Financial Statements

2022

BFF

The works of art reproduced in this report were created by the artist Valerio Adami, and they are part of 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 art volume represents the first step in a more extensive project involving the promotion of the collection abroad, in a travelling exhibit throughout Europe, which will end in 2023.

www.art-factor.eu

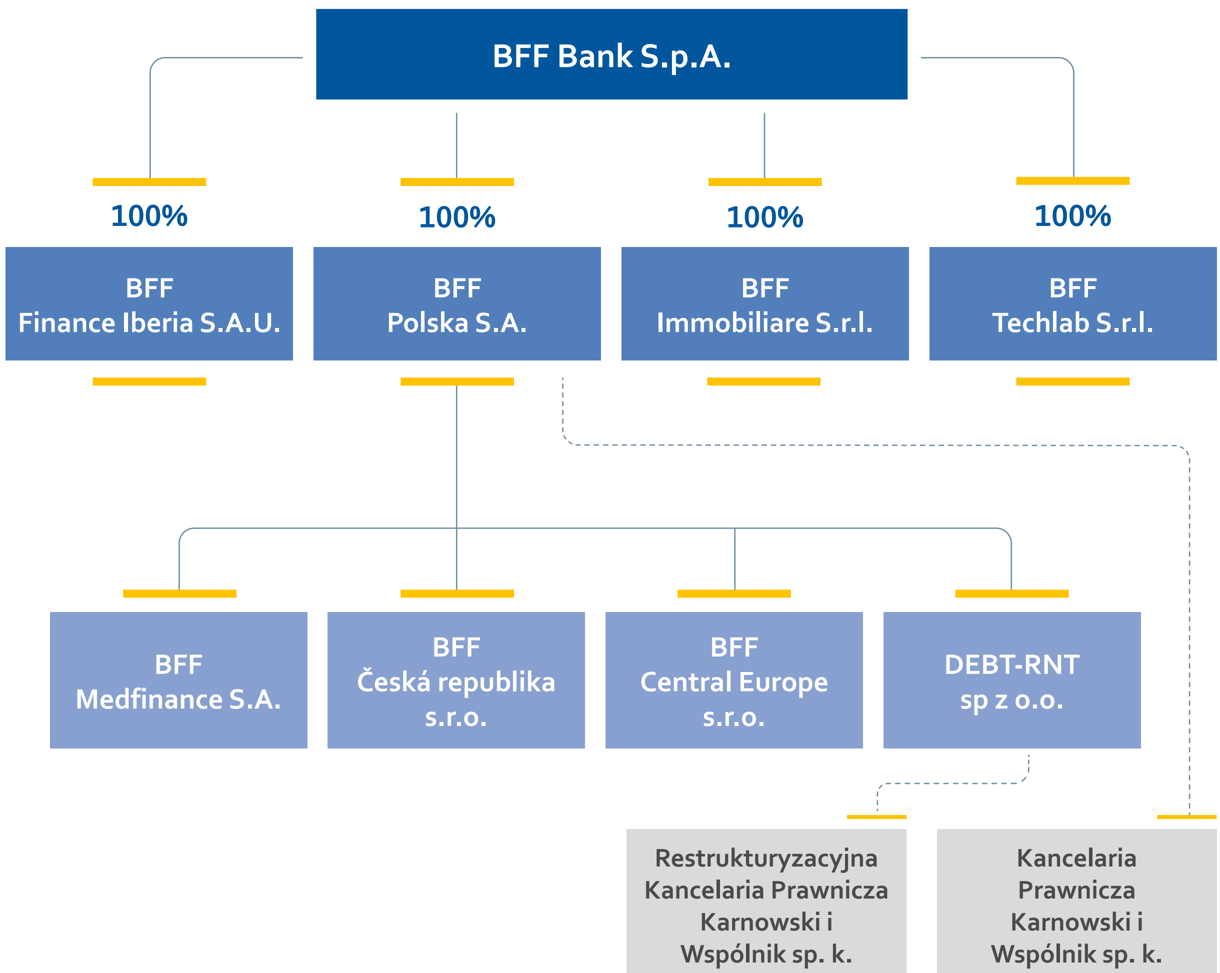
BFF Bank S.p.A.
Parent of the BFF Banking Group
Registered Office in Milan - Via Domenichino 5
Share Capital €142,851,591.88 (fully paid-in)
Milan Company Register no.,
Tax Code and VAT no. 07960110158

Annual Report

2022

Contents

Group Structure



Corporate Bodies at December 31, 2022

BOARD OF DIRECTORS

Chairman	Salvatore Messina	
Chief Executive Officer	Massimiliano Belingheri	
Vice Chairman	Federico Fornari Luswergh	
Directors	Anna Kunkl (*) Michaela Aumann Piotr Henryk Stępniak	Domenico Gammaldi Monica Magrì (**) Giovanna Villa

The Board of Directors will remain in office until the Shareholders' Meeting that will approve the Financial Statements at December 31, 2023.

ROLE OF MEMBERS OF THE BOARD OF DIRECTORS AND INDEPENDENCE REQUIREMENTS

NAME	OFFICE IN BFF	EXECUTIVE	NON-EXECUTIVE	INDEPENDENCE
Salvatore Messina	Chairman		✓	
Federico Fornari Luswergh	Vice Chairman		✓	
Massimiliano Belingheri	Chief Executive Officer	✓		
Anna Kunkl	Director		✓	✓
Michaela Aumann	Director		✓	✓
Piotr Henryk Stepniak	Director		✓	
Domenico Gammaldi	Director		✓	✓
Monica Magrì	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, most recently approved by the Board on July 28, 2021.

(*) Appointed by co-option by the Board of Directors on March 1, 2022, to replace Ms. Amélie Scaramozzino, who resigned as of February 24, 2022, whose appointment was confirmed by the Shareholders' Meeting of March 31, 2022.

(**) Appointed by co-option by the Board of Directors on February 10, 2022, to replace Ms. Barbara Poggiali, who resigned on February 3, 2022, whose appointment was confirmed by the Shareholders' Meeting of March 31, 2022.

BOARD OF STATUTORY AUDITORS

Chairwoman	Nicoletta Paracchini
Standing Auditors	Fabrizio Riccardo Di Giusto Paolo Carbone
Alternate Auditors	Carlo Carrera Francesca Masotti

The Board of Statutory Auditors will remain in office until the Shareholders' Meeting that will approve the Financial Statements at December 31, 2023.

INDEPENDENT AUDITORS

KPMG S.p.A.

FINANCIAL REPORTING OFFICER

Giuseppe Manno

Composition of the Committees at December 31, 2022

REMUNERATION COMMITTEE

NAME	QUALIFICATIONS	POSITION
Giovanna Villa	Independent Director	Chairperson
Domenico Gammaldi	Independent Director	Committee Member
Piotr Henryk Stepniak	Non-Executive Director	Committee Member

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

NAME	QUALIFICATIONS	POSITION
Anna Kunkl	Independent Director	Chairperson
Giovanna Villa	Independent Director	Committee Member
Michaela Aumann	Independent Director	Committee Member

NOMINATIONS COMMITTEE

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

CONTROL AND RISKS COMMITTEE(*)

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

(*) As of 2020, the Board of Directors assigned the following responsibilities in the Environment, Social and Governance ("ESG") area to the Control and Risk Committee: investigative, advisory and propositional functions, and more generally support to the Board of Directors on sustainability issues, including the periodic review of updates on the progress of sustainability measures and the consequent impact on the NFS.

Letter from the Chairman of the Board of Directors

Dear Shareholders,

The events of the last twelve months have in general brought to light the need to evaluate and seek out new balances.

In the first part of the year, our country had managed to curb the original violent spread of the pandemic that began in 2020, but in February the invasion of Ukraine threw the entire planet into a state of global uncertainty, characterized by rising energy costs, soaring inflation and stricter lending conditions.
The crises are also multiplying at regional and local level, and a situation packed with risks has started, requiring an immediate resumption of international collaboration.
However the Russia-Ukraine conflict ends, it will have - and has already started to have - a bitter and lasting effect on development processes, growth, public debt and inflation all over the world.

The most authoritative scholars have noted that never, prior to these last few years, has the planet found itself facing such radical choices, representing veritable turning points that will be capable of reshaping the future of the next generations.
These ongoing crises are converging and combining, giving rise to a global framework of stark change, with new developments in international logistics and the search for new energy balances at its heart, also in order to take the necessary steps for the ecological transition.

Setting aside what has been described above about the new global order, in terms of financial stability it is worth noting that economic activity slowed on the whole in the second half of 2022.

The risk of a recession, especially in manufacturing countries such as Germany and Italy, is concrete, although the most recent economic indicators point to a short and not very deep recession.

The global economic cycle remains highly conditioned by inflation and difficulties in energy and food procurement caused by the ongoing conflict in Ukraine, which has only been exacerbated by the drought and the economic slowdown in China.

Conditions in the global markets have deteriorated since last spring, and the risks for financial stability have increased in Italy as well, although the banking system, households and businesses are more solid overall than in previous periods of turbulence. In particular, banks are benefiting from the recovery in net interest income and improved credit quality, with all-time lows in their NPL ratios.
As for other Eurozone countries, the increase in risks is primarily caused by continuing geopolitical instability, inflationary pressure and more restrictive lending conditions.

Public finance conditions benefited from the 2021 and 2022 economic recovery.
In this framework, it will be important to maintain control over public expenditure and achieve a significant and stable increase in growth potential, also leveraging the effective and prompt implementation of the National Recovery and Resilience Program (NRRP).

The risks for financial stability linked to the situation of households remain limited, although outlooks dimmed in the second half of the year due to continued high inflation.
The financial conditions of businesses are impacted by slowing economic activity, higher energy prices and rising interest rates.
The situation of banks is solid overall, although weaker macroeconomic conditions, inflationary pressures and certain effects of higher interest rates could negatively affect intermediary financial statements.
The degree of liquidity has remained high relative to prior periods.

In any event, the global economy has entered an undecided phase, with some positive factors leading to forecasts of progressive normalization: energy prices have fallen considerably, inflation has started to decline in major countries and the central banks have completed the majority of their interest rate hikes.
In recent months, our production system demonstrated its great capacity for resistance: exports are showing their resilience, and the job market is showing positive signs of stability, so that the feared risk of a recession must be seen with the required prudence. In the third quarter of last year, employment and hours worked stabilized at the high levels of the period prior to the pandemic crisis. Growth in permanent jobs continued. Demand for labor started rising again to a limited extent in the October-November period. Although wages are recovering, trends remained moderate.

While this phase of uncertainty is certainly having repercussions on business competitiveness, it is also worth recalling that in the past we witnessed virtuous investment and technological improvement processes that helped to overcome moments of difficulty.
To do this, businesses will need to look to international megatrends such as, first and foremost, technological innovation and the environmental transition.
Households, which in 2022 faced declining buying power caused by high inflation thanks to the considerable savings accumulated during the pandemic, will necessarily have to reduce demand in 2023.
The actions of the government should be guided by the goal of increasing productivity, combined with the management of the energy emergency, and the implementation of the National Recovery and Resilience Program, which constitutes the greatest opportunity to really reignite the economy and embark upon a path of sustainable growth and structural transformation of our economic and productive system.
Italy cannot avoid this challenge, which is also an opportunity, not only due to the extremely high costs that a country like ours would be forced to bear in the case of inaction, but also because we are one of the top manufacturing countries in the world, and we can make a significant contribution to a more sustainable economy.

Looking at our operating sectors, the year 2022 was once again rich with gratification, with record consolidated net profit and an upward revision of the adjusted net profit target for the year 2023.

In market conditions characterized by high uncertainty and volatility, factoring is positioned as one of the preferred financial solutions of companies for managing business risk and optimizing working capital.
BFF has managed to take advantage of the many opportunities generated by the economic context, confirming its pan-European leadership as an operator supporting suppliers of the healthcare system and the Public Administration, and recording strong growth in its loan portfolio to €5.4 billion: a new all-time high for the Group.

Underlying this achievement is the ability to rapidly respond to changes in the reference context and the evolution of customer needs, also through new solutions aimed at strengthening market share.

This is also the meaning of the birth of *BFF Techlab*, born from the acquisition of MC3 Informatica, our traditional partner in the implementation of the core-factoring system, which will enable us to vertically integrate all development activities linked to the management and continuous evolution of the Group's IT system, in order to boost the speed of response to market stimuli, constantly improve the customer experience and expand our competitive advantage.

It is precisely our mission of remaining close to our customers that was recognized in 2022 with the renewal and strengthening of current collaborations with our largest customers, a sign of the profound relationship of trust we have built over the years.

At the same time, the current context is forcing the Bank to meet significant challenges, to which it will need to respond rapidly and flexibly: current interest rate growth is requiring significant strategic and commercial considerations to protect our and our customers' profitability; the regulatory context constitutes a further element for attention, which will require the Bank to continue to adapt its operating processes and risk management policies.
We continue to be a Group with high asset quality and a very solid capital position, with a Common Equity Tier 1 ratio of 16.9% and a Total Capital Ratio of 22.3%.
2022 also marks the transition to the half-yearly dividend distribution, in April based on the results for the financial year, and in August based on the results for the first half of the year, further accelerating the return of capital to shareholders.
At year-end, the total return from the IPO placement was 153%, compared to the total return of 40% of the FTSE Italia All-Share Index.

The year that just closed was also positive for the payments sector. BFF marked the entry of a range of new important customers belonging to the Italian banking and financial landscape, reinforced its partnerships and enhanced its value added services.
In 2023, we will find ourselves facing new challenges, in light of the continuous evolutions that the sector is experiencing at European and global level: we expect an increasing spread of Instant Payments, following amendments to European regulations, and we are striving to support them; we will continue to aim for payment sector innovation and digitalization by focusing, for example, on the proper and effective transition to T2-T2s Consolidation; we will continue to support our customers by acting as a service bank to optimize investments.

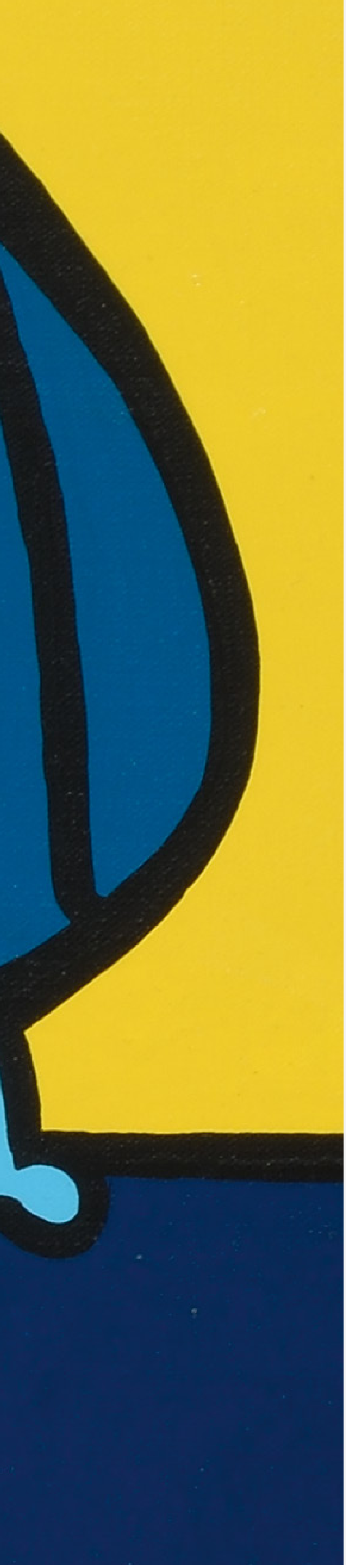
In Securities Services, the 2022 results were certainly influenced by both equity and bond market performance. However, in the course of the year that just ended, our Bank expanded the offer of value added services, standing out as a reference benchmark due to its offer quality and innovation.
In 2022, we increasingly consolidated our market share in the Closed-End Pension Funds segment, which today makes us the top custodian in Italy, with a market share of 37.4%.
Looking at the year that has just begun, we would like to continue to work on value added and lending services to offer our customers the best level of personalization and innovation, while also keeping pace with continuous regulatory developments. We intend to continue to grow in the alternative funds area by taking advantage of the significant opportunities afforded by the market, and as far as pension funds are concerned by consolidating and boosting our market leadership.
We are carefully monitoring the future issue of the decree on Pension Funds, which will also guide these entities in their choice of a custodian. The potential in this area is very significant, and would enable BFF to become the reference custodian in this sector as well.

Looking beyond the core business of BFF, the parent continues to be committed to supporting culture, in line with the Group's social and sustainability policies.
From this perspective, it purchased a 1.25% stake in Istituto dell'Enciclopedia Italiana fondata da Giovanni Treccani [Institute of the Italian Encyclopedia founded by Giovanni Treccani]. This initiative enables our Group to enhance its cultural policies, engaging alongside one of the major Italian centers for the production and dissemination of knowledge.
At the same time, the continuous blossoming of BFF's artistic and cultural initiatives is a point of pride for us, and responds to a sense of responsibility, which leads is to return part of the assets in our possession back to the general public.

In keeping with this approach, we decided to exhibit the works of Italian contemporary art that the parent has been collecting since the 1980s. The international tour already mentioned in the last annual report, and which would like to conclude in 2024 at "Casa BFF", the Group's new head office in Milan, is continuing, with the creation of a museum spaced planned in order to host a permanent exhibition of the works.
Our desire is to share and return to the environment around us part of the wealth we generate, with a view to responsibility to the common good, values which inspire us, and which also gave rise to our other sustainability initiatives, which we will describe in the Non-Financial Disclosure.

In light of all of this, again this year we can look with satisfaction at the future of BFF, whose growth is the fruit of the work and commitment of its human resources, its management and its directors. To them, I express my most heartfelt thanks.

Salvatore Messina
Chairman of the Board of Directors of BFF Bank S.p.A.



01

Report
on Operations

1. Evolution of BFF: Sustainable leader in specialized finance

1985-2009

BFF is born and establishes itself in the market

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

2010-2014

Resilient during the crisis, the process of internationalization and transformation begins

Expansion into **new European countries**: in **Spain** in 2010; in **Portugal** in 2014.

BFF products and services are offered to **all suppliers of public bodies**, always in line with the needs of their customers.

It becomes a bank in 2013.

2015-2020

Listing and European leadership

BFF grows in **Central and Eastern Europe** through a major acquisition in Poland (2016), and is listed on the **Italian stock exchange** (2017).

The international offer is also present in **Greece**, **Croatia** and **France**.

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

TODAY

Leader in specialized finance

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

In 2021 the merger with DEPObank extends the scope of activity and expertise to **Securities Services and banking payment services, for which it is a leader in Italy.**


LEADER IN MARKETS WITH ABUNDANT GROWTH OPPORTUNITIES
STABLE CUSTOMER BASE WITH HIGH CREDITWORTHINESS
SPECIALIZED 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
A MANAGEMENT TEAM WITH SIGNIFICANT EXPERIENCE
Positioned to excel and ensure sustainable results

BFF 2023: a bank *like no other*

BFF is the largest specialized finance operator in Italy, as well as one of the leaders in Europe in the management and non-recourse factoring of trade receivables due from Public Administrations, Securities Services and payment services.

	SECTOR LEADER	CUSTOMERS
Factoring & Lending	#1 in public sector factoring in **EUROPE**	Suppliers of Public Entities Large multinationals Hospitals and Municipalities
Securities Services	#1 Independent custodian bank in **ITALY**	Domestic asset managers and banks Pension Funds, Mutual Funds and Investment Funds Social Insurance Funds, Foundations, Social Security Institutions
Payment Services	#1 in intermediary services in **ITALY**	Banks, Payment Institutions and IMELs *Corporates* Partnership with Nexi

OFFER	OPPORTUNITY	
Non-Recourse Factoring Financing for the public sector and healthcare Credit Management	> €400 billion in trade receivables per year < 10% market penetration	ORGANIC GROWTH
Custodian Global custody Fund accounting Transfer agent	Long-term growth in assets under management and administration in Italy	
Payment intermediary Corporate payments Cheques and bills	Epochal transition from cash payments to digital payments in Italy	

Business Model

The Group operates in Italy, Croatia, France, Greece, Spain and Portugal, where it engages in non-recourse factoring and credit management activities with respect to the Public Administration. 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.

As well as providing the Factoring & Lending services mentioned above the Group is a leader in Italy in Securities Services and banking payment services. It provides these services to more than 400 clients including investment funds, banks, payment and money institutions, large corporations and Public Administrations.

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

FACTORING & LENDING

- **The optimization 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 the actual payment times of the Public Administrations.
- **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 trade receivables and an integrated business model that combines non-recourse factoring and credit management services to guarantee the best possible performance on loans and 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, customized 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 Service Providers

Our Mission

Be the leaders in innovation, customer service and execution in our reference markets, with a low risk profile and high operational efficiency, aligned with the best corporate governance practices for public companies.

Our Vision

Be a leader in specialty finance niches in Europe, leveraging on our leadership position in financial services to the suppliers of the Public Administrations.

Our Values

People

We value our people and invest in them, promoting merit and inclusion.

Integrity

We operate with honesty and transparency.

Excellence

We ensure timely execution and completion to our clients.

Sustainability in the BFF Banking Group business model

BFF Banking Group - aware of the growing importance of ESG factors - turns its gaze every day to topics linked to sustainability, in order to screen the impacts that the Bank's business and conduct generate in terms of environmental, social and good governance aspects.

Since 2019, BFF has prepared a Consolidated Non-Financial Disclosure, which supplements the Group's Financial Statements with the main non-financial data and information.

The Group has identified and evaluated the impacts within its everyday operations and through discussions with its stakeholders, also in compliance with the new GRI reporting standard, relating to the definition of the material topics which need to be addressed in the 2022 Consolidated Non-Financial Disclosure.

The new analysis, which represents an initial application of double materiality, governed by soon to be implemented European regulations (CSRD - Corporate Sustainability Reporting Directive), considered, unlike what was done in the past, both an assessment of the impacts generated by the Group and the financial implications for it, to be enacted already starting from the 2022 Consolidated Non-Financial Disclosure.

The Board of Directors - supported by the Control and Risks Committee and the ESG Committee - supervised the process and reviewed and approved the material topics identified.

ESG targets achieved in the course of 2022

In line with the objectives declared during the publication of the 2021 Consolidated Non-Financial Disclosure, BFF continued on its path towards the integration of ESG factors into its strategy, with actions aimed at creating long-term value for the benefit of its internal and external stakeholders.

On July 28, 2022, BFF Bank's Board of Directors established and approved the Regulation of the ESG Committee, as a managerial body with proposal and advisory functions in favor of the Chief Executive Officer regarding assessments and decisions concerning sustainability issues, connected to the Bank's and the Group's business operations and its dynamics of interaction with all stakeholders.
More specifically, the Committee has investigative duties vis-à-vis sustainability matters to be submitted to the CEO, supporting the latter in managing all social responsibility issues and ensuring the Group's positioning on these matters in the various reference areas.

The establishment of a Sustainability Committee:

- Testifies to the importance BFF attaches to integrating sustainability issues into its business operations, and to promoting a culture of sustainability within the organization.
- Enables the cross-sectoral management and integration of sustainability issues within the business, ensuring the commitment and participation of all functions.
- Allows the effective, homogeneous and coordinated management of sustainability-related processes and initiatives.
- Enables the development of a defined and shared governance for the identification of strategic management priorities, so that they are measurable and verifiable for all functions.

In the course of 2022, BFF embarked upon a path to engage in dialog with the main ESG ("Environment, Social, Governance") rating agencies with a view to continuously improving its performance in the most accredited ESG ratings.
This approach which led to an upgrade in the following ESG risk ratings represents further encouragement for BFF to continue on its path of sustainable growth.

On September 5, 2022, the rating agency Sustainalytics, as part of an independent assessment relating to the entire BFF Group, assigned BFF an ESG (Environmental, Social, Governance) risk rating of 18.1 and recorded an evident improvement over the past, placing the company in the "Low Risk" category.

The rating assigned by Sustainalytics contributes towards increasing transparency and the visibility of BFF's sustainable growth path, and measures the company's exposure to the material ESG risks specific to the sector, as well as the level and quality of the management of such risks.

Therefore, BFF has transitioned from "Medium Risk" to "Low Risk" and is in the 9th percentile of the "Regional Banks" sub-industry, in the 17th percentile of the "Banks" category and in the 19th percentile of the entire Sustainalytics universe. Furthermore, BFF came in second place in the reference sub-industry of companies with a market cap of USD 1.1-1.2 billion.

Lastly, on December 22, 2022, the Board of Directors approved the Diversity & Inclusion (D&I) Policy with a view to defining the principles inspiring the actions of BFF, aimed at:

i) promoting and constantly and progressively supporting diversity and inclusion within the Group and
ii) continuously favoring an inclusive work environment for all Bank and Group company employees.

The above is based on the assumption that diversity and inclusion are to be considered values that have concretely positive effects with respect to all Bank stakeholders.

BFF recognizes the above-mentioned values as veritable key resources aimed at innovation and the growth of the productivity and sustainability of the Bank and its Subsidiaries.

With regard to the goal connected with the further development of the Farmafactoring Foundation's activities, in 2022 it redefined its strategic impact, in line with community requirements.
In this context, the Foundation developed a new purpose: "To be a driver of sustainable and inclusive transformation in individual and community welfare and protection systems."

The purpose, validated by intense stakeholder engagement activity, meets a new need: to work in an integrated manner in the areas of health, social security and financial inclusion.

On its company intranet - which is available to the entire Group - BFF has created a new "Sustainability" section entirely dedicated to ESG topics (available in English and Italian) with the goal of spreading a culture which is attentive and sensitive to the use of resources. More specifically, some of the elements that have been made available in that section include: i) a tool for monitoring personal printer use over time, to obtain greater awareness of one's corresponding negative impact on the environment (consumption of CO_2, use of natural resources and energy) and help the Group limit paper use as much as possible and ii) an area dedicated to sharing awareness messages and spreading best practices, which each employee can freely suggest to all colleagues.

2. Operational context and significant events

International Economic Landscape

The year 2022 was marked at geopolitical level by Russia's invasion of Ukraine, the ensuing tensions between Russia and Western countries and, at economic level, a surge in inflation across all of the major countries and the resulting generalized increase in interest rates.

Consumer prices were driven upwards especially by higher energy costs, caused by interruptions in global supply chains due to the pandemic and accentuated after the outbreak of the war in Ukraine, as well as the recovery in demand post-Covid and the strengthening job market. Indeed, unemployment rates fell to all-time lows in the United States as well as the Eurozone, causing an increase in core inflation (i.e., net of the more volatile food and energy components) to the highest levels seen in more than forty years in the USA and since the start of the single currency on the Old Continent.

In order to limit demand-pull inflation, the Central Banks made their orientation more restrictive, increasing official interest rates on multiple occasions. Specifically, the Federal Reserve raised its federal funds rates from 0.00%-0.25% to 4.25%-4.50%, and the ECB increased its rate on refinancing operations from 0.00% to 2.50%.

The inflationary shock triggered a decisive slowdown in the main economies and there is a high risk of a recession is on the horizon. The cycle's leading indicators are moving in that sense.

However, energy prices have fallen considerably, after the peaks reached by gas in August and oil in June, foreshadowing a significant decline in inflation in 2023.

The European economy

THE MAIN MACROECONOMIC INDICATORS OF THE EUROPEAN UNION

Indicators	2020	2021	2022	2023
Real GDP (annual change)	-5.5%	5.4%	3.4%*	0.4%*
Inflation rate (annual change)	0.6%	2.7%	8.9%	6.4%*
Unemployment rate	7.6%	7.4%	6.7%	6.9%*
Balance of payments (% of GDP)	**1.9%**	**2.3%**	**1.0%(*)**	**1.3%***
Public Budget Balance (% of GDP)	**-6.9%**	**-4.8%**	**-3.4%***	**-3.5%***

(*) Consensus estimates from Bloomberg, updated at February 20, 2023.

In 2022, European economic growth slowed, impacted by higher energy and food prices. Industrial output remained stable, but orders declined and in the second half of the year manufacturers became pessimistic. Consumption halted, influenced by household confidence which had slipped to all-time lows as a result of surging inflation and although the unemployment rate had fallen to its lowest level ever, at 6.1%. The conditions were therefore created for a sharp economic slowdown in 2023. In this sense, consensus estimates point to a slowdown in GDP growth this year to 0.4%, from 3.4% in 2022.
Inflation in December reached 10.4%, from 5.3% in December 2021 and after reaching the record level of 11.5% in October, with the core figure (excluding the volatile components of food, energy, alcohol and tobacco) at 6.2% (from 3.0%).

In order to cope with growth in inflation well above its target (2%), the European Central Bank made monetary policy less accommodative, ending quantitative easing and starting the reversal of the interest rate cycle in July. All three reference rates were hiked by 2.5 percentage points: the rate on deposits was brought to 2.00%, that on main refinancing operations to 2.50% and that on marginal refinancing operations to 2.75%. As a result, traders decisively revised their expectations of European short-term rates upwards, with forward rates on the three-month Euribor rising from 0.06% basis points at the end of 2021 to 3.65% at the end of 2022 for the December 2023 maturity.

Soaring inflation, expectations for a tighter monetary policy and the sharp rise in US rates (by 236 basis points on the 10-year Treasury from the end of 2021 to the end of 2022) caused European bond yields to rise substantially on three- and ten-year German benchmark bonds, by 322 and 275 basis points respectively. Furthermore, the fear that the credit crunch enacted by the ECB could weigh down on interest expenditures drove up the spreads of higher debt countries, such as Italy and Greece. In particular, the yield differential between Btp and Bund on the ten-year maturity from the end of 2021 to the end of 2022 rose by 79 basis points to 214. The combination of a sharp rise in international interest rates and a somewhat higher risk premium for holding BTPs thus led to a sharp drop in the Italian bond market, which lost 14.8% (based on the overall MTS index) during the year, driven downwards by BTPs with maturities over 6 years (-24.4%).

