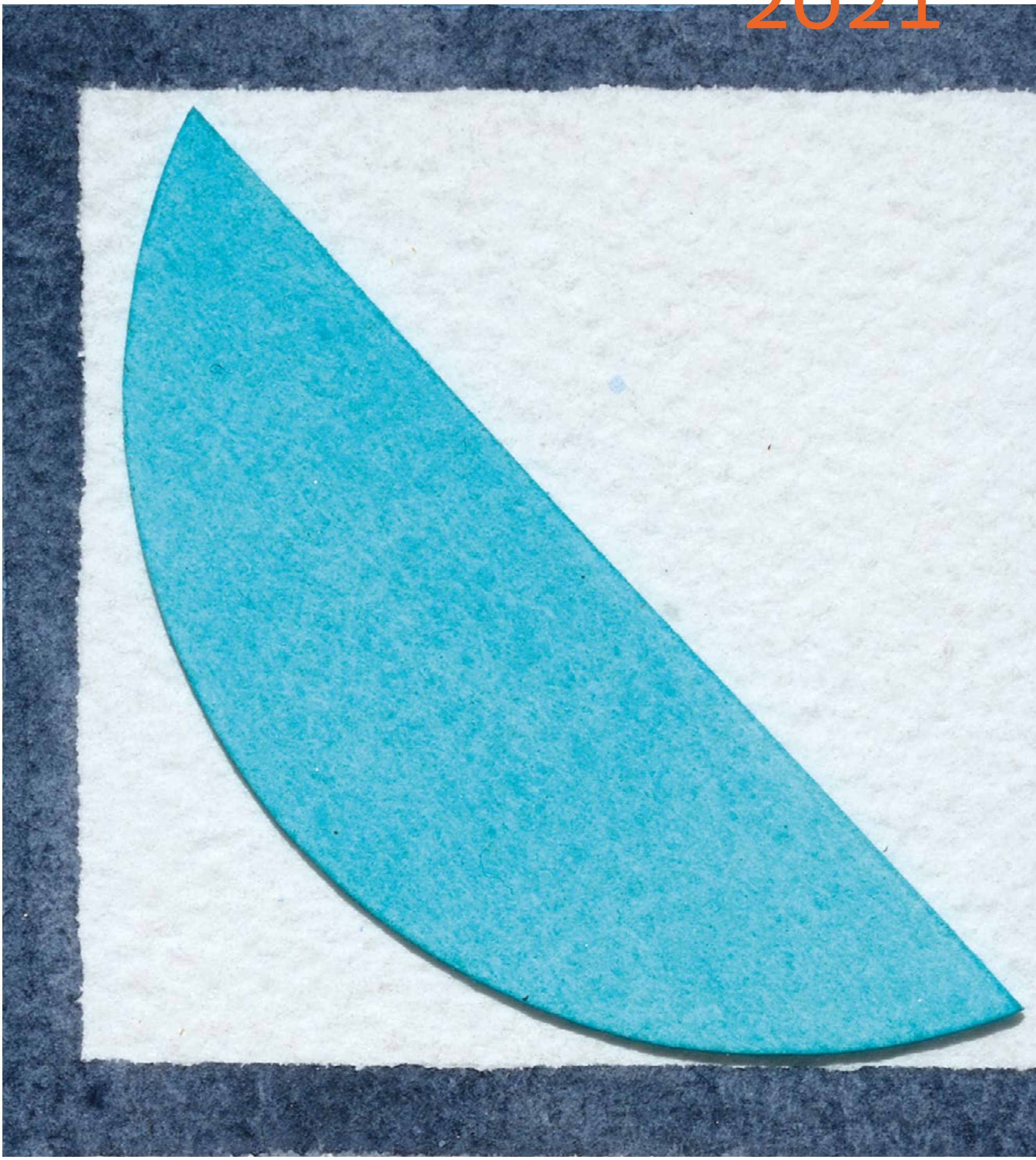
Half-Yearly Consolidated Financial Report

2021



The works depicted in these pages were created by the artist Lucio Del Pezzo and are part of the Farmafactoring Foundation's contemporary art collection.

The entire collection of about 250 works from the post-war period to the early 2000s created by artists such as Valerio Adami, Enrico Baj, Alberto Burri, Hsiao Chin, Mario Schifano, Arnaldo Pomodoro and Joe Tilson is permanently on display at BFF's Italian offices in Milan and Rome.

The first half of 2021 saw the distribution of the art book, in English, published by Skira editore Milan Genève Paris, ***Art Factor. The Pop Legacy in Post-War Italian Art***, which recounts the Italian journey towards Pop Art through the works of Valerio Adami, Franco Angeli, Enrico Baj, Lucio Del Pezzo, Gianfranco Pardi, Mario Schifano and Emilio Tadini.

The volume represents the first step in a more extensive project involving the promotion of the collection abroad, in a travelling exhibit throughout Europe in 2021-22.

www.art-factor.eu

BFF Bank S.p.A.
Parent company of the BFF Banking Group
Registered Office in Milan - Via Domenichino 5
Share Capital €142,637,330.91 (fully paid-in)
Milan Company Register,
Tax Code and VAT no. 0796011015

Half-Yearly Consolidated Financial Report as at June 30, 2021

Contents

BFF 2023: a bank *like no other*

BFF Banking Group is the largest independent specialty finance in Italy and a leading player in Europe for the management and non-recourse factoring of trade receivables due from the Public Administrations, securities services, banking and corporate payments.

	SECTOR LEADER	CUSTOMERS
Factoring & Lending	#1 towards the public sector in **EUROPE**	Public sector suppliers Large multinationals Hospitals & municipalities
Securities Services	#1 independent depositary bank in **ITALY**	Domestic asset managers and banks Pension funds Mutual funds and AIFs
Payment Services	#1 independent bank in intermediation services in **ITALY**	Small/medium sized Italian Banks Medium/Large Corporates Partneship with Nexi

OFFER	OPPORTUNITY
Non-recourse factoring Lending Credit management	> €400bn of yearly receivables < 10% non-recourse penetration
Depositary bank Global custody Fund accounting Transfer agent	Secular growth in Asset Management
Intermediation Corporate Payments Check & receivables	Secular transition from cash to digital payments in Italy

ORGANIC GROWTH

Key highlights

BFF Banking Group

- 1H21 reported net income at €210.3m including badwill, with positive one-off impacts deriving from DEPObank acquisition.
- 1H21 adjusted net income flat at €46.6m (-1% YoY) primarily due to ex-DEPObank HTC portfolio yield deflated by acquisition M2M accounting.
- Focus on ALM to extract funding synergies, reduce excess liquidity, restore size and increase yield and duration of HTC bond portfolio.

Capital and Dividends

- Strong capital position: TCR at 23% and CET1 ratio at 18.6%, excluding accrued dividends.
- €212m available for dividends, of which €165m '19-'20 accrued dividend. Started discussion with BoI in order to distribute in early Oct-21, following 27-Jul-2021 BoI's recommendation.

Synergies

- Already locked-in lower end of 2023 target synergies range on a run-rate basis, starting from end of 2021.

Factoring & Lending

- Lower portfolio YoY, due to high liquidity in Italy and Spain accelerating payments of new invoices, partially offset by positive performance of Portugal, Greece, and CEE.
- Back-book LPI income reserve increased YoY, despite higher LPI collections.

Securities Services

- AuD YoY growth (+15%) supported by market rebound and commercial development.
- PBT up by 11% YoY despite excess liquidity.

Payments Services

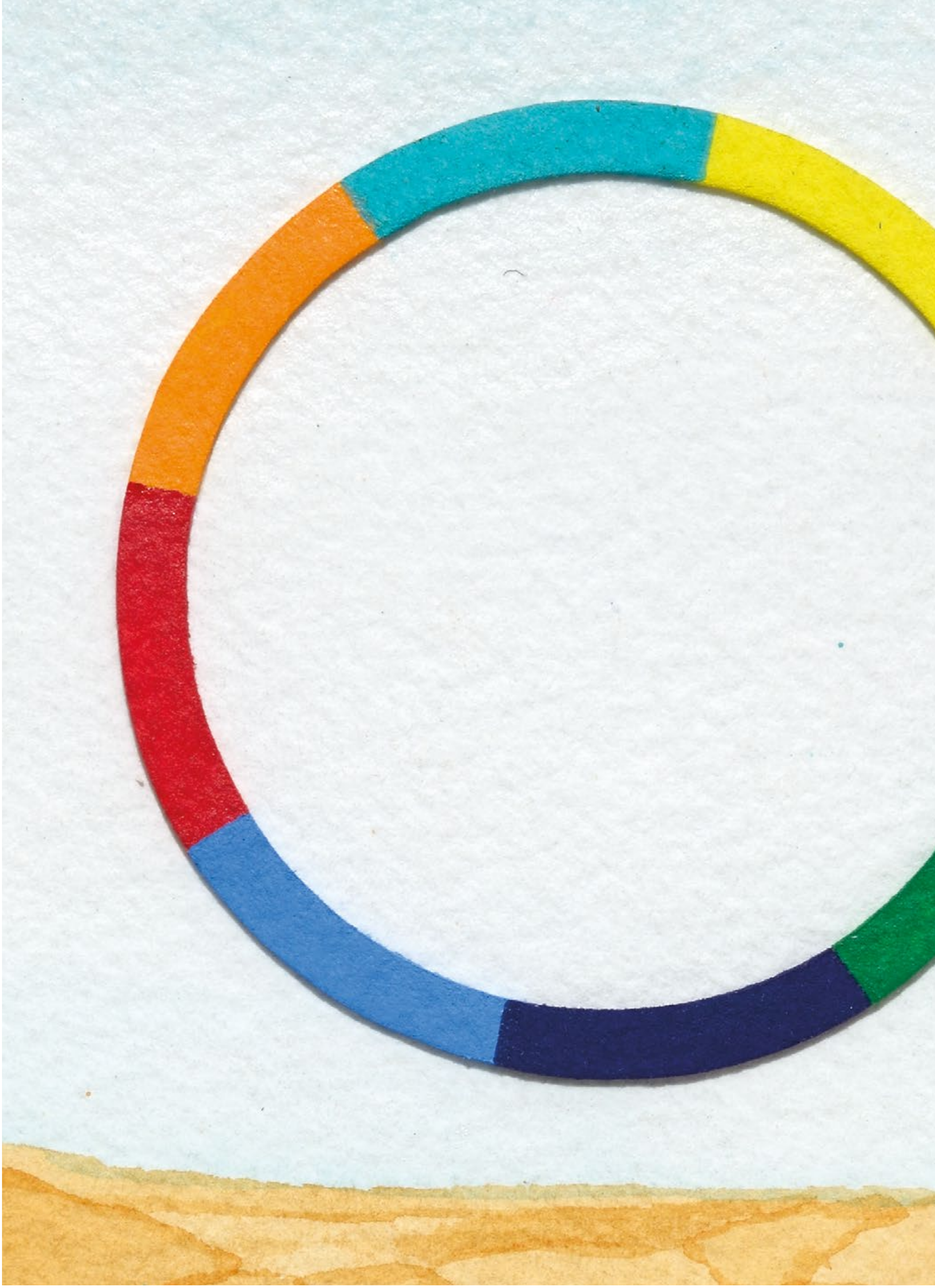
- Transfer and collections transactions up by 9% YoY, above pre Covid-19 levels.
- PBT +72% vs. 1H20.

Business Units & Corporate Center P&L

(€ million)

	1H 2021				1H 2020			
	Revenues	OPEX incl. D&A	LLP	PBT(*)	Revenues	OPEX incl. D&A	LLP	PBT(**)
Factoring & Lending P&L	70.7	(18.6)	0.1	52.1	78.4	(18.9)	(2.4)	57.2
+ Securities Services P&L	27.0	(14.6)	-	12.4	26.2	(14.6)	(0.4)	11.2
+ Payments P&L	29.4	(15.8)	-	13.6	23.3	(15.3)	-	7.9
+ Corporate Center incl. synergies	22.2	(43.2)	2.9	(18.1)	33.6	(47.0)	(0.9)	(14.3)
= Adj. BFF Banking Group P&L	149.3	(92.2)	3.0	60.0	161.5	(95.9)	(3.7)	62.0
Adjustments(**)	128.5	3.7	(1.0)	131.1	(61.7)	50.7	1.4	(9.6)
BFF Banking Group P&L reported	277.8	88.5	1.9	191.1	99.8	(45.2)	(2.3)	52.3

(*) Profit before tax (PBT) at 06/30/2021 adjusted to take into account the effects of extraordinary items and discontinued operations.
(**) Adjustments to take into account the effects deriving from the acquisition of DEPObank, such as Badwill amounting to €163.4 million and Goodwill realignment amounting to €23.7 million, net of costs related to liability management initiatives and other transaction and restructuring costs amounting to €9.5 million and €2.3 million, respectively, to the change of the exchange difference amounting to €0.6 million, to the cost of stock options amounting to €2.2 million, to the extraordinary contribution to the resolution fund amounting to €2.0 million, to the amortisation of DEPObank's customer contract amounting to €1.7 million and to DEPObank's pre-acquisition normalised result amounting to €5.1 million.



01

Report on Operations

Key events in the Group

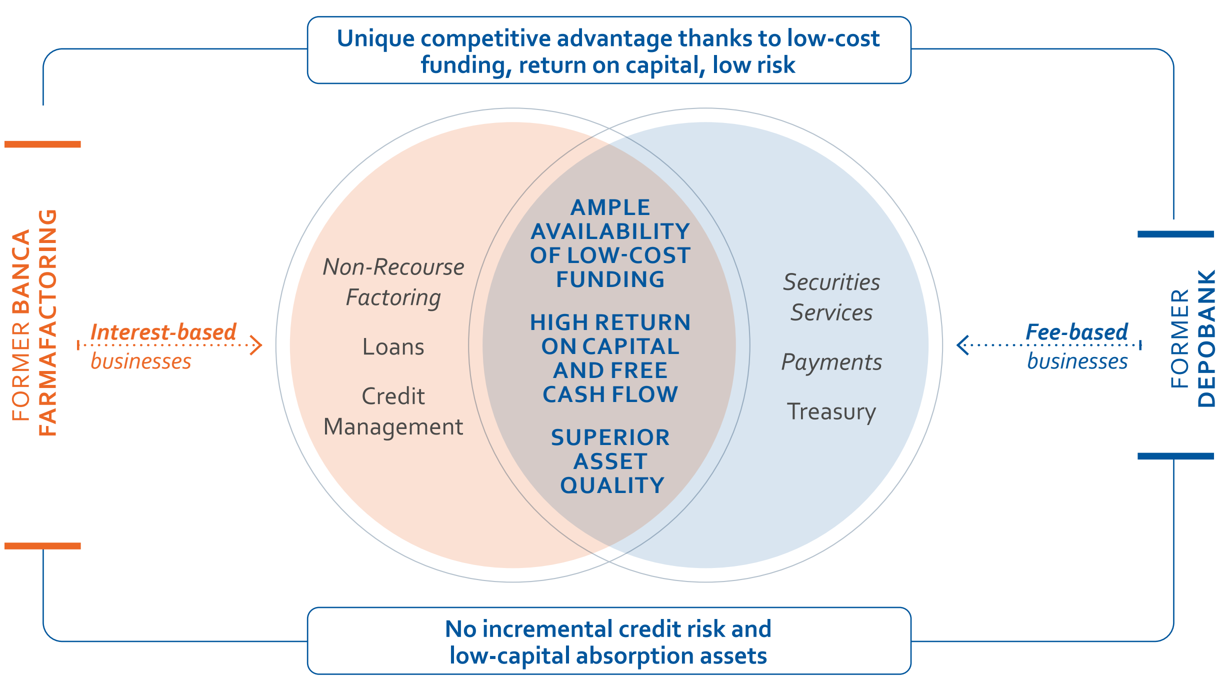
On January 28, 2021, the **Shareholders' Meeting** met and, in an extraordinary session, approved the proposed merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. into Banca Farmafactoring S.p.A.

On February 10, 2021, Scalve S.à r.l. ("Scalve"), a company controlled by Massimiliano Belingheri, CEO of the Bank, initiated a reverse accelerated bookbuilding (RABB), which ended the following day with the purchase of 1,938,670 ordinary shares of BFF, equal to approximately 1.1% of the share capital at the time. On February 11, 2021, BFF Luxembourg S.à r.l. (Centerbridge) initiated the sale of all remaining shareholdings in BFF (equal to 7.9%), concluded the following day with the exit from the capital of BFF, also following the exercise of the call option by the CEO of BFF with physical delivery envisaged pursuant to the relevant "Lock-Up and Option Agreement".

On March 1, 2021 the acquisition of DEPObank was finalised with the merger by incorporation into Banca Farmafactoring effective from March 5 of the same year.

As part of this transaction, which gave rise to the largest player in specialised finance in Italy, as well as one of the most profitable and best-capitalised banks in Europe, with a specific focus on Securities Services, Payments, factoring services and the management of trade receivables from the Public Administration, Banca Farmafactoring changed its name to **BFF Bank S.p.A.** and redesigned its logo to further distinguish this moment in the company's history. The company emblem was simplified and rotated to make the forward movement more immediate, projected towards growth. The slogan remains unchanged from 2017: "a bank like no other".

Through the acquisition of DEPObank, BFF has strengthened its strategic positioning, expanding both the business segments in niche markets where DEPObank was a leader and the funding and capital base serving its traditional clients. DEPObank, on the other hand, became part of an international, listed, solid, profitable group, with high standards of execution and operational efficiency.



As part of the merger operation referred to on the previous page, Equinova is the only new shareholder of BFF Bank S.p.A., with a share corresponding to 7.6% of the share capital at the time.

On March 15 the "**BFF Banking Group 2021-2023 Financial Plan**" was approved by the Board of Directors and presented to the market. The Plan illustrates the economic and financial objectives for 2023, identifies the funding synergies and presents BFF's different lines of business: Factoring & Lending, Securities Services, Payments Services and Corporate Center. It also explains the **competitive positioning, opportunities and growth guidelines**. The Plan also includes a focus on business sustainability issues.

On March 25, the Shareholders' Meeting elected the **new Board of Directors**, with over 70% of the votes on the slate of the outgoing Board. This slate is the end result of a rigorous self-assessment process, carried out with the contribution of the Nominations Committee, after evaluation by a leading independent executive search company, which certified its overall consistency with current regulations and the Guidelines on the qualitative-quantitative composition deemed optimal. The Board of Directors and the Board of Statutory Auditors, the latter fully appointed as per the investors' proposal, will remain in office until the approval of the financial statements for the year 2023.

On March 31, 2021, BFF distributed a unit dividend before withholding taxes of €0.017495 per share, for a total of €3.2 million, corresponding to a small fraction of the total amount of 2019-2020 dividends accrued, equal to €168.5 million ("2019-2020 Total Dividends"), in line with the recommendations of the European Central Bank and the Bank of Italy.

On April 21, Moody's raised BFF's Long-Term Bank Deposit rating to "Baa2" and the BCA to "Ba2", and changed the long-term rating outlook to Stable. The Long-term Issuer rating changed to "Ba2" as a result of the greater size of the balance sheet.
At the date of Moody's upgrade, BFF has the 2nd-highest rating class among Italian banks for its Long-Term Bank Deposit rating.

On June 15, 2021 BFF launched a Cash Tender for the holders of its senior bonds in circulation for the repurchase thereof against consideration in cash in order to allow the Bank to optimise its capital structure and to proactively use its liquidity. The transaction was completed on June 25, allowing the repurchase and simultaneous cancellation of a nominal €154,701,000 for the senior preferred unsecured bond maturing in June 2022, and a nominal €261,031,000 for the senior preferred unsecured bond maturing in May 2023. Following the completion of this cash buyback transaction, the two Issues subject to the Cash Tender remain outstanding for a nominal amount of €42,799,000, and for a nominal amount of €38,969,000 for the bonds maturing in June 2022 and May 2023 respectively.

Finally, on June 21, 2021, a senior preferred BFF bond of €150 million matured, which was redeemed on June 18.

1) Equinova is the holding company of Advent International Corporation, Bain Capital Private Equity Europe LLP and Clessidra Private Equity SGR S.p.A., which was the main shareholder of DEPObank (as of March 1, 2021 it held a 91.6% stake in the share capital).

The business model and the value creation process

The Group operates in Italy, Croatia, France, Greece, Spain and Portugal, where it engages in non-recourse factoring with the Public Administration and credit management. It also has operations in Poland, the Czech Republic and Slovakia, offering a diversified range of financial services designed for ensuring access to credit as well as providing liquidity and solvency support to the private system of companies that interface with the Public Administration.

In addition to the Factoring & Lending services mentioned above, the Group is a leader in Italy in Securities Services and banking payment services, serving more than 400 clients including investment funds, banks, payment and money institutions, large corporations and Public Administrations, following the merger with DEPObank in March 2021.

BFF manages operational complexity, facilitates cost reduction and eliminates risks for customers, including through:

FACTORING & LENDING

- **The optimisation of liquidity** and the management of working capital of private businesses operating with the Public Administration.
- **Planning and maintenance of a target collection time** irrespective of actual Public Administration payment timing.
- **Improvement in financial statement ratios**, thanks to the possibility of definitively deconsolidating exposure to public agencies.
- **Reduction in operating costs**, thanks to revolving agreements for the assignment of receivables and an integrated business model that combines non-recourse factoring and credit management services to guarantee the best possible performance on receivables.
- **Direct funding of public bodies** in Central and Eastern Europe, with vendor finance solutions and loans for medium/long-term investments.
- **Multi-country operations**, for a better and more efficient management of country risk and the exposure of multinationals to the nine European countries that the Group operates in.

The business model described above is based on core values, such as:

- honesty,
- transparency,
- respect for people,
- enhancement of resources,

ensuring leadership in innovation and execution in BFF's target markets.

SECURITIES SERVICES

PAYMENTS

- **The structural reduction of costs** for the customer thanks to outsourcing services that guarantee constant adaptation to and compliance with the regulatory framework without the financial burden that usually follows.
- A single interlocutor – "**one stop shop**" – for all back office services for better **cost efficiency and management**.
- **Rapid, customised solutions** thanks to a superior flexibility and agility in managing customer needs.
- **Operational simplification for PSPs(*)** thanks to a single interbank account, which can be monitored in real time, to join all Italian and European payment services at the same time.

(*) Payment Services Providers.

The evolution of BFF: Leader in Europe

1985-2009

BFF is born

Founded by a group of **pharmaceutical companies** to respond to their needs of managing and collecting receivables from the healthcare system, BFF immediately became a **leader in the market**.

2010-2013

Resilient during the crisis, the internationalisation process begins

The expansion into **new European countries begins** (operations in **Spain** IN 2010).

BFF products and services are offered to **all suppliers of public bodies** (National Health System and Public Administration), always in line with the needs of their customers.

2014-2020

Transformation into a bank, listing and European leadership

BFF becomes a **Bank** (2013), gets listed on the **Italian Stock Exchange** (2017) and grows in **Central and Eastern Europe** through an important acquisition in Poland (2016).

It is also present in **Portugal**, **Greece**, **Croatia** and **France**.

The business in Spain is consolidated with the acquisition of **IOS Finance** (2019).

2021

Leader in specialised finance

BFF is the only pan-European platform – **present in nine countries** – specialised in the management and non-recourse purchase of receivables from the Public Administration and national health systems.

The merger with DEPObank extends the scope of activity and expertise to **Securities Services and banking payment services.**


Positioned to excel and ensure sustainable results
LEADER IN MARKETS WITH ABUNDANT GROWTH OPPORTUNITIES
STABLE CUSTOMER BASE WITH HIGH CREDITWORTHINESS
SPECIALISED IN MARKETS WITH HIGH ENTRY BARRIERS
PROVEN STRATEGY EXECUTION CAPABILITY
HIGH CAPITAL GENERATION AND DIVERSIFICATION IN ASSETS WITH LOW CAPITAL ABSORPTION
AMPLE AVAILABILITY OF LOW-COST FUNDING
EXPERIENCED MANAGEMENT TEAM

A sustainable model

Consolidated Non-Financial Disclosure

In order to provide more comprehensive and transparent disclosure as well as improve its communications with stakeholders, BFF drafted a consolidated Non-Financial Disclosure as early as 2019 on a voluntary and annual basis in compliance with Italian Legislative Decree no. 254/2016.

BFF Banking Group's Consolidated Non-Financial Disclosure is separate from this Report on Operations, as per Art. 5, paragraph 3, letter b) of Italian Legislative Decree 254/16, and available at the website www.bff.com in Italian and English.

Sustainability in BFF's services

Over the years, the key to a sustainable product has been continuous dialogue with customers and the relationship of trust built over time, both in the field of Factoring & Lending and in Transaction Services.

This makes it possible both to conclude agreements very quickly for the non-recourse disposal of receivables useful to cover the financial needs necessary for the procurement of essential medical devices for public health, as happened in the context of the COVID-19 health emergency, and to anticipate regulatory compliance requirements, as happened in the context of the new system of reporting of information flows due to Covip (Supervisory Commission on Pension Funds) by the Social Insurance Funds. In this case, more than six months ahead of time BFF launched a service that ensures the collection of all the information necessary to compile the "Tables" envisaged by the Reporting Manual issued by the Commission last January, and the relative preparation of reports in the required format. Always guaranteeing the right services and anticipating needs – and even deadlines, as on this occasion – allows BFF to further develop its **propensity for innovation and continuous improvement**. At the same time, it allows customers to **better plan their actions, and therefore their results**.

BFF guarantees speedy actions supporting customer needs also thanks to the efficiency and timeliness with which the Bank is capable of designing a product with a **reduced risk** for the Group. Indeed, the development process of every service is subject to a risk assessment phase by the second-level control functions, which make it possible to verify, with high-level, punctual expertise, that the product is constantly aligned with the Group's Risk Appetite Framework.

Furthermore, the speed of execution and sustainability of the services and products offered is ensured by the existence of a **system that monitors responsible and transparent commercial practices** (sales and marketing) thanks, for example, to the *Remuneration Policy for relevant persons, the personnel responsible for processing complaints and the personnel responsible for credit ratings*, adequate behaviour guidelines and training projects for employees, the latter better detailed on the following pages.

BFF has an **internal customer complaint management process**, where the complaints received are assessed by the function that handles such matters with a view to meeting customer needs, as they are the main resource with which to establish and strengthen a solid, lasting, transparent relationship, based on trust and respect for each other's rights.

This attention – which is based on the company's mission and the Group's Code of Ethics – helps to improve the relationship of trust with customers, to better identify any critical issues in the characteristics of the products and services offered, as well as to reduce possible litigation.

Two initiatives from the first half of 2021 focused on customers are particularly worthy of note:

1) BFF Indexes on Pension Funds

As a leader in Italy in the custody of Pension Funds, in May 2021 the **BFF Indices** were launched with the aim of making available to Pension Funds some indicators capable of summarising the performance of an increasingly important sector in the Italian financial landscape.[2)]

The Pension Fund can compare the performance of its lines with traditional market benchmarks and the BFF Indices relating to the same types of investment to understand how they are positioned with respect to the other Pension Funds.

2) New ESG scenarios: the leading role of the Custodian Bank

The COVID-19 pandemic accelerated what was already a clear trend in the asset management industry, namely the sustainability of investments.

To this end, and with a view to always operating for the benefit of its customers, in the first half of 2021 BFF launched activities needed to provide a monthly reporting service, for immediate consultation, with **personalised details on the ESG metrics of the individual portfolios** such as – by way of example – the possibility of expressing a summary ESG rating of the portfolio and identifying the best and worst instruments based on their ESG rating with relative weight with respect to the investment, and, again, to represent the corporate securities exposed to disputes: Gambling, GMO, Arms, etc.

With this new service, BFF has confirmed its ability to carve out a central role for itself in the evolution of ESG in the Asset Management sector.

2) Methodological note and monthly commentary are available on the BFF website: https://it.bff.com/it/indici-bff.

Finally, in the field of Factoring & Lending, BFF joined and actively participates in the **"ESG for Factoring" Working Group**, established in Assifact (Italian Factoring Association) in the first half of 2021 and aimed at drafting common guidelines for all factors.

Many of the initiatives mentioned above are launched in Italy, where the parent company is located, and are then replicated by subsidiaries and foreign branches with a view to a **shared culture and a progressive transition towards increasingly efficient and sustainable models**.

Environment and Culture: Drivers of Innovation and Inclusion at BFF

ENVIRONMENT

With the progressive return to working in person in the second quarter of 2021, BFF opened its new offices in Madrid, where it had already moved its Spanish headquarters last March 2020, before the COVID-19 pandemic exploded in Europe and throughout the world.

Situated within the Castellana 81 complex, the offices confirm BFF's commitment to **reducing environmental impact and optimising people's working conditions**. In fact, the building earned **LEED Platinum** certification for the highest levels of sustainability, as well as WELL certification in the Core & Shell category for the quality of the working environment. The facility selected for the headquarters in the Spanish capital guarantees maximum accessibility, as recognised by the maximum five-star rating of the DIDA certification (Distinctive Indicator of the Degree of Accessibility).

The process of transferring to low-energy, highly inclusive locations began in 2019 with the new offices in Lodz, Poland, and looks to the future with Milan, in 2023, to take this important step also in the headquarters, with over 500 employees, in compliance with the highest standards of environmental sustainability. All spaces are also always designed to ensure the highest possible level of cooperation, transparency, agility and productivity. In May 2021, the offices of the Slovak headquarters were also relocated, albeit within the same building, which had also been renovated to ensure lower energy consumption.

INTERNAL AND EXTERNAL CULTURE

Corporate culture is central to enabling business sustainability and inclusion. The creation of a sustainable service or product, respect for people, the environment and a just transition originate precisely from the internal culture of an organisation.

Internal Culture and Training

The Human Resources and Organisational Development Function supports employees by providing the resources and tools necessary for proper training.

Specifically, the aims of the training project are to: (i) disseminate and align people with the Group's strategic values and objectives, (ii) increase the knowledge and skills necessary to generate value from production processes, and (iii) strengthen the Group's organisational culture; to which is added the need to provide training, in compliance with business objectives.

To achieve the objectives described above, in the first half of 2021 **10,515 hours** of instruction were provided, approximately 12 hours per person, throughout the Group. All the Group's training is carried out within the framework of the BFF *Academy*, founded in 2019 and aimed at ensuring the development of skills and training for all BFF employees. The Academy covers four macro-areas, identified as follows:

- **Onboarding Journey**: to aid with the entry of new employees at BFF;
- **Cross Tool & Processes**: includes technical courses on BFF systems and processes, and among other things covers the areas of project management and language courses;
- **Business**: includes professional training courses and conferences, specific refresher and professional training;
- **Soft Skills**: for training aimed at improving relational, professional and managerial skills.

Specifically, the breakdown of BFF Academy training hours by macro-area is shown below, with further details on mandatory training, which is part of the Cross Tool & Processes Area:

Onboarding Journey	Cross Tool & Processes		Business	Soft Skills
1,297	4,232	Mandatory 1,951	1,904	1,129

Covid-Pulse

In April 2021 BFF launched ***"Covid Pulse"***, a survey with the aim of learning more about the experiences of its employees over the last year, also in order to try to understand any difficulties that might arise upon returning to work in person, albeit progressively and with all the necessary precautions. The purpose of this survey, which will be added to the broader **bi-annual Survey** planned for the second half of the year, is to constantly investigate internal alignment and understand the experiences of employees, to make the Bank a better place to work in.

With a 91% participation rate the survey showed very positive results in terms of the company's ability to respond to the pandemic.

"Overall, I think my organisation is doing a good job in responding to the pandemic"

Cooperation with Universities and Culture Centres

Internal culture, but also the promotion of culture and information externally in a climate of transparency and constructive debate, aimed at improving the "public-private" relationship, is one of the cornerstones of BFF's history. It is also what has allowed the company to grow over time, constantly innovate and anticipate trends.

In 2021, BFF continued with its membership in the **Cergas** Network of Associated Companies (Centre for Research on Health and Social Care Management) of the SDA Bocconi School of Management. This membership allows BFF staff to participate in in-depth discussions and debates with key stakeholders in the healthcare sector regarding the changes and challenges of the public and private system, which accounts for an important portion of BFF customers in the Factoring & Lending area. Other collaborations of this nature are carried out through the **Farmafactoring Foundation** (see next page). Indeed, the partnerships with **Ca Foscari University of Venice** and **Censis** Centro Studi Investimenti Sociali have been ongoing for many years now.

Collaboration and contributions of an educational nature are also provided by **Mefop** (Società per lo sviluppo del Mercato dei Fondi pensione), founded in 1999 by the Ministry of Economy and Finance, its majority shareholder, aimed at promoting the development of forms of welfare through training, study, assistance and promotion in matters related to supplementary pensions.

Moreover, for the second consecutive year the "Macro Perspectives on Spain and its Regional Governments' Finances" report has been published on a quarterly basis in order to stimulate debate and in-depth analysis of macroeconomic issues that may influence the choices of typical BFF customers. The study, published in English and Spanish, analyses macroeconomic trends and the impact on the economy of Spain at the central government and local self-government levels, outlining possible scenarios.

Alongside analysis and economic and financial information, art also plays a central role at BFF, as a constant stimulus to observe reality from new and different perspectives and thus contribute to an increasing willingness to innovate and include.

In this context two initiatives were organised, one at local level in Portugal and the other at an international level.

In May an area of the **Gulbenkian Museum in Lisbon** was inaugurated that BFF helped to restore as part of a project launched in 2020, during the pandemic that severely penalised the entire arts sector.

Art and culture are important driving forces for the development of companies and society. Thus was born the project ***ART FACTOR – The Pop Legacy in Post-War Italian Art***, which first took form in the publication of the book of the same title published by Skira editore Milan Genève Paris in April 2021 followed by a website entirely dedicated to the collection and a travelling exhibition in Europe. Thanks to this initiative, the Collection – which is permanently displayed at BFF's headquarters in Milan – can be enjoyed in the cities the Group operates in, including Athens, Bratislava, Lisbon, Madrid, Paris, Warsaw and Milan.

Of the countries that the Group operates in, **Portugal** was the one that faced the greatest difficulties in countering the third wave of COVID-19 in 2021. Also for this reason, after the contributions to Italy and Spain during 2020, BFF supported the Portuguese Tech4Covid Association with a donation aimed at the purchase of computer equipment for students in financial difficulty, as part of the StudentKeep project. Made in March, the donation was used to purchase 55 computers, delivered to the Central Directorate of Public Schools (DGEstE), responsible for distributing them to schools and students.

The project also aims to celebrate BFF's new brand identity. The company logo is inspired by the work *Danza*, which the company commissioned from the artist Gianfranco Pardi and donated to the city of Milan in 2006, adorning one of the city's main points of access near BFF headquarters. The sculpture is composed of a series of yellow lines that, in their curves and suspensions, suggest the movement and dynamism of change, in line with the aspirations for continuous innovation and excellence that drive the Group.

The Farmafactoring Foundation

BFF’s constant interest in scientific research is made possible and regularly inspired by the activity of the **Foundation**, which, established in 2004 precisely to ensure the continuity of the projects undertaken by BFF and aimed primarily at analysing the management models, structures and governance of the Healthcare Systems in Italy and Europe, and in general of the Public Administration, in May 2021 presented its annual Report on the Healthcare System: "*The health ecosystem stress tested by COVID-19: reactions and results*". The study examines the different phases of the emergency and the management of the pandemic, with the aim of understanding the reactions of the various actors involved, in many cases direct BFF stakeholders: a useful tool for healthcare companies, social and economic institutions and companies working with the public administration in such a unique context.

Governance

BFF has implemented a traditional governance and control model[3)] based on two corporate bodies appointed by the Shareholders' Meeting: the **Board of Directors**, as the body entrusted with the strategic supervision of the company, and the **Board of Statutory Auditors**, as the body entrusted with the control function.

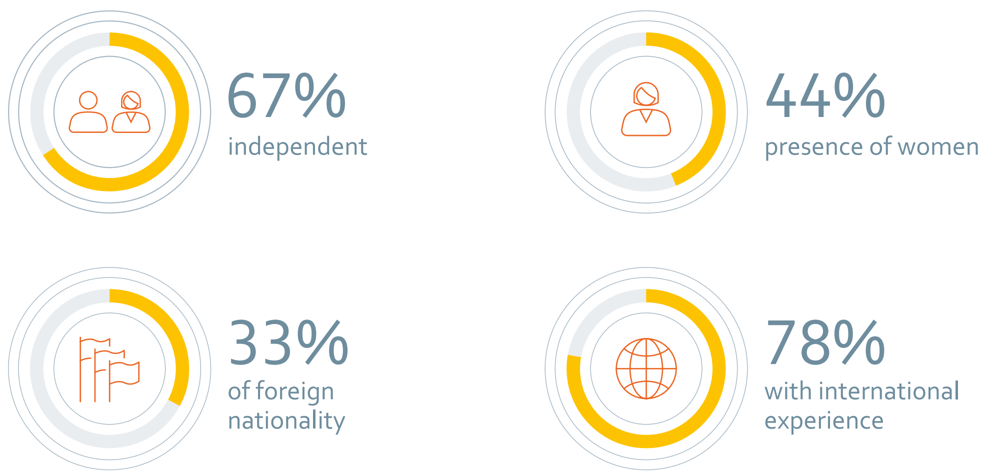
BFF's governance model is aligned with the best market practices of public companies, and is consistent with the principles of the Corporate Governance Code of listed companies.

In this regard, in March of this year the Shareholders' Meeting appointed the new Board of Directors, which will remain in office until the approval of the financial statements for the year 2023.

The outgoing Board of Directors made use of the option envisaged by art. 15 of the By-laws to present its own slate of candidates, following a rigorous self-assessment process, carried out with the contribution of the Nominations Committee, after evaluation by a leading independent executive search company, which certified its overall consistency with current regulations and the Guidelines on the qualitative-quantitative composition deemed optimal.

3) See dedicated section: p. 23 of this document.

Today, BFF's Board of Directors has an optimal composition in terms of professional experience, gender, international profile and independence:



In 2017 the Board of Directors adopted a succession plan for the Chief Executive Officer.

Note that a self-assessment of the Board of Directors is performed on an annual basis. The independent directors meet periodically in order to discuss issues relating to corporate governance.

Indeed, with specific regard to Environment, Social and Governance ("ESG") responsibilities, in 2020 the Board of Directors assigned fact-finding, advisory and proposing functions to the Control and Risks Committee, and more generally tasking it to support the Board of Directors with respect to topics related to sustainability, as well as the periodic review of updates on the progress of actions in this area.

Ethics and integrity

Ethics and integrity are the pillars of BFF's governance. The Group's Code of Ethics, the Code of Conduct and the 231 Model are the elements through which these two areas are supervised, not to mention the Anti-Money Laundering Policy which BFF followed up on with the completion of the Wolfsberg Group Correspondent Bank Due Diligence Questionnaire.

The introduction of an additional whistleblowing channel during the first half of 2021 is also worthy of note, as it will allow BFF employees to submit fully anonymous reports through a portal managed by third parties, available and reachable 24/7/365. The channel will be available on the intranet, and specific training will be provided. The other channels, as indicated in the Code of Ethics and 231 Model, will remain active and available to both employees and third parties.

Corporate bodies

BOARD OF DIRECTORS

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Federico Fornari Luswergh
Directors	Amélie Scaramozzino Michaela Aumann Piotr Henryk Stępniak Domenico Gammaldi Barbara Poggiali Giovanna Villa

The Board of Directors was appointed by the Shareholders' Meeting held on March 25, 2021 and its term of office will end on the date of the Meeting convened to approve the Financial Statements at December 31, 2023.

BOARD OF STATUTORY AUDITORS

Chairperson	Paola Carrara
Standing Auditors	Fabrizio Riccardo Di Giusto Paolo Carbone
Alternate Auditors	Claudia Mezzabotta Carlo Carrera

The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on March 25, 2021 and its term of office will end on the date of the Meeting convened to approve the Financial Statements at December 31, 2023.

INDEPENDENT AUDITORS

KPMG S.p.A.

FINANCIAL REPORTING OFFICER

Carlo Maurizio Zanni

Committees

Members of the following committees were appointed by the Board of Directors on March 25, 2021.

REMUNERATION COMMITTEE

NAME	QUALIFICATIONS	POSITION
Barbara Poggiali	Independent Director	Chairperson
Amélie Scaramozzino	Independent Director	Committee Member
Piotr Henryk Stępniak	Non-Executive Director	Committee Member

COMMITTEE FOR THE EVALUATION OF TRANSACTIONS WITH RELATED PARTIES AND ASSOCIATED ENTITIES

NAME	QUALIFICATIONS	POSITION
Giovanna Villa	Independent Director	Chairperson
Amélie Scaramozzino	Independent Director	Committee Member
Michaela Aumann	Independent Director	Committee Member

NOMINATIONS COMMITTEE

NAME	QUALIFICATIONS	POSITION
Domenico Gammaldi	Independent Director	Chairperson
Barbara Poggiali	Independent Director	Committee Member
Federico Fornari Luswergh	Non-Executive Director	Committee Member

CONTROL AND RISKS COMMITTEE

NAME	QUALIFICATIONS	POSITION
Michaela Aumann	Independent Director	Chairperson
Federico Fornari Luswergh	Independent Director	Committee Member
Domenico Gammaldi	Non-Executive Director	Committee Member

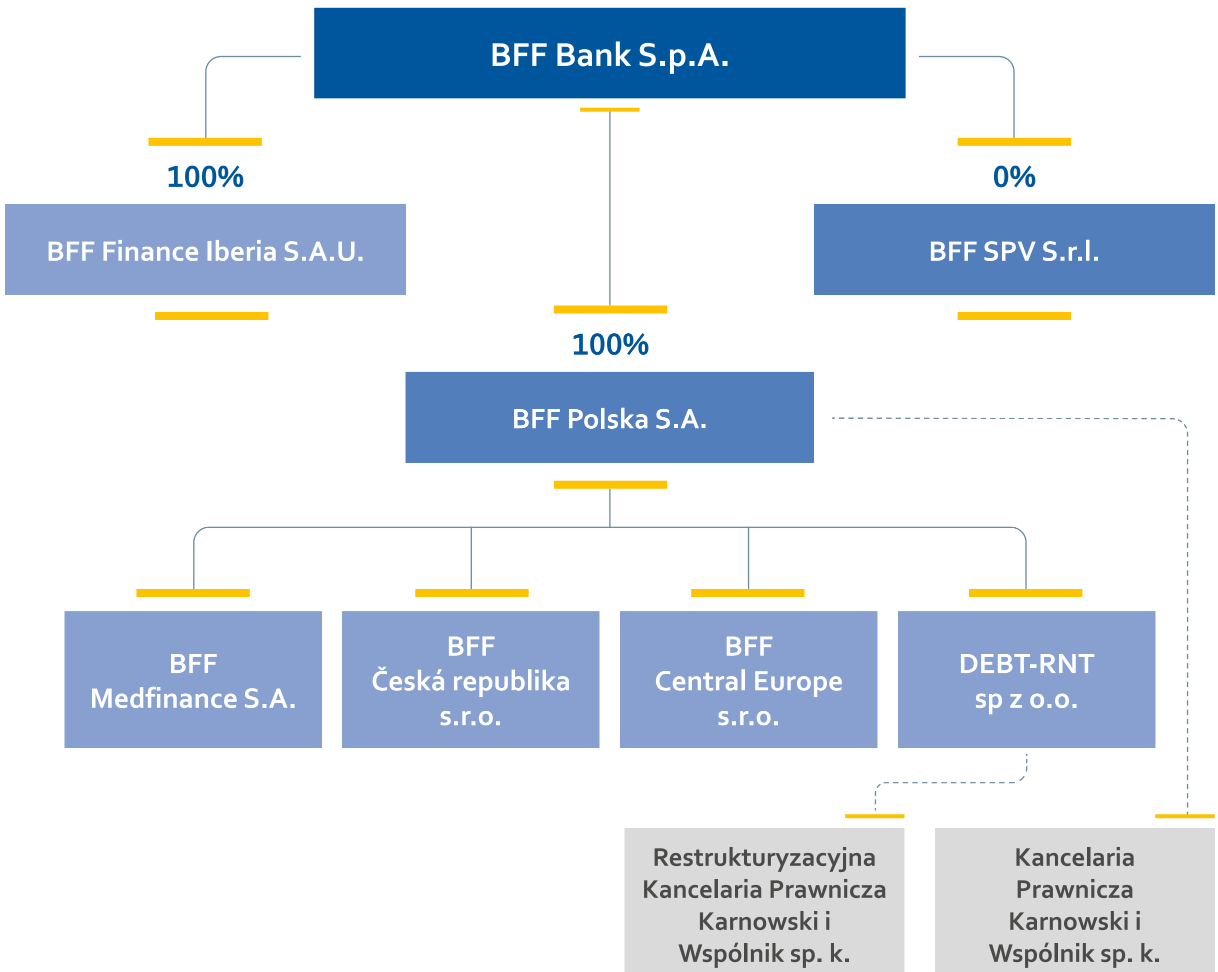
BOARD OF DIRECTORS

ROLE OF MEMBERS OF THE BOARD OF DIRECTORS AND INDEPENDENCE REQUIREMENTS

NAME	OFFICE IN BFF	EXECUTIVE	NON-EXECUTIVE	INDEPENDENCE AS PER TUF AND CORPORATE GOVERNANCE CODE
Salvatore Messina	Chairman		✓	✓
Federico Fornari Luswergh	Deputy Chairman		✓	
Massimiliano Belingheri	Chief Executive Officer	✓		
Amélie Scaramozzino	Director		✓	✓
Michaela Aumann	Director		✓	✓
Piotr Henryk Stępniak	Director		✓	
Domenico Gammaldi	Director		✓	✓
Barbara Poggiali	Director		✓	✓
Giovanna Villa	Director		✓	✓

The composition of BFF's Board of Directors meets the diversity and gender criteria recommended by the Corporate Governance Code as set out in the Corporate By-laws the Board of Directors' Regulations and the Board of Directors' Diversity Policy approved by the Board of Directors on July 28, 2021. This Policy defines the ideal characteristics of the composition of the Board of Directors, covering aspects such as age, gender composition, education and professional background, so that the Board of Directors may effectively carry out its duties, making its decisions on the basis of a different, qualified and diverse point of view.

Group Structure



Note that the Issuer qualifies as "SME" pursuant to article 1, paragraph 1, letter w-quater.1) of the TUF – as shown by the list of SMEs published on the Consob website.

Pursuant to article 1, paragraph 1, letter w-quater.1) of the TUF, small and medium enterprises that are issuers of listed shares and have a market capitalisation of less than €500 million are considered "SMEs". Issuers of listed shares that have exceeded that limit for three consecutive years are not considered SMEs. Paragraph 2 of article 44-bis of Italian Legislative Decree no. 76/2020, coordinated with conversion law no. 120/2020, provides that: "Issuers that at the date of entry into force of the law converting this decree assume the status of SMEs on the basis of turnover criteria alone shall continue to maintain this status for two years following the current one".

At June 30, 2021, BFF Banking Group included the Parent BFF Bank S.p.A. and the following companies:

Company name	Registered and operating office	Relationship type[(1)]	Ownership relationship		Voting rights %[(2)]
			Held by	Holding %	
COMPANIES CONSOLIDATED LINE-BY-LINE					
1. BFF Finance Iberia, S.A.U.	Madrid - Paseo de la Castellana 81	1	BFF Bank S.p.A.	100%	100%
2. BFF SPV S.r.l.	Milan - Via V. Betteloni 2	4	BFF Bank S.p.A.	0%	0%
3. BFF Polska S.A.	Łodz - Jana Kilińskiego 66	1	BFF Bank 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 Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

From March 1, 2021, with the acquisition of DEPObank by BFF, the latter holds a 24% stake in Unione Fiduciaria.

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) Type of relationship:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = dominant influence at the ordinary shareholders' meeting
3 = arrangements with other shareholders
4 = other forms of control

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

Shareholder Structure

On February 10, 2021, with markets closed, Scalve S.à r.l. ("Scalve"), a company controlled by Massimiliano Belingheri, CEO of the Bank, initiated a reverse accelerated book-building ("RABB") targeted exclusively at institutional investors and aimed at purchasing a maximum of 3.5 million BFF ordinary shares. The completion of the RABB transaction took place the following day, February 11, with the acquisition by Scalve of 1,938,670 BFF ordinary share and the call discussed below.

On the same date of February 11, 2021, BFF Luxembourg S.à r.l. (Centerbridge) ("BFF Lux") initiated, and then concluded on February 12, the sale of all remaining shareholdings in BFF:

(i) through an accelerated bookbuilding (ABB) procedure (ABB), targeting certain categories of institutional investors, for 11,806,970 shares, and

(ii) following the exercise of the call option by Massimiliano Belingheri, with physical delivery of 1.76 million shares, envisaged pursuant to the relevant existing Lock up and Option Agreement.

