowed to schedule meetings with customers, prospects and debtors within the country subject to authorization from Managers. International travel is still prohibited.

b) The initiatives to support communities and businesses

BFF Banking Group has pursued several initiatives since the pandemic broke out to support the efforts of Public Institutions and society in combating the virus through donations to the Lombardy Regional Government, the Municipality of Madrid, and Catalonia's Government.
In general, in all countries where the Group has a presence, local teams have been continuously monitoring urgent measures to address the COVID-19 epidemiological emergency and constantly supporting both customers and debtors by ensuring the continuity of all operations—including through remote working and digital communication tools and by considering potential collaboration arrangements and opportunities with respect to the specific requirements of counterparties.

c) Key business issues amid the epidemic

First, the Covid-19 pandemic has had different impacts across the countries in which the Group operates by offering non-recourse factoring services and/or loans to customers; the outbreak has been more severe in Spain, Italy, Portugal, and France, where the number of Covid-19 cases was considerably higher than in other countries as a percentage of the overall population. The following table shows a breakdown by country.

Country	Number of Covid-19 cases	Population	No. of Covid-19 cases/Population
Spain	267,551	46,937,060	0.57%
Italy	245,032	60,359,546	0.41%
Portugal	49,150	10,276,617	0.48%
France	167,456	67,012,883	0.25%
Czech Republic	14,570	10,649,800	0.14%
Greece	8,432	10,709,739	0.07%
Poland	41,162	37,972,812	0.11%
Croatia	4,530	4,076,246	0.11%
Slovakia	2,058	5,457,873	0.04%

Source: WHO for Covid-19 case numbers, data at July 23, 2020. Eurostat, for demographic data.

Against this backdrop the Group, by constantly monitoring events, has not seen any substantial changes in its business performance or debtors' propensity to pay. Specifically, volumes and receipts do not show signs of distress compared to the past. Indeed, factoring is per se anticyclical, and the current state of emergency could boost the growth of the Group's business.

With respect to the Italian market, the so-called "Relaunch DL" (decree law no. 34 of May 19, 2020) was published in the Official Journal on May 19, 2020 and sets out "Urgent measures with respect to health, supporting jobs and the economy, and social policies associated with the COVID-19 epidemiological emergency". Among several other things, the decree law includes certain provisions that could directly affect BFF. Arts. 115, 116, and 117 of the Relaunch DL establish a Liquidity Fund for the settlement of the debts of local authorities outstanding at December 31, 2019.

Said fund, named "Fund to provide liquidity for the payment of certain, liquid, and enforceable claims", has a €12 billion budget for 2020 and is divided into two sections, corresponding to two items of the relevant chapter of the government's budget:

- the first is named "Section to provide liquidity for the payment of certain, liquid, and enforceable claims against local authorities, regional governments, and autonomous provincial governments for payables other than financial and healthcare liabilities", with a budget of €8 billion;
- the second is named "Section to provide liquidity to regional and autonomous provincial governments for the payment of certain, liquid and enforceable claims against National healthcare system entities", with a budget of €4 billion.

Under the Relaunch Decree, local authorities as well as regional and autonomous provincial governments may pass resolutions to ask Cassa Depositi e Prestiti S.p.A. for advances against the Liquidity Fund during the period from June 15, 2020 through July 7, 2020.

BFF has sent a notice to local authorities, along with payment reminders, to remind them that they can access the Fund and announce it is willing to prepare the lists of certified invoices in order to help them access the financing concerned. In addition, to provide the National Healthcare System with the liquidity required for its operations associated with the emergency, including paying its debts in a timely manner, no enforcement actions can be commenced or pursued against National Healthcare System entities. The

above stay on garnishments will remain in place through December 31, 2020. This provision will probably be amended upon the conversion of the decree law, but this measure—designed to protect the National Healthcare System—is unlikely to be removed.

With respect to the international markets in which the Group operates

- as for the notices to debtors, the problems encountered in the first months of lockdown—especially in Greece—have been resolved, as court clerks have now resumed day-to-day operations;
- as for judicial proceedings, in all countries (except Portugal) the suspension of procedural time limits (e.g. time-bars, sunset provisions, invalidity, unenforceability) has been or is about to be lifted, and courts are processing the claims filed during the emergency period in order of priority as well as gradually resuming pending proceedings;
- in Poland, the impact on the Group is related to the decline in demand for long-term loans, as the government has provided more funding to support hospitals and voluntary moratoriums have been implemented to prevent credit quality from deteriorating;
- in Slovakia, the impact on the Group is associated with new volumes and the acceleration in late payment interest receipts;
- in Spain, there has been a slight reduction in the DSO of the Public Administration while receipts have risen;
- in Portugal, receipts are slightly up;
- with respect to Greece, Croatia, and France, the impact on the Group has been limited and largely related to the decline in demand for the services offered by BFF or their deferral.

d) Key operational issues faced by the governing body amid the epidemic

The Board of Directors has been constantly informed about the current emergency situation, and the relevant decisions made by the Group from time to time, at the meetings held on February 25, 2020, March 25, 2020, March 30, 2020, May 28, 2020, and June 24, 2020;

Liquidity

In response to the current state of emergency associated with the Coronavirus outbreak, the Group has taken the measures necessary to monitor and safeguard its liquidity position.
Although this situation could be considered a stress scenario capable of generating potential liquidity tensions, the Group found that the status quo has remained essentially unchanged. Activating measures intended to make funding more stable has caused the relevant cost to increase slightly.
In response to the emergency situation, the Parent (i) carries out more frequent and detailed stress tests with growing and variable impacts, (ii) maintains a greater share of freely available assets to meet unforeseen liquidity requirements, (iii) monitors the markets through relationship banks, and (iv) has been monitoring deviations in Public Administration debt collection trends more frequently.
The Group had already adopted its own Contingency Funding Plan ("CFP"), approved by the BoD of BFF and the individual BoDs of the Subsidiaries. This document sets out the indicators and recovery thresholds for the Liquidity Coverage Ratio (LCR) along with the relevant escalation and decision processes to be activated, so as to prevent and manage a potential liquidity crisis. CFP indicators do not point to tensions, even amid the Covid-19 emergency... With respect to the current Covid-19 outbreak, the Group believes that the recovery options, based on their viability and effectiveness, are suited to deal with potentially extreme capital and liquidity stress scenarios.

Financial performance and cost of the measures

With respect to the financial performance for the reporting period, the Group ended the first half of the year with approximately €37.6 million in profit, essentially in line with €38.1 million in the prior-year period, despite the Coronavirus health emergency and the relevant impacts as well as the one-off costs incurred for the acquisition of DEPObank and the Group's new stock option plan.

The Group's net interest margin totaled €90.5 million, up from €85.9 million in the same period last year. This positive result was nonetheless affected by the health emergency and its repercussions on the operations of the Group's main counterparties. Specifically, the smart working arrangements of debtors associated with the Public Administration and the National Healthcare System—which is extremely focused on actively managing the health emergency—have made it more complicated to finalize settlements and collect late interest payments, causing receipts to fall slightly short of forecasts. This situation has therefore led to lower capital gains compared to expectations and more reschedulings, resulting in a €2.6 million decline relative to the same period in 2019. This was the result of, among other things, the suspension of judicial proceedings and procedural time limits as courts remained closed during the lockdown.
In addition, during the first six months of 2020 the Group continued carefully managing liquidity by relying more and more on retail funding as well as stable and committed wholesale lines. Overall, this led to a modest increase in the cost of funding during the pandemic, with a considerable expansion in available unused lines of credit (+77%).
With respect to credit risk on the result for the period, the Group has updated the risk parameters and macroeconomic scenarios underlying the calculation of Expected Credit Losses and increased the relevant allowances, although these remain modest as the debtors are largely the Public Administration and the National Healthcare System.

As for operating costs, also in order to ensure the Group's business continuity, the ICT structure has been expanded by upgrading the lines and firewalls and purchasing portable PCs. These greater costs were offset by savings on travel and entertainment expenses, utility bills, and consumables. Ultimately, to date there have not been significant increases in operating costs attributable to the pandemic.

Distribution of Banca Farmafactoring S.p.A.'s Dividends

On March 31, 2020, with respect to the recommendation of the European Central Bank ("ECB") and the Bank of Italy not to pay out and not to undertake any irrevocable commitments to paying out dividends for the years 2019 and 2020, the Board of Directors of Banca Farmafactoring S.p.A. resolved to follow said guidance, confirming the Group's dividend policy and making the proposed payment of the Expected Total Dividend Payout for 2019 (€70.9 million) contingent on the resolution of the Covid-19 emergency and, in any case, not possible until October 1, 2020.
This decision was confirmed by the Board of Directors on August 6, 2020, after consulting with the Bank of Italy, also in light of the recommendations issued on July 27 and 28, 2020 by the European Central Bank (ECB) and the Bank of Italy, respectively, which extended the recommended ban through January 1, 2021.

To distribute the 2019 Expected Total Dividend Payout, totaling €70.9 million, as soon as possible in accordance with the conditions set by the banking regulator, on August 6, 2020 the Board of Directors announced that it plans to:

- submit the proposed €12.4 million dividend distribution out of the individual net profit for 2019 to an Ordinary Shareholders' Meeting to be held after January 1, 2021;
- take all steps necessary to proceed—in compliance with the provisions of Article 2433-bis of the Italian Civil Code—with the distribution of a further €58.5 million as an interim dividend out of the Bank's individual profits for Q3 2020, deferring the relevant resolutions to a Board meeting to be held on the same date as said Ordinary Shareholders' Meeting.

Said resolutions will be contingent on overcoming the uncertainty associated with the COVID-19 health emergency as well as the absence of further regulatory action.

Thanks to its strong financial position—bolstered by the Bank's dividend policy, under which BFF shall pay out the portion of net profit in excess of the minimum Total Capital Ratio of 15% (comfortably above the minimum regulatory requirement)—the low risk profile, and the resilience showed by the business model—capable of generating significant value for shareholders even at a time of crisis—BFF is confident it can execute the distribution of the 2019 Expected Total Dividend Payout, in the absence of further regulatory

action, as soon as the relevant conditions are met and in accordance with the requirements of supervisory authorities. In this regard, in line with Option 1 under the European Central Bank's recommendation of March 27, 2020, the distribution of the 2019 Expected Total Dividend Payout does not reduce the level or quality of Common Equity Tier 1, as to date the relevant amount has not been considered when calculating capital requirements.

e) Key accounting issues to be faced amid the epidemic

Impairment of receivables: considering the impact of the current Covid-19 emergency, to calculate impairment at June 30, 2020, the Risk Management Function has updated the risk parameters underlying the calculation of Expected Credit Losses (e.g. by updating PD and LGD curves).
With respect to PD curves, the transition matrices have been extended to 1 year also for the Sovereign, Corporate, and Financial Institutions segments. Subsequently, the Risk Management Function updated the macroeconomic scenarios used to determine the Point in Time (PIT) and Forward Looking (FL) PD. The *Baseline*, *High Growth*, and *Mild Recession* scenarios have been updated to June 2020 and provide the expected default rates for 20 quarters after the discharge date. Updating the scenarios to such date allowed incorporating the negative impact of the Covid-19 pandemic, resulting in a substantially recessionary *Baseline* scenario and, therefore, a more adverse *Mild Recession* scenario.
With respect to LGD curves, the Group has calculated lifetime LGD at June 2020 in order to reflect the impact of Covid-19.
Moreover, the Risk Management Function has compared the macroeconomic scenarios of the external provider with those provided by the Regulator (European Central Bank) at June 2020. The analysis found that the scenarios used by the Bank are in line with those provided by the Regulator.

Goodwill impairment testing: the Bank, in accordance with IAS 36, and referring to the guidance in ESMA's Public Statement dated May 20, 2020: *Implications of the COVID-19 outbreak on the half-yearly financial reports*, has tested the goodwill reported on Banca Farmafactoring's consolidated **condensed** interim financial statements at June 30, 2020 for impairment. Following the outcomes of the annual impairment test performed at the date of the consolidated **condensed** interim financial report at June 30, 2020 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.

Results of Operations

The consolidated **condensed** interim financial report at June 30, 2020 includes the consolidated figures from the balance sheet and income statement of BFF, BFF Finance Iberia (a wholly-owned subsidiary of BFF), the special purpose vehicle BFF SPV S.r.l., and the companies of BFF Polska Group.

At June 30, 2020, the Group’s profit amounted to €37.5 million, compared to €38.1 million recognized in the prior-year period.

The normalized profit of the Group (representing the Group’s results of operations net of non-recurring expenses and income) amounted to €40.2 million, down 2% compared to the normalized profit in the prior-year period.

In € millions

	06.30.2019	06.30.2020
Profit	38.1	37.5
Exchange differences covered by Translation reserve in Equity	0.8	(2.7)
Stock Options and Stock Grants	1.3	1.1
Resolution Fund - extraordinary contribution	0.5	0.5
M&A costs	0.6	2.5
Current tax expense deriving from a one-off dividend payout from subsidiaries		1.3
Normalized profit	41.2	40.2

Compared to the consolidated profit, the normalized profit for the first half of 2020 does not include:

- €2.7 million gains for Exchange differences covered by Translation reserve in Equity;
- €1.1 million expenses for the Stock Option Plan reserved to some beneficiaries. Such costs are recognized in the income statement and generate an increase, before taxes, in equity;
- €2.5 million in non-recurring expenses for M&A deals;
- charges related to extraordinary contributions to the National Resolution Fund amounting to €0.5 million after tax;
- €1.3 million in current tax expense deriving from a one-off dividend payout from subsidiaries.

Normalized profit for the first half of 2020 amounted to €40.2 million, down 2% compared to €41.2 million at June 30, 2019.

Collections of late payment interest amounted to €19.6 million at June 30, 2020, compared to the prior-year period's €23.3 million.
Of these €19.6 million, €16.6 million were collected in Italy, €2.7 million in Spain and €0.3 million in Portugal.
The difference between gains and reschedulings recognized in the first half of 2020 by BFF Banking Group was negative and amounted to €(3.3) million. In the prior-year period, such difference was negative and amounted to €(0.7) million, due to lower late payment interest.

Late payment interest on receivables purchased without recourse by BFF and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €678 million, of which €70 million related to Spanish debtors, €52 million to Portuguese debtors, €3 million to Greek debtors, €0.3 million to Croatian debtors, and €0.1 million to French debtors.
Of this late payment interest, a total of €264 million was recorded in the income statement in current and prior years.
The cumulative amount of late payment interest due to BFF and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €616 million at June 30, 2019, of which €225 million were recognized in the income statement of the reporting period and in previous years.

The provision for late payment interest increased by 10% in the first half of 2020 compared to the prior-year period. Of this provision at June 30, 2020, late payment interest not yet recognized in the income statement amounts to €414 million.

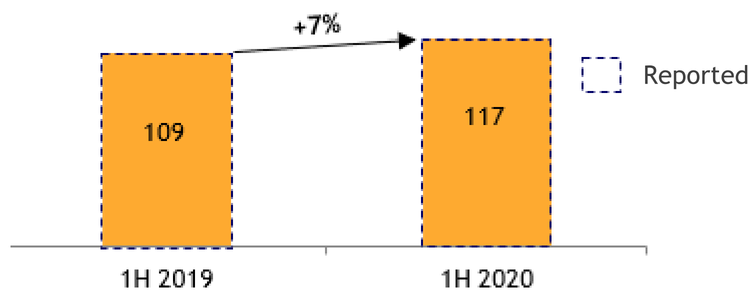
Interest income

Interest income totaled €116.5 million, compared to €108.6 million in the previous year.

Interest income mainly includes:

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

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



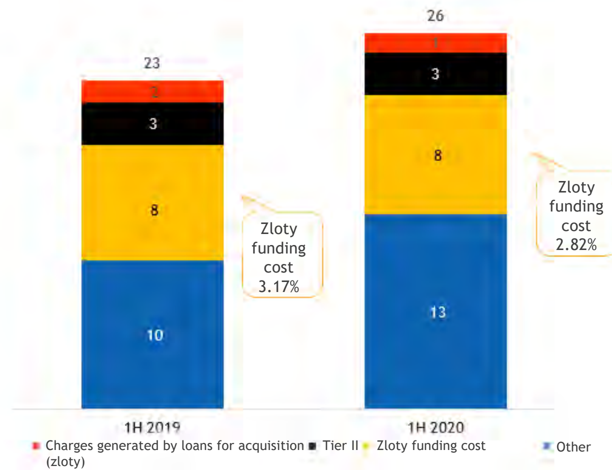
Interest expense

Interest expense increased from €22.7 million at June 30, 2019 to €26.0 million at June 30, 2020. This increase in absolute terms is largely attributable to the increased amount of available lines, the greater average drawdown of lines of credit because of the greater outstanding to be financed, with deposits rising as a percentage of the total; the greater outstanding denominated in zloty (a currency with a base rate higher than the euro) resulting from the growth of the portfolio of receivables in that currency; and €2.8 million in interest expense on the bond issued in October 2019, which was not incurred in 1H19.

At June 30, 2020, the average credit lines used increased by 14% from €3,176 million at June 30, 2019 to €3,607 million at June 30, 2020. At June 30, 2020, financial charges had an impact of 1.6% on the average credit lines in use for BFF Banking Group (net of refinancing operations for the government securities portfolio), unchanged compared to June 30, 2019.

Average credit lines used 3,176 +14% 3,607

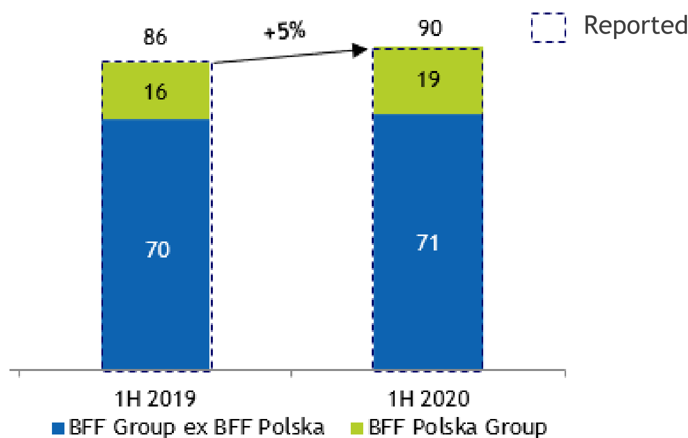
Financing cost 1.56% +4bps 1.60%



Under the current funding structure, some of the more expensive lines, such as the Tier 2 bond issue, the loans denominated in zloty for the acquisition of BFF Polska Group, and the senior notes issued by the Group, refer to instruments with a fixed cost and/or set margin conditions that decline relative to borrowing costs as business volumes grow.

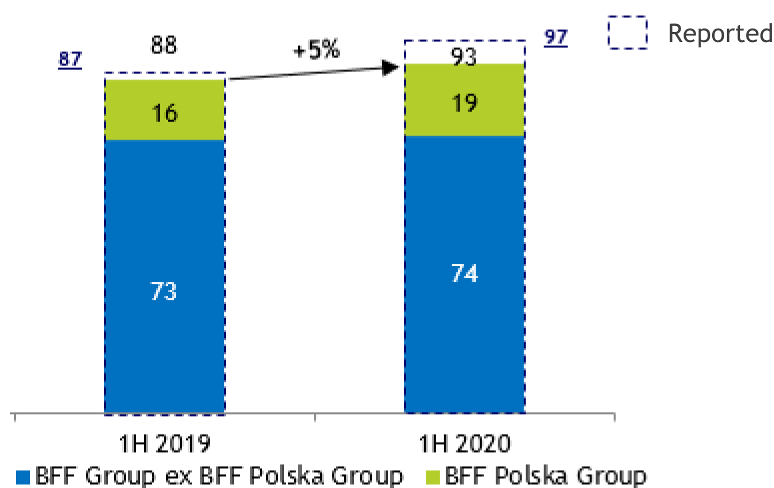
Net Interest Margin

The net interest margin totaled €90.5 million at June 30, 2020, compared to €85.9 million in the first half of 2019, thus increasing by 5%.
The normalized net interest margin at June 30, 2020 is equal to the net interest margin, increasing by 5% compared to the normalized net interest margin recognized at June 30, 2019 of €85.9 million (equal to the net interest margin).



Net Banking Income

Net banking income—which, compared to the net interest margin, also principally includes fees and commissions relating to the mandates for the management and collection of receivables and exchange gains and losses—totaled €96.9 million at June 30, 2020 compared to €87.3 million at June 30, 2019.
Normalized net banking income, as presented in the chart below, increased by 5% from €88.4 million recognized at June 30, 2019 to €93.0 million recognized at June 30, 2020.
The latter figure does not consider the positive exchange effect arising from the write-down of the loan payable in Polish zloty for the acquisition of BFF Polska Group, amounting to €3.8 million.



Please also note that BFF recognized an amount of €1.3 million under the item "Other operating income (expenses)" in relation to the collection of invoices for reimbursement of costs incurred when recovering amounts not promptly paid by debtors.

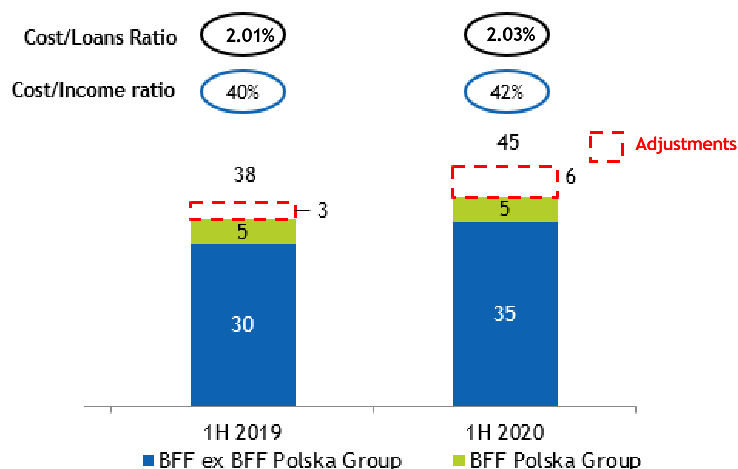
Operating Costs

Over the course of the last few years, the Group has invested significantly on structure and resources in order to support growth in size and operations.