The European public deficit reduction trend continued, benefiting from the increase in revenue generated by higher nominal growth and the phasing out of the measures temporarily taken in response to the pandemic, and despite the measures taken to contain the impact of rising energy prices on households and businesses and to help Ukrainians fleeing the war. Based on consensus estimates, the deficit is expected to decrease to 3.4% of GDP in 2022 (from 4.8% last year), to then rise slightly to 3.5% in 2023.

After the stimulus received in 2020-2021 to deal with the pandemic, public expenditure as a percentage of GDP should reduce to 49.8% in 2022 and to 49.7% in 2023 (according to European Commission estimates), from the peak of 52.8% reached in 2020 (and 51.5% in 2021). Moreover, thanks to the significant growth in nominal GDP, in 2022 the increase in public expenditure in the EU is expected to have been nearly 5%, and for the coming year the Commission expects an increase of 5.8%.

PUBLIC EXPENDITURE OUTLOOKS IN THE COUNTRIES WHERE BFF OPERATES

Countries	2021 Public Expenditure (billion euros)	2021 Public Expenditure (% of GDP)	Chg 2021/ 2020	2022 Public Expenditure (billion euros)	2022 Public Expenditure (% of GDP)	Chg 2022/ 2021	2023 Public Expenditure (billion euros)	2023 Public Expenditure (% of GDP)	Chg 2023/ 2022
European Union (27 countries)	7,480	51.5	5.2%	7,847	49.8	4.9%	8,302	49.7	5.8%
France	1,476	59.0	3.8%	1,525	57.9	3.3%	1,613	58.1	5.8%
Italy	985	55.3	4.4%	1,031	54.1	4.6%	1,052	53.3	2.1%
Spain	611	50.6	5.1%	635	48.7	3.9%	657	47.9	3.6%
Poland	254	44.2	0.1%	296	44.1	16.5%	345	46.3	16.5%
Czech Republic	111	46.5	8.7%	120	45.2	8.6%	132	46.0	10.1%
Portugal	103	47.8	3.8%	108	45.9	5.8%	114	45.5	5.0%
Greece	104	57.4	5.6%	114	54.4	9.0%	117	52.4	2.7%
Slovakia	46	46.3	9.1%	48.5	45.0	6.3%	57.2	47.1	18.0%
Croatia	33	48.5	20.7%	35.7	47.2	8.5%	38.4	47.4	7.8%

Source: BFF calculations based on European Economic Forecast, Autumn 2022 and Eurostat data.

The trend of public expenditure on goods and services has to date been significantly more lively than that of overall public expenditure. The annual cumulative figures to the third quarter of the year (i.e., the sum of the data between the fourth quarter of 2021 and the third quarter of 2022) indeed show year on year growth of 7.2%. Looking at the countries in which BFF operates, growth is particularly consistent in Greece (+12.7%), Poland (+12.1%) and Croatia (+11.6%), while it is more limited in France (+4.9%), where however the weight on GDP is already relatively high (11.6%), albeit not higher than that observed overall in the European Union.

In Italy, public expenditure on goods and services in relation to GDP amounted to 8.8%, a decline of 2.8% compared to what was recorded overall by the EU; as the figure on intermediate consumption was basically aligned (at 6%), the difference lies in social benefits in kind, which account for roughly half (2.7%) of that observed in the European Union (5.6%). With the budget law approved at year end, the Italian government intends to bring public expenditure on goods and services to €170.9 billion in 2023 (from 166.9 in 2022), compared to 165.6 in the absence of financial measures.

THE TREND OF PUBLIC EXPENDITURES FOR GOODS AND SERVICES IN THE COUNTRIES WHERE BFF OPERATES

Countries	Intermediate Consumption Q3 2022(*) (billion euros)	Intermediate Consumption Q3 2022(*) (% of GDP)	Chg yoy	Social Benefits in Kind Q3 2022(*) (billion euros)	Social Benefits in Kind Q3 2022(*) (% of GDP)	Chg yoy	Public Expenditure for Goods and Services Q3 2022(*) (billion euros)	Public Expenditure for Goods and Services Q3 2022(*) (% of GDP)	Chg yoy
European Union (27 countries)	930.7	6.0	7.2%	859.3	5.6	7.2%	1,789.9	11.6	7.2%
France	136.1	5.2	8.2%	165.4	6.4	2.3%	301.4	11.6	4.9%
Italy	113.2	6.1	5.3%	50.3	2.7	7.3%	163.5	8.8	5.9%
Spain	74.7	5.8	6.8%	37.5	2.9	7.6%	112.2	8.6	7.1%
Poland	37.5	5.9	14.1%	12.0	1.9	6.4%	49.5	7.8	12.1%
Czech Republic	15.5	5.8	15.7%	9.1	3.4	8.7%	24.6	9.2	13.0%
Portugal	12.9	5.5	7.0%	4.6	2.0	11.7%	17.5	7.5	8.2%
Greece	11.5	5.8	14.4%	5.8	2.9	9.4%	17.3	8.7	12.7%
Slovakia	6.4	6.1	14.4%	3.7	3.5	13.8%	10.1	9.6	14.2%
Croatia	5.0	7.8	13.5%	1.4	2.1	5.3%	6.4	9.9	11.6%

Source: BFF calculations based on Eurostat data.

(*) Annual cumulative figures.

Public expenditure on goods and services includes intermediate consumption and social benefits in kind acquired in the market. Intermediate consumption is all goods and services destined to be transformed into production processes for the direct provision of health and welfare services and the provision of welfare and social security benefits in cash. The social benefits in kind acquired in the market regard goods and services produced by parties that are not part of Public Administrations and made available directly to households; spending on those goods and services regards the Healthcare (expense for pharmaceutical assistance and for healthcare services provided under agreement) and Social Protection functions for the acquisition of welfare services.

The factoring market in Europe

In the first half of 2022, with total turnover of €1,144 billion and accounting for 12.5% of GDP, **factoring in Europe** marked record annual growth of 21.5%, doubling the increase recorded in the first half of 2021 (11%). This trend is the result of multiple factors: a recovery in demand after the strong contraction caused by the pandemic, the need for liquidity to repay state loans, the impact of inflation on the nominal amount of business turnover and the volumes transferred and the effect of the Russia-Ukraine crisis on the formation of new financial requirements in Eastern European countries, connected to the financing of cost items caused by the management of migratory flows and humanitarian interventions.

The turnover recorded in June 2022 by the countries in which the BFF Group operates was more than €546 billion, marking average growth higher than the European trend.

This result was driven in absolute terms by France (€203.5 billion) and Italy (€139.8 billion), but also influenced in relative terms by the Czech Republic, Greece and Poland, which recorded an annual growth rate significantly higher than the average of European countries[1].

Specifically, looking at the factoring market in Italy, 2022 turnover amounted to €287 billion, recording year-on-year growth of 14.6%, against total outstanding loans at year-end of €69.5 billion, up by 5.9% compared to the end of 2021.

Restricting the analysis only to factoring for the public administration, in December 2022 there was a 30.3% reduction of turnover year-on-year, with a total value of €19.3 billion, equal to 6.8% of total factoring turnover.

The trend observed is linked to the growing complexity of the reference regulatory context, following the entry into force of the new definition of default set forth in the European Regulation relating to prudential requirements for credit institutions and investment firms, which privileges highly specialized operators and, at the same time, drives the assessment of alternative solutions in relation to the structured finance sector.

With reference to outstanding loans to public entities, there was a reduction of 1.7% compared to the previous year, for a total value of €8.5 billion in December 2022[2], due to lower turnover volumes and the increase in average payment days.

The composition of outstanding loans changed slightly compared to 2021, with healthcare sector receivables up from 34% to 36% and those claimed from the central and local administrations and other public entities declining from 66% to 64%.

1 Source: EUFederation - Half Year Figures June 30, 2022.

2 Source: Assifact - February 2023.

The Italian Securities Services market

BFF is the main independent player in Italy in the field of custodian banking, fund accounting, transfer agent and security custody and settlement services.

The performance of the Bank's **Fund Services** and **Global Custody** businesses, which are highly correlated with each other, was influenced by the downward trend in the equivalent value of assets under management in Italy, which decreased by 14.6% to €2,216 billion during the year. This decrease was caused by the strong market downturn - in both the equity and bond markets - and took place although net inflows were positive by nearly €20 billion.

THE ITALIAN MANAGED SAVINGS INDUSTRY

Management	2022 Net inflows(*) (A)	(A)/Assets under management Dec. 2021	Net inflows Jan.-Sep.2022(*) (B)	(B)/Assets under management Dec. 2021	Assets under management Dec. 2022(*)	Assets under management Dec. 2022/ Dec. 2021	Assets under management Sep. 2022(*)	Assets under management Sep. 2022/ Dec. 2021	Assets under management Dec. 2021(*)
Collective management	**15,477**	**1.1%**	**14,646**	**1.1%**	**1,160,158**	**-14.1%**	**1,150,159**	**-14.9%**	**1,351,254**
Open funds	9,338	0.7%	10,028	0.8%	1,074,708	-15.5%	1,066,725	-16.2%	1,272,588
Italian-law funds			-566	-0.2%			223,413	-13.7%	258,969
Funds under foreign law			10,594	1.0%			843,312	-16.8%	1,013,619
Closed funds	6,139	7.8%	4,619	5.9%	85,449	8.6%	83,435	6.1%	78,666
Italian-law funds			1,299	2.0%			68,516	3.2%	66,409
Funds under foreign law			3,319	27.1%			14,919	21.7%	12,257
Portfolio management	**4,288**	**0.3%**	**-7,274**	**-0.6%**	**1,055,458**	**-15.1%**	**1,040,900**	**-16.3%**	**1,242,988**
Management of insurance products			-4,034	-0.5%			663,890	-17.5%	804,388
Management of retail assets	7,316	4.5%	5,336	3.3%	144,428	-12.0%	141,739	-13.6%	164,097
Management of social security assets			1,709	1.5%			99,191	-13.0%	114,017
Open pension funds			1,285	5.0%			22,255	-12.6%	25,475
Negotiated pension funds			1,355	2.4%			50,256	-9.8%	55,742
Pre-existing pension funds			17	0.1%			12,312	-13.5%	14,236
Pension funds			-214	-3.1%			5,487	-19.4%	6,806
Other forms of social security			-734	-6.2%			8,881	-24.5%	11,759
Other management			-10,285	-6.4%			136,080	-15.2%	160,486
Total managed savings	**19,765**	**0.8%**	**7,372**	**0.3%**	**2,215,616**	**-14.6%**	**2,191,059**	**-15.5%**	**2,594,242**

(*) Values in € million.

Source: BFF Bank calculation based on Assogestioni data.

In detail, net inflows grew by €9.3 billion for open-end funds, €6.1 billion for closed-end funds and €7.3 billion for retail asset management, while they declined by €3.0 billion for institutional portfolio management; moreover, as concerns the latter, the data at the end of September show that pension funds - and specifically negotiated pension funds, which are important for BFF's business - went against the trend, rising by €1.7 billion (with negotiated pension funds up by €1.4 billion). In collective management, the increase in net inflows, on the basis of data for the first nine months of the year, was nearly entirely attributable to foreign funds (+€13.9 billion) and only to a modest extent (+€0.7 billion) to Italian funds.

Assets under management thus rose at the end of December to €1,075 billion for open-end funds (48.5% of the total), €85.4 billion for closed-end funds (3.9%), €144.4 billion for retail portfolio management (6.5%) and €911.0 billion for institutional portfolio management (41.1%). Specifically, at the end of September the assets of the negotiated pension funds amounted to €50.3 billion, equal to around half of the total of the social security assets under management.

The payment market in Italy

2022 represented another year of progress for digital payments. The payment cards market is the main driver of this expansion: pending consolidated figures for 2022, the first half of the year saw an increase in transactions using prepaid cards by +19% and using debit cards by +24%, while the category of credit cards - after a 2021 with still very limited growth due to the medium-term effects of Covid - benefited from the recovery in high-amount consumption for services, tourism and business travel, with growth of +21%.

Although to a lesser extent, cash withdrawal transactions using a card at ATMs grew for a total of €85 billion (+14%).

In physical stores, the contactless card is confirmed as the most utilized payment method, representing 64% of digital transactions (a percentage which rises to 69% if we also consider transactions using mobile phones, smartwatches and other NFC devices) and is up by 49% compared to the first half of 2021, for a total of €79 billion.

As concerns bank payments, according to the Bank of Italy's half-year report, there was an increase in SEPA instruments starting with bank transfers (+6.1% in the first half of 2022 compared to the first half of 2021) and SDDs (+6.5%); on the other hand, other forms of domestic collection, Ribas (cash order) or MAVs (payment against notice), were down slightly (-1.5%).
Other "traditional" payment instruments such as bank checks and drafts (-6.8%) and bills (-6.9%) were also down in the first half of 2022 compared to 2021.

From the perspective of payment initiatives, the entry into force of the T2-T2S Consolidation in March 2023 is challenging banks both operationally and in terms of investments, while instant payments, although starting to be accepted by many banks, are still struggling to become established as a leading payment service. Its mandatory application, determined in November 2022 by the European Commission, will continue to spread over the next two years.

The evolution and digitalization of the European Payment System continues to be the focus of attention of the European Commission and the European Central Bank (ECB), which are engaged in defining strategic lines for the coming years. Particular attention is being paid by both institutions to both the development of instant payments and the realization of a Digital Euro. The year 2022 also marked the beginning of the PSD revision process that will lead, probably by 2023-2024, to a new update of the Payments Directive ("PSD3"), which could open up the market even more to competition.

Key events

This section shows the main events that occurred in 2022.

On February 2, 2022, BFF announced the agreement with Fondazione Fiera Milano for the acquisition of the area where the Bank's new headquarters will be built.
The building will be completed in 2024 and will accommodate the more than 500 employees currently working in Milan in three different locations. The new headquarters, which will be called "**Casa BFF**", is part of a process of progressive renovation of the Group's working environments, as has already been done for the offices in Madrid (2020) and Poland, in Łódź (2019), at the Brama Miasta complex.
In preparation for the execution of the project, on January 19, 2022 **BFF Immobiliare S.r.l.** was established, a company which manages the development and enhancement of Casa BFF and, in the future, all of the Group's owned real estate assets.

On March 9, 2022, following the conclusion of the Accelerated Book-Building procedure on approximately 14 million BFF ordinary shares held by Equinova UK HoldCo Limited[3]*, the Bank's free float, already over 80% on December 31, 2021, reached nearly 100% of the share capital, thus making BFF **one of the few Italian listed companies with a broad shareholder base.**

On March 31, 2022 a Shareholders' Meeting was held that approved a **Long-Term Incentive Plan** that will contribute to the creation of future value by, among other things, strengthening retention and the pursuit of sustainability goals. The Shareholders' Meeting also approved the **Remuneration Policy Report**, and cast a favorable advisory vote on the **Remuneration Paid Report**.

On April 21, 2022, following the shareholders' resolution of March of the same year, BFF distributed a gross dividend per share of €0.679 for a total of €125,280,399.

2022 also marks the transition to the **half-yearly dividend distribution**, in August, based on the results of the first half of the year, further accelerating the return of capital to shareholders. Therefore a payment of €68,549,894 was made on August 24, 2022.

Moreover, during the year BFF optimized its capital structure in order to have greater flexibility, as well as a wider margin in terms of leverage and large exposure limits. Therefore:

- On January 19, 2022 the issue of a subordinated Additional Tier1 Perpetual NC 2027 instrument with a nominal amount of €150 million was finalized, and
- on March 2, 2022, the call option to redeem the Tier2 10YNC5 subordinated instrument issued in March 2017 with a nominal amount of €100 million was exercised.

On June 29, 2022, the residual amount of €42 million of the senior preferred bond of an original amount of €200 million, issued in 2017 and subject to cash buyback and subsequent repurchases as of June 2021, was repaid at maturity.

3 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 its share capital).

In the second half of the year, in order to cool inflation, the European Central Bank initiated a restrictive monetary policy cycle, thus bringing the era of negative rates to an end. Between July and December, the official interest rates were raised four times (in July, September, October and December) for a total of 250 basis points and an additional 50 basis point hike was enacted in February 2023. In detail, key rates on deposits and on main and marginal refinancing operations were increased to 2.50%, 3.00% and 3.25%, respectively. Furthermore, on December 15 the ECB announced the launch of Quantitative Tightening, or the reduction in the asset portfolio starting from March 2023 at the pace of €15 billion per month (amount which the Frankfurt institution reserves the right to change starting in July).

On September 5, 2022, the rating agency Sustainalytics, as part of an independent assessment relating to the entire BFF Group, assigned BFF an ESG risk rating of 18.1. The Group thus transitioned from the "Medium Risk" category to the "Low Risk" category and is in the 9th percentile of the "Regional Banks" sub-industry, in the 17th percentile of the "Banks" category and in the 19th percentile of the entire Sustainalytics universe. Furthermore, BFF came in second place in the reference sub-industry of companies with a market cap of USD 1.1-1.2 billion.

On September 23, 2022, the Bank of Italy issued several more stringent interpretations about the new "Definition of Default" (or "New DoD", Guidelines on the application of the definition of default pursuant to Art. 178 of Regulation (EU) no. 575/2013) which resulted in the registration as at September 30, 2022 of an increase in the level of impaired past due exposures, although not symptomatic of an increase in the actual credit risk profile of the portfolio.

On October 20, 2022, as a result of the ruling of the Court of Justice of the European Union, which constitutes the binding interpretation for the national rulings of all Member States as well, BFF obtained confirmation of its right to recover at least €40 for each past-due invoice with respect to the Public Administration.

Also in October 2022, ***BFF Techlab*** was born, from the acquisition by BFF of 100% of the share capital of MC3 Informatica Srl, a consulting firm which over the last few years has supported BFF in the implementation of the current core factoring system and in the definition of other application architectures. The transaction is consistent with the growth path outlined by the Bank in the 2023 Business Plan, as it allows for the vertical integration of all MC3's development activities related to the management and evolution of the Group's information system.

Following the exit of Arca and Anima, whose cancellations were communicated in 2021 and whose outgoing migrations were completed in the course of 2022, due to which there was a significant reduction in several activities within the Security Services BU, the bank initiated actions aimed at redefining the organizational structure, readjusting it to updated business needs. In particular, please note that a restructuring procedure is ongoing, which currently involves 23 positions.

Therefore, on November 4 the trade union Information and Consultation Procedure began, pursuant to Art. 22 of the Credit National Collective Labor Agreement, concerning the management of the resulting redundant employees. Please note that in January 2023, following what was described above, a collective dismissal procedure was initiated, pursuant to Arts. 4 and 24 of law no. 223 of July 23, 1991 on a reduced number of positions (from the 49 originally planned to 23 positions), as a result of voluntary departures and internal re-placements. This procedure is still in the discussion phase with the trade unions.

On December 22, 2022, BFF entered the shareholding structure of the **Istituto della Enciclopedia Italiana fondata da Giovanni Treccani S.P.A.** by subscribing a 1.25% stake, as part of the share capital increase approved by the Company.

This transaction is one of BFF's sustainability and public commitment initiatives and strategies, and allows the Bank to support other prestigious representatives - public and private - of the country's cultural and economic fabric, engaging alongside one of the major Italian centers for the production and dissemination of culture.

Lastly, please note that with respect to the changes that took place in the corporate bodies:

1. following the resignation of Directors (i) Ms. Barbara Poggiali, on February 3, 2022, and (ii) Amélie Scaramozzino, on February 24, 2022, the parent's Board of Directors appointed via the urgent co-opting procedure - pursuant to Art. 2386 of the Italian Civil Code on February 10, 2022 and March 1, 2022, respectively - Ms. Monica Magrì and Ms. Anna Kunkl, to replace the outgoing Directors, subsequently confirmed by the Shareholders' Meeting of March 31, 2022.
2. on February 18, 2022, Ms. Paola Carrara, Chairwoman of the Board of Statutory Auditors, resigned effective as of the earlier of (i) the date of the Shareholders' Meeting called to approve the Group's financial statements at December 31, 2021 and (ii) March 31, 2022.

Following the above-mentioned resignations, the Bank's Board of Directors called the Ordinary Shareholders' Meeting to i) appoint new members to the Board of Statutory Auditors for the remainder of the 2021-2023 three-year period and ii) appoint the new Chairperson of that corporate body. On March 31, 2022, the Shareholders' Meeting approved the appointment of Ms. Francesca Sandrolini as Chairwoman of the Board of Statutory Auditors appointed on the basis of a "single" candidacy proposal submitted by Studio Legale Trevisan & Associati on behalf of a group of shareholders, as the provisions of the Articles of Association and the law requiring the use of the list voting mechanism did not apply.

On April 22, 2022, Ms. Francesca Sandrolini resigned from the position of Standing Auditor and Chairwoman of the Board of Statutory Auditors with immediate effect, for strictly personal reasons. As a result, pursuant to the law and the Articles of Association, starting from the same date, Ms. Mezzabotta – formerly Alternate Auditor of the Bank, elected from the only list presented at the Ordinary Shareholders' Meeting of March 25, 2021 – took over the position of Standing Auditor and Chairwoman of the Board of Statutory Auditors pursuant to the law and the Articles of Association following the resignation on the same date of Ms. Francesca Sandrolini, appointed by the Shareholders' Meeting of March 31, 2022.

After she automatically took over as Standing Auditor, Ms. Mezzabotta also became Chairwoman. On May 6, 2022, Ms. Mezzabotta - as in the meantime she had been appointed as a standing auditor of the Board of Statutory Auditors of another listed issuer, and having reconsidered the number of significant roles held at that date - submitted her irrevocable resignation from the office of Standing Auditor and Chairwoman of the Board of Statutory Auditors with immediate effect.

Pursuant to law and the Articles of Association, on the same date Mr. Carlo Carrera, formerly Alternate Auditor also elected from the single list submitted to the Ordinary Shareholders' Meeting on March 25, 2021, took over the position of Standing Auditor and Chairman of the Board of Statutory Auditors;

After Mr. Carlo Carrera became Standing Auditor and Chairman of the Board of Statutory Auditors, this corporate body a) consisted of members of the same gender, and b) had no Alternate Auditor. Therefore, the Board of Directors called the Ordinary Shareholders' Meeting, as it was necessary to: i) add to the Board of Statutory Auditors, which did not respect gender balance, as it consisted of representatives of the same gender and, therefore, appoint a Standing Auditor to replace Mr. Carlo Carrera; ii) appoint the Chairperson of that control body and, at the same time, iii) appoint two Alternate Auditors, with the right to confirm Mr. Carlo Carrera in the role of Alternate Auditor.

Lastly, on June 22, 2022 the Ordinary Shareholders' Meeting of BFF Bank S.p.A. completed the Board of Statutory Auditors by appointing Ms. Nicoletta Paracchini as Standing Auditor and Chairwoman of the Board of Statutory Auditors, and Ms. Francesca Masotti and Mr. Carlo Carrera as Alternate Auditors.

3. Operating performance

KEY HIGHLIGHTS

BFF Bank

- Profit for the year of €261.4 million and Normalized Profit of €117.0 million (+27.2% year on year).
- Growth in loans and receivables with customers of +56% year on year.
- Significant increase in interest rates in terms of loans not yet factored.

LPIs + "Recovery Costs" rights

- Increase in the late payment interest rate from 8% to 10.50% as of January 1, 2023.
  Additional increase starting from July 2023.
- Since December 31, 2022:
  (i) "lump-sum compensation for recovery costs ("40 euros")" accounted for on an accrual basis based on the collection estimates consistent with those of late payment interest, and
  (ii) change in the percentage estimated recovery of late payment interest from 45% to 50%.
- Positive one-off on capital for €80 million at December 31, 2022.

Capital & Dividends

- CET1 ratio at 11.7% and TCR at 15.7%.
- 2022 Dividends of €146.0 million, €68.5 million already paid in August 2022, €77.5 million (roughly €0.42 per share) to be paid in April 2023, based on a shareholders' resolution.
  Additional Interim Dividend on 2023 profit to be paid in August 2023 on the basis of the results for the first half of 2023.
- >€615 million in dividends paid to shareholders from the 2017 IPO, roughly 77% of the IPO market cap.

INCOME STATEMENT BY BUSINESS UNIT

(€ million)

	FY 2022					FY 2021				
	Net Revenues	OPEX incl. D&A	Cost/ Income (%)	Provisions	PBT	Net Revenues	OPEX incl. D&A	Cost/ Income (%)	Provisions	PBT
Factoring & Lending P&L	108.5	(23.8)	*22%*	(0.8)	83.8	100.8	(21.2)	*21%*	1.0	80.7
+ Securities Services P&L	52.5	(24.7)	*47%*	-	27.8	57.8	(28.8)	*50%*	-	29.0
+ Payments P&L	63.3	(32.1)	*51%*	-	31.3	62.1	(30.9)	*50%*	-	31.1
+ Corporate Center incl. synergies	96.8	(70.1)	-	(0.1)	26.6	50.7	(81.4)	-	5.7	(25.0)
= BFF Bank Adj. P&L	321.2	(150.7)	*47%*	(0.9)	169.5	271.4	(162.3)	*60%*	6.7	115.8
Adjustments*	200.6	(15.1)	-	(10.0)	175.5	43.0	(2.5)	-	(1.5)	39.1
BFF Bank reported P&L	521.7	(165.8)	*32%*	(10.9)	345.0	314.4	(164.7)	*52%*	5.2	154.9

(*) Non-recurring items in 2022 referred to: the recognition of 50% of the provision relating to the lump-sum indemnity for debt collection ("40 euros") for €94.5 million, the combined effect of the increase in the percentage estimated recovery of late payment interest from 45% to 50% and the increase in expected days for the relative collection for €27.4 million, extraordinary provisions against a likely risk of a negative ruling for €10.0 million, intra-group dividends for €76.0 million, other non-recurring items for €12.3 million (costs for stock options, non-recurring costs, costs for special projects, capital gain from disposal of real estate, amortization of customer contracts, extraordinary contributions to the "FITD" and changes in the foreign exchange difference covered by the translation reserve).

2021 non-recurring items refer: to the adjusted DEPObank PBT amounting to €5.1 million, expenses referring to the "Stock Option Plan" of €4.2 million, exchange gains covered by the translation reserve in equity of €0.2 million, badwill of €76.9 million, costs related to liability management initiatives amounting to €13.4 million, other transaction and restructuring costs of €10.2 million, expenses relating to the extraordinary contribution to the National Resolution Fund for €2.8 million and the amortization of DEPObank's customer contract amounting to €2.4 million.

The separate financial statements at December 31, 2022 show the equity and economic elements of BFF Bank S.p.A., including, as of 2021, the newly acquired and merged DEPObank.

The merger with DEPObank produced accounting effects from March 1, 2021, and therefore it is only from that date that the accounting data of the two companies were consolidated.

Starting from that date, BFF Bank's results include the dynamics of the sectors it 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.

In 2022 the Bank focused on consolidating the newly acquired DEPObank businesses (Securities Services and Payments) and relaunching Factoring & Lending thanks to sales efforts and a gradual return to normalcy in the countries where it operates, despite the fact that they are still managing the long wave of the effects of the Covid-19 pandemic crisis that arose in the first quarter of 2020 and despite the weakness of the financial markets affected by the Russia/Ukraine crisis. Furthermore, the Bank focused on continuously refining and monitoring initiatives to generate the synergies envisaged in the integration plan with DEPObank in terms of both funding and costs.

On the funding front, efforts were focused on using the funding made available by the Securities Services and Payments BUs to finance its loans and, with a view to diversifying funding sources as well as optimizing the cost of funding, on relaunching the funding of Lokata Facto in zloty and, towards the end of the half-year, of Cuenta Facto in euros.

BFF continued its policy of investing in HTC securities backed by Italian government bonds with medium-long term horizons aimed at restoring an average duration consistent with those recorded in the past. Specifically, also in relation to the expected dynamics of interest rates in the euro area, the activity was aimed at variable-rate instruments.

Lastly, note that BFF Bank has no commercial exposure to the Russian and Ukrainian markets and is committed to strictly monitoring the processing activities of the Payments Business Unit to ensure compliance with the restrictions imposed on Russia.

Financial Performance

Profit for the year

In terms of overall profitability, the cumulative performance of the Bank's BUs, influenced by the phenomena indicated above, led to a reported profit of €261.4 million, including the non-recurring items that influenced the profit for the year, the details of which are shown in the table below.

Normalized profit

Eliminating the non-recurring items that affected the profits at December 31, 2022 and December 31, 2021, and adding to these the two missing months of DEPObank (January and February), for comparative purposes only, the normalized profit would stand at €117.0 million (up 27.2% year-on-year).

The main elements affecting the normalized performance can be summarized as follows:

- higher net interest income essentially due to higher net yields on loans, also thanks to the initiatives implemented to realise the funding synergies envisaged in the plan, and for the higher value of HTC securities and loans to customers in the portfolio;
- commissions of the Securities Services and Payments BU down compared to 2021 despite commercial performance and also following negative market performance;
- lower costs thanks to careful monitoring and the initiatives taken to achieve the cost synergies envisaged in the plan.

All of this was achieved in a year characterized by:

- the war in Ukraine and an energy shock;
- the sharpest rise in interest rates of recent decades;
- the highest level of inflation since the 1980s;
- the restrictions enacted in monetary policy and the end of the period of "negative rates";
- the volatility of sovereign spreads;
- negative equity market performance.

The table below explains the transition from the reported profit to the normalized data.

(Values in € million)

Adjustments	12.31.2021	12.31.2022	YoY %
BFF Bank - Reported profit	**164.3**	**261.4**	**+59.1%**
Pre-acquisition normalized profit of DEPObank	**5.1**		
Exchange differences covered by Translation Reserve in Equity	(0.1)	(1.7)	
Stock Options & Stock Grants	3.0	2.8	
Badwill & transaction and restructuring & M&A costs	(70.5)	3.9	
Liability Management one-off costs	9.5		
DEPObank Goodwill tax relief	(23.7)		
Extraordinary Resolution Fund and FITD	2.0	0.5	
Distribution of dividends from subsidiaries		(73.2)	
Amortization of DEPObank's customer contracts	2.4	3.1	
Changes in asset values, including those relating to late payment interest and the lump-sum indemnity for debt collection ("40 euros")		(79.9)	
BFF Bank – Normalized profit	**91.9**	**117.0**	**+27.2%**

On the following pages, in order to provide a precise presentation of the performance of the various BUs, the comments will refer to normalized income statement data, eliminating the non-recurring elements that influenced the results at December 31, 2022 and December 31, 2021 and including the 2 missing months of DEPObank (January and February 2021).