Following this last transaction and the ABB, BFF Lux completed the exit from the capital of BFF, and Massimiliano Belingheri holds – both directly and indirectly through closely related persons (Scalve and Bray Cross Ltd.) – approximately 10.03 million BFF shares (10.17 million at June 30, 2021).

On March 5, 2021 the Bank issued to Equinova UK HoldCo Limited ("Equinova")[4] 14,043,704 new BFF ordinary shares for the merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. ("DEPObank") into BFF. The quota was equal to 7.60% of BFF's share capital at that date, and corresponding to 7.58% of the share capital at June 30, 2021.

The composition of BFF shareholders at June 30, 2021 is shown in the diagram on the next page. This reflects the results of the transactions described above and the free share capital increases, already communicated to the market and which took place in 1H 2021 through the issuance of new BFF ordinary shares, assigned to BFF Group personnel for needs related to remuneration and incentive policies, as part of:

(i) The 2020 Management by Objectives incentive system;

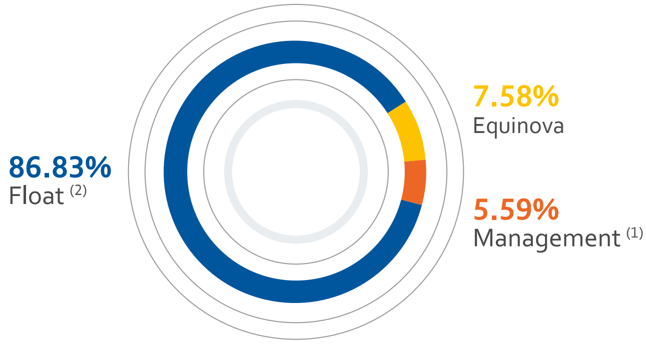
(ii) The "Stock Option Plan of Banca Farmafactoring Banking Group", originally approved by the Shareholders' Meeting on December 5, 2016, as amended at the Shareholders' Meeting on March 28, 2019 ("2016 Stock Option Plan").

For more details on the Bank's two stock option plans, please refer to the "Share capital" chapter on page 76.

As of June 30, 2021, **Equinova** is the main shareholder of BFF, with 7.58% of the share capital.
BFF management follows with 5.59%: the Chief Executive Officer Massimiliano Belingheri, the five vice presidents in office at that date, and their respective Closely Related Persons.
The remaining 86.83% is floating, which includes treasury shares (279,294 as of June 30, 2021).

4) Equinova is the holding company of Advent International Corporation, Bain Capital Private Equity Europe LLP and Clessidra Private Equity SGR S.p.A., which was the main shareholder of DEPObank (as of March 1, 2021 it held a 91.6% stake in the share capital).

TOTAL NUMBER OF BFF SHARES ISSUED AS AT JUNE 30, 2021: 185,181,897



Source: Forms 120A - 120B - 120D and Internal Dealing communications. Percentage is calculated based on the total number of shares issued at 06/30/2021.

(1) As at 06/30/2021 the Chief Executive Officer Massimiliano Belingheri and his Closely Related Persons (Bray Cross Ltd. and Scalve) held 10.17 million BFF shares, for a quota equal to 5.49% of the share capital. The remaining quota of the management refers to the BFF shares held by the 5 vice presidents in office at that date and by their respective Closely Related Persons.

(2) Includes 279,294 treasury shares as at 06/30/2021.

The operational context

In a global situation in which the COVID-19 pandemic had a significant impact on all sectors, factoring also saw its first decrease in turnover in 2020 after 11 years of positive trends, registering -6.6% worldwide, with a cumulative annual turnover of €2,724 billion, -6.8% at a European level, for a volume of €1,842 billion.

Looking more specifically at the Factoring & Lending business in Italy and Spain, the Group's performance was impacted by liquidity injections due to the pandemic, and in Italy did not benefit from the recovery seen in the first half of 2021 in the factoring market, which returned almost to pre-COVID levels: -3% (-1% non-recourse) of volumes compared to the same period of 2019. This because in the first half of 2020 it had already shown greater resilience with +3% on volumes compared to the same period of 2019, in a market that recorded -13% (-12% non-recourse) on volumes in the same period.

With regard to BFF's two additional specialised lines, Securities Services and Payments, the context was positive both with respect to 2020, influenced by the shock of COVID-19, and to 2019.

Indeed, as the main independent player in Italy in the field of custodian banking, fund accounting, transfer agent and security custody services, the performance of the Group's Securities Services business was strongly influenced by the growth in assets under management in Italy, which saw a positive start in 2021, with assets growing by 2.0% at the end of March compared to the end of 2020, amounting to €2,469 billion. The increase was achieved partly as a result of the appreciation of the markets and partly thanks to the increase in net inflows, amounting to almost €30 billion. One of the effects of the pandemic has been to generate an increase in household savings, both as a precaution in order to counter future uncertainties and due to the impossibility of spending in certain areas such as tourism, dining, etc. With the start of the vaccination campaign and the gradual reopening of businesses, the savings are beginning to transform into an increase in household demand, both for goods and services and financial investments. In this sense, it can be assumed that the favourable trends will strengthen during the year.

With regard to the **payments sector**, where BFF is the leading independent operator in Italy in the field of processing services dedicated to PSP (Payment Service Providers) and in structured collection and payment services for companies and the Public Administration, it is expected that the recovery in consumption and measures to support the economy will have a positive impact on the payment cycle, and consequently on BFF's business.

More specifically, for BFF the recovery is already visible in the framework of *interbank processing services and in the collection and corporate payments sector*, while the same activity relating to payment instruments that operate in a "face-to-face" logic (e.g. payments with cards, cheques, etc.) is still partially impacted by the economic slowdown attributable to the COVID emergency.

The evolution of this market is closely linked to digitisation and the strong attention of the European Commission and the ECB, which are committed to defining the strategic guidelines for the coming years. The intervention of these institutions in reaction above all to the strong control exercised in the sector by non-EU operators (e.g. VISA, Mastercard) could lead to greater competition, with the consequent entry into the market of new competitors (including non-banks). There are also ample opportunities for BFF, which, during the second quarter of 2021 with the full implementation of PSD2, witnessed a growing demand for payment intermediation services by many new operators, such as Payment Institutions and IMELs.

BFF is also the first European bank to have activated Banks, Payment Institutions and IMELs with Instant Payments in the intermediary mode. Therefore, the hoped-for establishment of a new pan-European payment circuit based on instant transfers could be a further accelerator of the Group's growth in the field of digital payments.

The following is a summary representation of the **international economic context** and the individual countries that BFF operates in to provide a better understanding of the dynamics of the business, then further discussed in the next chapter relating to the performance of operations in the first half of 2021:

The European economy

THE MAIN MACROECONOMIC INDICATORS OF THE EUROPEAN UNION

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	1.6%	-6.0%	4.8%	4.5%
Inflation rate (annual change)	1.5%	0.6%	2.0%	1.6%
Unemployment rate	6.6%	7.2%	7.5%	7.1%
Balance of payments (% of GDP)	2.0%	1.9%	2.1%	2.1%
Public Budget Balance (% of GDP)	-0.8%	-7.9%	-7.4%	-4.0%

Consensus from Bloomberg.

In the first half of 2021 the European Union continued to suffer the impacts of the pandemic, with over 17 million cases of contagion and 369 thousand deaths, bringing the count since the beginning of 2020 to almost 33 million people infected and 740 thousand deaths. The slow start of the vaccination campaign did not make it possible to counteract the spread of the virus before the second quarter – with the peak in infections at the end of March – delaying the reopening of businesses and the end of some restrictions.

As a result GDP stagnated in the first quarter (-0.1% compared to the last quarter of 2020) and the recovery began only in the spring. The indicators on the confidence of households and businesses are moving in this direction, improving markedly, with the optimism of manufacturers reaching an all-time high in June. After the contraction of 6.0% in 2020, the consensus estimates that GDP will grow by 4.8% this year, and 4.5% in 2022.

In June inflation rose to 2.2% from 0.3% in December, driven by a sharp rise in energy prices, while the increase in the core figure (which excludes the volatile components of food, energy, alcohol and tobacco) was lower, from 0.8% to 1.2%. For this year on average analysts estimate that inflation will reach 2.0% (from 0.6% last year), then 1.6% in 2022.

Against this background, the ECB has maintained a very accommodative monetary policy, envisaging the maintenance of purchases of securities under the Pandemic Emergency Purchase Programme (the so-called PEPP) at a "significantly high" rate even in the third quarter of the year. This optimism for growth has led operators to slightly correct upward expectations on interest rate developments (forward rates on Euribor with maturity at the end of 2022 rose in the half-year from -0.53% to -0.44%). This was reflected in a slight rise in short-term yields, which did not prevent European yield curves from becoming steeper given that the improvement in expectations of economic growth and higher inflation – although largely considered temporary by the market – caused a recovery in long-term rates (on the ten-year Bund and on the 10-year Btp, respectively 37 and 28 basis points). The "steepening" of the curves made possible an improvement in the yields of the securities portfolio that the Bank invests in, typically with medium/long-term duration, and likely will continue to do so.

To deal with the pandemic and stimulate the recovery of the economy, the European Union has strengthened the 2021-2027 multi-year budget by launching the Next Generation EU (NGEU) plan, which provides for investments and reforms to accelerate the climate transition and digital transformation from 2021 until 2026. NGEU is divided into 7 programmes for a total amount of €806.9 billion, the main one being the Recovery and Resilience Facility (RRF) worth €723.8 billion, divided into 338.0 billion of grants and 385.8 billion of loans. In addition to the RRF, there are the 50.6 billion of ReactEU and 32.5 billion for Horizon Europe, InvestEU, Rural Development, Just Transition Fund and RescEU.

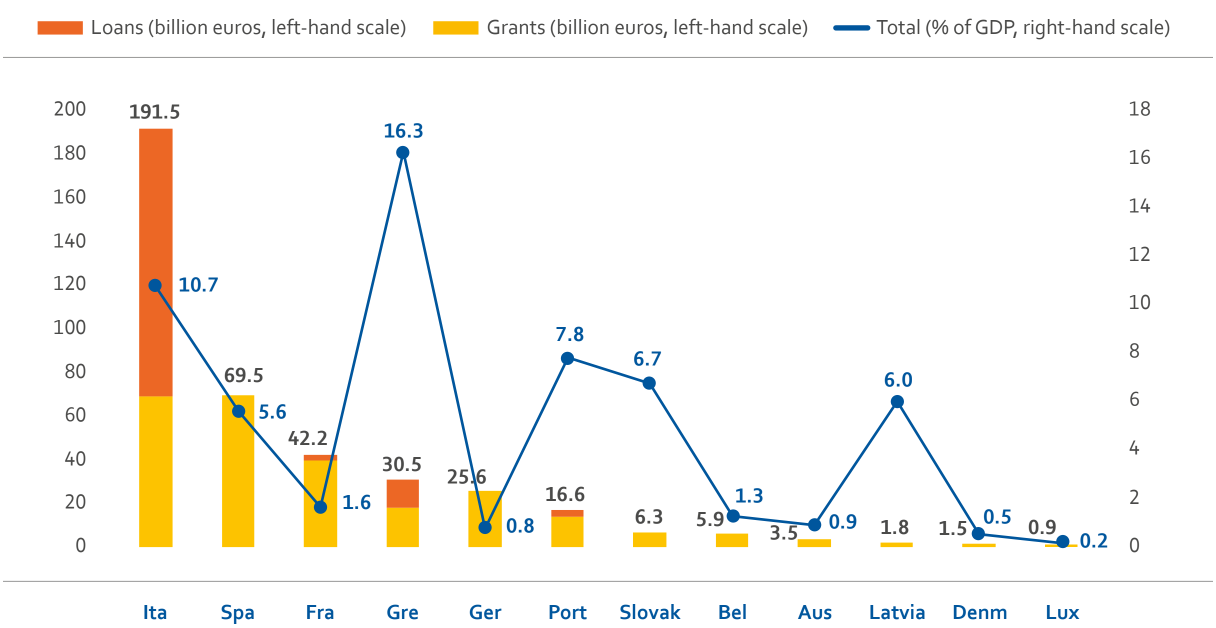
The distribution of the RRF among the various countries depends on the trend of economic growth, i.e. the countries that grow less are entitled to a greater share of the programme. Based on GDP estimates of the European Commission in the fall of 2020, the countries that our Bank operates in will have access to €234 billion (in real terms) in grants, equivalent to 75% of the total, compared to 47.4% of the total European Union GDP.

THE GRANTS OF THE RECOVERY AND RESILIENCE FACILITY IN THE COUNTRIES THAT BFF OPERATES IN

Countries	Maximum grant in nominal terms (billion euros, current prices)	Weight of total planned grants
European Union (27 countries)	338.0	100.0%
Italy	68.9	20.4%
France	39.4	11.6%
Spain	69.5	20.5%
Poland	23.9	7.1%
Czech Republic	7.1	2.1%
Portugal	13.9	4.1%
Greece	17.8	5.3%
Slovakia	6.3	1.9%
Croatia	6.3	1.9%
Total for countries that BFF Bank operates in	253.1	74.9%

Source: Eurostat.

On July 13, 2021 the Ecofin Council approved the disbursement of a first tranche of RRF funds for 12 countries based on the respective National Recovery and Resilience Plans (NRRPs). Italy is the largest beneficiary of the plan in absolute terms, with €191.5 billion (of which 68.9 in grants and 122.6 in loans), while Greece is the largest beneficiary as a percentage of GDP, with 16.3%.



The Next Generation EU package should spark a **significant increase in public spending** in the coming years, building on the pace already set in 2020 when public spending in the European Union grew by 9.2% compared to the previous year.

This increase will be mainly on the public investment side, while the progression of intermediate consumption (or expenditures on goods and services) will be more limited, as it was last year.

THE TREND OF PUBLIC EXPENDITURES IN THE COUNTRIES WHERE BFF IS PRESENT

Countries	Public Expenditures 2020 (billion euros)	Chg 2020/2019	Intermediate Consumption 2020 (billion euros)	Chg 2020/2019
European Union (27 countries)	7,119	9.2%	814	5.0%
Italy	946	8.6%	104	2.8%
France	1,423	5.5%	123	2.2%
Spain	586	12.0%	66	3.2%
Poland	255	14.2%	31	2.3%
Czech Republic	101	9.6%	13	-1.1%
Portugal	98	7.8%	11	1.4%
Greece	101	14.7%	9	1.2%
Slovakia	44	9.1%	6	4.9%
Croatia	27	6.8%	4	-5.4%

Source: Eurostat.

According to the data in the previous table, it is reasonable to believe that the increase in public spending, as well as consumption, may also have a positive impact in the near future on the operations of BFF in the framework of the business line dedicated to factoring and the management of credit to the Public Administration, as well as lending in the Central European countries.

Italy

THE MAIN MACROECONOMIC INDICATORS OF ITALY

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	0.3%	-8.9%	5.0%	4.2%
Inflation rate (annual change)	0.7%	-0.2%	1.3%	1.1%
Unemployment rate	10.0%	9.3%	10.4%	10.0%
Balance of payments (% of GDP)	3.2%	3.2%	3.4%	2.9%
Public Budget Balance (% of GDP)	-1.6%	-9.5%	-11.3%	-5.8%

Consensus from Bloomberg.

The effects of the pandemic continue to be severe in Italy. In the first half of 2021 over 2 million people were infected, and 53 thousand died, bringing the total – since the respiratory disease began to spread – to 4.3 million infected people and 128 thousand dead. Our country is one of those that has suffered the most, with a lethality rate (which measures the ratio between deaths and infections) of 3.0%, higher than the global average (2.2%) and among the highest in the world.

The new lockdowns established by the government to counter the spread of the virus have slowed the recovery of the economy. In the first three months of the year GDP saw a slight increase (+0.1% compared to the last quarter of 2020), although domestic demand net of inventories subtracted 0.1% from growth due to a negative contribution from consumption (0.7%) and public spending (-0.1%), and positive effect of investment (+0.7%). Given that net foreign demand also slowed growth (by 0.4%), the positive change in GDP was achieved thanks to a significant accumulation of inventories (+0.6%) stocked to restore what had been consumed during 2020. In the spring, following the acceleration of the vaccination campaign and the gradual reopening of businesses, the confidence of entrepreneurs and consumers improved markedly, leading to a strong recovery. The imposing fiscal and monetary stimuli, together with the prospect that the high savings of households will result in higher consumption, presage sustained growth both for 2021 and for 2022 – which on average analysts estimate at 5.0% and 4.2% – after the contraction in 2020 that was the most severe (-8.9%) since WWII.

Inflation in the first six months of the year rose from -0.2% to 1.3%, driven upwards by energy prices, while net of the most volatile components (food, energy and tobacco) the figure fell from 0.6% to 0.4%, reflecting the weakness of domestic demand. According to consensus estimates, the change in consumer prices is expected to settle at 1.3% in 2021 (from -0.2% last year) and 1.1% in 2022.

To deal with the health emergency and the recession caused by the pandemic, in 2020 and 2021 the governing administrations intervened with a series of measures that have considerably increased the public deficit in these two years and relatively less so in the following years.

In 2020 general government net debt in relation to GDP stood at 9.5%, a deterioration of almost 8 percentage points compared to 2019, as a result of both the exceptional decline in GDP and the discretionary measures adopted to mitigate the economic and social impact of the pandemic. In absolute terms, general government net debt was €156.9 billion, €129 billion higher than in 2019. However, last year's deficit was significantly better than the estimate indicated in the 2020 Economy and Finance Document (EFD), equal to 10.4% of GDP (then revised to 10.8% in the EFD Update Note, EFDUN), although in the meantime significant manoeuvres to support the economy had been carried out. Indeed, on the one hand growth in current public expenditures was lower than expected, more than offsetting higher capital outflows, and on the other hand current revenues exceeded expectations.

According to the EFD, net debt is expected to halve in 2022, falling to 5.9% of GDP from 11.8% this year (and 9.5% in 2020). On the other hand, the path of reducing public debt is expected to be slower, going from the peak of 159.8% in 2021 to 152.7% in 2024.

THE KEY NUMBERS OF ITALIAN PUBLIC FINANCE

		2019	2020	2021	2022	2023	2024
Net Indebtedness	- EFD April 2021	-1.6	-9.5	-11.8	-5.9	-4.3	-3.4
	- April 2021 trend	-1.6	-9.5	-9.5	-5.4	-3.7	-3.4
	- 2020 EFDUN	-1.6	-10.8	-7.0	-4.7	-3.0	-
Net Structural Indebtedness	- EFD April 2021	-1.7	-4.7	-9.3	-5.4	-4.4	-3.8
	- April 2021 trend	-1.9	-4.9	-7.2	-5.0	-3.8	-3.9
	- 2020 EFDUN	-1.9	-6.4	-5.7	-4.7	-3.5	-
Primary Surplus	- EFD April 2021	1.8	-6.0	-8.5	-3.0	-1.5	-0.8
	- April 2021 trend	1.8	-6.0	-6.2	-2.5	-0.8	-0.8
	- 2020 EFDUN	1.8	-7.3	-3.7	-1.6	0.1	-
Public Deficit	- EFD April 2021	134.6	155.8	159.8	156.3	155.0	152.7
	- April 2021 trend	134.6	155.8	157.8	154.7	153.1	150.9
	- 2020 EFDUN	134.6	158.0	155.6	153.4	151.5	-

Source: MEF (www.mef.gov.it).
Data as a percentage of GDP.

The speed of the recovery will also depend on the success of the National Recovery and Resilience Plan (NRRP), the massive fiscal plan of €235.6 billion (equal to 14.3% of GDP in 2020), which includes 205.0 billion of the Next Generation EU (in turn divided into 191.5 billion of the Recovery and Resilience Facility (RRF) and 13.5 billion of the React EU) and 30.6 billion of a complementary national fund. The NRRP, which will be financed for 82.4 billion in non-repayable funds and 153.2 billion in debt, will develop between 2021 and 2026 in a series of reforms and investments, with the aim of increasing productivity and potential growth in our country.

THE TAX PLANS TO SUPPORT THE ITALIAN ECONOMY

	billion euros	billion euros	% of GDP(*)	% of GDP(*)
Recovery and Resilience Facility (RRF)	**191.5**		**11.6%**	
of which: - loans		122.6		7.4%
- grants		68.9		4.2%
React EU, grant	13.5		0.8%	
Next Generation EU (NGEU)	**205.0**		**12.4%**	
Supplementary national fund, loan	30.6		1.9%	
National Recovery and Resilience Plan (NRRP)	**235.6**		**14.3%**	
of which: - loans		153.2		9.3%
- grants		82.4		5.0%

Source: www.governo.it

(*) GDP 2020.

According to the EFD of last April, the forecasts for Italian public spending are subject to considerable uncertainty, attributable among other factors to the dynamics of the pandemic that has not yet been resolved and on which future economic trends depend, and to the effects of the use of European funds that will be made available for Italy under the Next Generation EU (NGEU) programme.

Intermediate consumption (the value of the goods and services used) increased by 7,152 million in 2021, to 157,972 million. In subsequent years the trend will resume the historical trend (152,278 million in 2022, 154,944 million in 2023 and 154,127 million in 2024), overlapped by the impact of NGEU projects. Specifically, for **Healthcare** reduced costs are expected for 2021 due to the assumed reduction of the epidemiological emergency. The expectations for **local bodies** takes into account the provisions of article 1, paragraphs 859 et seq. of Italian Law no. 145 of December 30, 2018 guaranteeing **compliance with the payment times envisaged by the European Directive for public administration commercial debts**, and the **elimination of the stock of previous debts** that impose limitations on the spending capacity of defaulting institutions.

Interest expenditures remain constant in 2021 and decrease significantly in the three-year period 2022-2024.

The Factoring market

In the Italian market, which represents a share of approximately 8.4% of the world market and 12.4% of the European market, the total turnover of factoring operators participating in the Industry Association (Assifact) exceeded €227 billion, with a reduction – in line with the decline in industrial turnover – of more than 10% from the previous year.

Despite the pandemic, synergies between factors and high-profile companies have allowed support for production chains: the turnover generated by Supply Chain Finance in 2020 amounted to over €22 billion, up 20% on the previous year. The trend of 2020 continued through the beginning of 2021, although there was a progressive improvement starting in the spring of this year, translated into positive growth in the factoring market starting in April, which continued incrementally also in June 2021.

At the end of the first quarter of 2021, the data of the Italian factoring market – despite the main indicators still all being negative – showed the first signs of recovery in terms of volumes: the turnover in March settled at €55.5 billion (of which 43.8 billion for non-recourse factoring), closing with a positive sign for the first time since the beginning of the pandemic (+0.56%) compared to the same month of last year (the y/y deviation is still negative for 4.89%). The preliminary data available for the month of June confirm the recovery of the market, reaching a cumulative turnover of €119 billion (with €94 billion for non-recourse factoring) and an outstanding of €57 billion (of which 24 relating to non-recourse factoring). As of June 2020, turnover was down and equal to 107 billion (with 84 billion for non-recourse factoring), with an outstanding of 55 billion (of which 40 billion related to non-recourse). In the same period of 2019, turnover amounted to €123 billion (of which €95 billion for non-recourse), with an outstanding amount of €62 billion (€45 billion for non-recourse).
In the first half of 2021, BFF did not benefit from the recovery of the factoring market, because in the first half of 2020 it had already shown greater resilience with +3% on volumes compared to the same period of 2019 (pre-COVID), in a market that recorded -13% (-12% non-recourse) on volumes in the same period.

Analysing the composition of receivables in March 2021, it can be observed that purchases of trade receivables from the Public Administration grew by 4.14% compared to the same period of the previous year, while outstanding receivables from public bodies were €8.3 billion, down by over €1 billion compared to the end of 2020, highlighting an improvement in payment times, which however focuses on the non-overdue component, while overdue receivables accumulate further delays. Impaired loans at the end of the first quarter of 2021 (5.16%) are in line with the first quarter of 2020, although recording an increase in all classifications compared to the end of 2020. The proportion of non-performing overdue exposures (i.e. overdue by more than 90 days) rose to 1.02%, thus remaining at low levels.
The average duration of receivables from public bodies at December 31, 2020 was 133 days (Assifact data).

With regard to the estimates of the actual payment times in 2021 in Italy, B2C pays on average in 31 days (the same figure for 2020), B2B pays in 52 days (an improvement compared to 2020), while the Public Administration pays on average in 64 days, registering a slight worsening compared to 2020. These data, published by Intrum in the edition of the European Payment Report of June 2021 should also be read with the precise indications – for the Italian market – of Confindustria Dispositivi Medici, which highlight DSO (Days Sales Outstanding) in Italian healthcare facilities of over 100 days for nine Italian regions (data in June 2021), and only four regions under 60 days, out of a total of 20. Obviously this is a sector, the healthcare sector, which – precisely by virtue of the important investments made in the last year – will be committed in the near future to increasing the financial flows used to cover these costs, probably also at the expense of an improvement in payment times with respect to the purchasing processes for goods and services.

Securities Services

BFF is the main independent player in Italy in the field of custodian banking, fund accounting, transfer agent and security custody services. The performance of the Group's Securities Services business was therefore strongly influenced by the growth in assets under management in Italy, which saw a positive start in 2021, with assets growing by 2.0% at the end of March compared to the end of 2020, amounting to €2,469 billion. The increase was achieved partly as a result of the appreciation of the markets and partly thanks to the increase in net inflows, amounting to almost €30 billion.

Looking at the figures in more detail, there was growth for various types of asset management. Fund management (open and closed funds) and retail asset management went well, while the results of the management of insurance and social security assets were slightly more modest.

Specifically, the open-ended funds collected in net terms €18.7 billion – for a net worth of €1,173 billion – although the increase is mainly attributable to foreign funds. With regard to funds under Italian law, funding was substantially stable in the first quarter of 2021 (+0.2%), while growth in assets under management increased by 1.4%, to €242,799 billion, and net funding of closed-end funds grew by 1.3%.

Pension funds increased to €110.6 billion. The pension funds did very well, with a net inflow of 8.9% of the assets under management, as did the open pension funds, growing by 3.0% in the part of the assets not linked to the performance of the markets.

Following the issuance of the "Relaunch Italy Decree" there continues to be an interest in establishing alternative Pir AIFs alongside traditional Pirs. There is also a particularly dynamic market within standard AIF funds (real estate, private equity and loans), which has seen BFF among the main beneficiaries of the numerous new initiatives launched during the first half of 2021, with the acquisition of several mandates to play the role of Custodian.

Within Social Security Institutions, the growth of assets followed the positive trend of UCITS funds. BFF confirms its activities as Custodian of Pension Funds, the leading operator in Italy with a market share of approximately 37%.

Finally, the first half of 2021 saw a high impact of "regulatory" projects on daily operations, for example T2-T2S Consolidation, ECMS, CSDR, SHRD II, Spanish FTT, which on the one hand represent an opportunity to strengthen the role of correspondent bank and partner in the market in the field of Securities Services, and on the other hand allow proposing new products and services that can contribute to a further increase in BFF's revenues.

The payments market

As the leading independent operator in Italy in the field of processing services dedicated to PSPs (Payment Service Providers: Banks, IMELs, Payment Institutions) and in structured collection and payment services for companies and the Public Administration, BFF should benefit from a growing payments market thanks to the recovery in consumption and measures to support the economy. Specifically, for BFF the recovery is already visible in the area of *interbank processing services and in the collection and corporate payments sector*, while the same activity relating to payment instruments that operate in a "face-to-face" logic (e.g. payments with cards, cheques, etc.) is still partially impacted by the economic slowdown attributable to the COVID emergency.

In 2020, despite the general decrease in consumption of over 13%, digital payments reached 5.2 billion transactions, going from 29% to 33% of the total value of payments in Italy, with €268 billion (-0.7% compared to 2019) and thus increasing in penetration compared to cash.[5]

Restrictions due to the COVID-19 pandemic have therefore led to an acceleration in the use of digital payments, although Italy is still well below the European average. In 2019 the ECB ranked Italy 24th out of 27 in card transactions per capita. There is therefore a wide range of opportunities.

The consequences of the pandemic, together with the impact of the "Cashless Italy" government plan, have accelerated the process of digitising payments, with prospects for improvement in the coming years.

In this scenario, PSPs – BFF's target customers – will necessarily have to plan significant investments to innovate and transform products and processes related to Payment Systems, while maintaining the traditional instruments used by private individuals and companies.

In the domestic field, the process of aggregation between banks continues.

Never before has the evolution and digitisation of the European Payment System been the focus of attention of the European Commission and the European Central Bank (ECB), which are committed to defining the strategic guidelines for the coming years.

There are four closely interlinked key points underlying the current discussions: 1) pan-European instant payment solutions; 2) innovative and competitive retail payments market; 3) interoperable and efficient retail payment systems; 4) more efficient international payments.

Finally, the direct intervention of the ECB and the European Commission in the payment market in reaction above all to the strong control exercised in this sector by non-EU operators (e.g. VISA, Mastercard) could lead to greater competition, with the consequent entry into the market of new competitors (including non-banks). There are also ample opportunities for BFF, which, during the second quarter of 2021 with the full implementation of PSD2, witnessed a growing demand for payment intermediation services by many new operators, such as Payment Institutions and IMELs.

5) Source: Observatory on Innovative Payments of the School of Management of Milan Polytechnic, March 2021.

Croatia

Since 2018, the Group has expanded its operations in non-recourse factoring in Croatia in compliance with regulations on the freedom to provide services.

THE MAIN MACROECONOMIC INDICATORS OF CROATIA

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	2.9%	-7.7%	5.1%	4.6%
Inflation rate (annual change)	0.8%	0.1%	1.4%	1.6%
Unemployment rate	7.8%	9.0%	8.1%	7.5%
Balance of payments (% of GDP)	2.8%	-1.8%	0.5%	0.4%
Public Budget Balance (% of GDP)	1.8%	-8.0%	-4.4%	-3.0%

Consensus from Bloomberg.

The recovery of the Croatian economy started in the second half of 2020 and continued in the first half of this year. In the first three months GDP grew by a robust 5.8% on a quarterly basis, and indications from the most recent economic data suggest a lively trend in the second. Specifically, the confidence of both entrepreneurs and households has risen sharply, although it is still below the levels at the beginning of last year. On average, analysts estimate that GDP will grow by 5.1% in 2021 (from -7.7% in 2020) and 4.6% in 2022.

Since last December inflation has risen sharply, reaching 2.0% in June (from -0.7%), driven upwards by higher energy prices. Nevertheless, the consensus expects that on average it will remain at moderate levels in 2021.

The high public deficit, equal to 8.0% of GDP, generated last year as a result of the severe recession caused by the pandemic (after 2019 closed with a budget surplus of 1.8%) should progressively disappear, with analysts estimating it to decrease to 4.4% on average in 2021 and 3.0% in 2022.

Croatia is the country with the lowest public spending in the countries where BFF operates, amounting to €27 billion in 2020, an increase of 6.8% compared to the previous year. Expenditures on goods and services, again as at December 31, 2020, amounted to €4 billion, down 5.4% compared to the previous year.

The third wave of COVID-19 that began in February limited normal operations. The debt of the National Health System has again reached critical levels. Therefore the local government has implemented actions aimed at achieving a first reduction of the debt of €130 million in April and hoping for a total reduction in the second quarter, with a target of €608 million, considered the largest injection of liquidity in the country’s history.

As a result of these policies business activity in the Croatian market has slowed However, given the inability of the Minister of Finance to implement further reforms to reduce debt, an increase in payment times is expected in the second half of the year, which could lead to a consequent increase in demand for BFF’s services by local companies.

France

Since 2019 the Group has expanded its business in France in compliance with regulations on the freedom to provide services, purchasing its first trade receivables from the National Health Service.

THE MAIN MACROECONOMIC INDICATORS OF FRANCE

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	1.8%	-7.9%	5.8%	4.0%
Inflation rate (annual change)	1.3%	0.5%	1.6%	1.3%
Unemployment rate	8.4%	8.0%	8.5%	8.6%
Balance of payments (% of GDP)	-0.3%	-2.2%	-1.4%	-1.3%
Public Budget Balance (% of GDP)	-3.1%	-9.2%	-8.5%	-5.0%

Consensus from Bloomberg.

In France, the start of the recovery was delayed by the slow progress of the vaccination campaign. After contracting by 7.9% in 2020, GDP remained stagnant in the first three months of the year (-0.1% compared to the previous quarter), while in the spring economic data showed a relatively modest growth. According to consensus estimates, GDP is expected to grow by 5.8% in 2021 and by 4.0% in 2022.

Due to rising energy prices inflation increased from 0.0% to 1.5% in the first six months, with the core figure rising from 0.2% to 1.3%. In light of a persistently high unemployment rate (which is expected to reach around 8.5% both this year and next), wage demands will be contained by limiting the pressure on inflation, which analysts estimate on average at 1.6% in 2021 (from 0.5% last year) and 1.3% in 2022.

Fiscal policy this year will remain supportive of the recovery, leaving the public deficit at high levels (at 8.5% of GDP, from 9.2% in 2020). From 2022, a more decisive deficit reduction path will likely be taken with the aim of reversing the direction of public debt, which this year the OECD estimates will reach 117.6% of GDP.

France's total public spending remains the largest in Europe, with €1,423 billion in 2020, up 5.5% from the previous year, of which €123 billion attributable to public spending on goods and services, the latter also up 2.2% from the previous year.

With regard to the disbursement of the first tranche of funds of the RRF, based on the National Recovery and Resilience Plans of the 21 countries involved France appears to benefit from €42.2 billion, equal to 1.6% of GDP. The European fiscal plan to support the French economy for the coming years should therefore spark a significant increase in public spending, following the 5.5% increase in 2020.

To combat the crisis, since 2020 the French government has offered companies a state-guaranteed loan (PGE), making available a total amount of 300 billion, and allowing more than 700 thousand companies to benefit from this instrument. So far, 134 billion have been distributed locally by French banks.

In addition to this, the *ségur de la santé* launched in 2020 initially envisaged providing the National Health System with a liquidity injection of 150 million, but the French Prime Minister later announced that this budget would be increased to €650 million in 2021.

Looking at the factoring market, the statistics of the European Factoring and Commercial Finance Federation report a contraction in volumes of about 8% in 2020, the first since the -5% of 2009. This dynamic can be attributed in part to the increase in liquidity in the market resulting from the initiatives described above, and is in line with the dynamics and business needs that BFF has witnessed in its local counterparties.

Greece

The BFF Group started operations in non-recourse factoring in Greece in 2017 and consolidated its activity in 2020 by opening a branch in Athens in September.

THE MAIN MACROECONOMIC INDICATORS OF GREECE

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	1.8%	-8.1%	4.9%	4.6%
Inflation rate (annual change)	0.5%	-1.3%	0.0%	0.9%
Unemployment rate	17.3%	16.4%	16.7%	15.2%
Balance of payments (% of GDP)	-1.5%	-7.4%	-3.7%	-3.9%
Public Budget Balance (% of GDP)	1.1%	-9.7%	-8.1%	-4.4%

Consensus from Bloomberg.

In Greece, after the severe recession of 2020, GDP for 2021 is expected to grow by 4.9% this year and 4.6% in 2022 (according to consensus estimates). The figures for the first half of the year improved, partly as a result of progress in the vaccination campaign and a decrease in the number of infections. GDP in the first quarter grew by 4.4% (compared to the previous three months) and the most recent economic indicators show a recovery in the confidence of both businesses and households. In the coming years investment support from the substantial EU-funded recovery and resilience plan will be crucial to stimulating growth.

Inflation rose to 1.0% from a particularly depressed level last December of -2.3% in the wake of higher energy prices. On the other hand, the net figure for the most volatile components remains negative at -0.7%, albeit less than -2.5% at the end of 2020. On average analysts estimate inflation at 0.0% for 2021 and 0.9% for 2022 in the presence of a high unemployment rate (estimated at 16.7% for this year), whose reduction will take precedence over wage claims.

The public deficit – which rose to 9.7% of GDP in 2020 from a budget surplus situation (1.1% of GDP) in 2019 – is expected to decrease to 8.1% this year and to a more decisive extent to 4.4% in 2022 given the need to reduce the high public debt (which last year touched 205.6% of GDP).

Public spending for 2020 as a whole amounted to €101 billion, up 14.7% compared to the previous year, of which €9 billion attributable to spending on goods and services, the latter also up 1.2% compared to 2019.

Greece appears set to benefit from €30.5 billion of RRF funds, equal to 16.3% of the GDP. The European fiscal plan to support the Greek economy should spark a significant increase in public spending for the coming years, following the 14.7% increase in 2020.

The third wave of COVID-19 had an impact on volumes linked to new customers, since as a response to the pandemic, and to facilitate the treatment of patients, a significant percentage of ordinary surgeries were postponed, thus reducing customer sales and prospects. Concurrent with the additional liquidity that has been injected into firms as repayable advance payments and state guarantees, the demand for factoring services has declined. However, since May, this trend seems to have reversed, with some early signs of business recovery, although still limited compared to companies in the pharmaceutical sector.

Finally, Greece – like Italy, Slovakia, Spain and Portugal – is also the subject of infringement proceedings for non-implementation of Directive 2011/7/EU on late payments, and in February received a letter of formal notice from the European Commission urging Greece to comply with the Directive. In fact, as for Slovakia, the warning to Greece had to do with the excessive delay in payments on health expenditures.

Poland

BFF started operations in the Polish market in 2016, with the acquisition of Magellan (now BFF Polska Group), which provides funding to healthcare providers and the government. In Poland, the Group also operates with its own branch since 2019.

THE MAIN MACROECONOMIC INDICATORS OF POLAND

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	4.7%	-2.7%	4.7%	5.0%
Inflation rate (annual change)	2.3%	3.4%	4.0%	3.3%
Unemployment rate	3.3%	3.2%	6.2%	5.8%
Balance of payments (% of GDP)	0.5%	3.2%	2.4%	1.3%
Public Budget Balance (% of GDP)	-0.7%	-7.0%	-5.2%	-3.5%

Consensus from Bloomberg.

In Poland, after a decline of 2.7% in 2020, Polish GDP recovered in the first quarter of 2021 – growing by 1.1% compared to the previous three months – and there are indications that a lively pace of expansion will be maintained in the second. Despite the resurgence of infections, entrepreneurs have found optimism and consumers are regaining confidence, albeit slowly. Progress in vaccinations and the reduction of restrictions on activities should allow a strong resumption of consumption and a more moderate increase in investments in the second half of 2021. According to consensus estimates, GDP is expected to grow by 4.7% this year, and by 5.0% in 2022.

In June inflation rose to 4.4% from 2.4% last December. The consensus expects that inflation this year will average 4.0% per year (from 3.4% in 2020), before falling to 3.3% in 2022 due to persistent unused capacity margins.

The substantial public deficit incurred last year (equal to 7.0% of GDP, from -0.7% in 2019) should progressively fall since fiscal policy, like monetary policy, will remain expansive in order to support the recovery of the economy and favour the decrease of unemployment, which in 2021 is expected to rise to 6.2% (from 3.2% in 2020).

According to the government's preliminary estimates, the fiscal cost of the anti-crisis measures implemented in response to the third wave of COVID-19 amount to 4.25% of GDP.

The total public expenditure for 2020 in Poland was €255 billion, 14.2% higher than in 2019, of which €31 billion attributable to expenditures on goods and services of the public administration, up 2.3% from the previous year.

In line with what was recorded in 2020, in the first half of 2021 the impacts deriving from the third wave of COVID-19 led to an overall decrease in demand linked to good levels of DSO, an overall postponement of decisions regarding long-term financing by hospitals, mainly caused by the absence of long-term prospects on revenues.

In general, the dynamics across all business lines offered on the Polish market are linked to the persistence of support for the local economy with an anti-crisis shield and liquidity injections to local authorities, such as direct support from the Government Investment Fund (RFIL) for a total of about PLN 13 billion.

Furthermore, the central government has proposed a new programme called the Polish Deal which promises support for local public authorities worth PLN 20 billion (€4.4 billion). Through this instrument, Polish local authorities will be able to request non-repayable co-financing of investments made between 8% and 95% depending on the area of investment.

As of the date of this document, the Polish Deal is still under discussion.

In this context, it is conceivable that BFF's services will grow in the future in the country, where most of BFF's activity is concentrated precisely in the context of direct loans to public administration entities, directly linked to public investments.

Portugal

Since 2014 the BFF Group has expanded its non-recourse factoring operations in Portugal, and in 2018 consolidated its presence in the market by opening a new branch in Lisbon. In Portugal, BFF also operates in the field of credit management.

THE MAIN MACROECONOMIC INDICATORS OF PORTUGAL

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	2.5%	-7.6%	4.0%	4.8%
Inflation rate (annual change)	0.3%	-0.1%	0.9%	1.2%
Unemployment rate	6.5%	6.9%	7.1%	6.8%
Balance of payments (% of GDP)	0.4%	-1.3%	-0.5%	0.0%
Public Budget Balance (% of GDP)	0.1%	-5.7%	-5.0%	-3.2%

Consensus from Bloomberg.

At the beginning of 2021, Portugal faced one of the worst exacerbations of the pandemic in the world, forcing the government to launch new lockdowns that weighed on the economy, with GDP contracting by 3.3% in the first quarter of 2021 (compared to the fourth quarter of 2020), after falling by 7.6% last year. In the second quarter the improvement of the health situation and the progressive reduction of restrictions on activities have allowed a recovery of the confidence of families and service companies, which have returned to close to pre-COVID-19 levels. In May Manufacturers' optimism reached its highest levels since 2000 before retreating slightly in June. The recovery will be driven by two important propellants: the high level of savings, the regained confidence of households allowing them to be converted into higher consumption, and EU funds, which will boost investments. On average, the main international forecasters estimate that GDP will grow by 4.0% this year and 4.8% next year.

Inflation rose from -0.2% last December to 0.5% in June due to energy prices, while – net of the more volatile components – it fell from -0.4% to a historical low of -1.7%. In the face of still high unemployment (this year estimated at 7.1%), the consensus predicts that the change in consumer prices will remain at contained values both in 2021 (at 0.9%) and in 2022 (at 1.2%).

After having increased last year to 5.7% of GDP from a substantially balanced situation in 2019, the public deficit should gradually decrease from 2021 given the dual need to promote the recovery of the economy and to keep the high public debt under control, which in 2020 reached 133.6% of GDP.

The total public expenditure for 2020 was €98 billion, 7.8% higher than in 2019, of which €11 billion attributable to expenditures on goods and services of the public administration, up 4% from the previous year.

On the basis of the approved NRPP, Portugal appears set to benefit from €16.6 billion, equal to 7.8% of GDP. The European fiscal plan to support the Portuguese economy should spark a significant increase in public spending for the coming years, in continuity with the 7.8% increase in 2020.

The impacts on the Portuguese market in the first half of 2021 show a decrease in overall demand both for the new business component and for existing customers, attributable to a decrease in the level of DSO and the consequent lengthening of customer decision-making processes and the reduced need to resort to the sale of receivables.

However, the official data reflect an increasing trend in spending for personnel, for goods and services of the National Health System and of the relative total payables to suppliers past due for over 90 days, which in May 2021 amounted to €485 million compared to €130 million recorded in 2020, leading to a reversal of the trend in collection times, which have started growing again, with a consequent potential for new business opportunities for the second part of the year.

To counteract the economic impacts of the Coronavirus, between the end of 2020 and the beginning of 2021 the Portuguese government injected approximately €250 million into NHS institutions for the settlement of residual debt with suppliers.

Czech Republic

BFF started operations in the Czech Republic following the acquisition of Magellan (BFF Polska Group). As with the other countries of the BFF Polska Group, funding to healthcare providers and local bodies is also the main activity in the Czech Republic.

THE MAIN MACROECONOMIC INDICATORS OF THE CZECH REPUBLIC

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	3.0%	-5.7%	3.6%	4.5%
Inflation rate (annual change)	2.8%	3.2%	2.7%	2.3%
Unemployment rate	2.0%	2.6%	3.5%	3.3%
Balance of payments (% of GDP)	0.3%	1.5%	1.9%	0.8%
Public Budget Balance (% of GDP)	0.3%	-6.2%	-7.2%	-4.7%

Consensus from Bloomberg.

The Czech Republic has been hard hit by the pandemic, registering infection and mortality rates among the highest in the OECD area. Moreover, the vaccination campaign started slowly, delaying the relaxation of the restrictive measures aimed at containing the spread of COVID-19, and consequently the start of the economic recovery. After the strong contraction of 2020 (-5.7%), GDP was again down in the first three months of this year (by 0.3% compared to the previous quarter), and demand showed signs of awakening only in the spring. In fact, in the second quarter the confidence of households and service companies improved – returning to close to pre-COVID-19 levels – and the optimism of manufacturing entrepreneurs increased to levels not seen in a decade. According to consensus estimates, GDP is expected to grow by 3.6% this year, accelerating to 4.5% in 2022.

In the first six months of 2021 inflation rose from 2.3% to 2.8% due to rising food and energy prices. In the second half of the year it should drop given the absence of wage tensions in the face of rising unemployment. On average, analysts forecast inflation falling from 3.2% in 2020 to 2.7% in 2021, and 2.3% in 2022.

Fiscal policy has been very accommodating to help get out of the recession, and it is not expected to be reversed before next year. The public deficit is therefore expected to peak at 7.2% of GDP in 2021 before falling to 4.7% in 2022. Monetary policy, on the other hand, could become less expansive as early as the second half of this year, with the Czech National Bank increasing interest rates and continuing its contrarian restrictive orientation within the European Union, being the only Central Bank not to adopt a policy of quantitative easing.

Public spending for 2020 as a whole, up 9.6% compared to 2019, amounted to €101 billion, of which €13 billion can be attributed to expenditures on public administration goods and services, down slightly by 1% compared to the previous year.

Specifically, public investment expenditures in the Czech Republic grew over the last two years from 4.79 billion in 2019 to 5.75 billion in 2020 and reaching 7.35 billion in 2021, with a forecast of €7.41 billion in 2022.

In the Czech Republic, business has slowed due to the injection of liquidity into the healthcare sector, the postponement of tenders involving public administration entities and the increased risk of private debtors. Similar to Slovakia, a moderate recovery in government investment and therefore in business is expected from the third quarter onwards.

Slovakia

The BFF Group started operations in Slovakia in 2016 with the acquisition of Magellan (BFF Polska Group), mainly providing factoring and funding services to healthcare providers and local authorities.

THE MAIN MACROECONOMIC INDICATORS OF SLOVAKIA

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	2.6%	-4.8%	4.5%	4.9%
Inflation rate (annual change)	2.7%	2.0%	1.6%	2.0%
Unemployment rate	5.8%	6.7%	7.4%	6.7%
Balance of payments (% of GDP)	-2.7%	-2.5%	-0.5%	-0.6%
Public Budget Balance (% of GDP)	-1.3%	-6.2%	-6.8%	-4.6%

Consensus from Bloomberg.

The Slovak economy began to see the first signs of recovery only at the end of the second quarter of 2021. After contracting by 4.8% in 2020, GDP was still down by 2.0% in the first quarter (compared to the previous three months), being affected by the rigid measures put in place to contain the pandemic. From March to April the acceleration of the vaccination campaign and the consequent reduction of restrictions on activities have allowed a clear improvement in the confidence of the entrepreneurs of the tertiary sector – at its highest level since 2012 – and a recovery of that of households – now at the highest levels of the past 15 months. Furthermore, the sentiment of manufacturing companies has made further progress, already up last year. In view of a more lively trend in demand from the second half of 2021, analysts expect GDP to grow by 4.5% this year and 4.9% in 2022.

Inflation in June rose to 2.9% from 1.6% last December, driven upwards by energy prices. On the other hand, the increase in the core figure was lower, from 2.5% to 2.6%. For this year, the consensus expects a decline to 1.6% (from 2.0% in 2020), before returning to 2.0% in 2022. The moderate inflation is related to the continuing weakness of the labour market, with the unemployment rate peaking this year at 7.4%.

To promote the recovery of the economy and employment, fiscal policy will remain accommodating, with the public deficit rising to 6.8% of GDP this year (from 6.2% in 2020) before falling progressively in the following years.

The total public expenditure for 2019 was €44 billion, 9.1% higher than the previous year, of which €6 billion attributable to expenditures on goods and services of the public administration, up 4.9% from 2019.

Specifically, public investment expenditures in Slovakia rose from €3.29 billion in 2019 to €2.77 billion in 2020, then reaching €3.42 billion in 2021, with a forecast of €3.36 billion in 2022.

Slovakia will receive €6.3 billion in RRF funds, equal to 6.7% of GDP. The European fiscal plan to support the Slovak economy should spark a significant increase in public spending for the coming years, following the 9.1% increase in 2020.

In the first half of 2021, the impacts of COVID-19 on the Slovak market were mainly evident in the slowdown in the development of new volumes. This dynamic is linked to the willingness of Slovak municipalities to postpone investment decisions due to an unclear development of the pandemic. A moderate recovery in business is expected in the third quarter due to the launch of new tenders and new investments.