Normalized operating costs, described below, include administrative expenses, personnel costs, amortization of intangible assets and depreciation of property, plant and equipment. At June 30, 2020, they increased by 12% to €39.4 million compared to €35.2 million in the prior-year period.

Such normalized costs do not account for €1.5 million in expenses related to the Stock Option Plan for certain beneficiaries, €3.5 million in non-recurring M&A costs, and €0.7 million in expenses associated with extraordinary contributions to the National Resolution Fund.

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 increased from 2.01% to 2.03%. The "Cost/Income" ratio increased from 40% to 42%.



Due from Customers

The following is a summary of receivables due from BFF Banking Group's customers, which amount to €3.789 million at June 30, 2020, an increase of 10% compared to €3,454 million at June 30, 2019, broken down by product line.
The above-mentioned figures do not include the "Held to Collect" portfolio, which was included in receivables due from customers starting from January 1, 2018.

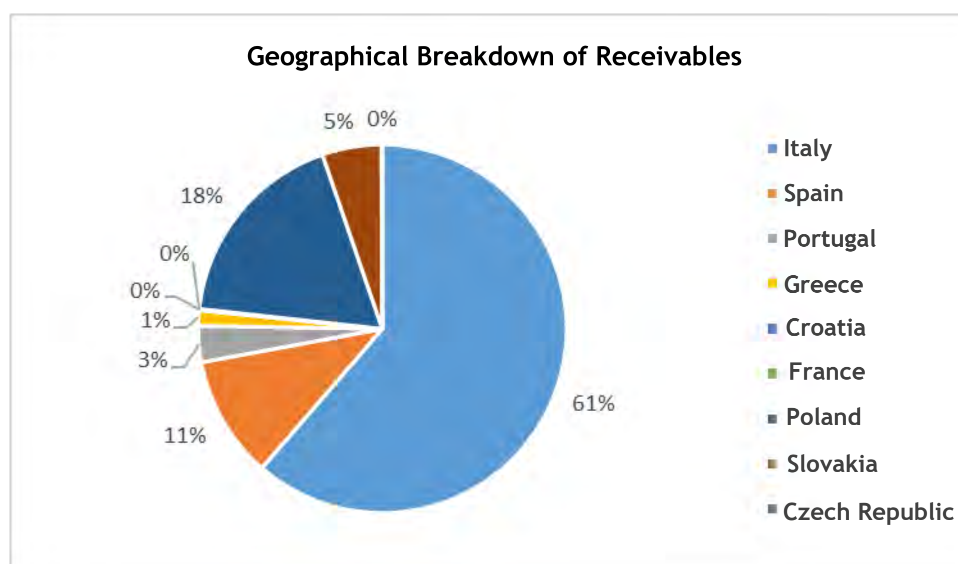
(In € millions)

	06/30/2019	06/30/2020
Factoring	2,735	2,990
Loans to customers	646	674
Other receivables	68	122
Finance leases	4	3
Due from customers	**3,454**	**3,789**

The following chart gives a geographic breakdown of receivables due from customers. The Bank's main market is Italy, which accounts for 61% of the stock of receivables. The Bank's international footprint is also growing steadily: banking operations at the European level (excluding Italy) account for 39% of total assets under administration (up 34% from 2019).

Credit Quality

In the first half of 2020, credit quality continued to be good and characterized by a high solvency of the counterparties as these are mostly associated with the Public Administration: the following table shows the net impaired positions compared to December 31, 2019.



(In € millions)

	06/30/2019	12/31/2019	06/30/2020
Non-performing loans (NPLs)	45.2	61.9	65.6
Of which non-performing loans purchased performing	39.4	56.3	59.7
Of which non-performing loans purchased already impaired	5.8	5.7	5.9
Unlikely to pay exposures	10.3	9.5	16.1
Past due exposures	38.7	34.7	48.9
Total	94.2	106.2	130.5
Total NPL/RECEIVABLES	1.30%	1.5%	1.7%
Total NPE/RECEIVABLES	**2.73%**	**2.6%**	**3.4%**

The total net amount of impaired receivables increased to €130.5 million at June 30, 2020, compared to €106.2 million at December 31, 2018 and €94.2 million at June 30, 2019.
Of such impaired receivables, at June 30, 2020, €90.5 million were due from public sector entities, up from €88.1 million at December 31, 2019.

At June 30, 2020, non-performing loans amounted to €65.6 million, showing an increase compared to previous years. Of this amount, €62.4 million relates to receivables concerning "municipalities in financial distress", of which €5.9 million were purchased already impaired.

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

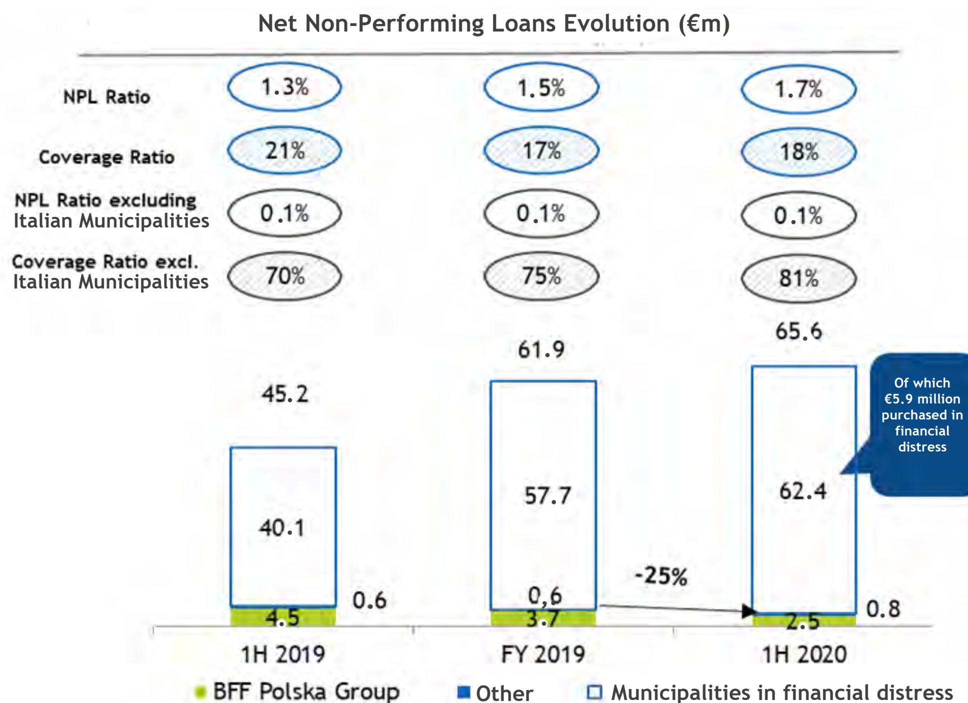
In particular, €0.4 million is due from Ospedale San Raffaele, which the Bank expects to recover in full.

At June 30, 2020, the NPL ratio was found to be 1.7% of total receivables due from customers. However, if the same figure is considered net of municipalities in financial distress, then the NPL ratio at June 30, 2020 would be 0.1%, which is substantially in line with that of December 31, 2019.

Net past due exposures amounted to €48.9 million at June 30, 2020, showing an increase as compared to the figure at December 31, 2019 (of €34.7 million).
57% of this amount relates to public administration agencies (local entities for the most part) and other public sector companies.

Adjustments to impaired assets in the year (risk cost) account for 12 annualized bps, of which 3 bps concern the run-off "SME-Factoring for business" product (net residual exposure of €1.0 million).
The NPL coverage ratio was 18% at June 30, 2020 and 17% at December 31, 2019. However, the coverage ratio net of municipalities in financial distress would be 81% at June 30, 2019, showing an increase as compared to December 31, 2019 when it was 75%.

Owned securities, classified in the HTC&S (Held to Collect and Sell) and HTC (Held To Collect) portfolios, exclusively included Italian government securities and amounted to a total of €1,880.5 million, increasing by €840.5 million (+81%) compared to €1,040 million at December 31, 2019 and by €810.5 million compared to €1,070 million at June 30, 2019. The increase includes also the amount of government bonds previously held by DEPObank and classified as Held to Collect. BFF acquired these bonds (on May 13, 2020) at current market value, amounting to €742 million and with a residual maturity of approximately 5 years, following the Binding Agreement to acquire DEPObank – Banca Depositaria Italiana S.p.A. For more details on such Agreement, please refer to the specific paragraph in the following pages.



At June 30, 2020, the fair value of HTC&S securities, equal to €59.9 million, generated negative reserves for HTC&S government securities of €0.1 million after tax. The average remaining contract duration of government securities recorded in the HTC&S and HTC portfolios, at June 30, 2020, was 35.5 and 37.5 months, respectively.

Funding

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

At June 30, 2020, the deposit-taking activity relating to Conto Facto, Cuenta Facto and Lokata Facto totaled a face value of €1,556 million, showing an increase compared to €879 million at June 30, 2019 and €1,384 million at December 31, 2019. This accounts for approximately 38% of the Group's corporate funding sources.

At June 30, 2020, the total amount of available funding (net of Acquisition Financing in PLN) was €4,086 million, increasing by €575 million compared to the amount available at June 30, 2019 of €3,511 million (net of Acquisition Financing in PLN for about PLN 378 million). As already pointed out, this amount, excluding Acquisition Financing denominated in PLN, largely includes €1,556 million in retail funding, €750 million in bond issues (including the €100 million Tier 2 Bond Issue), €150 million in securities related to securitization programs, and €1,630 million in financial resources from the wholesale funding of BFF Banking Group and its subsidiaries: of these, nearly €330 million are lines of credit extended by local banks in euros, Polish zloty, and Czech koruna (and thus net of multi-borrower lines) to the Group's subsidiaries in Poland, the Czech Republic, and Slovakia.
Overall use of funding sources was equal to €3,363 million at June 30, 2020, net of exposures arising from repurchase agreements for refinancing operations involving BFF's government security portfolio and Acquisition Financing in PLN.

Equity and Own Funds

BFF Banking Group's equity amounted to €409 million at June 30, 2020, up from €377 million at December 31, 2019, which included profit for the year of €93 million.
The following table shows the own funds of BFF Banking Group pursuant to the Consolidated Law on Banking, amounting to €364 million at June 30, 2020; the overall exposure to risks, relating to the activities carried out, is more than adequate in relation to the level of capitalization and the identified risk profile. Such own funds do not include profit for the period because, in accordance with group dividend policy, this profit is destined to be fully distributed as dividends until the total capital ratio for the CRR Group remains above 15%, and do not include the 2019 Total Dividend Payout, pending its distribution after the Covid emergency is over.

(In € millions)

	12/31/2019	06/30/2020
Own funds	400	364
CET1 Capital Ratio	12.5%	11.5%
Tier 1 Capital Ratio	12.5%	11.5%
Total Capital Ratio	16.6%	15.7%

Compared to December 31, 2019, Own Funds were down by the amount of the Reserves distributed by BFF Iberia, totaling €37 million. At June 30, 2020, these were still recognized as part of the Group's Equity but not included in Own Funds.
In the event that the entire profit for the period (€37.5 million) is allocated to increase the Group's own funds, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio would be 13.1%, 13.1% and 17.3%, respectively. Were the 2019 Total Dividend Payout and the result of continuing operations for 2020 allocated to Own Funds, the capital ratios would rise to 16.2%, 16.2%, and 20.4%, respectively.

With reference to the CRR Group, which includes the majority shareholder, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio are 15.3%, 16.8% and 19.7%, respectively.

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

Performance of BFF Banking Group

At June 30, 2020, the consolidated net profit amounted to €37.5 million, and included BFF's profit of €23.8 million, the subsidiary BFF Finance Iberia's profit of €3.6 million, and BFF Polska Group's profit of €10.1 million.
With reference to BFF Polska Group, consolidated profit amounted to PLN 44.8 million at June 30, 2020, compared to PLN 40.3 million at June 30, 2019, thus increasing by 11%.

BFF Banking Group's total new purchase and provision volumes amounted to €2,541 million, increasing compared to €1,969 million for the same period in 2019 (in 2019 these did not include the volumes of IOS Finance, which was acquired in September 2019). These figures refer to the non-recourse purchases of BFF, BFF Finance Iberia and the new volumes generated by BFF Polska Group in 2020.

Total non-recourse purchases in Italy amounted to €1,374 million, up from €1,337 million at June 30, 2019. BFF Polksa Group's volumes amounted to €324 million in the first half of 2020, compared to €247 million in the prior-year period.

As for Spanish receivables, purchase volumes amounted to €728 million compared to €313 million in 2019 (in 2019 these did not include the volumes of IOS Finance).
Purchase of receivables due from the Portuguese public sector amounted to €77 million compared to €51 million in the same period in 2019.
Purchases made in Greece amounted to €33 million. France, where operations began in the second half of 2019, and Croatia purchased €5 million and €0.3 million worth of receivables, respectively.

In relation to non-recourse purchases by BFF Banking Group (BFF Polska Group excluded), they increased to €2,217 million at June 30, 2020 from €1,722 million at June 30, 2018.

Volumes at June 30, 2020 broken down by country in which BFF Polska Group operates are as follows: €305 million in Poland (up 25% compared to the prior-year period), €17 million in Slovakia (up 722% compared to the prior-year period), €2 million in the Czech Republic (up 41% compared to the prior-year period).

Also considering management activities, overall volumes amounted to €4,165 million, compared to €3,519 million in the prior-year period.

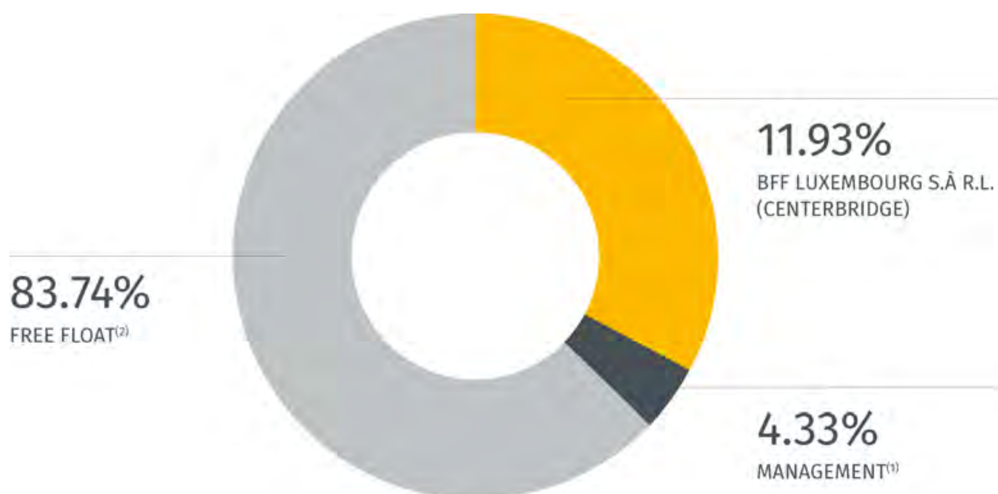
Significant Events during the Period

In the first half of 2020, BFF Luxembourg S.à r.l. (Centerbridge) ("**BFF Lux**") completed two accelerated bookbuilding (ABB) procedures on January 9 and June 1, selling 18,700,000 and 17,000,000 BFF shares, respectively.
In addition, on May 11, 2020 BFF Lux announced it had purchased 167,279 BFF shares overall between April 1 and 6, 2020. As a result of said purchases and the two mentioned ABBs, BFF Lux owns 20,363,387 shares in BFF, accounting for 11.93% of the Bank's share capital at June 30, 2020.

The chart below shows BFF's ownership structure at June 25, 2020 resulting from the above transactions and free share capital increases, already disclosed and carried out in the first half of 2020 by issuing new BFF ordinary shares to the employees of the BFF Group in connection with remuneration and incentive policies under:

(i) the Management-by-Objective incentive scheme;

(ii) the "Banca Farmafactoring Banking Group's Stock Option Plan", originally approved by the Shareholders' Meeting on December 5, 2016, as amended at the Shareholders' Meeting on March 28, 2019.



Total number of shares issued 170,648,346

Source: official communication to BFF (Modello 120A - 120B) and "Annual report on remuneration and incentive policy of Banca Farmafactoring banking Group". Percentage stakes are calculated on total issued shares as of 24/06/2020.
(1) Shares held as of 31/12/2019 by the Group CEO, his closely associated persons, and by other 6 managers with strategic responsibilities.
(2) Includes the treasury shares.

Acquisition of IOS Finance and relevant merger

All consolidated amounts for the first half of 2020 (including both accounting and restated information) comprise IOS Finance S.A.U. for the entire reporting period, as the merger of said entity was finalized on December 31, 2019. IOS Finance S.A.U. was not reflected in the comparative information relating to the first half of 2019, as the deal was closed on September 30, 2019. The merger became effective for accounting and tax purposes on September 30, 2019, i.e. the acquisition closing date.

Binding Agreement to Acquire DEPObank - Banca Depositaria Italiana S.p.A. and Approval of the Draft Terms of its Merger into BFF S.p.A.

On May 13, 2020, BFF finalized a binding agreement to acquire DEPObank from Equinova UK Holdco Limited[7] ("**Equinova**") and subsequently merge the acquiree into BFF (the "**Deal**").
The Deal will create the leading independent specialty finance firm in Italy, give further momentum to DEPObank's business, and provide additional funding and capital at the service of BFF's traditional customers—especially at a time of uncertainty caused by the emergency associated with the COVID-19 pandemic, when there is a greater need for liquidity.

Upon the closing of the Deal, the business operations of DEPObank will remain part a separate division within BFF, with direct reporting to the BFF Banking Group's Chief Executive Officer.

The closing of the Deal is expected for late 2020/early 2021 and is contingent on the merger's approval by the Extraordinary Shareholders' Meeting of BFF[8] as well as the required authorizations and/or clearance from the competent Supervisory Authorities, which will not be forthcoming before September 2020.

In this regard, on June 24, 2020 the Boards of Directors of BFF and DEPObank approved the draft terms of the merger of DEPObank into BFF, including (i) the share swap ratio of 4.2233377 BFF shares per 1 DEPObank share, with no cash payments, and (ii) as far as only BFF is concerned, the draft amendments to the Bylaws related to the change in the name of the Bank and the banking group, which, starting from the effective date of the merger, will become "BFF Bank S.p.A." and "BFF Banking Group", respectively, as well as the change in share capital, which will be increased by issuing 14,043,704 new ordinary shares in BFF to Equinova. Once the Deal is approved by the competent Authorities, BFF and DEPObank will approve and publish the Draft Terms of the Merger as well as the additional documents required for the respective extraordinary shareholders' meetings convened to approve the merger.

The Deal was approved by antitrust regulators on June 30, 2020 and, following the Italian Prime Minister's decree of July 7, 2020 on the exercise of golden powers containing provisions that do not impede the closing of the Deal, BFF and DEPObank announced that the condition precedent related to the so-called "golden power" process is to be considered met.

<u>DEPObank</u>
DEPObank is Italy's independent leader in securities services (approximately €44 million in revenues) and bank payment services (nearly €46 million in revenues), and serves over 400 clients including investment funds, banks, payment and e-money institutions, large businesses, and Public Administrations.
At December 31, 2019, the company had 363 employees and reported:

- €9.1 billion in assets, including €4.4 billion invested in Italian government bonds classified as Held to Collect ("**HTC Portfolio**") and €2.3 billion in cash deposited with the European Central Bank at negative interest rates;
- €7.5 billion in payables due to customers (deposits);
- €0.4 billion in tangible shareholders' equity and a CET1 ratio of 39.6%;
- €19.8 million in adjusted net profit.

[7] A holding company whose shareholders are funds managed by Advent International Corporation, Bain Private Equity Europe LLP, and Clessidra SGR S.p.A., it owns approximately 91% of DEPObank. The remaining 9% is owned by several Italian banks: Banco BPM (2.5%), Credito Valtellinese (2.0%), Banca Popolare di Sondrio (2.0%), UBI Banca (1.0%), and other Italian lenders ("**Non-Controlling Interests**").
[8] The merger shall not entitle BFF's shareholders dissenting from the relevant resolution to exercise their right of withdrawal.

Structure of the Deal

Under the Deal, BFF will:

1) acquire 76% of DEPObank, in exchange for consideration paid in cash equal to the DEPObank group's capital in excess of the 15% CET1 ratio (scope of the Consolidated Law on Banking). The excess capital, excluding the net profit for the period starting from July 1, 2019, will be subject to adjustments based on parameters specified under the agreement;
2) issue 14,043,704 new ordinary shares to Equinova—in exchange for the latter's remaining interest in DEPObank—amounting to approximately 7.6% of the post-issue capital of the combined group;
3) potentially make earn-out payments that are contingent on (i) extraordinary positive components of income arising from the reversal of specific provisions already recognized in the financial statements up to €11 million, and (ii) actual savings resulting from the renegotiation of certain IT contracts up to €10 million.

At the closing, BFF will consolidate DEPObank's **HTC Portfolio** at its fair value at that date. In addition, under the Deal:

- on May 13, 2020, BFF purchased part of the HTC Portfolio at market value, amounting to €742 million, with a 1.6% yield and a residual maturity of approximately 5 years. The acquisition was financed through market REPOs;
- at the closing date, a Risk Sharing mechanism shall apply between BFF and Equinova with respect to the potential capital requirement associated with the HTC Portfolio, in the event its fair market value is lower than the carrying amount at that date. In this case, the mechanism would require BFF to issue an Additional Tier 1 instrument to Equinova with a nominal amount of up to €70 million at a fixed annual interest rate of 7%. If activated, such Risk Sharing mechanism would limit the capital requirement for BFF to €29 million.

After the closing of the Deal, the amount of the HTC portfolio will be gradually reduced, as the returns on the notes that comprise it at maturity will be invested to support the growth of BFF's business.

The capital requirement will be offset by the badwill arising from the Deal and the share capital increase supporting the merger, with BFF's pro-forma Tier 1 and CET1 ratios standing at 12.0% at the end of 2019 (compared to 10.9% on a stand-alone basis).

Under normal conditions, BFF expects:

- €15-25 million before tax in funding synergies by using the liquidity generated by DEPObank's core business to fund BFF's operations;
- €10 million before tax in synergies with respect to general and administrative costs arising from the combination of the businesses, accounting for 5% of the cost base of the combined entity;

Transaction and combination costs are estimated at approximately €25 million before tax, including €2.8 million already recognized by BFF in the first quarter of 2020.