In this regard, please note that in the course of 2021, the most significant non-recurring item was the badwill resulting from the merger with DEPObank amounting to €76.9 million, which impacted the income statement item Other operating income, net, and in 2022 the Bank i) accounted for 50% of the provision relating to the lump-sum indemnity for debt collection ("40 euros") and ii) increased the percentage estimated recovery of late payment interest from 45% to 50% as well as the days expected for the relative collection from 1800 to 2100 days. These effects, identified as non-recurring in 2022 and amounting to €121.9 million, impacted the income statement items Other operating income, net and Interest and similar income and the statement of financial position item Loans and receivables with customers.

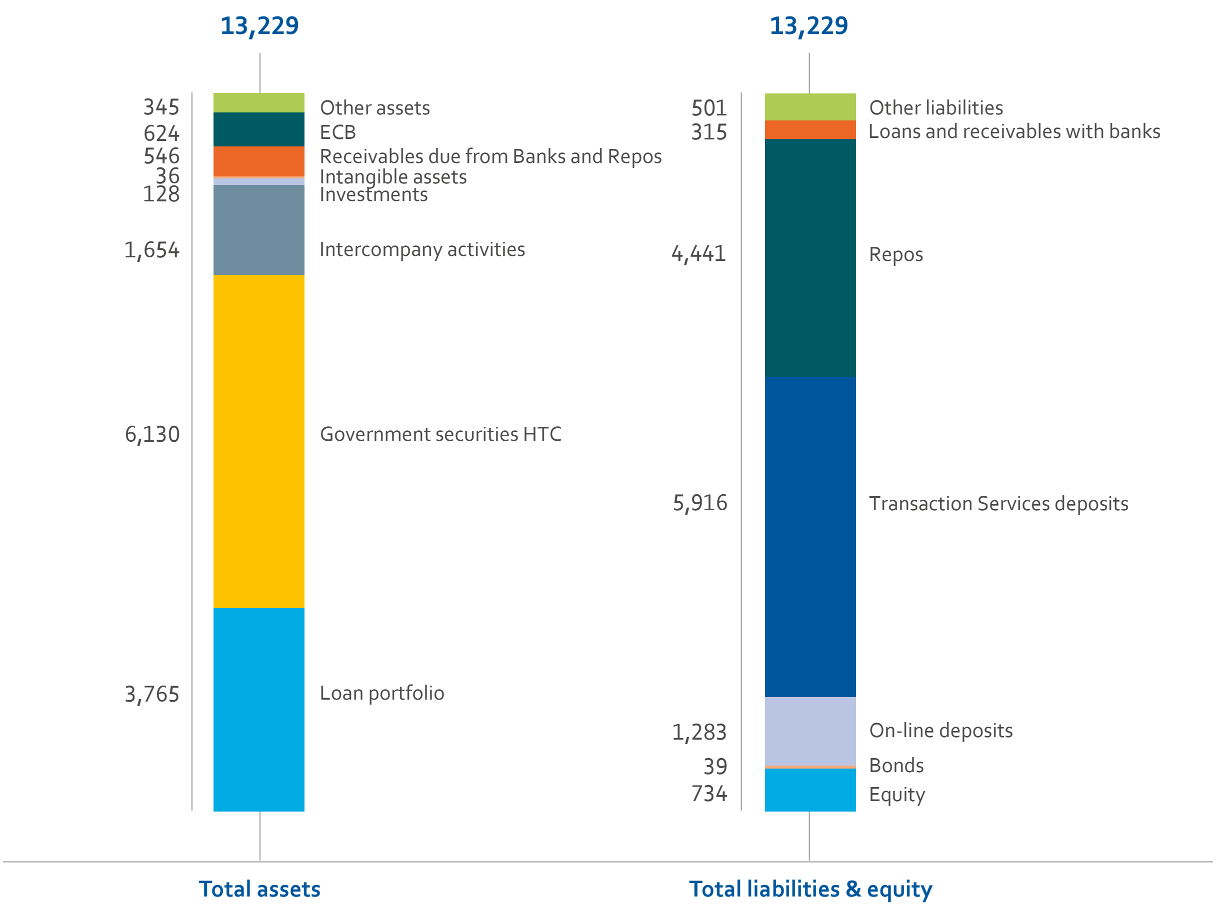
Statement of financial position

On the Statement of Financial Position front, as it did starting from the second quarter of 2021, during 2022 the Bank continued to focus on optimizing the forms of funding generated by the businesses of the former DEPObank, rationalizing their levels and closing or limiting the most expensive historical forms of financing of BFF while maintaining a certain diversification.

On the other hand, the Bank focused on better managing the forms of use, resuming investments in government bonds and eliminating excess liquidity, with improved effects on both leverage and profitability.

The effect of all of this, which manifested itself from the first half of 2021, continuing also in 2022, was a statement of financial position that, despite the merger of the two banks, was basically aligned with that of the former DEPObank, especially thanks to the refinancing of the forms of funding of BFF Bank "pre-acquisition".

(€m)



Lending

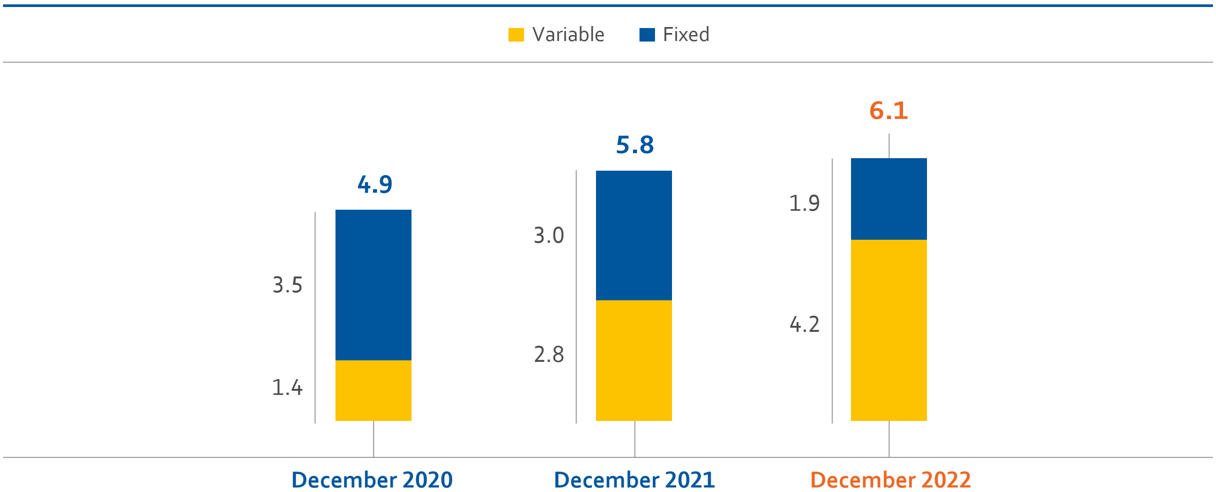
The Factoring & Lending Loan Portfolio was €3.8 billion, up by 56% compared to 2021: the level reached by loans and receivables with customers marks an all-time high, also thanks to a favorable context and confirming the rebound in the post-pandemic period, and an increase compared to the previous year was recorded across all countries.

Loan Portfolio (€m)	12.31.2021(*)	12.31.2022(*)
Italy	2,123	3,383
Portugal	207	239
Greece	70	131
Others Countries (Croatia and France)	11	13
Total	**2,410**	**3,765**

(*) *Including "Ecobonus" tax assets for €221 million in 2022 (€18 million in 2021), accounted for under Other assets in the Statement of Financial Position, and "on-statement of financial position" provisions relating to late payment interest and the lump-sum indemnity for debt collection ("40 euros") for 412 million.*

The portfolio of government bonds reached €6.1 billion, €0.3 billion higher than at December 31, 2021. Indeed, in this area the parent continued with its investment policy to invest and optimize available liquidity. Specifically, also in relation to the expected interest rate trend in the Euro Area, activities were focused on variable rate instruments.

HTC SECURITIES PORTFOLIO (billion euros)



Cash and cash equivalents were equal to €0.6 billion and Loans and receivables with Banks & Repos equal to €0.5 billion: in this area, ALM actions were taken to optimize the liquidity deposited with the ECB, also in relation to the evolution of monetary policy maneuvers enacted by the ECB starting from the second half of the year.

Funding

On the liabilities side, the rationalization of funding sources continued through the re-launch of online deposits, the new Additional Tier1 bond issue, the call option redemption of the Tier2 bond issue and the redemption at maturity of the senior unsecured preferred bond issue.

The Transaction Services department, with its Securities Services and Payments BUs, raised approximately €6.0 billion compared to €8.5 billion in 2021, with a decrease in the share of Securities Services of €2.9 billion (€6.1 billion v €3.2 billion) due to the loss of the customer Arca and a change in the funds' investment policies, and with an increase in the amount generated by Payments of around €0.5 billion (from €2.4 billion to €2.9 billion) thanks to the sales efforts with existing customers aimed at boosting liquidity.

The parent continued to offer the online deposit account solution aimed at retail and corporate customers and guaranteed by the Interbank Deposit Protection Fund in Italy with Conto Facto, in Spain, the Netherlands, Ireland and Germany with Cuenta Facto and lastly in Poland with Lokata Facto.

At December 31, 2022 total nominal takings of Conto Facto, Cuenta Facto and Lokata Facto amounted to a total of €1.3 billion, up by approximately €1 billion from December 31, 2021.

In particular, the growth recorded compared to December 31, 2021 benefited from the campaigns promoted across all geographical areas, and specifically in Poland already starting in early 2022 and in the rest of the Eurozone starting from the second half of the year.

With regard to capital market activities, on January 19, 2022 a subordinated Additional Tier1 Perpetual NC2027 instrument in the amount of €150 million was issued at par with a fixed-rate coupon of 5.875% per annum to be paid on a half-yearly basis.

On March 2, 2022 the option for early redemption of the €100 million Tier 2 bonds was exercised following the authorization received from the Bank of Italy.

On June 29, 2022 the senior bond with a residual amount of €42.3 million were repaid at maturity.

With regard to the parent's senior preferred unsecured issues, note that, also as a result of additional marginal repurchases made during 2022 and the repayment at maturity mentioned above, securities outstanding as of December 31, 2022 amounted to €38.6 million, compared to €82 million as of December 2021.

In light of what is described above, the nominal amount of the bond issues outstanding at December 31, 2022 totals €188.6 million (inclusive of AT1), compared to €181.8 million in the previous year (inclusive of TIER II).

Lastly, BFF has no loans to be refinanced with the European Central Bank (ECB), neither ordinary (OMA) nor extraordinary (PELTRO, TLTRO etc).

Equity, Own Funds and Equity Ratios

BFF Bank continues to maintain its capital soundness, also in consideration of the fact that the capital ratios and own funds do not include €146 million relating to the normalized profit for the year.

Recall that already at the time of the 2021 Financial Statements BFF Bank had committed to implement all possible initiatives to pay dividends twice a year from 2022; therefore, in August 2022 BFF Bank distributed an interim dividend of €68.5 million while in April 2023, it is preparing to distribute an additional €77.5 million, based on a shareholders' resolution, for a total amount equal to €146 million, as noted above.

Equity amounted to €734 million at December 31, 2022, up compared to €517 million at December 31, 2021.

BFF Bank's own funds at December 31, 2022 amounted to €590 million and included the €150 million unsecured and rated subordinated Additional Tier 1 bond placed on January 19, 2022 and €115 million in undistributed profit for the year; the overall exposure to risks, in relation to the business carried out, is more than adequate in relation to the level of capitalization and the identified risk profile.

Indeed, the capital ratios CET1, Tier 1 Capital Ratio and Total Capital Ratio are 11.7%, 15.7% and 15.7%, respectively.

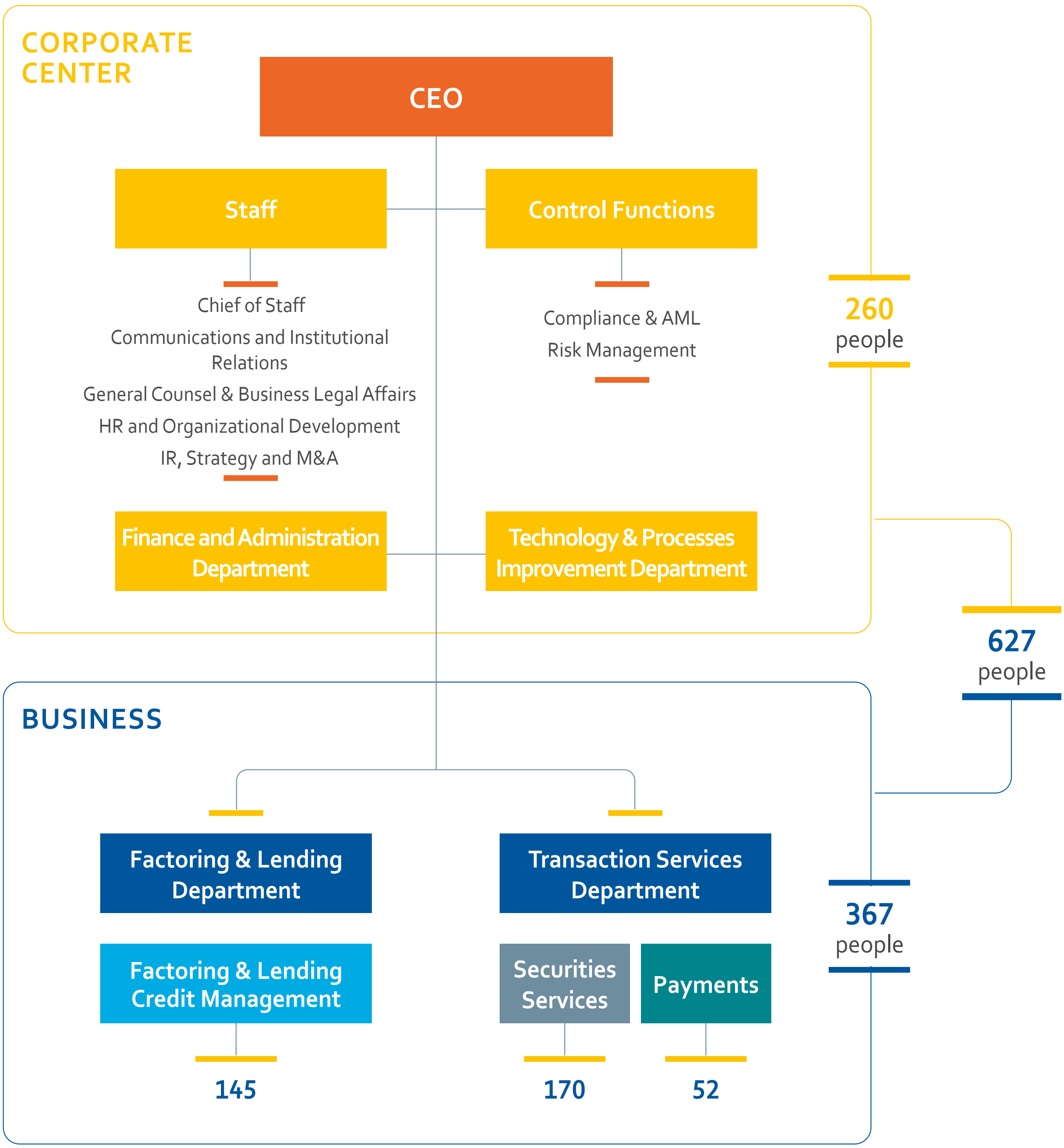
Furthermore, it is recalled that the Bank did not need to apply the emergency measures made available by the ECB, the EBA or the European Commission's COVID-19 banking package.

Finally, recall that on October 19, 2022 the Bank of Italy, as Resolution Authority, adopted the 2021 resolution plan for BFF Banking Group, identifying resolution as a crisis management strategy for the BFF Bank Group.

	BFF Bank	
	12.31.2021	**12.31.2022**
Own Funds	428.4	590.4
CET1 Capital Ratio	*11.8%*	*11.7%*
Tier 1 Capital Ratio	*11.8%*	*15.7%*
Total Capital Ratio	*15.3%*	*15.7%*

Organizational structure

As of December 31, 2022 the parent is organized along three business lines, **Factoring & Lending** (within the department of the same name), **Securities Services** and **Payments**, within the Transaction Services Department, supported by the **Corporate Center**.



Changes in the workforce

At December 31, 2022 the total number of BFF employees amounted to 627 persons, of whom 42 joined the parent in 2022: 31 in Italy, 1 in Greece, 3 in Spain, 2 in Portugal, 5 in Poland.

The distribution of personnel within the various countries shows a reduction in personnel of 19 resources, mainly concentrated in Italy, following the loss of the customers Arca and Anima (as mentioned previously).

Below is the breakdown by country:

December 31, 2021	Italy and FOS	Spanish Branch	Polish Branch	Greece	Portugal	Total
Senior Executives/Executives	21	0	0	0	1	22
Manager/Coordinator	93	3	7	3	1	107
Specialists/Professionals	466	6	32	5	8	517
HEADCOUNT DECEMBER 31, 2021	**580**	**9**	**39**	**8**	**10**	**646**

December 31, 2022	Italy and FOS	Spanish Branch	Polish Branch	Greece	Portugal	Total
Senior Executives/Executives	23	0	0	0	1	24
Manager/Coordinator	97	5	8	3	2	115
Specialists/Professionals	442	4	29	6	7	488
HEADCOUNT DECEMBER 31, 2022	**562**	**9**	**37**	**9**	**10**	**627**

The breakdown of the workforce by gender as at December 31, 2022 basically remained unchanged from December 31, 2021, with 52% women and 48% men.

Below is a breakdown by country as of December 31, 2022:

December 31, 2021	Women		Men		Total
Italy	294	51%	286	49%	580
Spanish Branch	5	56%	4	44%	9
Polish Branch	23	59%	16	41%	39
Greece	4	50%	4	50%	8
Portugal	3	30%	7	70%	10
Total Country	**329**	**51%**	**317**	**49%**	**646**

December 31, 2022	Women		Men		Total
Italy	288	51%	274	49%	562
Spanish Branch	5	56%	4	44%	9
Polish Branch	24	65%	13	35%	37
Greece	4	44%	5	56%	9
Portugal	3	30%	7	70%	10
Total Country	**324**	**52%**	**303**	**48%**	**627**

Factoring & Lending BU
Main KPIs and Economic Results

The Factoring & Lending BU carries out its lending and offers its services through products such as non-recourse factoring, lending and credit management to public administration bodies and private hospitals.

Currently, the parent carries out these activities in 5 countries (Italy, Croatia, France, Greece, Portugal), all of which have been deeply affected in recent years by the Covid-19 pandemic crisis and which to this day continue to deal with the long wave of its effects, together with the implications of the Russia/Ukraine conflict.

Despite the injections of liquidity made by national governments, and thanks to rising interest and inflation rates, which are causing companies to reconsider their working capital strategies, and strong commercial performance, compared to 2021 the main indicators of the Factoring & Lending BU showed strong signs of recovery.

The loan portfolio was up 56% compared to the same period last year (€3.8 billion v €2.4 billion), while volumes of loans and receivables acquired and disbursed were up significantly compared to last year (€5,211 million v €3,447 million) in nearly all countries, thanks to the strong commercial drive enacted within a favorable macroeconomic context, which confirmed a rebound with respect to the pandemic period.

DSO recorded by BFF on factoring activities showed an extension of collection times across almost all countries, with the exception of Portugal (following higher remittances, especially towards year-end, by the central government), Slovakia and Croatia and France (where the figure is however influenced by the size of the business).

DSO – days (BFF data, Acquisitions and Management, Public and Private):

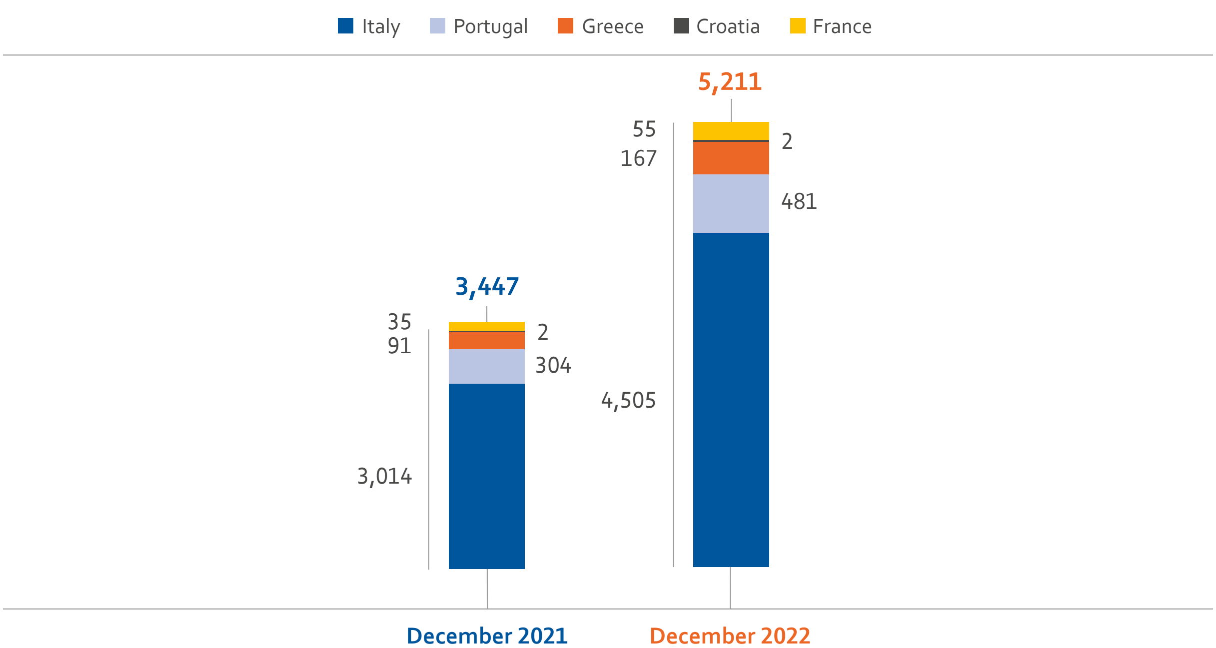
	12.31.2021	12.31.2022
Italy	119	132
Portugal	299	175
Greece	210	248
Croatia	282	52
France	107	79

The provision for late payment interest and the provision relating to the lump-sum indemnity for debt collection ("40 euros") as well as the relative amounts not transferred to the Income Statement continued to grow compared to 2021 (reaching respectively €686 and €191 million, and €368 million and €96 million), while the relative receipts amounted to €61 million and €10 million, respectively, despite the delay recorded in finalizing agreements with debtors.

(Values in € million)

	12.31.2021	12.31.2022
Turnover acquired	3,447	5,211
Loan Portfolio	2,410	3,765
Late payment interest collected	51	61
Lump-sum indemnity ("40 euros") collected	5	10
Provision for late payment interest	642	686
Lump-sum indemnity provision	187	191
Provision for late payment interest not transferred to the income statement	*371*	368
Lump-sum indemnity provision not transferred to the income statement	187	96

VOLUMES BY COUNTRY



Normalized net interest income amounted to €93.0 million, compared to €88.5 million in 2021, and was positively affected by the "rescheduling/capital gains" spread and negatively by the temporal delay, with respect to funding, of the repricing of loans, the positive effects of which (both on the interest rate used for late payment interest and the price applied to customers) will instead be seen in the course of 2023 and 2024.

The "rescheduling/capital gains" spread included in net interest income, i.e. the differential between capital gains generated by the receipts of late payment interest exceeding 45% accounted for on an accruals basis and rescheduling, i.e., the effects related to the discounting of receivables not collected according to internal estimates and therefore reprojected forward over time, was positive when compared to the same period last year. The result benefited from an excellent final quarter, although still below pre-Covid levels.

Normalized other operating income, net benefited from an amount of receipts relating to the lump-sum indemnity for debt collection ("40 euros") double that recorded in 2021 (roughly 10 million in 2022 and around 5 million in 2021).

Normalized direct costs amounted to €23.8 million, up by roughly 12% compared to 2021 due to higher volumes, increased operations and higher legal costs.

Normalized net impairment losses for credit risk, although higher than in 2021 as a result of higher collective impairment losses (due to the larger portfolio in place) and individual impairment losses mainly in Poland on several positions with a private counterparty, continued to remain at limited levels thanks to the careful monitoring of credit, both in origination and management.

Normalized profit before tax from continuing operations therefore amounted to €83.8 million, up €3.1 million compared to the same period last year, due to the phenomena described previously.

€M (normalized values)

	12.31.2021	12.31.2022
Net interest income	**88.5**	**93.0**
of which "rescheduling/capital gains" spread	*(0.6)*	*7.8*
Net fee and commission income	5.5	3.1
Other operating income, net	6.8	12.4
Total net revenue	**100.8**	**108.5**
Direct costs and Amortisation, depreciation and net impairment losses on property, equipment and investment property/intangible assets	(21.2)	(23.8)
Net impairment losses/gains for credit risk and net provisions for risks and charges	1.0	(0.8)
Profit before tax from continuing operations	**80.7**	**83.8**

Securities Services BU
Main KPIs and Economic Results

Securities Services is the 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 various investment funds – such as pension funds, mutual funds and alternative funds – as well as banks and other financial institutions (i.e., stock brokerage firms): this business is focused on the Italian market.

During 2022 the BU witnessed good commercial performance. This continued to be possible thanks to the launch of strategic initiatives aimed at i) further expansion and improvement of the commercial experience (through new services such as settlement processing in the various markets, securities lending for medium to small-sized Pension Funds; expansion of the activities of Paying Agents to foreign currencies as well; ii) an expansion of the customer base (through the offer of custodian bank services to Pension Funds, Religious Bodies and Banking Foundations as well and participation in the calls for tenders of Pension Funds in addition to the offer of Paying Agent, Account and Custodian Bank services to Corporate customers) and iii) seizing the opportunities deriving from regulatory interventions (such as T2-T2S Consolidation, ECMs, CSDR, SHRD II, Spanish FT), which on one hand represent an opportunity to strengthen in the market the role of correspondent bank and reference partner as part of Global Custody, and on the other hand make it possible to offer new value added products and services which will be able to contribute to a further increase in BFF's revenues.

Business development mitigated the drop in revenues due to the weakness of the financial markets affected first by the effects of Covid-19 and then by the Russia/Ukraine crisis.

On the other hand, the second half of the year was characterized by the exit of two leading customers, the economic impact of which will be fully reflected in the course of 2023.

The main indicators of the Securities Services BU showed negative trends compared to 2021 although there is a considerable amount of new legislation that in the future will lead to further developments for the business, particularly as concerns contributions to supplementary pension funds for public administration employees and within mandatory services for Pension Funds.

The Custodian's Assets under Deposit (AuD) amounted to €49.5 billion, a decrease compared to 2021. The negative performance of the financial markets was only partly offset by the positive effects of initiatives related to the development of new business opportunities as well as a positive balance between inflows and outflows. In this context, BFF Bank still maintained its leading position in the Italian closed-end pension fund segment.

Global Custody's Assets under Custody (AuC) of €153.1 billion, down 11% from 2021 but with growth of 9% excluding the effects of Arca, were impacted by negative financial market performance.

The balance of customer deposits was influenced by the change in investment policies adopted by many funds (due to the new scenario for market interest rates, which have transitioned from negative to positive) and decreased compared to 2021 by €2.9 billion (of which €1 billion deriving from the loss of Arca), reaching €3.2 billion.

	12.31.2021	12.31.2022
Custodian Bank (AuD, €M)	83,573	49,524
Global Custody (AuC, €M)	172,625	153,065
Deposits - Final Balance (€M)	6,092	3,167

Normalized net interest income amounted to €8.8 million (compared to €10.8 million in 2021) and was negatively impacted by lower deposits and the trend in market interest rates, which became positive during the year.

The level of normalized Net fee and commission income was 8% lower than in the same period last year and was negatively impacted by the departure of Arca on November 1, 2022.

The amount of normalized Direct Costs decreased, as evidenced by the efficient monitoring of costs in place and the renegotiation of some contracts with suppliers, to be continued in 2023 as well.

€M (normalized values)

	12.31.2021	12.31.2022
Net interest income	**10.8**	**8.8**
Net fee and commission income	46.1	42.4
Other operating income, net	0.9	1.2
Total net revenue	**57.8**	**52.5**
Direct costs and Amortisation, depreciation and net impairment losses on property, equipment and investment property/intangible assets	(28.8)	(24.7)
Net provisions for risks and charges	-	-
Profit before tax from continuing operations	**29.0**	**27.8**

Normalized profit before tax from continuing operations therefore amounted to €27.8 million, down €1.2 million compared to last year thanks mainly to the decrease in net interest income following lower deposits, the decrease in commissions from services and despite cost containment.

Payments BU
Main KPIs and Economic Results

The Payments BU is the business unit that deals with payment processing, corporate payments and checks and bills and has as customers medium-small Italian banks and medium-large companies and boasts a partnership with Nexi. The business is concentrated in the domestic 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 is benefiting from a growing payments market thanks to the recovery in consumption and the progressive digitalization of payment instruments. For the time being, no negative effects can be seen from either rising inflation or the war in Ukraine.

Throughout 2022, the BU witnessed good business performance which had positive effects on the area of interbank processing, corporate payments and the settlements sector, while the decline continues for the checks and bills area (an area in structural decline and still trending in the market), in which in any event the negative effect of drops in volume was limited with dedicated repricing policies.

As seen in 2021, the market is showing the effects of the evolution and digitalization of the Payment System and the ongoing aggregation of banks, not to mention potential increased competitiveness in the Payments sector, also led by the ECB and the European Commission, along with the entry of many new operators into the payments market, such as Payment Institutions, IMELs, TPPs and Fintech operators. Precisely these last two phenomena have meant that during 2022 with the full implementation of PSD2 BFF saw growing demand for payment intermediation services, a trend which BFF expects to continue in 2023. The start of the Directive revision process may lead to a further enlargement of the market, developing more competition but also new opportunities.