In fact, in the first part of 2021 there was a gradual recovery of investment projects and the creation of a simultaneous demand for financing and investment in infrastructure.

Looking at the healthcare sector, in 2021 the debt of public hospitals amounted to about €300 million due to the delay in the implementation of debt relief. DSO levels are also increasing, although a decrease is expected with the start of debt relief in 4Q 2021.

In this context, it is recalled that in February 2021 the European Commission – which has already opened an infringement procedure against Slovakia with regard to Directive 2011/7/EU on late payments – sent a reasoned opinion to Slovakia due to excessive payment delays in the public health sector. In the absence of a satisfactory response, the latter may decide to refer the country to the EU Court of Justice.

Spain

BFF started operating in the non-recourse factoring sector of the Spanish market in 2010 and consolidated its leadership position thanks to the acquisition of IOS Finance in 2019, one of its main competitors (now merged by incorporation into BFF Finance Iberia). Credit management is also provided by BFF in Spain.

THE MAIN MACROECONOMIC INDICATORS OF SPAIN

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	2.0%	-10.8%	6.0%	5.7%
Inflation rate (annual change)	0.8%	-0.3%	1.9%	1.3%
Unemployment rate	14.1%	15.5%	15.8%	15.2%
Balance of payments (% of GDP)	2.1%	0.8%	1.0%	1.7%
Public Budget Balance (% of GDP)	-2.9%	-11.0%	-8.6%	-5.7%

Consensus from Bloomberg.

After the great recession of 2020, Spain's GDP continued to decline in the first quarter of 2021, down 0.4% compared to the last three months of last year. The rapid rate of vaccinations and the decrease in infections have gradually reduced restrictions on activities, the first signs of recovery becoming evident in March. In June, entrepreneurs' confidence reached its highest levels since 2000, and household sentiment returned to close to pre-pandemic levels. The awakening of repressed demand, with the translation of a part of the high savings accumulated in increased consumption and the support of the national recovery plan, presages a sustained growth both for this year and for the next, which the main international forecasters estimate respectively at 6.0% and 5.7%.

Inflation in the first six months of the year rose sharply from -0.5% to 2.7%, driven upwards by the surge in energy prices. In contrast, net of the more volatile components the figure remained substantially stable, rising from 0.1% to 0.2%. With unemployment still very high – this year it is expected to reach 15.8% – inflation is expected to fall in the second half of 2021, for an average annual level that the consensus estimates at 1.9% and that, in 2022, is expected to fall further to 1.3%.

After last year's surge to 11.0% (from 2.9% in 2019), the public deficit is expected to decrease as early as 2021 (to 8.6%, according to the average forecast of analysts) despite the measures taken to support companies and workers in the regions and sectors most affected.

Public spending in Spain is the third largest among the countries where the Group operates, after France and Italy. In 2020 total public spending amounted to €586 billion, up 12% from the previous year, of which €66 billion can be attributed to expenditures on public administration goods and services, up 3.2% from 2019.

With reference to the disbursement of the first tranche of funds of the RRF, based on the respective NRRPs, Spain appears set to benefit from €69.5 billion, equal to 5.6% of GDP. The European fiscal plan to support the Spanish economy should spark a significant increase in public spending for the coming years, following the 12% increase in 2020.

The impacts on the Spanish market in the first half of 2021 following the liquidity injection by the government – €4 billion at the end of the second quarter 2021 and a total of €15.9 billion from the beginning of 2021 – and the increase in collection volumes show a decrease in overall demand both for new and existing customers. This dynamic is consistent with the overall trend seen in 2020 for the factoring market, down by -2%

The Spanish government has announced that it will also guarantee quarterly liquidity injections for 2021 to support the public administration and National Health System suppliers. Based on this information, the assumption is that the moderate DSO levels could continue for the rest of the year.

In this regard, a budget of €3,000 million has been approved, which should allow the various autonomous communities to access REACT-EU (European level) aid. In parallel, the availability of funds from the FLA / FF (Financing Fund of the Autonomous Communities) was confirmed, which provided for a liquidity injection of about €12 billion in the second half of 2021. Overall, therefore, taking into account what was approved until July by the CDGAE (Comisión Delegada del Gobierno para Asuntos Económicos), the total estimated needs of the Communities for 2021, also considering 3Q and 4Q, is equal to €37,575.17 million.

Finally, it is recalled that in June 2021 the Commission sent a reasoned opinion to Spain regarding the 2015 infringement procedure concerning non-implementation of Directive 2011/7/EU on late payments. The reasoned opinion dealt with excessive delays in payment by the public authorities. Although Spain has made efforts to improve its performance, the Commission has expressed serious concern about the persistent delays by regional and local authorities. In the absence of a satisfactory response, as with Slovakia and Italy, the Commission may decide to refer Spain to the EU Court of Justice.

Monitoring and control of Liquidity

In the current macroeconomic context, with the persistence of the COVID-19 pandemic, the Group has continued to implement solid measures to monitor and control its liquidity position, also in view of the acquisition of DEPObank, which in March 2021 generated robust funding for the Group's activities.

These measures are aimed at increasing the stability of funding to deal with the current situation and other stresses.

Even when there is an excess of liquidity, in the face of the current macroeconomic situation, the Group (i) performs more frequent and more detailed stress analyses as well as with increasing and variable impacts, (ii) maintains an important share of assets freely available to meet unforeseen liquidity needs, (iii) monitors the markets through banks it has relationships with, and (iv) monitors changes in the collection trends of Public Administration debtors.

In this context, the Group has not identified any critical situations.

Moreover, each year the Group updates its Contingency Funding Plan (CFP), approved by the BFF Bank Board of Directors and implemented by the Subsidiaries. The document was updated in correspondence with the annual review in order to take into account the characteristics of the BFF Group following the merger by incorporation of DEPObank. This document illustrates indicators and related thresholds in order to trigger the appropriate actions and the escalation and decision processes to prevent and manage a possible liquidity crisis.

The CFP indicators did not identify situations of tension in the current macroeconomic context.

The main accounting issues dealt with during the epidemic

With regard to the main accounting actions aimed at a correct representation of the effects of the pandemic on items in the financial statements, the following issues are worthy of note:

Impairment on loans: for the purposes of calculating impairment as at June 30, 2021, the Risk Management Function updated the risk parameters underlying the calculation of Expected Credit Loss (e.g. updating the Probability of Default (PD) curves and updating the Lost Given Default (LGD) curves). With regard to the PD curves, the 1-year transition matrices were updated for the Sovereign, Corporate and Financial Institutions segments. Subsequently, the Risk Management Function updated the macroeconomic scenarios aimed at obtaining PD Point in Time (PIT) and Forward-Looking FLI). The Baseline, High Growth and Mild Recession forecasts were dated June 2021 and provide the forecasted default rates for the 20 quarters following the download date.

The macroeconomic scenarios in June 2021 provided by the external infoprovider are essentially similar, but with a positive growth trend compared to those of last June. After a drastic decline in the economy in 2020, 2021 is seeing an economic recovery driven first by the vaccination campaign, which allowed reducing the restrictive measures on commercial activities, and second by the halt of redundancies for most of 2021. However, the uncertainty in the labour market for the coming years is tending to keep the unemployment rate in line with last year's estimates, when the pandemic was beginning to show its negative effects. For these reasons, the return to a situation of normality or even to a pre-COVID-19 situation is not expected before the middle of the decade. The overall growth outlook of the economic situation is also reflected in the ratings provided by the infoprovider, and consequently in the values of PD and LGD, which reduce the generic credit adjustments compared to last year. Moreover, in June 2021 the Risk Management Function compared the macroeconomic scenarios of the external provider with those provided by the Supervisory Authority (European Central Bank). The results of the analyses show a substantial alignment between the scenarios. In some cases, those supplied by the provider are more cautious.

In line with what was described in IAS 36 two impairment tests were performed in 2020 on goodwill concerning BFF Polska Group and BFF Iberia (formerly IOS Finance) in order to determine the relevant recoverable amount. Similarly, the acquired company, formerly DEPObank, performed an annual impairment test on intangible assets with an indefinite useful life (goodwill) at the balance sheet date at December 31, 2020 by determining the recoverable value and comparing it with the asset's book value.
Following the outcomes of the impairment test performed first in June 2020 and then at December 31, 2020 on the amount of goodwill recorded in the financial statements, the Group did not recognize any impairment loss on the aforementioned goodwill.
As of June 30, 2021, the Group did not perform any further verification of the goodwill recorded. It is believed that the evidence gathered at the end of 2020 is still valid. In line with the provisions of IAS 36, impairment tests will be performed on all goodwill recorded in the financial statements in conjunction with the preparation of the 2021 financial statements.

Operating performance

General context

The consolidated financial statements at June 30, 2021 show the equity and economic elements of BFF Banking Group, including the newly acquired and merged DEPObank. The merger with DEPObank produces accounting effects from March 1, 2021, and therefore it is only from that date that the accounting data of the two companies was consolidated.

The Group's results include the extraordinary effects of the acquisition and merger, which took place in March 2021, and the dynamics of the sectors the Group operates in through the Business Units that offer services to customers (Factoring & Lending, Securities Services, Payments) and through the Corporate Center Business Unit that offers support to other BUs, manages the Group's funding (regulated internally by a transfer pricing mechanism), and the use of liquidity in excess of the needs of the Factoring and Lending Business Unit through investments in government bonds, repurchase agreements and deposits with the ECB.

During the first six months of 2021, the most significant elements that influenced the Group's final economic result were the acquisition of DEPObank, the continuation of the COVID-19 pandemic crisis, the launch of some commercial initiatives linked to new regulatory interventions and the desire to expand the products offered and the customer base served, and the implementation of the initiatives to achieve the synergies envisaged by the integration plan.

The acquisition of DEPObank, finalised with an accounting date of 1 March 2021, as previously noted has allowed the Group not only to enrich the range of products/services offered by expanding the type of customers served and to access new alternative, less expensive and less traditional sources of financing, but also to generate a negative surplus (Badwill) equal to €163.4 million shown in the Financial Statements under the item "230 Other operating expenses and income".
This value derives from the lower price paid for the purchase of DEPObank's equity investment than the Net Equity expressed at fair value at the time of closing.
The valuation of the fair value of DEPObank's assets and liabilities and the final purchase price allocation will be completed within the timing set by IFRS 3, and in any case within one year of the closing of the transaction.
Finally, the Bank made use of the option permitted by Italian Decree-Law no. 104 of August 14, 2020, which provides for the possibility for IAS/IFRS subjects to realign the tax values of the assets that are recorded in the 2019 and 2020 financial statements to their higher book value, with the payment of a substitute tax at a rate of 3%.
With regard to this latter aspect, note that the Bank proceeded with the tax realignment of the value of the Goodwill of the Payments cash generating unit, amounting to approximately €81.0 million present in the Financial Statements of the incorporated DEPObank. This transaction resulted in a net tax benefit of €23.7 million.

The COVID-19 pandemic, which arose at the beginning of 2020 and lasted until 2021, had contrasting effects on the Group.

In the Factoring & Lending BU, in some countries and especially in Italy and Spain, there were adverse impacts. In fact, there was a strong liquidity injection by national governments which led to a reduction in payment times, a reduction in the size of the portfolios subject to sale and a lower interest of new customers for the services offered by BFF.

In contrast, in the Securities Services BU there were positive effects due to the growth in assets under management in Italy, leading to a positive start in 2021, with assets growing by 2.0% at the end of March compared to the end of 2020. The increase was achieved partly as a result of the appreciation of the markets and partly thanks to the increase in net inflows, amounting to almost €30 billion.

In the Payments BU there were disparate effects due to the different dynamics that COVID-19 had on the various activities and consequently on the various services offered by the Group: positive in the area of interbank processing with an increase of 10% compared to the first half of 2020 and 8% compared to the first half of 2021, partially positive in the card area where there was a limited recovery in low retail, travel and tourism spending, negative as expected in the area of cheques and bills.

Finally, the effects were manifold in the Corporate Center BU: the increase in liquidity produced by the Securities Services and Payments BUs accelerated the process of implementing the actions envisaged by the integration plan, which provided for a change in the mix of funding sources, while maintaining the availability of activation of the various funding sources.

In terms of funding, the Group focused on using the funding made available by the Securities Services and Payments BUs to finance its loans and to further diversify its funding sources by closing the most expensive ones, while maintaining a certain diversification of funding sources. In this regard, Liability Management during the second quarter of 2021 was aimed at bringing liquidity below tiering levels, thanks among other things to the buyback of senior bonds issued by BFF with maturities of 2022 and 2023 for a total amount of €416 million (with a result allowing the repurchase of 83% of the original value of the bonds). This initiative made it possible to use part of the available liquidity deriving from the acquisition of DEPObank, further improving the cost of funding and liquidity over the plan horizon, and helping to improve the levels of the Bank's financial leverage, allowing the finalisation of all the funding synergy development activities envisaged in the business plan as of June 30, which will generate positive effects starting from the third quarter of 2021. Furthermore, in order to first reduce and then eliminate the economic effects of the negative rates expected from deposits with the ECB, at the end of the first half of 2021 the Group implemented a strategy (i) for better control of customer deposits, coinciding with an update of the investment policies of some of the bank's client funds, which allowed them to use the liquidity that until May was deposited in the current accounts held with BFF Bank differently and (ii) for investment in Italian government bonds with medium-long horizons, starting to restore an average duration consistent with what has been done in the past.

In fact, investments in government securities had been halted in DEPObank until the closing of the transaction, as per the agreements contained in the Sale, Purchase and Merger Agreement (SPMA) signed in May 2020, resulting in a sharp contraction of the HTC securities portfolio.
In this regard, note that in view of the aforementioned acquisition, the fair value measurement of the former DEPObank securities portfolio at the closing date envisaged by the application of the aforementioned accounting standard led to the recognition of greater shareholders' equity for a value of approximately €36 million. This effect will be reabsorbed through the amortised cost mechanism during the years following the closing with consequent lower revenues compared to the value of the amortised cost pre-deal, until the maturity of the related securities (€27 million in 2021, €21 million in 2022 and a further €5 million in subsequent years). As at June 30, the application of this accounting standard generated a negative effect on the Income Statement of €11.6 million before taxes.

Moreover, the first six months of 2021 saw commercial efforts resume in the **form of some initiatives** including the processing of settlements relating to certificates on the Hi-MTF market, securities lending for medium-small-sized Pension Funds and the performance of the role of General Adherent in Cassa di Compensazione e Garanzia for wholesale bond markets, the offer of custodian bank services to Pension Funds, Religious Bodies and Banking Foundations and the proposal of Paying Agent, Account and Custodian Bank services also to Corporate customers, not to mention initiatives related to the opportunities deriving from regulatory interventions (such as Ecobonus 110%, T2-T2S Consolidation, ECMS, CSDR, SHRD II, Spanish FTT, PSD2) as well as those related to the evolution of the payment system (with the full implementation of PSD2). These initiatives will take effect in the course of the coming months.

Finally, the acquisition of DEPObank has made it possible to identify potential areas of efficiency to achieve additional value for shareholders through the creation of the **cost and funding synergies** announced to the market during the presentation of March 15.

With regard to costs, the Group has associated the initiatives taken to achieve the synergies envisaged in the integration plan with its usual careful monitoring of costs. At June 30, 2021, approximately €17.2 million of the run rate was achieved starting from 1/1/2022, corresponding to 86% of the total planned.
As regards funding, as of June 30, 2021 the Group has already implemented all the initiatives aimed at achieving the synergies envisaged in the plan. These initiatives were discussed previously in the part relating to the Corporate Center.

Finally, precisely with regard to funding and its allocation and remuneration, the Group has adopted a transfer pricing mechanism in order to regulate the funding flows between the various BUs and apply remuneration/penalty mechanisms for proper management representation. This mechanism envisages: 1) that the Securities Services and Payments BUs make the funding collected available to the Corporate Center; 2) that the Corporate Center manages the funding received from Securities Services, Payments, retail deposits and wholesale sources and makes it available to the Factoring & Lending BU, or, for the excess part, uses it in alternative ways; 3) that the Factoring & Lending BU uses the funding received in the forms of use specific to its business; 4) that the Corporate Center remunerates the Securities Services and Payments BUs and is remunerated by the Factoring & Lending BU for the funding made available through an internal proprietary mechanism.

Factoring & Lending BU - Main KPIs and Economic Results

The Factoring & Lending BU represents the original business of the banking group and carries out its uses through products such as non-recourse factoring, lending and credit management to public administration bodies and private hospitals.

The Group currently performs this activity in nine countries (Italy, Croatia, France, Greece, Poland, Portugal, the Czech Republic, Slovakia and Spain), all of which have been deeply affected by the COVID-19 pandemic. In most of these there were signs of partial recovery during the second quarter of 2021, although to a varying extent.
The liquidity injections made by national governments and the simultaneous reduction in payment times, although in many cases concentrated on the non-overdue component of receivables, and the postponement of decisions regarding long-term financing by hospitals and local authorities have made products such as factoring less interesting or the need for financing less urgent, negatively affecting the Group's business.

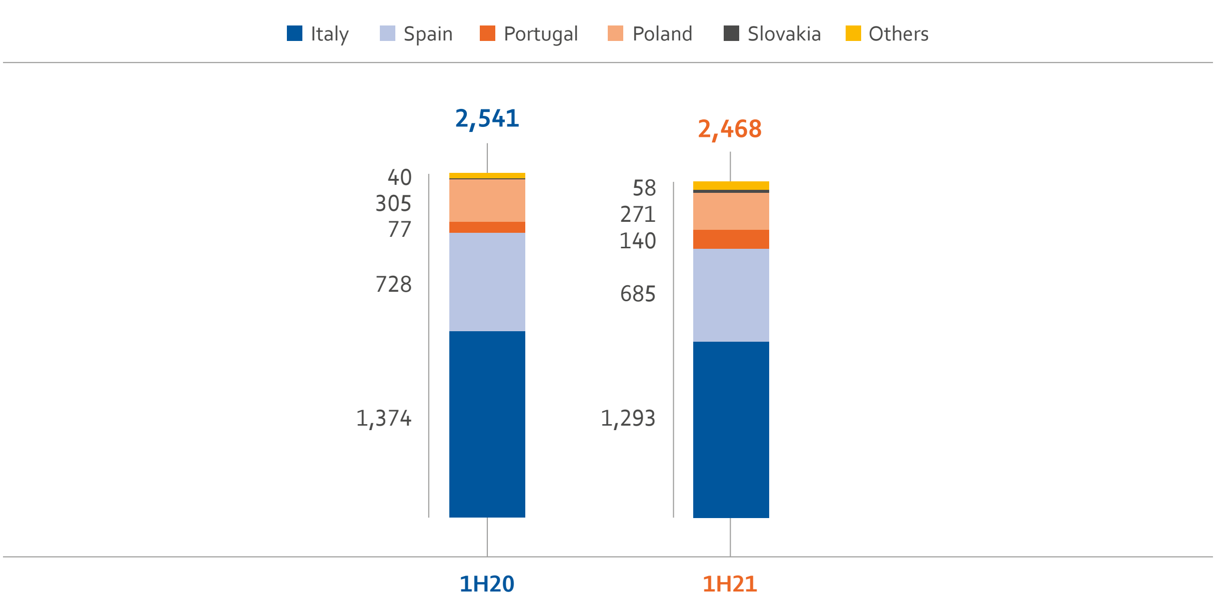
Looking more specifically at the Factoring & Lending business in Italy and Spain, the Group's performance was impacted by liquidity injections due to the pandemic, and in Italy did not benefit from the recovery seen in the first half of 2021 in the factoring market: -3% (-1% non-recourse) compared to the same period of 2019 (pre-COVID 19). This because BFF reported in the first half of 2020 +3% on volumes compared to the same period of 2019, in a market that recorded -13% (-12% non-recourse).

The main indicators of the Factoring & Lending BU compared to the same period last year showed contrasting trends, having been influenced differently from what happened in the first six months of 2021.
Receivables from customers decreased by 11% (€3,359 million versus €3,789 million) due to a level of purchased receivables substantially in line with the same period of the previous year (€2,468 million versus €2,541 million) and a strong increase in capital receipts (€2,867 million versus €2,683 million) due to the reduction in payment times of the public administration, especially in Italy and Spain. This difference with the same period last year decreased in the second quarter, from -6% in the first quarter of 2021 to -3% in the first half of 2021.
The provision for late payment interest and the portion not transferred to the Income Statement thereof continued to grow (respectively +€23 million and +€4 million) despite the higher receipts of late payment interest recorded compared to the first half of 2020 (+€9 million) and compared to the first half of 2021 (+€5 million) as a result of courts restarting their activities, especially in Spain.
Gross yield on loans to customers decreased due to the different mix of items that generate revenues and the decrease in the Wibor base rate in Poland (starting from February 2020). The cost of money for BFF has decreased, mainly as a result of a general decrease in costs related to the various forms of funding, and from the third quarter of 2021 will further benefit from the ALM activities implemented in June (described above).
RWA decreased in absolute value, with a slightly higher density compared to December 2020 due to the different mix of balance sheet items, and the Margin of Interest/RWA increased: both were positively influenced by the use of the preferential weighting of 20% applied to all performing exposures to public administration entities with an original expiry of less than three months. As explained in the section on own funds, this change was implemented in the fourth quarter of 2020 in anticipation of the application of the new legislation on Default, following the indications provided by the Bank of Italy with a note containing guidelines on the application of the delegated regulation (EU no. 171/2018) which provides that the counting of days of expiry starts from the invoice due date and not from the date of presumed collection.
Costs/Receivables due from customers and Cost/Income remained substantially constant despite the reduction of the loan portfolio and confirming the good discipline on costs.
The cost of credit risk remains at negligible levels, thanks also to the release of reserves on some positions, testifying to the high standing of the customers served and thanks to the rigorous origination process and monitoring of credit.

(In € million)

	1H20	1H21
Volumes	2,541	2,468
Capital collections – Non-recourse	2,683	2,867
Receivables due from customers	3,789	3,359
RWAs	2,318	1,559
Late payment interest collected	20	29
Provision for late payment interest	678	701
Provision for late payment interest "not transferred" to the income statement	414	418
Gross yield on loans and to customers %	5.7%	5.0%
Cost of money %	(2.3%)	(1.8%)
Interest Margin/RWA %	6.2%	8.3%
Expenses/Receivables from customers %	1.0%	1.0%
Cost/Income %	24%	26%
Cost of risk %	0.12%	0.01%
Employees	365	369

VOLUMES BY COUNTRY



As anticipated by the previous indicators, the main Income Statement items show that despite the commercial initiatives implemented, the strict cost controls and the attentive credit monitoring, the Factoring & Lending BU has not fully counterbalanced the effects that the pandemic has caused.

The interest margin amounted to €64.5 million compared to €72.2 million in the first half of 2020, and was influenced by lower loans to customers, the decrease in the Wibor base rate in Poland and faster than expected receipts.

The range of "rescheduling/capital gains" included in the interest margin, i.e. the differential between capital gains generated by the receipts of late payment interest exceeding 45% accounted for by accrual and the rescheduling, i.e. the effects related to the discounting of uncollected receivables according to internal estimates and therefore reprojected forward over time, improved when compared to the same period last year (+€2.7 million), and was influenced by the receipts of late payment interest that increased thanks to the high liquidity in the system and the restart of the courts, especially in Spain.

Costs and net value adjustments for credit risk continued to show positive dynamics thanks to the careful monitoring of costs and credit, both in the origination and management phases, and contributed positively to the result of the BU (compared to the first half of 2020 costs decreased by €0.1 million while net value adjustments decreased by €2.0 million).

Income before tax from continuing operations therefore amounted to €52.1 million, down €5.1 million compared to the same period last year, mainly due to the phenomena that influenced the interest margin described above.

(In € million)

	1H20	1H21
Interest income	110.9	89.0
of which "rescheduling/capital gains" range	(3.3)	(0.6)
Interest expenses	(38.7)	(24.5)
Interest Margin	**72.2**	**64.5**
Net fees and commissions	2.9	3.3
Other revenues	0.1	(0.3)
Intermediation Margin	**75.2**	**67.5**
Other operating income and expenses	3.2	3.2
Total net revenues	**78.4**	**70.7**
Direct costs	(18.0)	(17.9)
of which Personnel Expenses	*(10.2)*	*(10.6)*
of which Other Administrative Expenses	*(7.8)*	*(7.3)*
Net write-downs/write-backs on tangible/intangible assets	(0.9)	(0.8)
Net value adjustments/write-backs for credit risk	(2.2)	(0.2)
Net provisions for risks and charges	(0.1)	0.2
Profit (loss) before tax from continuing operations	**57.2**	**52.1**

Securities Services BU - Main KPIs and Economic Results

The BU Securities Services is the business unit that deals with custodian banking for investment funds and related services such as global custody, fund accounting and transfer agents for national managers and banks and for various investment funds such as pension funds, mutual funds and alternative funds: the activity is concentrated on the domestic market.
During the first half of 2021, the BU witnessed good commercial performance. This was possible thanks to the launch of strategic initiatives aimed at i) further expansion and improvement of the commercial experience (through services such as the processing of settlements relating to certificates on the Hi-MTF market; securities lending for medium to small-sized Pension Funds; and the performance of the role of General Adherent in Cassa di Compensazione e Garanzia for wholesale bond markets), ii) an expansion of the customer base (through the offer of custodian bank services to Pension Funds, Religious Bodies and Banking Foundations and by proposing the services of Paying Agent, Account and Custodian Bank also to Corporate customers) and iii) seizing the opportunities deriving from regulatory interventions (such as T2-T2S Consolidation, ECMs, CSDR, SHRD II, Spanish FTT). The market saw growth in savings managed in Italy, achieved partly as a result of the upsurge of the markets and partly thanks to the increase in net inflows, amounting to almost €30 billion. The start of the vaccination campaign and the gradual reopening of businesses is increasing the propensity of households to risk, and this potential favourable context combined with the effectiveness of the initiatives previously described presages positive results in the second half of the year.

The main indicators of the Securities Services BU compared to the same period last year showed positive trends. The Custodian Bank's Assets under Deposit (AuD) amounted to €80.4 billion, up from €70.1 billion in the first six months of 2020, €76.0 billion at the end of 2020 and €77.7 billion at the end of the first quarter thanks to a better market situation than in the first half of 2020 and the positive effects of initiatives related to the development of new business opportunities, in particular in the Alternative Investment Funds segment.
The value of the Assets under Management (AuM) of the Fund Accounting and the number of Transfer Agent clients (respectively growing and steady) benefited from the positive performance of the custodian bank.
Assets under Custody (AuC) of Global Custody amounted to €168.5 billion, with growth of 19%, and the number of settlements made was influenced by market performance and, in the case of AuCs, by higher custody receivables (partly due to a combination operation involving a client bank).
As previously described with respect to market trends, the balance of customer deposits increased, but in the second quarter of 2021, thanks to ALM activities, it decreased by about €1.0 billion compared to the first quarter of 2021. This also coincides with the updating of investment policies of some of the bank's client funds, which has allowed them to use the liquidity that until May was deposited in current accounts with BFF Bank differently, and has allowed them to close the half-year eliminating the costs associated with the excess liquidity deposited with the ECB.
Finally, Cost/Income showed a positive trend thanks to the good performance of revenues, driven by the increase in service fees to €22.2 million and the substantially stable cost base.

	1H20	1H21
Custodian Bank (AuD, €m)	70,130	80,461
Fund Accounting (AuM, €m)	44,572	51,841
Transfer Agent (no. customers, #k)	2,182	2,159
Global Custody (AuC, €m)	141,914	168,452
Settlements (no. transactions, #k)	1,237	1,357
Deposits - Final Balance (€m)	5,262	6,401
Employees	**175**	**177**
Cost/Income	**56%**	**53%**

The main Income Statement items therefore show that the commercial initiatives implemented, the strict cost controls and the most recent customer deposit management, together with the updating of the investment policies of some funds, have positively influenced the result of the BU.
The interest margin amounted to €4.5 million in the first half of 2021 (v €5.4 million in the first half of 2020) and was negatively affected by higher deposits and the cost of liquidity in the ECB.
The level of Net Commissions was higher than the same period last year due to the greater effect of AuD, AuM, AuC, number of customers and number of transactions.
The amount of Direct Costs remained essentially stable despite the higher AuM and higher revenues, as evidenced by the trend of Cost/Income and evidence of the efficient monitoring of costs in place.

(In € million)

	1H20	1H21
Interest Margin	**5.4**	**4.5**
Net fees and commissions	20.3	22.2
Intermediation Margin	**25.8**	**26.7**
Other operating income and expenses	0.5	0.3
Total net revenues	**26.2**	**27.0**
Direct costs	(13.9)	(14.2)
of which Personnel Expenses	*(6.1)*	*(6.3)*
of which Other Administrative Expenses	*(7.8)*	*(7.9)*
Net write-downs/write-backs on tangible/intangible assets	(0.7)	(0.5)
Net provisions for risks and charges	(0.4)	-
Profit (loss) before tax from continuing operations	**11.2**	**12.4**

Income before tax from continuing operations therefore amounted to €12.4 million, up €1.2 million compared to the same period last year thanks mainly to the increase in commissions from services following the increase in operations.

Payments BU - Main KPIs and Economic Results

The Payments BU is the business unit that deals with payment processing, corporate payments and cheques and bills and has as customers medium-small Italian banks, medium-large companies and boasts a partnership with Nexi. The business is concentrated in the domestic market.

In the first half of 2021, the BU witnessed good commercial performance in addition to the contrasting effects of the COVID-19 pandemic: positive effects on the area of corporate transfers and payments and negative effects on cheques and bills (area in structural decline and in any case with market trends) and settlements (with a partial recovery compared to the first quarter of 2021 and now in line with the first half of 2020, but still lower than the first half of 2019 as a result of the prolongation of the effects of COVID-19 on this type of operation, especially due to the limited recovery in retail, travel and tourism spending).
The market is showing the effects of the evolution and digitisation of the Payment System and the aggregation of banks, not to mention potential increased competitiveness in the credit card sector led by the ECB and the European Commission and the entry of many new operators such as Payment Institutions and IMELs. Precisely these last two phenomena have meant that during the second quarter of 2021 with the full implementation of PSD2 BFF saw a growing demand for payment intermediation services.

The main indicators of the Payments BU, in terms of the number of transactions executed compared to the same period last year, showed trends mainly related to the effects of the COVID emergency on the economy.
The number of collection and transfer processing transactions grew by 10% (+8% compared to the first half of 2019), reaching 150 million, also thanks to the positive performance of SEPA transactions.
Card settlement was still influenced in the first half of 2021 by the economic restrictions related to the COVID-19 pandemic, remaining constant compared to the first half of 2020, but growing by 12% compared to the first quarter of 2021 and still lower than in the same period of 2019.
Transactions related to Cheques and Bills decreased in line with market trends and with the aggravating effects of the COVID-19 pandemic.
Corporate Payments saw 7% growth due to the positive performance of INPS pension payments.
The balance of deposits amounted to €2,116 million, down slightly compared to the first half of 2020, amounting to €2,173 million.
Finally, Cost/Income showed a positive trend thanks to the good performance of revenues, driven by the increase in service fees to €20.8 million.

	1H20	1H21
Intermediations (no. transactions #'000)	136,015	149,800
Settlements (no. transactions #'000)	85,927	85,924
Cheques and Bills (no. transactions #'000)	17,073	13,476
Corporate payments (no. transactions #'000)	26,390	28,326
Deposits - Final Balance (€m)	2,173	2,116
Employees	**49**	**49**
Cost/Income	**66%**	**54%**

The main Income Statement items therefore show that, despite the negative effects that the COVID-19 pandemic has had on certain services, the market trends together with the commercial initiatives and the strict cost controls implemented have positively influenced the result of the BU.
The interest margin amounted to €3.1 million in the first half of 2021 (v €0.9 million in the first half of 2020), and was influenced by the new liquidity distribution mechanism between the BUs compared to 2020.
The level of Net Commissions was higher than the same period last year by €2.1 million (+11% v 1H 2020) as a result of the increase in intermediation transactions.
The amount of Direct Costs recorded an increase (+4% v 1H20) due to higher operations, but Cost/Income decreased as evidence of the efficient monitoring of current costs.

(In € million)

	1H20	1H21
Interest Margin	**0.9**	**3.1**
Net fees and commissions	18.7	20.8
Intermediation Margin	**19.6**	**23.9**
Other operating income and expenses	3.7	5.5
Total net revenues	**23.3**	**29.4**
Direct costs	(14.7)	(15.3)
of which Personnel Expenses	*(2.2)*	*(1.9)*
of which Other Administrative Expenses	*(12.5)*	*(13.4)*
Net write-downs/write-backs on tangible/intangible assets	(0.6)	(0.4)
Net provisions for risks and charges	(0.0)	-
Profit (loss) before tax from continuing operations	**7.9**	**13.6**

Income before tax from continuing operations therefore amounted to €13.6 million, up €5.7 million compared to the same period last year thanks mainly to the increase in commissions from services following the increase in operations and the different liquidity distribution mechanism between the BUs.

Corporate Center BU - Main KPIs and Economic Results

The Corporate Center BU manages the group treasury and the reallocation of funding between the various BUs and any other forms of use. It incorporates all the staff and control functions as well as the Technology & Processes Improvement and Finance and Administration departments to support the business. Its results include everything not directly attributable to the other BUs. It is the area the Group is focusing on to achieve the Funding and Cost synergies underlying the integration plan with DEPObank, and therefore it is the BU, along with its internal structures, that a large part of the Group's strategic initiatives not strictly related to business developments are concentrated on (e.g. the recent Assets & Liability management activities described above).

The Income Statement of the BU suffered COVID-19's effects on the reduction in interest rates – which greatly limited the core businesses' possible alternative forms of use – as well as the negative impact deriving from lower revenues from the ex-DEPObank securities portfolio following the fair value measurement performed at the closing date, as explained above.

The interest margin decreased by €20.2 million compared to the same period last year, and was influenced by: 1) the contraction of revenues deriving from the dynamics of the amortised cost on the former DEPO securities portfolio mentioned above. At the time of closing, these securities generated a positive effect – gross of fair value measurement taxes following the application of IFRS 3 – equal to €53 million, which will be reabsorbed during 2021 and in the coming years until the expiry of the related portfolio. The negative impact for the first half of 2021 due to the aforementioned phenomenon amounted to €11.6 million. Considering the profile of the forward curves applicable to Italian government securities with a multi-year maturity – largely positive over the next three years for maturities between three and ten years (source: Bloomberg) – the Group aims to improve returns through new purchases of government securities issued by the Italian Republic, operating through an investment policy aimed at restoring the size of the portfolio and its duration to pre-closing levels, when they were respectively greater than €6 billion and in the order of approximately three years on average; 2) the cost of liquidity in the ECB in excess of the tiering, amounting to €5.2 million, on which action was taken during the second quarter of 2021, to bring the levels of liquidity within the tiering through the Liability Management initiative described above.
Other operating expenses and income benefited from revenues related to the release of some previously accrued costs and the tax benefit deriving from the Patent Box referring to the years 2017-2020 for approximately €1.0 million thanks to an agreement reached with the Revenue Agency on May 25, 2021 and relating to access to the optional regime of facilitated taxation of income deriving from the use of intangible assets.
Costs showed a gradual reduction compared to the first half of 2020, reflecting the careful control of costs, the prerogative of all Group BUs, and the first effects of the initiatives taken to achieve the cost synergies envisaged in the plan in order to increase the operational efficiency of the BU.

Finally, it is recalled that in terms of funding synergies, the BU and the Group in general have already implemented all the actions that will take effect from July 1, 2021 and that allow exceeding the minimum level of the range envisaged on a run-rate basis for 2023. On the cost side, useful initiatives have already been implemented to generate €17.2 million of savings on a run-rate basis starting from 1/1/2022, equal to 86% of the cost synergies identified in the plan.

(In € million)

	1H20	1H21
Interest Margin	**29.7**	**9.5**
Net fees and commissions	(1.0)	(0.9)
Other revenues	4.6	8.1
Intermediation Margin	**33.3**	**16.7**
Other operating income and expenses	0.3	5.5
Personnel expenses	(17.0)	(15.8)
Other Administrative Expenses	(26.4)	(24.1)
Net write-downs/write-backs on tangible/intangible assets	(3.6)	(3.3)
Net value adjustments/write-backs for credit risk	(0.9)	1.4
Net provisions for risks and charges	0.0	1.5
Profit (loss) before tax from continuing operations	**(14.3)**	**(18.1)**

The loss of current operations before taxes, therefore, amounted to -€18.1 million, down €3.8 million compared to the same period last year due mainly to the mark-to-market of the securities and the cost of excess liquidity, and on which the actions undertaken in recent months will have positive effects already starting from July 2021. If even the negative effect deriving from the securities portfolio of the former DEPObank were to be removed, linked to the valuation at fair value at closing and amounting to -€11.6 million, the result of the BU would be €7.8 million higher than in the first half of 2020.

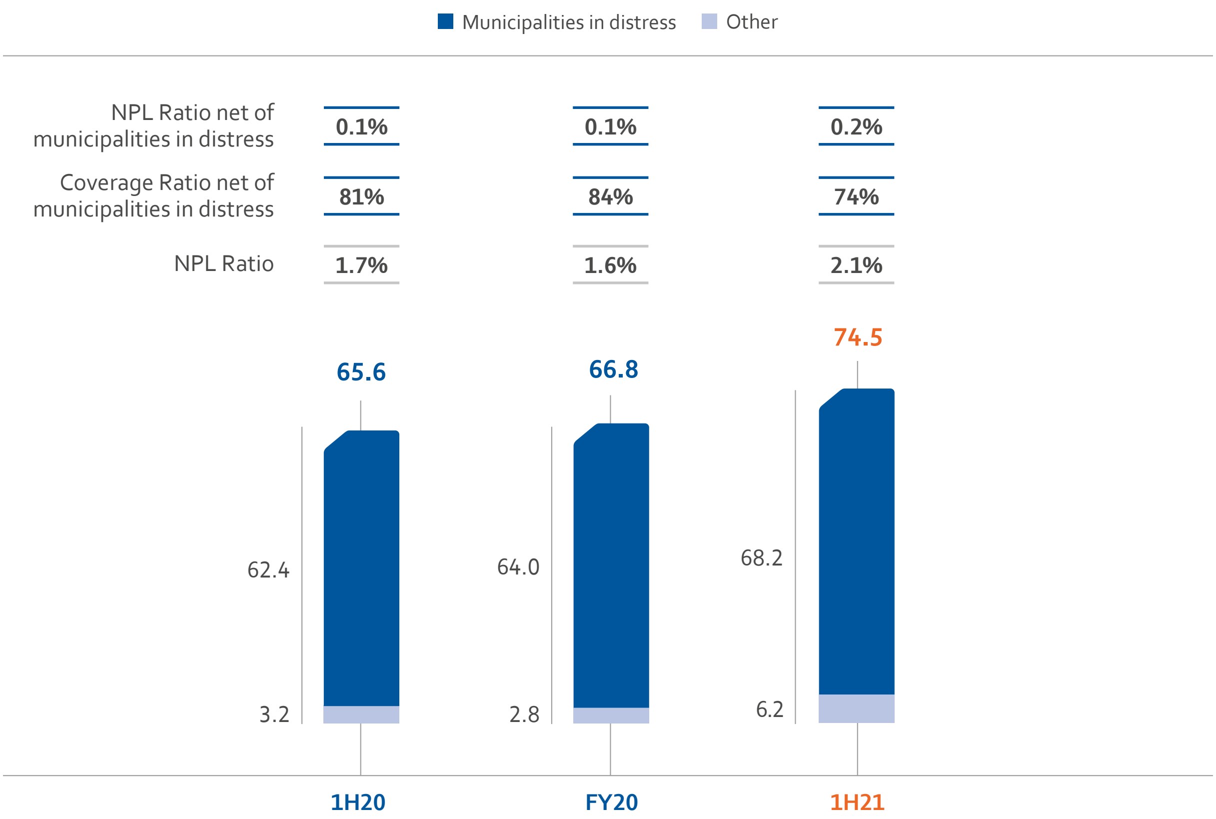
Credit quality

In terms of credit quality, the high standing of the portfolio of loans to customers is confirmed once again this half year thanks both to the type of customers served by the three business units and the rigorous origination process and monitoring of credit.
Compared to June 2020, during the year total net impaired receivables decreased by €90.9 million compared to €130.5 million at June 30, 2020.
Of the impaired receivables, €69 million at June 30, 2021 were related to the public sector, compared to €104 million at December 31, 2020.
At June 30, 2021 non-performing loans amounted to €74.5 million, up compared to previous periods. Of this amount, €68 million relates to receivables concerning "Local authorities in financial distress", of which €5 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 Bank is entitled to receive 100% of principal and late payment interest at the end of the insolvency procedure. It should be noted that €0.3 million relates to the exposure to San Raffaele Hospital, for which the Bank awaits full recovery of the amount.
At June 30, 2021 the NPL ratio net of municipalities in distress was 0.2%, essentially in line with December 31, 2020.
Net past due exposures amounted to €2.1 million at June 30, 2021, down significantly compared to €42.1 million at December 31, 2020. 27% of this amount relates to public administration entities (mostly local authorities) and other public sector companies.
Adjustments to impaired assets in the year (risk cost) benefited from some releases of reserves and amounted to +2.2bps annualised.
The coverage ratio for bad debts, excluding municipalities in distress, was 74% at June 30, 2021, down compared to December 31, 2020, when it was 84%.
Finally, it should be noted that, both with respect to June 30, 2020 and December 31, 2020, probable defaults decreased as a result of the change in the classification of an exposure of BFF Polska fully covered by guarantees. This change, which adds to the increase in exposures to municipalities in distress, explains the increase in non-performing loans mentioned above.

(In € million)

	BFF alone			BFF & DEPObank
	1H19	**1H20**	**FY20**	**1Q21**
Non-performing loans	45.2	65.6	66.8	74.5
Unlikely-to-pay positions	10.3	16.1	15.7	14.3
Net past-due exposures	38.7	48.9	42.1	2.1
Net impaired loans	**94.2**	**130.5**	**124.6**	**90.9**
Net impaired loans net of municipalities in distress	**54.1**	**68.2**	**60.6**	**22.6**

EVOLUTION OF NON-PERFORMING LOANS (€m)



Group Balance Sheet: performance of the main items

Following the acquisition of DEPObank, the Group's balance sheet has been enriched with new or more substantial categories of assets and liabilities specific to the business acquired, which have significantly increased its size. To mention the most important ones: on the asset side, the financial statements include DEPObank's securities portfolio and liquidity, which were added to those already existing of BFF, and the PCT portfolio; on the liability side, however, the main items refer to the funds left in deposit by customers and to those useful for carrying out the ordinary operations of the Securities Services and Payments BUs.

Precisely on the Balance Sheet front, in the second quarter of 2021 the Group focused on optimising the forms of funding generated by the businesses of the former DEPObank, rationalising their levels and closing the most expensive historical forms of financing of BFF while maintaining a certain diversification. On the other hand, the Group focused on better managing the forms of use, resuming investments in government bonds and eliminating excess liquidity, with improved effects on both the Group's leverage and profitability.

(€m)

Uses

Receivables from Factoring & Lending customers amounted to €3.4 billion, down 11% compared to June 2020: geographical diversification partially offset the negative performance of the domestic and Spanish markets (down -22% and -30% respectively compared to the first half of 2020). International markets now account for 46% of total loans to customers, up from 42% in the first quarter of 2021. With regard to the same period of 2020, the strong growth of uses in Portugal (+86%), Greece (+47%) and Central-Eastern Europe (+8% at current exchange rates) is worthy of note. Loans to customers were influenced by the trend in new volumes.

(In € million)

Receivables due from Customers (Factoring & Lending)	1H20	1H21
Italy	2,325	1,819
Spain	406	286
Portugal	121	224
Greece	51	74
Croatia	1	2
France	3	6
Poland	682	724
Slovakia	197	223
Czech Republic	3	1
Total	**3,789**	**3,359**

The portfolio of government bonds reached €5.1 billion, 0.6 billion lower than the first half of 2020 of the two banks and 1.7 billion less than June 2019 for the two banks, but higher than €204 million in the first quarter of 2021: the Group began investing again in this area during the second quarter of 2021 in order to use unused liquidity. The positive effects will be seen starting from the second half of 2021.

Cash and cash equivalents equal to €0.8 billion and Receivables from Banks equal to €0.9 billion have undergone a significant reduction compared to the first quarter 2021, when levels were respectively 3.3 billion and 1.2 billion. In fact actions were taken in this area during the second quarter of 2021 through the ALM initiative to eliminate the excess liquidity deposited with the ECB, bringing it below tiering levels, the positive effects of which are expected to be seen on the Income Statement starting from the next half year.

Funding

On the liabilities side, the rationalisation of funding sources following the repurchase and repayment of €566 million of Bonds, the reduction of online deposits by €557 million and of wholesale funding by €614 million compared to the previous quarter, as well as the better management of the deposits of former DEPObank customers, coinciding with an update of the investment policies of some of the bank's client funds, which has allowed them to use differently the liquidity that until May was deposited in the accounts with BFF Bank, has allowed them to significantly reduce the level of funding used in the ECB.

The Transaction Services department, with its Securities Services and Payments BUs, raised approximately €8.5 billion compared to €7.4 billion in the second half of 2020, with an increase in the share of Securities Services of €1.1 billion (6.4 billion v 5.3 billion), and with an amount generated by Payments that is substantially constant (2.17 billion v 2.17 billion). Compared to December 31, 2020, when the department had raised €9.9 billion, BU Securities Services collected €1.2 billion less (6.4 billion v 7.6 billion) while BU Payments collected a substantially constant amount (2.12 billion v 2.14 billion).

Although with reduced needs, the Group continued to offer an online deposit account on the Italian market ("Conto Facto"), aimed at retail and corporate customers and guaranteed by the Interbank Deposit Protection Fund. Furthermore, BFF's Spanish and Polish branches continued to offer a similar online deposit account in their respective markets (Cuenta Facto and Lokata Facto), also aimed at retail and corporate customers and guaranteed by the Interbank Deposit Protection Fund. The collection of deposits issued by the Spanish branch of BFF and reserved exclusively for retail savers through the online Weltsparen platform remained active in Germany and the Netherlands, in compliance with regulations on the freedom to provide services.
At June 30, 2021, total nominal takings of *Conto Facto*, *Cuenta Facto* and *Lokata Facto* amounted to €724 million, down from €1,556 million in nominal takings in June 2020 and €1,652 million in December 2020.

With regard to wholesale deposits, the more expensive and less interesting lines were closed, and thanks to the repurchases and repayments described above, the bonds in circulation were brought to a residual nominal amount of €82 million. In contrast, the TIER II Bond Issue of €100 million remains in place.

With regard to foreign exchange positions arising from the collection and uses of BUs offering services and products to customers, the Group – through the use of treasury instruments such as interbank deposits and the use of derivative instruments – manages positions, keeping them overall at levels below regulatory limits in order to avoid the continuous absorption of capital deriving from open positions.

Shareholders' Equity, Own Funds and Equity Ratios

In the first half of 2021 BFF Bank continued to demonstrate its capital soundness, also in consideration of the fact that the capital ratios and own funds do not include approximately €212 million, of which €165.3 million relating to the total dividends to be distributed and €46.6 million relating to the normalised profit for the period, not allocated to capital as the TCR is greater than 15%.
Recall in fact, as per the recommendation of the ECB of March 31, 2020 and the Bank of Italy of December 16, 2020, BFF Bank was unable to distribute the total dividends produced during 2020 and 2021, with the exception of €3.2 million distributed on March 31, 2021. This amount could potentially be distributed in October 2021.
On July 23 and July 27, the ECB and the Bank of Italy respectively noted that they did not want to renew their recommendations on dividend distribution beyond September 31, 2021. BFF therefore initiated a dialogue and discussion with the Bank of Italy in order to submit a proposal for the distribution of profits to the Shareholders' Meeting, possibly in October.

As previously stated, the acquisition and subsequent merger of DEPObank with accounting effect from March 1, 2021 among other things led to the generation of Badwill amounting to €163.4 million, and to the recent tax relief of DEPObank's Goodwill (recorded in the former DEPObank Financial Statements for €81 million) for an amount equal to €23.7 million, which at June 30, 2021 were posted to Own Funds net of the costs incurred to implement the Liability Management initiatives described above and equal to €9.5 million net of taxes.
Furthermore, the investment held in Unione Fiduciaria S.p.A., with a 24% stake in the issued shares corresponding to 24.59% of voting rights, and consolidated with the equity method, saw an increase in equity of €3 million compared to December 31, 2020. This amount was also allocated to Own Funds as of June 30, 2021.