Governance of the combined entity

BFF has undertaken best effort commitments to ensure that, in the event a director is co-opted within 12 months of the closing or, in the event BFF's Board of Directors presents a list of candidates at the time of its first renewal, an independent director named by Equinova is appointed to BFF's Board or included in BFF’s list. Said best effort commitments shall lapse once Equinova owns a smaller interest in BFF than at the closing of the Deal.

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. Following the above resolution, on February 13, 2020 BFF notified the Bank of Italy of its intention to open a branch in Greece, commencing the relevant approval process. This process was completed on April 15, 2020 after receiving the approval of the local Greek Authority. The Branch is expected to become operational in Q3 2020.

Rating

On March 26, 2020, the ratings agency Moody's confirmed Banca Farmafactoring S.p.A.'s rating and positive outlook assigned and disclosed publicly for the first time on October 2, 2019. Specifically, it confirmed the Long-Term Issuer Rating ("Ba1") as well as the Long-Term Bank Deposit Rating ("Baa3"). On the same day, Moody's took a negative rating action on 14 other Italian banks. The credit opinion on BFF was issued on April 27, 2020.

In light of the proposed acquisition of DEPObank, which is expected to close by the end of 2020, on June 12 Moody's confirmed all BFF's ratings and the positive outlook on deposits, changing only the Long-Term Issuer Rating outlook from Positive to Developing. The Developing outlook reflects the agency's opinion that there could potentially be positive or negative pressures on the rating depending on the success of the acquisition.

In short, Moody's has assigned the following ratings to BFF:

- Long-term issuer rating: "Ba1", developing outlook;
- Long-Term Bank Deposit Rating: "Baa3", positive outlook;
- Short-Term Bank Deposit Rating: "P-3";
- Baseline Credit Assessment (BCA): "Ba3".

The issuer rating is only one notch below the Italian Republic's sovereign rating.

Repayment of the senior unsecured and preferred bond issued on December 5, 2017

The €200 million floating rate bond issued on December 5, 2017 was repaid at maturity on June 5, 2020.

Following the repayment, at June 30, 2020, Senior Unsecured bond issues totaled €650 million.

Purchase of treasury shares

In the period between May 29 and June 4, 2020, the Bank purchased 521,830 ordinary shares for a total of €2,699,778.27, excluding fees, (i) after obtaining the required authorization from the Bank of Italy, (ii) pursuant to the resolution of the Ordinary Shareholders' Meeting of April 2, 2020, and (iii) with the launch of the buy-back program approved by the Board of Directors on May 28, 2020, already disclosed pursuant to Commission Delegated Regulation 2016/1052/EU. The purchases were made through the qualified intermediary Mediobanca S.p.A.

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 current "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of Banca Farmafactoring Banking Group".
At December 31, 2019 the Bank owned 330,776 treasury shares, accounting for 0.19% of share capital at that date.
At June 30, 2020, the Bank owned 685.494 treasury shares (accounting for 0.521% of share capital), of which 521,830 purchased as part of the buyback program launched on May 29, 2020 and ended on June 4, 2020.

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 prepared its first Consolidated Non-Financial Disclosure at December 31, 2019, in accordance with Italian Decree 254/2016. BFF Banking Group's Consolidated Non-

Financial Disclosure is separate from this Report on Operations, as per Article 5, paragraph 3, letter b) of Italian Legislative Decree 254/16, and available at bffbankinggroup.com.

Shareholders' Meeting Resolutions

On April 2, 2019, the Ordinary Shareholders' Meeting of the Bank resolved (among other things) to:

- confirm the appointment of Giorgia Rodigari as non-executive and non-independent Director of the Company, previously co-opted as per Article 2386 of the Italian Civil Code and Article 14 of the Company Bylaws on December 11, 2019;
- appoint KPMG S.p.A. to audit the financial statements for the years from 2021 through 2029;
- revoke the previous authorization to buy and dispose of treasury shares granted by the Shareholders' Meeting of March 28, 2019 with respect to the unused portion by April 2, 2020, without prejudice to the transactions conducted in the meantime, and authorize the Board of Directors—in accordance with Article 2357 of the Italian Civil Code—to purchase up to 8,323,880 BFF ordinary shares, considering the shares already held, for the purposes outlined under "Purchase of treasury shares";
- approve the 2020 remuneration and incentive policies as well as the 2020 Stock Option Plan.

For the sake of full disclosure, please note that during the meeting the Chairperson—after on March 30, 2020 the Board of Directors resolved to align the Group with the recommendation of the European Central Bank (ECB) and the Bank of Italy (addressed to all Italian banks)—suspended the discussion and the voting of the agenda item "Distribution of the profit for the year", deferring the presentation of the relevant proposal to the following Shareholders' Meeting that the Board of Director already committed, in compliance with the conditions set forth by the banking regulator, to convene within a time frame that would ensure the distribution of the dividend once the COVID-19 emergency is confirmed to be over (therefore, based on the ECB's current guidance, tentatively in October 2020).

On April 2, 2020, the Extraordinary Shareholders' Meeting of the Bank resolved to:

- amend Article 5 of the Company Bylaws, in order to:
    - revoke, with respect to the portion not executed, (i) the capital increase with consideration approved by the Extraordinary Shareholders' Meeting of March 28, 2019 for the purposes of the "Banca Farmafactoring Banking Group's Stock Option Plan" applicable from time to time, (ii) the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of March 28, 2019 to increase the share capital free of charge, in one or more installments, without requiring all shares to be subscribed, by up to €3,003,000, issuing up to 3.9 new ordinary shares, for reasons related to the Company's remuneration and incentive policies, and (iii) the capital increase approved by the Board of Directors on April 8, 2019;
    - 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 €5,254,563.16, by issuing up to 6,824,108 million ordinary shares for the purposes connected with the remuneration and incentive policies of the Group, including the "Banca Farmafactoring Banking Group's Stock Option Plan 2020" (the "2020 SOP").

Partial execution of the mandate to increase share capital free of charge, as granted by the Extraordinary Shareholders' Meeting of March 28, 2019 and April 2, 2020

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 approved 2018 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 ("2019 Delegated Free Capital Increase").

This share issue and 2019 Delegated 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 current Stock Option Plan;
- the free one-off stock grant approved by the Ordinary Shareholders' Meeting on March 28, 2019.

In the period between January 22, 2020 and February 5, 2020, the aforesaid mandate was partially executed, with the issue of 48,939 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 2016 Stock Option Plan provided for the granting of 8,960,000 stock options by December 31, 2019, and it should be noted that since the beginning of the exercise period (April 8, 2019) to June 30, 2020 (the period considered for the purposes of the most recent capital change disclosure in 2020), 342,492 shares (of which 323,492 newly issued shares) were granted in the face of the 1,375,102 cashless options and 201,960 ordinary options that were exercised over the same period. Following these transactions, the number of options allocated and not yet exercised amounted to 6,974,718, of which 3,559,128 were vested and able to be exercised.

With respect to the 2020 Stock Option Plan, under which the Group is to assign a total of 8,960,000 options by December 31, 2023, divided into three installments, 6,700,000 options of the first installment were assigned on May 29, 2020.

Following the Extraordinary Shareholders' Meeting of April 2, 2020—which resolved 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 €5,254,563.16 (the "2020 Capital Increase"), by issuing up to 6,824,108 million ordinary shares for the purposes connected with the remuneration and incentive policies of the Group, including the 2020 SOP—between May 27, 2020 and June 22, 2020 the Company partially carried out the 2020 Capital Increase by issuing 45,629 new ordinary shares, without nominal value and with dividend rights, and having the same characteristics as shares already in circulation at the time of their allocation.

Share capital

In 2020 share capital increased from €131,326,409.06 (at December 31, 2019) to €131,399,226.42. This increase was due to the partial execution of the following activities in the period between January 22, 2020 and June 11, 2020:

- Free Capital Increase for an amount of €37,683.03.
- 2020 Capital Increase for an amount of €35,134.33.

Following partial execution of the 2020 Capital Increase in July 2020, share capital amounted to €131,400,196.62 (corresponding to 170,649,606 ordinary shares) at the date this report was approved.

Changes in the Organizational Structure

As part of the initiatives aimed at continuously improving (i) the governance and organizational efficiency of Banca Farmafactoring S.p.A. (BFF) with respect to its Subsidiaries BFF Polska S.A. (BFF PL) and BFF Finance Iberia S.A.U. (BFF ES), (ii) the alignment of the work methods and processes of the Subsidiaries with the Bank, and (iii) the harmonization of the organizational structure across the various entities, the organizational structure of the Operating Unit BFF Pricing has been overhauled, creating two new organizational sub-units named Pricing Domestic Market and Pricing Foreign Markets. The latter has dotted-line reporting to the Subsidiaries BFF PL (Sales Analysis) and BFF ES (Pricing).

Finally, in the second quarter, the finalization of the mentioned binding agreement to acquire Depobank required changing the organizational structure in preparation for the acquisition. To this end, BFF set up the new Integration Manager Function, with direct reporting to the Group's Chief Executive Officer, to guide the Bank towards closing the deal.

Audit of the Guardia di Finanza

On January 29, 2020, the Italian tax police ("GDF", *Guardia di Finanza* in Italian) served the Company with a formal notice of assessment ("PVC", *Processo Verbale di Constatazione* in Italian) following the conclusion of the audits of the tax years 2016, 2017, and 2018. The audits of the prior tax years (2013, 2014, and 2015) were completed without any findings.

In the PVC, the GDF argued that the Bank, in its capacity as withholding agent, wrongly applied the reduced withholding tax (1.375%) instead of the standard one (26%) to the dividends paid out in 2016 to the Luxembourg-based entity BFF Luxembourg S.à r.l. and the exemption from applying withholding tax to the dividends paid out to the parent company in 2017 and 2018.

On April 9, 2020, the Company submitted its comments on the PVC to the relevant offices of the Italian Revenue Agency, refuting the claims of the GDF de jure and de facto.

The Bank confirms what it already disclosed in the Financial Statements at December 31, 2019 with respect to the decision not to set aside any provision, as there were no new significant developments.

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 protected deposits outstanding at September 30 each year out of the total in the banking system, also taking into account risk adjustments resulting from the application of the new model of performance indicators with the methods described in the "Regulations on reporting and contributions based on risk of FITD member banks" available on the FITD website.

For 2019, the ordinary contribution due from BFF amounted to €913 thousand. In 2018, the contribution amounted to €653 thousand, compared to €546 thousand in 2017.

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 also approved a Voluntary Scheme in addition to the Mandatory Scheme, to implement measures to support member banks at the point or at the risk of becoming insolvent. BFF has decided to participate in the scheme. It then withdrew on September 17, 2017. For this reason, starting from such date, the Bank will no longer be forced to make additional payments to the aforesaid Voluntary Scheme.

Resolution Fund

Regulation (EU) 806/2014 governing the Single Resolution Mechanism, which came into force on January 1, 2016, has established the European Single Resolution Fund (SRF), managed by the new European resolution authority, the Single Resolution Board. Starting from that date, the National Resolution Funds (NRF) set up by Directive (EU) 2014/59 (Bank Recovery and Resolution Directive, BRRD) and implemented in 2015, became part of the new European Resolution Fund.
The Regulation establishes a financial arrangement according to which, over a period of eight years, that is, by December 31, 2023, the member states shall provide the SRF with financial means reaching at least 1% of the amount of covered deposits of all the authorized entities within the respective territory.

In order to achieve this objective, therefore, the contributions must be collected, at least annually, from the authorized entities within the respective territory.
The ordinary annual contribution requested of BFF in 2020 by the Bank of Italy with its Note of April 28, 2020 was €2,296 thousand, paid in May 2020.
The contribution requested in 2019 was €1,734 thousand, paid in May 2019, while in 2018 it was €1,872 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 2020, the Bank of Italy requested the banking industry to provide an additional extraordinary contribution of €310 million for 2018, taking into account the upcoming financial needs of the Fund.
The amount charged to BFF, paid in July 2020, totaled €726 thousand. In 2019, the extraordinary contribution for 2017 was €635 thousand, while in 2018 the extraordinary contribution for 2016 was €701 thousand. No extraordinary contributions were requested of the banking sector in 2017.
On December 28, 2016, the Bank of Italy, within the framework of the resolution scheme for the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara, requested an extraordinary contribution equal to twice the amount of the ordinary annual contribution established for 2016. For BFF, this amounted to €2,179 thousand.

Internal Control

The CEO is the Director responsible for the Banking Group's Internal Control system, 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 by

continuously identifying the applicable rules in this area. It also verifies 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, and it is responsible for the controls required by the reference law.

Third-level controls

Internal audit activities are carried out by the Group's **Internal Audit** function, directly reporting to the Board of Directors. The Internal Audit function carries out independent controls, not only at the Parent Company but also at the subsidiary BFF Finance Iberia under a specific service agreement which governs the provision of the audit service, and, in an institutional framework, as a function of the Parent Company for the subsidiary BFF Polska. The regulation approved by the Board of Directors specifies that the Internal Audit function, within the third-level controls, evaluates the overall functioning of the internal control system and brings to the attention of the corporate bodies any possible improvements, with particular reference to the RAF (Risk Appetite Framework), the process for the management of risks, and the tools for their measurement and control.
The Head of the Internal Audit function has the necessary autonomy and is independent of the operating structures, in compliance with Bank of Italy's regulation on internal controls, the Governance Code and internal regulations, and is vested with the organizational powers to monitor company processes.
The Internal Audit function carried out, for the first half of 2020, the testing activities provided for by the Group's multi-year 2019-2021 Audit Plan, prepared according to a risk-based approach and updated by the Board of Directors in March 2020, by carrying out follow-up activities and reporting on the results of its testing on a quarterly basis to the Bank's governance and control bodies, through its dashboard.
In particular, the Internal Audit function, as 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 2020 in the Group Audit Plan were carried out, without any interruption despite the current health emergency, by the function on the internal structures of the Bank, on the subsidiary BFF Finance Iberia, on the Spanish 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.

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 Italian Legislative Decree 231/2001, and the structure of the Supervisory Body as well as the system of sanctions to prevent violation of the provisions contained in the Model.
In addition, the Model includes Special Parts comprising: i) the Matrix of operations at risk of committing a criminal offense, intended to identify the criminal offenses that may potentially be committed as part of the Bank's operations; ii) the Protocols as per Italian Legislative Decree no. 231/2001, which detail the operations, audits, and reporting mechanisms intended to ensure the Bank's organizational and control system—including the foreign branches in Spain, 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 Italian Legislative Decree no. 231/2001.
The Bank makes sure that all employees receive adequate training, especially in the event of updates to external and internal regulations concerning the topics set out in Italian Legislative Decree no. 231/2001.
In the first half of 2020, the Supervisory Body primarily focused on assessing the adequacy of the Model—which is to be updated in 2020—as well as monitoring information flows and working conditions from the perspective of compliance with health and safety regulations in light of the coronavirus health emergency.

In the first half of the year, the Supervisory Body reported to the Board of Directors on its work, specifically stating it did not receive any complaint relevant to Italian Legislative Decree 231/2001.
As far as the Group's administrative liability is concerned, the following should be noted:
the Spanish subsidiary BFF Finance Iberia adopted its own Organizational Model in accordance with Article 31-bis of the Spanish Penal Code, similar in its structure to the Bank's 231 Organizational Model (general 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 were unchanged compared to 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 the first half of 2020, various initiatives were implemented 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:

- enhancing of operations relating to the purchase of non-recourse receivables in France by the Bank through a new branch;
- conducting an analysis in preparation of offering non-recourse factoring services in Italy digitally, i.e. by building an online platform;
- finishing development on the online platform for offering non-recourse factoring services in Spain and launching the service (which occurred on July 9, 2020);
- boosting the efficiency of the software systems that support the Group's core business, including the legal system and the debt management and out-of-court collection system, as well as developing new technological solutions to handle the regulatory requirements of all the Group's Companies.

Change in Staff Headcount

At June 30, 2020, the total number of BFF Banking Group employees amounted to 525 staff members, of which: 243 in Italy, 10 at the BFF branch in Portugal, 59 in Spain (10 at the BFF branch in Madrid, 49 at BFF Finance Iberia), 194 in Poland, 16 in Slovakia, and 3 in the Czech Republic.
During the first half of 2020, the Bank added 20 people, of whom 8 in Italy (including FOSs), 2 in Portugal, 1 in Spain, 8 in Poland and 1 in Slovakia.

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	2019							2020						
	Italy	Spain	Poland	Slovakia	Czech Rep.	Portugal	TOTAL	Italy	Spain	Poland	Slovakia	Czech Rep.	Portugal	TOTAL
Senior Executives/Executives	19	1	5	-	-		25	20	1	6	-	-	-	27
Managers/Middle Managers/Coordinators	36	7	28	3	-	1	75	39	17	37	4		2	99
Specialists/Professionals	174	30	154	10	3	6	377	184	41	151	12	3	8	399
Total by country	229	38	187	13	3	7	477	243	59	194	16	3	10	525

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

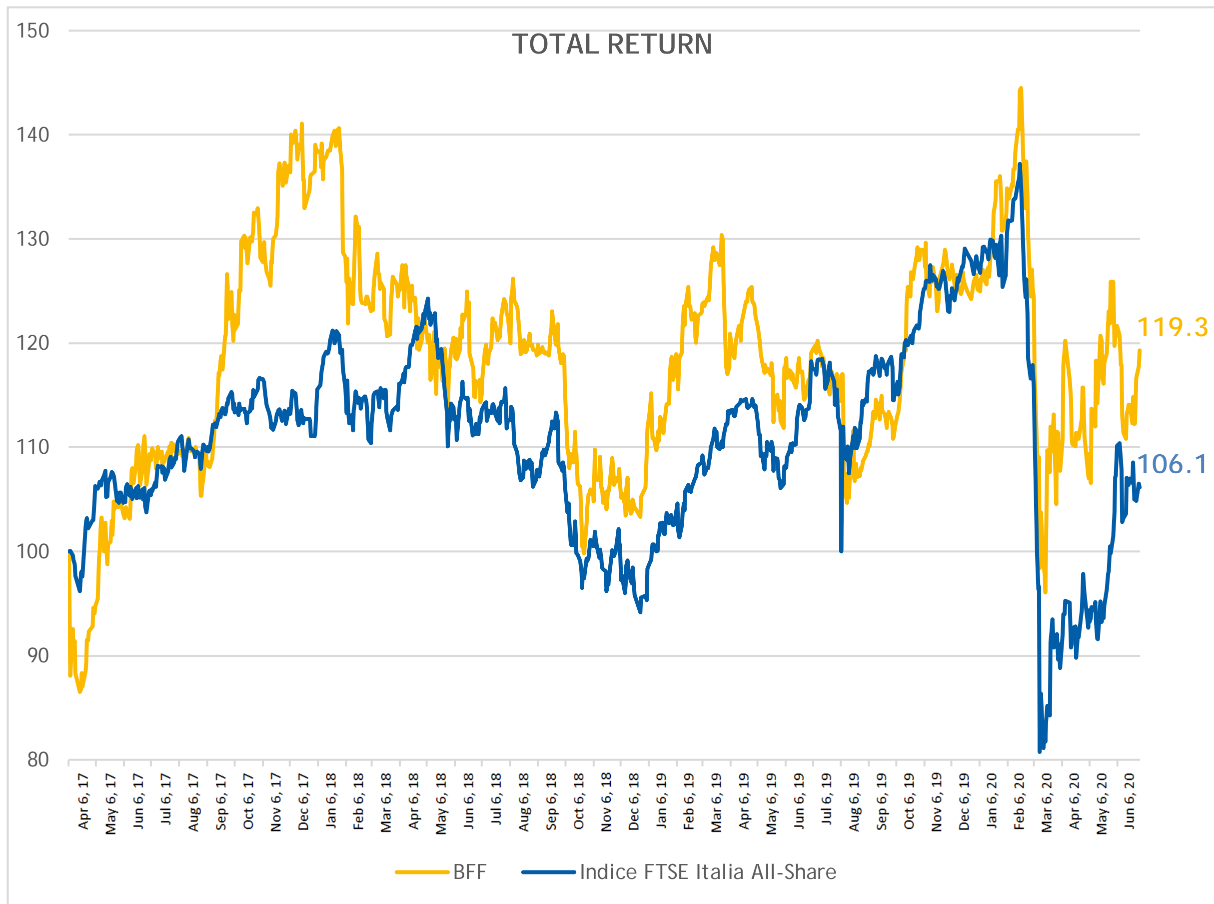
and of the following STOXX indexes:

- 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
- 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 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
- iSTOXX Europe Carry Factor
- iSTOXX Europe Multi-Factor
- iSTOXX Europe Multi-Factor XC
- iSTOXX Italy Small Mid Cap

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

The share price at June 30, 2020 was €5.06, increasing by 8% 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 June 30, 2020 compared to the IPO placement price was 19.3%. The FTSE Italia All-Share Index total return was 6.1% in the same period.


TOTAL RETURN
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120
110
100
90
80
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106.1
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Jun 6, 17
Jul 6, 17
Aug 6, 17
Sep 6, 17
Oct 6, 17
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May 6, 20
Jun 6, 20
BFF
Indice FTSE Italia All-Share

Main Balance Sheet Items

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

Financial assets measured at fair value through OCI

(Amounts in € thousands)

Items	12/31/2019	06/30/2020	Change
Government securities - (HTC&S)	82,746	58,860	(23,886)
Equity investments	17	17	0
Equity securities	147	147	0
Total	**82,910**	**59,024**	(23,886)

The average duration of such securities is 35.5 months. The HTC&S securities earn interest at variable rates (CCT).
At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity under “Revaluation reserves”.
At June 30, 2020, the negative reserves on HTC&S government securities (formerly AFS) amounted to approximately €0.1 thousand, net of taxes.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such securities were classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.

Financial assets measured at amortized cost

(Amounts in € thousands)

Items	12/31/2019	06/30/2020	Change
Government securities - (HTC)	996,022	1,852,155	856,133
Due from banks	136,680	58,745	(77,935)
Due from customers	4,118,015	3,453,580	(664,435)
Total	**5,250,717**	**5,364,480**	**113,763**

Starting from January 1, 2018, the item “Financial assets measured at amortized cost – Due from customers” includes debt securities in the Held to Collect (HTC) portfolio in addition to loans to customers, pursuant to the updates of Bank of Italy’s Circular no. 262 in compliance with the new IFRS 9. Such government securities were classified in the category belonging to the Held to Collect (HTC) business model.