The main indicators of the Payments BU, in terms of the number of transactions executed compared to 2021, showed positive trends.

The number of collection and transfer processing transactions grew by 6%, reaching 331 million. There was good growth in instant payments, although still very low numbers due to the difficulty of many small and medium-sized banks to find a space for this service.

The card settlement business grew by 35%, surpassing pre-Covid levels due to increased activity from bank customers and competitive pressure from the contactless segment.

The balance of deposits amounting to €2,852 million was up compared to €2,408 million in 2021 thanks to the commercial efforts made with existing customers in order to boost liquidity.

	12.31.2021	12.31.2022
Interbank processing (no. trans. #M)	312	331
Settlements (no. transactions #M)	191	257
Deposits - Final Balance (€M)	2,408	2,852

Normalized net interest income amounted to €6.6 million in 2022 (compared to €7.2 million in 2021).

The level of normalized Net Fee and Commission Income and Direct Costs was higher than in 2021 and amounted to €45.4 million and €32.1 million, respectively, primarily as a result of increased operations.

€M (normalized values)

	12.31.2021	12.31.2022
Net interest income	7.2	**6.6**
Net fee and commission income	43.8	45.4
Other operating income, net	11.1	11.3
Total net revenue	**62.1**	**63.3**
Direct costs and Amortisation, depreciation and net impairment losses on property, equipment and investment property/intangible assets	(30.9)	(32.1)
Net provisions for risks and charges	-	-
Profit before tax from continuing operations	**31.1**	**31.3**

As a result, the normalized profit before tax from continuing operations was €31.3 million, up €0.2 million compared to 2021, mainly due to higher fees and commissions.

Corporate Center BU
Main KPIs and Economic Results

The Corporate Center BU manages the parent's 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. This is the area in which cost synergies were achieved due to the integration with DEPObank and where, through the internal transfer pricing mechanism, funding synergies were consolidated.

The Corporate Center BU handles, inter alia, the management of positions in currencies other than euros in order to contain open positions within overall values below regulatory limits so as to avoid, on an ongoing basis, the absorption of capital which could originate from funding and the lending of other BUs.

As concerns recourse to bonds and capital instruments, please note that:

- On January 19 the issue at par of an Additional Tier 1 Perpetual NC2027 instrument (ISIN XS2404266848) in the amount of €150 million was finalized, with a fixed-rate coupon of 5.875% per annum to be paid on a half-yearly basis and a Ba1 rating.
- On March 2, 2022, the call option was exercised and the €100 million subordinated Tier2 instrument issued in 2017 was redeemed.
- On June 29, 2022, the Bond (ISIN XS1639097747) issued for an original amount of €200 million in June 2017 and outstanding at the redemption date in the amount of €42.3 million were redeemed at maturity.

In light of the above, the situation of bond issues as of December 31, 2022 is as follows:

ISIN code	Issue date	Maturity		Bond type	Nominal amount (€ million)	Coupon	Moody's Ratings
Rated and listed bonds							
XS2068241400	23-Oct-19	23-May-23	3,5Y	Senior Preferred Unsecured	38.6	1.75%	Ba1
XS2404266848	19-Jan-22	Perpetual NC 2027 (*)		Additional Tier1	150	5.875%	B2
TOTAL AMOUNT OF OUTSTANDING BONDS AS OF JUNE 30, 2022					**188.6**		

(*) First Call Option January 19, 2027 - July 19, 2027.

The BU Income Statement was affected by the rise in interest rates generated by the Russia/Ukraine conflict as well as the negative impact of lower revenue from the former DEPObank securities portfolio as a result of the fair value valuation carried out at the closing date.

Normalized net interest income, to be considered together with the cost of hedging derivatives used to finance and hedge assets in Zloty, and trading derivatives, used to hedge exposures to interest rates and currencies, amounted to €73.8 million (compared to €34.2 million in 2021) and showed a very positive trend thanks to the funding synergies envisaged in the integration plan with DEPObank.

The parent also aimed to improve yields in the area relative to government bonds through new purchases of government bonds issued by the Italian Republic, operating through an investment policy aimed at returning the size of the portfolio and the relative duration to pre-closing levels, when they were respectively higher than €6 billion and in the order of about three years on average. Moreover, in order to take into account the new interest rate trends, investment activity in 2022 was directed more towards variable-rate securities.

Normalized other revenue, which rose by around €6.0 million compared to 2021, was positively influenced by the dividends received as well as the return on other forms of lending.

Normalized costs showed a significant reduction compared to 2021, reflecting the careful control to which they are subject, the prerogative of all parent BUs, and the effects of the initiatives taken to achieve the synergies envisaged in the plan in order to increase the operational efficiency of the BU.

The above costs include the contributions the Bank pays annually to the Deposit Guarantee Fund and the Resolution Fund.

With regard to the Deposit Guarantee Fund, note that 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.

The ordinary contribution for the year 2022 came to €1,415 thousand, while for the year 2021 it amounted to €1,451 thousand, and for the year 2020 it amounted to €1,856 thousand for BFF and €399 thousand for the merged bank DEPObank.

With regard to the Resolution Fund, recall that 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 ordinary annual contribution quota requested from BFF Bank by the Bank of Italy for the year 2022 with a note dated April 27, 2022 and payment made in May 2022 amounted to €3,607 thousand compared to €8,688 thousand in 2021 (€2,963 thousand quota relating to the ex-BFF and €5,725 thousand quota relating to DEPObank).

Below is a representation of the results of the Corporate Center BU:

€M (normalized values)

	12.31.2021	12.31.2022
Net interest income(*)	**34.2**	**73.8**
Net fee and commission income	(1.0)	(0.4)
Other Revenue	17.5	23.5
Total Net Revenue	**50.7**	**96.8**
Direct costs and Amortisation, depreciation and net impairment losses on property, equipment and investment property/intangible assets	(81.4)	(70.1)
Net impairment losses/gains for credit risk and net provisions for risks and charges	5.7	(0.1)
Profit before tax from continuing operations	**(25.0)**	**26.6**

(*) Including the Profit on trading in derivatives used to hedge exposures to interest rates and currencies.

Therefore, normalized profit before tax from continuing operations came to €26.6 million, a clear increase over last year when a loss of €25.0 million was recorded, thanks to the achievement of the funding and cost synergies envisaged in the plan.

Main items in the statement of financial position

Brief comments are provided below on the key items in the statement of financial position.

Cash and cash equivalents

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
a) Cash	190	206	16
b) Current accounts and sight deposits at Central Banks	360,142	489,810	129,668
c) Current accounts and sight deposits at banks	182,895	133,959	(48,936)
Total	**543,227**	**623,975**	**80,748**

Starting from December 31, 2021, in line with what is set forth in the 7th update of Bank of Italy circular 262/205, the item in question, aside from cash and sight deposits at Central Banks, with the exception of the mandatory reserve, also includes current accounts, as well as sight loans and receivables (current accounts and sight deposits) with banks.

As of December 31, 2022, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €490 million, as well as current accounts held by the Bank at third-party banks, amounting to €134 million.

Financial assets measured at fair value through profit or loss

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
a) Financial assets held for trading	4,095	211	(3,884)
c) Other financial assets subject to mandatory fair value measurement	32,504	90,330	57,826
Total	**36,598**	**90,541**	**53,942**

The item consists essentially of i) Financial assets held for trading of €211 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 parent is exposed to and ii) Other financial assets subject to mandatory fair value measurement of €90.3 million, which mainly include the "UCI units". In particular, “Other financial assets subject to mandatory fair value measurement” recorded a significant increase following the subscription of units of an investment fund for a total at December 31, 2022 of €60 million, partially offset by repayments relating to the units of other funds held by the Bank.

Financial assets measured at fair value through other comprehensive income

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Government securities - (HTC&S)			
Equity investments			
Equity securities	83,506	128,098	44,592
Total	**83,506**	**128,098**	**44,592**

The item consists essentially of the stake in the Bank of Italy of €125 million, as well as some shares and equity investments for an amount of €3 million. With respect to minor investments in equity securities, please note that the Bank has sold a portion of "Visa" shares (for €1,183 thousand) and "Ausilia S.r.l." shares (for €306 thousand) and, in the course of the final quarter of 2022, purchased a shareholding in the company "Istituto della Enciclopedia Italiana fondata da Giovanni Treccani S.p.A." amounting to €1 million (1.17%).

Financial assets measured at amortized cost

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Government securities - (HTC)	5,792,627	6,129,228	336,601
Loans and receivables with banks	403,898	478,203	74,305
Loans and receivables with customers	3,559,481	5,119,099	1,559,619
Total	**9,756,006**	**11,726,530**	**1,970,524**

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 value of €6.1 billion.

"Loans and receivables with banks" includes the item "Loans and receivables with 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 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 "Loans and receivables with banks – Reverse repurchase agreements" relating to contracts governed by the Global Master Repurchase Agreement (GMRA) as well as "Loans and receivables with banks – Others" which derive from the provision of activities and services offered.

With regard to "Loans and receivables with customers", the item mainly includes trade receivables referring to factoring activities and loans made to subsidiaries. Note that, as indicated by the Bank of Italy, the ecobonus tax assets are recognized under "Other Assets" in the amount of approximately €221 million.

As noted previously, the item "Loans and receivables with customers" increased in 2022 also following i) the recognition of 50% of the provision relating to the lump-sum indemnity for debt collection ("40 euros") and ii) the increase in the percentage estimated recovery of late payment interest from 45% to 50% as well as the days expected for the relative collection from 1800 to 2100 days: both elements had an impact of €119.1 million.

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Factoring activities (outright purchases, late payment interest and recovery expenses)	2,186,305	2,988,971	802,666
Trade receivables purchased below nominal amount	23,347	28,451	5,103
Other exposures	1,349,829	2,101,678	751,849
Total	**3,559,481**	**5,119,099**	**1,559,618**

Credit quality

With regard to credit quality, total net impaired exposures increased by €252.0 million at December 31, 2022 compared to €84.6 million at December 31, 2021.

In order to analyze its credit exposures, aimed among other things at identifying any impairment losses on financial assets in accordance with IFRS 9, the parent classifies exposures as Performing and Non-Performing.

Non-Performing exposures, whose overall gross amount was €255.2 million at December 31, 2022 with impairment losses totaling €3.2 million, are divided into the following categories.

Non-performing loans

These are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the Bank.

At December 31, 2022, the total non-performing loans, net of impairment, amounted to €80.3 million. Among these non-performing exposures, €79.7 million (99.2% of the total) concerned regional authorities in financial distress.

Gross non-performing loans amounted to €82.4 million and related adjustments amounted to €2.1 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 claims included in OSL's liabilities, are classified as non-performing, even though all claims can be collected under the law at the end of the insolvency procedure.

Unlikely-to-pay positions

Unlikely to pay exposures reflect the judgment made by the intermediary about the unlikelihood, excluding such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments). Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor.

At December 31, 2022, gross exposures classified as unlikely to pay totaled €1.6 million and related adjustments amounted to €0.8 million, a net amount of €0.8 million.

Impaired past due exposures

Impaired past due exposures consist of positions vis-à-vis entities with a past-due situation, where the overall amount of past-due and/or overdue exposures has been higher than, for at least 90 consecutive days, *(i)* the relative materiality threshold (relative limit of 1% given by the ratio between the total past-due and/or overdue amount and the total amount of all credit exposures to the same Debtor) and (ii) the absolute materiality threshold (absolute limit equal to €100 for retail exposures and €500 for non-retail exposures). With reference to the assigned debtors of the Public Administration with regard to non-recourse factoring transactions, the count of 90 consecutive days past due generally begins from the 181st day past due from the due date of the assigned invoice.

At December 31, 2022, total net past due exposures amounted to €170.9 million.

Gross exposures totaled €171.2 million and relevant adjustments amounted to around €0.3 million.

The increase in the level of impaired past-due exposures compared to December 31, 2021 can be attributed to the adoption of new and more stringent interpretation criteria on the definition of default, published by the Bank of Italy on September 23, 2022. However, this alignment is not symptomatic of an increase in the portfolio's actual credit risk profile.

The following table shows the amount of loans and receivables with customers, with an indication of any adjustment, broken down into "Performing exposures" and "Impaired assets".

(Values in thousand euros)

Type	12.31.2021			12.31.2022		
	Gross value	Impairment losses gains	Net value	Gross amount	Impairment losses gains	Net value
Purchased performing Impaired exposures (Stage 3)	83,088	(3,793)	79,295	249,484	(3,176)	246,308
Purchased non-performing Impaired exposures (Stage 3)	5,493	(206)	5,287	5,678	(6)	5,672
Performing exposures (Stage 1 and 2)	3,476,064	(1,164)	3,474,899	4,867,749	(630)	4,867,119
Total	**3,564,645**	**(5,163)**	**3,559,481**	**5,122,911**	**(3,812)**	**5,119,099**

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

Property, equipment and investment property and intangible assets

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Property, equipment and investment property	33,138	27,763	(5,374)
Intangible assets	34,308	36,142	1,835
- of which goodwill			
Total	**67,445**	**63,906**	**(3,540)**

At December 31, 2022, the item "Property, equipment and investment property" amounted to a total of €27,763 thousand.

The amount includes primarily: i) land amounting to €6,325 thousand, ii) buildings (including capitalized extraordinary maintenance) of €9,631 thousand including the Rome property at Via Elio Chianesi 110/d and the real estate at Via Domenichino 5, iii) rights of use relating to the application of IFRS 16 on leases of €10,675 thousand.

Intangible assets largely consist of the Customer Relationships recognized following the acquisition of DEPObank.

With respect to the Customer Relationship of the Securities Services BU emerging during the PPA, connected to the business combination with DEPObank, the cancellation received from the customer Arca Fondi SGR (received in November 2021 as of 2023) constituted a trigger event pursuant to the IFRS. Therefore the parent, with the support of an independent expert, as required by IAS 36, performed the impairment test, which found that it was necessary to recognize an impairment loss of roughly €1.1 million.

Lastly, the item includes other intangible assets with a finite life that refer to investments in new multi-year software, amortized on a straight-line basis over their estimated useful lives (four years).

Hedging derivatives, equity investments and financial liabilities held for trading

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Hedging derivative assets	13		(13)
Equity investments	150,491	151,876	1,384
Financial liabilities held for trading	2,725	950	(1,775)
Hedging derivative liabilities	4,814	14,314	9,500

The items Hedging derivative assets and liabilities respectively include the positive and negative fair values as of December 31, 2022 related to the use of currency swap contracts to hedge loans disbursed in zloty to Polish subsidiaries under existing intercompany agreements and the Transaction Service BU's funding in currencies other than the euro.

The item Equity investments, amounting to €152 million, represents the value of investments in BFF Polska Group, BFF Finance Iberia, BFF Immobiliare S.r.l. (established in January 2022) and BFF Techlab S.r.l. (acquired in October 2022), all of which were exclusively controlled by the Bank which holds 100% of the capital, as well as Unione Fiduciaria, with an equity investment amounting to 26.46% of the share capital and resulting from the merger of DEPObank in March 2021, recognized in the amount of €8.6 million in the financial statements. All investments are recorded according to the cost method.

The item includes the negative fair value at December 31, 2022 of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Bank is exposed to.

Tax assets and liabilities

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Tax assets	**93,417**	**55,243**	**(38,173)**
current	37,778		(37,778)
deferred	55,638	55,243	(395)
Tax liabilities	**96,424**	**128,840**	**32,416**
current		22,548	22,548
deferred	96,424	106,292	9,868

As at December 31, current tax assets and liabilities amount to €55,243 thousand and €128,840 thousand, respectively, and include the net balance of the parent's tax positions with respect to tax authorities, in accordance with the provisions of IAS 12.

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

Recall that in 2021 the tax value and carrying amount relating to Banking Payments goodwill deriving from DEPObank were aligned (see what is described in the specific item 100 "Intangible Assets" of the Statement of Financial Position 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 year. Furthermore, the item also includes the share of deferred tax assets deriving from the financial statements of DEPObank relating to goodwill and the tax loss realized at the end of 2020.

Deferred tax liabilities mainly refer to the taxes on late payment interest, recognized in the financial statements on an accrual basis but which will form part of the taxable profit 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	12.31.2021	12.31.2022	Changes
Other assets	205,860	389,016	183,156
Other liabilities	415,755	382,205	(33,551)

The Other assets and 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.

Other assets also include ecobonus tax assets acquired through non-recourse factoring transactions of €221.5 million at December 31, 2022.

Financial liabilities measured at amortized cost

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Amounts due to banks	781,959	1,165,557	383,598
Amounts due to customers	8,906,799	10,728,674	1,821,875
- of which to financial institutions	-	-	-
Securities issued	186,285	38,976	(147,309)
Total	**9,875,043**	**11,933,207**	**2,058,164**

The item "Amounts due to banks" mainly consists of "current accounts and demand deposits", mainly deriving from payment service operations, and includes the balances of accounts of bank customers.

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.

The item includes €1.3 billion for online deposit accounts (“conto facto”) offered in Italy, Spain and Germany, the Netherlands, Ireland and Poland for a total of €1.3 billion between restricted deposits and unrestricted deposits, compared to €230 million at December 31, 2021.

Debt securities issued consist of bonds issued by the parent, with a total nominal amount of €38.6 million (€181.8 million at December 31, 2021), recognized in the financial statements in the amount of €38.9 million at amortized cost using the effective interest rate method.

The decrease with respect to December 31, 2021 is attributable to the redemption on March 2, 2022 of the subordinated Tier2 instrument in the amount of €100 million issued in 2017 and on June 29, 2022 of the Bond (ISIN XS1639097747) issued for an original amount of €200 million in June 2017 and outstanding at the redemption date in the amount of €42.3 million.

As of December 31, 2022, the item includes only the senior unsecured bond (ISIN XS2068241400), with a "Ba1" rating assigned by the Moody's rating agency, issued in October 2019, for a remaining nominal amount of €38.6 million, maturing in May 2023. The bonds pay an annual coupon of 1.75%.

Provisions for risks and charges

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Commitments and other guarantees provided	58	225	167
Employee benefits	5,901	7,712	1,811
Other provisions	15,482	24,414	8,931
Total	**21,441**	**32,351**	**10,910**

At December 31, 2022 “Provisions for risks and charges” mainly include allocations to “Pension and similar obligations” and allocations to “Other Provisions” to cover contingent liabilities.

Main items in the Income Statement

The parent realized a profit of €261.4 million for the year ended December 31, 2022, compared to €164.3 million realized at the end of the previous year. Normalizing both results, i.e. eliminating all non-recurring items that affected the results of both periods and adjusting the 2021 result to include the first two months of DEPObank (this is necessary to include the months of January and February, months in which DEPObank had not yet been acquired and merged), the normalized result for 2022 stands at €116.9 million compared to €91.9 million realized in 2021.

Total income

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Late payment interest on non-recourse trade receivables	113,724	157,272	43,548
Interest income on securities	10,268	42,787	32,519
Other interest income	42,750	93,750	50,999
Interest and similar income	**166,742**	**293,808**	**127,066**
Interest expense	**(37,931)**	**(91,494)**	**(53,563)**
Net interest income	**128,811**	**202,314**	**73,503**
Net fee and commission income	**80,933**	**90,534**	**9,601**
Dividends and similar income	3,676	85,758	82,082
Net trading income	6,747	9,744	2,997
Net hedging income			
Profits (losses) on disposal or repurchase of:	(12,650)	166	12,816
a) financial assets measured at amortized cost		166	166
b) financial assets measured at fair value through other comprehensive income			
c) financial liabilities	(12,650)		12,650
Profits on other financial assets and liabilities at fair value through profit or loss			
b) other financial assets mandatorily measured at fair value	2,734	5,154	2,421
Total income	**210,251**	**393,671**	**183,420**

Net interest income as at December 31, 2022 amounted to €202.3 million, up from €128.8 million last year (normalized values of €174.9 million and €137.2 million, respectively) and benefited from:

1) the initiatives put in place to achieve the funding synergies envisaged in the business plan (in fact, starting from Q2 2021 BFF has focused on i) using the funding made available by the Payments and Securities Services BUs to finance its lending and to further diversify its funding sources by closing the more expensive ones, while still maintaining a certain diversification of funding sources, ii) eliminating the economic effects of the negative rates expected from ECB deposits);
2) the higher value of loans to customers (thanks to the growth in Factoring & Lending);
3) the higher value of HTC securities in the portfolio;
4) the combined effect of the increase in the percentage estimated recovery of late payment interest from 45% to 50% and the increase in days expected for the relative collection.

The value of net fee and commission income for the year ended December 31, 2022 amounted to €90.5 million, up from €80.9 million in 2021 but not much lower than the normalized €94.4 million in 2021, and was negatively impacted by the exit of Arca on November 1, 2022.

Total income as at December 31, 2022 amounted to €393.7 million, €287.9 million normalized, up from €210.3 million for the previous year (€241.5 million normalized) mainly due to the growth in net interest income.

Finally, remember that the recognition of maturity commissions and late payment interest on purchased non-recourse trade receivables in the income statement reflects the effective return from the application of the "amortized cost" criterion for measuring non-recourse trade 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. Please note that, in 2022, the item was influenced by the increase in the percentage estimated recovery of late payment interest from 45% to 50% as well as the days expected for the relative collection from 1800 to 2100 days, for an overall amount of €27.4 million.

As far as the loans and receivables with customers recognized in the financial statements are concerned, the updating of the time series confirmed an estimated collection percentage much higher than 45%. Therefore, the percentage used to prepare the 2022 Financial Statements was increased from 45% to 50%.

On the other hand, to take into consideration the collection timing of the entire provision for late payment interest, the estimate of days to collection was prudently increased from 1800 to 2100 days. This extension was also implemented to take into account external impacts that influenced the age of the provision, such as payment slowdowns due to the Covid-19 pandemic crisis, the relative blocking of courts and the suspension of enforcement actions in healthcare, which influenced the suspension of the terms of legal and procedural activities and therefore collection timing.
Both changes mentioned above were accounted for at year-end and generated a total positive "one off" amount of €27.4 million.

Administrative costs

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Personnel expenses	64,330	65,624	1,294
Other administrative expenses	91,702	88,909	(2,793)
Total administrative expenses	**156,032**	**154,533**	**(1,499)**

Administrative expenses as at December 31, 2022 amounted to approximately €154.5 million, €144.0 million normalized, and were down with respect to €156.0 million (which does not include the first two months of costs of DEPObank) and €153.2 million normalized in 2021 thanks to the initiatives implemented to realize the cost synergies established in the plan.

Other operating income, net

At December 31, 2022, under "Other operating income, net", the parent recorded an amount equal to €94.7 million relating to the one-off effect of the recognition of 50% of the provision relating to the lump-sum indemnity for debt collection ("40 euros") and in the same item in 2021, the definitive amount of badwill resulting from the merger transaction with DEPObank, totaling €76.9 million, was recognized.
This item, net of non-recurring items, therefore showed normalized values of €30.7 million in 2022 and €28.2 million in 2021.

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

Disclosure regarding the going concern assumption

In accordance with IAS 1, paragraph 24, the parent assesses its ability to continue as a going concern by taking into account the trend of its main core indicators and available information about the future, covering at least 12 months after the reporting date.

In view of the aforementioned considerations, associated with the historical and prospective review of its earnings and its ability to access financial resources, the Bank will continue its operating activities on a going concern basis. Consequently, these Financial Statements are drawn up based on this assumption.

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

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

A quantitative summary of this analysis can be found below.

Items	12.31.2021	12.31.2022
Net interest income	133.4	**202.3**
Total income	210.3	**393.7**
EBTDA (gross of provisions)	161.2	**356.5**
Profit	**164.3**	**261.4**
R.O.E. (Return On Equity) (%)	**31.8%**	**35.6%**
R.O.T.E. (Return on Tangible Equity) (%)	34.1%	**37.5%**
Net interest income/Interest and similar income (%)	80.0%	**68.9%**
NPLs (net of impairment)/Loans and receivables with customers (%)	1.9%	**1.6%**
Own funds/Loans and receivables with customers (%)	26.8%	**24.2%**
Leverage Ratio	**3.1%**	**4.45%**
Equity	**516.7**	**734.2**
Own Funds	**428.4**	**590.4**

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 December 31, 2022 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;
- "Original exposure approach" for counterparty risk;
- "Basic approach" for operational risk;
- "Standardized approach" for market risk.

Pillar II – The ICAAP/ILAAP Report

In accordance with prudential supervisory provisions, and in order to allow the Supervisory Authority to carry out an accurate and comprehensive assessment of the fundamental qualitative characteristics of the equity and financial planning process, the risk exposure and the consequent calculation of total internal capital and relevant liquidity reserves, the Bank - as Parent of the Banking Group - has prepared the "ICAAP/ILAAP 2022 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 public disclosures in accordance with the provisions in effect, on a consolidated basis. 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

With the aim of adopting an increasingly prudent approach to the classification and coverage of NPEs, in April 2019 the European Commission approved an update of EU Regulation 575/2013 (CRR) regarding the minimum coverage of non-performing loans. For the purposes of evaluating prudential provisions, the legislation in question provides that loans 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 level, 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 (provisions, prudent valuation, other deductions of CET1).

This rule is based on the principle that the prudential definition of default (i.e. past due, unlikely to pay 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 December 31, 2022 the impact on CET 1 deriving from the application of calendar provisioning was limited to roughly €178 thousand, compared to 2021 when it amounted to zero.

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 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. Lastly, the parent aligned itself with the new interpretation criteria on the definition of default, published by the Bank of Italy on September 23, 2022.

Moreover, note that the parent 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.

Finally, note that BFF is also conducting the most careful assessments with respect to the opportunity to undertake the path of adopting the method based on internal ratings (IRB) for credit risk. This is a method that, especially with respect to exposures to the Public Administration, would allow i) a more adequate representation of BFF's low actual risk profile, since, beyond the definition of default – and probability of default (PD) – that can be adopted, BFF's recovery processes would show Loss Given Default (i.e. LGD), which is known to be substantially nil, as well as ii) to adopt approaches that are more representative of the actual risk in the context of credit activities arising from the purchase of trade receivables, such as the adoption of the Facility Level Approach (FLA), which to date has only been permitted for banks and groups using internal models.

Monitoring and control of Liquidity

Despite the current macroeconomic scenario, characterized by the continuation of the COVID-19 pandemic and strong geopolitical tensions, the parent has always been able to count on an adequate level of liquidity, largely respecting regulatory requirements and positioning itself on values in line with the internal levels of reporting indicators (LCR, NSFR).

The parent adopts solid oversight mechanisms for monitoring and governing the liquidity position and carries out (i) when deemed necessary, 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, verifying their level of adequacy with respect to future cash flows, (iii) monitors the markets through banks it has relationships with, and (iv) monitors changes in the collection trends of debtors, particularly of the Public Administration. In this context, also by monitoring more specific indicators, the parent did not identify particular liquidity tensions, thanks to its capacity to handle potential stress situations deriving from its funding structure and the levers it is able to activate if required.

Moreover, each year the parent updates its Contingency Funding Plan ("CFP"), which is approved by the BFF Bank Board of Directors and implemented by the Subsidiaries. The document was updated in January 2023. This document illustrates indicators and related thresholds in order to trigger the appropriate actions and escalation and decision processes, with a view to preventing and managing a possible liquidity crisis.

The main accounting issues dealt with during the epidemic and the Russia/Ukraine conflict

With regard to the main accounting actions aimed at a correct representation of the effects of the items in the financial statements, the following is noted.

The annual update of the risk parameters (PD and LGD) takes into consideration the evolution of the effects of COVID-19 within the estimates of expected credit losses, and starting from March 2022, the effects of the Russia/Ukraine conflict.

The Baseline, High Growth and Mild Recession forecasts supplied by the external infoprovider were updated in June 2022 and provide the forecast default rates for the 20 quarters following the updating date. In February 2022, the outbreak of the Russia/Ukraine conflict significantly changed the geo-political scenario with direct consequences on the European and global macro economy. The Risk Management Function,as it does every quarter of the year, performed a sensitivity analysis at December 31, 2022 between the macroeconomic scenarios for the fourth quarter of the year, provided by the external infoprovider, and the macroeconomic scenarios updated at June 30, 2022. The analysis shows that 2023 will be characterized by a decline in GDP growth and a strong inflationary drive generated by the Russia/Ukraine conflict, which reduces on one hand business investments and on the other the disposable income of consumers. However, the job market does not seem to be experiencing significant tensions, thanks to the recovery in hirings post-Covid-19. The economic slowdown will not be sufficient to cause widespread dismissals and the job market will continue to benefit from considerable excess demand. Therefore, job market stability will be one of the main factors that could prevent the economy from entering a recessive cycle. The comparative analysis of the scenarios shows that estimated GDP in December 2022 is worse than that currently in use in the model and therefore, the Risk Management Function is evaluating the impacts of that change on the model for estimating risk parameters in order to understand its magnitude, while also taking into consideration that the parent's Business Model and - in this specific area - the relative cost of risk are less sensitive to GDP trends than credit exposures concentrated in the corporate/retail area.

Moreover, the Risk Management Function compared the macroeconomic estimates released by the external infoprovider with those of the European Central Bank (ECB), observing, also in this case, a deterioration of GDP in 2023. The same analyses will be performed at the end of the first quarter of 2023 as well in order to evaluate the possibility of updating the risk parameters early.

At December 31, 2022, the newly acquired *BFF Techlab* was consolidated line-by-line. Furthermore, the purchase price allocation ("PPA") process was concluded, which resulted in the recognition of goodwill at consolidated Group level of €83 thousand. For more information refer to Part G "Business combinations" of the Notes.

At December 31, 2022, lastly, the impairment test was performed on the "Customer Contracts" intangible asset of the Securities Services BU, resulting from the finalization of the PPA subsequent to the merger of DEPObank in 2021, and in light of the significant changes taking place in the customer portfolio composition, it was deemed appropriate to recognize an impairment loss through profit or loss. For more information refer to Part B of the Notes in item "Intangible Assets".