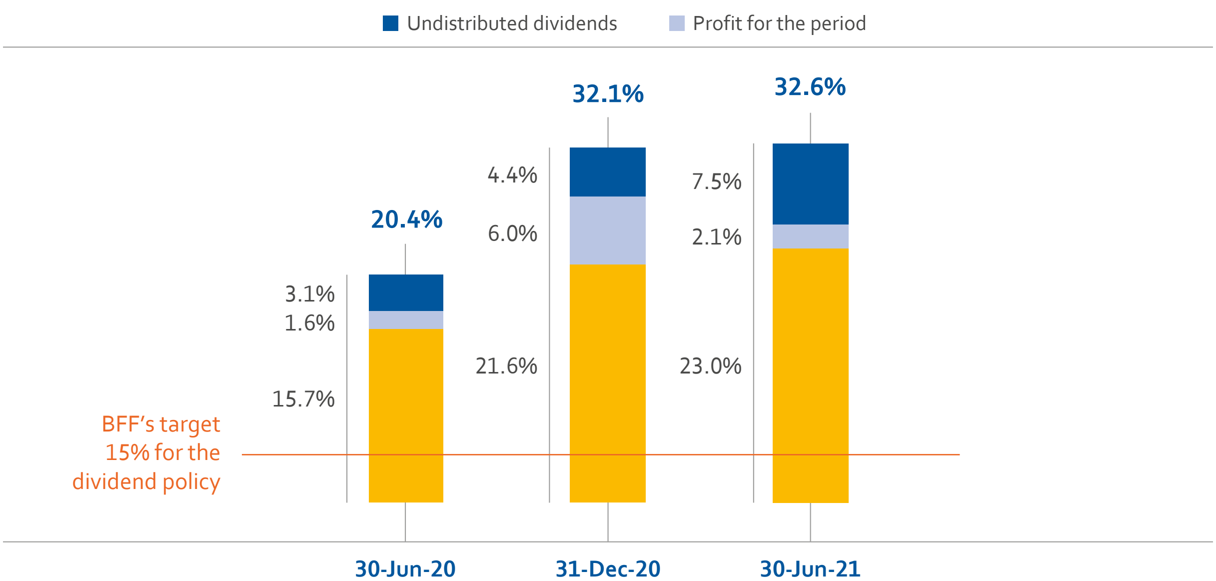
Shareholders' equity amounted to €755 million compared to €463 million at December 31, 2020.

BFF Banking Group's own funds amounted to €509 million at June 30, 2021. 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.
The CET1, Tier 1 and Total capital ratios are 18.6%, 18.6% and 23%, respectively, with 177 million in capital in excess of the target TC ratio of 15%: these ratios do not include €165.3 million of dividends to be distributed and 46.6 million of normalised result of the first half of 2021.
If the approximately €212 million resulting from the sum of the total dividends to be distributed and the normalised result of the first half of 2021 were included (the remaining dividends of 2019, equal to 67.9 million, plus the 2020 dividends, equal to €97.6 million, plus the normalised result of the first quarter of 2021 equal to €46.6 million), the CET1, Tier 1 and Total capital ratios would be 28.2%, 28.2% and 32.6%, respectively, as evidence of the Group's capital strength. In this regard, it is recalled that the Group did not need to apply the emergency measures made available by the ECB, the EBA or the European Commission's COVID-19 banking package.

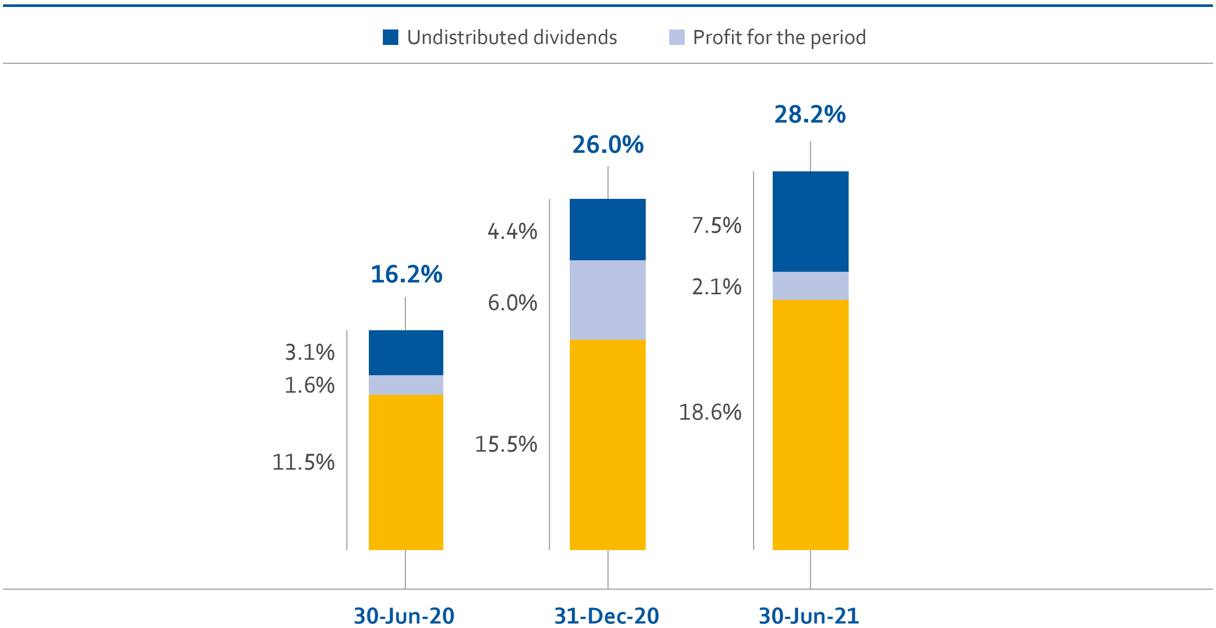
It is worth noting that as at December 31, 2020, with a view to approximating the provisions on the new definition of default starting from January 1, 2021, the Group adopted the invoice due date (with an original expiry of less than three months) as starting date instead of the estimated internal collection date for counting the overdue amount for the non-recourse factoring product, aligning itself with what has been done by other intermediaries. This approach leads to considering the preferential weighting of 20% envisaged by art. 116, paragraph 3, of the CRR for all performing exposures to public administration entities with an original expiry of less than three months. The effect of this change is a lower absorption of capital, with a consequent improvement in relevant ratios. This amendment makes it possible to align the calculation of RWAs with the approach followed by the other intermediaries and to unlink the calculation of capital absorptions from the assessments made by the credit rating agencies of the countries that the Group operates in.

TOTAL CAPITAL RATIO - BANKING GROUP EX TUB

RWAs	2,318	Excluding DEPObank	1,616	2,210
RWAs density	58%		39%	43%



COMMON EQUITY TIER I RATIO - BANKING GROUP EX TUB



Group profit/(loss)

Reported Result

In terms of overall profitability, the cumulative performance of the Group's BUs, described by the aforementioned phenomena and indicators, led to a reported economic result amounting to €210.3 million, including among other things the positive effects deriving from the acquisition of DEPObank, such as Badwill amounting to €163.4 million and the realignment of Goodwill amounting to €23.7 million, net of costs related to liability management initiatives and other transaction and restructuring costs amounting to €9.5 million and €2.3 million, respectively, to the change of the exchange difference amounting to €0.6 million, to the cost of stock options amounting to €2.2 million, to the extraordinary contribution to the resolution fund amounting to €2.0 million, to the amortisation of DEPObank's customer contract amounting to €1.7 million and to DEPObank's pre-acquisition normalised result amounting to €5.1 million. Note that this result includes only four months of DEPObank, i.e. the results achieved as of March 1, 2021.

Normalised Profit/(Loss)

Adding back the remaining 2 months of DEPObank and eliminating the extraordinary items listed above, the Group's normalised economic result (including six months of BFF and six months of DEPObank) amounted to €46.6 million, 1% lower than the same period last year, the explanation of which is to be found, as described in the previous paragraphs, in the phenomena affecting Factoring & Lending and the Corporate Center.

As described above, with regard to the performance of the BUs compared to the first half of 2020, the main elements that affected the Group's economic result can be summarised as follows:

- lower interest margin mainly due to lower yields of uses (such as lower yields on loans to customers, MTM effect of securities of the former DEPObank generated at closing), lower securities in the portfolio, higher excess liquidity;
- higher commissions due to increased transactions in Securities Services and Payments BUs;
- lower costs thanks to careful monitoring and the initiatives taken to achieve the synergies envisaged in the plan.

The table below explains the transition from the reported result to the normalised data.

(In € million)

Adjustments	1H20	1H21	YoY%
BFF Group - Reported profit/(loss)	**37.5**	**210.3**	**n.s.**
Pre-acquisition normalised result of DEPObank	6.9	5.1	
Exchange differences covered by Translation Reserve in Equity	(2.7)	0.6	
Stock Options & Stock Grants	1.1	2.2	
Badwill & transaction and restructuring costs		(161.1)	
Liability Management one-off costs		9.5	
DEPObank Goodwill tax relief		(23.7)	
Extraordinary Resolution Fund	0.5	2.0	
M&A costs	2.5		
Current tax charges deriving from the one-off distribution of dividends from subsidiaries	1.3		
Amortisation of DEPObank's customer contract		1.7	
BFF Group - Normalised profit/loss	**47.1**	**46.6**	**-1%**

Ratings

Following (i) the completion of the acquisition of DEPObank on March 1, 2021, (ii) the consequent effectiveness of the merger by incorporation of DEPObank into BFF on March 5, 2021, as well as (iii) the approval of the "2021-2023 BFF Banking Group Financial Plan", presented to the market on March 15, 2021, the Moody's rating agency took the following rating actions on BFF on April 21, 2021:

- it increased the Long-Term Bank Deposit rating to "Baa2" from "Baa3" with a Stable outlook (from Positive), the second-highest rating class among all Italian banks rated by Moody's at that date;
- it increased BFF's Baseline Credit Assessment ("BCA") from "Ba3" to "Ba2", the second-highest rating among the less significant Italian banks (Less Significant Institutions - LSI) assessed by Moody's on that date, to reflect the agency's opinion that, following the acquisition of DEPObank - Banca Depositaria Italiana S.p.A. ("**DEPObank**"), BFF will continue to generate high returns while maintaining a low-risk asset portfolio. Moody's recognises that the acquisition of DEPObank results in a benefit to BFF's funding and liquidity profile, as the Bank has obtained access to a broad deposit base and a high amount of liquid assets;
- it decreased the Long-term Issuer rating to "Ba2" from "Ba1", with a Stable outlook (from Developing), due to the lower proportion of senior debt at a consolidated level compared to the total of banking activities, a direct consequence of the greater size of the balance sheet following the merger of DEPObank;
- it changed the long-term rating outlook to Stable, to reflect the agency's view that BFF will maintain high asset quality, good profit generation and a strong funding profile over the next 12-18 months. Moody's also believes that compared to other Italian commercial banks BFF is less exposed to the recessionary risks deriving from the pandemic caused by the Coronavirus thanks to its business model.

In summary, Moody's ratings of BFF are as follows:

- Long-term Issuer rating: "Ba2", outlook Stable;
- Long-term Bank Deposit rating: "Baa2", outlook Stable;
- Short-term Bank Deposit rating: "P-2";
- BCA: "Ba2".

For further information refer to the press release and the Moody's Credit Opinion published on the Agency's website and the Investors > Debt > Ratings section of the Group website.

Note also that on March 10, 2021 S&P Global Ratings declared that it had withdrawn its "BB-/B long- and short-term issuer credit ratings" on DEPObank following the merger with the BFF Group, which took place on March 1, 2021. At the time of withdrawal the ratings on DEPObank were listed on CreditWatch with positive opinions.

Repayment of the €150 million senior unsecured and preferred bond issued in June, and Cash Buyback operation in June 2021

On June 21, 2021 the €150 million Bond (ISIN XS1435298275) issued in June 2016 was redeemed at maturity.

On June 25, 2021 a Liability management (Cash Buyback) transaction was completed for the senior preferred unsecured bonds maturing in June 2022 and May 2023. The transaction, which entailed one-off costs for a total of €13.4 million and will generate a benefit in terms of savings on future coupons and optimisation of liquidity, involved the early repayment of a nominal €154,701,000 for the senior preferred unsecured bond, maturing in June 2022, and a nominal €261,031,000 for the senior preferred unsecured bond maturing in May 2023.

In light of the above, the situation of bond issues as of June 30, 2021 is as follows:

ISIN code	Issue date	Maturity		Bond type	Nominal value (€ million)	Coupon
		Unrated and listed bonds				
XS1572408380	2-Mar-2017	2-Mar-2027	10Y	Tier 2(1)	100.0	5,875%
XS1639097747	29-Jun-2017	29-Jun-2022	5Y	*Senior Preferred Unsecured*	42.8	2,000%
		Rated and listed bonds				
XS2068241400	23-Oct-2019	23-May-2023	3,6Y	Senior Preferred Unsecured(2)	39.0	1,750%
TOTAL AMOUNT OF OUTSTANDING BONDS as of June 30, 2021					**181.8**	

(1) Option call exercise date set for March 22, 2022.

(2) Rating assigned by Moody's: "Ba1".

Treasury shares

At June 30, 2019, the Bank owned 279,294 treasury shares, accounting for 0.15% of share capital at that date.

In the first half of 2021 the Bank did not purchases any of its own shares while 396,474 were allocated, of which 35,500 for half of the upfront portion of the CEO's 2020 MBO, 355,175 following the exercise of options under the "2016 Stock Option Plan", and 5,799 for non-competition agreements.

It did not sell any treasury shares.

For further information, please refer to the relevant section in the Notes to the Financial Statements.

Shareholders' Meeting Resolutions

On January 28, 2021, the Ordinary and Extraordinary Shareholders' Meeting of the Bank resolved to, among other things:

- pursuant to article 2502 of the Italian Civil Code, approve the merger plan in its entirety (including its annexes), and consequently to proceed – under the terms and conditions set forth therein – to the merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. into Banca Farmafactoring S.p.A. in the manner set out in the plan, and therefore, among other things, through an increase in the share capital of BFF for €10,813,652 (ten million eight hundred thirteen thousand six hundred fifty-two) through the issuance of 14,043,704 (fourteen million forty-three thousand seven hundred four) ordinary shares, without an express nominal value, for the purposes of the Merger, and therefore to be allocated on the basis of the relevant Exchange Ratio;
- approve the proposed amendments to the By-laws relating to the change of the corporate name to "BFF Bank S.p.A." and the change of the name of the related banking group to "BFF Banking Group" (articles 1 and 4 of the By-laws), with effect from the effective date of the merger.

For the sake of completeness of information, note that at the shareholders' meeting the Chair – following the Board resolution of December 22, 2020 – convened the shareholders' meeting for January 28, 2021 to resolve in ordinary session on the allocation of the profit for the 2019 financial year, pending the outcome of the discussions initiated with the Bank of Italy, aimed at clarifying some aspects of the BI Recommendation of December 16, 2020, on that occasion conferring on the Chair and the CEO, separately from each other, the powers to revoke the proposed resolution if this was necessary to comply with different instructions from the Regulator.

Subsequently, in order to ensure the adoption of a healthy and prudent approach, and inspired by principles of compliance with supervisory standards – also in light of the approaches that, according to the Bank, the less significant Italian credit institutions had taken – the Bank's Board of Directors therefore resolved to confer a mandate on the Chair not to vote on the proposed resolution on the distribution of 2019 profits, confirming the commitment to distribute the 2019 Total Dividends as soon as possible, in compliance with the instructions of the Regulator.

On March 25, 2021, the Ordinary Shareholders' Meeting of the Bank resolved:

- to allocate the profit of the Banking Group at December 31, 2020, equal to €143,281,246, for (i) €3,231,388 to Shareholders, in compliance with the limitations indicated by the Bank of Italy, equal to €0.017495 for each of the 184,694,346 BFF ordinary shares outstanding at the third ex date, March 29, 2021. This dividend includes the portion attributable to the treasury shares that may be held by the company at the "record date"; and (ii) €140,049,858 to reserve the retained earnings of BFF S.p.A. without prejudice to the commitment of the Bank's Board of Directors to convene as soon as possible – in compliance with the recommendations of the Regulator issued following the economic emergency related to the Covid-19 pandemic, and therefore predictably after September 30, 2021 – an ordinary shareholders' meeting to resolve on the distribution of the remaining 2019-2020 Total Dividends of €165,275,418;
- to appoint nine directors in compliance with the gender balance guidance of current laws and regulations, who will remain in office for the period 2021-2023. The Ordinary Shareholders' Meeting confirmed Salvatore Messina as Chairman of the Board of Directors;
- with regard to the composition of the Board of Statutory Auditors, to appoint the new members of the Board of Statutory Auditors and their Chair, who will remain in office for the period 2021-2023;

- to revoke the previous authorisation to purchase and dispose of treasury shares granted by the Shareholders' Meeting of April 2, 2020 for the part not executed by the date of March 25, 2021, and therefore without prejudice to the transactions carried out in the meantime, and to authorise the Board of Directors – pursuant to and for the purposes of Art. 2357 of the Italian Civil Code – to purchase a maximum of 8,561,523 ordinary shares of BFF, taking into account the shares already in stock, for the purposes indicated under "Purchase of treasury shares";
- to approve only the policies for determining compensation in the event of early termination of office or termination of the employment relationship, including the limits to such compensation, thus remaining in force the Remuneration Policy approved by the Shareholders' Meeting held on April 2, 2020.

Conversely, the Shareholders' Meeting did not approve: the first section of the Annual Report on remuneration policy and on remuneration paid, pursuant to art. 123-ter, paragraph 3-bis of Italian Legislative Decree no. 58/1998 and subsequent amendments and additions ("TUF"), and the second section of the Annual Report on remuneration policy and on remuneration paid, pursuant to art. 123-ter, paragraph 6 of the TUF. Therefore, following the shareholders' resolutions on remuneration the Bank will continue to apply the Remuneration Policy approved by the Shareholders' Meeting on April 2, 2020.

Partial execution of the share capital increase without consideration approved by the Extraordinary Shareholders' Meeting of April 2, 2020

Following the resolution of the Extraordinary Shareholders' Meeting of April 2, 2020 – to increase the share capital of the Bank without consideration, in a divisible manner and in several tranches, pursuant to Art. 2349 of the Italian Civil Code, for a total amount not exceeding €5,254,563.16, through the issue of up to 6,824,108 ordinary shares for the purposes connected with the Group's remuneration and incentive policies, including the "2020 Banca Farmafactoring Banking Group Stock Option Plan" (the "**2020 Capital Increase**") – the 2020 Capital Increase was partially executed through the issue of new ordinary shares without nominal value with regular dividend rights, having the same characteristics as those already in circulation at the time of allocation, as regards:

- 47,925 shares, in the period between May 27, 2020 and August 25, 2020, and
- 548,941 shares, in the period between April 7, 2021 and July 14, 2021.

Share capital

In 2021 the share capital increased from €131,400,994.34 (at December 31, 2020) to €142,637,330.91 (i) first following the effectiveness of the Merger by incorporation of DEPObank – Banca Depositaria Italiana – into BFF Bank S.p.A. (formerly Banca Farmafactoring S.p.A.), which was part of a more complex operation involving among other things the issuance of 14,043,704 ordinary shares without a nominal value for a capital increase of €10,813,652 at the service of the Merger; (ii) subsequently as a result of the partial execution – which took place in the period between April 7, 2021 and July 14 – of three capital increases without consideration for an amount equal to €422,684.57 through the issuance of new BFF ordinary shares, assigned to BFF Group personnel for needs related to remuneration and incentive policies (2020 Management by Objectives and 2016 Stock Option Plan).

With regard to the 2016 Stock Option Plan, which provided for the granting of 8,960,000 stock options by December 31, 2019, it should be noted that since the beginning of the exercise period (April 8, 2019) to July 14, 2021 (the period considered for the purposes of the most recent communication on change of the share capital in 2021) 1,200,918 shares were granted, of which 819,043 newly issued, respectively pursuant to the 2020 Capital Increase for 429,911 shares, and 312,357 relating to the 2019 Free - Delegate Capital Increase (approved by the Extraordinary Shareholders' Meeting of April 8, 2019, and revoked by the shareholders' meeting of April 2, 2020, for needs related to remuneration and incentive issues).

With regard to the 2020 Stock Option Plan, which provided for the award of a total number of 8,960,000 options to be granted by December 31, 2023 divided into three tranches, note that the total number of stock options granted in the first tranche is 6,700,000, and as of June 30, 2021 110,000 shares have been issued and made available for new grants, from which the number of options updated as of June 30, 2021 is 6,370,000.

Changes in the Organisational Structure

With regard to actions aimed at continuously improving the Bank's governance and organisational efficiency, also with respect its Branches and its Subsidiaries and in view of the merger with DEPObank, initiatives have been taken to align the working methods and processes of the Subsidiaries with those of the Bank and to harmonise the organisational structure.

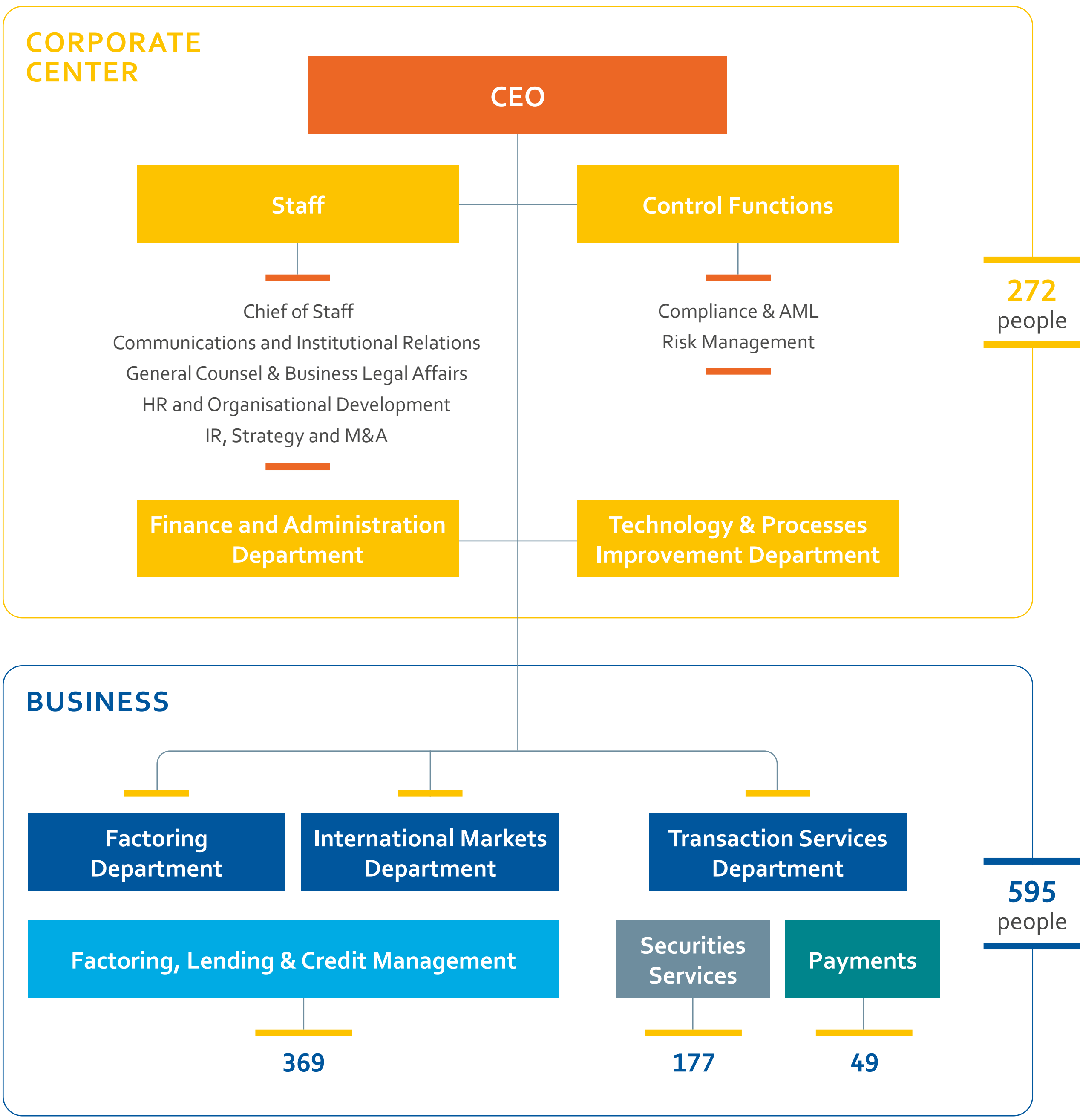
Specifically, note that during the half year the Deposit Account Organisational Unit was moved from the Operations Department to the Finance & Administration Department, directly reporting to the Finance and Treasury Organisational Unit.

The Operations Department was renamed to Technology & Processes Improvement, with a greater focus on ICT and process issues.

The General Counsel Function was renamed to Group General Counsel & Business Legal Affairs in order to concentrate legal activities under a single function, further reduce the fragmentation of legal and contractual responsibilities and better oversee all legal issues. Also for this reason, it was decided to transfer the Contracts & Legal Opinions area from the Credit Management Organisational Unit, Factoring Department, to the new Group General Counsel & Business Legal Affairs Function, under the new name of Factoring Legal Affairs Organisational Unit.

Following the merger with DEPObank, the integration of staff functions into the Group's workforce is under way, while in order to ensure business continuity and the high standards of customer service that distinguish the company, the business functions Securities Services and Payments were merged into a new department – Transaction Services – reporting directly to the Chief Executive Officer.

As of June 30, 2021 the Group is organised along 3 business lines, supported by the Corporate Center.



Inspection of the Bank of Italy

On March 8, 2021 the Bank of Italy initiated an inspection of the Banking Group pursuant to articles 54 and 68 of Italian Legislative Decree no. 385/83, as subsequently amended (the "TUB"). The Bank is awaiting the inspection report.

Deposit Guarantee Scheme

The EU Directive 2014/49 (Deposit Guarantee Schemes Directive - DGS) 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 by-laws, 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 (so-called Mandatory Scheme) commensurate with the amount of covered deposits outstanding at September 30 each year out of the total in the banking system, also taking into account risk adjustments resulting from the application of the new model of performance indicators with the methods described in the "Regulations for Reports and Risk-based Contributions by Member Banks to FITD" available on the FITD website.

The ordinary contribution for 2020 communicated by FITD on December 11, 2020 amounted to €1,856 thousand for BFF and €399 thousand for the incorporated former DEPObank; while for 2019 BFF paid an ordinary contribution of €913 thousand and the former DEPObank a contribution of €633 thousand.

As concerns extraordinary contributions, Article 23 of FITD by-laws 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 Bank for the year 2021 and with a note of April 29, 2021 was €8,688 thousand (€2,963 thousand for BFF and €5,725 thousand for the incorporated DEPObank), paid in May 2021.

The contribution requested in 2020 was €2,296 thousand for BFF and €7,035 thousand for the incorporated DEPObank, paid in May 2020, while the amounts requested in 2019 were €1,734 thousand for BFF and €3,884 thousand for DEPObank.

According to Italian Law 208/2015 (so-called 2016 Stability Law), if the financial resources of the National Resolution Fund (NRF) are insufficient to sustain the recovery and restructuring actions carried out over time, the banks must make additional contributions to such NRF, with the amount to be determined by the Bank of Italy.

In June 2021, the Bank of Italy requested the banking system to provide an additional extraordinary contribution of €350 million for 2019, taking into account the upcoming financial needs of the Fund.

The amount charged to BFF, to be paid in July 2021, amounts to €965 thousand, while the incorporated DEPObank will have to pay €1,865 thousand. In 2020 the extraordinary contribution for 2018 totalled €726 thousand for BFF and €2,222 thousand for the former DEPObank, while in 2019 the extraordinary contribution for 2017 totalled €635 thousand for BFF and €1,423 thousand for the former DEPObank.

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, while the same share for the former DEPObank amounted to €4,328 thousand.

Internal Control System

The CEO is the Director responsible for the Banking Group's Internal Control system, as envisaged by the Corporate Governance Code. Specifically, the Compliance & AML and Risk Management functions report to the Chief Executive Officer, while the Internal Audit function reports to the Board of Directors.

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 are aimed at ensuring the proper implementation of the risk management and compliance process, including the risk of money laundering and terrorist financing, and are entrusted to the Risk Management Function, the Financial Reporting Officer and the Compliance and AML Function of the Parent Company, which, in accordance with the provisions of the current prudential supervisory regulations, perform the following main tasks:

- **Risk Management**: this function 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. With regard to the most significant actions of the first half of 2021, note that the pandemic and remote work had no impact on the regular performance of the Function's activities. Specifically, during the first half of the year the Function operated mainly in the context of the capital adequacy process and liquidity risk management systems ("ICAAP/ ILAAP"), the revision of thresholds and risk management metrics for amendments to the Contingency Funding Plan and the Recovery Plan related to the acquisition of DEPObank.
- **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, it performs assessments and monitoring at a Group level, evaluating the adequacy of the coverage of the potential risk by performing adequacy and effectiveness tests on key controls on an ongoing basis, identifying possible points of improvement in the Internal Control System in the accounting area. 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)**: this function 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. Furthermore, this function has the task of preventing and combating money laundering and terrorist financing, also by identifying the applicable rules in this area.

  With regard to the most significant actions of the first half of 2021, note that the pandemic did not hinder the regular performance of such activities, and in cases where needs for improvement were identified the Bank and Group organisational units undertook action plans whose implementation is constantly being monitored.

  With regard to the acquisition and subsequent merger by incorporation of DEPObank into BFF, in addition to harmonising the Policy Compliance and AML and the related Organisational Model, the Function prepared a protocol aimed at integrating the contents of the Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001 of the former Banca Farmafactoring with the sensitive activities and types of crime attributable to the operations of DEPObank. Furthermore, the BFF Group's self-assessment of money laundering risk was updated to include the risks deriving from the business lines of DEPObank.

  The overall assessment of the residual risk of the BFF Group is "low".

  Finally, note that on May 25, 2021 the Bank participated in the AML College, established for BFF as a European credit institution operating internationally, with offices or branches in at least two different States belonging to the European Union other than Italy (State where BFF has its head office). This initiative was promoted in compliance with the Guidelines issued on December 16, 2019 by the three European Supervisory Authorities (EBA, ESMA and EIOPA) relating to cooperation and the exchange of information between the Supervisory Authorities in the credit and financial fields. Organised by the Bank of Italy, the College also includes permanent members of the EBA. In the first session the Financial Intelligence Unit also participated.

  The aim of the AML College is to attribute a money laundering risk profile to the BFF Group and to monitor its international supervisory activities accordingly.

Third-level controls

Internal audits are carried out by the Group's **Internal Audit** function, directly reporting to the Board of Directors. The Internal Audit function carries out independent controls, not only at the Parent Company but also at the subsidiary BFF Finance Iberia under a specific service agreement which governs the provision of the audit service, and, in an institutional framework, as a function of the Parent Company for the subsidiary BFF Polska. The regulation approved by the Board of Directors specifies that the Internal Audit function, within the third-level controls, evaluates the overall functioning of the internal control system and brings to the attention of the corporate bodies any possible improvements, with particular reference to the RAF (Risk Appetite Framework), the process for the management of risks, and the tools for their measurement and control.

The Head of the Internal Audit function has the necessary autonomy and is independent of the operating structures, in compliance with Bank of Italy's regulation on internal controls, the Governance Code and internal regulations, and is vested with the organizational powers to monitor company processes.

For 2021, the Internal Audit function carried out the testing activities provided for by the Group's multi-year 2019-2021 Audit Plan, prepared according to a risk-based approach, updated by the Board of Directors in March 2021, 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.

More specifically, 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 audits envisaged for 1H 2021 in the Group Audit Plan were performed by the function without any interruption, though the period of the health emergency required that such audits be performed remotely for the most part. More specifically, the audits were performed on the internal structures of the Bank, on the subsidiary BFF Finance Iberia, on the Spanish branch, on the Polish branch and 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 (hereinafter referred to as the "Model") prepared pursuant to Italian Legislative Decree 231 of June 8, 2001 (hereinafter also referred to as the "Decree") and the guidelines of ASSIFACT, ABI and Confindustria, in accordance with industry best practices.

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 the Decree, the structure and composition of the Supervisory Body as well as the description of the system of sanctions to prevent violation of the provisions contained in the Model. It also includes Special Parts comprising: i) the Matrix of operations at risk of committing a criminal offence, intended to identify the criminal offences that may potentially be committed as part of the Bank's operations; ii) the Protocols as per Legislative Decree 231/2001, which detail the operations, audits, and reporting mechanisms intended to ensure that the Bank's organizational and control system – including the foreign branches in Spain, Portugal, Poland and Greece – 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 offences as per the Decree.

The Bank makes sure that all employees receive adequate training, especially in the event of updates to regulations concerning the topics set out in the Decree.

In the first half of 2021 the work of the Supervisory Body focused mainly on the updating and adequacy of the Model, which was reviewed in February 2021 with respect to the Protocol pursuant to Italian Legislative Decree no. 231/01 on the integration of the business processes of the incorporated company DEPObank SpA, with post-closing effectiveness of the merger operation, monitoring information flows and the working situation in terms of compliance with the provisions on the health and safety of workers during the current COVID-19 health emergency.

The Supervisory Board reported to the Board of Directors on its work during the second half of 2020. Specifically, it noted that it had not directly or indirectly received any report relevant for the purposes of the Decree.

As far as the Group’s administrative liability is concerned, the following should be noted:

- the Spanish subsidiary BFF Finance Iberia adopted its own Organisational Model in accordance with Article 31-bis of the Spanish Penal Code, similar in its structure to the Bank’s 231 Organisational Model (general part, special part on activities at risk and information flows), and 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.

At its meeting of May 10, 2021 the Board of Directors appointed the new members of the Supervisory Body: two external members, one of whom is the Chair, and one internal member, the Head of the Internal Audit Department.

Research and Development

During the first half of 2021 the primary objective of the various projects carried out within the Group concerned the efficiency of internal processes and IT systems.

More specifically, the following important projects were carried out:

- migration of the information systems of the subsidiaries in the Czech Republic and Slovakia to the Bank's systems. The activity was completed in April 2021;
- development of new technological solutions aimed at increasing the efficiency of the software supporting the Group's business, including the out-of-court debt management and recovery system, the systems supporting the Payments service and the subsidiary's systems in Poland;
- development of new technological solutions aimed at managing regulatory compliance for all Group companies.

All the preparatory activities for integration with DEPObank were also completed during the period, with the exception of the migration of the latter's core system, expected by the end of 2021.

Changes in the workforce

At June 30, 2021 the total number of BFF Banking Group employees amounted to 867 persons and was affected by the merger with DEPObank, broken down as follows by country: 583 in Italy, 9 at the BFF branch in Portugal, 6 at the branch in Greece, 56 in Spain (9 at the BFF branch in Madrid, 47 at BFF Finance Iberia), 196 in Poland (of which 41 at the branch), 14 in Slovakia and 3 in the Czech Republic.

In 1H 2021, there were 41 new hires, of which 12 in Italy (including FOS), 17 in Poland, 2 in Slovakia and 10 in Spain.

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	2020								2021							
	Italy	Spain	Poland	Slovakia	Czech Republic	Greece	Portugal	Total	Italy	Spain	Poland	Slovakia	Czech Republic	Greece	Portugal	Total
Senior Executives/ Executives	19	1	5	-	-	-	-	**25**	20	1	5	-	-	-	-	**26**
Manager/ Coordinator	41	17	36	3	-	3	2	**102**	90	14	40	4	0	3	2	**153**
Specialist/ Professional	186	38	157	13	3	3	8	**408**	473	41	151	10	3	3	7	**688**
Total by country	**246**	**56**	**198**	**16**	**3**	**6**	**10**	**535**	**583**	**56**	**196**	**14**	**3**	**6**	**9**	**867**

At June 30, 2021 there were 867 people: 476 (55%) women and 391 (45%) men.

Below are the details by country:

Country	Women		Men		Total
Italy	299	51%	284	49%	583
Spain	30	54%	26	46%	56
Poland	131	67%	65	33%	196
Slovakia	9	64%	5	36%	14
Czech Republic	2	67%	1	33%	3
Greece	2	33%	4	67%	6
Portugal	3	33%	6	67%	9
Total by country	**476**	**55%**	**391**	**45%**	**867**

Such figures do not include 16 people working at Kancelaria Prawnicza Karnowski i Wspólnik sp.k. and Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.

Share performance

The BFF Bank stock (ISIN Code: IT0005244402 – Italian stock exchange ticker: BFF) has been traded on the Mercato Telematico Azionario (MTA) of Borsa Italiana since April 7, 2017, "Finance" Industry and "Financial Services" Super Sector, and as at June 30, 2021 is part of the following FTSE indices:

- FTSE Italia All-Share
- FTSE All-Share Capped
- FTSE Italia Mid Cap
- FTSE Italia Finanza
- FTSE Italia Servizi Finanziari
- FTSE Italia PIR PMI
- FTSE Italia PIR Mid Small Cap
- FTSE Italia PIR PMI All
- FTSE Italia PIR Mid Cap

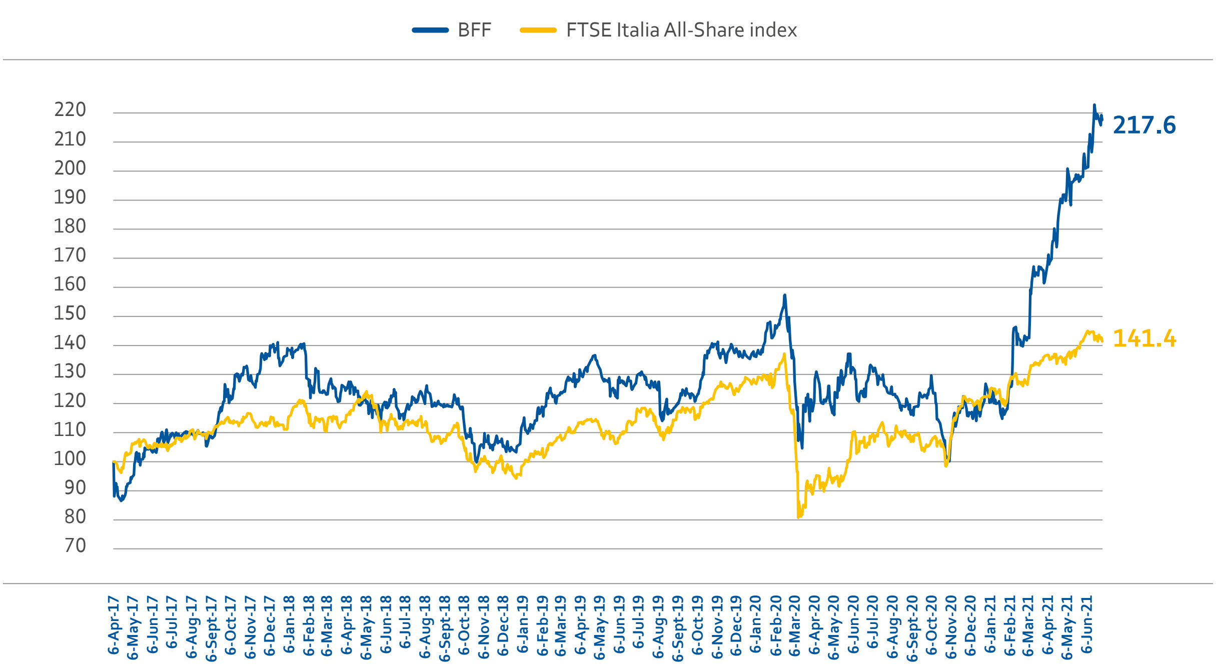
and the following STOXX indices:

- 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 Small
- EURO STOXX Total Market Value
- EURO STOXX Total Market Value Small
- STOXX All Europe Total Market
- STOXX Developed Markets Total Market
- STOXX Developed Markets Total Market ESG-X
- STOXX Developed Markets Total Market Small
- STOXX Developed and Emerging Markets Total Market
- STOXX Europe TMI Value
- STOXX Europe TMI Value Small
- STOXX Europe Total Market
- STOXX Europe Total Market ESG-X
- STOXX Europe Total Market Financial Services
- STOXX Europe Total Market Financials
- STOXX Europe Total Market 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 Momentum Factor
- iSTOXX Europe Multi-Factor
- iSTOXX Europe Multi-Factor XC
- iSTOXX Italy Small Mid Cap

BFF shares are also included in various MSCI indices (including MSCI Europe ex UK Small Cap Index and MSCI ACWI Value Small USD Index).

The BFF share price at June 30, 2021 was €8.45, up by 80% over the IPO placement price of €4.70. Since listing until June 30, 2021, the Bank has distributed total gross dividends of €1.048495 per share (€0.492 per share in April 2018 and €0.539 per share in April 2019 and €0.017495 in March 2021). 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, 2021 compared to the IPO placement price was 117.6%. The FTSE Italia All-Share Index total return was 41.4% in the same period.

TOTAL RETURN WITH REINVESTED DIVIDENDS



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 profit or loss

(Values in thousand euros)

Items	12.31.2020	06.30.2021	Changes
a) financial assets held for trading	0	4,372	4,372
c) other financial assets subject to mandatory fair value measurement	0	33,401	33,401
Total	**0**	**37,773**	**37,773**

The item consists essentially of i) Financial assets held for trading of €4,372 thousand, which includes the positive fair value of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Group is exposed to and ii) Other financial assets mandatorily measured at fair value of €33,401 thousand, which mainly include the "UCI units" and the share in the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) for Banca Carige.

Financial assets measured at fair value through other comprehensive income

(Values in thousand euros)

Items	12.31.2020	06.30.2021	Changes
Equity investments	17	0	(17)
Equity securities	147	83,561	83,414
Total	**164**	**83,561**	**83,397**

The item consists essentially of the stake in the Bank of Italy of €80 million, purchased in March 2021, as well as some shares and equity investments for an amount of €3.6 million.

Financial assets measured at amortised cost

(Values in thousand euros)

Items	12.31.2020	06.30.2021	Changes
Government securities - (HTC)	1,682,050	5,144,034	3,461,984
Receivables due from banks	31,078	911,644	880,566
Receivables due from customers	4,067,451	3,570,953	(496,498)
Total	**5,780,579**	**9,626,631**	**3,846,052**

The amount relating to the item Government Securities – (HTC) consists entirely of government securities classified in the Held to Collect (HTC) portfolio and purchased to hedge liquidity risk, for a total face value of €5,144 million.

"Receivables from banks" includes the item "Receivables from central banks - Mandatory reserve" relating to the deposit of Mandatory reserves, including the amounts deposited in compliance with the reserve requirement of the client banks, for which the parent company BFF provides the service indirectly, as well as the amounts deposited with Banco de España as CRM (Coeficiente de Reservas Mínimas) in relation to the deposit-taking activities carried out by the Spanish branch of the Bank through "Cuenta Facto", and with the National Bank of Poland (Narodowy Bank Polski) for the deposit-taking activities carried out by the Polish branch through "Lokata Facto". The item also includes "Receivables due from banks – Repurchase agreements" relating to contracts governed by the Global Master Repurchase Agreement (GMRA) as well as "Receivables due from banks – Others" which increase compared to December 31, 2020 following the acquisition of DEPObank and derive from the provision of activities and services offered.

With regard to "Receivables due from customers", the item mainly includes receivables relating to outright purchases and loans made by the subsidiary BFF Polska Group.

Credit quality

With regard to credit quality, total net impaired receivables decreased by €90.9 million at June 30, 2021 compared to €124.6 million at December 31, 2020.

In order to analyse its credit exposures, aimed among other things at identifying any 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 €112.8 million at June 30, 2021 with impairment losses totalling €21.9 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, 2021, the total non-performing loans of the Banking Group, net of impairment, amounted to €74.5 million. Among these non-performing exposures, €68.2 million (92% of the total) concerned regional authorities in financial distress.

Gross non-performing loans amounted to €91.9 million and related adjustments amounted to €17.4 million.

Please note that, as for the exposures to Local Authorities (Municipalities and Provincial Governments), in accordance with the Bank of Italy Circular no. 272 the portion subject to the relevant settlement procedure, the receivables of OSL's liabilities, is classified as non-performing, even though all receivables can be collected under the law at the end of the insolvency procedure.

Unlikely-to-pay positions

Unlikely to pay exposures reflect the judgement made by the intermediary about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfil (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 instalments). 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, 2021, gross exposures classified as unlikely to pay totalled €18.7 million and related adjustments amounted to €4.4 million, a net amount of €14.3 million.

Past-due impaired exposures

Past due impaired exposures consist of positions vis-à-vis entities for which the conditions for classification as past due impaired exposures are met by presenting one or more credit lines that meet the definition of "Non-performing exposures with forbearance measures" set out in Section V, Part 2, paragraph 262 of the ITS.

At June 30, 2021, total net past due exposures amounted to €2.1 million for the entire Banking Group.

The Banking Group's gross exposures totalled €2.1 million and relevant adjustments amounted to €51 thousand.

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".

(Values in thousand euros)

Type	06.30.2021			12.31.2020		
	Gross value	Value adjustments	Net value	Gross value	Value adjustments	Net value
Impaired exposures purchased performing (Stage 3)	105,934	(20,355)	85,579	135,107	(16,091)	119,015
Impaired exposures purchased impaired (Stage 3)	5,515	(210)	5,305	5,828	(214)	5,614
Performing exposures (Stage 1 and 2)	3,482,274	(2,205)	3,480,069	3,946,325	(3,503)	3,942,822
Total	**3,593,723**	**(22,770)**	**3,570,953**	**4,087,260**	**(19,809)**	**4,067,451**

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

Tangible and intangible assets

(Values in thousand euros)

Items	12.31.2020	06.30.2021	Changes
Tangible assets	18,014	37,452	19,438
Intangible assets	36,675	135,679	99,004
- of which goodwill	*30,874*	*111,891*	*81,017*
Total	**54,689**	**173,131**	**118,442**

At June 30, 2021, the item "Tangible assets" amounted to €37,452 thousand, of which €34,237 thousand related to BFF Bank, €1,795 thousand to BFF Polska Group and €1,421 thousand to BFF Finance Iberia. The amount relating to BFF Bank includes i) land of €6,325 thousand as at December 31, 2020 and including property deriving from the former DEPObank, ii) buildings (including capitalised extraordinary maintenance) of €11,454 thousand including the Rome property at Via Elio Chianesi 110/d owned by the former DEPObank, iii) right of use relating to the application of IFRS 16 on leases of €17,281 thousand. For further information on this topic, please refer to section M.

Intangible assets mainly consist 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, totalling €22,146 thousand, and the goodwill arising from the financial statements of the acquiree DEPObank in relation to the Banking Payments Cash Generating Unit (CGU), totalling €81,017 thousand, and the Customer Contracts, totalling €11,922 thousand.

The residual amount refers to investments in new multi-year programs and software.

Tax assets and liabilities

(Values in thousand euros)

Items	12.31.2020	06.30.2021	Changes
Tax assets	**15,333**	**119,914**	**104,581**
current	4,090	45,316	41,225
prepaid	11,243	74,598	63,355
Tax liabilities	**83,698**	**106,957**	**23,259**
current	5,824	5,683	(141)
deferred	77,873	101,274	23,400

As at June 30, 2021, current tax assets and liabilities amount to €45,316 thousand and €5,683 thousand, respectively, and include the net balance of the Group's tax positions with respect to tax authorities, in accordance with the provisions of IAS 12. The increase compared to December 31, 2020 depends on the payment of tax advances.

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.

During the first half of 2021 the tax value and book value relating to Banking Payments goodwill deriving from the former DEPObank were aligned (see what is described in the specific item 100 "Intangible Assets" of the Balance Sheet Assets) following the payment of substitute tax equal to €2.4 million, resulting in a net positive effect of €23.7 million on income taxes for the period.

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

Other Assets and Liabilities

(Values in thousand euros)

Items	12.31.2020	06.30.2021	Changes
Other assets	27,180	193,149	165,969
Other liabilities	82,805	757,575	674,771

Following the merger with DEPObank, the Other assets and Other liabilities items include the transitory items and the items to be settled with a debit and credit balance that fall within the scope of bank payment intermediation and include settlements that were suspended in the first business days after the date of reference.

Financial liabilities measured at amortised cost

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

(Values in thousand euros)

Items	12.31.2020	06.30.2021	Changes
Payables due to banks	1,034,655	926,160	(108,495)
Payables due to customers	3,571,621	8,284,710	4,713,089
- of which to financial institutions	*189,656*	*30*	*(189,626)*
Securities issued	808,908	182,235	(626,673)
Total	**5,415,184**	**9,393,105**	**3,977,921**

The item "Payables due to banks" mainly consists of "current accounts and demand deposits", mainly deriving from custodian bank operations, and includes the balances of accounts of bank customers (formerly DEPObank). Following the acquisition and merger with the former DEPObank and in order to achieve funding synergies, during the first half of 2021 BFF Bank reimbursed all the loans representing the funding requested from third-party banks to support the core business by the parent company and its subsidiaries. Specifically, the loan agreements in zloty used to acquire BFF Polska Group were also repaid.