The amount consists entirely of government securities, classified in the Held to Collect (HTC) portfolio, purchased to hedge liquidity risk, for a total face value of €1,820.5 million. The average duration of such securities is 37.5 months.

These securities are at a fixed rate (BOT, BTP and CTZ), with maturity dates related to the sources of committed and unsecured funding *Except for CCT 4/2025 acquired as part of the DEPOBank Acquisition*. 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 HTC portfolio includes financial assets that the Bank intends to hold until the maturity date set in the contract, for the collection of fixed and determinable amounts. In accordance with IFRS 9, an entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or

during the two preceding financial years, sold or reclassified more than an insignificant amount of HTC investments before maturity.

The fair value of the HTC securities at June 30, 2020 amounted to €1,858.3 million, with a negative difference, after tax, over the carrying amount at the same date, of approximately €21.2 million that has not been recognized in the financial statements.
"Due from banks" mainly consists of current account balances of BFF Banking Group companies at June 30, 2020.
The item includes €3,214 thousand in the mandatory reserve deposit with DepoBank, as BFF is an indirect participant in that system, and €9,531 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/**2019**	06/30/**2020**	Change
Non-recourse receivables	3,323,948	2,910,390	(413,558)
Receivables purchased below face value	30,367	24,766	(5,601)
Other receivables	763,700	854,208	90,508
Total	4,118,015	3,789,364	(328,651)

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

The Bank has updated the analysis of the time series concerning the average collection percentage and time for late payment interest on an annual basis since 2014. In 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 2020, the Bank further 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.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian public administration. However, a prudent decision was made to consider, also for 2019, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF.
Other receivables mainly refer to loans of the subsidiary BFF Polska Group.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such receivables were classified in the category belonging to the Held to Collect (HTC) business model.

Credit quality

As far as credit quality in the first half of 2020 is concerned, it should be highlighted that the total net amount of impaired receivables was €130.5 million at June 30, 2020, as compared to €106.2 million at December 31, 2019, and €94.2 million for the same period last year.

In order to assess its credit exposures, with the goal of—among others—identifying any potential impairment losses on financial assets in accordance with IFRS 9, the Banking Group classifies exposures as Performing and Non-Performing.
Non-Performing exposures, whose overall gross amount was €146.4 million at June 30, 2020, with impairment losses totaling €15.9 million, are divided into the following categories.

Non-performing loans

These are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the Bank.
At June 30, 2020, the total non-performing loans of the Banking Group, net of impairment, amounted to €65.6 million, of which €5.9 million purchased already impaired. Among these non-performing exposures, €62.4 million (95% of the total) concerned local entities in financial distress.
Gross non-performing loans amounted to €78.2 million and were adjusted to the tune of €12.6 million, of which €0.1 million concerned municipalities in financial distress and €5.2 million referred to the BFF Polska's factoring-for-business product which has been disposed of.
Please note that, as for the exposures to Local Authorities (Municipalities and Provincial Governments), as far as the portion subject to the relevant settlement procedure is concerned, loans included in the liabilities of the Extraordinary Settlement Body (*Organo Straordinario di Liquidazione*, OSL) are classified as Non-performing loans in accordance with the Bank of Italy's Circular no. 272, even though all receivables can be collected under the law.

Unlikely to pay exposures

Unlikely to pay exposures reflect the judgment made by the intermediary about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments). Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor.
At June 30, 2020, gross exposures classified as unlikely to pay totaled €18.3 million; adjustments to the tune of €2.3 million were recognized, thus determining a net amount of €16.1 million.

Impaired past due exposures

Impaired past due exposures are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days.
At June 30, 2020, total net past due exposures amounted to €48.9 million for the whole Banking Group, of which 57.3% referring to public administration counterparties and public sector companies of the countries where the Banking Group operates.
The Banking Group's gross exposures totaled €49.9 million and relevant adjustments amounted to €1.0 million.

With reference to measurements and calculation of impairment, in compliance with IFRS 9, methodology is based on the new expected loss model, which prospectively considers credit losses over the life of the financial instrument and requires their immediate recognition rather than on the occurrence of a trigger event as required by the incurred loss model pursuant to IAS 39.
In this context, an approach based on the use of credit risk parameters (Probability of Default – PD, Loss Given Default – LGD, Exposure at Default – EAD), redefined based on a multi-period perspective, is deemed feasible.

More specifically, the expected loss impairment model requires companies to segment their portfolios into three levels (stages), in relation to the change in credit risk of the asset compared to initial recognition.
In particular, Stage 1 includes performing exposures showing no significant increase in credit risk in the period between the initial recognition date and the reporting date. In this case, expected losses are measured over a period no longer than 12 months.
Stage 2 includes exposures showing a significant deterioration in credit quality compared to initial recognition, and the entire residual life of the asset is used to calculate the expected loss (lifetime parameter).
Stage 3 includes financial instruments whose credit risk deteriorated significantly, to the point that the exposure is considered impaired (non performing). For exposures classified in this stage too, expected loss is calculated over the lifetime of the asset but, unlike the positions recorded in Stage 2, impairment is measured on a case-by-case basis. Stage 3 also includes impaired past due exposures (since they are non performing), which are however subject to specific adjustments calculated on a collective basis (Stage 2), since—despite volatility and the Banking Group's core business—specific measurement is not needed for impaired past due exposures.
The following table shows the amount of receivables due from customers, with an indication of any adjustment, broken down into "Performing exposures" and "Impaired assets".

(Amounts in € thousands)

Type	12/31/2019			06/30/2020		
	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount
Impaired exposures purchased performing (Stage 3)	114,113	(13,608)	100,505	140,324	(15,697)	124,627
Impaired exposures purchased non-performing (Stage 3)	5,879	(224)	5,655	6,113	(218)	5,894
Performing exposures (Stage 1 and 2)	4,015,618	(3,763)	4,011,855	3,662,090	(3,248)	3,658,842
Total	4,135,610	(17,594)	4,118,015	3,808,527	(19,163)	3,789,364

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

Property, plant and equipment and intangible assets

(Amounts in € thousands)

Items	12/31/2019	06/30/2020	Change
Property, plant and equipment	17.109	16.705	(405)
Intangible assets	35.268	34.696	(572)
- of which Goodwill	*30.874*	*30.874*	*0*
Total	52.377	51.401	(976)

At the date of IAS first-time adoption (January 1, 2005), the Group-owned buildings used by the Group in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.
The measurement at first-time adoption resulted in an approximately €4 million revaluation of the buildings, from €5 million to €9 million.
Intangible assets amounted to €34,696 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 as 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	12/31/2019	06/30/2020	Change
Tax assets	35,060	27,062	(7,997)
current	23,494	15,791	(7,703)
prepaid	11,566	11,272	(294)
Tax liabilities	98,999	90,570	(8,429)
current	28,883	14,282	(14,601)
deferred	70,116	76,288	6,172

Current tax assets totaled €15,791 thousand; they mainly include advance payments for IRES and IRAP taxes made by BFF.
Current tax liabilities amounted to €14,282 thousand; they include the accrual of income taxes for the year of Group companies.
Deferred tax liabilities amounted to €76,288 thousand; they mainly include the taxes calculated on BFF's late payment interest accrued and to be accrued, and will be paid upon collection.

Financial liabilities measured at amortized cost

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

(Amounts in € thousands)

Items	12/31/2019	06/30/2020	Change
Due to banks	1,142,841	941,670	(201,171)
Due to customers	2,713,663	3,540,502	826,839
- of which due to financial institutions	*258,359*	*127,016*	*(131,342)*
Debt securities issued	1,105,692	849,801	(255,891)
Total	4,962,195	5,331,972	369,777

"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 €1,549 million for the online deposit accounts Conto Facto and Cuenta Facto, and €1,843 million for repurchase agreements with the counterparty *Cassa di Compensazione e Garanzia*, executed to refinance the Bank's securities portfolio.

Debt securities issued consist of bonds issued by the Parent BFF, and the relevant SPV. They have a total face value of €850 million and are recognized in the financial statements (to the tune of €849.8 million) at amortized cost using the effective interest rate method.

The item includes:

- €100 million subordinated unsecured and unrated Tier 2 bonds (ISIN XS1572408380) issued by BFF in March 2017. The 10-year bonds due in March 2027 have the right to an issuer call date (one-off) in the fifth year after issue (in March 2022). The bonds pay an annual fixed coupon of 5.875%;
- €200 million senior unsecured and unrated bonds (ISIN XS1639097747) issued by BFF in June 2017, due in June 2022. The bonds pay an annual fixed coupon of 2%;

- €150 million bonds (ISIN XS1435298275) issued by BFF in June 2016, due in June 2021. The bonds pay an annual fixed coupon of 1.25%;
- €300 million senior unsecured and unrated Ba1 bonds (ISIN XS2068241400) issued by BFF in October 2019. The bond has a term of 3.5 years with maturity in May 2023. The bonds pay an annual fixed coupon of 1.75%.
- €100 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 BFF since the sale did not transfer the relevant risks and rewards.

Provisions for risks and charges

At June 30, 2020, "Provisions for risks and charges" totaled €6,217 thousand. They mostly include allocations to "Pension and other post-employment benefits" of €4,325 thousand and "Other provisions" of €1,249 thousand.

(Amounts in € thousands)

Items	12/31/2019	06/30/2020	Change
Commitments and other guarantees provided	580	643	63
Employee benefits	4,313	4,325	12
Other provisions	1,519	1,249	(270)
Total	**6,412**	**6,217**	**(196)**

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

Main Consolidated Income Statement Items

A brief comment on the main consolidated income statement items is provided below, while for a more in-depth description reference should be made to the section relating to the results of operations and to Part C of the Notes.
At June 30, 2020, the Group's profit amounted to €37.5 million, compared to €38.1 million recognized in the prior-year period.

Net interest margin amounted to €90.5 million at June 30, 2020, up 5.4% compared to €85.9 million at June 30, 2019. Net banking income amounted to €96.9 million at June 30, 2020, up 11.0% compared to €87.3 million at June 30, 2019.

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

BFF updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. The outcome of this analysis has confirmed for 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.

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 2020, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF.

The difference between gains and reschedulings recognized in the first half of 2020 by BFF Banking Group was negative and amounted to €(3.3) million, due to lower late payment interest. In the prior-year period, such difference was negative and amounted to €(0.7) million.

Late payment interest on receivables purchased without recourse by BFF and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €678 million.
Of this late payment interest, a total of €264 million was recorded in the income statement in current and prior years.
The cumulative amount of late payment interest due to BFF and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €616 million at June 30, 2019, of which €225 million were recognized in the income statement of the reporting period and in previous years.
The provision for late payment interest increased by 10% in the first half of 2020 compared to the prior-year period. Of this provision at June 30, 2020, late payment interest not yet recognized in the income statement amounts to €414 million.

Interest income on securities, amounting to €4.9 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.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's funding, for a total amount of €30 million.

Interest expense increased from €22.7 million at June 30, 2019 to €26 million at June 30, 2019. The increase in absolute terms is largely the result of the increased outstanding as well as interest expense on bonds, which rose after BFF issued a new bond in late 2019, with a nominal amount of €300 million.

Net fees and commissions show a €0.1 million decrease compared to the previous six months.

Gains (losses) on trading mainly arise from the positive effect of euro-zloty exchange rates recognized in the income statement, arising from the revaluation of exchange rates applied to the loans payable in Polish zloty used for the acquisition of BFF Polska Group and amounting, at June 30, 2020, to €3.9 million, before taxes, compared to the negative effect amounting to €1.2 million at the end of the prior-year period, offset by a negative effect from the devaluation of the exchange rates applied to BFF Polska Group's equity in consolidated equity.

Gains on disposal of securities refer to the sale of government securities in the HTC&S portfolio made during the reporting period, which generated a gain of €21 thousand, before the tax effect.

Administrative expenses

Administrative expenses amounted to €21.7 million at June 30, 2020, increasing by 20.9% compared to the prior-year period (€17.9 million).

The amount also includes expenses for stock options assigned to directors and selected employees, equal to €1.1 million for the current year, before taxes. Such cost also generates an increase, before taxes, in equity.

Please also note that BFF recognized an amount of €1.3 million under the item "Other operating income (expenses)" in relation to the collection of invoices for reimbursement of costs incurred when recovering amounts not promptly paid by debtors.

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

Risk management and compliance with Prudential Supervision regulations

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

The above circulars outline a complete, organic and rational regulatory framework, integrated with the directly applicable EU provisions, which is completed with the issue of the implementation measures contained in the regulatory technical standards and implementing technical standards adopted by the European Commission based on the EBA's proposal.
The regulation applicable at June 30, 2020 is based on three pillars.

Pillar I – Capital adequacy to meet the typical risks associated with financial operations
From the standpoint of operations, the absorption of risks is calculated using various methods:

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

Pillar II – The ICAAP/ILAAP Report

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

Pillar III – Disclosure to the public

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

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

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

Pursuant to this procedure, the disclosure should be:

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

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

Information concerning Calendar Provisioning and Past Due Exposures

As part of a general effort by European banks to contain the stock of NPEs, a series of measures have been put in place by regulators. They are united towards the goal of ensuring prudent management of NPEs, while simultaneously preventing an excessive accumulation of impaired receivables on bank balance sheets, where such receivables are long past due and/or lacking in guarantees. More specifically, the measures are aimed at a better definition of prudential standards on one hand, and at validating the implementation of aforesaid legal provisions on the other. This is achieved by outlining the framework in which the regulations will be positioned in a more precise manner. As regards the prudential scope, in April 2019 the European Commission approved an update to Regulation (EU) 575/2013 (CRR) regarding minimum loss coverage for impaired receivables. For the purpose of calculating prudential provisions, the proposal in question provides that loans granted after April 26, 2019 which are classified as impaired shall be subject to "calendar provisioning". Exposures granted before this date, and which are subsequently classified as NPEs, will not be subject to the provisions contained under the amendments to Regulation no. 575 (CRR). This update requires banks to maintain an adequate level of provisions, by deducting from their CET 1 any positive difference between their prudential provisions (identified by weighting the gross value of NPEs with and without guarantees by a certain percentage) and any adjustment provisions and other equity elements (balance sheet provisions, prudential valuations, other CET1 deductions).

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

- Past due exposures

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

In line with the EBA's guidance, for less systemic banks the application of the prudential default rules under the 27th update to Circular 285 and the effective date of the changes to statistical supervisory reporting and the financial statements of banks under the Communication dated June 26, 2019 have been deferred from December 31, 2020 to January 1, 2021.
The new way a default is defined establishes criteria for classifying past due receivables which are more restrictive than the criteria that have been adopted by Italian financial intermediaries up to this point.
The new way a default is defined establishes criteria for classifying past due receivables which are more restrictive than the criteria that have been adopted by Italian financial intermediaries up to this point.

Other information

Related party transactions

As for transactions with related parties and associated parties, the Board of Directors of BFF S.p.A., on November 11, 2016, approved, with effect subject to the start of trading on the MTA managed by Borsa Italiana (i.e., from April 7, 2017), the "Policies on internal controls adopted by the BFF Group to manage conflict of interests" (referred to as "Policy to manage conflicts of interests") and the "BFF Group Regulation for the management of transactions with parties that may be in a conflict of interest" implementing the supervisory provisions of the Bank of Italy's Circular no. 263 of December 27, 2006, Title V, Chapter 5, and the Consob Regulation on transactions with related parties, adopted by resolution no. 17221 of March 12, 2010, as subsequently amended by resolution no. 17389 of June 23, 2010, following a favorable opinion expressed by the Board of Statutory Auditors and the Related Party Committee.

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

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

BFF BANKING GROUP

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

The Bank complied with the provisions of Article 70, paragraph 8 and Article 71, paragraph 1-bis of the Issuers' Regulations adopted by Consob Resolution no. 11971 of May 14, 1999, as subsequently amended, and therefore derogated from the obligations to publish disclosure documents required in the event of mergers, demergers, capital increases by contribution in kind, acquisitions and disposals.

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

The Bank complied with the Corporate Governance Code for listed companies—approved in March 2006 by the Corporate Governance Committee and promoted by Borsa Italiana as amended in July 2018—as described in the Bank's Corporate Governance Report and Ownership Structure.

Unusual or atypical transactions

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

Events subsequent to the end of the reporting period

There are no other events or facts subsequent to the end of the reporting period such as to require an adjustment to the results of the financial statements for the year ended June 30, 2020.

Treasury shares

At December 31, 2019 the Bank owned 330,776 treasury shares, accounting for 0.19% of share capital at that date.
At June 30, 2020, the Bank owned 685.494 treasury shares (accounting for 0.521% of share capital), of which 521,830 purchased as part of the buyback program launched on May 29, 2020 and ended on June 4, 2020.

In the first half of 2020, the Bank purchased 521,830 treasury shares and assigned 167,112 shares, including 103,299 as half of the upfront portion of the Chief Executive Officer's retention bonus paid in financial instruments, 31,451 as half of the upfront portion of the Chief Executive Officer's 2019 MBO, 9,905 to settle non-competition agreements, 19,000 following the exercise of options under the "*2016 Stock Option Plan*", and 3,457 as early retirement incentives).
No treasury shares were sold.

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. The Bank opened a Spanish branch in Madrid in 2015, a Portuguese branch in Lisbon in July 2018, and a Polish branch in Łódź in July 2019.

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

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

at June 30, 2020

Consolidated Balance Sheet

(Amounts in euros)

	Assets	06/30/2020	12/31/2019
10.	Cash and cash equivalents	111,211,465	78,305,302
30.	Financial assets measured at fair value through OCI	60,027,786	82,911,963
40.	Financial assets measured at amortized cost	5,653,608,996	5,250,716,578
	a) due from banks	*37,884,887*	*136,679,774*
	b) due from customers	*5,615,724,109*	*5,114,036,805*
70.	Equity investments	193,223	94,437
90.	Property, plant and equipment	16,704,650	17,109,160
100.	Intangible assets	34,696,152	35,268,054
	of which		
	- goodwill	*30,874,236*	*30,874,236*
110.	Tax assets	27,062,277	35,059,591
	a) current	*15,790,513*	*23,493,938*
	b) deferred	*11,271,764*	*11,565,653*
130.	Other assets	19,070,772	11,561,531
	TOTAL ASSETS	5,922,575,320	5,511,026,616

Consolidated Balance Sheet

(Amounts in euros)

	Liabilities and Equity	06/30/2020	12/31/2019
10.	Financial liabilities measured at amortized cost	5,331,972,428	4,962,195,474
	a) due to banks	*941,669,746*	*1,142,840,644*
	b) due to customers	*3,540,501,597*	*2,713,662,678*
	c) debt securities issued	*849,801,086*	*1,105,692,152*
60.	Tax liabilities	90,569,662	98,999,134
	a) current	*14,281,929*	*28,882,984*
	b) deferred	*76,287,733*	*70,116,150*
80.	Other liabilities	83,940,615	65,324,506
90.	Employee severance benefits	700,104	843,205
100.	Provisions for risks and charges	6,216,523	6,412,030
	a) commitments and guarantees provided	*643,070*	*580,428*
	b) pension and other post-employment benefits	*4,324,909*	*4,313,009*
	c) other provisions for risks and charges	*1,248,544*	*1,518,593*
120.	Revaluation reserves	2,499,724	6,569,790
150.	Reserves	240,829,006	147,269,189
160.	Share premium	693,106	693,106
170.	Share capital	131,399,226	131,326,409
180.	Treasury shares	(3,784,401)	(1,762,756)
200.	Profit (loss) for the period	37,539,325	93,156,528
	TOTAL LIABILITIES AND EQUITY	5,922,575,320	5,511,026,616

Consolidated Income Statement

(Amounts in euros)

	Items	06/30/2020	06/30/2019
10.	Interest and similar income	116,536,347	108,576,102
	of which: interest income calculated using the effective interest rate method	*108,304,300*	*100,055,664*
20.	Interest and similar expenses	(26,039,651)	(22,720,062)
30.	**Net interest margin**	**90,496,696**	**85,856,040**
40.	Fee and commission income	3,267,928	3,217,358
50.	Fee and commission expenses	(935,541)	(793,558)
60.	**Net fees and commissions**	**2,332,387**	**2,423,800**
80.	Gains (losses) on trading	3,955,929	(1,204,795)
100.	Gains (losses) on disposal or repurchase of:	77,390	207,343
	b) financial assets measured at fair value through OCI	*21,389*	*207,343*
	c) financial liabilities	*56,001*	*0*
120.	**Net banking income**	**96,862,402**	**87,282,388**
130.	Net adjustments/reversals of impairment for credit risk relating to:	(2,329,201)	(447,172)
	a) financial assets measured at amortized cost	*(2,329,890)*	*(448,894)*
	b) financial assets measured at fair value through OCI	*689*	*1,722*
150.	**Net profit from financial activities**	**94,533,201**	**86,835,216**
180.	**Net profit from financial and insurance activities**	**94,533,201**	**86,835,216**
190.	Administrative expenses:	(42,254,145)	(36,013,627)
	a) personnel costs	*(20,593,829)*	*(18,097,633)*
	b) other administrative expenses	*(21,660,316)*	*(17,915,994)*
200.	Net allocations to provisions for risks and charges	(186)	(289,028)
	a) commitments and guarantees provided	*(67,842)*	*68,470*
	b) other net allocations	*67,656*	*(357,498)*
210.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,872,186)	(1,463,301)
220.	Net adjustments to/reversals of impairment of intangible assets	(1,034,530)	(937,495)
230.	Other operating income (expenses)	2,966,580	2,552,851
240.	**Operating costs**	**(42,194,467)**	**(36,150,600)**
290.	**Profit (loss) before tax from continuing operations**	**52,338,734**	**50,684,616**
300.	Income taxes on profit (loss) from continuing operations	(14,799,409)	(12,596,330)
310.	**Profit (loss) after tax from continuing operations**	**37,539,325**	**38,088,286**
330.	**Profit (loss) for the period**	**37,539,325**	**38,088,286**
350.	**Profit (loss) for the period attributable to owners of the Parent**	**37,539,325**	**38,088,286**
	Basic earnings per share	**0.22**	**0.22**
	Diluted earnings per share	**0.21**	**0.21**