5. Internal Control System

To guarantee sound and prudent management, the parent combines business profitability with a knowledgeable assumption of risks and with operational conduct inspired by criteria of fairness.

Therefore, in line with legal and supervisory regulations and consistent with the instructions of the Corporate Governance Code for listed companies, BFF has set up an internal control system suitable to identify, measure and continuously verify the risks typical of its corporate activities.

The CEO is the director responsible for the Internal Control system, as envisaged by the Corporate Governance Code.

Described below are the organizational framework of the internal control system, based on the following three control levels, and the main activities carried out by control functions during the first half of the year:

- **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** aim to ensure the correct implementation of the risk management process and compliance with the regulatory framework, including the risk of money laundering and terrorist financing. The functions responsible for such controls, Risk Management and Compliance & AML, are distinct from business functions and contribute to the definition of risk governance policies and the risk management process. The Risk Management Function and the Compliance and AML Function - organizationally and functionally autonomous and distinct - report to the Chief Executive Officer and are independent of the internal audit function, as it performs audits on them. The duties and respective responsibilities are governed within the pertinent internal regulations of the same functions.
- **Third-level controls** and **internal audit** activities are instead carried out by the parent's Internal Audit Function, reporting directly to the Board of Directors.

Control Functions

Risk Management

In terms of second-level controls, the 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.

In particular, during the first half of the year the Function mainly worked on the ICAAP/ILAAP process, the review of the risk management thresholds and metrics, the update of the Contingency Funding Plan and the Recovery Plan, and finally the report on operational and security risks in payment services. Furthermore, as of March 1, 2022 a Validation & Credit Monitoring Area was established within the parent Risk Management Function with the aim of strengthening internal controls and ensuring greater independence of validation activities from development activities. As part of the impairment process, the Function worked on re-estimating the IFRS 9 risk parameters with a view to making them more consistent with the specific features of the parent's Business Model. Lastly, in 2022 the Bank started to conduct a series of careful assessments with regard to the possibility of adopting the internal rating based (IRB) method for credit risk, in which the Risk Management Function is involved with regard to a number of topics.

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 parent - 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; the function also has the duty of preventing and combating money laundering and terrorist financing transactions, moreover identifying on an ongoing basis the regulations applicable in that area.

During the year the Function assessed the impact of the military conflict between Russia and Ukraine on BFF by regularly updating all relevant structures on the: i) sanctions regime as envisaged at EU level for parties/entities involved in the conflict and ii) calls for attention by the competent Authorities.

The monitoring of the risk of non-compliance, money laundering and financing of terrorism has continued on a regular basis in accordance with the annual program of the department's activities approved by the Board of Directors on March 31, 2022.

The Function also continued updating the body of internal rules – including for instance the Non-Compliance Risk Management Policy and the Anti-Money Laundering and Anti-Terrorism Policy – and provided support on an ongoing basis to the organizational units in the interpretation of regulatory provisions and their application with respect to company operations.

Furthermore, activities continued with the goal of strengthening the oversight mechanisms enacted by the parent through the implementation of corrective actions and the adaptation actions identified by the same Function.

Internal Audit Function

Internal audits are carried out by the parent's *Internal Audit* function, directly reporting to the Board of Directors. The Internal Audit function performs independent controls for the Bank. 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, bringing to the attention of the corporate bodies any possible improvements.

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 Corporate Governance Code and internal regulations.

In 2022, the Internal Audit function performed audits in line with the multi-year 2022-2024 Audit Plan prepared according to a risk-based approach, approved by the Board of Directors in March 2022, following up on the recommendations issued and reporting quarterly on the work done to the Bank's governance and control bodies, through its dashboard.

More specifically, the audits were performed on the internal structures of the Bank and on the foreign branches. Moreover, such function carried out the audits provided for by the regulations applicable to parent activities, including those relating to remuneration and incentive policies, ICAAP and ILAAP processes, the Recovery Plan and IT system reliability, security and adequacy aspects. The function also drafted the required reporting established by banking regulations represented by the "Annual Internal Audit Report" and the "Audit Report on outsourced critical or important functions" (CIF).

The manager of the Internal Audit Function is also responsible for the whistleblowing system.

Other Control Functions and Bodies

Finally, 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, 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 together certify the following aspects through specific reports attached to the annual separate Financial Statements: the suitability of the accounting procedures used in preparing the Financial Statements; compliance of documentation with applicable international financial reporting 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 parent; and the reliability of content, in relation to specific aspects, of the Director's report on operations.

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"), drafted in compliance with the requirements of such Decree as well as the guidelines of ASSIFACT and ABI. The last revision of the Model, approved by the Board of Directors on December 22, 2022, was carried out in order to incorporate two new types of offense introduced by Law no. 22 of March 9, 2022 "Provisions on offenses against cultural heritage" such as i) "Crimes against cultural heritage" pursuant to Art. 25-septiesdecies of Decree 231 and ii) the crimes of "Recycling of cultural assets and devastation and sacking of cultural and landscape assets" pursuant to Art. 25-duodevicies of the Decree.

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 offense, intended to identify the criminal offenses that may potentially be committed as part of the parent's operations; ii) the Protocols of the Departments and Organizational Units of the parent, which detail the operations, audits and reporting mechanisms intended to ensure that the parent's organizational and control system – including the foreign branches in Spain, Portugal, Poland and Greece – complies with the rules in the Decree; iii) Table of Information Flows to the Supervisory Body ("Information Flows to the SB").

The Bank also adopted a Code of Ethics, the most recent update of which was approved by the Board of Directors on November 26, 2021. This document defines the set of ethical values embraced by the Group and that ensure, among other things, the prevention of criminal offenses as per the Decree.

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

The activity of the Supervisory Body carried out in the course of 2022 was aimed primarily at verifying the adequacy of the Model, checking the information flows received periodically from the organizational structures, analyzing topics linked to IT risks in relation to the current geopolitical climate, updating the activity of the Compliance & AML Function in relation to the preparation of an ad hoc Model for the Italian subsidiaries BFF Immobiliare Srl and *BFF Techlab* Srl and defining the audits under the responsibility of the Internal Audit Function with 231 liability profiles (Market Abuse, Privacy).

Furthermore, the Supervisory Body decided to initiate a quality review of the Model in 2023 with the support of a qualified outside consultant, in order to verify its alignment with best market practices, and also in relation to the evolution and growth of the Bank over the last few years.

The Supervisory Body reported to the Board of Directors on its work during 2022. Specifically, it noted that it had not directly or indirectly received any report relevant for the proper application of the Model.

6. 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 "RPT 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 favorable opinion expressed by the Board of Statutory Auditors and the RPT Committee.

On December 22, 2020 the Bank approved the update of the conflict of interest management policy and the RPT 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 entered into force on July 1, 2021.

On October 27, 2022, the Bank approved the update only of the RPT Regulation in order to include, in Art. 7.5.1, amongst the "ordinary" transactions carried out by the Bank's subsidiaries, those carried out by *BFF Techlab* S.r.l. and BFF Immobiliare S.r.l., which are wholly-owned by the Bank.

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 Related Parties.

The RPT Regulation is aimed at overseeing the risk that proximity, if any, of such parties to the Banking Group's decision-making centers may compromise the objectivity and impartiality of the decisions taken on transactions involving those parties, with possible distortions in the resource allocation process, exposure of the parent 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 parent's website under the section Governance > Procedures and Regulations > Related-Party Transactions.

Information on related party transactions is provided in Part H of the Notes on the Financial Statements.

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

The parent 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 has signed on to the new Corporate Governance Code (formerly the Code of Conduct) for listed companies as defined by the Corporate Governance Committee established by the business associations (ABI, ANIA, Assonime, Confindustria), the association of professional investors (Assogestioni) and Borsa Italiana, approved on January 31, 2020 and in force as of January 1, 2021.

Already in December 2020, the Bank adopted the new Corporate Governance Code, by updating its internal regulations to incorporate – in the terms represented in the 2021 Report on Corporate Governance – the new features introduced by such Code.

Research and Development

The projects initiated by the parent during 2022 are mainly aimed at business development, the efficiency of internal processes and the reinforcement of IT systems.

More specifically, the following important projects were carried out:

- The launch of new factoring services both aimed at existing customers and at a gradual expansion of business with SMEs. A multi-year project for creating a new and innovative platform to support the core factoring & lending business by revising and restructuring the underlying processes and through investments in information systems and in existing processes aimed at managing new types of services ancillary to non-recourse factoring requested by customers in the various countries;
- Development of new technological solutions for regulatory compliance management, aimed at introducing automation mechanisms (RPA) in back office and administrative processes in order to boost the efficiency of processing times and increase automatic controls, mitigating operational risks linked to manual processing while also improving customer service levels.

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.

Bonds and ratings

As at December 31, 2022, the ratings assigned to BFF in 2022 by the agency Moody's had changed from December 31, 2021:

- BFF's Baseline Credit Assessment ("BCA") is "ba2"
- The long-term issuer rating is "Ba2", with Stable outlook,
- The long-term bank deposit rating is "Baa3" with Negative outlook,
- The short-term Bank Deposit rating is "P-3".

On November 18, 2022, the agency Moody's (i) confirmed the Issuer Rating, the BCA and the Adjusted BCA of BFF at "ba2", (ii) confirmed the Stable outlook on the long-term issuer and senior unsecured debt ratings and (iii) lowered the BFF long-term bank deposit rating to "Baa3" from "Baa2" with a Negative outlook (previously Stable) and the rating on short-term bank deposits to "P-3" from "P-2".

The confirmation by Moody's of the BFF BCA of "ba2" reflects several positive changes in the Bank's credit profile following the completion of the DEPObank acquisition. At the same time, Moody's confirmed the long-term Issuer rating and the senior unsecured debt rating of "Ba2" in line with the creditworthiness of BFF and the loss severity, which remained unchanged. The rating action on deposits, which changed to "Baa3" from the previous "Baa2", reflects the mechanics of the Moody's Advanced Loss Given Failure (LGF) methodology applied to the BFF liability structure.

On January 12, 2022, following the issuance of Additional Tier 1 bonds in the amount of €150 million intended for institutional investors, Moody's gave the issue a B2 rating.

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

Events after the reporting date

Loss of qualification as Small/Medium-Sized Enterprise pursuant to Art. 1, paragraph 1, letter w-*quater*. 1) of Italian Legislative Decree no. 58 of February 24, 1998 ("Consolidated Law on Finance")

As of January 1, 2023, BFF Bank S.p.A. lost its qualification as Small/Medium-Sized Enterprise ("SME") pursuant to Art. 1, paragraph 1, letter w-*quater*. 1) of Italian Legislative Decree no. 58 of February 24, 1998 ("Consolidated Law on Finance"), pursuant to Art. 2-*ter* of the regulation adopted by Consob resolution no. 11971 of May 14, 1999 ("Issuers' Regulations"), as two years had passed since the date of entry into force of Law no. 120/2020, which converted Italian Decree-Law no. 76/2020, which identifies a maximum turnover of €300 million for issuers to be qualified as SMEs.

Please note that the Bank was qualified as an SME on the basis only of the consolidated turnover criterion, as the average market capitalization value was already higher than the regulatory threshold of €500 million.

Therefore, the Bank will no longer be included on the list of listed issuer SMEs published by Consob on its website. Furthermore, the loss of the qualification of SME entails the application of an additional relevant threshold for the purposes of significant equity investment reporting obligations, pursuant to Art. 120 of the Consolidated Law on Finance, equal to 3% of the share capital.

Authorization to repurchase treasury shares

On February 1, 2023, BFF Bank S.p.A. received, after it initiated the regulatory procedure communicated to the market on November 25, 2022, the Bank of Italy's authorization pursuant to Arts. 27 et seq. of Delegated Regulation (EU) no. 241 of January 7, 2014, adopted by the European Commission, and Art. 78 of Regulation (EU) no. 575 of June 26, 2013, to repurchase treasury shares of the Bank, in execution of the authorization granted pursuant to Art. 2387 of the Italian Civil Code by the ordinary shareholders' meeting of March 31, 2022 up to the maximum amount of €2.8 million. The repurchase of treasury shares had been carried out in full at the date on which this document was drafted, and the relative amount had already been deducted from own funds at December 31, 2022.

The treasury share repurchase, as already disclosed to the market, will aim to equip the Bank with sufficient financial instruments in order to meet the requirements of the remuneration and incentive systems as per the current "Remuneration and incentive policy of the Banking Group".

On February 20, 2023, the treasury share repurchase program concluded. In the period between February 13, 2023 and February 17, 2023, the parent repurchased 291,888 ordinary shares, corresponding to 0.16% of the total shares outstanding and making up the share capital (equal to 185,604,558 shares), for a total equivalent value of €2,794,383.98.

7. Share capital, Shareholder structure and other performance indicators

Share capital

In 2022 the share capital increased from 185,312,690 shares, corresponding to €142,690,771.22 at December 31, 2021 to 185,545,952 shares corresponding to €142,870,382.96 (at the date of the approval of this document), as a result of the partial execution of the delegated free capital increase in the period between January 13, 2022 and December 29, 2022 through the issuance of new BFF ordinary shares equal to 233,973* for a nominal amount equal to €180,159.21 and assigned to BFF Group personnel for needs related to remuneration and incentive policies (2020 Management by Objectives and 2016 Stock Option Plan).

Treasury shares

At December 31, 2022, the Bank owned 570,728 treasury shares, accounting for 0.31% of share capital at that date, down from 974,461 on December 31, 2021.

During 2022, the Bank did not repurchase any treasury shares, while 403,733 shares were allotted following the exercise of stock options and the payment of variable remuneration in financial instruments, of which 267,325 to the Chief Executive Officer, 85,622 to other beneficiaries on staff and 50,786 to beneficiaries not on staff.

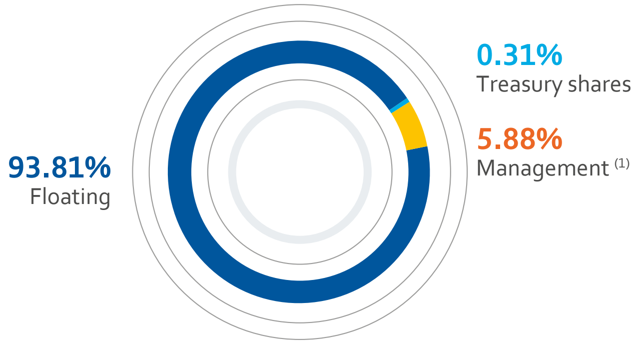
(*) Following the resolution of the Extraordinary Shareholders' Meeting of April 2, 2020 - to increase the share capital of the Bank without consideration, in a divisible manner and in several tranches, pursuant to Art. 2349 of the Italian Civil Code, for a total amount not exceeding €5,254,563.16, through the issue of up to 6,824,108 ordinary shares for the purposes connected with the parent's remuneration and incentive policies, including the "2020 Banca Farmafactoring Banking Group Stock Option Plan" (the 2020 Capital Increase) - said 2020 Capital Increase was partially implemented through the issue of 233,262 new ordinary shares in the period between January 1 and December 31, 2022.

Shareholder Structure

The composition of BFF's shareholding structure as at December 31, 2022 reflects the outcome of the sale procedure on the market through an Accelerated Book-Building concluded on March 9, 2022 of approximately 14 million ordinary shares of BFF held by Equinova UK HoldCo Limited (see the section "Key Events in the Group"), and the share capital increases to service the stock option plans that took place during the year and were disclosed to the market.

As of December 31, 2022, therefore, the Bank's free float, already over 80% as of December 31, 2021, had reached nearly 100% of the share capital, confirming its position as one of the few truly shareholder-driven listed businesses in Italy.

As of December 31, 2022, Management and their Closely Associated Persons held 5.88% of the share capital, up from 5.59% as of December 31, 2021. Treasury shares held by the Bank – 570,728 – amount to 0.31% of the share capital.



Total number of shares issued: 185,545,952

Source: Forms 120A - 120B - 120D and Internal Dealing communications. Percentage is calculated based on the total number of shares issued at 31/12/20222.

(1) As at 12/31/2022 the Chief Executive Officer Massimiliano Belingheri and his Closely Related Persons (Bray Cross Ltd. and Scalve S.à. r.l., The Bomi Trust and Bomi S.a.r.l.) held 10.63 million BFF shares, for a quota equal to 5.73% of the share capital. The remaining quota of the management refers to the BFF shares held by the 4 vice presidents in office at that date and by their respective Closely Related Persons.

With regard to the options granted under the 2016 Stock Option Plan, as at December 31, 2022, 1,086,788 options had been granted, of which 854,788 vested but not yet exercised and 232,000 not yet exercisable. The number of options outstanding and not yet exercised as at December 31, 2021 was 2,524,684.

With regard to the 2020 Stock Option Plan, 8,384,500 options were granted, exercisable starting in 2023, while with regard to the 2022 Stock Option Plan 6,698,000 options had been granted at December 31, 2022, of which 2,547,000 in cash-less form and 4,151,000 in phantom share form, exercisable starting in 2025.

Shareholders’ Meeting Resolutions

On March 31, 2022, the Ordinary Shareholders’ Meeting of the Bank resolved:

- to distribute to Shareholders part of the profit for the year of €125,280,399, equal to approximately €0.679 before tax for each of the 185,315,280 ordinary shares outstanding at coupon date (no. 5) of April 19, 2022 (ex date);
- to add members to the Board of Directors, confirming:
  1. the appointment of the director Ms. Monica Magrì, already co-opted by the Board of Directors on February 10, 2022;
  2. the appointment of the director already co-opted by the Board of Directors on March 1, 2022, Ms. Anna Kunkl, who will remain in office until the Shareholders' Meeting called to approve the Financial Statements for the year 2023;
- to add a member to the Board of Statutory Auditors by appointing Francesca Sandrolini as its Chairwoman, whose candidature was submitted by the law firm Trevisan & Associati on behalf of a group of shareholders;
- to approve:
  - the "2022 Remuneration and Incentive Policy for the members of the Strategic Supervision, Management and Control Bodies and Personnel of the BFF Banking Group" included in the first section of the Annual Report on Remuneration Policy and Remuneration Paid, pursuant to Article 123-*ter*, paragraph 3-*bis* of Italian Legislative Decree no. 58/1998, as amended;
  - policies for determining compensation in the event of early termination of office or termination of employment, including limits on such compensation;
  - the second section of the Annual Report on the Remuneration Policy and Compensation Paid pursuant to Article 123-*ter*, paragraph 6 of Italian Legislative Decree no. 58/1998;
  - the BFF Banking Group 2022 Incentive Plan;
  - to revoke the previous authorization to repurchase and dispose of treasury shares granted by the Shareholders' Meeting of March 25, 2020 for the part not executed by the date of March 31, 2022, and therefore without prejudice to the transactions carried out in the meantime, and to authorize the Board of Directors – pursuant to and for the purposes of Art. 2357 of the Italian Civil Code – to repurchase a maximum of 8,294,520 ordinary shares of BFF, taking into account the shares already in stock, for the purposes indicated under "Repurchase of treasury shares”.

Most recently, on June 22, 2022, the Ordinary Shareholders’ Meeting of the Bank resolved:

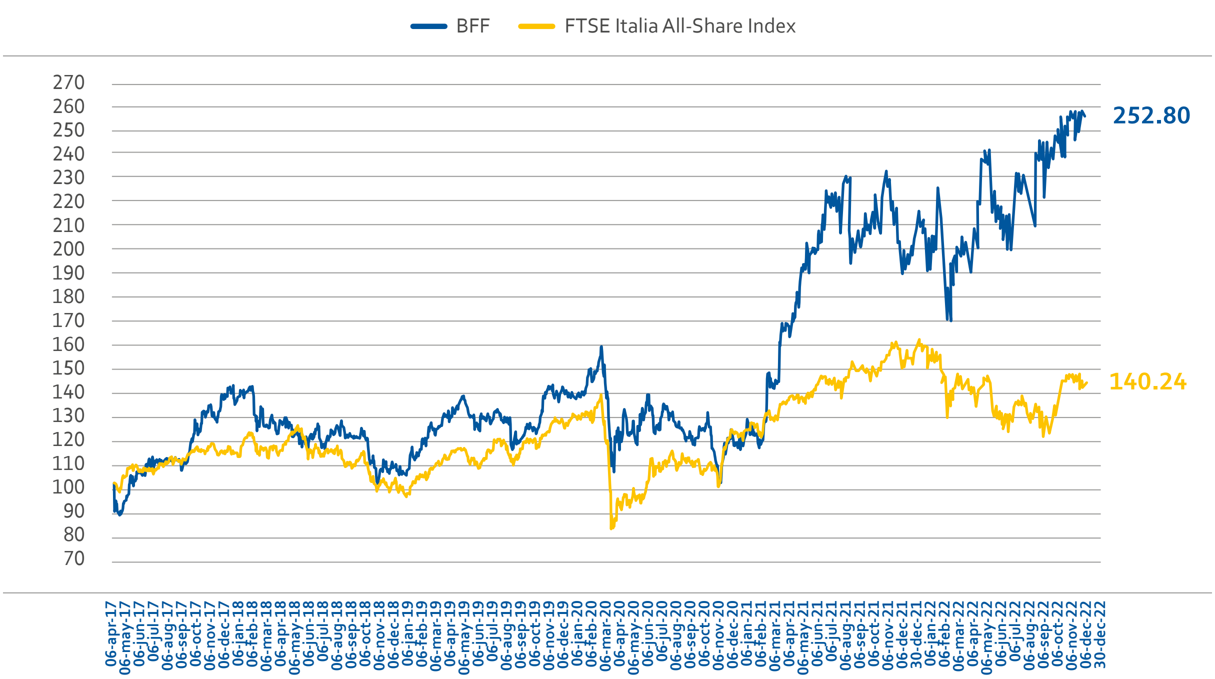
- to add a member to the Board of Statutory Auditors by appointing Nicoletta Paracchini as Chairwoman of the supervisory body, whose candidature was submitted by the law firm Trevisan & Associati on behalf of a group of shareholders;
- to appoint Ms. Francesca Masotti as Alternate Auditor, and to confirm Mr. Carlo Carrera – previously Chairman of the Board of Statutory Auditors – in the role of Alternate Auditor.

Share Performance

The BFF Bank stock (ISIN Code: IT0005244402 – Italian stock exchange ticker: BFF) has been traded on the Euronext Milan market of Borsa Italiana since April 7, 2017, "Finance" Industry and "Financial Services" Super Sector.

The BFF share price at December 30, 2022 was €7.41, up by 58% over the IPO share placement price of €4.70. From listing to December 30, 2022, the Bank distributed a total gross dividend of €2.993 per share. Taking into consideration the distributed dividends, and assuming them to be reinvested in the BFF share on ex coupon, total return for shareholders at December 30, 2022 compared to the IPO placement price was 153%. The FTSE Italia All-Share Index total return was 40%.

Total Return since IPO, with reinvested dividends*



(*) At December 31, 2022, the BFF share is part of the following FTSE indexes: FTSE Italia All-Share Financials; FTSE Italia All-Share Financial Services; FTSE Italia All Share Mid Cap; FTSE Italy SMID Cap Tradable Plus; FTSE Italia MIB Storico; FTSE Italia PIR PMI; FTSE Italia PIR PMI Cap; FTSE RAFI Developed Europe Mid Small Net; FTSE RAFI Developed Europe Mid Small; FTSE RAFI Developed ex US Mid Small 1500; FTSE RAFI Developed Mid Small ex US 1500; FTSE Italy Small Cap Index - Specialty Finance; and the following STOXX and iSTOXX indices: STOXX Europe Total Market Price; STOXX Europe Total Market Value; EURO STOXX Total Market Value; STOXX Europe Total Market Small Net Return; EURO STOXX Total Market Price; STOXX Global Total Market Price; STOXX Europe Total Market Value; STOXX All Europe Total Market Price; EURO STOXX Total Market Small; iSTOXX Europe Value Factor Net Return; iSTOXX Europe Size Factor Net Return; STOXX Europe ex UK Total Market Small Price; STOXX Italy 45 Price Index; iSTOXX PPF Responsible SDG Net Return; iSTOXX PPF Responsible SDG Gross Return; STOXX Developed Markets Total Market Gross Return; EURO STOXX Total Market Value Small; STOXX Italy Total Market Price. The BFF share is also part of a number of MSCI (including MSCI Europe ex UK Small Cap; MSCI Europe Small Cap Special Tax Gross Return; MSCI ACWI Value Small USD and MSCI AC Europe IMI), Bloomberg (including Bloomberg Italy Large, Mid & Small Cap Price Return; Bloomberg World ex US Small Cap Growth Price Total Return and Bloomberg Eurozone Developed Markets Large, Mid & Small Cap Price Return), S&P (including S&P Developed Net Zero 2050 Carbon Budget (2022 Vintage); S&P Global BMI; S&P Developed Ex-U.S. SmallCap and S&P Pan Europe BMI) and Solactive (including Solactive Global SuperDividend and Solactive ISS ESG Screened Europe Small Cap) indices.

8. 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 parent's objectives for 2023 – confirmed by the updated 2021-2023 financials set forth in the business plan following the closing of the Transaction with DEPObank on March 1, 2021 and the approval of the combined budgets for 2021, 2022 and 2023 – 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. Maintain the focus on limiting the cost of funding, leveraging what has already been achieved in 2021 in terms of synergies resulting from the DEPObank 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 and despite the Russia/ Ukraine crisis, the parent expects, as already took place in 2022, a recovery in terms of business volumes and operations, with growth in intermediation margin, also due to the effect of the synergies of the integration with DEPObank.

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

Note also that the issuance of the eligible instrument in Tier I allows the parent to optimize the concentration limit on large exposures and leverage.

Lastly, please note that on February 9 during the Presentation to Analysts of the 2022 results, BFF Bank announced that it had increased its target in terms of profit to be realized in 2023, the last year of the Business Plan, bringing the range from the previous €170-180 million to the current €180-190 million, primarily to take into account the impacts deriving from changes in estimates and the recognition of the collection percentages relating to the "40 euros" and late payment interest and, for the latter, the relative timing expected for collection, and despite the loss of the customer Arca and a period characterized by negative elements and instability such as the War in Ukraine and the energy shock, the sharpest rise in interest rates of recent decades, the highest level of inflation since the 1980s, the restrictions enacted in monetary policy and the end of the period of "negative rates", the volatility of sovereign spreads and negative stock market performance.

9. Distribution of BFF Bank S.p.A.’s profit

The Bank’s profit for the year ended December 31, 2022 amounted to €261,438,215. This result includes, as described above, some non-recurring items, which net of the relative tax impacts amount to €144.5 million: +€73.2 million in intra-group dividends, +€68.5 million relating to the recognition of 50% of the provision relating to the lump-sum indemnity for debt collection (“40 euros”), +€18.6 million relating to the combined effect of the increase in the percentage estimated recovery of late payment interest from 45% to 50% and the increase in expected days for the relative collection, -€7.2 million relating to extraordinary provisions against a likely risk of a negative ruling, -€8.7 million in other non-recurring items (costs for stock options, non-recurring costs, costs for special projects, capital gain from disposal of real estate, amortization of customer contracts, extraordinary contributions to the “FITD” and changes in the foreign exchange difference covered by the translation reserve).

Consistent with the dividend policy approved by the Bank's Board of Directors, which allows paying Shareholders the portion of the Group's normalized consolidated profit for the year not necessary to maintain a minimum Total Capital Ratio of 15% (calculated by considering the scope of the Banking Group, pursuant to the Consolidated Law on Banking and/or the CRR), the intention is to allocate:

i) €47,410 to the legal reserve (to bring the reserve to 20% of the Share Capital as of today);

ii) €115,361,074 to Retained earnings;

iii) €146,029,730 to the Shareholders, of which 77,479,836 to be distributed in April 2023 and €68,549,894 already distributed in August 2022 in the form of an interim dividend.

In relation to the allocation of profits of BFF Bank S.p.A., the proposal that will be presented to the Shareholders' Meeting of the Bank on April 13, 2023 is set forth below.

10. Proposal to the Shareholders' Meeting

Shareholders,

The Board of Directors has called you to this ordinary meeting on Thursday, April 13, 2023 at 9:00 a.m. (the "**Shareholders' Meeting**") at the registered office of BFF Bank S.p.A. (the "**Bank**" or "**BFF**") in Milan at Via Domenichino no. 5 (the "**Registered Office**"), in single call, to approve, inter alia, the proposed allocation of profit for the year.

The Bank's Financial Statements at December 31, 2022, to be approved by the Shareholders' Meeting, show a profit of €261,438,215, which it is proposed be allocated as follows:

i) €47,410 to the legal reserve (to bring the reserve to 20% of the Share Capital as of today);

ii) €115,361,074 to Retained earnings;

iii) €146,029,730 to the Shareholders, of which 77,479,836 to be distributed in April 2023 and €68,549,894 already distributed in August 2022 in the form of an interim dividend.

Therefore, the Shareholders will be due a dividend of roughly €0.419 for each of the 185,623,140 shares.

Furthermore, American type option contracts were still admitted to trading on the Derivative Instruments Market (IDEM) with BFF shares as their underlying asset. In light of the foregoing and in compliance with what is set forth in the Instructions to the Regulation of the Markets organized and managed by Borsa Italiana (**Title IA.2, Section IA.2.1, Art. IA.2.1.3**), for the payment date of dividends to be paid by companies issuing shares in the FTSE MIB index or underlying derivative contracts on shares traded in the IDEM market, the reference date needs to coincide with the first day of trading subsequent to the third Friday of each calendar month.

Therefore, in light of the foregoing, the month for the payment of any dividend drawn from the results of the year 2022 will be April 2023 with the coupon date (no. 7) of April 24, 2023 (the ex-coupon). Pursuant to Article 83-*terdecies* of Italian Legislative Decree no. 58 of February 24, 1998 as amended (**Consolidated Law on Finance**), entitlement to the dividend payment is established based on the accounts of the intermediary as referred to in Article 83-*quater*, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting day of April 25, 2023 ("record date"). The payment of such dividend, gross of the withholdings required by law, is planned for April 26, 2023 ("payment date").