Payables to customers mainly refer to "current accounts and demand deposits" relating to balances on operational accounts, i.e. accounts opened for customers (e.g. funds, asset management companies, corporate customers and other institutions) related to the custodian bank core business (former DEPObank).
The item includes €729 million for online deposit accounts ("conto facto") offered in Italy, Spain and Germany, the Netherlands, Ireland and Poland (restricted deposits and current accounts), compared to €1,654 million at December 31, 2020.
As mentioned above, following the acquisition and merger with the former DEPObank and in order to achieve funding synergies, during the first half of 2021 all debt relationships relating to collaborations with the other factoring companies were closed, which at the end of 2020 amounted to €189 million.

Debt securities issued consist of bonds issued by the Bank, with a total face value of €181.8 million (€800 million at December 31, 2020), recognised in the financial statements in the amount of €182.2 million at amortised cost using the effective interest rate method.

The significant decrease recorded compared to December 31, 2020 is attributable to the repayment at maturity of the **senior unsecured and unrated** bond loan (ISIN XS1435298275) equal to €150 million, the Cash Buyback completed on June 25, 2021 which allowed the early repayment of €415.7 million for two senior bonds due in 2022 and 2023, and the repayment of the flexible senior notes issued by the securitisation vehicle (BFF SPV S.r.l.), now in liquidation, in place with the Bayerische Landesbank Group (Bayern LB) for a nominal amount of €50 million. The total cost of this Liability Management operation was 9.5 million net of taxes.

As a result of the above, as of June 30, 2021 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%;
- €42.8 million remaining on 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%;
- €39 million remaining on senior unsecured bonds (ISIN XS2068241400) with Moody's Ba1 rating issued by Banca Farmafactoring in October 2019, due in May 2023. The bonds pay an annual coupon of 1.75%.

Provisions for risks and charges

(Values in thousand euros)

Items	12.31.2020	06.30.2021	Changes
Commitments and other guarantees provided	527	219	(993)
Employee benefits	4,777	5,471	(1,388)
Other provisions	1,078	15,848	(871)
Total	**6,382**	**21,538**	**(3,252)**

At June 30, 2021 "Provisions for risks and charges" mainly include allocations to "Pension and similar obligations" and allocations to "Other Provisions" to cover contingent liabilities that Group companies may incur.

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 Operating Performance and to Part C of the Notes.
As at June 30, 2021 the Group achieved a reported economic result amounting to €210.3 million, including among other things the positive effects deriving from the acquisition of DEPObank such as Badwill amounting to €163.4 million and Goodwill realignment amounting to €23.7 million, net of costs related to liability management initiatives and other transaction and restructuring costs amounting to €9.5 million and €2.3 million, respectively, to the change in the exchange difference amounting to €0.6 million, to the cost of stock options amounting to €2.2 million, to the extraordinary contribution to the resolution fund amounting to €2.0 million and to the amortisation of DEPObank's customer contract amounting to €1.7 million.

Considering also the two months prior to the merger with DEPObank and eliminating the extraordinary items listed above, the Group's normalised economic result (including six months of BFF and six months of DEPObank) amounted to €46.6 million, 1% lower than the same period last year, the explanation of which is to be found, as described in the previous paragraphs, in the phenomena affecting Factoring & Lending and the Corporate Center.
As described above regarding the performance of the BUs compared to 1H20, the main elements that affected the Group's economic result can be summarised as follows:

- lower interest margin mainly due to lower yields of uses (such as lower yields on loans to customers, MTM effect of securities of the former DEPObank generated at closing), lower securities in the portfolio, higher excess liquidity;
- higher commissions due to increased transactions in activities related to the former DEPObank;
- lower costs thanks to careful monitoring and the initiatives taken to achieve the synergies envisaged in the plan.

For the purposes of the following explanations, the standardised items will be mainly commented on to take into account the contribution of DEPObank in the months in which it was not part of the Group (six months in 2020 and two months in 2021: note that for the purposes of this consolidated half-yearly report 2020 does not include DEPObank, while 2021 only includes it for four months) and to eliminate all extraordinary items: in fact, a large part of the increase in non-standardised balance sheet items net of extraordinary items is attributable to effects generated by the inclusion of DEPObank in the Group's scope only from March 2021.

Intermediation margin

(Values in thousand euros)

Items	06.30.2020	06.30.2021	Changes
Maturity commissions and late payment interest on non-recourse receivables	73,963	62,639	(11,324)
Interest income on securities	4,779	5,342	563
Other interest	37,794	34,213	(3,581)
Interest and similar income	**116,536**	**102,194**	**(14,343)**
Interest expenses	(26,040)	(24,510)	1,530
Interest Margin	**90,496**	**77,684**	**12,813**
Net fees and commissions	**2,332**	**31,925**	**29,592**
Dividends and similar income	(0)	3,671	3,672
Net trading result	3,956	2,678	(1,278)
Net hedging result	0	(1,848)	(1,848)
Profits (losses) on disposal or repurchase of:			
a) financial assets measured at amortised cost	0	(0)	(0)
b) financial assets designated at fair value through other comprehensive income	21	(13)	(34)
c) financial liabilities	56	(12,650)	(12,706)
Profits (losses) on other financial assets and liabilities at fair value through profit or loss			0
b) other financial assets subject to mandatory fair value measurement	0	993	993
Intermediation margin	**96,862**	**102,441**	**5,579**

The interest margin at June 30, 2021 amounted to €77.7 million, 81.6 million normalised, down 26.6 million compared to the same period last year mainly due to: 1) the contraction of revenues deriving from the dynamics of the amortised cost on the former DEPO securities portfolio mentioned above (equal to €11.6 million), which, moreover, at the time of closing generated a positive MTM allowing an increase in badwill net of the tax effect of approximately €35.6 million; 2) the cost of excess liquidity equal to €5.2 million (on which action was taken during the second quarter of 2021 to bring the levels of liquidity under the tiering); 3) the reduction of the securities portfolio (frozen in the period in which the SPMA was in force and on which investment began again during the second quarter of 2021).

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.

Interest expense deriving from the various forms of outstanding provisions increased to €24.5 million as at June 30, 2021, €23.5 million normalised; this item was influenced among other things by the decrease in the Wibor base rate in Poland, with an effect also on uses, and by the cost of excess liquidity (on which action was taken during the second quarter of 2021 to bring liquidity levels under tiering).

Net fee and commission income amounted to €31.9 million, €45.4 million normalised, and the main part is represented by fees for services generated by the business of the former DEPObank.

Other items that contributed to the intermediation margin amounted to -€7.2 million, +€7.8 million normalised, and of these the most significant equal to -€12.6 million, though eliminated from the normalised value, mainly refers to the loss on securities in circulation recorded as a result of the cash buyback transaction carried out at the end of June 2021.

Administrative expenses

(Values in thousand euros)

Items	06.30.2020	06.30.2021	Changes
Personnel expenses	20,594	34,069	13,475
Other administrative expenses	21,660	47,947	26,287
Total administrative expenses	**42,254**	**82,016**	**39,762**

Administrative expenses at June 30, 2021 amounted to €82.0 million, €87.3 million normalised net of charges for M&A operations, extraordinary contributions to the National Resolution Fund and charges for stock options for directors and certain employees.

Finally, note that under "Other operating expenses and income" BFF recorded an amount equal to €175.3 million, €14.5 million normalised excluding extraordinary items, the most significant of which refers to badwill equal to €163.4 million resulting from the merger transaction with DEPObank.

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 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 CRR regulation (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, 2021 is based on three pillars.

Pillar I – Capital adequacy to meet the typical risks associated with financial operations

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

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

Pillar II – The ICAAP/ILAAP Report

In accordance with prudential supervisory provisions, and in order to allow the Supervisory Authority to carry out an accurate and comprehensive assessment of the fundamental qualitative characteristics of the equity and financial planning process, the risk exposure and the consequent calculation of total internal capital and relevant liquidity reserves, the Bank – as Parent Company of the Banking Group – has prepared the “ICAAP/ILAAP 2020 Report” on internal processes for determining adequacy of capital and of liquidity risk governance and management systems.

Pillar III – Disclosure to the public

Pursuant to Article 433 of the CRR, banks shall publish the disclosures required by EU regulations at least on an annual basis, in conjunction with the date of publication of the financial statements.

Pillar III provisions establish specific periodic disclosure obligations concerning capital adequacy, risk exposure and the general features of the related systems for the identification, measurement and management of such risks.

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

To this end, the Board of Directors of BFF has approved a dedicated procedure named "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.bff.com at least once a year by the deadline for the publication of the financial statements, and therefore within 21 days of the date of approval of the financial statements by the Shareholders' Meeting.

With regard to the provisions of the Bank of Italy Circular no. 285 of December 17, 2013, and subsequent updates, the BFF Group will publish on its website www.bff.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.

Disclosure regarding Calendar Provisioning and Past Due

In April 2019 the European Commission approved an update of EU Regulation 575/2013 (CRR) regarding the minimum coverage of impaired receivables. For the purposes of evaluating prudential provisions, the legislation in question provides that receivables disbursed and classified as impaired after April 26, 2019 are subject to "calendar provisioning". Exposures disbursed earlier and subsequently classified as NPEs will not be subject to the provisions contained in the amendment to Regulation no. 575 (CRR). This update requires banks to maintain an adequate provision value, deducting from their CET 1 any positive difference between prudential provisions (identified by weighting the gross value of guaranteed and unsecured NPEs by certain percentages) and amending funds and other assets (balance sheet provisions, prudent valuation, other deductions of CET1).

This rule is based on the principle that the prudential definition of default (i.e. past due, probable defaults and non-performing) effectively defines a state of deterioration of the credit quality of the exposure, not providing for any discretion and not ensuring that certain cases not representative of a worsening of credit risk (as for most Group exposures) are treated differently.

Thanks to the credit management processes established by the BFF Group, as of June 30, 2021 there was no impact on CET 1 deriving from the application of calendar provisioning.

Regarding the classification to NPE, note that on June 27, 2019 the Bank of Italy introduced certain amendments to Circular no. 272 concerning credit quality and the rules on the new definition of default, and most recently on February 15, 2021 it updated its note containing the guidelines of the Supervisory Body on the application of Delegated Regulation (EU) no. 171/2018 on the materiality threshold of overdue credit obligations pursuant to art. 178, para. 2, letter d) CRR (RD), and more generally on the application of the RD regulations.

Note also that, in the context of these guidelines, the Supervisory Body had already clarified that – for trade receivables whose debtor is a public administration – unless specific legal provisions provide otherwise the deadline for calculating the days in arrears of the credit exposure starts from the due date of the individual payments.

Given the above, with a view to adhering to the new definition of default and in line with the clarifications provided by the Bank of Italy, as at December 31, 2020 the Group adopted as starting date the expiry of the invoice from which the credit exposure for the non-recourse factoring product originates.

This approach led to considering – for all exposures to public sector entities with an original expiry of less than three months – the preferential weighting of 20% envisaged by art. 116, paragraph 3 of the CRR instead of the weighting envisaged by the previous paragraphs of the same article, which provides that the coefficient to be applied depends on the rating issued by the ECAI used by the Bank on the debtor's country of residence, adopted until the end of 2020. The effect of this change was a lower absorption of capital, with a consequent improvement in capital ratios.

Finally, note that the Group has implemented a series of actions and interventions aimed at further improving the credit selection and management process, initiatives that have made it possible to avoid particular negative impacts of the new legislation on the business model.

Other information

Transactions with related parties

With regard to relations with related parties and associated parties, on November 11, 2016 the Board of Directors of BFF SpA approved, with effect subject to the commencement of negotiations on the Mercato Telematico Azionario managed by Borsa Italiana – and therefore from April 7, 2017 – the "Policies on internal controls adopted by the BFF Group for the management of conflicts of interest" (so-called "Conflict of interest management policy") and the "BFF Group Regulation for the management of transactions with parties having conflicts of interest" (the "OPC Regulation") – in implementation of the supervisory provisions of Title V, Chapter 5 of Bank of Italy Circular no. 263 of December 27, 2006 ("Circular 263") and of the Consob Regulation on transactions with related parties, adopted by resolution no. 17221 of March 12, 2010, subsequently amended by resolution no. 17389 of June 23, 2010 – subject to a favourable opinion expressed by the Board of Statutory Auditors and the OPC Committee.

On December 22, 2020 the Bank approved the update of the conflict of interest management policy and the OPC Regulation in order to update the new regulatory references resulting from the integration of Circular no. 263 in the Supervisory Provisions for banks.

On June 30, 2021 the Bank approved the update of the conflict of interest management policy, the RPT Regulation and the RPT Committee Regulation in order to update them in compliance with the amendments made to Consob Regulation no. 17221/2010 with resolution no. 21624 of December 10, 2020, which will enter into force from July 1, 2021.

The Policy on the management of conflicts of interest governs the control processes aimed at ensuring the correct measurement, monitoring and management of the risks assumed by the Group with respect to Associated Parties.

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

The Regulation for the management of transactions with parties that may be in a conflict of interest and the Group Policy to manage conflicts of interest are communicated to the public via the Bank's website under the section Governance/Procedures and Regulations/Related-Party Transactions.

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

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

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

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

The Bank complied with the Corporate Governance Code for listed companies-approved in March 2006 by the Corporate Governance Committee and promoted by Borsa Italiana as amended in July 2018-as described in the Bank's Corporate Governance Report and Ownership Structure (the "Corporate Governance Report"). On December 22, 2020, as mentioned in the 2020 Report on Corporate Governance, the Board of Directors approved the update of its internal regulations to incorporate – in the terms that will be represented in the 2021 Report on Corporate Governance – the provisions of the Corporate Governance Code, in force in January 2021.

Unusual or atypical transactions

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

Events subsequent to the end of the reporting period

On July 16, 2021 BFF Bank received from the Bank of Italy, as Resolution Authority, a communication regarding the "Adoption of the 2020 resolution plan for BFF Banking Group and submission of the summary of the key elements of the plan". The Plan is to be considered preliminary and will be described in more detail in the next planning cycles. The Plan does not currently determine any "Minimum Requirement for own funds and Eligible Liabilities" (MREL).

Other offices

In addition to its offices in Milan, BFF has two offices in Rome. All addresses are available on the "Contacts" page of the bff.com website.

The Bank also has a branch in Madrid, Spain, opened in 2015; in Lisbon, Portugal from July 2018; in Łódź, Poland since July 2019; and in Athens, Greece since September 2020.

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

Business Outlook

As per the five-year strategic plan, approved by the BFF Board of Directors on May 29, 2019 ("BFF 2023" or the "Plan"), the Group's objectives for 2023 – confirmed by the updating of the 2021-2023 financials of the business plan following the closing of the transaction with DEPObank on March 1, 2021 and the approval of the combined budget by the Board of Directors on March 3, 2019 – are:

1) continue to develop the current core business, i.e. factoring, Securities Services and payments, further improving operating efficiency and strengthening the leadership position in Italy and abroad;
2) continue to optimise the cost of funding, leveraging what has already been achieved in terms of synergies resulting from the DEPO operation;
3) consolidate the existing business and/or expand into other market niches via acquisitions.

In view of the above, and in the face of a gradual reduction in the pandemic effects over the coming months, the Bank expects a recovery in terms of business volumes and operations, and with substantial growth in terms of intermediation margin.

With regard to the credit risk, the nature of the Bank's loans makes the risk of losses on Financial Assets extremely low, with regard to the existing business model.

With regard to non-recurring income, some can be expected from the special projects that the company is evaluating and which are carefully monitored, as are the various indicators relating to liquidity monitoring (LCR, NSFR and Leverage).

Since the Tier II call option is expected to be exercised in March 2022, an AT1 instrument is expected to be issued in the same year for an amount yet to be determined. The issuance of a Tier I eligible instrument will allow the Group to optimise the concentration limit on large exposures and leverage, also contributing to compliance with the next MREL regulation, as per the communication received from the Supervisory Authority, referred to on the previous page (Events after the reporting date).

Finally, tensions on capital ratios are not expected. The excellent levels of capital, which increased as a result of the operation with DEPObank, allow maintaining high levels of dividend policy, which provides for the payment of the profit exceeding 15% of Total Capital Ratio.

02

Condensed Half-Yearly Consolidated Financial Statements
as at June 30, 2021

Consolidated Balance Sheet

(Values in euro units)

Assets		06.30.2021	12.31.2020(*)
10.	Cash and cash equivalents	787,468,905	173,280,377
20.	Financial assets measured at fair value through profit or loss	37,773,484	0
	a) financial assets held for trading	*4,372,347*	*0*
	c) other financial assets subject to mandatory fair value measurement	*33,401,136*	*0*
30.	Financial assets measured at fair value through other comprehensive income	83,560,769	163,924
40.	Financial assets measured at amortised cost	9,626,630,794	5,780,579,449
	a) due from banks	*911,643,848*	*31,078,082*
	b) loans to customers	*8,714,986,946*	*5,749,501,367*
50.	Hedging derivatives	4,174,790	0
70.	Equity investments	13,209,320	87,944
90.	Tangible assets	37,451,565	18,014,021
100.	Intangible assets	135,679,445	36,675,140
	of which		
	- *goodwill*	*111,891,261*	*30,874,236*
110.	Tax assets	119,913,895	15,333,003
	a) current	*45,315,569*	*4,090,128*
	b) deferred	*74,598,326*	*11,242,874*
130.	Other assets	193,148,626	27,179,709
TOTAL ASSETS		**11,039,011,594**	**6,051,313,567**

(*) The comparative figures at December 31, 2020 do not contain the balance sheets at the same date of the incorporated company DEPObank.

(Values in euro units)

Liabilities and Shareholders' Equity		06.30.2021	12.31.2020(*)
10.	Financial liabilities measured at amortised cost	9,393,104,644	5,415,184,174
	a) due to banks	*926,160,029*	*1,034,654,607*
	b) due to customers	*8,284,709,975*	*3,571,621,161*
	c) debt securities issued	*182,234,640*	*808,908,406*
20.	Financial liabilities held for trading	543,709	0
40.	Hedging derivatives	657,801	0
60.	Tax liabilities	106,956,722	83,697,710
	a) current	*5,683,063*	*5,824,367*
	b) deferred	*101,273,659*	*77,873,344*
80.	Other liabilities	757,575,484	82,804,576
90.	Employee severance pay	3,843,144	666,641
100.	Provision for risks and charges:	21,538,065	6,381,691
	a) commitments and guarantees given	*219,350*	*527,436*
	b) post-employment benefits and similar obligations	*5,471,149*	*4,776,556*
	c) other provisions for risks and charges	*15,847,566*	*1,077,699*
120.	Valuation reserves	6,319,724	1,456,095
150.	Reserves	330,476,658	241,473,311
160.	Share premium reserve	66,442,541	693,106
170.	Share capital	142,625,674	131,400,994
180.	Treasury shares	(1,392,207)	(3,517,312)
200.	Profit (Loss) for the period	210,319,634	91,072,581
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**11,039,011,594**	**6,051,313,567**

(*) The comparative figures at December 31, 2020 do not contain the balance sheets at the same date of the incorporated company DEPObank.

Consolidated Income Statement

(Values in euro units)

Items		06.30.2021(**)	06.30.2020(*)
10.	Interest income and similar income	102,193,906	116,536,347
	of which: interest income calculated according to the effective interest method	*91,005,723*	*108,304,300*
20.	Interest expenses and similar charges	(24,509,564)	(26,039,651)
30.	**Interest margin**	**77,684,342**	**90,496,696**
40.	Fee and commission income	43,304,618	3,267,928
50.	Fee and commission expense	(11,379,916)	(935,541)
60.	**Net fees and commissions**	**31,924,702**	**2,332,387**
70.	Dividends and similar income	3,671,395	(0)
80.	Profits (losses) on trading	2,678,391	3,955,929
90.	Profits (losses) on hedging	(1,847,826)	0
100.	Profits (losses) on disposal or repurchase of:	(12,662,994)	77,390
	a) financial assets measured at amortised cost	*(15)*	*0*
	b) financial assets measured at fair value through other comprehensive income	*(13,109)*	*21,389*
	c) financial liabilities	*(12,649,870)*	*56,001*
110.	Profits (losses) on other financial assets and liabilities at fair value through profit or loss	992,786	0
	b) other financial assets subject to mandatory fair value measurement	992,786	0
120.	**Intermediation margin**	**102,440,797**	**96,862,402**
130.	Net losses/recoveries for credit risks associated with:	249,275	(2,329,201)
	a) financial assets measured at amortised cost	*395,864*	*(2,329,890)*
	b) financial assets measured at fair value through other comprehensive income	*(146,589)*	*689*
150.	**Net result from banking activities**	**102,690,071**	**94,533,201**
180.	**Profits (losses) of banking and insurance management**	**102,690,071**	**94,533,201**
190.	Administrative expenses:	(82,016,155)	(42,254,145)
	a) personnel expenses	*(34,069,284)*	*(20,593,829)*
	b) other administrative expenses	*(47,946,870)*	*(21,660,316)*
200.	Net provisions for risks and charges	1,690,817	(186)
	a) commitments and guarantees given	313,052	(67,842)
	b) other net provisions	1,377,765	67,656
210.	Net write-downs/write-backs on tangible assets	(2,306,139)	(1,872,186)
220.	Net write-downs /write-backs on intangible assets	(4,234,187)	(1,034,530)
230.	Other operating income/expenses	175,221,995	2,966,580
240.	**Operating costs**	**88,356,332**	**(42,194,467)**
250.	Profits (Loss) on equity investments	102,922	0
290.	**Profit (loss) before tax from continuing operations**	**191,149,326**	**52,338,734**
300.	Income taxes for the financial year on current operations	19,170,308	(14,799,409)
310.	**Profit (Loss) from current operations after tax**	**210,319,634**	**37,539,325**
330.	**Profit (Loss) for the period**	**210,319,634**	**37,539,325**
350.	**Profit (Loss) for the period attributable to the parent company**	**210,319,634**	**37,539,325**
	Basic earnings per share	**1.14**	**0.22**
	Diluted earnings per share	**1.08**	**0.21**

(*) The comparative figures at June 30, 2020 do not contain the balance sheets at the same date of the incorporated company DEPObank.
(**) The Income Statement as of June 30, 2021 includes the balances of the months from March to June of the incorporated DEPObank.

Consolidated Comprehensive Income Statement

(Values in euro units)

Items		06.30.2021	06.30.2020
10.	**Profit (Loss) for the period**	**210,319,634**	**37,539,325**
	Other income components net of taxes that may not be reclassified to the income statement		
20.	Equity instruments carried at fair value through other comprehensive income		
30.	Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)		
40.	Hedging of equity instruments carried at fair value through other comprehensive income		
50.	Tangible assets		
60.	Intangible assets		
70.	Defined-benefit plans	(17,267)	4,839
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves for equity investments measured at equity		
	Other income components net of taxes reclassified to the income statement		
100.	Hedging of foreign investments		
110.	Foreign exchange differences	60,168	(3,983,658)
120.	Cash flow hedges		
130.	Hedging instruments (undesignated elements)		
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	4,820,728	(91,246)
150.	Non-current assets held for sale and discontinued operations		
160.	Share of valuation reserves for equity investments measured at equity		
170.	**Total other income components net of tax**	**4,863,629**	**(4,070,065)**
180.	**Comprehensive income (Items 10+170)**	**215,183,263**	**33,469,260**
190.	Consolidated comprehensive income attributable to minority interests		
200.	**Consolidated comprehensive income attributable to the parent company**	**215,183,263**	**33,469,260**

Statement of Changes in Consolidated Shareholders' Equity

As at 06.30.2020	Balances as at 12/31/2019	Change to opening balances	Balances as at 01/01/2020	Allocation of result for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
- ordinary shares	131,326,409		131,326,409		
- other shares					
Share premium reserve	693,106		693,106		
Reserves:					
- earnings	140,501,134		140,501,134	93,156,528	
- others	6,768,055		6,768,055		
Valuation reserves	6,569,790		6,569,790		
Equity instruments					
Treasury shares	(1,762,756)		(1,762,756)		
Profit (Loss) for the year	93,156,528		93,156,528	(93,156,528)	
Group shareholders' equity	377,252,266		377,252,266	-	
Minority interests					

As at 06.30.2021	Balances as at 12/31/2020	Change to opening balances	Balances as at 01.01.2021	Allocation of profit/loss previous year	
				Reserves	Dividends and other allocations
Share capital:					
- ordinary shares	131,400,994		131,400,994		
- other shares					
Share premium reserve	693,106		693,106		
Reserves:					
- earnings	234,058,930		234,058,930	87,841,192	
- others	7,414,381		7,414,381		
Valuation reserves	1,456,095		1,456,095		
Equity instruments					
Treasury shares	(3,517,312)		(3,517,312)		
Profit (Loss) for the year	91,072,580		91,072,580	(87,841,192)	(3,231,388)
Group shareholders' equity	462,578,775		462,578,775	-	(3,231,388)
Minority interests					

(Values in euro units)

Changes in the year									Shareholders' equity attributable to the group as at 06.30.2020	Shareholders' equity attributable to minorities as at 06.30.2020
Change in reserves	Shareholders' equity transactions							Consolidated comprehensive income 2020		
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests			
	72,817								131,399,226	
									693,106	
(145,822)						1,345,163			233,511,840	
(796,050)								(4,070,065)	7,317,166	
									2,499,724	
		(2,702,469)								
680,824								37,539,325	(3,784,401)	
		(2,702,469)				1,345,163		33,469,260	37,539,325	
(261,048)	72,817								409,175,986	

(Values in euro units)

Changes in the year									Shareholders' equity attributable to the group as at 06.30.2021	Shareholders' equity attributable to minorities as at 06.30.2021
Change in reserves	Shareholders' equity transactions							Consolidated comprehensive income 2021		
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests			
	11,224,680								142,625,674	
	65,749,435								66,442,541	
3,356,056									325,256,177	
35,222						(2,229,122)			5,220,481	
								4,863,629	6,319,724	
2,125,106									(1,392,207)	
								210,319,634	210,319,634	
5,516,383	76,974,114					(2,229,122)		215,183,263	754,792,025	

Consolidated Cash Flow Statement

Indirect method

(Values in euro units)

	Amount	
	06.30.2021	**06.30.2020**
A. OPERATING ACTIVITIES		
1. Operations	**217,195,617**	**42,775,428**
- profit/loss for the year (+/-)	210,319,634	37,539,325
- gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	(1,837,690)	0
- gains/losses on hedging operations (-/+)	1,847,826	0
- net adjustments/recoveries for credit risk (+/-)	(249,274)	2,329,201
- net adjustments/recoveries on tangible and intangible assets (+/-)	6,540,325	2,906,716
- net allocations to provisions for risks and charges and other costs/income (+/-)	(1,690,817)	186
- net premiums not collected (-)		
- other income/expenses from insurance activities not collected (-/+)		
- taxes, duties and unpaid tax credits (+/-)	2,368,535	0
- net adjustments to/reversals of impairment of discontinued operations, net of the tax effect (-/+)		
- other adjustments (+/-)	(102,922)	0
2. Cash flow generated/absorbed by financial assets	**4,227,755,239**	**381,814,167**
- financial assets held for trading	4,372,347	0
- financial assets carried at fair value	0	0
- other financial assets subject to mandatory fair value measurement	33,401,136	0
- financial assets measured at fair value through other comprehensive income	83,396,845	(22,884,177)
- financial assets measured at amortised cost	3,845,802,071	405,221,620
- Other assets	260,782,840	(523,276)
3. Cash flow generated/absorbed by financial liabilities	**4,687,721,648**	**376,960,046**
- financial liabilities measured at amortised cost	3,976,669,591	370,778,979
- financial liabilities held for trading	24,003	0
- financial liabilities carried at fair value		
- other liabilities	711,028,054	6,181,067
Net cash generated/absorbed by operating activities	**677,162,026**	**37,921,307**

CONTINUED

(Values in euro units)

	Amount	
	06.30.2021	06.30.2020
B. INVESTMENT ACTIVITIES		
1. Cash flows from	**3,672,387**	**98,785**
- sales of equity investments	992	98,786
- dividends collected on equity investments	3,671,395	(0)
- sales of tangible assets		
- sales of intangible assets		
- sales of subsidiaries and business units		
2. Cash flows used in	(140,463,196)	(2,484,278)
- purchases of equity investments	(13,120,825)	(103,007)
- purchases of property and equipment	(25,333,812)	(1,663,634)
- purchases of intangible assets	(102,008,559)	(717,637)
- purchases of subsidiaries and business units		
Net cash generated/absorbed by investing activities	**(136,790,809)**	**(2,385,492)**
C. FUNDING ACTIVITIES		
- Issue / Purchase of treasury shares	0	(2,702,469)
- issue/purchase of equity instruments	77,048,699	72,817
- Distribution of dividends and other purposes	(3,231,388)	0
- sale/purchase of ownership interests in subsidiaries		
Net cash generated/absorbed by financing activities	**73,817,311**	**(2,629,652)**
NET CASH GENERATED/ABSORBED DURING THE FINANCIAL YEAR	**614,188,528**	**32,906,162**

Reconciliation

(Values in euro units)

Financial statement items	06.30.2021	06.30.2020
Cash and cash equivalents at start of financial year	173,280,377	78,305,302
Total net cash generated/absorbed during the financial year	614,188,528	32,906,162
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at end of financial year	**787,468,905**	**111,211,465**

03

Explanatory Notes

EXPLANATORY NOTES

Shareholders,
the Notes are broken down into the following parts:

Part A - Accounting policies
Part B - Consolidated Balance Sheet
Part C - Consolidated Income Statement
Part D - Consolidated Comprehensive Income
Part E - Information on risks and related hedging policies
Part F - Information on Consolidated Equity
Part G - Business combinations of companies or business units
Part H - Transactions with related parties
Part I - Share-Based Payments
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 Condensed Half-yearly Consolidated Financial Statements (hereinafter also referred to as the "half-yearly consolidated financial statements") as at June 30, 2021 were prepared in accordance with article 154b of Italian Legislative Decree 58/1998 and 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.

The application of IFRSs is done by observing the "systematic framework" for the preparation and presentation of consolidated financial statements (the Framework), with particular reference to the fundamental principle of substance over legal form and the concept of materiality or significance of the information.

Specifically, these Condensed Half-Yearly Consolidated Financial Statements were prepared in compliance with IAS 34 "Interim Financial Statements", which indicates avoiding the repetition of information that has already been recorded in the last Annual Financial Statements, including with regard to the accounting policies continued from the previous year.
Consequently, this document must be read in conjunction with BFF Banking Group's last annual consolidated financial statements at December 31, 2020. Although it does not include all the information required for full disclosure in accordance with IFRSs, specific explanatory notes are included to explain the events and transactions that are relevant to understanding the changes in the Group's financial position and performance since the last annual financial statements.

Section 2 - General preparation principles

The half-yearly consolidated financial statements were prepared in accordance with the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005 "Banks' financial statements: layout and preparation", as subsequently amended.

The half-yearly consolidated financial statements consist of the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity, the consolidated cash flow statement, the notes to the financial statements and the directors' report on operating performance.
In accordance with the provisions of Article 5, paragraph 2, of Italian Legislative Decree no. 38 of February 28, 2005, the half-yearly consolidated financial statements are denominated in euros.

All amounts included in the half-yearly consolidated financial statements are in euros, unless otherwise stated; prior-year figures are provided for the purposes of comparison. Specifically, the Consolidated Balance Sheet has been compared with the data reported in the Consolidated Financial Statements at December 31, 2020, while the Consolidated Income Statement, the statement of comprehensive income, the changes in consolidated Shareholders' Equity and the consolidated cash flow statement are compared with the corresponding data for the first half of the previous year, presented in the Consolidated Half-yearly Report at June 30, 2020.

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

Moreover, in the light of the supplementary provisions issued by the Bank of Italy in its communication of December 15, 2020, the half-yearly Consolidated Financial Statements at June 30, 2021 have been prepared, where applicable, in accordance with the recommendations set out in the following communications from the EBA (European Banking Authority), ECB (European Central Bank) and ESMA (European Securities and Market Authorities):

- EBA communication of March 25, 2020 "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of Covid-19 measures";
- ESMA communication of March 25, 2020 - "Public Statement. Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9";
- The document of the IFRS Foundation dated March 27, 2020 "IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic";
- The ECB letter dated April 1, 2020 "IFRS 9 in the context of the Coronavirus (Covid-19) pandemic" addressed to all significant institutions;
- The EBA guidelines of April 2, 2020 "Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis";
- The ESMA communication of May 20, 2020 "Implications of the Covid-19 outbreak on the half-yearly financial reports";
- The EBA guidelines of June 2, 2020 "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis";
- The ESMA communication of October 28, 2020 "European common enforcement priorities for 2020 annual financial reports";
- The EBA guidelines of December 2, 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis";
- ECB letter of December 4, 2020 "Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic" addressed to all significant institutions.

The above communications define a series of guidelines in order to support the Group in the application of accounting standards in light of the impacts of the COVID-19 pandemic.

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.

Subsidiary companies

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 the Parent Company BFF Bank 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 accordance with the IASs/IFRSs used for the preparation of the half-yearly consolidated financial statements.

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

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

Acquisitions of companies are accounted for according to the "acquisition method" provided for in IFRS 3, as amended by Regulation No 495/2009, on the basis of which the identifiable assets acquired and the identifiable liabilities assumed (including contingent liabilities) are to be recognised at their respective acquisition date fair values.

The amount, if any, by which the consideration exchanged (represented by the fair value of the assets transferred, liabilities assumed and equity instruments issued) exceeds the fair value of the assets acquired and liabilities assumed is recognised as goodwill; where the price is lower, the difference is charged to the income statement.

The "acquisition method" is applied with effect from the acquisition date, i.e., the moment in which control of the acquiree is effectively obtained. Accordingly, the income and expenses of a subsidiary company acquired during the reporting period are included in the consolidated financial statements with effect from its acquisition date. Likewise, the income and expenses of a subsidiary company that has been sold are included in the consolidated financial statements until the date on which control ceases to be held.

1 - Shares in companies within the scope of consolidation

At June 30, 2021, BFF Banking Group included the Parent BFF Bank S.p.A. and the following companies:

Company name	Registered and operating office	Relationship type(1)	Ownership relationship		Voting rights %(2)
			Held by	Holding %	
1. BFF Finance Iberia, S.A.U.	Madrid - Paseo de la Castellana 81	1	BFF Bank S.p.A.	100%	100%
2. BFF SPV S.r.l.	Milan - Via V. Betteloni 2	4	BFF Bank S.p.A.	0%	0%
3. BFF Polska S.A.	Łodz - Jana Kilińskiego, 66	1	BFF Bank 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 Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

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

The companies in points 10 and 11 above are limited partnerships and are consolidated according to the equity method since their total asset figures are not significant.

BFF Bank also holds a 24.59% stake in Unione Fiduciaria S.p.A., which is consolidated with the equity method (and not in its entirety), as it is a company subject to significant influence.

Key:

(1) Type of relationship:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = dominant influence at the ordinary shareholders' meeting
3 = arrangements with other shareholders
4 = other forms of control
(2) Voting rights at ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.

The measurement criteria are adopted with a view to a going concern and comply with the principles of accrual, relevance and materiality of accounting information and the precedence of economic substance over legal form.

Section 4 - 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 2021 financial statements.

Section 5 - Other issues

Shareholder Structure

On February 10, 2021, with markets closed, Scalve S.à r.l. ("Scalve"), a company controlled by Massimiliano Belingheri, CEO of BFF Banking Group, initiated a reverse accelerated book-building ("RABB") procedure exclusively for institutional investors and aimed at purchasing a maximum of 3.5 million BFF ordinary shares. The completion of the RABB transaction took place the following day, February 11, 2021, with the acquisition by Scalve of 1,938,670 BFF ordinary shares.

On the same date of February 11, 2021, BFF Luxembourg S.à r.l. (Centerbridge) ("**BFF Lux**") initiated, and then concluded on February 12, the sale of all remaining shareholdings in BFF:

(i) through an accelerated bookbuilding (ABB) procedure (ABB), targeting certain categories of institutional investors, for 11,806,970 shares, and

(ii) following the exercise of the call option by Massimiliano Belingheri, CEO of BFF, with physical delivery of 1.76 million shares, envisaged pursuant to the relevant existing "Lock up and Option Agreement".

Following this transaction BFF Lux completed its exit from the capital of BFF, and Massimiliano Belingheri came to hold – both directly and indirectly through persons closely related to him (Scalve and Bray Cross Ltd.) – approximately 10.03 million BFF shares (10.17 million at June 30, 2021 equal to 5.49% of the share capital of BFF).

Following the elimination of BFF Luxembourg Sarl's shareholding in the Bank in February 2021, the Bank of Italy, via a notice dated February 23, 2021 removed the CRR Group with BFF Luxembourg Sarl at the top from the register of banking groups.

On March 5, 2021 the Bank issued to Equinova UK HoldCo Limited ("**Equinova**")[6] 14,043,704 new BFF ordinary shares for the merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. ("**DEPObank**") into BFF. The quota was equal to 7.604% of BFF's share capital at that date.

6) Equinova is the holding company of Advent International Corporation, Bain Capital Private Equity Europe LLP and Clessidra SGR S.p.A., which was the main shareholder of DEPObank (as of March 1, 2021 it held a 91.6% stake in the share capital).

As of June 30, 2021, Equinova is the main shareholder of BFF with 7.58% of the share capital; it is followed by BFF management (CEO, five executives with strategic responsibility, and their closely related persons) with 5.49%. The remaining 86.93% is floating, which includes treasury shares.

At June 30, 2021 the number of treasury shares held by the Bank amounted to 279,294.

Acquisition of DEPObank - Banca Depositaria Italiana S.p.A. Merger by incorporation into BFF Bank S.p.A.

On March 1, 2021 Banca Farmafactoring S.p.A. completed the closing of the acquisition transaction. ("BFF") of DEPObank – Banca Depositaria Italiana S.p.A. ("DEPObank") and subsequent merger by incorporation. On March 5, 2021 the Bank also changed its name to BFF Bank S.p.A.

As a result of the closing, BFF

i. completed the purchase of approximately 76% of the share capital of DEPObank from the shareholders thereof, including the shareholder of reference Equinova UK HoldCo Limited ("Equinova"), and

ii. entered into the relative merger deed with DEPObank, through which, effective March 5, 2021, the merger by incorporation was finalised (with the consequent exchange into BFF Bank shares of the remaining approximately 24% of the share capital of DEPObank, and related increase in the share capital of BFF Bank). Following this capital increase, Equinova holds 7.6% of the share capital of the new "combined entity".

With the merger by incorporation of DEPObank S.p.A. into BFF Bank S.p.A., the largest specialised finance operator in Italy was born, with a specific focus on securities services, payments, factoring services and the management of trade receivables from the Public Administration.

To ensure full continuity and efficiency, DEPObank's business activities have been merged into an independent division within BFF.

The BFF Group has more than 860 employees and is active in Italy, Spain, Portugal, Poland, Slovakia, the Czech Republic, Greece, Croatia and France.

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 the aforementioned accounting standard, the Bank has started the process of allocating the Purchase Price of DEPObank S.p.A. (so-called Purchase Price Allocation - PPA), and as at June 30, 2021 recorded a provisional badwill of €163.4 million as per the analyses carried out in the preliminary pre-acquisition investigation phase as well as the additional audits – which are still ongoing – after the Company's acquisition.

An analysis is still ongoing regarding the determination of the fair value of the assets of the incorporated company with the aid of an external evaluator. Note that the International Accounting Standard of Reference provides that the accounting for a business combination can be made on a provisional basis by the end of the year in which the combination is effected, but must be perfected within 12 months of the acquisition date.

In accordance with IFRS 3, each business combination requires the identification of an acquirer. The latter must be identified in the entity that obtains control of another entity or group of businesses. The acquisition, and therefore the first-time consolidation of the acquiree, is accounted for on the date in which the acquirer obtains effective control of the business or the assets acquired. When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.

The consideration transferred in a business combination is measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed, and the equity instruments issued by the acquirer in exchange for control.

Business combinations are accounted for using the “acquisition method”, which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.

Inspection of the Bank of Italy Supervisory Authority

Note that on March 8, 2021 the Bank of Italy initiated an inspection of the Banking Group pursuant to articles 54 and 68 of Italian Legislative Decree no. 385/83, as subsequently amended (the "TUB").

The Bank is awaiting the inspection report.

Ratings of BFF Bank S.p.A.

On April 21, 2021 Moody's:

- increased the Long-term Bank Deposit rating of BFF Bank S.p.A. to “Baa2” from “Baa3” with a stable outlook (from positive);
- increased the Bank's Baseline Credit Assessment ("BCA") from "Ba3" to "Ba2", to reflect the agency's opinion that, following the acquisition of DEPObank - Banca Depositaria Italiana S.p.A. (“DEPObank”), BFF will continue to generate high returns while maintaining a low-risk asset portfolio. Moody's recognises that the acquisition of DEPObank results in a benefit to BFF's funding and liquidity profile, as the Bank has obtained access to a broad deposit base and a high amount of liquid assets;
- decreased the Long-term Issuer rating to "Ba2" from "Ba1", with a Stable outlook (from Developing), due to the lower proportion of senior debt at a consolidated level compared to the total of banking activities, a direct and mathematical consequence of the greater size of the balance sheet following the merger of DEPObank;
- changed the long-term rating outlook to Stable, to reflect the agency's view that BFF will maintain high asset quality, good profit generation and a strong funding profile over the next 12-18 months. Moody's also believes that compared to other Italian commercial banks BFF is less exposed to the recessionary risks deriving from the pandemic caused by the Coronavirus thanks to its business model.

In summary, Moody's ratings of BFF are as follows:

- Long-term Issuer rating: "Ba2", outlook Stable;
- Long-term Bank Deposit rating: "Baa2", outlook Stable;
- Short-term Bank Deposit rating: "P-2";
- BCA: "Ba2".

Note also that on March 10, 2021 S&P Global Ratings declared that it had withdrawn its "BB-/B long- and short-term issuer credit ratings" on DEPObank following the merger with the BFF Group, which took place on March 1, 2021. At the time of withdrawal the ratings on DEPObank were listed on CreditWatch with positive opinions.

Risks, uncertainties and impacts of the COVID-19 epidemic

Material events in 1H 2021 include the continued emergence and spread of COVID-19 (hereinafter the "Coronavirus"), which in the first weeks of the previous year initially affected China, to then spread to other countries, with repercussions for their economic activity.

These factors of instability, which manifest to a significant degree, had a considerable impact on Italy's future growth prospects, with repercussions for the economy at large and financial markets, as a result of decisions taken by government authorities to contain the spread of the epidemic.

The current state of global emergency precipitated by Covid-19 represents a factor of instability that generally has a considerable impact on the macroeconomic scenarios of the countries in which the BFF Group operates and their GDP growth prospects as a result of the restrictive containment measures put in place by the public authorities. At the same time, the various European governments have implemented a series of measures in support of the economy, including injections of liquidity into the system.

However, in relation to the Bank's business, the impacts are believed to have been contained in this first quarter and may be summarised as follows:

- a slowdown in the process of developing new business relationships, which, given the characteristics of the service offered, requires intense, extended communications efforts; this process was thus adversely impacted, once again, by remote working conditions;
- an acceleration in collections of more recent invoices, driven by the considerable liquidity in the system, which was channelled to payment of those debt positions that presented lesser complexity (i.e., generally, more recent invoices);
- positive effects in the Securities Services area due to the growth in assets under management in Italy, leading to a positive start in 2021, with assets growing by 2.0% at the end of March compared to the end of 2020. The increase was achieved partly as a result of the appreciation of the markets and partly thanks to the increase in net inflows, amounting to almost €30 billion;
- disparate effects in the area of Payments due to the different dynamics that COVID-19 has had on the various activities and consequently on the various services offered by the Group: positive in the area of interbank processing with a growth of 10% compared to 1H20 and 8% compared to 1H21, partially positive in the card area where there was a limited recovery in low retail, travel and tourism spending, negative as expected in the area of cheques and bills.

In light of the BFF Group's business model and the nature of its risk counterparties, the COVID-19 epidemic did not entail changes to the model for determining expected losses. However, actions were taken starting from last year resulting in an update by the Bank, as the Parent Company, of its macroeconomic scenarios to include the effects of the pandemic within ECL estimates (for further details, please see the paragraph "IFRS 9 - Update to reflect the COVID-19 financial crisis"). For information on the moratoria granted, please see the paragraph "Contractual amendments due to Covid-19".

Following is information on topics and measures undertaken during the first half of 2021:

- Business continuity: the Group has continuously monitored the situation and its operations have been guaranteed without any critical issues. In this context, particular attention has been paid to operational risks, with appropriate measures to guarantee operations. To date there have not been any business continuity issues. In fact, the IT structure was already reinforced last year. Moreover, the acquisition of DEPObank in early March was among the significant transactions in the first half of the year.

  Staff are now fully operational, working both remotely and in person, alternating groups, and are equipped with the tools needed to telework. The services provided by suppliers and outsourcers have not suffered any deterioration in terms of quality or quantity, nor has service been disrupted. Any deterioration in the quality of the service – which in any case is not able to compromise the Group's operations – is in fact subject to tracking and evaluation/resolution in a specific internal application.

- Commercial aspects: with regard to the Factoring and Lending BU, note that the COVID-19 pandemic affected all the countries that the Group operates in offering non-recourse factoring and/or customer financing. The contagion hit the Czech Republic, Portugal, Spain, Croatia, France and Slovakia hardest. Overall, the Group continued to operate throughout the emergency, guaranteeing complete efficiency to existing and potential customers. The restrictive measures put in place due to the pandemic have had a significant impact on credit risk, but the Group has suffered relatively little as the main customers are large companies or multinationals. In this context, the Bank has also encountered some difficulties in developing new business relationships since visits to customers have not been possible. The inflow of liquidity to local governments has also accelerated payments of the most recent invoices. To the contrary, there have been lower collections of late payment interest, but with higher rates of success. With regard to legal activities, however, note that limitations were suspended in all countries during 2020 (e.g. limitations, lapse, nullity, unenforceability).

  With regard to the Payment BU there are important signs of recovery, especially in the sector of interbank mediation services (e.g. transfers and collections) and collection and payment of corporate customers and PPAA. However, the effects of the COVID-19 pandemic continue to limit growth – even at a system level – of payment transactions whose instruments depend on an "in-person" logic (e.g. payments with cards, cheques, etc.).

  With regard to the Securities Service BU, the first half of 2021 was not negatively influenced by the pandemic, and customer assets (both fund services and global custody) maintain a positive trend.

  With regard to the activity of the custodian bank, the net inflows of mutual funds and pension funds also showed a higher growth trend than in the pre-COVID period. Specifically, compared to the first half of 2020 fund assets increased significantly, recovering all the losses of the financial markets related to the pandemic. With regard to commercial developments, we note a positive trend in the half-year in AIF Funds, whose closed commercial initiatives recorded growth compared to the negotiations closed in the same period of 2020. As for Pension Funds, the pandemic and the massive use of teleworking led to a sharp slowdown in the publication of tenders to award Custodian services, so the commercial opportunities in this area have focused on value-added services (Look Through, reporting, Covip reports).

- Liquidity: to deal with the continuing health emergency, the Group has maintained the necessary measures to monitor and control the liquidity position. The Parent Company:
  (i) performs more frequent and more detailed stress analyses as well as with increasing and variable impacts,
  (ii) maintains a significant share of assets freely available to meet unforeseen liquidity needs, also thanks to the contribution deriving from the operation concluded during the month of March 2021 with DEPObank,
  (i) monitors the markets, including through continuous comparison with market operators and related banks, and
  (ii) continues to closely monitor the collection trends of Public Administration debtors.
- Capital requirements: There are no particular impacts on Own Funds and regulatory requirements following the Covid-19 health emergency. Capital ratios in the first half of the year are above the minimum required by the Regulator. As at June 30, 2021, the capital ratios CET1, Tier 1 Capital Ratio and Total Capital Ratio are 18.6%, 18.6% and 23%, respectively.
- The health emergency has not affected lease contracts (IFRS 16), actuarial gains/losses related to the severance indemnity fund (IAS 19) and the conditions of accrual of share-based payments (IFRS 2).

Contractual amendments due to COVID-19

In line with the EBA guidance of December 2, 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID-19 crisis", the Group, through contractual agreements, has granted some of its counterparties moratoria of a strictly voluntary character. The amendments related solely to deferral of principal amounts, without any amendments to interest rates. Moreover, no reduction in the Group's credit exposures was foreseen in terms of either principal or interest. The amendments were considered non-substantial and therefore did not result in the derecognition from the balance sheet of the positions subject to moratoria.

All the counterparties, for a total amount of €3.0 million that benefited from moratoria are based in Poland, Slovakia and the Czech Republic and are primarily represented by corporate clients (approximately 34%), public-sector entities (approximately 33%) and retail clients (approximately 32%). Compared to December 31, 2020 there was an increase of about €98 thousand.