Consolidated Statement of Comprehensive Income

(Amounts in euros)

	Items	06/30/2020	06/30/2019
10.	**Profit (loss) for the period**	**37,539,325**	**38,088,286**
	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	4,839	(35,531)
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	(3,983,658)	1,750,349
120.	Cash flow hedges		
130.	Hedging instruments (not designated)		
140.	Financial assets (other than equity securities) measured at fair value through OCI	(91,246)	1,036,306
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**	**(4,070,065)**	**2,751,124**
180.	**Comprehensive income (Items 10+170)**	**33,469,260**	**40,839,410**
190.	Consolidated comprehensive income attributable to non-controlling interests		
200.	**Consolidated comprehensive income attributable to the Parent**	**33,469,260**	**40,839,410**

Statement of Changes in Consolidated Equity

At 06/30/2020

(Amounts in euros)

	Balance at 12/31/2019	Change in opening balance	Balance at 01/01/2020	Retained earnings (accumulated losses)		Change during the year									Group equity at 06/30/2020	Equity attributable to non-controlling interests at 06/30/2020
						Change in reserves	Equity transactions							Consolidated comprehensive income for the year 2020		
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend	Change in equity instruments	Derivatives on own shares	Stock options	Change in shareholding			
Share capital:																
- ordinary shares	131,326,409		131,326,409				72,817								131,399,226	0
- other shares															0	0
Share premium	693,106		693,106												693,106	0
Reserves:																
- from profits	140,501,134		140,501,134	93,156,528		(145,822)									233,511,840	0
- other	6,768,055		6,768,055			(796,050)						1,345,163			7,317,166	0
Revaluation reserves	6,569,790		6,569,790											(4,070,065)	2,499,724	0
Equity instruments															0	0
Treasury shares	(1,762,756)		(1,762,756)			680,824		(2,702,469)							(3,784,401)	0
Profit (loss) for the year	93,156,528		93,156,528	(93,156,528)	0									37,539,325	37,539,325	0
Group equity	377,252,266	0	377,252,266		0	(261,048)	72,817	(2,702,469)	0	0	0	1,345,163	0	33,469,260	409,175,986	
Equity attributable to non-controlling interests	0		0											0		0

At 06/30/2019

(Amounts in euros)

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

Consolidated Statement of Cash Flows

(Amounts in euros)

A. OPERATING ACTIVITIES	Amount	
	06/30/2020	06/30/2019
1. Operations	42,775,428	41,315,314
- profit or loss for the period (+/-)	37,539,325	38,088,286
- capital gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	0	90,031
- capital gains/losses on hedge accounting (-/+)	0	0
- net adjustments/reversals of impairment for credit risk (+/-)	2,329,201	447,173
- net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-)	2,906,716	2,400,796
- net allocations to provisions for risks and charges and other expenses/income (+/-)	186	289,028
- 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	(381,814,167)	159,680,330
- financial assets held for trading	0	0
- financial assets designated at fair value	0	0
- other financial assets mandatorily measured at fair value	0	0
- financial assets measured at fair value through OCI	22,884,177	(1,500,810)
- financial assets measured at amortized cost	(405,221,620)	149,251,852
- other assets	523,276	11,929,288
3. Liquidity generated/absorbed by financial liabilities	376,960,046	(166,792,940)
- financial liabilities measured at amortized cost	370,778,979	(156,014,793)
- financial liabilities held for trading	0	(90,031)
- financial liabilities designated at fair value		
- other liabilities	6,181,067	(10,688,117)
Net liquidity generated/absorbed by operating activities	37,921,307	34,202,704
B. INVESTING ACTIVITIES		
1. Liquidity generated by	98,785	48,690
- sale of equity investments	98,786	48,690
- dividends collected on equity investments	(0)	0
- sale of property, plant and equipment		
- sale of intangible assets		
- sale of subsidiaries and business branches		
2. Liquidity absorbed by	(2,484,278)	(3,349,225)
- purchase of equity investments	(103,007)	384,456
- purchase of property, plant and equipment	(1,663,634)	(3,343,603)
- purchase of intangible assets	(717,637)	(390,079)
- purchase of subsidiaries and business branches		
Net liquidity generated/absorbed by investing activities	(2,385,492)	(3,300,535)
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(2,702,469)	(1,538,264)
- issue/purchase of equity instruments	72,817	(530,558)
- distribution of dividends and other	0	(92,152,892)
- sale/purchase of ownership interests in subsidiaries		
Net liquidity generated/absorbed by funding activities	(2,629,652)	(94,221,714)
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	32,906,162	(63,319,545)

Reconciliation

(Amounts in euros)

Item	06/30/2020	06/30/2019
Cash and cash equivalents at the beginning of the year	78,305,302	99,457,728
Total net liquidity generated/absorbed during the year	32,906,162	(63,319,545)
Cash and cash equivalents: effect of change in exchange rate		
Cash and cash equivalents at the end of the year	111,211,465	36,138,184

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

The Notes are arranged in the following order:

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

Part A - Accounting Policies

A.1 – GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

The consolidated condensed interim financial statements at June 30, 2020 have been prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the IASB, endorsed by the European Commission, as provided for by Regulation (EC) no. 1606 of July 19, 2002 governing the application of IASs/IFRSs and related interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period. Specifically, interim financial reporting is based on IAS 34.

IFRSs have been applied based on the Framework for the Preparation and Presentation of Financial Statements (the Framework), with particular reference to the fundamental principle of substance over legal form and the concept of relevance or significance of information.

Section 2 – General preparation principles

The consolidated condensed interim financial statements have been prepared, to the extent applicable to interim reporting, in accordance with the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005 "Banks' financial statements: layout and preparation", as subsequently amended.

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

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

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

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

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 2020

The following standards, interpretations and amendments are effective in 2020 and beyond:

- Amendments to References to the Conceptual Framework in IFRS Standards. The amendments update some references and quotations in IFRS standards and interpretations so that they refer to the revised Conceptual Framework or specify the version of the Conceptual Framework they refer to.

- Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, intended to clarify the definition of "material" in order to make it easier for companies to make materiality judgments and make the information in the notes to the financial statements more relevant.

- Amendments to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement, and IFRS 7 - Financial Instruments: Disclosures, which introduced temporary and limited exceptions from applying hedge accounting requirements so that entities can continue meeting said requirements by assuming that existing interest rate benchmarks are not altered as a result of Interest Rate Benchmark Reform.

- Amendments to IFRS 3 - Business Combinations, clarifying the definition of a business in order to make it easier to apply the standard in practice.

The above amendments did not impact the Group's accounts.

In May 2020, the International Accounting Standards Board approved an amendment to IFRS 16 - Leases related to lease accounting. The amendment is effective June 1, 2020 and was introduced to neutralize changes in lease payments that arise from agreements between the parties to account for the negative impact of Covid-19.

This amendment, which has not yet been endorsed by the European Union, did not apply to the consolidated **condensed** interim financial statements of the Banca Farmafactoring Group.

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 of the companies that are consolidated on a line-by-line basis are prepared in compliance with the IASs/IFRSs used for the consolidated **condensed** interim financial statements.

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

- assets and liabilities, revenues and costs of the entities that are fully consolidated are recognized on a line-by-line basis, attributing to non-controlling interests, if applicable, their share of net equity and profit (loss) for the period, which are disclosed separately in consolidated equity and in the consolidated income statement;
- gains and losses, including the related tax effects, arising from transactions between companies consolidated on a line-by-line basis and not yet realized with reference to third parties, are eliminated, except for losses, which are not eliminated when the transaction provides evidence that the transferred

asset is impaired. Reciprocal receivables and payables, revenues and expenses, as well as financial income and costs, are also eliminated;

- financial statements of subsidiaries with a functional currency other than the euro are translated into euro as follows: assets and liabilities, at the exchange rate recorded at the end of the reporting period; income statement items, at the average exchange rate for the period;
- 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 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.

1. Investments in subsidiaries under exclusive control

At June 30, 2020, 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 - Paseo de la Castellana 81	1	Banca Farmafactoring S.p.A.	100%	100%
2. BFF SPV S.r.l.	Milan – Via V. Betteloni 2	4	Banca Farmafactoring S.p.A.	0%	0%
3. BFF Polska S.A.	Łodz - Jana Kilińskiego, 66	1	Banca Farmafactoring S.p.A.	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 Wspólnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

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

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

Key:

(1) Relationship type:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = having a dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control

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

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

There are no events or facts subsequent to June 30, 2020 such as to require an adjustment to the results recognized at the end of the reporting period.

Section 5 – Other issues

Audit of the Guardia di Finanza

On January 29, 2020, the Italian tax police ("GDF", *Guardia di Finanza* in Italian) served the Company with a formal notice of assessment ("PVC", *Processo Verbale di Constatazione* in Italian) following the conclusion of the audits of the tax years 2016, 2017, and 2018. The audits of the prior tax years (2013, 2014, and 2015) were completed without any findings.

In the PVC, the GDF argued that the Bank, in its capacity as withholding agent, wrongly applied the reduced withholding tax (1.375%) instead of the standard one (26%) to the dividends paid out in 2016 to the Luxembourg-based entity BFF Luxembourg S.à r.l. and the exemption from applying withholding tax to the dividends paid out to the parent company in 2017 and 2018.

On April 9, 2020, the Company submitted its comments on the PVC to the relevant offices of the Italian Revenue Agency, refuting the claims of the GDF de jure and de facto.

The Bank confirms what it already disclosed in the Financial Statements at December 31, 2019 with respect to the decision not to set aside any provision, as there were no new significant developments.

Centerbridge

In the first half of 2020, BFF Luxembourg S.à r.l. (Centerbridge) ("**BFF Lux**") completed two accelerated bookbuilding (ABB) procedures on January 9 and June 1, selling 18,700,000 and 17,000,000 BFF shares, respectively.
In addition, on May 11, 2020 BFF Lux announced it had purchased 167,279 BFF shares overall between April 1 and 6, 2020. As a result of said purchases and the two mentioned ABBs, BFF Lux owns 20,363,387 shares in BFF, accounting for 11.93% of the Bank's share capital at June 30, 2020.

Distribution of Subsidiaries' Dividends

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. The Dividend was paid on March 16, 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 was submitted to the Sole Shareholder Meeting on March 18, 2020. The Dividend was paid on March 23, 2020.

Distribution of Banca Farmafactoring S.p.A.'s Dividends

On March 31, 2020, with respect to the recommendation of the European Central Bank ("ECB") and the Bank of Italy not to pay out and not to undertake any irrevocable commitments to paying out dividends for the years 2019 and 2020, the Board of Directors of Banca Farmafactoring S.p.A. resolved to follow said guidance, confirming the Group's dividend policy and making the proposed payment of the Expected Total Dividend Payout for 2019 (€70.9 million) contingent on the resolution of the Covid-19 emergency and, in any case, not possible until October 1, 2020.

This decision was confirmed by the Board of Directors on August 6, 2020, after consulting with the Bank of Italy, also in light of the recommendations issued on July 27 and 28, 2020 by the European Central Bank (ECB) and the Bank of Italy, respectively, which extended the recommended ban through January 1, 2021.

To distribute the 2019 Expected Total Dividend Payout, totaling €70.9 million, as soon as possible in accordance with the conditions set by the banking regulator, on August 6, 2020 the Board of Directors announced that it plans to:

- submit the proposed €12.4 million dividend distribution out of the individual net profit for 2019 to an Ordinary Shareholders' Meeting to be held after January 1, 2021;
- take all steps necessary to proceed—in compliance with the provisions of Article 2433-bis of the Italian Civil Code—with the distribution of a further €58.5 million as an interim dividend out of the Bank's individual profits for Q3 2020, deferring the relevant resolutions to a Board meeting to be held on the same date as said Ordinary Shareholders' Meeting.

Said resolutions will be contingent on overcoming the uncertainty associated with the COVID-19 health emergency as well as the absence of further regulatory action.

Thanks to its strong financial position—bolstered by the Bank's dividend policy, under which BFF shall pay out the portion of net profit in excess of the minimum Total Capital Ratio of 15% (comfortably above the minimum regulatory requirement)—the low risk profile, and the resilience showed by the business model—capable of generating significant value for shareholders even at a time of crisis—BFF is confident it can execute the distribution of the 2019 Expected Total Dividend Payout, in the absence of further regulatory action, as soon as the relevant conditions are met and in accordance with the requirements of supervisory authorities. In this regard, in line with Option 1 under the European Central Bank's recommendation of March 27, 2020, the distribution of the 2019 Expected Total Dividend Payout does not reduce the level or quality of Common Equity Tier 1, as to date the relevant amount has not been considered when calculating capital requirements.

Covid 19 ("Coronavirus")

Significant events occurred during the reporting period include some factors that may affect stability and were related to the emergence and spread of Covid 19 (hereinafter referred to as "Coronavirus"); in early 2020 it broke out in China and spread to other countries, negatively affecting their economies.

Such instability factors—whose impact was, and still is, significant—are markedly affecting 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.

At the time being and based on assessments made, this health emergency and its macroeconomic consequences are not deemed to impact BFF Banking Group's future results, because BFF has adopted all the necessary measures to guarantee business continuity—also through remote working procedures—and to date operations have not been interrupted.

As for the work environment in the wake of the Coronavirus epidemic, please refer to the paragraph "The post-Covid-19 epidemic work environment" in the Report on Operations.
Meanwhile, the "Intangible Assets" section within Accounting Policies describes the technical aspects (rates and assumptions) underlying the impairment test of goodwill, conducted in accordance with IAS 36.

Statutory audit

The Shareholders' Meeting of Farmafactoring S.p.A. held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. to audit the financial statements from 2012 to 2020, pursuant to the provisions of Article 2409-bis of the Italian Civil Code and Legislative Decree 39/2010.
The independent auditors conducted a limited audit of the consolidated condensed interim financial statements at June 30, 2020.

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

Disclosure of the accounting policies adopted to prepare the consolidated condensed interim financial statements at June 30, 2020, with specific 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 Group has decided to use the Fair Value through Other Comprehensive Income (FVOCI) 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 Group 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:

- the government securities classified in the HTC&S portfolio 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 Fondo Interbancario di Tutela dei Depositi 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 statement of consolidated 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), and 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 this category is recognized in three different stages based on the relevant credit risk level.
More specifically, for Stage 1 instruments (financial assets that are not credit-impaired on initial recognition and instruments without significant increase in credit risk since initial recognition), 12-month expected credit losses are recognized at the initial recognition date and at each subsequent reporting date.
For Stage 2 instruments (assets with significant increase in credit risk since initial recognition but not credit-impaired) and Stage 3 instruments (credit-impaired exposures), lifetime expected credit losses are recognized instead.

For debt instruments, any circumstances indicating that the borrower or issuer is experiencing financial difficulties such as to prejudice the collection of principal or interest constitute evidence of 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's Circular no. 262 of December 22, 2005, this financial statement item includes:

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

Receivables due from banks mainly refer to ordinary current accounts held by the Group's companies and those generated by liquidity collected in the closing days of the period, pending clearance, relating to both receivables management contracts and management of non-recourse receivables.
Receivables due from customers are primarily comprised of receivables from debtors relating to factoring activities and late payment interest, computed based on receivables purchased on a non-recourse basis in accordance with 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 that 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) is recognized in the income statement only if it is probable that positive cash flows will be generated for the entity and their amount can be 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 is 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 2019, 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 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.

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

The Group carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets. IFRS 9 introduced the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are an estimate of the weighted probability of credit losses over the expected lifetime of the financial instrument. Since a loss may not necessarily occur before it is recognized in the financial statements, generally all financial assets will entail the recognition of a provision.
The approach adopted is represented by the general deterioration model, which envisages a three-stage classification. These stages reflect the deterioration of the credit quality of the financial instruments included within the scope of application of IFRS 9.
At each reporting date, the entity assesses whether there has been a significant change in credit risk compared to 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.

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 2019, merged into BFF Iberia effective December 31, 2019.

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 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 BFF Iberia, the Group did not recognize any impairment loss on the aforementioned goodwill.

In line 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.
On May 20, 2020, ESMA (European Securities and Market Authorities) issued the Public Statement Implications of the COVID-19 outbreak on the half-yearly financial reports, which includes recommendations for listed issuers as they get ready to prepare the half-yearly financial reports at June 30, 2020, considering the impact that the COVID-19 pandemic has had, is having, and will have on companies' financial position, financial performance, and cash flows.

ESMA reminds issuers that, in accordance with paragraphs 9 and 12 of IAS 36, they should assess whether there are any indications that an asset may be impaired on the basis of a set of internal and external sources of information. In making this assessment, issuers should carefully consider the effects of the COVID-19 outbreak which, in ESMA's view, would most likely constitute a strong basis to conclude that one or more of the impairment indicators in IAS 36 have been triggered.

In light of ESMA's requirement, the Group conducted impairment tests for its subsidiaries at June 30, 2020.

The recoverable amount of the two CGUs as at June 30, 2020 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.
Management did not deem it necessary to update the 2020 budget estimates and the 2021 plan to account for the effects related to the economic crisis caused by the COVID 19 pandemic, as the results at June 30, 2020 were in line with the budget for the same period (the business in which BFF Polska and BFF Iberia operate is anticyclical, i.e. the overall economic cycle has a limited impact on it).

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

In the analyses conducted at June 30, 2020, BFF has introduced an alpha coefficient as required by OIV (Organismo Italiano di Valutazione, the Italian Valuation Standard Setter) in the Discussion paper Exposure Draft ED1/2020 - Guidelines for impairment testing in the wake of the COVID 19 pandemic. This means that management deemed it appropriate to prudentially apply an additional risk factor to the cost of capital (Alpha Factor). Although the results at June 30, 2020 were in line with budget forecasts, and the analyst estimates in the table do not anticipate significant declines in performance for BFF, this factor was introduced to account for potential negative effects of the COVID-19 pandemic that could impact the future results for 2H2020 and 2021.

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

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

Measurement criteria

The amounts due to banks and customers are measured at their face value, since they are generally liabilities due within 18 months and in consideration of the fact that the effect of applying the amortized cost method would be negligible.
Debt securities issued are measured at amortized cost using the effective interest method.

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

Derecognition criteria

Financial liabilities are derecognized when the obligation specified in the contract is extinguished or following a substantial change in the contractual terms of the liability.
The derecognition of debt securities issued also occurs in the event of repurchase of securities previously issued, even if they are intended for subsequent resale. The gains or losses on the recognition of the repurchase as an extinguishment are recognized in the income statement when the repurchase price of the bonds is higher or lower than their carrying amount. Subsequent disposals of own bonds on the market are treated as the placement of new debt.

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 Italian Law no. 296 of 2006, the employee severance benefits accrued up to June 30, 2020 (which remain with the Company) under item 90 of liabilities, are computed by estimating the remaining length of the employment relationship, for individual persons or homogeneous groups, based on demographic assumptions:

- by projecting the accrued employee severance benefits, using demographic assumptions, to estimate the time of termination of employment;

by discounting to present value, at the measurement date, the amount of the accrued benefits at June 30, 2020, 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.

Approval of the new "Banca Farmafactoring Banking Group's Stock Option Plan 2020".

The Bank's Ordinary Shareholders' Meeting of April 2, 2020, having examined the relevant Report prepared by the Board of Directors, approved the "Banca Farmafactoring Banking Group's Stock Option Plan - SOP 2020", as laid out in the relevant Information Document, and resolved to vest the Board of Directors, and therefore the Chief Executive Officer, with the authority required to implement the resolution and the power to sub-delegate.

Authorization to purchase and sell treasury shares, after revocation of the part of Shareholders' Meeting Resolution dated March 28, 2019 not yet implemented.

The Bank's Ordinary Shareholders' Meeting of April 2, 2020, having examined the relevant Report prepared by the Board of Directors, resolved to revoke the previous authorization with respect to the shares not repurchased and to authorize the Board of Directors to purchase BFF ordinary shares, in one or multiple rounds over a period of 18 months starting from the date of the Meeting, for the purposes set out in the mentioned Report; the maximum number of shares to be purchased is 8,323,880, accounting for 5% of the Bank's share capital (considering the treasury shares already held).

Proposal of a free capital increase, including in installments, pursuant to Article 2349 of the Italian Civil Code, after revocation of the resolutions on delegated powers and capital increase with consideration and free of charge, passed by the Extraordinary Shareholders' Meeting of March 28, 2019 and the Board of Directors' Meeting of April 8, 2019, and relevant amendment to Article 5 of the Company Bylaws.

The Extraordinary Shareholders' Meeting of April 2, 2020, having examined the relevant Report prepared by the Board of Directors, resolved to:

- revoke, with respect to the portion not executed, (i) the capital increase with consideration approved by BFF's Extraordinary Shareholders' Meeting of March 28, 2019 for the purposes of the "Banca Farmafactoring Banking Group's Stock Option Plan" applicable from time to time, (ii) the authority granted to the Board of Directors by the Extraordinary Shareholders' Meeting of March 28, 2019 to increase the share capital free of charge by up to €3,003,000, issuing up to 3,900,000 new ordinary shares, for reasons related to the Company's remuneration and incentive policies, and (iii) the capital increase approved by the Board of Directors on April 8, 2019;
- increase the share capital, free of charge, without requiring all shares to be subscribed, and in multiple tranches by December 31, 2028, issuing up to 6,824,108 ordinary shares, for a total maximum amount of €5,254,563.16, to be allocated entirely to equity, by reallocating the same amount from the retained earnings reserve, for reasons related to the Company's remuneration and incentive policies, including the "Banca Farmafactoring Banking Group's Stock Option Plan - SOP 2020";
- amend article 5 of the Company Bylaws in light of the above;
- hereby vest the Board of Directors, and therefore the Vice Chairperson and Chief Executive Officer, with the authority to implement the above resolutions and amend Article 5 of the Bylaws from time to time as required by the resolutions as well as the execution and finalization of the capital increase.

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 condensed interim financial statements at June 30, 2020. 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, also because of the current Covid-19 ("Coronavirus") health

emergency, the current values recognized in the consolidated **condensed** interim financial statements at June 30, 2020 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 essentially concerns:

- the degree of recoverability and estimated collection times for late payment interest accrued on non-recourse receivables due to BFF, 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;
- employee benefit provisions based on actuarial assumptions, and provisions for risks and charges;
- the recoverability of deferred tax assets;
- the potential impairment of investments and the reported goodwill; based on the results at June 30, 2020, the Company found no trigger events that could impact the carrying amount of the investments and the reported goodwill.