* * *

Therefore, we submit for your approval the following resolution proposal:

"The Shareholders' Meeting of BFF Bank S.p.A., having examined the illustrative report of the Board of Directors, **resolves**

i) to distribute to Shareholders part of the profit for the year of €77,479,836, equal to approximately €0.419 before tax for each of the 185,623,140 ordinary shares outstanding at coupon date (no. 7) of April 24, 2023 (ex date). Such dividend includes the portion attributable to any treasury share held by the Company at the record date. Pursuant to Article 83-*terdecies* of Italian Legislative Decree no. 58 of February 24, 1998 (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary as referred to in Article 83-*quater*, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting day of April 25, 2023 (record date);

ii) to allocate €47,410 to the Legal Reserve;

iii) to allocate the remainder of the profit for the year, equal to €115,361,074, to Retained earnings;

iv) to pay the above-mentioned dividend as of April 26, 2023 (payment date). Payment will be made through authorized intermediaries with which shares have been registered in the Monte Titoli system.

For the Board of Directors
The CHAIRMAN
(Salvatore Messina)

02

Separate
Financial
Statements

Statement of Financial Position

(Values in euro units)

	Assets	**12.31.2022**	**12.31.2021**
10.	Cash and cash equivalents	623,975,086	543,227,039
20.	Financial assets measured at fair value through profit or loss	90,540,554	36,598,343
	a) financial assets held for trading	*210,963*	*4,094,816*
	c) other financial assets subject to mandatory fair value measurement	*90,329,591*	*32,503,527*
30.	Financial assets measured at fair value through other comprehensive income	128,097,995	83,505,780
40.	Financial assets measured at amortized cost	11,726,530,357	9,756,005,874
	a) loans and receivables with banks	*478,203,260*	*403,898,197*
	b) loans and receivables with customers	*11,248,327,097*	*9,352,107,677*
50.	Hedging derivatives	-	13,098
70.	Equity investments	151,875,554	150,491,361
80.	Property, equipment and investment property	27,763,301	33,137,709
90.	Intangible assets	36,142,352	34,307,556
	of which		
	- *goodwill*	-	-
100.	Tax assets	55,243,454	93,416,525
	a) current	-	*37,778,093*
	b) deferred	*55,243,454*	*55,638,432*
120.	Other assets	389,016,146	205,860,256
TOTAL ASSETS		**13,229,184,799**	**10,936,563,541**

(Values in euro units)

Liabilities and equity		12.31.2022	12.31.2021
10.	Financial liabilities measured at amortized cost	11,933,207,079	9,875,042,950
	a) due to banks	*1,165,556,841*	*781,958,910*
	b) due to customers	*10,728,674,172*	*8,906,798,878*
	c) securities issued	*38,976,066*	*186,285,162*
20.	Financial liabilities held for trading	949,790	2,724,511
40.	Hedging derivatives	14,313,592	4,814,350
60.	Tax liabilities	128,840,015	96,423,957
	a) current	*22,548,040*	-
	b) deferred	*106,291,975*	*96,423,957*
80.	Other liabilities	382,204,555	415,755,109
90.	Post-employment benefits	3,117,800	3,709,582
100.	Provision for risks and charges	32,351,133	21,441,439
	a) commitments and guarantees given	*225,466*	*58,051*
	b) pensions and similar obligations	*7,712,116*	*5,900,894*
	c) other provisions	*24,413,551*	*15,482,494*
110.	Valuation reserves	5,421,320	4,060,028
130.	Equity instruments	150,000,000	-
140.	Reserves	180,627,582	146,250,932
145.	Interim dividend	(68,549,894)	-
150.	Share premium reserve	66,277,204	66,492,997
160.	Share capital	142,870,383	142,690,771
170.	Treasury shares	(3,883,976)	(7,132,434)
180.	Profit (Loss) for the year	261,438,216	164,289,349
TOTAL LIABILITIES AND EQUITY		**13,229,184,799**	**10,936,563,541**

Income Statement

(Values in euro units)

Items		12.31.2022	12.31.2021*
10.	Interest and similar income	293,808,407	166,742,242
	of which: interest income calculated according to the effective interest method	266,749,227	146,194,780
20.	Interest and similar expense	(91,494,370)	(37,931,409)
30.	**Net interest income**	**202,314,037**	**128,810,833**
40.	Fee and commission income	127,458,212	109,413,419
50.	Fee and commission expense	(36,924,009)	(28,480,140)
60.	**Net fee and commission income**	**90,534,203**	**80,933,279**
70.	Dividends and similar income	85,757,800	3,675,911
80.	Net trading profit	9,744,486	6,747,278
90.	Net hedging profit (loss)	-	-
100.	Profits (losses) on disposal or repurchase of:	165,940	(12,649,882)
	a) financial assets measured at amortized cost	165,940	(6)
	c) financial liabilities	-	(12,649,876)
110.	Profits on other financial assets and liabilities measured at fair value through profit or loss	5,154,401	2,733,566
	b) other financial assets subject to mandatory fair value measurement	5,154,401	2,733,566
120.	**Total income**	**393,670,867**	**210,250,984**
130.	Net impairment losses/gains for credit risk associated with:	(180,088)	2,458,923
	a) financial assets measured at amortized cost	(180,088)	2,605,512
	b) financial assets measured at fair value through other comprehensive income	-	(146,589)
150.	**Net income from banking activities**	**393,490,779**	**212,709,907**
160.	Administrative expenses:	(154,533,127)	(156,032,243)
	a) personnel expenses	(65,624,429)	(64,330,143)
	b) other administrative expenses	(88,908,698)	(91,702,100)
170.	Net provisions for risks and charges	(10,740,019)	2,752,524
	a) commitments and guarantees given	(139,792)	720,920
	b) other net provisions	(10,600,227)	2,031,604
180.	Depreciation and net impairment losses on property, equipment and investment property	(4,130,270)	(4,046,759)
190.	Amortization and net impairment losses on intangible assets	(7,163,491)	(4,670,994)
200.	Other net operating income	128,075,729	104,192,287
210.	**Operating costs**	**(48,491,178)**	**(57,805,185)**
260.	Profit before tax from continuing operations	344,999,601	154,904,722
270.	**Income taxes on current operations for the year**	**(83,561,385)**	**9,384,627**
280.	**Profit after tax from continuing operations**	**261,438,216**	**164,289,349**
300.	**Profit (Loss) for the year**	**261,438,216**	**164,289,349**
	Basic earnings per share	**1.405**	**0.879**
	Diluted earnings per share	**1.327**	**0.840**

(*) Please note that:
- the comparative income statement for the year ended December 31, 2021 does not include the balances of the months of January and February of the same year of the merged DEPObank;
- at December 31, 2022, financial expenses attributable to the year incurred for transactions in derivatives were reclassified from item 90 "Net hedging profit (loss)" to item 20 "Interest and similar expense". For comparative purposes, the reclassification was also performed on the figures at December 31, 2021;
- at December 31, 2022, provisions relating to costs for pensions and similar obligations to employees were reclassified from item 170 b) "Net provisions for risks and charges - other net provisions" to item 160 a) "Personnel expenses", in line with what is set forth in Bank of Italy Circular 262 of 2005 as updated. As a result, for comparative purposes, the reclassification was also performed on the figures at December 31, 2021.

Statement of Comprehensive Income

(Values in euro units)

	Items	12.31.2022	12.31.2021
10.	**Profit (Loss) for the year**	**261,438,216**	**164,289,349**
	Other components net of taxes that may not be reclassified to profit or loss		
20.	Equity instruments designated at fair value through other comprehensive income		
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)		
40.	Hedges of equity instruments designated at fair value through other comprehensive income		
50.	Property, equipment and investment property		
60.	Intangible assets		
70.	Defined-benefit plans	524,946	(34,331)
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves connected with equity-accounted investments		
	Other income components net of taxes reclassified to profit or loss		
100.	Hedging of foreign investments		
110.	Foreign exchange differences	2,289	(38,188)
120.	Cash flow hedges		
130.	Hedging instruments (undesignated elements)		
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	834,057	211,224
150.	Non-current assets held for sale and discontinued operations		
160.	Share of valuation reserves connected with equity-accounted investments		
170.	**Total other comprehensive income net of tax**	**1,361,292**	**138,704**
180.	**Comprehensive income (Items 10+170)**	**262,799,507**	**164,428,053**

Statement of Changes in Equity

2022	Balances as at December 31, 2021	Change to opening balances	Balances as at January 01, 2022	Allocation of profit for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
a) ordinary shares	142,690,771		142,690,771		
b) other shares					
Share premium reserve	66,492,997		66,492,997		
Reserves:					
a) retained earnings	137,607,343		137,607,343	39,008,950	
b) other	8,643,589		8,643,589		
Valuation reserves	4,060,028		4,060,028		
Equity instruments					
Interim dividend					
Treasury shares	(7,132,434)		(7,132,434)		
Profit for the year	164,289,349		164,289,349	(39,008,950)	(125,280,399)
Equity	516,651,643		516,651,643		(125,280,399)

2021	Balances as at December 31, 2020	Change to opening balances	Balances as at January 01, 2021	Allocation of profit for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
a) ordinary shares	131,400,994		131,400,994		
b) other shares					
Share premium reserve	693,106		693,106		
Reserves:					
a) earnings-related	161,677,823		161,677,823	140,049,858	
b) other	7,414,381		7,414,381		
Valuation reserves	3,921,324		3,921,324		
Equity instruments					
Treasury shares	(3,517,312)		(3,517,312)		
Profit for the year	143,281,246		143,281,246	(140,049,858)	(3,231,388)
Equity	444,871,562		444,871,562	-	(3,231,388)

(Values in euro units)

	Changes in the year										Equity December 31, 2022
	Change in reserves	Equity transactions								comprehensive income 2022	
		Issue of new shares	Repurchase of treasury shares	Interim dividend	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	*Stock options*	Changes in equity interests		
		179,612									142,870,383
											-
	(215,793)										66,277,204
	(6,407,595)										170,208,698
	(293,900)							2,069,195			10,418,884
										1,361,292	5,421,320
						150,000,000					150,000,000
				(68,549,894)							(68,549,894)
	3,248,457										(3,883,976)
										261,438,216	261,438,216
	(3,668,831)	179,612		(68,549,894)		150,000,000		2,069,195		262,799,507	734,200,834

(Values in euro units)

	Changes in the year									Equity December 31, 2021
	Change in reserves	Equity transactions							comprehensive income 2021	
		Issue of new shares	Repurchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	*Stock options*	Changes in equity interests		
		11,289,777								142,690,771
										-
		65,799,891								66,492,997
	1,155,080			(165,275,418)						137,607,342
	1,421,236						(192,028)			8,643,589
									138,704	4,060,028
										-
	2,363,892		(5,979,014)							(7,132,434)
									164,289,349	164,289,349
	4,940,208	77,089,668	(5,979,014)	(165,275,418)			(192,028)		164,428,053	516,651,643

Statement of Cash Flows

Indirect method

(Values in euro units)

	12.31.2022	12.31.2021
A. OPERATING ACTIVITIES		
1. Operations	**301,467,499**	**172,220,777**
- net profit (loss) for the year (+/-)	261,438,216	164,289,350
- gains/losses on financial assets held for trading and other assets/liabilities measured at fair value through profit or loss (+/-)	530,806	(9,997,854)
- gains/losses on hedging operations (+/-)	14,313,592	(2,576,529)
- net impairment losses/gains for credit risk (+/-)	180,088	(2,605,512)
- depreciation, amortization and net impairment losses on property, equipment and investment property and intangible assets (+/-)	11,293,761	8,857,088
- net allocations to provisions for risks and charges and other costs/income (+/-)	10,740,019	11,885,700
- taxes, duties and unpaid tax credits (+/-)	83,561,385	2,368,535
- net impairment losses/reversals of impairment losses on discontinued operations, net of the tax effect (+/-)		
- other adjustments (+/-)	(80,590,368)	
2. Cash flow absorbed by financial assets	**(2,224,732,772)**	**(4,806,631,374)**
- financial assets held for trading	3,353,046	(46,596,197)
- financial assets designated at fair value		
- financial assets subject to mandatory fair value measurement	(52,671,663)	
- financial assets measured at fair value through other comprehensive income	(45,426,272)	(83,341,855)
- financial assets measured at amortized cost	(1,970,704,571)	(4,414,109,363)
- other assets	(159,283,313)	(262,583,959)
3. Cash flow generated by financial liabilities (+/-)	**1,981,018,752**	**5,162,003,917**
- financial liabilities measured at amortized cost	2,058,164,129	4,770,197,596
- financial liabilities held for trading	(1,774,721)	2,724,511
- financial liabilities carried at fair value		
- other liabilities	(75,370,656)	389,081,810
Net cash generated by operating activities A (+/-)	**57,753,479**	**527,593,320**

(CONT'D)

(Values in euro units)

	12.31.2022	12.31.2021
B. INVESTING ACTIVITIES		
1. Liquidity generated by	**75,963,202**	**3,675,911**
- sales of equity investments		
- dividends collected on equity investments	75,963,202	3,675,911
- sales of property, plant and equipment		
- sales of intangible assets		
- disposals of business units		
2. Liquidity absorbed by	**(9,138,342)**	**(70,168,582)**
- purchases of equity investments	(1,384,193)	(8,564,073)
- purchases of property, plant and equipment	1,244,138	(27,191,029)
- purchases of intangible assets	(8,998,287)	(34,413,480)
- purchases of business units		
Net cash generated/ bsorbed by investing activities B (+/-)	**66,824,860**	**(66,492,671)**
C. FINANCING ACTIVITIES		
- issue / purchase of treasury shares	-	(5,979,014)
- issue / purchase of equity instruments	150,000,000	77,089,668
- distribution of dividends and other purposes	(193,830,293)	(168,506,806)
Net cash generated/absorbed by financing activities C (+/-)	**(43,830,293)**	**(97,396,151)**
NET CASH GENERATED/ABSORBED DURING THE YEAR D=A+/-B+/-C	**80,748,046**	**363,704,498**

Reconciliation

(Values in euro units)

Financial statements items	12.31.2022	12.31.2021
Cash and cash equivalents at start of year	543,227,039	179,522,541
Total net cash generated during the year	80,748,046	363,704,498
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at end of year G=E+/-D+/-F	**623,975,085**	**543,227,039**

Key:
(+) generated
(-) absorbed

NOTES TO THE FINANCIAL STATEMENTS

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

Part A - Accounting policies
Part B - Information on the Statement of financial position
Part C - Information on the Income Statement
Part D - Comprehensive income
Part E - Information on risks and related hedging policies
Part F - Information on equity
Part G - Business combinations of companies or business units
Part H - Transactions with related parties
Part I - Share-Based Payments
Part M - Lease Reporting

Part A - Accounting policies

A.1 GENERAL

Section 1 - Statement of compliance with International Financial Reporting Standards

The separate financial statements as at December 31, 2022 have been prepared in accordance with the international Financial Reporting 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 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.

Section 2 - Basis of presentation

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

In accordance with the provisions of Article 5, paragraph 2, of Italian Legislative Decree no. 38 of February 28, 2005, the separate financial statements are drafted in euros, when not specified otherwise, and also show the corresponding comparisons with the previous year.

The separate 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 Bank's ability to meet its obligations in the foreseeable future.

Standards, amendments and interpretations effective from 2022

During 2022, the following standards, amendments and interpretations endorsed by the European Commission came into force and are applicable to the separate financial statements for periods beginning on or after January 1, 2022:

- Amendments to IAS 16 - Property, plant and equipment;
- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets;
- Amendments to IFRS 3 - Business combinations;

- Annual improvements to IFRS 2018-2020 cycle (Reg. EU 2021/1080), specifically amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.

To the extent applicable, these standards, amendments and interpretations had no impact on the Bank's separate financial statements.

Standards, amendments and interpretations effective from 2023 or amended and not yet endorsed

As of the date of these financial statements, the following standards or amendments thereof have been endorsed and are applicable as of January 1, 2023:

- IFRS 17 - Insurance Contracts (Reg. EU 2021/2036);
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Reg. EU 2022/357);
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of accounting policies (Reg. EU 2022/357).

Finally, the IASB issued the following standards and interpretations or amendments, the application of which is however still subject to the completion of the endorsement process by the competent bodies of the European Union, which has not yet been concluded:

- Amendments to IAS 1 - Presentation of Financial Statements: Classification of liabilities as current and non-current - Deferral of effective date (January 2020 and July 2020, respectively);
- Amendments to IAS 12 Income Taxes: Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction (May 2021);
- Amendments to IFRS 17 Initial application of IFRS 17 and IFRS 9: Comparative information (December 2021).

The possible effects of the future adoption of these standards, interpretations and amendments, to the extent applicable and relevant to the Bank, are reasonably estimated to be immaterial.

Section 3 - Events after the reporting date

Authorization to repurchase treasury shares

On February 1, 2023, BFF Bank S.p.A. received, after it initiated the regulatory procedure communicated to the market on November 25, 2022, the Bank of Italy's authorization pursuant to Arts. 27 et seq. of Delegated Regulation (EU) no. 241 of January 7, 2014, adopted by the European Commission, and Art. 78 of Regulation (EU) no. 575 of June 26, 2013, to repurchase treasury shares of the Bank, in execution of the authorization granted pursuant to Art. 2387 of the Italian Civil Code by the ordinary shareholders' meeting of March 31, 2022 up to the maximum amount of €2.8 million. The repurchase of treasury shares had been carried out in full at the date on which this document was drafted, and the relative amount had already been deducted from own funds at December 31, 2022.

The treasury share repurchase, as already disclosed to the market, will aim to equip the Bank with sufficient financial instruments in order to meet the requirements of the remuneration and incentive systems as per the current "Remuneration and incentive policy of the Banking Group".
On February 20, 2023, the treasury share repurchase program was concluded. In the period between February 13, 2023 and February 17, 2023, the Parent acquired 291,888 ordinary shares, corresponding to 0.16% of the total shares outstanding and making up the share capital (equal to 185,604,558 shares) for an overall equivalent value of €2,794,383.98.

Section 4 - Other issues

Risks, uncertainties and impacts of the Covid-19 epidemic and the Russia/Ukraine conflict

Significant events during 2022 include the tensions in the global geopolitical environment arising from the conflict between Russia and Ukraine, which is having serious repercussions on the European and global macroeconomic situation.

Also looking ahead, the conflict represents a factor of instability that, in general, can significantly affect the macroeconomic landscapes of the countries that BFF operates in and their growth prospects. Consequently, at a consolidated level the parent has put in place continuous monitoring of the risks that BFF could possibly be exposed to and carried out the necessary business impact analyses, the results of which are summarized below.

- With regard to the credit risk arising from impacts on financed companies that have significant commercial operations with Russia, Belarus or Ukraine or that are more exposed to changes in commodity prices, the parent carried out a specific assessment identifying only certain counterparties that could potentially be impacted by commodity price increases. As part of this, additional monitoring was put in place. Furthermore, no customers with significant business operations with Russia, Belarus or Ukraine were identified.
- With regard to securities trading, the parent does not hold securities issued by issuers particularly exposed to risks arising from the current geo-political environment and conflict.
- With regard to profitability, note that custodian bank fees are calculated on the basis of the funds' AuM, and therefore the depreciation of these securities in the funds' portfolio had an insignificant impact compared to, for example, normal market volatilities.
- With regard to operational risks related to cyberattacks, note that the parent has not recorded any attacks of this nature, and moreover there are no operations in the countries affected by the conflict.

Moreover, the Compliance & AML Function, with the involvement and support of the competent functions, continuously (i) monitors regulatory developments with regard to the restrictive and sanctioning regime applied at the EU level to subjects, entities and banks in Russia and Belarus involved in the conflict; (ii) disseminates information alerts to the various BUs whenever there are updates and (iii) supports the various BUs in analyzing the compliance of specific operational requirements.

The continued emergence and spread of COVID-19 (hereinafter referred to as Coronavirus) was also experienced in 2022.

With regard to the parent's operations, note that the impacts for 2022 of both the Russia/Ukraine conflict and the continuing emergency and dissemination of COVID-19 were contained also thanks to development of the business, as discussed in the part relating to commercial aspects.

In light of the Bank's business model and the nature of its risk counterparties, neither the COVID-19 epidemic nor the Russia/Ukraine conflict entailed changes to the model for determining expected losses. However, actions have been taken starting from the second quarter of 2020 that led the parent to update the macroeconomic scenarios in order to include the effects of the pandemic within the ECL estimates, and in the early months of 2022 discussions were initiated with the external infoprovider to monitor the evolution of the risk parameters in light of the evolution of the conflict in order to understand any impact on the determination of the expected credit losses (for more details please see the paragraph "IFRS 9 - Update to reflect the financial crisis due to COVID-19 and the Russia/Ukraine conflict"). Information is provided on the following issues and actions taken in 2022 below:

- Business continuity: the parent 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 and those deriving from the conflict, 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.

  Staff are now fully operational, working both remotely and in person, 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, a significant rebound in non-recourse factoring and/or customer financing volumes should be noted thanks to the commercial effort and the gradual return to normalcy of the countries the parent operates in.

  With regard to the Securities Services BU, business development made it possible to counterbalance the weakness of the financial markets affected by the Russia/Ukraine crisis and the ensuing energy crisis: of particular note was the AIF segment, with multiple initiatives successfully concluded, including by acquiring Funds from other competing custodians.

  With regard to the Payment BU, it is finally worth mentioning the good performance of almost all segments, especially that of card settlement and with the exception of checks and bills, which continue to trend downwards.

- Liquidity: despite the current macroeconomic scenario, characterized by the continuation of the COVID-19 pandemic and the Russia/Ukraine conflict, the Bank has maintained the necessary measures to monitor and control the liquidity position. The parent:
  (i) when deemed necessary, reserves the right to perform stress analyses that are more frequent and more detailed as well as with increasing and variable impacts;
  (ii) maintains a significant share of assets freely available to meet unforeseen liquidity needs;
  (iii) monitors the markets, including through continuous comparison with market operators and related banks; and
  (iv) continues to closely monitor the collection trends of Public Administration debtors.
- Capital requirements: there is no particular impact on Own Funds and regulatory requirements as a result of the current macroeconomic and geopolitical environment; at the end of the year, capital ratios were still well above the minimum requirements set by the Regulator.

  On the other hand, the consequences of COVID and the Russia/Ukraine conflict have not particularly affected lease contracts (IFRS 16), actuarial gains/losses related to post-employment benefits (IAS 19) and the vesting conditions of share-based payments (IFRS 2).

New "Definition of Default"

On September 23, 2022, the Bank of Italy issued a new, stricter "Definition of Default", which resulted in an increase in Net past-due loans, although the parent's credit risk remained unchanged thanks to the fact that nearly all exposures are to the Public Administration.

Considering the context of this new regulatory framework, the parent is considering the implementation of a new internal model for the calculation of credit risk (AIRB), which would permit lower impacts on past-due loans and receivables compared to the current standard model.

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 parent has not granted any of its counterparties moratoria.

Statutory audit

The Shareholders' Meeting of Banca Farmafactoring S.p.A. (now BFF Bank S.p.A.) held on April 2, 2020 appointed the audit 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 SEPARATE FINANCIAL STATEMENTS

The following describes the accounting policies adopted to prepare the separate financial statements at December 31, 2022, 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 recognizing, classifying, measuring and derecognizing the main assets and liabilities as well as for recognizing revenue and costs, along with other information.

Financial assets

IFRS 9 divides financial assets into three categories:

- Financial assets measured at fair value through profit or loss;
- Financial assets measured at fair value through other comprehensive income;
- Financial assets measured at amortized cost.

1 - 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 amortized 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 amortized cost or fair value through other comprehensive income. These are financial assets whose contractual terms do not provide for solely payment of principal and interest on the principal amount outstanding, 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 a recognition inconsistency.

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 "hold-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 other comprehensive income has not been made upon initial recognition;
- UCI units.

The item also includes derivatives, recognized 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 amortized cost or Financial assets measured at fair value through other 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 presented 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 derecognized if and only if disposal entails the substantial transfer of all the related risks and benefits.

Specifically, financial assets sold are derecognized 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.

2 - Financial assets measured at fair value through other comprehensive income

Classification criteria

According to IFRS 9, a financial asset is included in this category if both of the following conditions are met:

a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTC&S business model); and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (meeting the SPPI test).

In particular, this item includes:

- debt instruments that are included in a Hold to Collect and Sell Business Model and that pass the contractual characteristics test (SPPI test);
- equity instruments, which cannot be qualified as controlling, associated or jointly controlled and which are not held for trading, for which the option for designation at fair value through other comprehensive income has been exercised.

In addition, equity instruments for which the Bank has decided to use the FVOCI (Fair Value through Other Comprehensive Income) option are also measured at fair value through OCI. The FVOCI option provides for the recognition in OCI of all income components relating to these instruments, without any impact (even in the event of disposals) on profit or loss.

The Bank has decided to use the FVOCI option for the equity instruments held, whose amount is not significant.

HTC&S business model

Financial assets classified in the HTC&S business model are held to collect contractual cash flows and to sell the financial assets. Sales are therefore more frequent and significant compared to a hold to collect business model. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it.

These assets can be held for an indefinite period of time and can fulfil the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.

Therefore, unlike in the case of financial assets measured at amortized cost (HTC), IFRS 9 does not require defining thresholds in terms of frequency and significance of sales for the HTC&S business model.

That said, taking a prudent approach, the parent defined a maximum annual turnover ratio for the securities portfolio allowing to distinguish this business model from the Other model (i.e., assets held for trading), calculated as the ratio of the total value of sales to the average stock for the year ((opening stock + closing stock)/2).

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

In such cases, which are expected to be very infrequent according to the standard, financial assets can be reclassified from FVOCI to one of the other two categories provided for by IFRS 9 (amortized cost or FVPL).

The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. More specifically, if a financial asset is reclassified to amortized cost, its fair value at the reclassification date is adjusted to reflect the accumulated gains (losses) recognized in the valuation reserve. On the contrary, if a financial asset is reclassified to FVPL, the accumulated gains (losses) previously recognized in the valuation reserve are reclassified from equity to profit (loss) for the period.

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 should be highly infrequent, financial assets can be reclassified from FVOCI to one of the other two categories provided for by IFRS 9 (amortized cost or FVPL). The transfer value is the fair value measured at the reclassification date, and the effects apply prospectively from said date with the following impacts:

- if a financial asset is reclassified to amortized cost, its fair value at the reclassification date is adjusted to reflect the accumulated gains (losses) recognized in the valuation reserve;
- on the contrary, if a financial asset is reclassified to FVPL, the accumulated gains (losses) previously recognized in the valuation reserve are reclassified from equity to profit (loss) for the period.

Recognition criteria

The initial recognition of financial assets takes place on the date of settlement for debt and equity instruments.

On initial recognition, the assets are measured at fair value, including transaction costs or income directly attributable to the instrument.

Measurement criteria

With regard to debt securities, these assets are subsequently measured at fair value, with the interest recognized at amortized cost in the income statement under item 10 "Interest and similar income". Gains and losses arising from changes in fair value are recognized in equity under item 110 "Revaluation reserves" except for impairment, which is recognized under item 130 "Net impairment losses/gains for credit risks associated with: b) financial assets measured at fair value through OCI".

Gains and losses are recognized in Revaluation reserves until the financial asset is disposed of, when the accumulated gains or losses are recognized in the income statement under item 100 "Profits (losses) on disposal or repurchase of: b) financial assets measured at fair value through OCI".

Fair value changes recognized under item 110 "Valuation reserves" are also reported in the statement of comprehensive income.

Equity instruments (shares) not traded in an active market, whose fair value cannot be determined reliably due to the lack or unreliability of the information needed for fair value measurement, are measured at their last reliably measured fair value.

Equity instruments that were classified in this category are valued at fair value and the amounts recognized as a balancing entry under equity (other comprehensive income) must not then be transferred to the income statement, not even in the case of disposal. The only component referring to the equity instruments in question subject to recognition in the income statement is the relative dividends.

For the purposes of IFRS 9, the impairment of financial assets included in these categories is recognized in three different stages based on the relevant credit risk level.

More specifically, for Stage 1 instruments (financial assets that are not credit-impaired on initial recognition and instruments without significant increase in credit risk since initial recognition), 12-month expected credit losses are recognized at the initial recognition date and at each subsequent reporting date.

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

For debt instruments, any circumstances indicating that the borrower or issuer is experiencing financial difficulties such as to prejudice the collection of principal or interest constitute evidence of impairment.

If there is objective evidence of impairment, the cumulative loss that was initially recognized in equity under item 110 "Revaluation reserves" is transferred to the income statement under item 130 "Net impairment losses/gains for credit risks associated with: b) financial assets measured at fair value through OCI". The amount transferred to the income statement is equal to the difference between the asset's carrying amount (value at initial recognition net of any previous impairment losses already recognized in the income statement) and its current fair value.

If the fair value of a debt instrument increases and such increase can be objectively attributable to an event relating to the improvement in the debtor's creditworthiness, occurring in a period subsequent to the recognition of impairment in the income statement, the impairment gain is recognised and the amount of the gain is recognized in the same income statement item. This does not apply to equity securities, which are not tested for impairment.

After the reinstatement, the carrying amount cannot in any case exceed measurement at amortized cost had the impairment loss not been recognized.

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

Equity instruments are not subjected to the impairment process.

Derecognition criteria

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights expire and when, following disposal, substantially all of the risks and rewards relating to the financial asset sold are transferred. On the other hand, if a significant portion of the risks and rewards relating to the disposed financial assets has been retained, they continue to be recognized in the financial statements, even if legally their ownership has been effectively transferred.

3 - Financial assets measured at amortized cost

Classification criteria

According to IFRS 9, a financial asset is included in this category if both of the following conditions are met:

a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (HTC business model); and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (meeting the SPPI test).

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

- loans and receivables with banks in the various technical forms;
- loans and receivables with customers, in the various technical forms, which also include debt securities classified in the HTC business model and that passed the SPPI test.

Loans and receivables with banks relate essentially to ordinary current accounts and loans with banking counterparties in the various technical forms.

Loans and receivables with customers are primarily comprised of debt instruments, receivables due from debtors relating to factoring activities and late payment interest, computed based on receivables purchased on a non-recourse basis in accordance with laws in force (Italian Legislative Decree 231/2002 "Implementation of Directive 2000/35/EC on combating late payments in commercial transactions"), as well as loans to customers in the various technical forms.