Statutory audit

The Shareholders' Meeting of Banca Farmafactoring S.p.A. (now BFF Bank S.p.A.) held on April 2, 2020 appointed the auditing firm KPMG S.p.A. to audit the financial statements from 2021 to 2029, pursuant to the provisions of article 2409-bis of the Italian Civil Code and Italian Legislative Decree 39/2010.

A.2 - MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

With the exception of the following, these condensed half-yearly consolidated financial statements were prepared using the same accounting policies already in use for the preparation of the annual consolidated financial statements at December 31, 2020, in accordance with IAS 1 and the instructions contained in Bank of Italy Circular no. 262 of December 22, 2005, as amended. These accounting policies include the main criteria for recognising, classifying, measuring and derecognising the main assets and liabilities as well as for recognising revenues and costs, is provided below along with other information.

Accounting standards, amendments and interpretations effective from 2021

The following standards, interpretations and amendments are applicable from 2021:

- Interest rate benchmark reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). As a result of the IBOR reform process, the IASB Board has launched a project divided into two distinct phases:
  - **Phase 1 completed in September 2019 (entry into force: from January 1, 2020)**: the objective of the IASB Board was to introduce mandatory temporary exceptions to the general hedge accounting model in order to avoid the interruption of hedging relationships due to uncertainties about the timing and amount of future cash flows during the transition phase to the new benchmarks;
  - **Phase 2 completed in August 2020 (entry into force: January 1, 2021)**: the objective of the IASB Board was to insert some practical expedients and some facilitations in order to limit the accounting impacts deriving from the reform of the IBORs.
- COVID-19-related rent concessions (Amendment to IFRS 16):
  Given the significant increase in rent concessions following the COVID-19 pandemic and the complexity of their accounting treatment, which is based on a preliminary analysis of contractual clauses and applicable regulations, the IASB Board amended IFRS 16 by inserting a practical expedient that simplifies the accounting of rent concessions by lessees only.

The Group took into consideration the aforementioned changes introduced by the IASB from January 1, 2021, not seeing significant impacts on the related accounts.

Accounting standards, amendments and interpretations effective from 2021 relating to the acquisition of DEPObank

Financial assets measured at fair value through profit or loss

Classification criteria

This category includes financial assets other than those classified as financial assets measured at fair value through other comprehensive income or as financial assets measured at amortised cost. Specifically, this item includes:

- financial assets held for trading;
- financial assets with obligatory fair value measurement, represented by the financial assets that do not meet the requirements for measurement at amortised cost or fair value through other comprehensive income. These are financial assets whose contractual terms do not exclusively provide for capital repayments and interest payments on the amount of capital to be repaid, or which are not held in connection with a "Hold-to-Collect" business model, or whose objective is a "Held-to-Collect-and-Sell" business model;
- financial assets carried at fair value, namely financial assets defined in this way at the time of initial recognition and where the requirements are met. In such cases, on recognition an entity can irrevocably designate a financial asset as being measured at fair value through profit or loss if and only if by so doing it would eliminate or significantly reduce an inconsistency in measurement.

This item therefore includes:

- debt instruments and loans that are included in an other/trading model (therefore not related to the "hold-to-collect" or "held-to-collect-and-sell" business models) or that fail the contractual characteristics test (SPPI test);
- equity instruments – which cannot be qualified as controlling or connected – for which the designation at fair value through comprehensive income has not been made upon initial recognition;
- UCI units.

The item also includes derivatives, recognised among financial assets held for trading, which are represented as assets if the fair value is positive.

In accordance with the general rules in IFRS 9 regarding the reclassification of financial assets (except for equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets measured at fair value through profit or loss to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through comprehensive income). The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of initial recognition, for credit risk stage assignment for impairment purposes.

Recognition criteria

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, on the date of disbursement for loans, and on the date of subscription for derivatives.

Financial assets at fair value through profit or loss are initially recorded at fair value, normally represented by the price of the transaction, without considering the costs or income of the transaction directly attributable to the instrument itself.

Measurement criteria

After initial recognition, financial assets measured at fair value through profit or loss are measured at fair value. The effects of applying this measurement criterion are charged to the income statement. To determine the fair value of financial instruments listed on an active market, market prices are used. In the absence of an active market, commonly adopted estimation and valuation models are used. These take into account all the risk factors related to the instruments and are based on observable market data such as: the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, the recorded values of recent comparable transactions, etc. For equity instruments and derivatives not quoted on an active market, the cost criterion is used to estimate the fair value only on a residual basis and in a limited number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

Specifically, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

Equity investments in joint ventures and associate companies

Recognition criteria

Investments in joint ventures and associates are recorded in the financial statements at cost, equal to the fair value of the consideration paid, adjusted for impairment.

This item includes interests in joint ventures and associates. Companies are considered joint ventures if control is shared between the Group and one or more other parties on a contractual basis or when the unanimous consent of all the parties who share control is necessary for decisions concerning significant activities. Companies in which the Bank holds 20% or more of the voting rights and companies for which the administrative, financial and management choices are considered to be subject to significant influence are considered to be associates due to the legal and factual links.

In establishing the existence of control over joint ventures and significant influence over associates, there are no situations to report where it was necessary to carry out particular assessments or make significant assumptions.

Measurement criteria

The Group uses the equity method to measure these investments, adjusting the initial value to reflect changes in the Group's significant net assets since the purchase date. At each balance sheet date or for interim financial statements, for equity investments the existence of objective evidence that the carrying amount of the assets may not be fully recoverable is verified. The impairment testing process requires checking for impairment indicators and determining the impairment loss, where applicable.

Impairment indicators may essentially be divided into two categories:

- qualitative indicators such as losses or a significant deviation from the budgeted targets or those of long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, or a rating downgrade of more than two notches by a specialised company;
- quantitative indicators, represented by a reduction in fair value below book value, by a book value of the equity investment in the separate financial statements that exceeds the book value in the consolidated financial statements of the net assets and goodwill of the subsidiary or by the distribution by a subsidiary of a dividend in excess of its total income.

The presence of impairment indicators implies the recognition of a write-down to the extent that the recoverable value is less than the carrying amount. The recoverable value is the greater of the fair value net of costs to sell and the value in use. The value in use is the present value of the expected cash flows from the asset. It reflects the estimate of the expected cash flows from the asset, the estimate of possible changes in the amount and/or timing of the cash flows, the time value of money, the price to remunerate the risk of the asset and other factors that may influence market participants' valuation of the asset's expected cash flows.

Derecognition criteria

Equity investments are derecognised when the contractual rights to the cash flows deriving from the assets expire, or when the investment is sold with a substantial transfer of all the related risks and benefits.

Tangible assets

Tangible assets represented by the right of use of assets under lease contracts

Under IFRS 16, a lease is a contract or part of a contract that transfers the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A financial lease essentially transfers all the risks and rewards arising from ownership of the asset to the lessee (user). Otherwise, the contract is classified as an operating lease. The inception of a lease is the date from which the lessee is authorised to exercise its right to use the leased asset. It coincides with the date of initial recognition of the lease and even includes rent-free periods, i.e. contractual periods when the lessee uses the asset free of charge. At the inception of a contract, the lessee recognises:

- an asset consisting of the right of use of the asset underlying the lease contract. The asset is recognised at cost, calculated as the sum of:
  - the lease liability;
  - lease payments made on or before the effective date of inception of the lease (net of lease incentives already received);
  - initial direct costs, and
  - any (estimated) costs to dispose of or restore the asset underlying the lease;
  - a financial liability arising from the lease contract (lease liability) corresponding to the current value of payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise, the marginal financing interest rate of the lessee is used.

Where a lease contract contains "non-lease components" (e.g., the provision of services, such as routine maintenance, to be accounted for in accordance with IFRS 15), the lessee must separately account for "lease components" and "non-lease components" and distribute the contract price between the various components on the basis of their respective prices.

The lessee may choose to recognise lease payments:

- directly by expensing them to the Income Statement, on a straight-line basis throughout the term of the lease contract;
- according to another systematic method representative of the way in which the economic benefits are received, in the case of short-term leases (equal to or less than 12 months) that do not include an option for the lessee to purchase the leased asset and of leases where the underlying asset is of low value.

The lease term is determined taking into account:

- periods covered by an extension option, where the exercise of the extension option is reasonably certain;
- periods covered by an option to terminate the lease, if the exercise of the termination option is reasonably certain.

During the term of the lease contract, the lessee must:

- measure the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for in accordance with the provisions of IAS 36 - Impairment of Assets, adjusted to take account of any restatement of lease liabilities;

- increase the liability arising from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or alternatively at the marginal financing rate and reduce it for payments of principal and interest.

In the event of changes in lease payments, the liability must be restated; the impact of the restatement of the liability is accounted for with a contra-entry to the right of use asset.

The right of use deriving from lease contracts is derecognised at the end of the lease.

Financial liabilities held for trading

Recognition criteria

Recognition and measurement criteria are similar to those described for "Financial assets classified as held for trading".

Classification criteria

Financial liabilities held for trading include derivative contracts held for trading with negative values and liabilities related to technical overdrafts on securities.
All trading liabilities are valued at fair value with the allocation of the result of the measurement to the income statement.

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.

Foreign currency transactions

Recognition criteria

Transactions in foreign currency are converted upon initial recognition into the functional currency by applying the exchange rate in force on the date of the transaction to the amount in foreign currency.

Measurement criteria

At each balance sheet closure or interim accounting situation, balance sheet items in foreign currency are valued as follows: monetary items are converted at the current exchange rate at the closing date;

- non-monetary items measured at historical cost are converted at the exchange rate on the transaction date;
- non-monetary items measured at fair value are converted using the exchange rate in effect on the date the fair value was determined.

The exchange differences deriving from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of the previous financial statements, are recognised in the Income Statement of the period in which they arise, while those relating to non-monetary elements are recorded in the Shareholders' Equity or in the Income Statement in line with the method of recording the profits or losses that include this component.

Costs and revenues in foreign currencies are recognised at the exchange rate when they are accounted for, or, where in the process of accruing, at the exchange rate in effect at the reporting date.

Authorization to purchase and dispose of treasury shares and revocation, for the part not yet executed, of the authorization granted by the Shareholders' Meeting on April 2, 2020

The Bank's Ordinary Shareholders' Meeting of March 25, 2021, after examining the relevant illustrative Report by the Board of Directors, decided to revoke the previous authorization, granted by the Shareholders' Meeting of April 2, 2020, for the part not yet executed, and to authorize the Board of Directors to proceed with the purchase of BFF ordinary shares, on one or more occasions and for a period of 18 months from the date of the Shareholders' Meeting, in pursuit of the purposes set out in the aforementioned illustrative Report; the maximum number of shares to be purchased is 8,561,523, representative of 5% of the Bank's capital (taking accounting of the treasury shares already in portfolio).

At June 30, 2021, the Bank held 279,294 treasury shares.

Resolution to increase the share capital of April 2, 2020 and January 29, 2021

The Extraordinary Shareholders' Meeting of April 2, 2020, having examined the relevant illustrative Report by the Board of Directors, among other things resolved:

- To increase share capital free of charge, on a divisible basis, to be executed in multiple tranches by December 31, 2028, by issuing a maximum of 6,824,108 ordinary shares, in the maximum total amount of €5,254,563.16, to be allocated solely to capital, through a corresponding amount drawn on the reserve for retained earnings, for needs associated with the Company's remuneration and incentive policies, including the "Banca Farmafactoring Banking Group Stock Option Plan - 2020 SOP";

The Extraordinary Shareholders' Meeting of January 29, 2021 resolved to approve the project for the merger by incorporation of DEPObank in the manner set out in the project itself, and therefore among other things through an increase in the share capital of BFF, upon the purchase of DEPObank, for €10,813,652 to the selling shareholder Equinova through the issue of 14,043,704 shares with no expressed nominal value. The increase in the share capital was executed on March 2, 2021.

Use of estimates and assumptions in the preparation of financial reporting

As part of the preparation of these condensed half-yearly consolidated financial statements, management had to make valuations and estimates that influence the application of accounting standards and the amounts of assets, liabilities, costs and revenues recognised in the financial statements.
The significant assessments of management in the application of the Group's accounting standards and the main sources of estimation uncertainty are unchanged from those already illustrated in the Bank's last annual financial statements.

In accordance with IFRSs, the development of estimates by management is a prerequisite for the preparation of the half-yearly consolidated financial statements at June 30, 2021. 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, including in light of the current COVID-19 ("Coronavirus") emergency situation, the current values recognized in the half-yearly consolidated financial statements at June 30, 2021 may differ, even significantly, owing to a change in the subjective assessments.
Estimates and assumptions are reviewed on a regular basis. Any changes resulting from such reviews are recognized in the period in which the review is made, provided that the review involves only that period. Should the review involve both current and future periods, the change is recognized in the period in which the review is made, and in the related future periods.

The risk of uncertainty in estimates is essentially related to:

- 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;
- Any impairment of equity investments and recorded goodwill; in light of the results at June 30, 2021, there are no trigger events that could impact the valuation of equity investments and goodwill recorded in the financial statements or in the half-yearly accounting situation.

Measurement of impairment losses on financial assets

The entry into force of the new rules on default from January 1, 2021 did not have any negative effect in terms of the classification of non-performing credit exposures. In view of the unchanged credit quality of the portfolio, this result was made possible thanks to the credit strategies adopted by BFF Banking Group, strategies that BFF has promoted within the Banking Group by carefully following the credit assessment, management and recovery processes.

With regard to the application of the new definition of default, the Supervisory Authority issued specific guidance making it mandatory to use the invoice due date as the starting date for the calculation of the due date for non-recourse factoring exposures. Note that at the end of 2020, with a view to approximating the provisions on the new definition of default, in compliance with the aforementioned communication the Group adopted the invoice due date (with an original expiry of less than three months) as starting date instead of the estimated internal collection date for counting the overdue amount for the non-recourse factoring product, aligning itself with what has been done by other intermediaries.

This approach, taken from December 31, 2020, led to considering the preferential weighting of 20% envisaged by art. 116, paragraph 3, of the CRR for all exposures to public sector entities with an original expiry of less than three months. The effect of this change – until then, prudentially, not adopted by BFF Banking Group in contrast with other market operators – was a lower absorption of capital, with a consequent improvement in capital ratios. This amendment made it possible to align the calculation of RWAs with the approach adopted by the other intermediaries and to unlink the calculation of capital absorptions for exposures to public sector entities with an original duration of three months or less from the assessments made by the credit rating agencies of the countries that the Group operates in.

IFRS 9 - Update to reflect the Covid-19 financial crisis

The annual update of the risk parameters (PD and LGD) allows taking into account the evolution of the effects of COVID-19 within the estimates of expected losses. The Baseline, High Growth and Mild Recession forecasts were updated in June 2021 and provide the forecasted default rates for the 20 quarters following the download date. These scenarios provided by the external infoprovider are essentially similar but with a positive growth trend compared to those of last June: after a contraction of the indicators measuring the economy's health, 2020, 2021 and the following years show an economic recovery driven first by the vaccination campaign that allowed reducing the restrictive measures on commercial activities and second by the halting of redundancies for most of 2021. However, the uncertainty in the labour market for the coming years is tending to keep the unemployment rate in line with last year's estimates, when the pandemic was beginning to show its negative effects. For these reasons, the return to a situation of normality or even to a pre-COVID-19 situation is not expected before the middle of the decade. The overall growth outlook of the economic situation is also reflected in the ratings provided by the infoprovider, and consequently in the values of PD and LGD, which reduce the generic credit adjustments compared to last year. Moreover, the Risk Management Function compared the macroeconomic scenarios of the external provider with those provided by the Supervisory Authority (European Central Bank) in June 2021. The results of the analyses show a substantial alignment between the scenarios, and in some cases those provided by the infoprovider are more cautious. However, the impacts of COVID-19 have not entailed – and are not expected to entail – changes to the model underlying the estimation of the IFRS 9 ECL.

IFRS 3 - Business combinations

The accounting standard for business combinations is IFRS 3 (revised).

The transfer of control of a business (or an integrated set of activities and assets, conducted and managed by the same party) constitutes a business combination.

In accordance with IFRS 3, each business combination requires the identification of an acquirer. The latter must be identified in the entity that obtains control of another entity or group of businesses.

The acquisition, and therefore the first-time consolidation of the acquiree, must be accounted for on the date in which the acquirer obtains effective control of the business or assets acquired. When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.

The consideration transferred in a business combination must be measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed, and the equity instruments issued by the acquirer in exchange for control.

In the transactions that provide for payment in cash (or when payment is expected by means of financial instruments similar to cash) the price is the agreed consideration, possibly discounted if an instalment payment is expected in a period longer than the short term. If the payment is made through an instrument other than cash, therefore through the issue of equity instruments, the price is equal to the fair value of the means of payment net of the costs directly attributable to the capital issue transaction.

Adjustments subject to future events are included in the consideration for the business combination at the acquisition date if envisaged by the agreements and only if they are probable, reliably determinable and realised within 12 months of the date of acquisition of control, while compensation for reduction in the value of the assets used is not considered as already considered either in the fair value of the equity instruments or as a reduction in the premium or increase in the discount on the initial issue in the case of issuance of debt instruments.

The costs related to the acquisition are the expenses incurred by the acquirer to complete the business combination.

The acquirer must account for the costs related to the acquisition as expenses in the periods in which these costs are incurred and the services are received, with the exception of the costs of issuing shares or debt instruments that must be recognised in accordance with IAS 32 and IFRS 9.

Business combinations are accounted for using the "acquisition method", which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.

Moreover, for each business combination, any minority stake in the acquired company can be recognised at fair value (with a consequent increase in the consideration transferred) or in proportion to the share of the minority stake in net identifiable assets of the acquired companies.

The excess between the consideration transferred (represented by the fair value of the assets transferred, the liabilities incurred or the equity instruments issued by the acquirer), possibly supplemented by the value of the minority interests (determined as set out above) and the fair value of the interests already held by the acquirer, and the fair value of the assets and liabilities acquired must be recognised as goodwill. However, if the latter are higher than the sum of the consideration, minority interests and fair value of the shares already held, the difference must be charged to the income statement.

The accounting for a business combination can be made on a provisional basis by the end of the year in which the combination is effected, but must be perfected within 12 months of the acquisition date.

Transactions aimed at controlling one or more companies that do not constitute a business activity or temporary control or, finally, if the business combination is carried out for reorganisation purposes, therefore between two or more companies or business activities that are already part of BFF Banking Group, and which does not involve a change in the control structures regardless of the percentage of minority rights before and after the operation (so-called business combinations of companies under common control) do not constitute business combinations.

A.4 - INFORMATION ON FAIR VALUE

Qualitative information

IASs/IFRSs require that financial instruments classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through comprehensive income" and "Financial liabilities held for trading" be measured at fair value. The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal transaction between market operators (in other words, not a forced liquidation or sale below cost) on the measurement date. The fair value is a market measurement criterion not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria in terms of the reliability of the fair value according to the degree of discretion applied by entities, giving priority to the use of observable market parameters that reflect the assumptions that market participants would use in valuing (pricing) an asset/liability. Three different input levels are identified:

- Level 1: inputs represented by (unmodified) quoted prices in active markets for identical assets or liabilities, which can be accessed on the measurement date;
- Level 2: inputs other than quoted prices included in Level 1 that are directly (as in the case of prices) or indirectly (i.e. as derived from prices) observable for the assets or liabilities to be measured;
- Level 3: unobservable inputs for the asset or liability.

The choice between the aforementioned methods is not optional since they must be applied in hierarchical order. Absolute priority is given to the official prices available in active markets for the assets and liabilities to be measured (Level 1) or for assets and liabilities measured using valuation techniques based on observable market parameters other than the prices of the financial instrument (Level 2), and lower priority is given to assets and liabilities whose fair value is calculated using valuation techniques based on parameters that are not observable in the market and are therefore more discretionary (Level 3). In compliance with the rules described above, the market price recorded at the end of the reporting period is used for instruments quoted in active markets (Level 1). The fair value of financial instruments not listed on active markets has been determined by using valuation techniques based mainly on the discounting of cash flows. The valuation techniques used incorporate all the factors considered by the market when setting the price and are based mainly on observable market inputs (Level 2).

Specifically:

- bonds are measured by discounting the future cash flows envisaged in the contractual plan of the security, using the market rates adjusted for counterparty risk;
- derivative contracts, consisting of overnight interest rate swaps (OISs), are measured based on market valuation models using market rates as the prevailing parameters, adjusted for counterparty risk. Where relevant, this risk includes both changes in the counterparty's creditworthiness and changes in the issuer's creditworthiness (own credit risk);

- for equities, there is a hierarchy and an order of application of measurement methods that considers, first of all, any transactions in the security recorded over a sufficiently short period of time compared to the valuation period, comparable transactions of companies operating in the same sector and the application of analytical financial, income-based and equity-based valuation methods. The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market or subjective conditions of the issuer of the financial instrument. The Bank does not hold any Level 3 financial instruments, except for those of an immaterial value.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

The valuation techniques used are adapted to the specific characteristics of the assets and liabilities being valued. The choice of inputs is aimed at maximising the use of those that can be observed directly on the market, minimising the use of internal estimates.

With regard to Level 2 financial instruments, mainly represented by SWAPS and loans to customers and to banks measured at amortised cost, the valuations as at June 30, 2021 were based on interest rates and volatility factors derived from the market. In view of the bank's limited dealings in the over-the-counter derivatives segment and its dealings mainly with the most relevant counterparties based on risk-mitigating collateralisation agreements, the adjustments made to the measurement of Level 2 instruments to incorporate counterparty risk were not significant. With regard to Level 2 UCI units, the value is determined using the official NAV.
The only instrument classified as Level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme.

A.4.2 Processes and sensitivity of valuations

As mentioned above, the only instrument classified as Level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme. The fair value estimate prepared by a major consulting firm received on January 29, 2021 has been adopted.

A.4.3 *Fair value* hierarchy

At June 30, 2021, as in 2020, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information

(All amounts are stated in thousands of euros)

A.4.5 *Fair value* hierarchy

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

(Values in thousand euros)

	Total 06.30.2021			Total 12.31.2020		
Financial assets / liabilities measured at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets measured at fair value through profit or loss, of which						
a) financial assets held for trading	8	4,364				
b) financial assets carried at fair value						
c) other financial assets subject to mandatory fair value measurement		33,294	107			
2. Financial assets measured at fair value through other comprehensive income	144	83,417			147	17
3. Hedging derivatives		4,175				
4. Tangible assets						
5. Intangible assets						
Total	**152**	**125,250**	**107**	**0**	**147**	**17**
1. Financial liabilities held for trading		544				
2. Financial liabilities carried at fair value		-				
3. Hedging derivatives		658				
Total	**0**	**1,202**	**0**	**0**	**0**	**0**

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

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

(Values in thousand euros)

Assets and liabilities not valued at fair value or valued at fair value on a non-recurring basis	06.30.2021				12.31.2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortized cost	9,626,631	5,204,537	0	4,482,597	5,780,579	1,739,407	0	4,098,529
2. Tangible assets held for investment								
3. Non-current assets and groups of assets held for disposal								
Total	**9,626,631**	**5,204,537**	**0**	**4,482,597**	**5,780,579**	**1,739,407**	**0**	**4,098,529**
1. Financial liabilities measured at amortised cost	9,393,105	188,666	0	9,210,870	5,415,184	771,810	0	4,606,276
2. Liabilities linked to assets held for sale								
Total	**9,393,105**	**188,666**	**0**	**9,210,870**	**5,415,184**	**771,810**	**0**	**4,656,289**

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 - INFORMATION ON THE "DAY ONE PROFIT/LOSS"

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

Part B - Consolidated Balance Sheet

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

ASSETS

Section 1 - Cash and cash equivalents - Item 10

€787,469 thousand

1.1 Cash and cash equivalents: breakdown

As of June 30, 2021, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €787.3 million.

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

€37,773 thousand

This item is broken down as follows:

- Financial assets held for trading of €4,372 thousand, which includes the positive fair value of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Group is exposed to;
- Other financial assets subject to mandatory fair-value valuation of 33,401, which mainly include the "UCI units" mainly managed by the "Italian SGR Investment Fund" and, to a lesser extent, by the "Atlas Fund". The value of these shares has been updated to the latest available NAV made available to these funds on December 31, 2020. Finally, the item also includes Banca Carige's holding in the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) as assessed in the last fair value report sent by the FITD on January 29, 2021 based on the data as at December 31, 2020.

2.1 Financial assets held for trading: commodity breakdown

(Values in thousand euros)

Items/values	Total 06.30.2021			Total 12.31.2020		
	L1	L2	L3	L1	L2	L3
A. On-balance-sheet assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities	7					
2. Equity securities	1					
3. UCI units		1				
4. Loans						
4.1 Repurchase agreements						
4.2 Others						
Total (A)	**8**	**1**	**0**	**0**	**0**	**0**
B. Derivatives						
1. Financial derivatives						
1.1 held for trading		4,363				
1.2 connected to the fair value option						
1.3 others						
2. Credit derivatives						
2.1 held for trading						
2.2 connected to the fair value option						
2.3 others						
Total (B)	**0**	**4,363**	**0**	**0**	**0**	**0**
Total (A+B)	**8**	**4,364**	**0**	**0**	**0**	**0**

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

(Values in thousand euros)

Items/values	Total 06.30.2021	Total 12.31.2020
A. On-balance-sheet assets		
1. Debt securities		
a) Central Banks		
b) Public administrations	4	
c) Banks	3	
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	1	
a) Banks		
b) Other financial companies:		
of which: insurance companies		
c) Non-financial companies	1	
d) Other issuers		
3. UCI units	**1**	
4. Loans		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total A	**9**	**0**
B. Derivatives		
a) Central counterparties		
b) Others	4,363	
Total B	**4,363**	**0**
Total (A+B)	**4,372**	**0**

2.5 Other financial assets subject to mandatory fair-value measurement: commodity breakdown

(Values in thousand euros)

Items/values	Total 06.30.2021			Total 12.31.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. UCI units		33,294				
4. Loans						
4.1 Repurchase agreements						
4.2 Others			107			
Total	**0**	**33,294**	**107**	**0**	**0**	**0**

2.6 Other financial assets subject to mandatory fair-value measurement: breakdown by borrower/issuer

(Values in thousand euros)

	Total 06.30.2021	Total 12.31.2020
1. Equity securities		
of which: banks		
of which: other financial companies		
of which: other non-financial companies		
2. Debt securities		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
3. UCI units	**33,294**	
4. Loans		
a) Central Banks		
b) Public administrations		
c) Banks	107	
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	**33,401**	**0**

Section 3 - Financial assets measured at fair value through other comprehensive income - Item 30

€83,561 thousand

At June 30, 2021 this item included:

- the stake in the Bank of Italy of €80 million, purchased in March 2021;
- the shares relating to the Visa Class C security equal to €2,619 thousand, not listed, whose fair value is determined by the comparison with Visa Series A listed shares (according to the conversion plan defined in 2016 on the occasion of the integration with Visa Europe);
- other minor investments worth approximately €940 thousand.

During the first half of 2021, the amount attributed to BFF Bank was completely written down as a result of its participation in the Voluntary Scheme of FITD for the actions taken to support Cassa di Risparmio di Cesena (which as at December 31 amounted to approximately €147 thousand).
Also during the first half of the year, the shareholding in Nomisma S.p.A.-Società di Studi Economici was sold, both the share belonging to BFF and the shareholding from the merger with the former DEPObank for a total amount of €67 thousand.

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by commodity type

(Values in thousand euros)

Items/values	Total 06.30.2021			Total 12.31.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities	144	83,417			**147**	17
3. Loans						
Total	**144**	**83,417**	**0**	**0**	**147**	**17**

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

3.2 Financial assets measured at fair value with impact on comprehensive income: breakdown by borrower/issuer

(Values in thousand euros)

Items/values	Total 06.30.2021	Total 12.31.2020
1. Debt securities	**0**	**0**
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	**83,561**	**164**
a) Banks	80,351	
b) Other issuers:		
- other financial companies	2,903	147
of which: insurance companies		
- non-financial companies	307	17
- others		
3. Loans	**0**	**0**
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	**83,561**	**164**

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

€9,626,631 thousand

This item is broken down as follows:

- Receivables due from banks of €911,644 thousand;
- Receivables due from customers of €8,714,987 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Held to Collect (HTC) securities portfolio of €5,144,034 thousand.

Receivables due from banks

€911,644 thousand

4.1. Financial assets measured at amortised cost: commodity breakdown of amounts due from banks

(Values in thousand euros)

Type of operations/Values	Total 06.30.2021						Total 12.31.2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and two	Stage three	of which: purchased or originated impaired	L1	L2	L3
A. Receivables due from Central Banks	**175,213**					**175,213**						
1. Time deposits				X	X	X				X	X	X
2. Mandatory reserve	175,057			X	X	X				X	X	X
3. Repurchase agreements				X	X	X				X	X	X
4. Others				X	X	X				X	X	X
B. Receivables due from banks	**736,431**					**736,431**	**31,078**			**31,078**		
1. Loans	**736,431**					**736,431**	**31,078**					
1.1 Current accounts and demand deposits	305,363			X	X	X	16,323			X	X	X
1.2. Time deposits	8,844			X	X	X	14,755			X	X	X
1.3. Other loans:	422,223			X	X	X				X	X	X
- Reverse repurchase agreements	307,760			X	X	X				X	X	X
- Loans for leases				X	X	X				X	X	X
- Others	114,463			X	X	X				X	X	X
2. Debt securities												
2.1 Structured securities												
2.2 Other debt securities												
Total	**911,644**	**0**	**0**	**0**	**0**	**911,644**	**31,078**	**0**	**0**	**31,078**	**0**	**0**

At June 30, 2021 the item "Receivables due from central banks - Minimum reserves", deriving from the financial statements of the former DEPObank, also includes the amounts deposited in compliance with the reserve requirement of the client banks, for which the Parent Company BFF provides the service on an indirect basis.

This item includes receivables due from banks relating mainly to the Bank's and its subsidiaries' current accounts at the end of the first half of the year and deposits with the national central banks in Spain and Poland.

Specifically, "Current accounts and demand deposits" mainly refer for €298,648 to BFF Bank, for €5,189 to BFF Polska Group and for €1,526 to BFF Finance Iberia.

Restricted deposits consist of €8,845 thousand deposited with Banco de España as CRM (*Coeficiente de Reservas Mínimas*) for deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto, and €156 thousand deposited with the National Bank of Poland (Narodowy Bank Polski) for deposit-taking activities conducted by the Polish branch through Lokata Facto.

The item "Receivables due from banks – Repurchase agreements" refers to contracts governed by Global Master Repurchase Agreements (GMRAs) with other banks.

"Receivables due from banks – Other" consist mainly of operating receivables, i.e. receivables for transactions connected to the provision of services, and in particular of daily positions connected to the provision of payment card settlement services.

This item does not include any impaired assets.

Receivables due from customers

€8,714,987 thousand, including Held to Collect securities of €5,144,034 thousand

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

This item mainly includes loans to customers of €3,571 million (mainly receivables due from debtors in relation to factoring activities) and €5,144 million in debt securities in the HTC portfolio.

BFF Banking Group's receivables due from customers are measured at amortized cost, determined based on the present value of estimated future cash flows.

BFF Bank 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 Bank 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. However, a prudent decision was made to consider, also for 2021, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by Banca Farmafactoring.

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 2021, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF Bank.

BFF Polska Group-a group acquired in 2016-recognizes late payment interest accrued on past due trade receivables when there is reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or when decided by a court of law.

Notwithstanding the minor significance of late payment interest to the total of BFF Polska Group's receivables, as part of the activities to complete the integration of BFF Banking Group's processes, which also includes synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the estimation criteria decided locally by management when BFF Polska Group was listed were adopted. These confirm a substantially full recovery of the late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

The cumulative amount of late payment interest due to BFF Bank (including branches and countries managed in compliance with regulations on the freedom to provide services) and BFF Finance Iberia but not yet collected for non-recourse receivables (so-called Provision for late payment interest) amounted to €701 million, of which only €283 million were recognised in the income statement of the period and in previous periods.

The total net amount of impaired receivables for BFF Banking Group is €90.9 million. Of this amount, €74.5 million relates to non-performing loans (including €68.2 million relating to municipalities and provincial governments in financial distress, of which €5.3 million were purchased already impaired) and €14.3 million to unlikely-to-pay exposures. Past due exposures, referring entirely to BFF Polska Group, amounted to €2.1 million, of which 27% relating to public counterparties. Measurement of such exposures is carried out at the portfolio level since there are no objective indications of individual impairment.

Debt securities classified in the HTC portfolio, equal to €5,144 million, are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement using the effective rate of return.
At June 30, 2021, 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 €5,023 million and fair value of €5,205 million, with a negative difference (before taxes) of around €61 million compared to the carrying amount on the same date, not recognized in the financial statements.

The HTC portfolio consists of government securities purchased to hedge liquidity risk and to optimize the cost of money.
At June 30, 2021, the item also included the HTC portfolio from the merged company DEPObank, which led to a significant increase. At the time of the accounting merger, as required by the revised International Accounting Standard IFRS 3, the entire HTC portfolio recorded in the financial statements of DEPObank was revalued at its fair market value as at February 28, 2021 (at the end of the financial day). The new value of the securities was recorded in BFF Bank's financial statements as the initial recognition value and the new amortised cost was calculated on this basis. The difference between the securities' old value at amortised cost and the new fair value thereof resulted in a positive impact net of the deferred tax effect of approximately €36 million, recorded in the Income Statement as a counterpart to the badwill. This effect will be reabsorbed through the amortised cost mechanism during the years following the closing with consequent lower revenues compared to the value of the amortised cost pre-deal until their maturity (-€29 million in 2021, -€25 million in 2022 and further -€4 million in subsequent years). As at June 30, 2021 the application of this accounting standard generated a negative effect on the Income Statement of €11.6 million before taxes.

4.2 Financial assets measured at amortised cost: commodity breakdown of loans to customers

€8,714,987 thousand

(Values in thousand euros)

Type of operations/values	Total 06.30.2021						Total 12.31.2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
1. Loans	**3,480,069**	**90,884**				**4,539,908**	**3,942,822**	**124,629**	**5,614**			**4,067,451**
1.1 Current accounts	16,744	387		X	X	X	3	1		X	X	X
1.2. Reverse Repurchase agreements	211,150			X	X	X				X	X	X
1.3. Mortgages				X	X	X				X	X	X
1.4. Credit cards and personal loans, including wage assignment loans	663			X	X	X				X	X	X
1.5. Loans for leases	1,665	1		X	X	X	1,937			X	X	X
1.6. *Factoring*	2,258,805	69,263	5,305	X	X	X	2,896,863	104,248	5,614	X	X	X
1.7. Other loans	991,042	21,234		X	X	X	1,044,019	20,380		X	X	X
2. Debt securities	**5,144,034**			**5,204,537**			**1,682,050**			**1,739,407**		
2.1. Structured securities												
2.2. Other debt securities	5,144,034			5,204,537			1,682,050			1,739,407		
Total	**8,624,102**	**90,884**	**5,305**	**5,204,537**		**4,539,908**	**5,624,872**	**124,629**	**5,614**	**1,739,407**		**4,067,451**

This item breaks down as follows:

- Performing factoring amounted to a total of €2,258,805 thousand for BFF Banking Group.

  This included non-recourse receivables purchased as performing, registered under the name of the assigned debtor, with the conditions for derecognition, and measured at amortized cost, worth a total of €1,856,696 thousand for BFF Bank and €262,063 thousand for the subsidiary BFF Finance Iberia.

  Non-recourse receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued and accruing late payment interest is acquired upon purchase.

  Receivables purchased below face value totalled €24,122 thousand.

  Performing recourse and non-recourse factoring of BFF Polska Group totalled €138,743 thousand.

- Other performing loans due from customers amounted to €991,042 thousand. They mainly include:
  - Receivables for accrued late payment interest of about €176,708 thousand, including €151,996 thousand relating to BFF Bank and €24,712 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 €282.7 million late payment interest recognized in the income statement, and referring to the provision existing at June 30, 2021, €176.7 million refers to the item under review, while the remaining amount of €106.0 million was recognized under "factoring";
  - security deposits of approximately €19 million for settlement activities related to the transactions typical of the Securities Services and Banking Payments business areas.
  - Financing activities of BFF Polska Group of €786,516 thousand.
- Reverse repurchase agreements amounting to €211,150 thousand. These are exposures arising from contracts with customers regulated by the Global Master Repurchase Agreement (GMRA).
- Current account credit facilities amounting to €16,744 thousand are for the use of lines of credit granted to funds and asset management companies using the custodian bank services (as part of the services offered by the Securities Services business unit) or by corporate customers to whom collection and payment services are provided (as part of the services provided by the Banking Payments Department).
- Performing finance leases of BFF Polska Group totalled €1,665 thousand.
- BFF Banking Group's net impaired assets amounted to a total of €90,884 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, 2021, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €74,468 thousand, of which €5,305 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €68,237 thousand, accounting for 91.6% of the total.

  Gross non-performing loans amounted to €90,550 thousand. Relevant impairment totalled €16,082 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 €1,302 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €91,852 thousand and relevant adjustments totalled €17,385 thousand.

  With reference to the Bank, at June 30, 2021 total non-performing loans, net of any estimated impairment losses, amounted to €68,965 thousand, of which €68,237 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.
  Specifically, the amount of €5,305 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 Bank are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €17,328 thousand. After estimated impairment losses of €11,852 thousand, they amounted to €5,476 thousand compared to €2,041 thousand at December 31, 2020. This increase is due to the change in status from unlikely-to-pay to non-performing of a position fully covered by a guarantee.

– BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgement made by the intermediary about the unlikelihood that – absent such actions as the enforcement of guarantees – the debtor will fully fulfil (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 instalments).

  At June 30, 2021, gross exposures classified as unlikely to pay amounted to €18,750 thousand, of which €16,802 thousand attributable to BFF Polska Group and €503 thousand to BFF Finance Iberia. The total net amount was €14,319 thousand, relating mainly to BFF Polska Group since the gross exposures of BFF Bank and BFF Finance Iberia were almost entirely impaired.

– Net past due exposures of BFF Banking Group amounted to €2,097 thousand. These refer entirely to BFF Polska Group. 27% of these exposures relate to public counterparties. These consist of exposures with entities for which the conditions for classification as past due impaired exposures are met by presenting one or more credit lines that meet the definition of "Non-performing exposures with forbearance measures" set out in Section V, Part 2, paragraph 262 of the ITS.

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted for a total amount of €3.0 million and are mainly represented by corporate clients (approximately 34%), public-sector entities (approximately 33%) and retail clients (approximately 32%). The main products affected are credit exposures deriving from amounts, accounting for approximately 70%, loans, 17% from loans (MEDLekarz - loans to medical practices), 11% from factoring operations and a residual 2% relating to financial lease operations. Compared to December 31, 2020 there was an increase of about €98 thousand.

Fair value

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

4.4 Financial assets measured at amortised cost: gross amount and total adjustments

(Values in thousand euros)

	Gross value				Total value adjustments			Total partial write-offs (*)
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
Debt securities	5,144,609				576			
Loans	3,463,369		930,684	111,449	1,695	645	20,564	
Total 06.30.2021	**8,607,978**	**0**	**930,684**	**111,449**	**2,271**	**645**	**20,564**	**0**
Total 12.31.2020	**5,466,238**	**0**	**193,425**	**140,935**	**2,972**	**740**	**16,305**	**0**
of which: purchased or originated credit-impaired financial assets	X	X	-	5,317	X	-	12	-

4.4a Loans at amortised cost subject to COVID-19 support measures: gross amount and total adjustments

(Values in thousand euros)

	Gross value				Total value adjustments			Total partial write-offs (*)
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
1 Loans granted in accordance with GL	1,923		845	253				
2. Loans subject to other forbearance measures								
3. New funding								
Total 06.30.2021	**1,923**	**0**	**845**	**253**	**0**	**0**	**0**	
Total 12.31.2020	**2,425**	**0**	**457**	**41**	**19**	**67**	**10**	

(*) *Value provided for disclosure purposes.*

Section 5 - Hedging derivatives - Item 50

€4,175 thousand

(Values in thousand euros)

	Fair value 06.30.2021			NV 06.30.2021	Fair value 12.31.2020			NV 12.31.2020
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value		4,175		422,974				
2) Financial flows								
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Financial flows								
Total	**0**	**4,175**	**0**	**422,974**	**0**	**0**	**0**	**0**

The item includes the positive fair value at June 30, 2021 relating to interest rate swap hedges with notional in zloty defined with the aim of hedging the loans disbursed in zloty to Polish subsidiaries under current intercompany agreements.

Section 7 - Equity investments - Item 70

€13,209 thousand

The amount refers to the equity investment in two law firms in which BFF Polska is a limited partner, as well as the equity investment in Unione Fiduciaria of 24.59% of the capital thereof, deriving from the financial statements of the former DEPObank. Note that the aforementioned investments are consolidated using the equity method (and not in full).

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Type of relationship	Ownership relationship		Voting rights %
				Held by	Holding %	
A. Jointly controlled companies						
B. Companies over which significant influence is exercised						
1. Unione Fiduciaria	Milan (Italy)	Milan (Italy)	Voting rights in the Shareholders' Meeting	BFF Bank S.p.A.	24.59%	24.59%
C. Exclusively controlled companies						
1. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łodz (Poland)	Łodz (Poland)	Other forms of control	BFF Polska S.A.	99%	99%
2. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz (Poland)	Łodz (Poland)	Other forms of control	Debt-Rnt sp. Z O.O	99%	99%

Section 9 - Tangible assets - Item 90

€37,452 thousand

9.1 Tangible assets with functional use: breakdown of assets measured at cost

(Values in thousand euros)

Assets/Values	Total 06.30.2021	Total 12.31.2020
1. Proprietary assets	**20,170**	**11,231**
a) land	6,325	3,685
b) buildings	11,454	5,844
c) furniture	378	181
d) electronic systems	853	342
e) others	1,160	1,179
2. Lease rights of use	**17,281**	**6,783**
a) land		
b) buildings	16,355	5,982
c) furniture		
d) electronic systems		
e) others	926	801
Total	**37,452**	**18,014**
of which: obtained by enforcement of guarantees received		

At June 30, 2021, the item "Tangible assets" amounted to €37,452 thousand, of which €34,237 thousand related to BFF Bank, €1,795 thousand to BFF Polska Group and €1,421 thousand to BFF Finance Iberia. At December 31, 2020 the item relating to BFF Bank was mainly composed of:

- Land of €6,325 thousand, unchanged from December 31, 2020, and including property deriving from the former DEPObank;
- Buildings (including capitalised extraordinary maintenance) of €11,454 thousand including the Rome property at Via Elio Chianesi 110/d owned by the former DEPObank, compared to €5,844 thousand at December 31, 2020 relating only to BFF Bank;
- Right-of-use assets relating to the application of IFRS 16 on leases of €17,281 thousand, of which €16,355 thousand relating to leased assets by the Parent Company and its subsidiaries. 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, with regard to the scope of BFF, 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

€135,679 thousand (of which €111,891 thousand relating to goodwill)

10.1 Intangible assets: breakdown by type of asset

(Values in thousand euros)

Assets/Values	Total 06.30.2021		Total 12.31.2020	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	X	**111,891**	X	**30,874**
A.1.1 attributable to the group	X	111,891	X	30,874
A.1.2 attributable to minorities	X		X	
A.2 Other intangible assets	**23,788**		**5,801**	
A.2.1 Assets measured at cost:				
a) Intangible assets created internally				
b) Other assets	23,788		5,801	
A.2.2 Assets measured at fair value:				
a) Intangible assets created internally				
b) Other assets				
Total	**23,788**	**111,891**	**5,801**	**30,874**

The item mainly consists of the amount of goodwill generated as a result of the acquisition of BFF Polska Group in 2016 amounting to €22,146 thousand and in 2019 of the former IOS Finance (now merged by incorporation into BFF Finance Iberia) amounting to €8,728 thousand by BFF, as well as the goodwill deriving from the financial statements of the acquired DEPObank relating to the Banking Payments Cash Generating Unit (CGU) which amounts to €81,017 thousand and the "Customer Contracts" (intangible assets with a finite useful life, arising from acquisitions between 2011 and 2014 of business units relating to custodian bank and ancillary activities, originally recognised in the financial statements for a value corresponding to the price paid net of the asset imbalance of the branch, and amortised over a period of 10 years).

In line with what was established in IAS 36 two impairment tests were performed in 2020 on goodwill concerning BFF Polska Group and BFF Iberia (formerly IOS Finance) in order to determine the relevant recoverable amount. Similarly, the acquired company, formerly DEPObank, performed an annual impairment test on intangible assets with an indefinite useful life (goodwill) at the balance sheet date at December 31, 2020 by determining the recoverable value and comparing it with the asset's book value.

Specifically, with regard to the two goodwills generated as a result of the acquisition of BFF Polska Group and BFF Finance Iberia, two impairment tests were conducted during 2020 in compliance with IAS 36 and with regard to the guidance expressed in ESMA Document May 20, 2020: "half-yearly disclosure on Covid-19 impacts", relating to the preparation of the consolidated financial statements of the Company as at June 30, 2020. Following the outcomes of the annual impairment tests performed first in June 2020 and then at December 31, 2020 on the amount of goodwill recorded in the financial statements and relating to the allocation of the acquisition cost of the BFF Polska Group and IOS Finance (merged into BFF Iberia as of December 31, 2019), the Group did not recognize any impairment loss on the aforementioned goodwill.

This was done pursuant to ESMA's communication dated October 28, 2020 "European common enforcement priorities for 2020 annual financial reports" pursuant to paragraph 9 of IAS 36. ESMA observed that when an impairment test is performed it cannot be replaced by the test already performed for the most recent interim reporting period. Therefore the annual impairment test for a cash-generating unit to which goodwill has been allocated must be performed at the same time every year and that generally all hypotheses and assumptions should be re-assessed and, where necessary, updated for the annual test.

In particular, ESMA recommended, from the measurement perspective, in order to reflect the increased level of uncertainty, that issuers consider modelling multiple possible future scenarios when estimating the future cash flows of a cash-generating unit and, while the outlook on the future economic conditions remains uncertain, that issuers update assumptions used in previous interim periods to reflect the latest available information and evidence.

Essentially, ESMA believed that issuers should also provide transparency as to how uncertainty was factored into the impairment testing, underlining that, as required by paragraph 33 of IAS 36 for the determination of value in use, when determining cash flow projections based on reasonable and supportable assumptions, greater weight shall be given to external evidence. Such projections should reflect the asset in its current condition and should not reflect cash inflows and outflows expected to arise from a future restructuring to which the entity is not yet committed or from improving or enhancing the asset's performance, as required by paragraph 44 of IAS 36.

In the light of ESMA's guidance, the Group therefore also conducted an impairment test for its subsidiaries at December 31, 2020.

As of June 30, 2021 the Group did not perform any further verification of the goodwill recorded, as it is believed that the evidence gathered at the end of 2020 is still valid. In line with the provisions of IAS 36, impairment tests will be performed on all goodwill recorded in the financial statements in conjunction with the preparation of the 2021 financial statements.

More specifically, with regard to the BFF Polska Group, goodwill amounting to €22.1 million was recorded in BFF Banking Group's consolidated financial statements at June 30, 2021, resulting from a purchase price of €109.2 million.

With regard to BFF Iberia, goodwill amounting to €8.7 million was recorded in BFF Banking Group's consolidated financial statements at June 30, 2021, resulting from a purchase price of €26.4 million.

Therefore, based on the Impairment Tests and the sensitivity analyses carried out, it should be noted that the Recoverable Values identified show the resilience of the CGUs' Book Values.

Based on the evidence from the impairment tests performed on the financial statements at December 31, 2020, there is no impairment problem with the item Goodwill in the condensed half-yearly consolidated financial statements at June 30, 2021.

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).

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

As at June 30, 2021, current tax assets and liabilities amount to €45,315 thousand and €5,683 thousand, respectively, and include the net balance of the Group's tax positions with respect to tax authorities, in accordance with the provisions of IAS 12. In particular, these items include the net balance of current tax liabilities for the year, calculated according to a prudential estimate of the tax charge due for the year, determined on the basis of the current tax code, and current tax assets represented by prepayments made in the course of the year. Current taxes correspond to the amount of income taxes due for the period.

At June 30, 2021 the agreement on the "Patent box" with the Revenue Agency was also concluded with positive results. In essence, the Bank will be able to make use of the benefit relating to the 2017, 2018, 2019 and 2020 tax periods in the "2021 Tax Return for 2020 income" for a total amount of €963 thousand.

Furthermore, the Bank may also benefit from the positive tax effect described above for the 2021 financial year for an annual amount of €195 thousand, which at June 30, 2021 were accounted for pro rata temporis.

11.1 Advance tax assets: breakdown

€74,598 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.