Said risk of uncertainty in estimates could also be affected by the evolution of the Coronavirus health emergency. In terms of potential impact on its financial performance, should this situation persist, BFF may potentially benefit from greater customer demand, better pricing, and improved DSOs. However, the interruption of litigation proceedings could delay the receipt of late payment interest, but it would positively impact the increase in said provision and, therefore, boost future revenues.

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's 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[9].

  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

[9] 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)".*

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.

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

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

In line with IFRS 9, which establishes that PD estimates must incorporate not only the effects of current conditions (Point-in-Time conversions) but also macroeconomic and forecast information (supplementing forward-looking information), the Group incorporates 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, the 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.

IFRS9 – Update following the financial crisis associated with Covid-19

As at June 2020, based on a better understanding of the impact of the Covid-19 pandemic, the Bank began consultations with the ratings agency Moody's to assess the impact of the actual length of the pandemic, the return to normal conditions (i.e. to a pre-Covid 19 situation), and the time required to settle on a "new normal".

As for how long the pandemic will actually last, the studies conducted by the agency confirm that the impact concerns the 2020-2022 forecast period. Specifically, the economy is expected to contract dramatically in 2020 and then gradually recover between the second half of 2021 and 2022.

The return to normal conditions is expected for 2023 and 2024, reaching levels essentially in line with those prevailing before the Covid-19 pandemic. To settle on a "new normal", i.e. a scenario other than the one characterized by the impact of the pandemic, the agency expects a «long term growth» scenario to take hold starting from 2025.

For an analysis of the accounting impacts related to IFRS 9, please refer to the paragraph "The post-Covid-19 epidemic work environment" in the Report on Operations.

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 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, 2019, 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

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

A.4.2 Measurement processes and sensitivity

At June 30, 2020, BFF Banking Group did no longer have any financial instruments held for trading, whose fair value changes could impact the income statement at the end of the reporting period.

A.4.3 Fair value hierarchy

At June 30, 2020, as in 2019, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information

All amounts are stated in thousands of euros.

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

(Amounts in € thousands)

Financial assets/liabilities measured at fair value	06/30/2020			12/31/2019		
	L1	L2	L3	L1	L1	L1
1. Financial assets measured at fair value through profit or loss						
a) financial assets held for trading						
b) financial assets designated at fair value						
c) other assets mandatorily measured at fair value						
2. Financial assets measured at fair value through OCI	59,864	147	17	87,748	147	17
3. Hedging derivatives						
4. Property, plant and equipment						
5. Intangible assets						
Total	59,864	146	17	82,748	147	17
1. Financial liabilities held for trading						
2. Financial liabilities measured at fair value						
3. Hedging derivatives						
Total						

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

(Amounts in € thousands)

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	06/30/2020				12/31/2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	5,653,609	1,858,360		3,827,249	5,250,717	1,007,580		4,254,695
2. Property, plant and equipment held for investment								
3. Non-current assets and disposal groups held for sale								
Total	5,653,609	1,858,360		3,827,249	5,250,717	1,007,580		4,254,695
1. Financial liabilities measured at amortized cost	5,331,972	736,863		4,582,193	4,962,195	966,893		4,006,526
2. Liabilities associated with assets held for sale								
Total	5,331,972	736,863		4,582,193	4,962,195	966,893		4,006,526

Key:
CA = Carrying amount
L1 = Level 1: quoted prices (without adjustments) recognized in active markets according to the definition of IFRS 13.

L2 = Level 2: inputs other than quoted market prices included within Level 1 that are observable directly (prices) or indirectly (derived from the prices) in the market.
L3 = Level 3: inputs that are not based on observable market data.

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

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

Part B - Balance Sheet

All amounts are stated in thousands of euros.

ASSETS

Section 1 – Cash and cash equivalents – Item 10
€111,211 thousand

1.1 Cash and cash equivalents: breakdown

The balance includes the cash on hand at the different Group companies and unrestricted deposits with the Bank of Italy, amounting to €111,207 thousand.

Section 3 – Financial assets measured at fair value through OCI – Item 30
€60,028 thousand

The item mainly includes government securities purchased by BFF to hedge liquidity risk and to optimize the cost of money, for a total face value of €60 million.
These securities are Italian government securities earning interest at variable rates (CCT) and have residual maturity dates within five years.

The securities are classified as HTC&S (Held to Collect and Sell—previously AFS under IAS 39) and, therefore, they are measured at fair value. The interest earned is recognized in the income statement according to the effective rate of return.
At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity as part of the revaluation reserves, after tax.
At June 30, 2020, the negative reserves on the HTC&S government securities amounted to approximately €171 thousand, after tax.

The item also includes:

- the amount charged to BFF as part of its contributions to the Voluntary Scheme established by FITD in relation to the actions taken to support Cassa di Risparmio di Cesena for a total of €147 thousand.

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

Section 4 – Financial assets measured at amortized cost – Item 40
€5,653,609 thousand

This item is broken down as follows:
- due from banks of €37,885 thousand;
- due from customers of €5,615,724 thousand, which from January 1, 2018, based on guidance provided under the new IFRS 9, also include the Held to Collect (HTC) securities portfolio (formerly HTM) of €1,826,360 thousand.

Due from banks
€37,885 thousand

At June 30, 2020, receivables due from banks mainly refer to transactions relating to the current accounts held by BFF Banking Group's companies at the end of the reporting period.

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 06/30/2020						Total 12/31/2019					
	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	37,885			37,885			136,680			136,680		
1. Loans												
1.1. Current accounts and demand deposits	25,144			X	X	X	55,363			X	X	X
1.2. Fixed-term deposits	12,741			X	X	X	9,294			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	0			X	X	X	72,023			X	X	X
2. Debt securities												
2.1. Structured securities												
2.2. Other debt securities												
Total	37,885			37,885			136,680			136,680		

In particular, "Current accounts and demand deposits" mainly refer for €10,630 thousand to BFF, for €11,891 thousand to BFF Polska Group, and for €2,388 thousand to BFF Finance Iberia.

Fixed-term deposits consist almost entirely of restricted deposits. Such deposits mainly include €3,214 thousand in the mandatory reserve deposit with Depobank (formerly ICBPI/Nexi), as BFF is an indirect participant in that system, and €9,531 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.

This line item fell sharply compared to December 31, 2019 as BFF reduced credit exposures to banking counterparties classified as "Other loans" in the wake of the payments received in the first half of 2020.

This item does not include any impaired assets.

Due from customers
€5,615,724 thousand, including Held to Collect securities of €1,826,360 thousand

This item includes loans to customers of €3,789 million (mainly receivables due from debtors in relation to factoring activities) and €1.8 billion in debt securities in the HTC portfolio.

BFF Banking Group's receivables due from customers are measured at "amortized cost", determined based on the present value of estimated future cash flows.
BFF and BFF Finance Iberia's non-recourse receivables include both principal and late payment interest accruing as from the due date of the receivable. In order to compute amortized cost, including late payment interest recognized on an accrual basis, BFF updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. The outcome of this analysis has confirmed for 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.

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 2020, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF.

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

The cumulative amount of late payment interest due to BFF and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables (the so-called Provision for late payment interest), amounted to €678 million, of which only €264 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 €130.5 million. Of this amount, €65.6 million relates to non-performing loans (including €62.4 million concerning local entities in financial distress, of which €5.9 million were purchased already impaired) and €16.1 million to unlikely-to-pay exposures. Past due exposures amounted to €48.9 million, of which 57.3% referring to Italian public administration counterparties and public sector companies. Measurement of such past due exposures is carried out at the portfolio level since there are no objective indications of individual impairment.

Debt securities classified in the HTC portfolio, equal to €1,826,360 million, are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement. The amount is reported net of the relevant Loss Allowance, in accordance with IFRS 9.
At June 30, 2020, 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 €1,821 million and fair value of €1,858,360 million, with a negative difference (after taxes) of around €21.2 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 €5,615,724

(Amounts in € thousands)

Type of transaction/Amounts	Total 06/30/2020						Total 12/31/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3
1. Loans	3,658,842	130,521	5,894	0	0	3,789,364	4,011,855	106,160	5,655	0	0	4,118,015
1.1. Current accounts	3	1	0	X	0	X	2	0	0	X	X	X
1.2. Reverse repos												
1.3. Mortgages												
1.4. Credit cards, personal loans, salary-backed loans (*cessione del quinto*)												
1.5. Lease financing activities	2,667	0	0	X	X	X	3,092	0	0	X	X	X
1.6. Factoring	2,688,314	94,540	5,894	X	X	X	3,074,535	89,984	5,655	X	X	X
1.7. Other loans	967,859	35,981	0	X	X	X	934,226	16,175	0	X	X	X
2. Debt securities	1,826,360	0	0	1,858,360	0	0	996,022	0	0	1,007,580	0	0
2.1. Structured securities												
2.2. Other debt securities	1,826,360	0	0	1,858,360	0	0	996,022	0	0	1,007,580	0	0
Total	5,485,202	130,521	5,894	1,858,360		3,789,364	5,007,877	106,160	5,655	1,007,580	0	4,118,015

The breakdown is as follows:

Performing factoring amounted to a total of €2,688,314 thousand for BFF Banking Group.

This included non-recourse receivables purchased as "performing", registered under the name of the assigned debtor, with the conditions for recognition, and measured at "amortized cost", worth a total of €2,159,001 thousand for BFF and €379,240 thousand for the subsidiary BFF Finance Iberia. Non-recourse receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued or accruing late payment interest is acquired upon purchase.

These receivables include receivables sold, totaling €180,286 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 €24,766 thousand.

Performing recourse and non-recourse factoring of BFF Polska Group totaled €150,073 thousand.

- Other performing loans due from customers amounted to €967,859 thousand; they mainly include:
  - accrued late payment interest of about €150,428 thousand, including €125,271 thousand relating to BFF and €25,157 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 €264.2 million late payment interest recognized in the income statement over the years, and referring to the provision existing at June 30, 2020, €150.4 million refers to the item under review, while the remaining amount of €113.6 million was recognized under "factoring" as the principal has not yet been collected;
  - amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €106,199 thousand;
  - financing activities of BFF Polska Group of €693,931 thousand.

- Performing finance leases of BFF Polska Group totaled €2,667 thousand.

- BFF Banking Group's net impaired assets amounted to a total of €130,522 thousand. They include:

  - Non-performing loans: these are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the company.
    At June 30, 2020, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €65,588 thousand, of which €5,894 thousand purchased already impaired. Net non-performing loans concerning Italian local entities in financial distress amounted to €62,357 thousand, accounting for 95.1% of the total.
    Gross non-performing loans amounted to €78,172 thousand. Relevant impairment totaled €12,584 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 €1,571 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €79,743 thousand and relevant adjustments totaled €14,155 thousand.
    With reference to the Bank, at June 30, 2020 total non-performing loans, net of any estimated impairment losses, amounted to €65,046 thousand, of which €62,357 thousand concerned local entities in financial distress; this case is classified as non-performing, in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the interest at the end of the insolvency procedure.
    Specifically, the amount of €5,894 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.
    The remaining positions referring to BFF are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €13,008 thousand; after estimated impairment losses of €10,552 thousand, the net amount totaled €2,456 thousand.

  - BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that—absent such actions as the enforcement of guarantees—the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
    At June 30, 2020, gross exposures classified as unlikely to pay amounted to €18,350 thousand, of which €17,900 thousand attributable to BFF Polska Group and €450 thousand to BFF Finance Iberia. The total net amount was €16,067 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 €48,868 thousand, of which €27,995 thousand (57.3%) attributable to public administration counterparties and public sector companies in the various countries where BFF Banking Group operates. They consist of exposures that, at the end of the reporting period, were more than 90 days past due.
    More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days.
    BFF's overall amount of net past due exposures at June 30, 2020 was equal to €29,026 thousand. Of this amount, €24,928 thousand (equal to 85.9%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €16,684 thousand. The remaining past due exposures, for a net amount of €3,158 thousand, refer to BFF Finance Iberia and entirely concerned public administration counterparties.

Fair value

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

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

(Amounts in € thousands)

	Gross amount				Total adjustments			Total partial write-offs (*)
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	1,826,578	0	0	0	219	0	0	0
Loans	3,517,426	0	182,558	146,437	2,402	855	15,915	0
Total (06/30/2020)	5,344,005	0	182,558	146,437	2,620	855	15,915	0
Total (12/31/2019)	4,991,445	0	157,011	119,992	2,454	1,446	13,832	0
of which: impaired financial assets acquired or internally generated	X	X	0	6,113	X	0	218	0

Section 7 - Equity investments - Item 70

€193 thousand

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

7.1 Equity investments: information on investment relationships

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

Section 9 - Property, plant and equipment - Item 90
€16,705 thousand

At June 30, 2020, the item "Property, plant and equipment" amounted to a total of €16.7 million. Of this amount, €12,550 thousand related to BFF, €2,505 thousand to BFF Polska Group, and €1,650 thousand to BFF Finance Iberia. At June 30, 2019 the item relating to BFF was mainly composed of:

- land of €3,685 thousand, unchanged from December 31, 2019;
- buildings (including capitalized extraordinary maintenance) of €6,008 thousand, compared to €6,169 thousand at December 31, 2019;
- right-of-use assets relating to adoption of the new IFRS 16 on leases amounted to €4,939 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
€34,696 thousand (of which goodwill of €30,874 thousand)

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.

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 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.

On May 20, 2020, ESMA (European Securities and Market Authorities) issued the Public Statement Implications of the COVID-19 outbreak on the half-yearly financial reports, which includes recommendations for listed issuers as they get ready to prepare the half-yearly financial reports at June 30, 2020, considering the impact that the COVID-19 pandemic has had, is having, and will have on companies' financial position, financial performance, and cash flows.

ESMA reminds issuers that, in accordance with paragraphs 9 and 12 of IAS 36, they should assess whether there are any indications that an asset may be impaired on the basis of a set of internal and external

sources of information. In making this assessment, issuers should carefully consider the effects of the COVID-19 outbreak which, in ESMA's view, would most likely constitute a strong basis to conclude that one or more of the impairment indicators in IAS 36 have been triggered.

In light of ESMA's requirement, the Group conducted impairment tests for its subsidiaries at June 30, 2020.

The recoverable amount of the two CGUs at June 30, 2020 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.
Management did not deem it necessary to update the 2020 budget estimates and the 2021 plan to account for the effects related to the economic crisis caused by the COVID 19 pandemic, as the results at June 30, 2020 were in line with the budget for the same period (the business in which BFF Polska and BFF Iberia operate is anticyclical, i.e. the overall economic cycle has a limited impact on it).

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

In the analyses conducted at June 30, 2020, BFF has introduced an alpha coefficient as required by OIV (Organismo Italiano di Valutazione, the Italian Valuation Standard Setter) in the Discussion paper Exposure Draft ED1/2020 - Guidelines for impairment testing in the wake of the COVID 19 pandemic. This means that management deemed it appropriate to prudentially apply an additional risk factor to the cost of capital (Alpha Factor). Although the results at June 30, 2020 were in line with budget forecasts, and the analyst estimates in the table do not anticipate significant declines in performance for BFF, this factor was introduced to account for potential negative effects of the COVID-19 pandemic that could impact the future results for 2H2020 and 2021. Applying the Alpha Factor in the discount factor is tantamount to considering the effects of the revised 2019-2021 estimates made by S&P Capital IQ's analysts at July 2020 (-11%) for BFF and comparable entities in future results.

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. Using a Ke (calculated on the basis of the Capital Asset Pricing Model, considering the current market interest rate structure and the specific reference industry. Specifically, the Ke is the sum of the nominal rate of return on risk-free assets and a premium for the specific risk reflecting the riskiness of the situation in the reference industry) of 9.6%, the value in use totals €240.9 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 13.8%.

The main assumptions used in relation to BFF Polska are as follows:

- the Risk-free rate of 1.39%, based on the annual gross return of the Polish 10-year government bond benchmark at June 30, 2020;
- the average market return (5.23%) 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 24 months, on a monthly basis, for a sample comprising 5 listed comparables;
- the country risk premium of 1.25% corresponding to the country risk of the countries in which BFF Polska operates;
- 0.91% alpha coefficient;
- the growth rate (g, 1.8%) 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 sensitivity analysis shows the value in use of the CGU as the cost of capital (ke) and growth rate change. Assuming a Ke of 9.85%. The value in use totals €118.3 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 56.3% 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 June 30, 2020;
- the average market return (5.23%) 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 24 months, on a monthly basis, for a sample comprising 5 listed comparables;
- the country risk premium of 2.35% corresponding to the country risk of the country in which BFF Finance Iberia operates;
- 0.97% alpha coefficient;
- the growth rate (g, 0.9%) 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 June 30, 2020 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 for the entire Banking Group).

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

Current tax assets totaled €15,790 thousand; they mainly include advance payments for IRES and IRAP taxes made by BFF.
Current tax liabilities amounted to €14,282 thousand; they include the accrual of current income taxes for the first half of 2019 of Group companies.

11.1 Deferred tax assets: breakdown
€11,272 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.

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11.2 Deferred tax liabilities: breakdown

€76,288 thousand

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

Section 13 - Other assets - Item 130

€19,071 thousand

13.1 Other assets: breakdown

(Amounts in € thousands)

Breakdown	06/30/2020	12/31/2019
Security deposits	104	132
Inventories	565	333
Other receivables	13,957	7,081
Accrued income and prepaid expenses	4,445	4,016
Total	19,071	11,562

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

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

LIABILITIES

Section 1 – Financial liabilities measured at amortized cost – Item 10
€5,331,972 thousand

This item is broken down as follows:

- due to banks of €941,670 thousand;
- due to customers of €3,540,502 thousand;
- debt securities issued of €849,801 thousand.

Due to banks
€941,670 thousand

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 06/30/2020				Total 12/31/2019			
	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	941,670	X	X	X	1,142,841	X	X	X
2.1 Current accounts and demand deposits	127,585	X	X	X	109,200	X	X	X
2.2 Fixed-term deposits	814,085	X	X	X	1,033,640	X	X	X
2.3 Loans		X	X	X		X	X	X
2.3.1 Repos	0	X	X	X		X	X	X
2.3.2 Other	0	X	X	X		X	X	X
2.4 Payables following commitments to repurchase treasury shares	0	X	X	X		X	X	X
2.5 Lease payables	0	X	X	X		X	X	X
2.6 Other payables	0	X	X	X		X	X	X
Total	941,670			941,670	1,142,841			1,142,841

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

The item "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 €42 million) and partially with the Intesa Sanpaolo Group (PLN 170 million, equivalent to €38 million). Payables due to banks decreased compared to the end of the previous year.

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

€3,540,502 thousand

(Amounts in € thousands)

Type of transaction/Amounts	Total 06/30/2020				Total 12/31/2019			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	97,259	X	X	X	53,760	X	X	X
2. Fixed-term deposits	1,451,704	X	X	X	1,304,551	X	X	X
3. Loans		X	X	X		X	X	X
3.1 repos	1,843,687	X	X	X	995,513	X	X	X
3.2 other	129,101	X	X	X	306,792	X	X	X
4. Payables following commitments to repurchase treasury shares	0	X	X	X		X	X	X
5. Lease payables	4,072	X	X	X	5,060	X	X	X
6. Other payables	14,678	X	X	X	47,986	X	X	X
Total	3,540,502	3,540,502			2,713,662	2,713,662		

The item "Due to customers" includes €1,549 million for online deposit accounts offered in Italy, Spain, Germany, the Netherlands, Ireland and Poland (restricted deposits and current accounts), compared to €1,358 million at December 31, 2019.
The counterparty in repos, amounting to €1,843 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

Other loans, worth a total of €129 million, mainly refer to payables due to financial institutions deriving from existing cooperation between BFF and other Italian factoring companies.

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

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

€849,801 thousand

(Amounts in € thousands)

Type of securities/Amounts	Total 06/30/2020				Total 12/31/2019			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds					1,105,692	966,893	0	150,023
1.1 structured								
1.2 other	849,801	736,863	0	100,022	1,105,692	966,893	0	150,023
2. other securities								
2.1 structured								
2.2 other								
Total	**849,801**	**736,863**	**0**	**100,022**	**1,105,692**	**966,893**	**0**	**150,023**

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

Debt securities issued consist of bonds issued by the Parent BFF, and the relevant SPV. They have a total face value of €850 million and are recognized in the financial statements (to the tune of €849.8 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%;
- €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 Ba1 rating assigned by Moody's, issued by Banca Farmafactoring in October 2019, due in May 2023. The bonds pay an annual coupon of 1.75%;
- €100 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
€90,570 thousand

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

Section 8 – Other liabilities – Item 80
€83,941 thousand

8.1 Other liabilities: breakdown

(Amounts in € thousands)

Breakdown	Total 06/30/2020	Total 12/31/2019
Payables to suppliers	565	1,321
Invoices to be received	9,630	12,289
Payables to tax authorities	2,198	1,323
Payables to social security agencies	489	743
Payables to employees	5,834	6,524
Payables for receivables management	181	0
Collections pending allocation	35,264	30,495
Other payables	26,231	11,813
Accrued liabilities and deferred income	3,548	817
Total	83,941	65,325

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

"Collections pending allocation" refer to payments received by June 30, 2020 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" mainly include portions of collections to be transferred and other pending items.

Section 9 – Employee severance benefits – Item 90
€700 thousand

The liability recorded in the financial statements at June 30, 2020 in relation to employee severance benefits is equal to the current value of the obligation, estimated by an independent actuary on the basis of demographic and economic assumptions.
Other decreases include outflows from the provision for employee severance benefits to pension funds and the differences resulting from actuarial valuation recognized directly in equity.
The main actuarial assumptions used to determine the liability at June 30, 2020 are shown below.