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

HTC business model

Financial assets measured at amortized cost are held within a business model whose objective is to obtain contractual cash flows by collecting payments over the lifetime of the instrument.

Not all assets shall necessarily be held to maturity. IFRS 9 provides the following examples of cases in which the sale of financial assets may be consistent with the HTC business model:

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

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

Therefore, in the event of sales (consistently with the business model concerned), by virtue of common market practice, a percentage of significance for annual sales volumes has been defined, determined as the sum of the value of sales made during the year/the carrying amount of the HTC portfolio at the beginning of the year.

With respect to the frequency of sales, BFF has defined a monthly threshold, as set out in the (RAF) Risk Appetite Framework, which, in line with the maximum acceptable risk, defines the business model and the strategic plan - risk appetite, tolerance thresholds, risk limits, risk governance policies and the processes of reference for designing and implementing them.

As far as the reclassification of financial assets is concerned, IFRS 9 allows an entity to reclassify its financial assets to other categories of financial assets if and only if the business model for managing those assets changes.

In such cases, which are expected to be very infrequent according to the standard, financial assets can be reclassified from amortized cost to one of the other two categories provided for by IFRS 9 (FVOCI or FVPL).

The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. Gains or losses arising from the difference between the amortized cost of a financial asset and its fair value are recognized in the income statement in the case of a reclassification to FVPL, or in equity, as part of the relevant valuation reserve, in the case of a reclassification to FVOCI.

Recognition criteria

With respect to receivables from factoring transactions, such assets are initially recognized at fair value, which usually corresponds to the consideration paid, including transaction costs and income which are directly attributable to the acquisition and provision of the financial asset, although not yet settled.

Specifically, non-recourse receivables:

a) purchased on a non-recourse basis, with substantial transfer of all risks and rewards as well as cash flows, are initially recognized at fair value, represented by the nominal amount of the receivable net of fees and commissions charged to the assignor;

b) if purchased for amounts below the nominal amount, are recognized for the amount actually paid at the time of purchase.

As for financial assets related to loans originated by the Bank, they are initially recognized at the loan date. These assets are initially recognized at fair value inclusive of the sums disbursed, including of transaction costs or income directly attributable to the instrument. With reference to loans in particular, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down.

HTC debt securities have fixed or determinable payments and a fixed maturity and may be used for repurchase agreements, loans or other temporary refinancing operations.

These assets are initially recognized at fair value on the settlement date. This amount usually corresponds to the consideration paid, including transaction costs and income.

Measurement criteria

After initial recognition, financial assets are measured at amortized cost, equal to the original amount, less repayment of principal and impairment losses, and increased by any impairment gains and amortization, calculated using the effective interest rate method, taking into account the difference between the amount disbursed and the amount repayable when due, relating to ancillary costs/income directly attributable to the individual receivable.

Specifically, non-recourse receivables purchased as part of the factoring activities carried out are measured at amortized cost, determined based on the present value of estimated future cash flows, with reference to both the principal and the late payment interest accruing as from the due date of the receivable and deemed recoverable.

By virtue of their nature, the new due date of such receivables is their expected collection date, determined at the time of pricing and formalized with the assignor in the assignment contract.

Interest income (including late payment interest) is recognized in the income statement only if it is probable that positive cash flows will be generated for the entity and their amount can be estimated reliably. In the case in question, consistently with the "Bank of Italy/Consob/Ivass Document no. 7 of November 9, 2016" on the "Treatment in the financial statements of late payment interest under Italian Legislative Decree 231/2002 on non-recourse purchases of performing receivables", BFF also included the estimate of late payment interest deemed recoverable in the calculation of amortized cost, taking into account that:

- the business model and organizational structure envisage that the systematic recovery of late payment interest on performing receivables purchased on a non-recourse basis is a structural element of the ordinary business activities for the management of such receivables;
- such late payment interest, due to its impact on the composition of results, does not constitute an ancillary element of non-recourse purchase transactions, and has been considered for a complete analysis of the prospective profitability profiles.

Moreover, the parent has time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling it to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series are updated on an annual basis when the financial statements are prepared, in order to determine the estimated collection percentages and times to be used to calculate late payment interest. The change in collections is then analyzed on a quarterly basis to confirm such percentages in periodic reporting.

As far as the receivables recognized in the separate financial statements are concerned, the updating of the time series confirmed an estimated collection percentage much higher than 45%. Therefore, the percentage used to prepare the 2022 financial statements was increased from 45% to 50%.

On the other hand, to take into consideration the collection timing of the entire provision for late payment interest, the estimate of days to collection was prudently increased from 1800 to 2100 days. This extension was also implemented to take into account external impacts that influenced the age of the provision, such as slower payment times due to the Covid-19 pandemic crisis, the relative blocking of courts and the suspension of enforcement actions in healthcare, which influenced the suspension of the terms of legal and procedural activities and therefore collection timing.

With respect to the treatment in the separate Financial Statements of the right to receive the lump-sum indemnity for debt collection ("40 euros"), the parent has decided to change the accounting estimate. In particular, as of 2018, in accordance with Directive 2011/7/EU of the European Parliament and of the Council on combating late payment in commercial transactions, which establishes a minimum amount of €40 by way of indemnity for debt collection costs (an indemnity which in any event may be increased in light of the fact that the directive says that the reasonable costs incurred to that end may also be charged), the parent has started to request €40 from debtors for each expired invoice, as a lump-sum reimbursement for debt collection expenses incurred, pursuant to the directive.

BFF's interpretation has been confirmed by the recent ruling won by BFF at the Court of Justice of the European Union on October 20, 2022, which constitutes the binding interpretation for the national rulings of all Member States as well, and confirmed the right to recover at least €40 for each past-due invoice with respect to the Public Administration, irrespective of the amount and of whether a certain amount of invoices are part of a single payment agreement.

Until 2021, loans and receivables recognized in the separate Financial Statements against the right to collect the amount of the debt collection cost indemnity (hereinafter, "40 euros" or simply "indemnity") were adjusted in full, within the same statement of financial position asset item "Financial Assets at amortized cost - loans and receivables with customers". The revenue was recognized in the income statement, in the item "Other operating income", when that indemnity was actually received: indeed, the adjustment was derecognized and the amounts received were credited to the income statement.

The amount collected and recognized in the income statement contributed to the determination of the taxable income on which current taxes for the year were calculated. On the basis of the accounting model applied until 2021, no deferred taxation was recognized in the separate financial statements.

To date, on the basis of the analysis tools already in use, which made it possible to define a "40 euros" collection time series, the parent is capable of reliably estimating the amount received in relation to such indemnity. In particular, that estimate applies to the BFF Bank scope, or Italy, the countries in which it operates under the FOS regime and the branches in Portugal and Greece.

Please note that, as occurs with late payment interest and compound interest, the rights to receive the "40 euros" have also been considered since 2018 in settlement agreements with debtors to ensure that they can be recovered. Agreements with debtors consider the entire amount due, as a single amount on which to base the settlement and on which to apply the late payment interest discount percentages. As confirmation of this, on the basis of the analyses performed, the result of the analyses carried out on the time series of late payment interest was also confirmed for the rights to collect the "40 euros", or that the receipts recorded came to an average percentage significantly higher than 50% of the original right, as highlighted by the annual analysis on the collection time series, presented to the Board of Directors at its meeting held on January 27, 2023.

As a result, starting from the separate Financial Statements at December 31, 2022, the parent has decided to account for such indemnity on an accruals basis, based on the collection percentage identified by the time series and the analyses performed in line with those already applied to the late payment interest calculation model.

The trend in collection percentages over the years, constituting the time series considered is, as emphasized above, significantly higher than 50% and, therefore, for reasons of prudence this percentage was used as an estimate of the amount relating to the above-mentioned indemnity which will be collected in the future and which was recognized in item 40 "Financial Assets at amortized cost - loans and receivables with customers".

As a result, in accordance with the accrual principle, the "40 euros" will be considered accrued based on the number of past-due invoices in the reference period multiplied by €40 and subsequently multiplied by a realization percentage of 50% and will not follow measurement at amortized cost to which, instead, late payment interest is subject.

In fiscal terms, the accrual of revenue deriving from the right to collect the "40 euros" directly forms part of taxable profit as set forth in Art. 109, paragraph 1 of the TUIR (Consolidated Income Tax Law), ("Revenue, expenses and other positive and negative components, for which the previous rules of this Section do not establish otherwise, contribute towards forming the profit for the year; however, revenue, expenses and other components for which during the year of accrual the existence is not yet certain or the amount is not yet objectively determinable, will contribute towards forming that revenue in the year in which such conditions are met."), unlike what is established for late payment interest, the tax treatment of which is subject to paragraph 7 of the same article of the TUIR ("In derogation of paragraph 1, late payment interest contributes to the formation of income in the year in which it is received or paid"). No deferred taxation is recognized in the separate financial statements.

In accordance with what is defined by IAS 8, this decision is seen as a change in accounting estimates, the impact of which should be recognized in the income statement on a prospective basis, and not retroactively. Therefore, this change impacts the 2022 and subsequent Separate Financial Statements, but does not lead to any revision of previous Separate Financial Statements.

At December 31, 2022, the parent recognized a one-off effect, gross of the tax effect, relating to 50% of the "40 euros" provision consisting of all receivables accrued for the indemnity in question for an amount of €94.7 million (€68.7 million net of the tax effect) and as of January 1, 2023 will calculate and recognize in the separate financial statements in a recurring manner revenue equal to 50% of each individual "40 euros" receivable accrued against each new past-due invoice at the reporting date.

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

The Bank carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets. IFRS 9 introduced the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. According to this concept, a loss does not necessarily have to occur before it is recognized in the financial statements; therefore, generally all financial assets will entail the recognition of a provision.

The approach adopted is represented by the general deterioration model, which envisages a three-stage classification. These stages reflect the deterioration of the credit quality of the financial instruments included within the scope of application of IFRS 9.

At each annual or interim reporting date, the entity assesses whether there has been a significant change in credit risk compared to initial recognition. If so, this will result in a change of stage: the model is symmetrical, and assets can move between different stages.

For assets classified in Stage 1, the loss allowance relating to each individual financial asset is determined on the basis of 12-month expected credit losses (contractual cash flow shortfalls estimated by taking into account potential default in the following 12 months), while for assets classified in Stages 2 and 3 calculations are based on lifetime expected credit losses (contractual cash flow shortfalls estimated by taking into account the potential default over the residual life of the financial instrument).

If there is objective evidence of impairment and the asset is classified in Stage 3, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate of the financial asset.

The amount of the loss is determined on the basis of an individual assessment and then individually attributed to each position, accounting for forward-looking information and potential alternative recovery scenarios. Impaired assets include financial instruments that have been given non-performing status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulations. The expected cash flows take into account the expected recovery times and the presumed realization value of any guarantees.

When recognizing impairment, the carrying amount of the asset is reduced accordingly and the loss is recognized in the income statement under item 130 "Net impairment losses/gains for credit risks associated with: a) financial assets measured at amortized cost".

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be objectively attributable to an event relating to the improvement in the debtor's creditworthiness occurring after recognition of impairment, an impairment gain is recognised. After the gain, the carrying amount cannot in any case exceed measurement at amortized cost had the impairment loss not been recognized. The amount of the gain is recognized in the same income statement item.

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

Derecognition criteria

Derecognition of a financial asset occurs when the contractual rights to cash flows deriving from the financial asset expire or if the entity transfers the financial asset and such transfer meets the eligibility criteria for derecognition.

Receivables sold are derecognized only if all the risks and rewards relating to such receivables were transferred.

On the other hand, if the risks and rewards are retained, the receivables sold will continue to be recognized in the separate financial statements, even though legal title to these assets is effectively transferred.

4 - Hedging operations

Recognition criteria

The Bank has exercised the option under IFRS 9 to continue to apply the IAS 39 rules to hedging operations even after the introduction of IFRS 9.

"Hedging operations" involve designating a financial instrument capable of offsetting part or all of the gain or loss resulting from a change in the fair value or cash flows of the hedged instrument. The intent to hedge must be formally stated, must not be retroactive and must be consistent with the risk hedging strategy espoused by BFF's management. Pursuant to IAS 39, derivatives may only be accounted for as hedging instruments under certain conditions, i.e. when the hedging relationship is:

- clearly defined and documented;
- measurable;
- currently effective.

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

Hedging operations are intended to offset the potential losses associated with certain types of risks.

The possible types of hedges are:

- Fair value hedges: these are designed to cover the exposure to the change in the fair value of a statement of financial position item;
- Cash flow hedges: these are designed to cover the exposure to changes in the future cash flows associated with certain statement of financial position items;
- Hedges of a net investment in a foreign operation.

Hedges may be undertaken using derivative contracts (including the purchase of options) and non-derivative financial instruments (to hedge foreign exchange risk only). In the statement of financial position, hedging derivative instruments are classified to item 50 "Hedging derivatives" on the assets side and 40 "Hedging derivatives" on the liabilities side according to whether they have a positive or negative fair value on the annual or interim reporting date.

Measurement criteria

Hedging derivative financial instruments are measured at their fair value.

When a financial instrument is classified as a hedge, the Bank, as set out above, formally documents the relationship between the hedging instrument and the hedged item, verifying both at the inception of the relationship and throughout its duration, that the hedging by the derivative is effective in offsetting changes in the fair value or cash flows of the hedged item. A hedge is considered effective if, both at inception and over its life, changes in the fair value or cash flows of the hedged item are offset by changes in the fair value of the hedging derivative.

Accordingly, effectiveness is assessed by comparing the aforementioned changes, taking account of the intent pursued by the entity when entering into the hedge. A hedge is effective (within the limits established by the interval of 80-125%) when the expected, effective changes in the fair value or cash flows of the hedging financial instrument offset changes in the hedged item almost entirely.

Effectiveness is assessed at each annual or interim reporting date using:

- prospective tests that justify the application of hedge accounting by proving the expectation of hedge effectiveness;
- retrospective tests that determine the degree of effectiveness of the hedge achieved during the period to which they refer, thus measuring the extent to which the actual results diverged from the perfect hedge.

The accounting treatment for gains and losses on fair value changes varies according to the type of hedge:

- Fair value hedges: the change in the fair value of the hedged item attributable solely to the hedged risk is taken to the income statement, as is the change in the fair value of the hedging derivative instrument; the difference, if any, which represents the partial ineffectiveness of the hedge, thus determines the net effect on the income statement;
- Cash flow hedges: changes in the fair value of the derivative are taken to equity, for the effective portion of the hedge, and are only taken to the income statement when, in reference to the hedged item, the change in the cash flows to be offset manifests, or for the portion of the hedge found to be ineffective;
- Hedges of a net investment in a foreign operation: such hedges are accounted for according to the same method used for cash flow hedges.

The income components are allocated to the relevant items of the income statement as follows:

- Differentials accrued on derivative instruments hedging interest-rate risk (in addition to the interest on the hedged positions) are allocated to item 10, "Interest and similar income" or item 20, "Interest and similar expense", depending on the sign of the differential, i.e. whether it is positive or negative;
- Negative or positive changes in fair value resulting from the measurement of the fair value hedging derivative instruments or hedged positions are allocated to item 90, "Fair value adjustments in hedge accounting";
- Positive or negative changes in fair value arising from the measurement of cash flow hedging derivative instruments are allocated, with regard to the effective portion, to a specific valuation reserve in equity, the "Cash flow hedge reserve", net of the deferred tax effect. With regard to the ineffective portion, such changes are taken to item 90 of the income statement, "Net hedging income (expense)".

Derecognition criteria

The accounting treatment of hedging operations is discontinued in the following cases: a) a hedge undertaken through a derivative ceases or is no longer highly effective; b) the hedged item has been sold or redeemed; c) the hedging operation is revoked in advance; or d) the derivative expires, is sold, terminated or exercised.

If hedge effectiveness is not confirmed, the portion of the derivative contract no longer designated a hedge ("over-hedging") is reclassified as held for trading. If discontinuation of the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be such and is once again measured according to the criteria that apply to the relevant portfolio.

The hedging financial assets and liabilities are derecognized when there are no longer any contractual rights (e.g., expiration of the contract, early closing exercised according to the contractual clauses – so-called "unwinding") to receive cash flows from the financial instruments, the hedged assets/liabilities, and/or the derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and rewards connected thereto.

5 – Equity investments

Recognition criteria

Investments in joint ventures and associates are recorded in the separate financial statements at cost, equal to the fair value of the consideration paid, adjusted for impairment. The initial recognition of equity investments takes place on the settlement date if traded in accordance with market practice (regular way), otherwise on the trade date.

Equity investments are initially stated at cost.

Classification criteria

The term equity investment refers to investments in the capital of other companies, generally represented by shares or units and classified as investments in subsidiaries and associates. Specifically:

- Subsidiary: an enterprise over which the parent exercises "dominant control", i.e. the power to determine administrative and operational choices and to obtain the relative benefits;
- Associate: an enterprise over which the investor has significant influence and which is neither a subsidiary nor a joint venture for the investor.

The possession – direct or indirect through subsidiaries – of 20% or more of the votes exercisable in the shareholders' meeting of the investee is a prerequisite for significant influence.

Measurement criteria

Equity investments in non-consolidated subsidiary companies are measured at cost, adjusted as necessary for impairment losses.

If there is objective evidence that the value of an equity investment may have been reduced, the recoverable amount of the equity investment will be estimated taking into account the discounted value of the future cash flows that the equity investment could generate, including the final disposal value, or considering the market multiples methodology as an alternative to the future cash flows (impairment test).

If it is not possible to gather sufficient information, the value to be used is considered the value of the company's equity.

If the recoverable amount is less than the carrying amount, the difference is recognized in the income statement under item 220 “Profits (Losses) from equity investments”.

If the reasons for the impairment cease to apply as a result of a subsequent event occurring after the recognition of the change in value, the related write-backs are allocated to the same item in the income statement but within the limit of the cost of the investment prior to the write-backs.

Dividends of investees are accounted for in the year in which they are resolved in item 70 “Dividends and similar income”.

Derecognition criteria

Equity investments are derecognized 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.

6 - Property, equipment and investment property

Classification criteria

Property, plant and equipment include land, instrumental properties, technical plants, furniture, furnishings and equipment of any type.

They also include rights of use acquired with leases and relating to the use of an item of property, equipment and investment property (for lessors), as well as improvements and incremental expenses incurred on items of property, equipment and investment property deriving from lease agreements.

Improvements and incremental expenses incurred on third-party assets deriving from lease agreements pursuant to IFRS 16 from which future benefits are expected are recognized:

- if independently identifiable and separable, in item “80. Property, equipment and investment property”, in the most appropriate category;
- if not independently identifiable and separable, in item “80. Property, equipment and investment property”, as an increase in the rights of use, recognized on the basis of the provisions of IFRS 16, to which they refer.

Improvements and incremental expenses incurred on third-party assets other than those mentioned above are recognized:

- if independently identifiable and separable, in item “80. Property, equipment and investment property”, in the most appropriate category;
- if not independently identifiable and separable, in item “120. Other assets”.

Instrumental properties are those owned properties (or properties held under a finance lease) used in production and the provision of services or for administrative purposes, with a useful life exceeding one year.

Recognition criteria

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

Costs incurred subsequently are added to the asset's carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be measured reliably (e.g., extraordinary maintenance costs). Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized, in the period incurred, in the income statement under item 160 b) "other administrative expenses," if they refer to assets used in the Group's business activities.

This item also includes assets used by the parent as the lessee in lease agreements - "Right-of-Use assets" (RoU) (IFRS 16).

At the commencement date, the Bank, as lessee, shall recognize the "right-of-use (RoU) asset" at cost, which shall comprise: a) the amount of the initial measurement of the lease liability; b) any lease payments made at or before the commencement date, less any lease incentives received; c) any initial direct costs incurred by the lessee, i.e., incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for costs incurred by a manufacturer or dealer lessor in connection with a lease; and d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories".

The RoU asset referring to leases outstanding at the date of initial application of IFRS 16 was recognized under the "Modified Retrospective Approach".

The Bank does not consider VAT as a component of lease payments for the purposes of calculating IFRS 16 measures (RoU Asset and Lease Liability, for which reference should be made to the line item Financial liabilities measured at amortized cost).

Measurement criteria

Subsequent to initial recognition, property, equipment and investment property are carried at cost, net of accumulated depreciation and impairment losses, if any.

Such assets are depreciated on a straight-line basis over their estimated useful lives, understood as the period during which an asset or property is expected to contribute to company operations, adopting the straight-line method as the depreciation criterion. The estimate of the useful life is shown below:

- buildings: 33 years;
- furniture: 9 years;
- plants: 5 years;
- machines: 3 years;
- other: 4 years.

Land and buildings are treated separately for accounting purposes, even if purchased together. Land is not depreciated since, as a rule, it has an indefinite useful life.

The estimated useful life of property, equipment and investment property is reviewed at the end of each annual or interim reporting period, taking into account the conditions of use of the assets, maintenance conditions, expected obsolescence etc., and, if expectations differ from previous estimates, the depreciation expense for the current and subsequent periods is adjusted.

Artistic assets are not depreciated as their useful life cannot be estimated and their value typically does not decrease over time.

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

If there is objective evidence that an asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 180 "Net adjustments to/reversals of impairment of tangible assets".

If an impairment loss is reversed, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

At each annual or interim reporting date, the parent evaluates whether there is any indication of impairment of its items of property, equipment and investment property. If a loss is identified, the carrying amount is compared with the recoverable amount understood as the higher between fair value and value in use.

Property, equipment and investment property 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 authorized 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 recognizes:

- an asset consisting of the right to use of the asset underlying the lease contract. The asset is recognized 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 present 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 recognize 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 asset at cost, net of accumulated depreciation and accumulated value impairment losses 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 as a balancing entry to the right of use asset.

Derecognition criteria

Property, equipment and investment property are derecognized when disposed of or when future economic benefits are no longer expected from their use or disposal.

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

7 - Intangible assets

Classification criteria

Intangible assets are identifiable non-monetary assets without physical substance that are expected to be used for more than one year, controlled by the Bank, and from which future economic benefits are likely to flow.

In the absence of one of the aforementioned characteristics, the cost to acquire or generate the asset internally is recorded as a cost in the period in which it was incurred.

Intangible assets mainly consist of software for long-term use and goodwill, resulting from contracts or new acquisitions.

Recognition criteria

Intangible assets are recognized in the annual or interim separate financial statements at acquisition cost, including direct costs incurred to bring the asset into use and increased with any costs incurred subsequently to increase initial economic functions, net of accumulated amortization and impairment losses, if any.

Intangible assets also include goodwill, being the positive difference between the purchase cost and the fair value of the assets and liabilities of the acquired company, representative of the investment's capability to produce future profit. Should this difference be negative (badwill) or should the investment not be capable to produce future profit, the difference is immediately recognized in the income statement.

Measurement criteria

Intangible assets with a finite useful life are systematically amortized on a straight-line basis according to their estimated useful lives. Useful lives are normally estimated as follows:

- software: maximum 4 years;
- other intangible assets: maximum 10 years.

If there is objective evidence that an asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any impairment of the asset are recognized in the income statement under item 190 "Net adjustments to/reversals of impairment of intangible assets."

If an impairment gain is recognised, the new carrying amount cannot exceed the carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

In this regard, please note that at December 31, 2022 the impairment test was performed on the "Customer Relationship" intangible asset of the Securities Services BU, resulting from the finalization of the PPA subsequent to the merger of DEPObank in 2021, and in light of the significant changes taking place in the customer portfolio composition. The results of this activity led to the recognition of a partial impairment loss in the carrying amount through profit or loss. For more information refer to Part B of the Notes to the financial statements in item "Intangible Assets".

Assets with an indefinite useful life, such as goodwill, are not systematically amortized but undergo a periodic impairment test when the annual or interim separate financial statements are drafted.

Derecognition criteria

An intangible asset is derecognized upon its disposal or when no further future economic benefits are expected from its use or sale, and any difference between the sale proceeds or recoverable amount and the carrying amount is recognized in the income statement under item 250 "Gains (losses) on disposal of investments".

9 - Current and deferred taxes

Income taxes are computed in accordance with the tax legislation in force in the different countries where the Bank operates.

The tax charge consists of the total amount of current and deferred income taxes, included in the calculation of the profit or loss for the year.

Current tax assets and liabilities include the net balance of the Bank's tax positions in respect of the tax authorities. 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 year.

Deferred tax liabilities correspond to the amount of income taxes due in future periods and refer to taxable temporary differences which arose in the period or in previous periods. Deferred tax assets correspond to the amount of income taxes recoverable in future periods and refer to deductible temporary differences which arose in the period or in previous periods.

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

Deferred tax assets are recorded under item 100 b) of assets. Deferred tax liabilities are recorded under item 60 b) of liabilities. Deferred tax assets and liabilities are constantly monitored and are recorded by applying the tax rates that it is expected will be applicable in the period in which the tax asset will be realized or the tax liability will be extinguished, on the basis of the tax rates and the tax law established by provisions in force.

The accounting contra entry for both current and deferred tax assets and liabilities consists normally of the income statement item 300 "Income taxes on profit (loss) from continuing operations".

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

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

10 - Provisions for risks and charges

Registration/classification criteria

Provisions for risks and charges cover costs and expenses of a determinate nature, the existence of which is certain or probable, which, at the end of the year, are uncertain as to amount or timing.

Accruals to the provisions for risks and charges are recognized only when:

- a present obligation has arisen as a result of a past event;
- upon its manifestation, the obligation is onerous;
- a reliable estimate can be made of the amount of the obligation.

Provisions for risks and charges for commitments and guarantees provided

This item includes provisions for credit risk set aside for loan commitments and guarantees provided that fall within the scope of the impairment rules in IFRS 9. In this case the Group adopts the same methods for allocating items to the credit risk stages and calculating expected credit losses as the ones described for financial assets measured at amortized cost or at fair value through OCI.

Post-employment benefits and similar obligations

Post-employment benefits are formed in implementation of company agreements and are qualified as defined benefit plans. The liabilities relating to such plans and the relative current service cost are determined on the basis of actuarial assumptions by applying the Projected Unit Credit Method actuarial method, which involves projecting future outlays on the basis of statistical historical analyses and the demographic curve, as well as the financial discounting of such flows on the basis of a market interest rate. Contributions made in each year are considered to be separate units, recognized and valued individually in order to determine the final obligation. The discount rate is determined on the basis of market returns relating to the valuation dates of leading corporate bonds, taking into account the residual average duration of the liability. The present value of the obligation at the reporting date is also adjusted by the fair value of any assets serving the plan.

Actuarial gains and losses (or changes in the present value of the obligation deriving from changes in actuarial assumptions and adjustments based on past experience) are presented in the statement of comprehensive income.

As required by IAS 19, the provisions for risks and charges include the measurement of post-employment benefit obligations.

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

Other provisions

Provisions for risks and charges are liabilities with an uncertain amount or maturity recognized in the financial statements as:

- there is a present obligation (legal or implicit) due to a past event;
- an outlay of financial resources is likely in order to meet the obligation;
- it is possible to reliably estimate the likely future outlay.

Such provisions include amounts set aside against presumed losses in legal proceedings against the Bank.

When the time element is relevant, the provisions are discounted using current market rates. The provision and increases due to the time factor are recognized in the income statement. In particular, when the present value of the provision has been recognized, the increase in the carrying amount of the provision recorded in the financial statements in each year to reflect the passing of time is recognized under interest expense.

The provisions recognized, as well as contingent liabilities, are reviewed at each annual or interim reporting date and adjusted to reflect the best current estimate. If the need to use resources to meet the obligation is no longer likely, the provision is reversed with a balancing entry in the income statement.

The provisions for risks and charges include also the provisions for credit risk set aside for loan commitments and guarantees provided that fall within the scope of the impairment rules in IFRS 9. Under IFRS 9, expected credit losses on commitments and guarantees provided shall be determined based on the initial credit risk of the commitment, starting from the date on which such commitment was made. As a general rule, in this case the Group adopts the same methods for allocating items to the three credit risk stages and calculating expected credit losses as the ones described for financial assets measured at amortized cost or at fair value through OCI.

The relevant loss allowance shall be recognized as a balance sheet liability under item "100: Provisions for risks and charges: a) commitments and guarantees provided".

Derecognition criteria

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

11 - Financial liabilities measured at amortized cost

Classification criteria

An issued financial instrument is classified as a liability when, on the basis of the substance of the contractual agreement, there is a contractual obligation to provide money or another financial asset to another party.

This item includes "Due to banks", "Due to customers" and "Debt securities issued". Financial instruments (other than trading liabilities and those measured at fair value) representing the different forms of third-party funding are allocated to these items.

In addition, the payables incurred by the Bank as lessee under leases are also included.

Interest expense is recorded in the income statement under item 20 "Interest and similar expense".

Recognition criteria

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

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

Interest is recorded in income statement item 20 “Interest and similar expense”.

Measurement criteria

Amounts due to banks and customers and debt securities issued are measured at amortized cost using the effective interest method.

Debt securities issued are measured at amortized cost using the effective interest method.

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

Derecognition criteria

Financial liabilities are derecognized when the obligation specified in the contract is extinguished or following a substantial change in the contractual terms of the liability.

The derecognition of debt securities issued also occurs in the event of repurchase of securities previously issued, even if they are intended for subsequent resale. The gains or losses on the recognition of the repurchase as an extinguishment are recognized in the income statement when the repurchase price of the bonds is higher or lower than their carrying amount. Subsequent disposals of own bonds on the market are treated as the placement of new debt.

12 - 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.

14 - Foreign currency transactions

Recognition criteria

Transactions in foreign currency are translated 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, balance sheet items in foreign currency are valued as follows:

- monetary items are translated at the current exchange rate at the closing date;
- non-monetary items measured at historical cost are translated at the exchange rate on the transaction date;
- non-monetary items measured at fair value are translated 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 translation of monetary elements at rates other than those of initial translation, or of translation of the previous financial statements, are recognized in the Income Statement of the period in which they arise, while those relating to non-monetary elements are recorded in 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 recognized 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.