During the first half of 2021 the tax value and book value relating to Banking Payments goodwill deriving from the former DEPObank were aligned (see the discussion in the specific item 100 "Intangible Assets" of the Balance Sheet) which generated increased prepaid tax assets for approximately €26.1 million. This realignment required the payment of substitute tax equal to €2.4 million, resulting in a net positive effect on the Income Statement of €23.7 million on income taxes for the period.

11.2 Deferred tax liabilities: breakdown

€101,274 thousand

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

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

€193,149 thousand

(Values in thousand euros)

Breakdown	06.30.2021	12.31.2020
Security deposits	3,884	110
Invoices issued and to be issued	37,345	
Payment flows to be credited	92,551	
Other receivables	48,935	23,475
Accrued income and prepaid expenses	10,434	3,595
Total	**193,149**	**27,180**

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.

The "Payment flows to be credited" refer to suspense accounts with a debit balance that fall within the scope of bank payment intermediation and include settlements that were suspended in the first business days after the reporting date of these half-yearly consolidated financial statements.

LIABILITIES

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

€9,393,105 thousand

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

- payables due to banks of €926,160 thousand;
- payables due to customers of €8,284,710 thousand;
- debt securities issued of €182,235 thousand.

Reports/administrations

Payables due to banks

€926,160 thousand

1.1 Financial liabilities measured at amortised cost: commodity breakdown of payables due to banks

(Values in thousand euros)

Type of operations/Values	Total 06.30.2021				Total 12.31.2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**4,350**	**X**	**X**	**X**	**0**	**X**	**X**	**X**
2. Payables due to banks	**921,811**	**X**	**X**	**X**	**1,034,655**	**X**	**X**	**X**
2.1 Current accounts and sight deposits	692,308	X	X	X	44,007	X	X	X
2.2 Time deposits	219,412	X	X	X	990,648	X	X	X
2.3 Loans		X	X	X		X	X	X
2.3.1 Repurchase agreements - payable		X	X	X		X	X	X
2.3.2 Others		X	X	X		X	X	X
2.4 Debts for commitments to repurchase equity instruments		X	X	X		X	X	X
2.5 Payables for leases		X	X	X		X	X	X
2.6 Other Payables	10,090	X	X	X		X	X	X
Total	**926,160**				**1,034,655**			

Key
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item mainly consists of "current accounts and demand deposits" for €692,308, primarily deriving from

custodian bank operations, and includes the balances of accounts of bank customers.
The item also includes "Time deposits", which are mainly related to deposits required for the services rendered to client banks, such as indirect compliance with compulsory reserve requirements, an activity deriving from the former DEPObank.

Following the acquisition and merger with the former DEPObank and in order to achieve funding synergies, during the first half of 2021 BFF Bank reimbursed all the loans representing the funding requested by the Parent Company and its subsidiaries from third-party banks to support the core business. More specifically, the loan agreements in zloty used to acquire BFF Polska Group were reimbursed, one with the UniCredit Group for PLN 185 million (corresponding to €40.6 million) and another with the Intesa Sanpaolo Group for PLN 170 million (corresponding to €40 million).

Payables due to customers

€8,284,710 thousand

1.2 Financial liabilities measured at amortised cost: commodity breakdown of amounts due to customers

(Values in thousand euros)

Type of operations/Values	Total 06.30.2021				Total 12.31.2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	7,086,795	X	X	X	97,882	X	X	X
2. Time deposits	573,836	X	X	X	1,555,281	X	X	X
3. Loans		X	X	X		X	X	X
3.1 Repurchase agreements - payable		X	X	X	1,674,754	X	X	X
3.2 others	100,375	X	X	X	193,024	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments		X	X	X		X	X	X
5. Payables for leases	6,715	X	X	X	7,444	X	X	X
6. Other payables	516,988	X	X	X	43,236	X	X	X
Total	**8,284,710**				**3,571,621**			

Key
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

As at June 30, 2021, following the extraordinary merger transaction with the former DEPObank, the item mainly consisted of "current accounts and demand deposits" for an amount of €7,087 million relating to balances on operational accounts, i.e. accounts opened for customers (e.g. funds, asset management companies, corporate customers and other institutions) related to the custodian bank core business.

The item includes €729 million for online deposit accounts ("conto facto") offered in Italy, Spain and Germany, the Netherlands, Ireland and Poland (restricted deposits and current accounts), compared to €1,654 million at December 31, 2020.

As mentioned above, following the acquisition and merger with the former DEPObank and in order to achieve funding synergies, during the first half of 2021 all debt relationships relating to collaborations with the other factoring companies were closed, which at the end of 2020 amounted to €189 million.

Other payables mainly refer to collections of managed receivables due to clients, as well as outstanding cashier's cheques issued as part of the service that allows affiliated banks to make available credit instruments issued by BFF Bank as a custodian bank to their customers on the basis of a mandate agreement.

Lease payables, totalling €6.7 million at the group level, refer to the recognition of lease liabilities arising from right-of-use assets, included under line item 90 "Tangible assets" in the balance sheet, following the application of the new IFRS 16 effective January 1, 2019.

The amount mainly includes the effect of the application of the standard on the rents of the properties leased by the Group, and the lease contracts have a duration between 3 and 6 years. For more information see Part M - Lease reporting.

Securities issued

€182,235 thousand

1.3 Financial liabilities at amortised cost: commodity breakdown of securities issued

Type of securities/ Values	Total 06.30.2021				Total 12.31.2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds								
1.1 structured								
1.2 others	182,235	188,666			808,908	771,810		50,013
2. Other securities								
2.1 structured								
2.2 others								
Total	**182,235**	**188,666**	**0**	**0**	**808,908**	**771,810**	**0**	**50,013**

Key
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Debt securities issued consist of bonds issued by the Bank, with a total face value of €181.8 million (€800 million at December 31, 2020), recognised in the financial statements in the amount of €182.2 million at amortised cost using the effective interest rate method.

The significant decrease compared to December 31, 2020 is attributable to the following main changes during the first half of 2021:

- repayment at maturity of €150 million senior unsecured and unrated bonds (ISIN XS1435298275) issued by BFF Bank in June 2016, due in June 2021;
- Cash Buyback, completed on June 25, 2021, which allowed the early repayment of a nominal €154.7 million for the senior preferred unsecured bond (ISIN XS1639097747) maturing in June 2022, and a nominal €261 million for the **senior preferred unsecured bond** (ISIN XS2068241400) maturing in May 2023;
- repayment of the €50 million flexible senior notes issued by the vehicle BFF SPV S.r.l., now in liquidation, created together with the Bayerische Landesbank Group (Bayern LB).

As a result of the above, as of June 30, 2021 the item includes:

- €100 million subordinated unsecured and unrated Tier 2 bond (ISIN XS1572408380) issued by BFF Bank 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%;
- €42,8 million senior unsecured and unrated bonds (ISIN XS1639097747) issued by BFF Bank in June 2017, due in June 2022. The bonds pay an annual coupon of 2%;
- €39 million senior unsecured bonds (ISIN XS2068241400) with Moody's Ba1 rating issued by BFF Bank in October 2019, due in May 2023. The bonds pay an annual coupon of 1.75%.

Section 2 - Financial liabilities held for trading - Item 20

€544 thousand

2.1 Financial liabilities held for trading: commodity breakdown

(Values in thousand euros)

Type of operations/Values	Total 06.30.2021					Total 12.31.2020				
	NV	Fair Value			Fair Value(*)	NV	Fair Value			Fair Value(*)
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Payables due to banks										
2. Payables due to customers										
3. Debt securities										
3.1. Bonds										
3.1.1 Structured					X					X
3.1.2 Other bonds					X					X
3.2. Other securities										
3.2.1 Structured					X					X
3.2.2 Others					X					X
Total (A)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B. Derivatives			544							
1. Financial derivatives										
1.1 Held for trading	X		544		X	X				X
1.2 connected to the fair value option	X				X	X				X
1.3 Others	X				X	X				X
2. Credit derivatives										
2.1 Held for trading	X				X	X				X
2.2 Connected to the fair value option	X				X	X				X
2.3 Others	X				X	X				X
Total (B)	**X**	**0**	**544**	**0**	**X**	**X**	**0**	**0**	**0**	**X**
Total (A+B)	**X**	**0**	**544**	**0**	**X**	**X**	**0**	**0**	**0**	**X**

Key
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item includes the negative fair value of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Group is exposed to.

Section 4 - Hedging derivatives - Item 40

€657 thousand

4.1 Hedging derivatives: breakdown by coverage type and level

(Values in thousand euros)

	NV 06.30.2021	FV 06.30.2021			NV 12.31.2020	FV 12.31.2020		
		L1	L2	L3		L1	L2	L3
A. Financial derivatives								
1) Fair value	218,260		658					
2) Financial flows								
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Financial flows								
Total	**218,260**	**0**	**658**	**0**	**0**	**0**	**0**	**0**

The item includes the negative fair value at June 30, 2021 relating to interest rate swap hedges with notional in zloty defined with the aim of hedging the loans disbursed in zloty to Polish subsidiaries under current intercompany agreements.

Section 6 - Tax liabilities - Item 60

€106,957 thousand

See "Section 11 - *Tax assets and liabilities* - Item 110" of the consolidated balance sheet assets.

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

Section 8 - Other liabilities - Item 80

€757,757 thousand

8.1 Other liabilities: breakdown

(Values in thousand euros)

Breakdown	Total 06.30.2021	Total 12.31.2020
Trade payables	7,734	2,908
Invoices to be received	35,862	13,693
Payables to tax authorities	2,300	13,172
Payables to social security and welfare bodies	1,406	793
Payables to employees	29,703	7,936
Collections pending allocation	55,498	36,477
Payment flows received to be charged	352,761	
Items awaiting settlement	20,547	
Other payables	243,629	5,028
Accrued expenses and deferred income	8,136	2,798
Total	**757,575**	**82,804**

"Trade payables" and "invoices to be received" refer to payables for purchases of goods and services. The latter were up largely because of the greater costs recognized in 1H 2021 with respect to the one-off transactions carried out by BFF Banking Group.

"Collections pending allocation" refer to payments received by June 30, 2021 but still outstanding since they had not been cleared and recorded by that date.

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

The "Payment flows to be debited" refer to suspense accounts with a credit balance that fall within the scope of bank payment intermediation, deriving from the core business of the former DEPObank, and include settlements that were suspended in the first business days after the reporting date of these Condensed Half-Yearly Consolidated Financial Statements.

Section 9 - Employee severance pay - Item 90

€3,843 thousand

The liability recorded in the financial statements at June 30, 2021 in relation to employee severance benefits is equal to the current value of the obligation estimated by an independent actuary on the basis of demographic and economic assumptions.

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

Actuarial assumptions used to determine the liability at June 30, 2021 are shown below.

Actuarial assumptions

Annual discount rate

The financial basis used to calculate the present value of the obligation was

determined in accordance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA 7-10 Index (in line with the duration of the items measured).

Annual increase rate of employee severance benefits

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

The demographic assumptions used are as follows:

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

Annual frequency of turnover and advances

Executives: 1% advance frequency and 0.50% turnover frequency;

Managers: 2.5% advance frequency and 3.0% turnover frequency;

Employees 2.5% advance frequency and 3.0% turnover frequency.

Section 10 - Allowances for risks and charges - Item 100

€21,538 thousand

10.1 Provisions for risks and charges: breakdown

(Values in thousand euros)

Items/Components	Total 06.30.2021	Total 12.31.2020
1. Allowances for credit risk relating to Commitments and financial guarantees given	219	527
2. Provisions for other commitments and guarantees issued		
3. Post-employment benefits and similar commitments	5,471	4,777
4. Other provisions for risks and charges		
4.1 Legal and tax disputes		
4.2 Personnel costs		
4.3 others	15,848	1,078
Total	**21,538**	**6,382**

Starting from January 1, 2018, this item also includes provisions for credit risk associated with commitments/financial guarantees provided by BFF Polska to its customers, based on impairment requirements provided for by the new IFRS 9.

10.5 Defined-benefit pension funds

The pension fund refers mainly to the non-compete agreement entered into with BFF Banking Group's managers, amounting to €3.8 million (including the portion allocated to the Bank's shareholders' equity reserve) and the provisions relating to the incentive and deferred payment retention scheme envisaged for specific BFF Bank employees, amounting to €1.5 million. Both obligations to personnel are shown in the condensed consolidated half-yearly financial statements at June 30, 2021 at their current value estimated by an independent actuary based on demographic and economic assumptions.
As of June 30, 2021, the provision in question also includes the provision for the commitment made by the former DEPObank to some employees who have left the company, amounting to €296 thousand.

Specifically, 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 technical demographic assumptions used are illustrated below.

10.6 Provisions for risks and charges - Other provisions

Other provisions of €15 million refer mainly to:

- litigation liabilities for which the Bank has estimated a probable risk of loss for approximately €13.5 million;
- approximately €1.3 million in cashier's cheques, which are now time barred and for which a refund may be requested.

The main assumptions made by the external firm when discounting are as follows:

Non-compete agreement

The annual discounting rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the iboxx Corporate AA index with a duration of 10+ as recorded at June 30, 2021 and equal to 0.34%. The yield with a comparable duration to that of the collective being valued was chosen for this purpose.

Death	RG48 mortality tables published by the State General Accounting Office
Retirement	100% on reaching the AGO requirements
Frequency of voluntary resignation	3.00%
Clawback frequency	3.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual remuneration for Executives	3.40%
Increase in annual remuneration for Supervisors	2.40%
Contribution rate	27.40%

Deferred bonus

Discount rate

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA Index (in line with the duration of the plan). Discount rate used was equal to -0.25%.

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 - Group shareholders' equity - Items 120, 130, 140, 150, 160, 170 and 180

€754,792 thousand

13.1 "Capital" and "Treasury shares": breakdown

(Values in thousand euros)

Type	06.30.2021	12.31.2020
1. Share capital	**142,626**	**131,401**
1.1 Ordinary shares	142,626	131,401
2. Treasury shares	**(1,392)**	**(3,517)**

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 Capital - Number of parent company shares: annual changes

(Values in units)

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**170,650,642**	
- fully paid-in	170,650,642	
- not fully paid-in		
A.1 Treasury shares (-)	(675,768)	
A.2 Shares outstanding: initial balance	**169,974,874**	
B. Increases	14,973,980	
B.1 New issues		
- for consideration:		
- operations of business combinations		
- conversion of bonds		
- exercise of warrants		
- others	37,520	
- without consideration:		
- to employees	496,282	
- to directors		
- others	14,043,704	
B.2 Sales of treasury shares		
B.3 Other changes	396,474	
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Disposal of companies		
C.4 Other changes		

CONTINUED

D. Shares outstanding: closing balance	**184,948,854**
D.1 Treasury shares (+)	(279,294)
D.2 Shares existing at the end of the year	
- fully paid-in	185,228,148
- not fully paid-in	

13.4 Profit 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).

(Values in thousand euros)

	06.30.2021	Possibility of use(a)	Portion available	Summary of use in the last three years	
				To cover losses	For other reasons
Share capital	**142,626**				
Reserves	**330,477**				
- Legal reserve	27,417	*B*			
- Extraordinary reserve	89	*A, B, C*	89		
- Retained earnings reserve	294,538	*A, B, C*	264,342		25,033(*)
- Stock option and financial instrument reserves	5,057	*A*			
- Other reserves	3,376				
Valuation reserves	**6,320**				
- HTCS securities	264				
- Others	6,055				
Treasury share reserve	**(1,392)**				
Share premium reserve	**66,443**	*A, B, C*	66,443		
Total share capital and reserves	**544,472**		**264,431**		**25,033**

(a) Possible uses: A = for share capital increases; B = to cover losses; C = for distribution to shareholders.
(*) The amounts used during the last three years, totalling €25,033 thousand, include €2,055 thousand used in the wake of the capital increases carried out in 2019, 2020 and the first six months of 2021 for the stock options exercised by certain beneficiaries as well as the stock grant plan, as well as the amounts used during the last three years relating to the payment of dividends distributed as per resolutions of shareholders' meetings.

Changes in reserves that make up the shareholders' equity are shown below:

(Values in thousand euros)

	Legal reserve	Profit carried forward	Others	Total
A. Opening balance	**27,417**	**206,553**	**7,503**	**241,473**
B. Increases		**87,984**	**4,826**	**92,810**
B.1 Appropriation of profits		85,103		85,103
B.2 Other changes		2,881	4,826	7,707
C. Decreases			**(3,807)**	**(3,807)**
C.1 Uses				
- coverage of losses				
- distribution				
- transfer to share capital				
C.2 Other changes			(3,807)	(3,807)
D. Closing balance	**27,417**	**294,537**	**8,522**	**330,476**

Retained earnings reserve

The increase of €88 million is mainly due to the allocation of the consolidated profit of the previous year, net of €3.2 million distributed in March 2021. Except for the share distributed. There is still an amount of dividends of €165 million ("2019-2020 Total Dividends") yet to be distributed to shareholders in compliance with the recommendations of the European Central Bank.

Other reserves

The changes largely refer to the following events occurred during 1h 2021:

- The granting of €1.1 million worth of option rights related to the 2020 stock option plan during the first half of 2021, recognised in accordance with IFRS 2 through profit or loss with a corresponding increase in equity, partially offset by drawdowns from the stock option reserve after certain beneficiaries exercised their options;
- Decrease for years or cancellations related to the 2016 *stock option* plan for approximately €3.2 million;
- Appropriation for €560 thousand relative to the variable remuneration portions of the so-called "Key Personnel" (Risk Takers), in compliance with the provisions as set out in the First Part, Title IV, Chapter 2, Section III, paragraph 2.1, 3 of Bank of Italy Circular 285/2013, as subsequently updated, according to which a portion must be paid in financial instruments;
- Uses of the reserves of financial instruments for €525 thousand relating to the variable remuneration portions of the so-called "Key Personnel" (Risk Takers), in compliance with the provisions as set out in the First Part, Title IV, Chapter 2, Section III, paragraph 2.1, 3 of Bank of Italy Circular 285/2013, as subsequently updated, according to which a portion must be paid in financial instruments.

Other information

1. Commitments and financial guarantees issued

(Values in thousand euros)

	Notional value of commitments and financial guarantees given			Total 06.30.2021	Total 12.31.2020
	Stage one	Stage two	Stage three		
1. Commitments to disburse funds	**1,782,501**	**1,029**	**602**	**1,784,133**	**210,889**
a) Central Banks		-	-	-	
b) Public administrations	60,650	-	-	60,650	82,119
c) Banks	341,838	-	-	341,838	
d) Other financial companies	1,199,104	-	-	1,199,104	1,026
e) Non-financial companies	180,906	1,029	602	182,537	129,060
f) Households	4	-	-	4	
2. Financial guarantees	**311**	**-**	**-**	**311**	**5,200**
a) Central Banks	-	-	-	-	
b) Public administrations	263	-	-	263	
c) Banks	-	-	-	-	5,200
d) Other financial companies	49	-	-	49	
e) Non-financial companies	-	-	-	-	
f) Households	-	-	-	-	

3. Assets given as collateral for own liabilities and commitments

(Values in thousand euros)

Portfolios	Amount 06.30.2021	Total 12.31.2020
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-
3. Financial assets measured at amortised cost	1,304,570	2,141,210
4. Tangible assets	-	-
of which: Tangible assets held as inventories		

"Financial assets measured at amortized cost" consist of government securities used as collateral in operations with the ECB and repos.
As at June 30, 2021, the Group did not own government securities classifiable in the portfolio of "Financial assets measured at fair value through impact on comprehensive income".

5. Administration and brokerage for third parties

(Values in thousand euros)

Type of services	Amount 06.30.2021
1. Execution of orders for customers	
a) Purchases	
1. settled	
2. not settled	
b) Sales	
1. settled	
2. not settled	
2. Individual portfolio management	
3. Custody and administration of securities	**283,402,275**
a) third-party securities deposited: relating to depositary bank activities (excluding portfolio management)	49,848,452
1. Instruments issued by reporting bank	
2. Other securities	49,848,452
b) other third-party securities deposited (excluding portfolio management): others	96,345,122
1. Instruments issued by reporting bank	
2. Other securities	96,345,122
c) third party securities deposited with third parties	132,094,971
d) proprietary securities deposited with third parties	5,113,730
4. Other transactions	

Part C - Consolidated Income Statement

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

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

€102,194 thousand (of which interest income calculated using the effective interest rate method: 91,006 thousand).

(Values in thousand euros)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 06.30.2021	Total 06.30.2020
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 subject to mandatory fair-value valuation					
2. Financial assets measured at fair value through other comprehensive income			X		**44**
3. Financial assets measured at amortised cost:					
3.1 Loans to banks		2,009	X	2,009	173
3.2 Loans to customers	5,342	89,595	X	94,937	116,210
4. Hedging derivatives	X	X			
5. Other assets	X	X	309	**309**	**109**
6. Financial liabilities	X	X	X	**4,940**	
Total	**5,342**	**91,604**	**309**	**102,194**	**116,536**
of which: interest income on impaired assets					
of which: interest income on financial leases		79		79	109

1.2 Interest income and similar revenues: other information

Interest income relating to "Financial assets measured at fair value through comprehensive income" related to transactions in government securities purchased by BFF Bank to hedge liquidity risk and to optimise the cost of money, according to the HTC&S business model whose valuation was carried out at fair value, recording interest calculated according to the effective rate of return in the income statement. As of the end of 2020 the Bank does not own government securities classified in the portfolio in question.

Interest income relating to "Receivables due from banks" mainly refers to temporary credit balances in the account of the Parent Company and its subsidiaries, income accruing on the amount of bank drafts issued on behalf of banking customers and interest income on the average negative deposits of reciprocal current accounts held by banking customers.

Interest income on receivables "Due from customers" for loans amounted to €89,131 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 Bank and BFF Finance Iberia.
BFF Bank 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 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.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's portfolio, for a total amount of €25 million.

Interest income on debt securities linked to receivables due from customers and totalling approximately €5.3 million derive from government securities purchased by BFF Bank and resulting from the merger with the former DEPObank, to hedge liquidity risk and to optimize the cost of money relating to the HTC (Held to Collect) portfolio.

1.3 Interest expense and similar expenses: breakdown

€24,509 thousand

(Values in thousand euros)

Items/Technical forms	Debt	Securities	Other transactions	Total 06.30.2021	Total 06.30.2020
1. Financial liabilities measured at amortised cost					
1.1 Payables due to central banks	3,144	X	X	**3,144**	
1.2 Payables due to banks		X	X	**4,405**	**9,868**
1.3 Payables due to customers	5,574	X	X	**5,574**	**5,850**
1.4 Securities issued	X	9,521	X	**9,521**	**10,286**
2. Financial liabilities held for trading			(4)	**(4)**	
3. Financial liabilities carried at fair value					
4. Other liabilities and provisions	X	X	3	**3**	**3**
5. Hedging derivatives	X	X			
6. Financial assets	X	X	X	**1,866**	**33**
Total	**8,718**	**9,521**	**(1)**	**24,509**	**26,040**
of which: interest expense relative to lease liabilities	213			213	75

Interest expense increased from €26 million in 1H 2020 to €24.5 million for the current year. The decrease is attributable to the closure of loans payable to third-party banks following the creation of post-merger funding synergies. Please refer to what has already been noted in item 10 of the Liabilities of the Balance Sheet relating to financial liabilities measured at amortised cost.

Interest expense on “Payables due to central banks” refers to the interest accrued on the amounts deposited in the account with the Bank of Italy.

Interest expense on “Payables due to banks” referred to the charges that accrued on the funding requested from third- party banks to support the business of the Parent and its subsidiaries, including interest on the loan agreements in zloty used to acquire BFF Polska Group, which were in part stipulated with the Unicredit Group and in part with the Intesa Sanpaolo Group. Compared to the same period of the previous year, there was a decrease following the aforementioned closure thereof.

The interest expense on “Payables due to customers” mainly refers to interest expense relating to the online deposit accounts of BFF Bank: specifically, €1,231 thousand for Conto Facto, offered in Italy, €4,772 thousand for Cuenta Facto, offered in Spain by the Spanish branch of BFF Bank, and around €1,161 thousand for the deposit account offered in Poland.

Finally, the item also includes interest expense for "Securities issued” amounting to approximately €9.5 million. For more details on issues of outstanding bonds, please refer to item 10 c) of the Balance Sheet Liabilities “Financial liabilities measured at amortised cost”.

Section 2 - Fees and commissions - Items 40 and 50

2.1 Fee and commission income: breakdown

€43,305 thousand

(Values in thousand euros)

Type of service/Amounts	Total 06.30.2021	Total 06.30.2020
a) guarantees given	307	150
b) receivable derivatives		
c) management, brokerage and advisory services:	17,058	
1. trading in financial instruments		
2. currency trading		
3. portfolio management		
3.1 individual		
3.2 collective		
4. custody and administration of securities	2,451	
5. custodian bank	14,566	
6. placement of securities	12	
7. reception and transmission of orders		
8. advisory services	29	
8.1 related to investments	29	
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	23,875	3,057
e) services for securitisation transactions		
f) services for factoring transactions		
g) tax collection and treasury services		
h) management of multilateral trading systems		
i) maintenance and management of current accounts	113	61
j) other services	1,951	
Total	**43,305**	**3,268**

The item mainly includes fees and commissions relating to the mandates for the management and collection of receivables deriving from the business of BFF Bank, as well as fees and commissions for custodian banking and payment services, deriving from the merger with the former DEPObank.

2.2 Fee and commission expenses: breakdown

€11,380 thousand

(Values in thousand euros)

Service/Values	Total 06.30.2021	Total 06.30.2020
a) guarantees received	11	258
b) receivable derivatives		
c) management and brokerage services:	1,870	
1. trading in financial instruments		
2. currency trading	2	
3. portfolio management:		
3.1. own		
3.2. delegated by third parties		
4. custody and administration of securities	1,868	
5. placement of financial instruments		
6. off-site offer of financial instruments, products and services		
d) collection and payment services	8,256	
e) other services	1,242	677
Total	**11,380**	**936**

The item mainly includes the custody and administration fees for the custodian bank business and those paid to outsourcers for the use of infrastructure related to payment services.

Section 4 - Net trading result - Item 80

4.1 Profits (losses) on trading: breakdown

€2,679 thousand

(Values in thousand euros)

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Capital losses (C)	Losses from trading (D)	Net profit/loss [(A+B)-(C+D)]
1. Financial assets held for trading					
1.1 Debt securities	211	325	(73)		463
1.2 Equity securities					
1.3 UCI units					
1.4 Loans					
1.5 Others					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Others					
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**2,513**
4. Derivatives					
4.1 Financial derivatives:					
- On debt securities and interest rates					
- On equity securities and stock indices					
- On currency and gold	X	X	X	X	(297)
- Others					
4.2 Receivable derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total	**211**	**325**	**(73)**	**0**	**2,679**

Gains (losses) on trading mainly arise from the positive exchange effect recorded in the income statement, deriving from the revaluation of exchange rates on loans payable in Polish zloty for the acquisition of BFF Polska Group, fully repaid in April 2021, as well as exchange differences relating to trading in currencies functional to treasury management, especially the collection of banks and customers in foreign currency.

Section 5 - Net hedging result - Item 90

5.1 Profits (losses) from hedging: breakdown

-€1,848 thousand

Income items/Values	Total 06.30.2021	Total 06.30.2020
A. Income related to:		
A.1 Fair value hedging derivatives		
A.2. Hedged financial assets (fair value)		
A.3. Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives		
A.5 Assets and liabilities denominated in currency	11,503	
Total income from hedging (A)	**11,503**	**0**
B. Charges related to:		
B.1 Fair value hedging derivatives		
B.2. Hedged financial assets (fair value)		
B.3. Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives		
B.5 Assets and liabilities denominated in currency	(13,351)	
Total charges from hedging (B)	**(13,351)**	**0**
C. Net hedging result (A-B)	**(1,848)**	
of which: result of hedging of net positions		

Section 6 - Gains (losses) on disposals/repurchases - Item 100

-€12,663 thousand

6.1 Gains (Losses) on disposals/repurchases: breakdown

(Values in thousand euros)

Items/Income items	Total 06.30.2021			Total 06.30.2020		
	Profits	Loss	Net profit/ loss	Profits	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost						
1.1 Loans to banks						
1.2 Loans to customers						
2. Financial assets measured at fair value through other comprehensive income						
2.1 Debt securities	(13)		(13)	86	(65)	21
2.2 Loans						
Total assets (A)	**(13)**	**0**	**(13)**	**86**	**(65)**	**21**
Financial liabilities measured at amortised cost						
1. Payables due to banks						
2. Payables due to customers						
3. Securities issued	(12,650)		(12,650)	56		56
Total liabilities (B)	**(12,650)**	**0**	**(12,650)**	**56**	**0**	**56**

The loss on securities issued was recorded as a result of the cash buyback transaction executed at the end of June 2021. For more details please refer to item 10 c) of the Balance Sheet liabilities "Financial liabilities measured at amortised cost".

The significant decrease compared to December 31, 2020 is attributable to the following main changes during the first half of 2021:

- repayment at maturity of €150 million senior unsecured and unrated bonds (ISIN XS1435298275) issued by BFF Bank in June 2016, due in June 2021;
- Cash Buyback, completed on June 25, 2021, which allowed the early repayment of a nominal €154.7 million for the senior preferred unsecured bond (ISIN XS1639097747) maturing in June 2022, and a nominal €261 million for the senior preferred unsecured bond (ISIN XS2068241400) maturing in May 2023;
- repayment of the €50 million flexible senior notes issued by the vehicle BFF SPV S.r.l., now in liquidation, created together with the Bayerische Landesbank Group (Bayern LB).

Section 7 - Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss - Item 110

€993 thousand

7.2 Net change of value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets and liabilities mandatorily measured at fair value

(Values in thousand euros)

	Capital gains (A)	Realised gains (B)	Capital losses (C)	Losses on disposal (D)	Net profit/ loss [(A+B)-(C+D)]
1. Financial assets					
1.1 Debt securities					
1.2 Equity securities					
1.3 UCI units	993				**993**
1.4 Loans					
2. Financial assets in foreign currency: exchange differences	X	X	X	X	
Total	**993**	**0**	**0**	**0**	**993**

The item refers to the revaluation of the UCI units held by the Bank at the last NAV made available by the relevant investment funds.

Section 8 - Net write-downs/write-backs for impairment - Item 130

€249 thousand

8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortised cost: breakdown

(Values in thousand euros)

Transactions/Income items	Write-downs (1)			Write-backs (2)		Total 06.30.2021	Total 06.30.2020
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Receivables due from banks				**6**		**6**	**1**
- Loans				6		6	1
- Debt securities							
of which: purchased or originated impaired							
B. Receivables due from customers	**(5)**	**(19)**	**(1,727)**	**2,060**	**80**	**390**	(2,331)
- Loans	(5)	(19)	(1,727)	1,560	80	(110)	(2,239)
- Debt securities				500		500	(92)
of which: purchased or originated impaired					5	5	6
Total	**(5)**	**(19)**	**(1,727)**	**2,066**	**80**	**396**	**(2,330)**

Stage 3 adjustments of impairment largely refer to changes in specific positions of BFF Polska Group.

8.2 Net losses/recoveries for credit risk relating to financial assets measured at fair value with impact on comprehensive income: breakdown

(Values in thousand euros)

Transaction/Income items	Write-downs (1)			Write-backs (2)		Total 06.30.2021	Total 06.30.2020
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Debt securities		**147**				**147**	**1**
B. Loans							
- To customers							
- To banks							
of which: purchased or originated impaired financial assets							
Total	**0**	**147**	**0**	**0**	**0**	**147**	**1**

Section 12 - Administrative expenses- item 190

€82,016 thousand

12.1 Personnel costs: breakdown

€34,069 thousand

(Values in thousand euros)

Type of expense/Sectors	Total 06.30.2021	Total 06.30.2020
1) Employees		
a) wages and salaries	22,672	13,089
b) social security contributions	5,608	3,557
c) provision for employee severance pay	29	
d) pension costs	8	
e) provision for employee severance pay	519	282
f) provision for retirements and similar provisions:		
- with defined contribution	231	
- with defined benefits		
g) payments to external complementary pension funds:		
- with defined contribution		
- with defined benefits	135	88
h) costs related to share-based payments	162	279
i) other employee benefits	2,751	2,191
2) Other personnel in service	85	113
3) Directors and statutory auditors	1,869	995
4) Early retirement costs		
Total	**34,069**	**20,594**

The increase in this item can mainly be traced to an increased number of employees and to higher costs associated with the merger with the former DEPObank.

The amount also includes expenses for stock options for certain employees of the Group, equal to approximately €1.1 million before taxes, offset by the related equity reserve, as well as the cost incurred by the bank during the half year for the cashless payment of withholding taxes on financial years equal to approximately €1.6 million. For more information refer to Part I of the Explanatory Notes.

12.5 Other administrative expenses: breakdown

€47,947 thousand

(Values in thousand euros)

Breakdown	Total 06.30.2021	Total 06.30.2020
Legal fees	1,044	2,087
Data processing services	6,968	944
External credit management services	383	546
Supervisory Body fees	43	20
Legal fees for receivables under management	124	69
Notary fees	294	342
Notary fees to be recovered	465	399
Entertainment expenses and donations	714	886
Maintenance expenses	2,260	1,055
Non-deductible VAT	4,159	2,036
Other taxes	2,788	342
Consulting services	7,672	4,971
Head office operating expenses	1,265	693
Resolution Fund and FITD	11,519	3,591
Other expenses	8,250	3,681
Total	**47,947**	**21,661**

Other administrative expenses at June 30, 2021 amounted to €47.9 million, up from the same period in the previous year due to the significant increase in costs following the merger with the former DEPObank.

Furthermore, with regard to contributions to the Deposit Guarantee Scheme, a cost of about €11.5 million before taxes was recorded at June 30, 2021. This cost was made up of:

- €8.6 million as ordinary annual contribution to the Resolution Fund, and €2.9 million as extraordinary contribution for 2019 (paid in June and July of 2021).

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

Section 13 - Net allocations to provisions for risks and charges - item 200

-€1,691 thousand

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

-€313 thousand

(Values in thousand euros)

Breakdown	Total 06.30.2021	Total 06.30.2020
Provision for risk on commitments and guarantees	(313)	68
Total	**(313)**	**68**

13.3 Net provisions for risks and charges: breakdown

-€1,378 thousand

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

(Values in thousand euros)

Breakdown	Total 06.30.2021	Total 06.30.2020
Provision for post-employment benefits and similar obligations	741	695
Other provisions	(2,119)	(763)
Total	**(1,378)**	**(68)**

Section 14 - Impairments/recoveries on tangible assets - item 210

€2,306 thousand

As of 2019, following the application of International Accounting Standard IFRS 16, the item "Value adjustments on tangible assets" also includes the amortisation of right-of-use assets amounting to €1,331 thousand, the counterpart of which is recognised under tangible assets.

Section 15 - Impairments/recoveries on intangible assets - item 220

€4,234 thousand

The item refers to amortisation for the period relating to intangible assets with finite useful lives.

Section 16 - Other net operating income - item 230

€175,222 thousand

16.1 Other operating expenses: breakdown

€1,948 thousand

(Values in thousand euros)

Breakdown	Total 06.30.2021	Total 06.30.2020
Contingent expenses	(1,841)	(221)
Rounding off and allowance expenses	(5)	(5)
Other charges	(6)	(1,360)
Deposit guarantee scheme expenses		
Registry tax expenses	(95)	(73)
Total	**(1,948)**	**(1,659)**

16.2 Other operating income: breakdown

€177,170 thousand

(Values in thousand euros)

Breakdown	Total 06.30.2021	Total 06.30.2020
Recovery of legal fees for purchases of non-recourse receivables	664	778
Recovery of operational legal fees	117	52
Other recoveries	491	
Receivables realized at other than face value		
Contingent assets	6,145	1,301
Recovery of assignor notary expenses	440	572
Other income	169,313	1,923
Total	**177,170**	**4,626**

On June 30, 2021, this item included the provisional badwill amount of €163.4 million resulting from the merger transaction with the former DEPObank. At the date of approval of these Condensed Half-Yearly Consolidated Financial Statements, the process of definitive allocation of the acquisition's purchase price (PPA) had not yet been concluded. For more details see Part G "Business combinations" of the Explanatory Notes.

Section 21 - Income taxes on current operations - item 300

€19,170 thousand

21.1 Income taxes for the year on current operations: breakdown

(Values in thousand euros)

Income items/Sectors	Total 06.30.2021	Total 06.30.2020
1. Current taxes (-)	8,061	8,087
2. Adjustment to current tax of prior years (+/-)		
3. Reduction of current taxes for the period (+)		
3.bis Reduction of current taxes for the period for tax credits pursuant to Italian Law no. 214/2011 (+)		
4. Change in prepaid taxes (+/-)	(31,059)	-
5. Change in deferred taxes (+/-)	3,828	6,713
6. Taxes for the period (-) (-1+/-2+3+ 3 *bis* +/-4+/-5)	**(19,170)**	**14,799**

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

(Values in units)

Breakdown	06.30.2021	06.30.2020
Average number of shares outstanding	185,228,148	170,648,346
Average number of potentially dilutive shares	9,041,610	11,059,438
Weighted average number of potentially dilutive shares	194,269,758	181,707,784

25.2 Other information

(Amounts in units, unless otherwise stated)

Breakdown	06.30.2021	06.30.2020
Consolidated net profit for the period (in euros)	210,319,634	37,539,325
Average number of shares outstanding	185,228,148	170,648,346
Average number of potentially dilutive shares	9,041,610	11,059,438
Weighted average number of potentially dilutive shares	194,269,758	181,707,784
Basic earnings per share (in euro units)	**1.14**	**0.22**
Diluted earnings per share (in euro units)	**1.08**	**0.21**

Part D - Consolidated Comprehensive Income

Statement of Consolidated Comprehensive Income

(Values in euro units)

	Items	06.30.2021	06.30.2020
10.	**Profit (Loss) for the period**	**210,319,634**	**37,539,325**
	Other income components not transferred to the income statement		
20.	Equity instruments carried at fair value through other comprehensive income:		
	a) fair value changes		
	b) transfers to other net equity items		
30.	Financial liabilities carried at fair value through profit or loss (changes in creditworthiness):		
	a) fair value changes		
	b) transfers to other net equity items		
40.	Hedging of equity securities carried at fair value through other income:		
	comprehensive:		
	a) fair value changes (hedged instrument)		
	b) fair value changes (hedging instrument)		
50.	Tangible assets		
60.	Intangible assets		
70.	Defined-benefit plans	(23,817)	6,674
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves for equity investments measured at equity		
100.	Income taxes on other comprehensive income without reclassification to the income statement	6,550	(1,835)
	Other income components with reclassification to the income statement		
110.	Hedging of foreign investments:		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
120.	Foreign exchange differences:		
	a) changes in value		
	b) reclassification through income statement		
	c) other changes	709,910	(5,321,905)
130.	Cash flow hedges:		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
	of which: result of net positions		

(CONT'D)

140.	Hedging instruments (undesignated elements):		
	a) changes in value		
	b) reclassification through income statement		
	c) other changes		
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:		
	a) fair value changes	7,202,642	(136,330)
	b) reclassification through income statement		
	- adjustments for credit risk		
	- profits/losses on disposals		
	c) other changes		
160.	Non-current assets and asset groups held for sale:		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
170.	Share of valuation reserves for equity investments measured at equity:		
	a) fair value changes		
	b) reclassification through income statement		
	- adjustments due to impairment		
	- profits/losses on disposals		
	c) other changes		
180.	Income taxes relating to other income components with reclassification to the income statement	(3,031,656)	1,383,331
190.	**Total other income components**	**4,863,629**	**(4,070,065)**
200.	**Comprehensive income (Items 10+190)**	**215,183,263**	**33,469,260**
210.	Consolidated comprehensive income attributable to minority interests		
220.	**Consolidated comprehensive income attributable to the Parent Company**	**215,183,263**	**33,469,260**

Part E - Information on risks and related hedging policies

Introduction

BFF Banking Group has adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed. These measures are part of the governance of the organization and of the internal control system, aimed at ensuring management practices grounded in efficiency, effectiveness and fairness, covering every type of business risk, consistently with the characteristics, dimensions and complexity of the business activities carried out by the Group.

With this in mind, the Group formalized its risk management policies and periodically reviews them to ensure their effectiveness over time. It constantly monitors the functioning of the risk management and control processes.

Such policies define:

- The governance of risks and the responsibilities of the Organizational Units involved in the management process;
- The mapping of the risks to which the Group is exposed, the measuring and stress testing methods, and the information flows that summarize the monitoring activities;
- The annual assessment process on the adequacy of internal capital;
- The activities for the assessment of prospective capital adequacy, associated with the strategic planning process.

The corporate governance bodies of the Bank-as BFF Banking Group's Parent Company-define the risk governance and management model at the Group level, taking into account the specific types of operations and the related risk profiles characterizing all the Group's entities, with the aim of creating an integrated and consistent risk management policy.

Within this framework, the Parent Company's corporate governance bodies perform the functions entrusted to them not only with regard to their specific business activities, but also taking into account the Group's operations as a whole and the risks to which it is exposed, and involving, as appropriate, the governance bodies of the subsidiaries in the decisions concerning risk management procedures and policies.

At the Group level, the Risk Management Function cooperates in the process of defining and implementing the risk governance policies through an adequate risk management process. The Function Head is not involved in the operating activities he or she has to monitor, and his or her tasks and responsibilities are governed by specific Internal Regulations.

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

- Cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Group risks (Risk Appetite Framework);
- Establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;

- providing an assessment of the capital absorbed, also under stress conditions, and of the related present and prospective capital adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes; overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- 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.

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Impaired and non-impaired credit exposures: amounts, value adjustments, trends and economic distribution

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

(Values in thousand euros)

Portfolios/quality	Non-performing loans	Unlikely-to-pay positions	Past-due impaired exposures	Other impaired exposures	Performing exposures	Total
1. Financial assets measured at amortized cost	74,468	14,319	2,097	1,774,235	7,761,511	9,626,631
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets designated at fair value						
4. Other financial assets subject to mandatory fair-value valuation						
5. Financial assets held for sale						
Total 06.30.2021	**74,468**	**14,319**	**2,097**	**1,774,235**	**7,761,511**	**9,626,631**
Total 12.31.2020	**66,821**	**15,703**	**42,105**	**1,934,420**	**3,721,530**	**5,780,579**

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

(Values in thousand euros)

Portfolios/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs(*)	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortized cost	111,449	20,564	90,884		9,538,662	2,916	9,535,746	9,626,631
2. Financial assets measured at fair value through other comprehensive income								
3. Financial assets designated at fair value					X	X		
4. Other financial assets subject to mandatory fair-value valuation					X	X		
5. Financial assets held for sale								
Total 06.30.2021	**111,449**	**20,564**	**90,884**	**0**	**9,538,662**	**2,916**	**9,535,746**	**9,626,631**
Total 12.31.2020	**140,935**	**16,305**	**124,629**	**0**	**5,659,663**	**3,712**	**5,655,950**	**5,780,579**

(*) *Value for disclosure purposes.*

Portfolios/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading			4,370
2. Hedging derivatives			4,175
Total 06.30.2021	**0**	**0**	**8,545**
Total 12.31.2020	**0**	**0**	**0**

Section 2 - Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

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 the public administration, in addition to other lending products always with a focus on the public administration. From March 2021, with the integration of DEPObank, the Group began to provide credit as an instrumental activity in addition to specific treasury activities (managed through the granting of operating limits) and securities services (mainly managed through the granting of account overdraft facilities).

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 69% of all the exposures to customers of the Group excluding the securities component.

With regard to the measures in response to COVID-19, the Group follows the applicable provisions contained in the EBA Guidelines ("Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis – EBA/GL/2020/07").

Impacts of the Covid-19 pandemic

In light of the BFF Banking Group's business model and the nature of its counterparties, the Covid-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

2. Credit risk management policies

2.1 Organisational aspects

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 30, 2021, 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, and that with regard to exposures related to the custodian bank operations, these are mainly towards banks.

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:

- <u>Credit risk in the strict sense</u>: 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;
- <u>Dilution risk</u>: 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;
- <u>Factorability risk</u>: 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);
- <u>Risk of late payment</u>: 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.

With regard to the granting of credit to counterparties using the custodian bank service, credit risk is very low, as it is mainly concentrated on bank counterparties, SGRs and funds.

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

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

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

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

BFF Polska S.A. mainly operates in three sectors:

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

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

With regard to the allocation of operating limits and/or "intermediation" caps, there is no specific request from customers and the assessment is initiated at the initiative of the Finance and Treasury OU or the relevant organisational units.

As part of the management of counterparties providing retail intermediation services, specific operating limits have been established, aimed at monitoring and controlling the operations of these entities. In some cases, guarantees have been requested to mitigate the risk assumed for these activities. Exposure to the customers' credit risk is constantly monitored. The credit quality of public sector entities is analysed within the framework of the risk of delay in repaying liabilities.

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

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

In particular, BFF Banking Group applies the following main 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), Funds, and SGRs;
- 100% for tangible assets, equity investments, collective investment undertakings and other;
- 150% for non-performing exposures, if the specific value adjustments are 20% less than the non-collateralised 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;
- 250% to deferred tax assets not deducted from own funds.

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 and counterparty risk at June 30, 2021 is €123.6 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.

Specifically:

- "Large exposure" means any risk position equal to or greater than 10% of the eligible capital, as defined in CRR II (equal to 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 impairment");*
- *receivables subject to specific adjustments.*

Note that the IFRS 9 accounting principle entered 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 Methods of measuring expected losses

Receivables subject to generic adjustments ("collective impairment")

The impairment model is characterized by:

- The allocation of the transactions in the portfolio to different buckets, based on an assessment of the increase in the level of exposure/counterparty risk;
- The use of multi-period risk parameters (e.g., lifetime PD, LGD and EAD) to quantify expected credit losses (ECL) for financial instruments subject to a significant increase in credit risk since initial recognition.

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modelling approach. Therefore, by analysing 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 allowing to define a multi-period distribution as well as a 12-month horizon.

The risk parameters that should be modelled to comply with the rationale of considering the full life- time of the financial instrument are as follows:

- Multi-period PD;
- Multi-period LGD;
- Multi-period EAD.

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

Receivables subject to specific adjustments ("specific impairments")

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

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

BFF Banking Group's impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €90.9 million – net of individual impairment – and are broken down as follows:

- non-performing loans of €74.5 million (gross exposure in the financial statements of €91.9 million with an adjustment of €17.4 million);
- unlikely-to-pay positions amounting to €14.3 million (gross exposure in the financial statements equal to €18.8 million with impairment losses equal to €4.4 thousand);
- €2.1 million past due impaired exposures (gross exposure in the financial statements of €2,149 million with €51 thousand value adjustment).

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.

Changes due to COVID-19

Assessment of the significant increase in credit risk (SICR)

In light of the BFF Group's business model and the nature of its risk counterparties, the Covid-19 epidemic did not entail changes to the model of the significant increase in credit risk (SICR). However, also in line with the EBA guidelines of December 2, 2020 "*Guidelines amending EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*", the Group has granted some of its counterparties based in Poland moratoria of a strictly voluntary character. For more details on the amount granted and the type of counterparties involved, refer to paragraph 4 "Financial assets subject to commercial negotiations and forborne exposures".

Measuring expected losses

The model for determining risk parameters was also unchanged following the spread of Covid-19.
However, the annual update of the risk parameters (PD and LGD) allows taking into account the evolution of the effects of COVID-19 within the estimates of expected losses.
To this end, as at June 30, 2021 the Bank updated the macroeconomic scenarios provided by the external rating agency. These scenarios are constructed considering the evolution of the unemployment rate and the High Yield Spread in a context where the COVID-19 pandemic continues to show its effects over a three-year period, reaching a situation of normality or a pre-COVID-19 situation not before the middle of the decade.

The situation in June 2021, however, was essentially aligned but with a positive growth trend compared to last year. However, the uncertainty in the labour market for the coming years is tending to keep the unemployment rate in line with last year's estimates, when the pandemic was beginning to show its negative effects. For these reasons, it was not considered necessary to change the weights attributed to each individual scenario, which therefore remained the same as initially attributed (40% for the Baseline scenario, 30% for the High Growth scenario and 30% for the Mild Recession scenario).

2.4 Credit risk mitigation techniques

In order to make non-recourse receivables compatible with the derecognition principle, the risk mitigation clauses that could in some way invalidate the effective transfer of risks and rewards were eliminated from the respective contracts.

With regard to exposures to counterparties to which treasury and security services are offered, risk mitigation techniques also include netting (ISDA) and collateral management (CSA) agreements consistent with EMIR regulations. For repurchase agreements for which the Bank has signed specific GMRA contracts, credit risk is transferred from the counterparty to the underlying of the repurchase agreement.