Actuarial assumptions

Annual discount rate

The financial basis used to calculate the present value of the obligation was determined, in line with para. 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
€6,217 thousand

10.1 Provisions for risks and charges: breakdown

(Amounts in € thousands)

Items/Amounts	Total 06/30/2020	Total 12/31/2019
1. Provisions for credit risk on commitments and financial guarantees provided	643	580
2. Provisions for other commitments and guarantees provided	0	
3. Pension funds	4,325	4,313
4. Other provisions for risks and charges		
4.1 legal and tax disputes		
4.2 personnel expenses		
4.3 other	1,249	1,519
Total	6,217	6,412

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 IFRS 9.
The pension fund refers mainly to the non-compete agreement entered into with BFF Banking Group's managers and the provision relating to the deferred payment incentive scheme envisaged for specific BFF employees.

10.5 Defined benefit pension funds

Below are the main changes in this provision:

- €198 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;
- €356 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;
- €16 thousand increase related to the discounting of the non-compete agreement and the deferred MBO as calculated with the support of an external advisor at June 30, 2020;
- €512 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 for actuarial valuation purposes are the following:

Non-compete agreement

The annual discount rate used to calculate the present value of the obligation was deduced, in compliance with paragraph 83 of IAS 19, from the iBoxx Corporate AA Index with 10+ duration, reported at June 30, 2020 and equal to 0.74%. 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 Officer	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 0.04%.

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

€409,175

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

€131,399 thousand and €-3,784 thousand

(Amounts in € thousands)

Type	06/30/2020	12/31/2019
1. Share capital	**131,399**	**131,326**
1.1 Ordinary shares	131,399	131,326
2. Treasury shares	**(3,784)**	**(1,763)**

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

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

Items/Types	Ordinary	Other
A. Shares at the beginning of the year	**170,223,002**	
- fully paid	170,553,778	
- not fully paid		
A.1 Treasury shares (-)	(330,776)	
A.2 Shares outstanding: opening balance	**170,223,002**	
B. Increase	221,576	
B.1 New issues		
- against payment:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other	0	
- free:		
- to employees	94,568	
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes	127,008	
C. Decrease	**(521,830)**	
C.1 Cancellation		
C.2 Purchase of treasury shares	(521,830)	
C.3 Transactions for sale of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**169,922,748**	
D.1 Treasury shares (+)	(725,598)	
D.2 Shares outstanding at the end of the year		
- fully paid	170,648,346	
- not fully paid		

13.4 Retained earnings reserves: other information

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

(Amounts in € thousands)

	06/30/2020	Possibility of use (a)	Amount available	Summary of use in the last three years	
				For absorption of losses	For other reasons
Share capital	**131,399**				
Reserves	**240,829**				
- Legal reserve	27,417	*B*			
- Extraordinary reserve	89	*A, B, C*	89		
- Retained earnings reserve	147,543	*A, B, C*	116,640		23,225
- Stock option and financial instrument reserves	7,338	*A*			
- Other reserves	58,443				
Revaluation reserves	**2,500**				
- HTC&S securities	(171)				
- Other	2,671				
Treasury share reserve	**(3,784)**				
Share premium	**693**	*A, B, C*	693		
Total share capital and reserves	**371,637**		**116,729**		

(a) Possibility of use: *A* = for share capital increases; *B* = for absorption of losses; *C* = for distribution to shareholders.
(*) The uses made in the last three years, equal to €23,225 thousand, also include €246 thousand relative to share capital increases made in the last two years.

Changes in Reserves are as follows:

(Amounts in € thousands)

	Legal reserve	Retained earnings	Other	Total
A. Opening balance	**27,417**	**112,996**	**6,857**	**147,270**
B. Increase	**0**	**93,010**	**1,401**	**94,411**
B.1 Appropriation of profit	.	(13,044)		(13,044)
B.2 Other changes	0	106,054	1,401	107,455
C. Decrease	**0**	**0**	**(852)**	**(852)**
C.1 Uses				
- absorption of losses				
- distribution				
- transfer to share capital				
C.2 Other changes			(852)	(852)
D. Closing balance	**27,417**	**206,006**	**7,406**	**240,829**

Retained earnings reserve

The net €93 million increase was attributable to the retained earnings of the subsidiaries and the fact that the Group did not distribute dividends for the year 2019 (totaling €70.9 million) to shareholders, as clearly recommended by the European Central Bank—causing them to be temporarily included in the "Retained earnings reserve". For further details, reference should be made to the specific paragraph in the Report on Operations.

Other reserves

The net increase in this item mainly refers to the positive impact arising from the granting, during the first half of 2020, of option rights related to the two stock option plans of BFF, partly offset by the options exercised by some employees during the reporting period, for a total of €1.3 million (recorded in accordance with the provisions of IFRS 2 through the recognition of personnel costs in the income statement, and a corresponding increase in equity), and to the negative impact (€850 thousand) arising from the use of reserves to pay the variable remuneration of so-called Risk Takers, in accordance with the provisions set forth in Part I, Title IV, Chapter 2, Section III, paragraphs 2.1, 3 of Circular no. 285/2013, as subsequently amended, issued by the Bank of Italy, according to which a portion must be paid in financial instruments.

Part C - Consolidated Income Statement

Section 1 - Interest - Items 10 and 20

1.1 Interest and similar income: breakdown
€116,536 thousand

(Amounts in € thousands)

Items/Types	Debt securities	Loans	Other transactions	Total 06/30/2020	Total 06/30/2019
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	44		X	**44**	**64**
3. Financial assets measured at amortized cost:					
3.1 Due from banks		173	X	**173**	**244**
3.2 Due from customers	4,950	111,260	X	**116,210**	**108,268**
4. Hedging derivatives	X	X			
5. Other assets	X	X	109	**109**	
6. Financial liabilities	X	X	X	**0**	
Total	**4,995**	**111,433**	**109**	**116,536**	**108,576**
of which: interest income on impaired financial assets					
of which: interest income on finance leases		109		109	209

1.2 Interest and similar income: other information

Interest income concerning "Financial assets measured at fair value through OCI" of €44 thousand was generated by government securities purchased by BFF to hedge liquidity risk and optimize the cost of money.
The securities are classified as HTC&S and, therefore, measured at fair value. The interest earned is recorded in the income statement according to the effective rate of return.
Interest income concerning receivables "Due from banks" refers to credit balances on BFF Banking Group current accounts held with the banking system.

Interest income on receivables "Due from customers" for loans amounted to €111,260 thousand and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse receivables and late payment interest for the year, relating to BFF and BFF Finance Iberia.
Interest income on debt securities linked to receivables due from customers and totaling approximately €4.9 million derive from government securities purchased by BFF to hedge liquidity risk and to optimize the cost of money, relating to the HTC portfolio (Held to Collect—previously HTM under IAS 39). Government securities classified according to the HTC business model have been reclassified as receivables due from customers starting January 1, 2018.

BFF and BFF Finance Iberia update the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. The outcome of

this analysis has confirmed for 2019, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's portfolio, for a total amount of €30 million.

1.3 Interest and similar expenses: breakdown
€26,040 thousand

(Amounts in € thousands)

Items/Types	Payables	Securities	Other transactions	Total 06/30/2020	Total 06/30/2019
1. Financial liabilities measured at amortized cost					
1.1 Due to central banks		X	X		
1.2 Due to banks	9,868	X	X	9,868	9,804
1.3 Due to customers	5,850	X	X	5,850	4,810
1.4 Debt securities issued	X	10,286	X	10,286	8,106
2. Financial liabilities held for trading	0	0	0	0	
3. Financial liabilities designated at fair value	0	0	0	0	
4. Other liabilities and provisions	X	X	3	3	
5. Hedging derivatives	X	X	0	0	
6. Financial assets	X	X	X	33	
Total	15,717	10,286	3	26,040	22,720
of which: interest expense relating to lease payables	75				

Interest expense increased from €22.7 million at June 30, 2019 to €26 million at June 30, 2020.

Interest expense on payables "Due to banks" was essentially in line with the prior-year period and included also the interest on loan agreements denominated in zloty used to acquire BFF Polska Group.

Interest expense on payables "Due to customers" mainly refers to interest expense relating to the online deposit accounts of BFF: specifically, €1,126 thousand for Conto Facto, offered in Italy, €5,762 thousand for Cuenta Facto and €708 thousand for Lokata Facto, offered in Spain and Poland respectively by the two foreign branches of BFF that take deposits from the general public.
This item also includes interest expense of €243 thousand on loans granted by other factoring companies, in addition to interest (income) on repurchase agreements to the tune of €2,806 thousand.

Finally, interest expense on "Debt securities issued" was up because of the new bond issued in late 2019, with a nominal amount of €300 million.

BFF BANKING GROUP

2.1 Fee and commission income: breakdown

€3,268 thousand

(Amounts in € thousands)

Type of service/Amounts	Total 06/30/2020	Total 06/30/2019
a) guarantees provided	150	
b) credit derivatives		
c) management, brokerage and consulting services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management		
3.1 individual		
3.2 collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. receipt and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third-party services		
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other products		
d) collection and payment services	3,057	3,217
e) securitization servicing		
f) factoring services		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts	61	0
j) other services		
Total	3,268	3,217

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
€936 thousand

(Amounts in € thousands)

Services/Amounts	Total 06/30/2020	Total 06/30/2019
a) guarantees received	258	74
b) credit derivatives		
c) management and brokerage services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities		
5. placement of financial instruments		
6. off-site distribution of financial instruments, products and services		
d) collection and payment services		
e) other services	677	720
Total	936	794

The item mainly refers to expenses on existing banking relationships.

4 – Gains (losses) on trading – Item 80
€3,956 thousand

4.1 Gains (losses) on trading: breakdown

(Amounts in € thousands)

Transactions/Income components	Capital gains (A)	Gains on trading (B)	Capital losses (C)	Losses on trading (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in CIUs					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	X	X	X	X	**3,816**
4. Derivative instruments					
3.1 Financial derivatives:					
- on debt securities and interest rates					
- on equity securities and equity indices					
- on currency and gold	X	X	X	X	140
- other					
3.2 Credit derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total					**3,956**

Gains (losses) on trading mainly arise from the positive exchange effect recognized in the income statement, arising from the revaluation of exchange rates applied to the loans payable in Polish zloty used for the acquisition of BFF Polska Group and amounting, at June 30, 2020, to €3.9 million, before taxes, compared to the negative effect amounting to €1.2 million at the end of the prior-year period, offset by a negative effect from the devaluation of the exchange rates applied to BFF Polska Group's equity in consolidated equity.

Section 6 – Gains (losses) on disposal or repurchase – Item 100
€21 thousand

6.1 Gains (losses) on disposal or repurchase: breakdown

(Amounts in € thousands)

Items/Income components	Total 06/30/2020			Total 06/30/2019		
	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	-	-	-			0
2. Financial assets measured at fair value through OCI						
2.1 Debt securities	86	(65)	21	3,101	(2,893)	207
2.2 Loans						
Total assets (A)	86	(65)	21	3,101	(2,893)	207
Financial liabilities measured at amortized cost						
1. Due to banks						
2. Due to customers						
3. Debt securities issued	56		56			
Total liabilities (B)	56	0	56	0	0	0

The amount refers to the sale of government securities in the Held to Collect and Sell (HTC&S) portfolio during the year, resulting in a net gain of €21 thousand, before the tax effect.

Section 8 – Net adjustments/reversals of impairment – Item 130
€2,330 thousand

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

(Amounts in € thousands)

Transactions/Income components	Adjustments (1)			Reversal of impairment (2)		Total (06/30/2020)	Total (06/30/2019)
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Due from banks	0	0	0	1	0	1	0
- Loans	0	0	0	1	0	1	
- Debt securities	0	0	0	0	0	0	
of which: impaired loans acquired or internally generated	0	0	0	0	0	0	
B. Due from customers	-629	-481	-2,231	863	148	-2,331	(449)
- Loans	-537	-481	-2,231	863	148	-2,239	(448)
- Debt securities	-92	0	0	0	0	-92	(1)
of which: impaired loans acquired or internally generated	0	0	0	0	6	6	
Total	-629	-481	-2,231	864	148	-2,330	(449)

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

(Amounts in € thousands)

Transactions/Income components	Adjustments (1)			Reversals of impairment (2)		Total 06/30/2020	Total 06/30/2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	(3)	0	0	4	0	1	2
B. Loans							
- to customers	0	0	0	0	0		
- to banks	0	0	0	0	0		
of which: financial assets impaired or internally generated	0	0	0	0	0		
Total	(3)	0	0	4	0	1	2

Section 12 – Administrative expenses – Item 190

€42,254 thousand

12.1 Personnel costs: breakdown

€20,594 thousand

(Amounts in € thousands)

Type of expense/Sectors	Total 06/30/2020	Total 06/30/2019
1) Employees		
a) wages and salaries	13,089	10,762
b) social security contributions	3,557	2,983
c) employee severance benefits		
d) pension		
e) allocation to employee severance benefits	282	224
f) provision for pension and other post-employment benefits:		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds:		
- defined contribution		
- defined benefit	88	81
h) costs of share-based payment arrangements	279	778
i) other employee benefits	2,191	1,919
2) Other staff in service	113	295
3) Directors and Statutory Auditors	995	1,055
4) Early retirement costs		
Total	20,594	18,098

The increase in this item can mainly be traced to an increased number of employees compared to the prior-year period.
The amount also includes expenses for the two stock option plans reserved to some employees, equal to €1.5 million before taxes. Such cost also generates an increase, before taxes, in equity.

12.5 Other administrative expenses: breakdown
€21,660 thousand

(Amounts in € thousands)

Breakdown	Total 06/30/2020	Total 06/30/2019
Legal fees	2,087	1,313
Data processing services	944	800
External credit management services	546	519
Supervisory Body fees	20	20
Legal fees for receivables under management	69	112
Notary fees	342	279
Notary fees to be recovered	399	707
Entertainment expenses and donations	886	558
Maintenance expenses	1,055	803
Non-deductible VAT	2,036	1,624
Other taxes	342	641
Advisory fees	4,971	4,016
Head office operating expenses	693	667
Resolution Fund and FITD	3,591	2,731
Other expenses	3,681	3,124
Total	21,661	17,916

Other administrative expenses at June 30, 2020 amounted to €21.6 million, up from the same period in the previous year.

Furthermore, with regards to contributions to the Deposit Guarantee Scheme, a cost of €3.6 million before taxes was recorded at June 30, 2020. This cost was mainly made up of:

- €2.3 million as ordinary annual contribution to the Resolution Fund, and €0.7 million as extraordinary contribution for 2018 (both already paid);
- €0.6 million to the FITD, arising from monthly estimates of ordinary contribution (not yet paid).

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

Section 13 – Net allocations to provisions for risks and charges – Item 200
€186

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

(Amounts in € thousands)

Breakdown	Total 06/30/2020	Total 06/30/2019
Provision for risk on commitments and guarantees	68	68
Total	68	68

13.3 Net allocations to provisions for risks and charges: breakdown

(Amounts in € thousands)

Breakdown	Total 06/30/2020	Total 06/30/2019
Pension and other post-employment benefits	695	(357)
Other provisions	(763)	0
Total	(68)	(357)

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

Section 14 – Net adjustments to/reversals of impairment of property, plant and equipment – Item 210
€1,872 thousand

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

Section 15 – Net adjustments to/reversals of impairment of intangible assets – Item 220
€1,035 thousand

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

Section 16 – Other operating income (expenses) – Item 230
€2,967 thousand

16.1 Other operating expenses: breakdown

(Amounts in € thousands)

Breakdown	Total 06/30/2020	Total 06/30/2019
Contingent expenses	(221)	(390)
Rounding off and allowance expenses	(5)	(13)
Other expenses	(1,360)	(391)
Deposit guarantee scheme expenses		
Tax expenses	(73)	(147)
Total	**(1,659)**	**(941)**

16.2 Other operating income: breakdown

(Amounts in € thousands)

Breakdown	Total 06/30/2020	Total 06/30/2019
Recovery of legal fees for purchases of non-recourse receivables	778	738
Recovery of management legal fees	52	110
Receivables realized at other than face value		
Contingent assets	1,301	170
Recovery of assignor notary expenses	572	714
Other income	1,923	1,762
Total	**4,626**	**3,494**

BFF recognized an amount of about €1.4 million under the item "Other income" in relation to the collection of invoices for reimbursement of costs incurred when recovering amounts not promptly paid by debtors.

Section 21 – Income taxes on profit (loss) from continuing operations – Item 300
€14,799 thousand

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

(Amounts in € thousands)

Income components/Sectors	Total 06/30/2020	Total 06/30/2019
1. Current taxes (-)	8,087	8,090
2. Change in current taxes of prior years (+/-)		
3. Reduction in current taxes for the year (+)		
3.bis Reduction in current taxes for the year due to tax credit under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)		(68)
5. Change in deferred tax liabilities (+/-)	6,713	4,574
6. Taxes for the year (-) (-1+/-2+3+3 bis +/-4+/-5)	14,799	12,596

Section 25 – Earnings per share

25.1 Average number of diluted ordinary shares

(Amounts in € thousands)

Breakdown	06/30/2020	06/30/2019
Average number of shares outstanding	170,648,346	170,076,490
Average number of potentially dilutive shares	11,059,438	8,049,738
Weighted average number of potentially dilutive shares	181,707,784	178,126,228

25.2 Other information

(Amounts in € thousands)

Breakdown	06/30/2020	06/30/2019
Consolidated net profit for the period (in euros)	37,539,325	38,088,286
Average number of shares outstanding	170,648,346	170,076,490
Average number of potentially dilutive shares	11,059,438	8,049,738
Weighted average number of potentially dilutive shares	181,707,784	178,126,228
Basic earnings per share (in euros)	**0.22**	**0.22**
Diluted earnings per share (in euros)	**0.21**	**0.21**

Part D - Consolidated Comprehensive Income

Consolidated Statement of Comprehensive Income

(*Amounts in euros*)

	Items	06/30/2020	06/30/2019
10.	**Profit (loss) for the period**	**37,539,325**	**38,088,286**
	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	6,674	(49,008)
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	(1,835)	13,477
	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	(5,321,905)	1,826,324
130.	Cash flow hedges:		
	a) fair value changes	0	0
	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	(136,330)	1,548,343
	b) reclassification to profit or loss		
	- adjustments for credit risk		
	- capital gains (losses)		
	c) other changes		
160.	Non-current assets and disposal groups held for sale:		
	a) fair value changes		
	b) reclassification to profit or loss		
	c) other changes		
170.	Portion of revaluation reserves relating to equity investments measured using the equity method:		
	a) fair value changes		
	b) reclassification to profit or loss		
	- impairment losses		
	- capital gains (losses)		
	c) other changes		
180.	Income taxes on OCI that will be reclassified to profit or loss	1,383,331	(588,012)
190.	**Total other comprehensive income**	**(4,070,065)**	**2,751,124**
200.	**Comprehensive income (Items 10+190)**	**33,469,260**	**40,839,410**
210.	Consolidated comprehensive income attributable to non-controlling interests		
220.	**Consolidated comprehensive income attributable to the Parent**	**33,469,260**	**40,839,410**

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 has 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 corporate 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 impaired exposures	Not impaired exposures	Total
1. Financial assets measured at amortized cost	65,588	16,067	48,868	811,929	4,711,158	5,653,609
2. Financial assets measured at fair value through OCI	0	0	0	0	59,864	59,864
3. Financial assets designated at fair value	0	0	0	0	0	0
4. Other financial assets mandatorily measured at fair value	0	0	0	0	0	0
5. Financial assets held for sale	0	0	0	0	0	0
Total (06/30/2020)	65,588	16,067	48,868	811,929	4,771,022	5,713,473
Total (12/31/2019)	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	146,437	15,915	130,522	0	5,526,562	3,475	5,523,087	5,653,609
2. Financial assets measured at fair value through OCI	0	0	0	0	59,872	8	59,864	59,864
3. Financial assets designated at fair value	0	0	0	0	X	X	0	0
4. Other financial assets mandatorily measured at fair value	0	0	0	0	X	X	0	0
5. Financial assets held for sale	0	0	0	0	0	0	0	0
Total (06/30/2020)	146,437	15,915	130,522	0	5,586,434	3,483	5,582,951	5,713,473
Total (12/31/2019)	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 these two types of services: "receivables management only" and "recourse factoring".

In the "receivables management only" service, credit risk is minor because it is limited to the Group's exposure to the customer for payment of the agreed fees and commissions, that is, the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process, although the credit line can be approved by a single-person body.

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

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

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

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

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

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

- 0% for 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 June 30, 2020 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 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).
The macroeconomic scenarios used to supplement FL information are updated in March each year. However, to include the effects of the Covid-19 pandemic, when preparing the 2020 interim report the Group updated the scenarios once again to incorporate the recessionary impact of the economy.

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 impaired 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 impaired past due exposures, for a total of €106.2 million—net of individual impairment—and are broken down as follows:

- €65.6 million NPLs;
- €16.1 million unlikely to pay exposures;
- €48.9 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 might 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's Circular no. 272, BFF Banking Group's net "Impaired assets" amounted to a total of €130,522 thousand. They include:

- Non-performing loans: these are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the company.
  At June 30, 2020, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €65,588 thousand, of which €5,894 thousand purchased already impaired. Net non-performing loans concerning Italian local entities in financial distress amounted to €62,357 thousand, accounting for 95.1% of the total.
  Gross non-performing loans amounted to €78,172 thousand. Relevant impairment totaled €12,584 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 €1,571 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €79,743 thousand and relevant adjustments totaled €14,155 thousand.
  With reference to the Bank, at June 30, 2020 total non-performing loans, net of any estimated impairment losses, amounted to €65,046 thousand, of which €62,357 thousand concerned local entities in financial distress; this case is classified as non-performing, in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the interest at the end of the insolvency procedure.
  Specifically, the amount of €5,894 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.
  The remaining positions referring to BFF are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €13,008 thousand; after estimated impairment losses of €10,552 thousand, the net amount totaled €2,456 thousand.

- BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that—absent such actions as the enforcement of guarantees—the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
  At June 30, 2020, gross exposures classified as unlikely to pay amounted to €18,350 thousand, of which €17,900 thousand attributable to BFF Polska Group and €450 thousand to BFF Finance Iberia. The total net amount was €16,067 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 €48,868 thousand, of which €27,995 thousand (57.3%) attributable to public administration counterparties and public sector companies in the various countries where BFF Banking Group operates. They consist of exposures that, at the end of the reporting period, were more than 90 days past due.
  More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days.
  BFF's overall amount of net past due exposures at June 30, 2020 was equal to €29,026 thousand. Of this amount, €24,928 thousand (equal to 85.9%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €16,684 thousand. The remaining past due exposures, for a net amount of €3,158 thousand, refer to BFF Finance Iberia and entirely concerned public administration counterparties.

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 June 30, 2020 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's Circular no. 285/2013 (Part I, Title III, Chapter I) and provided for by recent guidelines issued by the European Banking Authority (EBA)10. 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: for each period, 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 and Administration 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.

With respect to the interest rate risk associated with the currencies relevant to the Banking Group, in the first half of the year Central Banks have implemented expansionary monetary policy measures to address the COVID19 pandemic scenario: notably, the Polish National Bank has, among other things, cut interest rates by 140 bps (from 150 bps to 10 bps)—and this was reflected in Wibor benchmarks already in April, May, and June.

With respect to the largely floater nature of the Group's funding structure denominated in Polish Zloty, in the back half of the first six months of the year the Group registered a decline in the cost of funding.

At June 30, 2020, with respect to the funding and lending structure, there were no significant changes at the Group level in the operational risk indices regularly monitored by the Finance and Administration Department.

1.2.3 Exchange rate risk

Qualitative information

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

The Group's asset portfolio at June 30, 2020 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 currency position 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 June 30, 2020.

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

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

BFF Banking Group's LCR and NSFR at June 30, 2020, calculated by considering the scope of consolidation envisaged by the CRR, were equal to 520.1% and 105.2%, respectively, compared to 476.9% and 106.6% at December 31, 2019.

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 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.
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 assessments.
Within the framework of the measures adopted regarding the exposure to operational risk, the following specific risks are also monitored by the Group:

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

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

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

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

Part F - Consolidated Equity

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation used solely for prudential supervisory reporting includes 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	131,399				131,399
2. Share premium	693				693
3. Reserves	240,829				240,829
4. Equity instruments					
5. (Treasury shares)	(3,784)				(3,784)
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	(171)				(171)
- Property, plant and equipment					
- Intangible assets					
- Hedges of foreign investments					
- Cash flow hedges	-				-
- Hedging instruments [not designated]	-				-
- Exchange differences	1,306				1,306
- 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	(158)				(158)
- 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 year (+/-) attributable to the group and non-controlling interests	37,539				37,539
Total	409,176				409,176

BFF BANKING GROUP

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's Circular no. 285 "*Supervisory provisions for banks*" and Circular no. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*", both dated December 17, 2013—based on Regulation (EU) no. 575/2013, relating to the new harmonized regulations for banks and investment companies, included in the EU Capital Requirements Regulation (CRR) and in the EU Capital Requirements Directive (CRD IV) of June 26, 2013.

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

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

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);
- undistributed portion of profit for the year, if any;
- revaluation reserves (IASs/IFRS 9 transition reserve, reserve for actuarial gains/losses relating to defined benefit plans, and revaluation reserve for HTC&S securities);
- any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets, including goodwill, if any, are deducted from the above.

Additional Tier 1 (AT1) and Tier 2 (T2) capital include exclusively the non-controlling interests which can be recognized in consolidated own funds, in accordance with the CRR, Part 2, Title II "Minority interest and Additional Tier 1 and Tier 2 instruments issued by subsidiaries".

Quantitative information

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

(Amounts in € thousands)

	Total 06/30/2020	Total 12/31/2019
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	300,762	336,910
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)	300,762	336,910
D. Items to be deducted from CET1	- 34,756	- 35,351
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	266,006	301,559
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)	364,230	399,783

Own funds of the CRR Group are presented below.

(Amounts in € thousands)

	Total 06/30/2020	Total 12/31/2019
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	434,565	415,759
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)	434,565	415,759
D. Items to be deducted from CET1	- 62,106	- 110,485
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		-
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	372,459	305,275
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects	36,283	29,051
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	36,283	29,051
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects	70,225	71,187
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)	70,225	71,187
Q. Total Own Funds (F + L + P)	478,967	405,512

The change in the CRR Group's own funds at June 30, 2020 was influenced by the divestments carried out by BFF Luxembourg S.à r.l. (Centerbridge) on January 14, 2020 and June 1, 2020, which caused BFF Luxembourg S.à r.l.'s interest in BFF to decline from 32.77% to 11.93%.

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.

Own funds do not include the profit for the period and the Expected Total Dividend Payout for 2019, amounting to €70.9 million.

2.3 Capital adequacy

A. Qualitative information

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

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

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

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

In accordance with the provisions of Bank of Italy's Circular no. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).
The Group's total exposure to risks at June 30, 2020, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.
With regard to the Banking Group, the CET1 Capital Ratio is 11.5%, the Tier 1 Capital Ratio is 11.5% and the Total Capital Ratio is 15.7%, excluding the profit for the period and the 2019 Total Dividend Payout.
With regard to the CRR Group, the CET1 Capital Ratio is 15.3%, the Tier 1 Capital Ratio is 16.8%, and the Total Capital Ratio is 19.7%, excluding the profit for the period and the 2019 Total Dividend Payout.
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 address the typical risks associated with financial operations

From the standpoint of operations, the absorption of risks is calculated using various methods:

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

Credit risk

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

Counterparty risk

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

For BFF, the counterparty risk can be generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the standardized 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 the liquidity risk governance and management system 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 June 29, 2020. Compared to other years, the deadline for submitting the Report to the Bank of Italy was exceptionally extended to June 30, 2020 to allow including the impact of the Covid-19 pandemic. The Report has been prepared in compliance with the 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 management and governance system ("ILAAP" - Internal Liquidity Adequacy Assessment

Process), (ii) new content in the area of internal processes for determining capital adequacy ("ICAAP" - Internal Capital Adequacy Assessment Process) and (iii) different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy. These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) 468/2014, which include BFF Banking Group.
With respect to the "Supervisory Review and Evaluation Process" (SREP), on March 31, 2020 the Bank of Italy, after starting the process to impose additional capital requirements on February 26, 2020, announced it had reached a new capital decision following the Supervisory Review and Evaluation Process ("SREP") cycle. The Banking Group is to meet the thresholds listed below on an ongoing basis starting from the date the order was received.

Quantitative information

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

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	06/30/2020	12/31/2018	06/30/2020	12/31/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	5,964,356	5,522,227	1,912,240	2,007,897
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			152,979	160,632
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	32,453
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			185,432	193,085
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,317,901	2,413,558
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)			11.48%	12.49%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			11.48%	12.49%
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			15.71%	16.56%

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	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	6,302,225	5,678,038	2,028,436	2,039,329
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			162,274	163,146
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	32,453
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			194,727	195,599
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,434,097	2,444,990
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)			15.30%	12.49%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			16.79%	13.67%
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			19.68%	16.59%

Part G - Business Combinations

Section 1 – Transactions performed during the year

In late 2019, BFF acquired 100% of the former IOS Finance EFC S.A and subsequently merged it into the Spanish subsidiary BFF Finance Iberia. Pursuant to the revised IFRS 3 ("Business Combination"), following the acquisition of IOS the Bank performed the Purchase Price Allocation (PPA) with respect to the company formerly known as 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.

On May 13, 2020, BFF finalized a binding agreement to acquire DEPObank from Equinova UK Holdco Limited ("Equinova") and subsequently merge the acquiree into BFF.
The deal will create the leading independent specialty finance firm in Italy, give further momentum to DEPObank's business, and add additional funding and capital at the service of BFF's traditional customers—especially at a time of uncertainty caused by the emergency associated with the COVID-19 pandemic, when there is a greater need for liquidity.

The closing of the deal is expected for late 2020/early 2021 and is contingent on the merger's approval by the Extraordinary Shareholders' Meeting of BFF as well as the required authorizations and/or clearance from the competent Supervisory Authorities, which will not be forthcoming before September 2020.
For more details, see also the extensive description in the "Report on Operations".

Part H - Related Party Transactions

Related parties, as defined by IAS 24, include:

- the parent company;
- subsidiaries;
- directors and executives with key management responsibilities and their close family.

The following table provides the income and balance sheet amounts arising from related party transactions performed by the Group at June 30, 2020, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statement item.

(Amounts in € thousands)

	Parent Company	Directors and Executives with key management responsibilities (1)	Total related parties	Financial statement item	% of financial statement item	Cash flow statement item	% of cash flow statement item
Impact of transactions on the consolidated balance sheet							
Other assets							
At June 30, 2020	5		5	19,071	0.0%	(523)	1.0%
Due to customers							
At June 30, 2020		(549)	(549)	(5,331,972)	0.0%	370,779	0.1%
Provisions for risks and charges: a) pension and other post-employment benefits							
At June 30, 2020		(1,043)	(1,043)	(6,217)	16.8%	6,181	16.9%
Other liabilities							
At June 30, 2020		(300)	(300)	(83,941)	0.4%	6,181	4.9%
Reserves							
At June 30, 2020		(3,023)	(3,023)	(240,829)	1.3%	6,181	48.9%
Impact of transactions on the consolidated income statement							
Interest and similar expenses							
At June 30, 2020		(1)	(1)	(26,040)	0.0%	0	
Administrative expenses: a) personnel costs							
At June 30, 2020		(4,331)	(4,331)	(20,594)	21.0%	0	
Net allocations to provisions for risks and charges							
At June 30, 2020		(110)	(110)	(0)	N.D.	0	N.D.
Other operating income (expenses)							
At June 30, 2020	5		5	2,967	0.2%	0	

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

At June 30, 2020, the awarded option rights relating to the aforementioned stock option plan accounted for 6.48% of fully diluted capital, equal to 11,059,438 options awarded.

In order to optimize the Group's funding activities, the Parent Company has entered into intercompany loan agreements with subsidiaries, regulated at arm's length.
More specifically, the balances of the intercompany positions at June 30, 2020 are as follows:

- BFF Finance Iberia (through Banca Farmafactoring Sucursal en España): €393 million;
- BFF Polska: PLN 431 million;
- BFF Central Europe: €133 million;
- BFF Ceska Republika: CZK 70 million;
- BFF MedFinance: PLN 42 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 June 30, 2020 amounted to about €545 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 €81.0 million (of which €67 million in 2016, €12.2 million in 2017, €1.7 million in 2018 and €0.1 million in 2020), with an outstanding balance of about €1.0 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 June 30, 2020 amounted to approximately €466 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

2016 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 awarded under the 2016 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 June 30, 2020, option rights to the stock option plan awarded were equal to 6,974,518 options awarded.

2020 Stock Option Plan

On April 2, 2020, the Ordinary Shareholders' Meeting approved a new Stock Option Plan ("2020 Plan") for the employees and executive directors of the Company and/or its subsidiaries with the following characteristics:

- *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;
- *recipients*: the beneficiaries are selected by the Board of Directors and/or the Chief Executive Officer at their absolute discretion—within the limits set by applicable laws and the plan—from among the employees and/or Executive Directors of the Company and/or its subsidiaries;
- *type of exercise*: cashless exercise.

The options awarded in each tranche will vest at the end of the vesting period, i.e. 3 years after the date they were awarded. Their vesting is contingent on meeting the following conditions: (i) continuation of employment relationship with the Group and/or of the office held in the Board of Directors with no advance notice of resignation or termination; and (ii) levels of capital and liquidity resources suitable to cover the activities undertaken and compliance with other parameters, also of a regulatory nature;
At June 30, 2020, 6,700,000 options had been awarded under the 2020 Plan.

Part L - Segment Reporting

At June 30, 2020, 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 June 30, 2020 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. BFF Banking Group is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table shows the breakdown, at June 30, 2020 and June 30, 2019, of managed turnover, receivables due from customers and receivables purchased, relating to BFF and the subsidiary BFF Finance Iberia, by debtor and geographical area.

At June 30, 2020, receivables due from BFF and BFF Finance Iberia customers amounted to €2,908 million, compared to €2,660 million at June 30, 2019, thus increasing by approximately 9.3%.

(Amounts in € millions)

	6/30/2020			06/30/2019		
	Managed turnover	Outstanding	Receivables purchased	Managed turnover	Outstanding	Receivables purchased
Italy	**2,828**	**2,325**	**1,374**	**2,887**	**2,271**	**1,337**
National Healthcare System	2,058	804	902	2,152	812	855
Public administration agencies	468	1,363	428	418	1,344	439
Other	301	159	43	318	115	43
Spain	**898**	**406**	**728**	**313**	**204**	**313**
National Healthcare System	635	299	465	122	85	122
Public administration agencies	263	89	263	191	118	191
Other	-	18	-	-	0	-
Portugal	**77**	**121**	**77**	**51**	**157**	**51**
National Healthcare System	76	120	76	51	157	51
Public administration agencies	1	1	1	0	1	0
Other	-	0	-	-	0	-
Greece	**33**	**51**	**33**	**21**	**27**	**21**
National Healthcare System	29	38	29	18	23	18
Public administration agencies	4	11	4	3	4	3
Other	-	1	-	-	0	-
Croatia	**0**	**1**	**0**	**-**	**1**	**-**
National Healthcare System	0	1	0	-	1	-
Public administration agencies	-	-	-	-	-	-
Other	-	-	-	-	-	-
France	**5**	**3**	**5**	**-**	**-**	**-**
National Healthcare System	5	3	5	-	-	-
Public administration agencies	0	0	0	-	-	-
Other	-	0	-	-	-	-
Total	3,841	2,908	2,217	3,272	2,660	1,722

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

BFF Polska Group mainly operates in three areas:

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

At June 30, 2020, BFF Polska Group's receivables due from customers amounted to €882 million (at the exchange rate of June 30, 2020), up by 11.1% compared to €794 million at June 30, 2019.
BFF Polska Group's new business at June 30, 2020 amounted to €324 million (based on the average exchange rate recorded in the year), up by 31.2% compared to €247 million at June 30, 2019.

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

(Amounts in € millions)

	06/30/2020		06/30/2019	
	Due from customers	*New Business*	Due from customers	*New Business*
Poland	682	305	626	244
Slovakia	197	17	165	2
Czech Republic	3	2	4	1
Total	882	324	794	247

BFF BANKING GROUP

Part M – Lease Reporting

IFRS 16 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 periodical 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

After the International Accounting Standard IFRS 16 became effective, BFF Banking Group defined the new accounting model to be used for 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).

Quantitative information

BFF Banking Group's right-of-use assets accounted for as "Property, plant and equipment" at June 30, 2020 are shown below.

(Amounts in € thousands)

	Right of use 06/30/2020	Right of use 12/31/2019
BFF	1,914	1,990
BFF Finance Iberia	1,323	973
BFF Polska Group	1,702	1,553
BFF Banking Group Total	**4,939**	**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 € thousands)

	Total 06/30/2020	Total 12/31/2019
Time periods	Lease payments to be received	Lease payments to be received
Up to 1 year	486	436
1 to 2 years	323	
2 to 3 years	214	1,093
3 to 4 years	193	
4 to 5 years	175	
Over 5 years	329	57
Total lease payments to be received	1,719	1,587
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)		
Unguaranteed residual value (-)		
Lease financing activities	2,667	3,092

BFF'S FINANCIAL STATEMENTS

BFF BANKING GROUP

Separate Balance Sheet

(Amounts in euros)

	Assets	06/30/2020	12/31/2019
10.	Cash and cash equivalents	111,210,108	78,303,395
30.	Financial assets measured at fair value through OCI	60,027,786	82,911,963
40.	Financial assets measured at amortized cost	4,984,074,273	4,445,329,811
	a) due from banks	*23,371,618*	*102,123,190*
	b) due from customers	*4,960,702,655*	*4,343,206,621*
70.	Equity investments	141,927,288	141,927,288
80.	Property, plant and equipment	12,549,634	12,983,105
90.	Intangible assets	3,059,663	3,798,378
	of which		
	- goodwill	*0*	*0*
100.	Tax assets	20,225,295	29,485,660
	a) current	*12,850,721*	*21,740,273*
	b) deferred	*7,374,574*	*7,745,387*
120.	Other assets	16,140,748	8,225,068
	TOTAL ASSETS	**5,349,214,795**	**4,802,964,668**

Separate Balance Sheet

(Amounts in euros)

	Liabilities and Equity	06/30/2020	12/31/2019
10.	Financial liabilities measured at amortized cost	4,803,112,646	4,350,674,741
	a) due to banks	*426,358,345*	*581,995,400*
	b) due to customers	*3,626,974,968*	*2,813,010,037*
	c) debt securities issued	*749,779,333*	*955,669,304*
60.	Tax liabilities	84,549,224	93,292,599
	a) current	*8,010,456*	*23,317,072*
	b) deferred	*76,538,768*	*69,975,527*
80.	Other liabilities	70,180,442	49,361,085
90.	Employee severance benefits	700,104	843,205
100.	Provisions for risks and charges	6,114,450	7,119,284
	a) commitments and guarantees provided	*1,235,233*	*1,536,118*
	b) pension and other post-employment benefits	*4,264,136*	*4,205,289*
	c) other provisions	*615,081*	*1,377,877*
110.	Revaluation reserves	3,718,242	3,791,125
140.	Reserves	168,307,387	102,400,120
150.	Share premium	693,106	693,106
160.	Share capital	131,399,226	131,326,409
170.	Treasury shares	-3,784,401	-1,762,756
180.	Profit (loss) for the period	84,224,369	65,225,749
	TOTAL LIABILITIES AND EQUITY	**5,349,214,795**	**4,802,964,668**

BFF BANKING GROUP

Separate Income Statement

(Amounts in euros)

	Items	06/30/2020	06/30/2019
10.	Interest and similar income	78,916,303	78,077,464
	of which: interest income calculated using the effective interest rate method	71,597,030	71,646,706
20.	Interest and similar expenses	(18,831,495)	(14,776,084)
30.	**Net interest margin**	**60,084,808**	**63,301,380**
40.	Fee and commission income	4,514,680	3,949,619
50.	Fee and commission expenses	(926,985)	(789,275)
60.	**Net fees and commissions**	**3,587,695**	**3,160,344**
70.	Dividends and similar income	58,463,379	0
80.	Gains (losses) on trading	3,815,877	(1,114,764)
100.	Gains (losses) on disposal or repurchase of:		
	b) financial assets measured at fair value through OCI	21,389	207,343
	c) financial liabilities	56,001	0
120.	**Net banking income**	**126,029,149**	**65,554,303**
130.	Net adjustments/reversals of impairment for credit risk concerning:		
	a) financial assets measured at amortized cost	1,565,309	(181,351)
	b) financial assets measured at fair value through OCI	689	1,722
150.	**Net profit from financial activities**	**127,595,147**	**65,374,674**
160.	Administrative expenses:		
	a) personnel costs	(16,017,219)	(14,228,142)
	b) other administrative expenses	(19,530,203)	(15,680,864)
170.	Net allocations to provisions for risks and charges		
	a) commitments and guarantees provided	304,164	(536,178)
	b) other net allocations	67,656	(357,498)
180.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,073,189)	(1,003,411)
190.	Net adjustments to/reversals of impairment of intangible assets	(950,440)	(930,824)
200.	Other operating income (expenses)	5,137,716	3,595,019
210.	**Operating costs**	**(32,061,516)**	**(29,141,898)**
260.	**Profit (loss) before tax from continuing operations**	**95,533,632**	**36,232,776**
270.	Income taxes on profit (loss) from continuing operations	(11,309,263)	(10,233,119)
280.	**Profit (loss) after tax from continuing operations**	**84,224,369**	**25,999,657**
300.	**Profit (loss) for the period**	**84,224,369**	**25,999,657**
	Basic earnings per share	0.494	0.153
	Diluted earnings per share	0.464	0.146

BFF BANKING GROUP

Statement of Comprehensive Income

(Amounts in euros)

	Items	06/30/2020	06/30/2019
10.	**Profit (loss) for the period**	**84,224,369**	**25,999,657**
	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	4,839	(5,531)
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	13,524	
120.	Cash flow hedges	0	0
130.	Hedging instruments (not designated)		
140.	Financial assets (other than equity securities) measured at fair value through OCI	(91,246)	1,036,306
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**	**(72,883)**	**1,000,775**
180.	**Comprehensive income (Items 10+170)**	**84,151,486**	**27,000,432**

CERTIFICATION BY THE FINANCIAL REPORTING OFFICER

BFF BANKING GROUP

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

1. The undersigned
   - Massimiliano Belingheri, in his capacity as Chief Executive Officer;
   - Carlo Zanni, as Financial reporting officer of Banca Farmafactoring S.p.A.,

   hereby certify, having taken into account the provisions of art. 154-bis, paragraphs 3 e 4, of legislative decree no. 58 of 24 february 1998:
   - the suitability as regards the characteristics of the company, and
   - the effective implementation of the administrative and accounting procedures for the drafting of the condensed consolidated half-year financial report, during the first half of 2020.

2. The suitability and effective application of the administrative and accounting process for the drafting of the consolidated condensed interim financial statements as of 30 June 2020 was verified based on internally defined method adopted by Banca Farmafactoring S.p.A., in accordance with the Internal Control - *Integrated Framework* model issued by *Committee of Sponsoring Organizations of Tradeway Commission (COSO)* of the reference standards for the internal audit system generally accepted on an international level.

3. Moreover, the undersigned hereby certify that:

   3.1 the consolidated condensed interim financial statements as of 30 June 2020
   a) were drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b) correspond to the results of the accounting books and records;
   c) are suitable for providing a true and fair view of the financial position of the issuer and all the companies included in the scope of consolidation.

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

Milan, 06 August 2020

MASSIMILIANO BELINGHERI

Chief Executive Officer

CARLO ZANNI

Financial Reporting Officer

INDEPENDENT AUDITORS' REPORT

Review report on consolidated condensed interim financial statements as of 30 June 2020

Banca Farmafactoring SpA

Review report on consolidated condensed interim financial statements

To the shareholders of
Banca Farmafactoring SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Banca Farmafactoring SpA and its subsidiaries (BFF Banking Group) as of 30 June 2020, comprising the consolidated balance sheet, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows and related notes. The directors of Banca Farmafactoring SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with the International Accounting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of the BFF Banking Group as of 30 June 2020 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 7 August 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

20149 Milan
Via Domenichino, 5
Phone +39 02 49905.1
Fax +39 02 4818157

00187 Rome
Via di San Basilio, 41
Phone +39 06 809139.1
Fax +39 06 809139.41

info-it@bffgroup.com
bffgroup.com