3. Impaired credit exposures

In compliance with Bank of Italy Circular no. 272, BFF Banking Group's net "Impaired assets" amounted to a total of €90,884 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, 2021, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €74,468 thousand, of which €5,305 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €68,237 thousand, accounting for 91.6% of the total.

  Gross non-performing loans amounted to €90,550 thousand. Relevant impairment totalled €16,082 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 €1,302 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €91,852 thousand and relevant adjustments totalled €17,385 thousand.

  With reference to the Bank, at June 30, 2021 total non-performing loans, net of any estimated impairment losses, amounted to €68,965 thousand, of which €68,237 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.

  Specifically, the amount of €5,305 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 Bank are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €17,328 thousand. After estimated impairment losses of €11,852 thousand they amounted to €5,476 thousand.

- BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgement made by the intermediary about the unlikelihood that – absent such actions as the enforcement of guarantees – the debtor will fully fulfil (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 instalments).
  At June 30, 2021, gross exposures classified as unlikely to pay amounted to €18,750 thousand, of which €16,802 thousand attributable to BFF Polska Group and €503 thousand to BFF Finance Iberia. The total net amount was €14,319 thousand, relating mainly to BFF Polska Group since the gross exposures of BFF Bank and BFF Finance Iberia were almost entirely impaired.
- Net past due exposures of BFF Banking Group amounted to €2,097 thousand. These refer entirely to BFF Polska Group. 27% of these exposures relate to public counterparties. These consist of exposures with entities for which the conditions for classification as past due impaired exposures are met by presenting one or more credit lines that meet the definition of "Non-performing exposures with forbearance measures" set out in Section V, Part 2, paragraph 262 of the ITS.

4. Financial assets subject to commercial negotiations and forborne exposures

In line with the EBA guidance of December 2, 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis", the Group, through contractual agreements, has granted some of its counterparties moratoria of a strictly voluntary character. The amendments related solely to deferral of principal amounts, without any amendments to interest rates. Moreover, no reduction in the Group's credit exposures was foreseen in terms of either principal or interest. The amendments were considered non-substantial and therefore did not result in the derecognition from the balance sheet of the positions subject to moratoria.

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted for a total amount of €3.0 million and are mainly represented by corporate clients (approximately 34%), public-sector entities (approximately 33%) and retail clients (approximately 32%). The main products affected are credit exposures deriving from amounts, accounting for approximately 70%, loans, 17% from loans (MEDLekarz - loans to medical practices), 11% from factoring operations and a residual 2% relating to financial lease operations. Compared to December 31, 2020 there was an increase of about €98 thousand.

A.1.5a Loans subject to Covid-19 support measures: transfers between the various credit risk stages (gross values)

(Values in thousand euros)

Portfolios/risk stages	Gross values /nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage one to stage two	From stage two to stage one	From stage two to stage three	From stage three to stage two	From stage one to stage three	From stage three to stage one
A. Loans measured at amortised cost	**127**	**23**	**202**		**15**	
A.1 subject to forbearance in accordance with GL	127	23	202		15	
A.2 subject to other forbearance measures						
A.3 new loans						
B. Loans measured at fair value through other comprehensive income						
B.1 subject to forbearance in accordance with GL						
B.2 subject to other forbearance measures						
B.3 new loans						
Total 06.30.2021	**127**	**23**	**202**	**0**	**15**	**0**
Total 12.31.2020	**342**	**361**	**0**	**0**	**36**	**0**

(*) *Value for disclosure purposes.*

A.1.7a On-balance sheet credit exposures to customers subject to COVID-19 support measures: gross and net values

(Values in thousand euros)

Type of exposures/values	Gross exposure	Total adjustments/ recoveries and total provisions	Net exposure	*Total partial* write-offs(*)
A. Non-performing loans:	**5**		**5**	
a) Subject to forbearance in accordance with GL	5		5	
b) Subject to other forbearance measures				
c) New loans				
B. Loans unlikely to pay:	**225**		**225**	
a) Subject to forbearance in accordance with GL	225		225	
b) Subject to other forbearance measures				
c) New loans				
C. Impaired overdue loans:	**23**		**23**	
a) Subject to forbearance in accordance with GL	23		23	
b) Subject to other forbearance measures				
c) New loans				
D. Past due performing loans:	**243**		**243**	
a) Subject to forbearance in accordance with GL	243		243	
b) Subject to other forbearance measures				
c) New loans				
E. Other overdue performing loans:	**2,526**		**2,526**	
a) Subject to forbearance in accordance with GL				
b) Subject to other forbearance measures	2,526		2,526	
c) New loans				
Total (A+B+C+D+E)	**3,021**	**0**	**3,021**	**0**

(*) *Value provided for disclosure purposes.*

C. Securitisation transactions

INFORMATION ON THE TRANSACTION WITH "BAYERISCHE LANDESBANK - BFF SPV S.R.L."

Qualitative information

Description of the closing of the securitisation transaction

The private placement of a securitisation transaction with the Bayerische Landesbank (BayernLB) Group for the maximum amount of the flexible senior note of €150 million, activated in July 2017, was closed in February 2021 through the repurchase of the receivables sold and outstanding and the repayment of the Notes.

The vehicle BFF SPV srl is in the process of being liquidated and will subsequently be removed from the company register.

E. Prudential consolidation - credit risk assessment models

1.2 Market risk

1.2. 1 Interest rate risk and price risk - regulatory trading portfolio

Qualitative information

A. General aspects

Impacts of the Covid-19 pandemic
In light of the BFF Banking Group's business model and the nature of its counterparties, the Covid-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

At June 30, 2021, with regard to the risk in question, the Bank had an exposure of approximately €90,000 relating to trading in derivative instruments, deriving from the operations of the former DEPObank.

1.2. 2 Interest rate risk and price risk – banking portfolio

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Banking portfolio interest rate risk is the risk of a decrease in the value of the banking portfolio due to potential changes in interest rates. The main source of this type of interest rate risk is repricing risk, i.e. the risk deriving from time mismatches between the maturity and repricing of assets and liabilities, the main aspects of which are:

- yield curve risk, the risk deriving from the exposure of the Bank's positions to changes in the slopes and shape of the yield curve;
- basis risk, risk deriving from the imperfect correlation in changes in the rates payable and receivable on different instruments that may also have similar repricing characteristics.

In the interest rate risk management model adopted by the Bank, the centrality of the following risk measures is important:

- sensitivity of the economic value;
- sensitivity of the interest margin.

The sensitivity analysis of the economic value makes it possible to assess the impact of yield curve shifts (shocks) on the value of shareholders' equity. The method applied is the one established by the 32nd update of Circular 285/2013, including the adoption of the stress scenarios mentioned in the EBA Guidelines (EBA/GL/2018/02).

Exposure to interest rate risk expressed in terms of economic value sensitivity is measured with respect to the banking portfolio assets and liabilities (this therefore excludes positions in the trading portfolio - Other).

This method is applied based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase) and ensuring that rates are not negative.

The interest rate sensitivity analysis requires the construction of a framework that makes it possible to highlight the exposure through the use of a specific method. This method is based on:

- classification of the assets and liabilities into different periods: the allocation to different periods is made, for fixed-rate assets and liabilities, based on their residual lives, while for variable-rate assets and liabilities, based on the interest rate renegotiation date;
- weighting of net exposures within each period: assets and liabilities are offset, thus obtaining a net position. Each net position, for each period, is multiplied by the weighs, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period;
- sum of weighted exposures of different periods: weighted exposures of different periods are summed to yield a total weighted exposure.

The total weighted exposure represents the change in the present value of cash flows, generated by the hypothetical interest rate scenario.

Interest rate risk exposure expressed in terms of interest margin sensitivity quantifies the impact of an interest rate curve shock on the short-term (12 months) interest margin. This measurement shows the effect of rate changes on the portfolio being measured, excluding possible future changes to the asset/liability mix, and therefore cannot be considered a provisional indicator of the future interest margin.

The assumption of the Group's interest rate risk, the role of the functions involved and the related monitoring takes place in compliance with the internal reference document "Interest Rate Risk Management Policy of the Group's banking portfolio".

1.2.3 Exchange risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

Exposure to exchange rate risk – determined on the basis of the net foreign exchange position using a method based on the supervisory regulations – is limited and is protected by specific internal rules, according to which any foreign exchange transaction of a significant amount closed with institutional counterparties is normally "hedged" by executing a transaction of the opposite sign in the market and/or by activating hedging instruments. Minor transactions executed on behalf of customers that generate a position open to exchange rate risk are monitored in real time by the Finance and Administration Department in compliance with the limits established by the current Regulation.

Positions exposed to exchange rate risk may only be maintained within very limited limits of maximum overall exposure, as well as for single currency and RA.

At June 30, 2021, hedging assets and liabilities realised through derivative instruments amounted to €658 thousand and €4.2 million, respectively, relating to the Group's main currencies (euros, US dollars, Polish zloty, Czech koruna, Croatian kuna), which include transactions aimed at hedging the stake in Polish zloty held in BFF Polska Group.

B. Exchange rate risk hedging

Hedging is carried out through linear instruments without optional components, such as forex swaps, which allow the Group to ensure adequate hedging of the exchange rate risk of foreign currency loans granted to subsidiaries operating in a currency other than the euro.

Quantitative information

The portfolio of Group assets is expressed in currencies other than the euro; as a result a methodology for the measurement and management of this risk has been adopted. Exchange risk is monitored by the Risk Management Function, in line with the requirements of European regulations (EU Regulation No. 575/2013 - CRR).

The first half of 2021 was characterised by an average high level of available liquidity, attributable to the balances held in accounts with the Bank by bank customers and by clients of the Custodian Bank service.

Liquidity in currencies other than the euro was mainly used through Currency Swaps, and to a lesser extent through interbank deposits.

1. Breakdown by currency of assets, liabilities and derivatives

(Values in thousand euros)

Items	Currencies					
	US dollars	Pounds	Yen	Canadian dollars	Swiss francs	Other currencies
A. Financial assets						
A.1 Debt instruments						
A.2 Equity instruments	2,619					207
A.3 Loans to banks	31,822	45,351	6,914	8,238		61,560
A.4 Loans to customers	997					636,468
A.5 Other financial assets						109,193
B. Other assets	**1**	**4**	**1**	**3**		**10**
C. Financial liabilities						
C.1 Amounts due to banks	45,775	11,994	8,337	4,905		26,714
C.2 Deposits from customers	431,207	126,672	124,544	50,815		142,149
C.3 Debt instruments						
C.4 Other financial assets						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions	445,007	93,395	126,251	47,588		107,562
+ short positions	3,425	167	200	58		654,320
Total assets	**480,446**	**138,749**	**133,166**	**55,830**		**915,000**
Total liabilities	**480,407**	**138,833**	**133,082**	**55,779**		**823,183**
Difference (+/-)	**39**	**(84)**	**84**	**51**		**91,817**

1.3 Derivative instruments and hedging policies

1.3.1 Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: notional end-of-period values

Derivative transactions mainly relate to balanced trading on behalf of customers and to foreign exchange derivative transactions (swaps) executed by the Bank for the purpose of converting foreign currency funding into euros or other currencies. Note that BFF Bank does not hold innovative or complex financial products.

(Values in thousand euros)

Underlying assets/ Derivative types	Total 06.30.2021				Total 12.31.2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
2. Equity securities and stock indices								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
3. Currency and gold								
a) Options								
b) Swaps								
c) Forwards			528,899					
d) Futures								
e) Others								
4. Commodities								
5. Other underlying			12					
Total	**0**	**0**	**528,911**	**0**	**0**	**0**	**0**	**0**

A.2 Trading financial derivatives: positive and negative gross fair value – breakdown by products

(Values in thousand euros)

Derivative types	Total 06.30.2021				Total 12.31.2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards			4,363					
f) Futures								
g) Others								
Total	**0**	**o**	**4,363**	**0**	**0**	**0**	**0**	**0**
1. Negative fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards								
f) Futures								
g) Others								
c) Forwards			544					
d) Futures								
e) Others								
Total	**0**	**0**	**544**	**0**	**0**	**0**	**0**	**0**

1.3.2 Accounting hedges

Qualitative information

As mentioned above, the Bank operates in hedging derivatives through linear instruments without optional components, such as forex swaps, which allow adequate hedging of the exchange rate risk of foreign currency loans granted to subsidiaries operating in a currency other than the euro.

Quantitative information

Financial derivatives held for hedging

A.1 Financial derivatives held for hedging: notional end-of-period values

Underlying assets/ Derivative types	Total 06.30.2021				Total 12.31.2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
2. Equity securities and stock indices								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
3. Currency and gold								
a) Options								
b) Swaps								
c) Forwards			637,967					
d) Futures								
e) Others								
4. Commodities								
5. Other underlying								
Total	**0**	**0**	**637,967**	**0**	**0**	**0**	**0**	**0**

A.2 Hedging financial derivatives: positive and negative gross fair value – breakdown by products

Derivative types	Total 06.30.2021				Total 12.31.2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards			4,175					
f) Futures								
g) Others								
Total	**0**	**0**	**4,175**	**0**	**0**	**0**	**0**	**0**
1. Negative fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards								
f) Futures								
g) Others								
c) Forwards			658					
d) Futures								
e) Others								
Total	**0**	**0**	**658**	**0**	**0**	**0**	**0**	**0**

1.4 Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is defined as the risk that the Group will be unable to meet its obligations at maturity and/or that it will have to bear non-market financing costs in relation to an unbalanced net financial position due to the inability to raise funds (funding liquidity risk) or due to the presence of limits on the disposal of assets (market liquidity risk), forcing the Group to slow or halt the development of its business, or sustain excessive funding costs to meet its obligations, with significant negative impacts on the profitability of its activities.

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

To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

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

Liquidity risk stress tests are performed to assess the potential impact of stress scenarios on the Group's solvency conditions.

The documents governing the matter are the "Group Liquidity Risk Management Policy", approved by the Board of Directors, with the aim of defining the guidelines for liquidity management and the documents to be adopted in a state of liquidity crisis (Contingency Funding and Recovery Plan), transposing the latest regulatory updates (see Bank of Italy Circular 285/2013). As part of the Risk Appetite Framework specific liquidity metrics have been defined, both regulatory, Liquidity Coverage Ratio - LCR and Net Stable Funding Ratio - NSFR, and internal, "minimum cumulative balance on total assets", calculated as the lowest weekly value in the quarter of reference of the ratio of the minimum cumulative balance recorded in the time periods within one month to the total assets of the last available group, in order to better represent the Bank's operational reality.

Liquidity monitoring, which is carried out in accordance with the maximum risk tolerance threshold, and therefore also with the nature, objectives and operational complexity of the Group, aims to ensure the ability to meet expected or unforeseen cash payment commitments over a short period of time.

Liquidity risk also includes the intraday risk deriving from the temporal mismatch between outflows (settled at daily cut-offs or when orders are received from customers) and inflows (settled at different intraday cut-offs), which may render it impossible for the Bank to discharge its payment obligations when they are called in due to a temporary lack of funds. To hedge intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities necessary to meet requirements for intraday and periodic refinancing from central banks.

The Bank's liquidity position, which is healthy and constantly monitored, has always remained solid thanks to the extensive availability of liquid reserves and the stability of funding, so that the liquidity indicators – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) – show values as at June 30, 2021 of 313.557% and 236.547%, respectively, well above the regulatory limits for the TUB scope of consolidation.

Impacts of the Covid-19 pandemic

In light of the business model, the Covid-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

1.5 Operational risks

Qualitative information

A. General aspects, management processes and methods used to measure operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, 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 behaviour at all operational levels, as well as designing, implementing and managing an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted by the Group consists of five stages: (i) identification, (ii) measurement, (iii) monitoring, (iv) management and (v) reporting.

The stage of identifying operational risks involves collecting operational risk information through the consistent, coordinated treatment of all relevant sources of information. The goal is to establish a complete information base. The necessary information is internal loss data accompanied by all information relevant for management purposes and subjective assessments acquired through risk self-assessment and control processes. This information is collected based on specific classification models, designed to ensure a uniform representation of the data. The Identification stage consists of the following processes:

- Identification of operational risks within company procedures (operational risk map for controls): this activity consists in identifying operational risk through an in-depth analysis of company organisational processes and the mapping of potential risks. The assessment approach is expressed by the process/activity owner – specified within the procedures – through a predominantly qualitative analysis, which allows the identification of the activities at risk, the controls, the level of risk associated with each activity at risk mapped in the operating procedures, and thus the actions to be taken in order to make the process as closely monitored as possible;
- Loss data collection (LDC): the operational risk measurement and management system defined by the Parent Company's Risk Management Function also allows the Group to have a database of operational losses generated by risk events (Event Type), useful for identifying risk factors, mitigation actions and retention and transfer strategies, as well as for the possible development over time of internal operational risk measurement systems;
- Risk Self Assessment (RSA): the Group performs an annual overall assessment of the level of exposure to Operational Risks using the RSA process. The Risk Self Assessment (RSA) is an annual self-assessment of the prospective exposure to the operational risk inherent in business processes, aimed at enhancing the perception of risk by the key figures (Business Experts) who govern the execution of these processes, taking into account the expected evolution of the business and the organisational and control measures already in place;
- Identification of operational risks related to IT risk: furthermore, on an annual basis, in order to determine the exposure to ICT risk, the Bank has defined a specific model for the evaluation of IT risk that is in accordance with national and European legislation that responds to the needs for the identification of the specific risks inherent in the ICT sphere, internal or dependent on the outsourcers, and for the better qualification of operational risks through the evaluation of the specific elements involved in the automatic processing of information;
- Identification of operational risks in connection with the introduction of relevant new products, activities, processes and systems. 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;
- Identification of operational risks associated with Major Transactions (MT): the risk resulting from an MT is assessed by assessing the consistency of the MT's risk profile with the risk appetite defined in the RAF.

The measurement phase consists of computing the capital requirements for operational risk using 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). Moreover, for a better assessment of risk exposure, the Bank has implemented a quantitative operational risk assessment process (OpVaR) that monitors the Group's operational risk calculated to the 99.9th percentile.

The monitoring stage consists of the adoption of an articulated control system that provides for the analysis of the causes of loss events and the monitoring of the trend of loss events, in terms of evaluating the trend of losses deriving from the LDC and RSA processes. 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, concerning 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).

The stage of Managing operational risk seeks to continually assess the risk control and reduction strategies, deciding – based on the nature and scale of the risk and in relation to the risk propensity expressed by senior managers – whether to accept it and therefore assume it, on the part of the person in charge of the process, to refuse it and therefore reduce activities, to implement mitigation policies or to transfer it to third parties by way of insurance policies. 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 and payment service security.

Finally, the reporting stage aims to ensure timely and appropriate communication in support of management decisions of corporate bodies and organisational functions.

Impacts of the Covid-19 pandemic
In light of the business model, the Covid-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

Section 4 - Risks of the other companies

Qualitative information

The condensed consolidated half-yearly financial statements include the aggregated balance sheet items of BFF Bank S.p.A., BFF Finance Iberia S.A., the special purpose vehicle BFF SPV S.r.l. and BFF Polska Group.
The SPV, established for the securitization transactions structured by the Bank, was included in the scope of consolidation, pursuant to the requirements of IASs/IFRSs providing for the obligation to consolidate a special purpose entity when - absent an investment relationship - the company that prepares the financial statements substantially controls the special purpose entity.
These companies do not show further and relevant risk factors other than those mentioned in the preceding paragraphs.
As mentioned, as of June 30, 2021 the process of closing the securitisation transaction as well as the repayment of the notes was completed. The special purpose vehicle BFF SPV S.r.l. was placed in liquidation.

Part F - Information on Consolidated Equity

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the prudential scope of consolidation coincides with the accounting scope except for the exclusion of the securitisation vehicle, and establishes BFF Bank as the parent.

Section 1 - Consolidated shareholders' equity

A. Qualitative information

The equity of the Banking Group 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 shareholders' equity: breakdown by type of enterprise

(Values in thousand euros)

Items in Shareholders' Equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	142,626				142,626
2. Share premium reserve	66,443				66,443
3. Reserves	330,477				330,477
4. Equity instruments					
5. (Treasury shares)	(1,392)				(1,392)
6. Valuation reserves:					
- Equity instruments measured at fair value through other comprehensive income					
- Hedging of equity instruments measured at fair value through other comprehensive income					
- Financial assets (other than equity instruments) at fair value through other comprehensive income	4,821				4,821
- Tangible assets					
- Intangible assets					
- Hedging of foreign investments					
- Cash flow hedges					
- Hedging instruments [undesignated elements]					
- Foreign exchange differences	(2,463)				(2,463)
- Non-current assets held for sale and discontinued operations					
- Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)					
- Actuarial gains (losses) relating to defined benefit plans	(173)				(173)
- Share of valuation reserves for equity investments measured at equity:					
- Special revaluation laws	4,135				4,135
7. Profit (Loss) (+/-) for the period attributable to the Group and minority interests	210,320				210,320
Total	**754,792**	**0**	**0**	**0**	**754,792**

Section 2 - Own funds and regulatory ratios

Scope of application of the regulation

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

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

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation at June 30, 2021 envisages that BFF Bank Spa is the parent.

Own funds

Qualitative information

Own funds represent the first line of defence against risks associated with the complexity of financial activities and constitute the main reference parameter for the assessment of the Group's capital adequacy.

The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum mandatory capitalization in relation to the risks assumed.

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

Own funds are the sum of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) capital, net of items to be deducted and IAS/IFRS prudential filters.

The main components of the Group's own funds are computed in Common Equity Tier 1 (CET1), and are the following:

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

Intangible assets, including any goodwill, as well as certain categories of tax assets should be deducted from these items in accordance with the requirements of CRR II.

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

The increase in BFF Banking Group's own funds compared to December 31, 2020 was mainly influenced by the acquisition and merger of DEPObank SpA into BFF Bank. The main changes refer to the revaluation of the investment in the Fiduciary Union (a company subject to significant influence and consolidated according to the equity method) equal to €4.5 million and the inclusion in the Own Funds of the net profit for the period, for a portion equal to €177.6 million. This amount consists of the sum of €163.4 million relating to badwill, €23.7 million relating to the net effect of tax relief on goodwill of the Payments BU net of charges incurred for Liability Management activities amounting to €9.5 million (net of tax effect).

The capital ratios and own funds do not include approximately €212 million, of which €165.3 million relating to the total dividends to be distributed and €46.6 million relating to the normalised profit as of June 30, 2021 not allocated to capital as the TCR is greater than 15%.

Quantitative information

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

(Values in thousand euros)

ITEMS/VALUES	Total 06.30.2021	Total 12.31.2020
A. Common Equity Tier 1 (CET1) pre-application of prudential filters	**556,840**	**287,817**
of which CET1 instruments subject to transitional provisions		
B. Prudential CET1 filters (+/-)	**(126)**	
C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)	556,713	287,817
D. Elements to be deducted from CET1	(146,263)	(36,675)
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) (C - D +/-E)	**410,450**	**251,142**
G. Tier 1 (Additional Tier 1 - AT1) inclusive of elements to be deducted and effects of transitional rules		
of which AT1 instruments subject to transitional provisions		
H. Elements 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) (G - H +/- I)		
M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules	98,224	98,224
of which T2 instruments subject to transitional provisions		
N. Elements 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)	**508,674**	**349,366**

2.3 Capital adequacy

A. Qualitative information

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

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

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

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

In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).

The Group's total exposure to risks at June 30, 2021, 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 E Tier 1 Capital Ratio is 18.6% and the Total Capital Ratio is 23.0%. The capital ratios and own funds do not include approximately €212 million, of which €165.3 million relating to the total dividends to be distributed and €46.6 million relating to the normalised profit as of June 30, 2021 not allocated to capital as the TCR is greater than 15%.

Pillar I – Capital adequacy to meet the typical risks associated with financial operations

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

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

Credit risk

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

Counterparty risk

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

For BFF, counterparty risk can be generated by repurchase agreements and derivatives. 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, amongst other items, 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 deter- mined 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/ILAAP Report

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

BFF Banking Group annually submits the "ICAAP/ILAAP Report" to the Bank of Italy, thus providing an update on the internal processes for determining adequacy of capital and of liquidity risk governance and management systems of the Group. In accordance with prudential supervisory provisions, the Group has prepared the "ICAAP/ ILAAP Report" approved by the BFF Board of Directors on June 24, 2020. The Report has been prepared in compliance with the new requirements introduced in 2018 by Circular No. 285. In particular, the updates involve, among other, regulatory changes in regards to "Prudential supervision" (Part I, Title III, Chapter 1), which are mainly linked to the introduction of (i) an internal process for determining the adequacy of the liquidity risk governance and management systems ("ILAAP" - Internal Liquidity Adequacy Assessment Process), (ii) new content in the area of internal processes for determining capital adequacy ("ICAAP" - Internal Capital Adequacy Assessment Process) and (iii) different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy. These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) no. 468/2014, which include BFF Banking Group.

With regard to the "Supervisory Review and Evaluation Process" (SREP), the SREP procedure has not yet been completed by the Supervisory Authority, therefore the Bank, at a Group level, must comply with the same levels established on March 31, 2020 by the Bank of Italy, i.e. it informed the Group that it had adopted a new capital decision for 2020, and therefore BFF Banking Group must comply with a CET1 Ratio of 7.85%, a Tier1 Ratio of 9.65%, and a Total Capital Ratio of 12.05%, with an incremental change of 0.05% for each indicator compared to the previous report.

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. Note that at December 31, 2020 the coefficients shown below are pro forma as the CRR Group had BFF Luxembourg S.a.r.l. in the top position.

(Values in thousand euros)

Categories/values	Non-weighted amounts		Weighted amounts / requirements	
	06.30.2021	12.31.2020	06.30.2021	12.31.2020
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardised methodology	11,062,152	6,092,559	1,545,611	1,208,030
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			123,649	96,642
B.2 Credit valuation adjustment risk			1	
B.3 Settlement risks				
B.4 Market risks				
1. Standard methodology				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			51,950	32,613
2. Standardised method				
3. Advanced method				
B.6 Other calculation factors				
B.7 Total prudential requirements			**176,798**	**129,256**
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			2,209,979	1,615,694
C.2 CET 1/Risk-weighted assets (CET1 capital ratio) (%)			**18.6%**	**15.5%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**18.6%**	**15.5%**
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) (%)			**23.0%**	**21.6%**

Part G - Business combinations of companies or business units

Section 1 - Transactions completed during the year

On May 13, 2020 BFF signed a binding agreement governing the acquisition from Equinova UK Holdco Limited[7] ("**Equinova**") of control of DEPObank and the subsequent merger by incorporation of the latter into BFF Bank S.p.A. (the"**Operation**").

On June 24, 2020 the boards of directors of BFF and DEPObank approved the merger plan for the merger by incorporation of DEPObank into BFF, including (i) the exchange ratio of 4.2233377 BFF shares per each DEPObank share, without any cash balance payments, and, (ii) as limited to BFF, the plan to amend the Articles of Association governing the change of the name of the Bank and banking group, which from the effective date of the merger changed respectively to "BFF Bank S.p.A." and "BFF Banking Group", respectively, as well as the change in share capital, which increased through the issuance of 14,043,704 new ordinary BFF shares for Equinova. In addition, following the authorisations from the authorities (Bank of Italy and European Central Bank) obtained on December 9, 2020, BFF and DEPObank approved their respective illustrative reports on the Merger Plan for the merger by incorporation of DEPObank into BFF, prepared in accordance with Art. 2501-*quinquies* of the Italian Civil Code and Art. 70 of the Issuers Regulation, in addition to convening their respective extraordinary shareholders' meetings to approve the merger and approving and making available to the public the Merger Plan and additional prescribed documentation in view of the aforementioned extraordinary shareholders' meetings.

On January 28, 2021, the Shareholders' Meeting met and, in an extraordinary session, approved the proposed merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. into Banca Farmafactoring S.p.A., then completed on March 5. On March 5, 2021 the merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. into Banca Farmafactoring S.p.A. was completed and Banca Farmafactoring changed its name to BFF Bank S.p.A.
To ensure full continuity and efficiency, in addition to the high quality of service that characterises the history of both companies, DEPObank's business has been merged into an independent division within BFF called Transaction Services.

From an accounting point of view, in accordance with the provisions of IFRS 3 revised ("Business Combination"), following the merger transaction described above, within 12 months of its completion the Purchase Price Allocation (PPA) of DEPObank will be made in light of the investigations carried out both in the preliminary phase conducted prior to the acquisition and based on the further assessments being performed following the acquisition of the bank.

Specifically, 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.

7) A holding company whose shareholders are funds managed by Advent International Corporation, Bain Private Equity Europe LLP and Clessidra SGR S.p.A. and which holds an approximately 91% equity interest in DEPObank. The remaining 9% is held by various Italian banks: Banco BPM (2.5%), Credito Valtellinese (2.0%), Banca Popolare di Sondrio (2.0%), UBI Banca (1.0%) and other Italian banks (the "**Minority Shareholders**").

In accordance with IFRS 3, each business combination requires the identification of an acquirer. The latter must be identified in the entity that obtains control of another entity or group of businesses.
The acquisition, and therefore the first-time consolidation of the acquiree, is accounted for on the date in which the acquirer obtains effective control of the business or the assets acquired. When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.
The consideration transferred in a business combination is measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed, and the equity instruments issued by the acquirer in exchange for control.
Business combinations are accounted for using the "acquisition method", which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.
The accounting for a business combination can be made on a provisional basis by the end of the year in which the combination is effected, but must be perfected within 12 months of the acquisition date.

As defined above, as a general rule IFRS 3 requires business combinations to be accounted for using the acquisition method.

To apply said method, BFF worked through the following stages:

- identification of the acquirer;
- determination of the acquisition date;
- recognition and measurement at fair value of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- determination of the consideration for the business combination;
- recognition and measurement of goodwill or a gain from a favourable deal.

The acquisition of DEPObank generated a negative surplus (Badwill) equal to €163.4 million recorded in the Financial Statements under the item "230 Other operating expenses and income". This value derives from the lower price paid for the purchase of DEPObank's equity investment than the Net Equity expressed at fair value at the time of closing.

The Bank also made use of the option permitted by Italian Decree-Law no. 104 of August 14, 2020, which provides for the possibility for IAS/IFRS subjects to realign the tax values of the assets that are recorded in the 2019 and 2020 financial statements to their higher book value, with the payment of a substitute tax at a rate of 3%.
With regard to this latter aspect, note that the Bank proceeded with the tax realignment of the value of the goodwill of the Payments cash generating unit, amounting to €81.0 million present in the Financial Statements of the former DEPObank. This transaction resulted in a net tax benefit of €23.7 million.

Finally, note that to implement this merger the Group allocated approximately €35 million in transaction and integration costs, of which approximately €21 million were already committed at June 30, 2021 , equal to 66%.

The valuation of the fair value of DEPObank's assets and liabilities and the Purchase Price Allocation (PPA) will be completed within the timing set by IFRS 3, and in any case within one year of the closing of the transaction.

Part H - Transactions with related parties

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, 2021, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statement item.

(Values in thousand euros)

	Parent company	Directors and Executives with key management responsibilities (1)	Total related parties	Financial statement item	% of the financial statement item	Cash flow statement item	% of cash flow statement item
Impact of transactions on the consolidated balance sheet							
Payables due to customers							
As at June 30, 2021		(241)	(241)	(8,284,710)	0.0%	3,976,670	0.0%
Provision for risks and charges: a) pensions and similar obligations							
As at June 30, 2021		(1,334)	(1,334)	(5,471)	24.4%	711,028	0.2%
Other liabilities							
As at June 30, 2021		(540)	(540)	(757,575)	0.1%	711,028	0.1%
Reserves							
As at June 30, 2021		(3,042)	(3,042)	(330,477)	0.9%	711,028	0.4%
Impact of transactions on the consolidated income statement							
Interest expenses and similar charges							
As at June 30, 2021		(0.11)	(0.11)	(24,510)	0.0%	0	0.0%
Administrative expenses: a) personnel expenses							
As at June 30, 2021		(5,694)	(5,694)	(34,069)	16.7%	0	0.0%
Net provisions for risks and charges							
As at June 30, 2021		(286)	(286)	(1,691)	16.9%	(1,691)	16.9%

(1) Including members of the Board of Directors.

At June 30, 2021 the option rights relating to the outstanding stock option plans accounted for 4.88% of fully diluted capital, equal to 9,041,610 options awarded.
Specifically, at June 30, 2021, with regard to the 2016 stock option plan (according to which a total of 8,358,640 option rights had been assigned), the number of options assigned and not exercised amounted to 2,824,690

(6,830,198 at December 31, 2020). The vesting period has matured for 1,876,689 of these (3,626,068 at December 31, 2020).
With regard to the 2020 stock option plan, 6,370,000 options were assigned as of June 30, 2021 (compared to 6,620,000 options assigned as of December 31, 2020), none of which is yet exercisable.

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, 2021 are as follows:

- BFF Finance Iberia (through the Spanish branch of BFF Bank): €145.7 million;
- BFF Polska: PLN 2,612 million, of which PLN 22 million through the Polish branch of BFF Bank and €100,000;
- BFF Central Europe: €179.9 million;
- BFF MedFinance: PLN 301.0 million;
- BFF Ceska Republika: CZK 32 million.

BFF Bank and BFF Finance Iberia have entered into a licence agreement. Such agreement allows the use, under license, of the software, organizational methods and communication lines of BFF Bank (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at June 30, 2021 amounted to about €632 thousand.

Moreover, as of 2021 BFF Bank has the following licence agreements in place:

- with BFF Central Europe, which allows the use, under licence, of the software, organizational methods and communication lines of BFF (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at June 30, 2021 amounted to about €41 thousand;
- with BFF Ceska Republika, which allows the use, under licence, of the software, organizational methods and communication lines of BFF (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at June 30, 2021 amounted to about €1 thousand.

During 2016, BFF Finance Iberia purchased Italian healthcare receivables from the Parent for about €82 million. At the end of the reporting period, these receivables were already collected for about €80.9 million with an outstanding balance of about €0.9 million.

BFF Bank 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, 2021 amounted to approximately €384 thousand.

It should be noted that BFF Banks provides the following:

- risk management activities for the subsidiary BFF Finance Iberia, for €12,000 per year;
- internal audit activities for the subsidiary BFF Finance Iberia, for €6,400 per year;
- administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year.

The Group has also entered into agreements with its shareholder companies in relation to factoring services and the management and collection of receivables at arm's length.

Lastly, it should be noted that the conditions of deposit accounts relating to Group directors and other related parties correspond to those recorded in the relevant prospectus at the time the deposit accounts were opened.

Part I - Share-Based Payments

A. Qualitative information

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, authorised beneficiaries who requested it can be allocated a number of shares determined based on the market value of the shares at the exercise date, with no obligation for them to pay the exercise price.

In line with current regulations, the options granted under the 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.

Note that the plan is subject to malus and clawback conditions: options are subject to ex post correction mechanisms (malus and/or clawback) which, when the pre-set circumstances arise, result in the loss and/ or the restitution of the rights attributed by the plan.

At June 30, 2021 the number of stock options assigned and not exercised amounted to 2,824,690. The vesting period has matured for 1,876,689 of these and are thus exercisable. At June 30, 2021, 5,099,392 options were exercised in cash-less mode and 376,238 options exercised in ordinary mode, equivalent to 1,182,579 shares of the bank (of which 803,904 newly issued).

2020 Stock Option Plan

On April 2, 2020, the Ordinary Shareholders' Meeting approved a new Stock Option Plan ("2020 Plan") for employees and directors holding executive positions in the Company and/or its subsidiaries, having 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 identified by the Board of Directors and/or the CEO at their sole discretion – within the limits envisaged by the applicable legislation and the plan – among the employees and/or Directors with executive positions in the Company and/or its subsidiaries;
- *Type of exercise*: ordinary or cashless exercise.

The options assigned within each tranche accrue upon completion of the vesting period, i.e. after 3 years from the relative assignment date. Vesting is subject to the following conditions being met: (i) The continuation of the employment relationship with the Group and/or of the office held in the Board of Directors and absence of notice due to resignation or dismissal; and (ii) Levels of capital and liquidity resources necessary to cover the activities undertaken and compliance with other parameters, also of a regulatory nature.

At June 30, 2021 6,370,000 options were assigned under the 2020 Plan, none of which is exercisable.

Part L - Segment reporting

Consistent with the business areas identified in order to monitor and analyse the Group's results, the Group Sector information is divided into representative sections of the three BUs that offer products/services to customers:

- Factoring & Lending BU, which offers products such as non-recourse factoring, lending and credit management mainly to public administration bodies and private hospitals;
- Securities Services BU, which deals with custodian banking for investment funds and related services such as global custody, fund accounting and transfer agents for national managers and banks and for various investment funds such as pension funds, mutual funds and alternative funds;
- Payments BU, which deals with payment processing, corporate payments and cheques and bills and has as customers medium-small Italian banks, medium-large companies and boasts a partnership with Nexi.

For comments and details on the items listed, please refer to the specific sections contained in the chapter on Operating Performance.

Factoring & Lending BU

Turnover managed, Volumes and Loans to customers	06.30.2020	06.30.2021
Turnover managed	**3,841**	**4,335**
Italy	2,828	3,230
Spain	898	873
Portugal	77	175
Greece	33	44
Croatia	0	1
France	5	12
Volumes	**2,541**	**2,468**
Italy	1,374	1,293
Spain	728	685
Portugal	77	140
Greece	33	44
Croatia	0	1
France	5	12
Poland	305	271
Slovakia	17	21
Czech Republic	2	-
Receivables due from customers	**3,789**	**3,359**
Italy	2,325	1,819
Spain	406	286
Portugal	121	224
Greece	51	74
Croatia	1	2
France	3	6
Poland	682	724
Slovakia	197	223
Czech Republic	3	1

Income Statement	06.30.20	06.30.21
Total net revenues	78.4	70.7
Direct costs	(18.0)	(17.9)
Net write-downs/write-backs on tangible/intangible assets	(0.9)	(0.8)
Net value adjustments/write-backs for credit risk	(2.2)	(0.2)
Net provisions for risks and charges	(0.1)	0.2
Profit (loss) before tax from continuing operations	**57.2**	**52.1**

Securities Services BU

Amounts managed, customers served, transactions executed and deposits	1H20	1H21
Custodian Bank (AuD, €m)	70,130	80,461
Fund Accounting (AuM, €m)	44,572	51,841
Transfer Agent (no. customers, #k)	2,182	2,159
Global Custody (AuC, €m)	141,914	168,452
Settlements (no. transactions, #k)	1,237	1,357
Deposits - Final Balance (€m)	5,262	6,401

Income Statement	1H20	1H21
Total net revenues	**26.2**	**27.0**
Direct costs	(13.9)	(14.2)
Net write-downs/write-backs on tangible/intangible assets	(0.7)	(0.5)
Net provisions for risks and charges	(0.4)	0.0
Profit (loss) before tax from continuing operations	**11.2**	**12.4**

Payments BU

Transactions executed and deposits	1H20	1H21
Intermediations (no. transactions #k)	136,015	149,800
Settlements (no. transactions #k)	85,927	85,924
Cheques and Bills (no. transactions #k)	17,073	13,476
Corporate payments (no. transactions #k)	26,390	28,326
Deposits - Final Balance (€m)	2,173	2,116

Income Statement	1H20	1H21
Total net revenues	**23.3**	**29.4**
Direct costs	(14.7)	(15.3)
Net write-downs/write-backs on tangible/intangible assets	(0.6)	(0.4)
Net provisions for risks and charges	(0.0)	0.0
Profit (loss) before tax from continuing operations	**7.9**	**13.6**

Part M - Lease Reporting

On January 1, 2019, the new accounting standard IFRS 16 with the new definition and accounting model for "leases" came into effect. This standard is based on transferring the right-of-use for a leased asset, and applies to all leases with the exception of leases with a lease term of 12 months or less or those for which the underlying asset has a contractual value below €5,000.

Based on this accounting model, the "right of use" is recognized in the balance sheet as an asset, and future payments relating to the same leased asset shall be entered as a liability. Any depreciation relating to the right-of-use asset, and any relevant interest expenses, shall be recognized in the income statement.

The application of IFRS 16 changed the accounting substantially for lessees, as it eliminates a lessee's classification of leases as either operating leases or finance leases.

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

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

Section 1 - Lessee

Qualitative information

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

For the purposes of the first adoption of the accounting standard (first-time adoption or FTA), on January 29, 2019 the Board of Directors resolved that BFF and all companies belonging to BFF Banking Group shall adopt the "Modified Retrospective Approach". As a result, the Group does not need to apply the standard retrospectively (therefore considering complex comparative information), and the amount relating to right-of-use assets under "Tangible assets" is equal to the financial liability amount.

Quantitative information

BFF Banking Group's right-of-use assets accounted for as "Tangible assets" at first- time adoption and at June 30, 2021 are shown below.

(Values in € million)

	Rights of use 06.30.2021	Rights of use 12.31.2020
BFF	14,976	4,089
BFF Finance Iberia	1,148	1,211
BFF Polska Group	1,157	1,483
Total BFF Banking Group	**17,281**	**6,783**

For more details on the accounting impacts related to Tangible assets and Financial liabilities measured at amortized cost, please refer to the specific section of Part B of the Explanatory Notes.

Section 2 - Lessor

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

Quantitative information

(Values in thousand euros)

Time periods	Total 06.30.2021 Lease payments to be received	Total 12.31.2020 Lease payments to be received
Up to 1 year	245	421
More than 1 year to 2 years	223	244
More than 2 year to 3 years	216	228
More than 3 year to 4 years	197	209
More than 4 year to 5 years	170	185
Over 5 years	103	235
Total lease payments to be received	**1,154**	**1,522**
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)		
Unguaranteed residual value (-)		
Loans for leases	1,665	1,937

04

Individual Financial Statements

as at June 30, 2021
of BFF Bank S.p.A.

Individual Balance Sheet

Assets		**06.30.2021**	**12.31.2020**
10.	Cash and cash equivalents	787,467,594	173,278,882
20.	Financial assets measured at fair value through profit or loss	37,773,484	0
30.	Financial assets measured at fair value through other comprehensive income	83,560,769	163,924
40.	Financial assets measured at amortised cost	9,353,563,742	5,345,534,660
	a) due from banks	*904,909,391*	*21,000,939*
	b) loans to customers	*8,448,654,351*	*5,324,533,721*
50.	Hedging derivatives	4,174,790	0
70.	Equity investments	150,491,361	141,927,288
80.	Tangible assets	34,236,556	14,388,562
90.	Intangible assets	103,183,050	4,565,071
	of which		
	- goodwill	*81,017,025*	*0*
100.	Tax assets	114,558,518	10,294,393
	a) current	*44,018,436*	*2,969,622*
	b) deferred	*70,540,082*	*7,324,771*
120.	Other assets	189,568,558	23,613,308
TOTAL ASSETS		**10,858,578,422**	**5,713,766,088**

Liabilities and Shareholders' Equity		06.30.2021	12.31.2020
10.	Financial liabilities measured at amortised cost	9,288,279,381	5,118,731,966
	a) due to banks	*927,628,024*	*755,323,661*
	b) payables due to customers	*8,178,416,717*	*3,604,512,791*
	c) securities issued	*182,234,640*	*758,895,514*
20.	Financial liabilities held for trading	543,709	0
40.	Hedging derivatives	657,801	0
60.	Tax liabilities	101,727,594	78,373,474
	a) current	*0*	*0*
	b) deferred	*101,727,594*	*78,373,474*
80.	Other liabilities	730,776,296	64,809,165
90.	Employee severance pay	3,843,144	666,641
100.	Provision for risks and charges	21,079,178	6,313,279
	a) commitments and guarantees given	*92,987*	*776,986*
	b) post-employment benefits and similar obligations	*5,238,442*	*4,715,160*
	c) other provisions	*15,747,749*	*821,133*
110.	Valuation reserves	4,131,888	3,921,324
140.	Reserves	309,829,467	169,092,204
150.	Share premium reserve	66,442,541	693,106
160.	Share capital	142,625,674	131,400,994
170.	Treasury shares	(1,392,207)	(3,517,312)
180.	Profit (Loss) for the period	190,033,956	143,281,247
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,858,578,422**	**5,713,766,088**

Individual Income Statement

	Items	06.30.2021	06.30.2020
10.	Interest income and similar income	70,193,869	78,916,303
	of which: interest income calculated according to the effective interest method	65,951,566	71,597,030
20.	Interest expenses and similar charges	(23,059,726)	(18,831,495)
30.	**Interest margin**	**47,134,143**	**60,084,808**
40.	Fee and commission income	43,527,661	4,514,680
50.	Fee and commission expense	(11,369,504)	(926,985)
60.	**Net fees and commissions**	**32,158,157**	**3,587,695**
70.	Dividends and similar income	3,671,395	58,463,379
80.	Profits (losses) on trading	2,975,329	3,815,877
90.	Profits (losses) on hedging	(1,847,826)	0
100.	Profits (losses) on disposal or repurchase of:	(12,662,994)	77,390
	a) financial assets measured at amortised cost	*(15)*	*0*
	b) financial assets measured at fair value through other comprehensive income	*(13,109)*	*21,389*
	c) financial liabilities	*(12,649,870)*	*56,001*
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	992,786	0
	b) other financial assets subject to mandatory fair value measurement	992,786	0
120.	**Intermediation margin**	**72,420,990**	**126,029,149**
130.	Net losses/recoveries for credit risk associated with:	(2,808,393)	1,565,998
	a) financial assets measured at amortised cost	*(2,661,804)*	*1,565,309*
	b) financial assets measured at fair value through other comprehensive income	*(146,589)*	*689*
150.	**Net result from banking activities**	**69,612,597**	**127,595,147**
160.	Administrative expenses:	(74,909,153)	(35,547,422)
	a) personnel expenses	*(29,429,629)*	*(16,017,219)*
	b) other administrative expenses	*(45,479,524)*	*(19,530,203)*
170.	Net provisions for risks and charges	2,065,880	371,820
	a) commitments and guarantees given	*688,115*	*304,164*
	b) other net provisions	*1,377,765*	*67,656*
180.	Net write-downs/write-backs on tangible assets	(1,696,117)	(1,073,189)
190.	Net write-downs /write-backs on intangible assets	(4,107,242)	(950,440)
200.	Other operating income/expenses	175,927,850	5,137,716
210.	**Operating costs**	**97,281,218**	**(32,061,516)**
260.	**Profit (loss) before tax from continuing operations**	**166,893,815**	**95,533,632**
270.	Income taxes for the financial year on current operations	23,140,141	(11,309,263)
280.	**Profit (Loss) from current operations after tax**	**190,033,956**	**84,224,369**
300.	**Profit (Loss) for the period**	**190,033,956**	**84,224,369**
	Basic earnings per share	**1,026**	**0,494**
	Diluted earnings per share	**0,978**	**0,464**

Statement of Individual Comprehensive Income

(Values in euro units)

Items		06.30.2021	06.30.2020
10.	**Profit (Loss) for the period**	**190,033,956**	**84,224,369**
	Other income components net of taxes that may not be reclassified to the income statement		
20.	Equity instruments carried at fair value through other comprehensive income		
30.	Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)		
40.	Hedging of equity instruments carried at fair value through other comprehensive income		
50.	Tangible assets		
60.	Intangible assets		
70.	Defined-benefit plans	(17,267)	4,839
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves for equity investments measured at equity		
	Other income components net of taxes reclassified to the income statement		
100.	Hedging of foreign investments		
110.	Foreign exchange differences	(36,585)	13,524
120.	Cash flow hedges	0	0
130.	Hedging instruments (undesignated elements)		
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	264,416	(91,246)
150.	Non-current assets held for sale and discontinued operations		
160.	Share of valuation reserves for equity investments measured at equity		
170.	**Total other income components net of tax**	**210,565**	**(72,883)**
180.	**Comprehensive income (Items 10+170)**	**190,244,521**	**84,151,486**

05

Certification by the Financial Reporting Officer

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 BFF Bank 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 2021.

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 2021 was verified based on internally defined method adopted by BFF Bank 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 2021:

   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 2021

Massimiliano Belingheri
Chief Executive Officer

Carlo Zanni
Financial Reporting Officer

06

Report of the Independent Auditors

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

To the Shareholders of
BFF Bank S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of BFF Bank S.p.A. and its subsidiaries (BFF Banking Group), comprising the consolidated balance sheet as at 30 June 2021, the consolidated income statement and the consolidated statements of comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows for the six months then ended and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an 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 condensed interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the BFF Banking Group as at and for the six months ended 30 June 2021 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Other Matter

The consolidated financial statements of the previous year and the condensed interim consolidated financial statements as at and for the six months ended 30 June 2020 have been respectively audited and reviewed by another auditor who expressed an unmodified opinion on the consolidated financial statements and an unmodified conclusion on the condensed interim consolidated financial statements on 4 march 2021 and on 7 august 2020, respectively.

Milan, 9 August 2021

KPMG S.p.A.

(signed on the original)

Roberto Spiller
Director of Audit

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