15 - Other information

Treasury shares

The treasury shares held are deducted from equity at the value at which they were repurchased in the market. Similarly, their original cost and the gains or losses from their subsequent sale shall be recognized as changes in equity.

At the time of assignment to employees or directors, the Treasury share reserve is reduced by an amount calculated at the average price for the acquisition of the various tranches, with a balancing entry in financial instrument reserves recognized in the financial statements based on variable remuneration agreements and the "share premium" reserve.

Post-employment benefits

As a result of the legislative framework introduced by Italian Law no. 296 of 2006, the post-employement benefits vested up to December 31, 2022 (which remain with the Company) under item 90 of liabilities, are computed by estimating the remaining length of the employment relationship, for individual persons or homogeneous groups, based on demographic assumptions:

- by projecting the accrued post-employement benefits, using demographic assumptions, to estimate the time of termination of employment;
- by discounting to present value, at the measurement date, the amount of the accrued benefits at December 31, 2022, based on financial assumptions.

IAS 19 (revised) requires actuarial gains and losses to be recognized in other comprehensive income in the year/period they are accrued.Because post-employment benefits accruing starting on January 1, 2007 must be transferred to the Italian social security institute (INPS) or to supplemental pension funds, they qualify as a "defined contribution plan", since the employer's obligation ceases once payment is made and the contribution is recorded in the income statement on an accrual basis.

The costs for servicing the plan are recorded under personnel expenses, item 160 "Administrative expenses: a) personnel expenses" as the net total of contributions paid, contributions accrued in previous periods and not yet recorded and expected revenues from assets servicing the plan. Actuarial gains and losses, as envisaged by IAS 19, are recorded in a revaluation reserve in equity.

Revenue recognition criterion

The general criterion for the recognition of revenue components is the accruals basis, also taking into account the correlation between costs and revenues.

Revenues

Revenues is gross flows of economic benefits deriving from the performance of ordinary business activities, when such flows cause increases in equity other than increases deriving from shareholder contributions.

Revenue deriving from contractual obligations with customers is recognized in the financial statements only if all of the following criteria are met:

a) the parties to the contract have approved the contract and have undertaken to meet their respective obligations;

b) the entity can identify the rights of each of the parties as regards the goods or services to be transferred;

c) the entity can identify the conditions of payment of the goods or services to be transferred;

d) the contract has commercial substance (or the risk, timing or amount of the future cash flows of the entity are destined to change following the contract);

e) it is likely that the entity will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating the likelihood of receiving the amount of the consideration, the entity must take into account only the capacity and intention of the customer to pay the amount of the consideration when it will be due.

Interest income and expense

Interest income and expense and similar income and expense relate to interest deriving from factoring activity, cash and cash equivalents and non-derivative financial assets and liabilities held for trading, measured at fair value through other comprehensive income and measured at amortized cost.

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost, using the effective interest rate method.

More specifically:

- Fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenue and are therefore part of the effective return on the receivable recognized at amortized cost.
- According to IFRS 15, revenue shall be recognized only when its amount can be reliably estimated when total "control" on the exchanged goods or services is transferred. In the case in question, consistently with the "Bank of Italy/Consob/Ivass Document no. 7 of November 9, 2016" on the "Treatment in the financial statements of late payment interest under Italian Legislative Decree 231/2002 on non-recourse purchases of performing receivables", BFF also included the estimate of recoverable late payment interest, including that claimed from tax authorities. In fact, BFF has time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling it to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series are updated on an annual basis when the separate financial statements are prepared, in order to determine the estimated collection percentages and times to be used to calculate late payment interest. The change in collections is then analyzed on a quarterly basis in order to monitor the relative trends and check the stability of the model.

With reference to the estimated total late payment interest that is expected to be collected by BFF, the time series were updated with collection amounts for the year 2022. This confirmed an estimated recovery percentage much higher than 45%. Therefore, the percentage used to prepare the 2022 financial statements was increased from 45% to 50%.

On the other hand, to take into consideration the collection timing of the entire provision for late payment interest, the estimate of days to collection was prudently increased from 1800 to 2100 days. This extension was also implemented to take into account external impacts that influenced the age of the provision, such as slower payment times due to the Covid-19 pandemic crisis, the relative blocking of courts and the suspension of enforcement actions in healthcare, which influenced the suspension of the terms of legal and procedural activities and therefore collection timing.

With regard to late payment interest on tax assets, given the particular nature of such interest and the counterparty, as well as the precise evidence obtained, it is believed that the conditions exist to recognize such interest in full.

Interest income on debt securities in portfolio and interest expense on securities issued by BFF are recognized at amortized cost, i.e., by applying to the nominal amount of the securities the effective interest rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount.

The interest thus computed is recognized in the income statement pro-rated over the duration of the financial asset or liability.

Fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:

- when the receivables are entrusted for management (fees and commissions on acceptance, and handling expenses);
- when the receivables are collected (collection fees and commissions).

Fees and commissions

Fees and commissions, which primarily derive from the activities carried out by the Securities Services and Payments Business Units and debt collection management activities on behalf of third parties, are recognized when the service is provided. These are primarily revenues linked to periodic fees that could include the provision of multiple services, transaction fees and one-off revenues.

Fees and commissions considered in amortized cost in order to determine the effective interest rate are excluded, as they are recognized as interest.

Starting from the end of 2020, when legal costs incurred for the collection of the receivables acquired without recourse are recognized, the parent recognizes revenue equal to their estimated percentage of recovery based on time series developed internally. Indeed, the above-mentioned legal costs are in part recovered from customers either when bankruptcy proceedings are completed or when settlement agreements are finalized, and therefore they do not fully impact the separate financial statements. Therefore, this accounting treatment results in a greater alignment between costs and revenues, on an accrual basis.

Dividends

Dividends are recognized in the income statement when their distribution is approved.

Costs and other comprehensive income

Costs are recognized when they are incurred in compliance with the criterion of correlation between costs and revenue deriving directly and jointly from the same transactions or events. Costs that cannot be associated with revenue are recognized immediately in the Income statement.

Costs directly linked to financial instruments measured at amortized cost and which may be determined from their origin, irrespective of when they are paid, are recognized in the Income statement with the application of the effective interest rate.

Impairment losses are recognized in the Income statement in the year in which they are identified.

Share-based payment arrangements

The share-based personnel remuneration plans (stock option plans) are recorded in the accounts according to the provisions of IFRS 2. They are recorded by charging to the income statement, with a corresponding increase in equity, a cost set on the basis of the fair value of the financial instruments allocated on the assignment date and divided over the plan's vesting period. The fair value of any options is calculated using a model which considers—besides information such as the exercise price and duration of the option, the current price of the shares and their expected volatility, the expected dividends, and the risk-free interest rate—the specific characteristics of the current plan. In the valuation model, the option and the probability of realization of the conditions under which the options were assigned are assessed separately. The combination of the two values provides the fair value of the assigned instrument.

Any reduction in the number of financial instruments allocated shall be accounted for as cancellation of part of them. This derecognition will have no impact on the income statement, but will take place with a balancing entry in the retained earnings reserve.

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

(i) BFF's shares and related instruments, including the stock option plan; and

(ii) where possible, the other instruments identified in Delegated Regulation (EU) No 527 of 12 March 2014.

The definition of "variable remuneration" includes payments which, for various reasons, are connected to and dependent on the activities/performance of the recipients or on other parameters (e.g., length of service) and which may be due in the future from BFF to the Risk Takers,

i) Both pursuant to the incentive system based on company and individual objectives (so- called "MBO"),

ii) And in order to meet any payment obligations pursuant to non-competition agreements ("NCAs"), should in the future Risk Takers who have signed such agreements leave the parent.

2016 Stock-Option Plan of the Banca Farmafactoring Banking Group

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 newly issued ordinary shares of the parent or shares that have already been issued and are included in the parent's portfolio when the option is exercised. At December 31, 2022 the number of stock options assigned and not exercised amounted to 1,086,788. The vesting period has matured for 854,788 of these, which are thus exercisable;
- *Beneficiaries*: the identification of beneficiaries and the granting of options are decided by:
  a) The Board of Directors, after consulting with the Remuneration Committee, with reference to directors, senior executives and executives directly reporting to the Chief Executive Officer;
  b) The Chief Executive Officer, within the limits of his/her powers, with reference to other beneficiaries whose remuneration falls within his/her duties;
- *Type of exercise*: ordinary or cashless exercise. On March 28, 2019 the Ordinary Shareholders' Meeting approved the introduction of an alternative method for exercising options under the plan, in addition to the ordinary option (so-called cashless). According to the new exercise option, authorized beneficiaries who requested it can be allocated a number of shares determined based on the market value of the shares at the exercise date, with no obligation for them to pay the exercise price.

2020 Stock-Option Plan of the Banca Farmafactoring Banking Group

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 parent 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 Bank 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.*

At December 31, 2022, the number of options assigned amounted to 8,384,500, of which none yet exercisable.

BFF Banking Group 2022 Long-Term Incentive Plan

On March 31, 2022, the Ordinary Shareholders' Meeting approved a new "2022 Long-Term Incentive Plan" for employees and directors holding executive positions in the bank and/or its subsidiaries, having the following characteristics.

- *Subject*: the plan provides for the allocation of a maximum of 9,700,000 options divided into three tranches. The options can be of two types: (i) Class A options, which grant the right to receive newly issued ordinary shares of the Company, "equity settled", and (ii) Class B options, which grant the right to receive phantom shares, to be converted into cash in accordance with the provisions of the plan, "cash settled".

- *Vesting conditions (exercise)*: options granted under each tranche vest upon completion of the three-year period from the relevant grant date. Vesting is also subject to the fulfilment of the following conditions: (i) continuation of employment with the BFF Group and/or office in the Board of Directors and absence of notice of resignation or dismissal; and (ii) achievement of KPIs (i.e. company performance indicators), without prejudice to the deferral and lock-up provisions applicable to the most significant personnel (i.e. Risk Takers) of the Bank and the other detailed forecasts of the plan, already disclosed to the market in accordance with applicable regulations.

At December 31, 2022, the number of options assigned amounted to 6,698,000 (of which 2,547,000 cash-less and 4,151,000 phantom shares), of which none yet exercisable.

Authorization to repurchase and dispose of treasury shares and revocation, for the part not yet executed, of the authorization granted by the Shareholders' Meeting on March 25, 2021

The parent's Ordinary Shareholders' Meeting of March 31, 2022, after examining the relevant illustrative Report by the Board of Directors, decided to revoke the previous authorization, granted by the Shareholders' Meeting of March 25, 2021, for the part not yet executed, and to authorize the Board of Directors to proceed with the repurchase 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 8,294,520, representative of 5% of the 185,315,280 shares without a nominal amount representing the entire subscribed and paid-up share capital of the parent as of March 10, 2022, amounting to €142,692,765.52 (taking into account the treasury shares already in stock).

Use of estimates and assumptions in the preparation of financial reporting

As part of the preparation of the separate financial statements, the parent had to make valuations and estimates that influence the application of accounting policies and the amounts of assets, liabilities, costs and revenue recognized in the financial statements.

The significant assessments of the parent in the application of the accounting policies and the main sources of estimation uncertainty are unchanged from those already illustrated in the parent's and parent's last annual financial statements, closed at December 31, 2021.

In accordance with IFRS, the elaboration of estimates by management is a prerequisite for the preparation of the separate financial statements at December 31, 2022. This process involves the use of available information and subjective assessments, also based on historical experience, in order to formulate reasonable assumptions for the analysis of operations. 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 and the Russia/Ukraine conflict, the current values recognized in the financial statements at December 31, 2022 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 trade receivables acquired and lump-sum indemnities (“40 euros”), due to BFF, based on an analysis of historical multi-year company data;
- Impairment losses on loans and 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 on which these financial statements were prepared;
- Employee benefits based on actuarial assumptions, and provisions for risks and charges;
- The recoverability of deferred tax assets;
- Any impairment of equity investments, goodwill and intangible assets: in light of the results at December 31, 2022, there are no trigger events that could impact the valuation of equity investments and goodwill recorded at December 31, 2022, with the exception of the Securities Services BU Customer Relationship intangibles, for which an impairment loss was recognized in accordance with the impairment test performed by an independent expert following significant changes in the customer portfolio composition; for further details, see the item “Intangible Assets” in the statement of financial position assets).

Measurement of impairment losses on financial assets

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

The impairment model is characterized by:

- the allocation of the transactions in the portfolio to different stages, based on an assessment of the increase in the level of exposure/counterparty risk, considering the “staging allocation criteria”;
- The use of multi-period risk parameters (e.g., lifetime PD, LGD and EAD) to quantify expected credit losses (ECL) for financial instruments subject to a significant increase in credit risk since initial recognition.

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

Staging Allocation Criteria

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

Such assessment has the following consequences in terms of classification (or, more appropriately, staging) and measurement:

- If such an indication does not exist, the financial asset is classified in Stage 1. In this case, in accordance with IFRS and even in the absence of apparent impairment losses, the Group shall recognize 12-month expected credit losses on the specific financial instrument. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is an indication that credit risk has "increased significantly";
- If such an indication exists, the financial asset is classified in Stage 2. In this case, in accordance with IFRS and even in the absence of apparent impairment losses, the parent shall recognize adjustments equal to lifetime expected credit losses. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is no longer an indication that credit risk has "increased significantly".

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

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

- quantitative criterion: definition of a "delta rating" threshold for transfer to stage 2;
- qualitative criterion: use of transfer logic triggers, i.e., identification of events triggering transfers between stages;
- practical expedients: use of the Low Credit Risk Exemption (LCRE) and 30 days of non-payment.

The **qualitative criterion** takes precedence over the quantitative criterion and establishes that the following positions are allocated to stage 2:

- positions with forbearance measures;
- in Watchlist: or positions under monitoring for which an assessment of a significant increase in credit risk has been made.

As far as the **quantitative criterion** is concerned:

- a relative threshold is defined, which has the purpose of measuring the rating downgrade (at the reporting date with respect to the date of origin) for each transaction. If the number of downgrades is higher than what has been established by the threshold, differentiated according to the master rating scale used, the position is allocated to Stage 2. The relative threshold depends on the number of rating classes considered for each segment and is equal to 1 for those segments to which the Sovereign and Financial Institutions external matrices apply (which have 7 rating classes), while it is equal to 2 for the counterparties pertaining to the segments for which the Corporate matrix is used (which has 21 rating classes).

Lastly, as concerns the **practical expedients:**

- the "Low Credit Risk Exemption" exempts transactions referring to counterparties with investment grade ratings at the date of analysis from the verification of significant deterioration using a relative threshold. Positions defined as low credit risk are not subject to the control of a rating downgrade between the date of analysis and the date of origin of the transaction. In the absence of qualitative triggers, these positions are allocated directly to Stage 1. This exception applies for counterparties referring to the Public Administration and Municipalities, to the technical forms of Repurchase Agreements by virtue of their guaranteed nature and very short term reciprocal accounts. It is excluded for private counterparties;
- at individual transaction level, the number of days past due is calculated by comparing the analysis date (reporting date) with the "expected original maturity date" (VIP). If the days past due exceed 30, the individual transaction would be classified in Stage 2.

For unrated counterparties in the portfolio, the staging allocation is carried out by applying only qualitative criteria, and the watchlist flag was introduced precisely in order to overcome the lack of rating and therefore the application of quantitative criteria.

Impairment Criteria

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

- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the instrument. According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;
- ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;
- ECL measured by incorporating point-in-time and forward-looking information as well as macroeconomic factors;
- Introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

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

- probability of default (PD) models and assumptions about the forward distribution of default events, for the calculation of multi-period PDs used to determine the lifetime expected credit loss;
- a multi-period LGD model;
- a deterministic and stochastic EAD model allowing to define a multi-period distribution as well as a 12-month horizon.

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

Starting from September 2022, the parent refined its risk parameter (PD and LGD) methodology for the factoring business, bringing it more into line with the specific characteristics of the business. Below is a description of the Bank's methodological decisions for the purposes of measuring the above parameters and measures.

Probability of Default (PD)

The multi-period PD parameter is interpreted by the parent by estimating a term structure of the probability of default starting from a recalibration of internal PD matrices provided by the rating agencies on long-term internal default rates (Long Run Average Default Rate or Central Tendency), the latter appropriately differentiated according to the relevant risk drivers. PD estimates include the effects deriving from the introduction of the New Definition of Default pursuant to Article 178 of Regulation (EU) no. 575/2013 in force as of January 1, 2021. The multi-period PD also incorporates Point-In-Time conversion adjustments and forward-looking information.

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

The Bank has adopted a model based mainly on external information sources (e.g. Rating agencies). The matrices taken into consideration for rated counterparties relate to the Sovereign, Corporate and Financial Institutions segments. With reference to the parent portfolio:

- the Sovereign matrix was associated with public counterparties;
- the Corporate and Financial Institutions matrices were associated with non-public counterparties (the Corporate and Financial Institutions segments, respectively).

After identifying the matrices listed above, the following approach was followed to estimate the PD:

1. **estimation of the 12-month TTC PD** by recalibrating the ECAI external migration matrices for the loan portfolio of BFF Bank S.p.A. and BFF Finance Iberia S.A. This approach makes it possible to refine the PD estimates by making them more compliant with the company's business characteristics. For the securities portfolio and for exposures referring to BFF Polska S.A. and its subsidiaries, the ECAI external migration matrices are adopted as the best methodological approach as, in the first case as they are bond-like financial instruments, the use of the ECAI matrices is already in and of itself representative of the relative risk level and, in the second case, the private segment ratings ("Corporate", "Public companies" and "Retail") are taken at individual counterparty level and, therefore, they provide a more accurate estimate. The recalibration was carried out by determining a differentiated Central Tendency for each cluster, identified, for the estimation, through the time series of internal rates of default, adjusted to take into account the new definition of default;
2. **estimate of the lifetime TTC PD** through the *Markov* approach based on assumptions of uniformity and the absence of memory which makes it possible to estimate the transition matrix until year "n" by raising the matrix at 1 year to the n-th power;
3. **estimation of PIT and Forward Looking PD** through the PIT factor (default rate at 1 year expected in the model) and considering the Forward Looking information given by forecasts on default rates. The macroeconomic scenarios for the definition of forecast rates are given by an external infoprovider, weighted by the relative likelihood of occurrence. The external provider provides specific scenarios by **geographical area** and **business segment**, with reference to the type of portfolio to which they should be applied.

With reference to the calculation methodology underlying the creation of these scenarios, the following is taken into account:

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

In particular, the following statistical techniques were used:

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

Three scenarios were chosen to calculate PIT and FLI PD:

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

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

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

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

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

Loss Given Default (LGD)

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

In order to estimate the LGD parameter, as no internal models are available, the parent has decided to use the LGD grids obtained from a specific calculation tool provided by the external infoprovider.

The Bank assigns an LGD value to each transaction on the basis of appropriate portfolio segmentation, taking into account the following risk factors: the probability of default associated with the counterparty, the reference economic sector, and factors specific to the transaction (e.g., type of financing and positioning of the financing within the capital structure). In addition, only for the non-recourse factoring portfolio, given the specific features of the recovery process for that technical form compared to those of other product types, the parent has refined the LGD parameter estimation analysis by calibrating the external grids on long-term internal rates of recovery. This choice was justified by *(i)* the presence of a sufficiently robust time series depth for the estimation of an LGD model; *(ii)* the desire to correct ECAI source LGD estimates on recoveries, in the majority of the cases complete, historically experienced by the parent. The calibration methodology is based on the calculation of a differentiated Central Tendency by customer macro-segment and the subsequent recalibration of the external grids using the constrained optimization Ordinary Least Squares (OLS) model.

Exposure at Default (EAD)

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

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

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

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

- type of exposure;
- due date.

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

- exposures with a deterministic repayment plan (cash flows);
- exposures without a repayment plan (no cash flows).

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

On the other hand, as concerns exposures with unknown cash flows and/or due date (or exposures with no repayment plan), they are broken down by means of two estimation methodologies to determine the due date:

1. a qualitative methodology, based on which the due date is determined on the basis of the conditions of the contract or the review by the Credit Evaluation O.U.;
2. a quantitative methodology applied if it is not possible to apply the qualitative methodology that estimates the behavioral duration of the individual accounts.

IFRS 9 - Update to reflect the financial crisis due to COVID-19 and the Russia/Ukraine conflict

The annual update of the risk parameters (PD and LGD) takes into consideration the evolution of the effects of COVID-19 within the estimates of expected credit losses, and starting from March 2022, the effects of the Russia/Ukraine conflict. The Baseline, High Growth and Mild Recession forecasts supplied by the external infoprovider were updated in June 2022 and provide the forecast default rates for the 20 quarters following the updating date. In February 2022, the outbreak of the Russia/Ukraine conflict significantly changed the geopolitical scenario with direct consequences on the European and global macro economy. The Risk Management Function, as it does every year, performed a sensitivity analysis at December 31, 2022 between the macroeconomic scenarios for the fourth quarter of the year, provided by the external infoprovider, and the macroeconomic scenarios updated at June 30, 2022. The analysis shows that 2023 will be characterized by a decline in GDP growth and a strong inflationary drive generated by the Russia/Ukraine conflict, which reduces on one hand business investments and on the other the disposable income of consumers. However, the job market does not seem to be experiencing significant tensions, thanks to the recovery in hirings post-Covid-19. The economic slowdown will not be sufficient to cause widespread dismissals and the job market will continue to benefit from considerable excess demand. Therefore, job market stability will be one of the main factors that could prevent the economy from entering a recessive cycle. The comparative analysis of the scenarios shows that estimated GDP in December 2022 is worse than that currently in use in the model and therefore, the Risk Management Function is evaluating the impacts of that change on the model for estimating risk parameters in order to understand its magnitude, while also taking into consideration that the parent's Business Model and - in this specific area - the relative cost of risk are less sensitive to GDP trends than credit exposures concentrated in the corporate/retail area.

Moreover, the Risk Management Function compared the macroeconomic estimates released by the external infoprovider with those of the European Central Bank (ECB), observing, also in this case, a deterioration of GDP in 2023.

The same analyses will be performed at the end of the first quarter of 2023 as well in order to evaluate the possibility of updating the risk parameters early.

IFRS 3 - Business combinations

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 realized 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 recognized 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 recognized 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 recognized 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 reorganization purposes, therefore between two or more companies or business activities that are already part of BFF, 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.

A4 - INFORMATION ON FAIR VALUE

Qualitative information

IFRSs require that financial instruments classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through other 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 maximizing the use of those that can be observed directly on the market, minimizing 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 amortized cost, the valuations as at December 31, 2022 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 collateralization 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

At December 31, 2022, as mentioned above, the only financial instrument classified as Level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme. The most recent fair value estimate received by the Fund and prepared by a major consulting firm has been adopted.

A.4.3 Fair value hierarchy

At December 31, 2022, as in 2021, there were no transfers between Level 1, Level 2 and Level 3.

A.4.5 Fair value hierarchy

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

(Values in thousand euros)

Financial assets / liabilities measured at fair value	12.31.2022			12.31.2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	7	90,429	104	9	36,484	104
a) financial assets held for trading	7	204		9	4,087	
b) financial assets carried at fair value						
c) other financial assets subject to mandatory fair-value valuation		90,225	104		32,400	104
2. Financial assets measured at fair value through other comprehensive income	225	127,873		167	83,339	
3. Hedging derivatives					13	
4. Property, equipment and investment property						
5. Intangible assets						
Total	**232**	**218,303**	**104**	**176**	**119,838**	**104**
1. Financial liabilities held for trading		950			2,725	
2. Financial Liabilities measured at fair value						
3. Hedging derivatives		14,314			4,814	
Total		**15,263**			**7,539**	

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(Values in thousand euros)

	Financial assets measured at fair value through profit or loss;				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets carried at fair value	of which: c) other financial assets subject to mandatory fair value measurement				
1. Opening balances					**104**			
2. Increases								
2.1 Purchases								
2.2 Gasin recognised in:								
2.2.1 Profit or loss								
- of which gains								
2.2.2 Equity	X	X	X					
2.3 Transfers from other levels								
2.4 Other increases								
3. Decreases								
3.1 Sales								
3.2 Repayments								
3.3 Losses recognised in:								
3.3.1 Profit or loss								
- of which losses								
3.3.2 Equity	X	X	X					
3.4 Transfers to other levels								
3.5 Other decreases								
4. Closing balances					**104**			

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	12.31.2022				12.31.2021			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	11,726,530	5,946,465		5,597,303	9,756,006	5,839,220		3,963,385
2. Investment property								
3. Non-current assets held for sale and discontinued operations								
Total	**11,726,530**	**5,946,465**		**5,597,303**	**9,756,006**	**5,839,220**		**3,963,385**
1. Financial liabilities measured at amortized cost	11,933,207	38,648		11,894,231	9,875,043	188,861		9,688,758
Total	**11,933,207**	**38,648**		**11,894,231**	**9,875,043**	**188,861**		**9,688,758**

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

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

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

Part B - Information on the Balance Sheet

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

ASSETS

Section 1 - Cash and cash equivalents – Item 10

€623,975 thousand

1.1 Cash and cash equivalents: breakdown

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
a) Cash	206	190
b) Current accounts and sight deposits at Central Banks	489,810	360,142
c) Current accounts and sight deposits at banks	133,959	182,895
Total	**623,975**	**543,227**

Starting from December 31, 2021, in line with what is set forth in the 7th update of Bank of Italy circular 262/205, the item in question, aside from cash and sight deposits at Central Banks, with the exception of the mandatory reserve, also includes current accounts, as well as sight loans and receivables (current accounts and sight deposits) from banks.

As of December 31, 2022, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €490 million (compared to €360 million at December 31, 2021), as well as current accounts held by the parent at third-party banks at the end of 2022, amounting to €134 million.

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

€90,541 thousand

This item is broken down as follows:

- Financial assets held for trading of €211 thousand, which primarily includes the positive fair value of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the parent is exposed to;
- Other financial assets subject to mandatory fair value measurement of €90,226 million, which mainly include the "UCI units" managed in part by the "Italian SGR Investment Fund" and, to a lesser extent, by the "Atlante Fund" and, as of 2022, a fund in which the parent had subscribed units for a value of €60 million at December 31, 2022. The value of UCI units recognized in the separate financial statements has been updated to the latest available NAV made available by these funds.

2.1 Financial assets held for trading: breakdown by type

(Values in thousand euros)

Items/values	Total 12.31.2022			Total 12.31.2021		
	L1	L2	L3	L1	L2	L3
A. On statement of financial position assets						
1. Debt securities	6			8		
1.1 Structured securities						
1.2 Other debt securities	6			8		
2. Equity securities	1			1		
3. UCI units						
4. Loans						
4.1 Reverse repurchase agreements						
4.2 Others						
Total (A)	**7**			**9**		
B. Derivatives						
1. Financial derivatives		204			4,086	
1.1 held for trading		204			4,086	
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)		**204**			**4,086**	
Total (A+B)	**7**	**204**		**9**	**4,086**	

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

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

(Values in thousand euros)

Items/values	Total 12.31.2022	Total 12.31.2021
A. On statement of financial position assets		
1. Debt securities	**6**	**8**
a) Central Banks		
b) Public administrations	3	4
c) Banks	2	4
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	**1**	**1**
a) Banks		
b) Other financial companies:		
of which: insurance companies		
c) Non-financial companies	1	1
d) Other issuers		
3. UCI units		
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	**7**	**9**
B. Derivatives	204	4,086
a) Central counterparties		
b) Others	204	4,086
Total B	**204**	**4086**
Total (A+B)	**211**	**4,095**

2.5 Other financial assets subject to mandatory fair value measurement: breakdown by type

(Values in thousand euros)

Items/values	Total 12.31.2022			Total 12.31.2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities			104			104
3. UCI units		90,226			32,399	
4. Loans						
4.1 Reverse repurchase agreements						
4.2 Others						
Total		**90,226**	**104**		**32,399**	**104**

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

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

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Equity securities	104	104
of which: banks		
of which: other financial companies	104	104
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	90,226	32,399
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	**90,330**	**32,503**

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

€128,098 thousand

At December 31, 2022 this item included:

- the stake in the Bank of Italy of €125 million;
- other minor investments worth approximately €3 million.

Compared to last year, the item increased significantly as a result of the acquisition of an additional investment in the Bank of Italy (from €80 million in 2021 to €125 million at December 31, 2022), bringing the parent's equity investment from 1.07% to 1.67%.

With respect to minor investments in equity securities, please note that the Bank has sold a portion of "Visa" shares (for €1,183 thousand) and "Ausilia S.r.l." shares (for €306 thousand) and, in the course of the final quarter of 2022, purchased a shareholding in the company "Istituto della Enciclopedia Italiana fondata da Giovanni Treccani S.p.A." amounting to €1 million (1.17%).

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

(Values in thousand euros)

Items/values	Total 12.31.2022			Total 12.31.2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities	225	127,873		167	83,339	
3. Loans						
Total	225	127,873		167	83,339	

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

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrower/issuer

(Values in thousand euros)

Items/values	Total 12.31.2022	Total 12.31.2021
1. Debt securities		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	**128,098**	**83,506**
a) Banks	125,432	80,374
b) Other issuers:	**2,666**	**3,132**
- other financial companies	1,379	2,844
of which: insurance companies		
- non-financial companies	287	288
- others	1000	
3. Loans		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	**128,098**	**83,506**

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

€11,726,530 thousand

This item is broken down as follows:

- Loans and receivables with banks of €478,203 thousand;
- Loans and receivables with customers of €11,248,327 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Hold to Collect (HTC) securities portfolio of €6,129,228 thousand.

Loans and receivables with banks

€478,203 thousand

4.1 Financial assets measured at amortized cost: breakdown by type of amounts due from banks

(Values in thousand euros)

Type of operations/Values	Total 12.31.2022						Total 12.31.2021					
	Carrying Amount			Fair Value			Carrying Amount			Fair Value		
	Stage one and Stage two	Stage three	Purchased or originated credit impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated credit impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**185,349**					**185,349**	**156,038**					**156,038**
1 Time deposits	11,714			X	X	X	154			X	X	X
2 Mandatory reserve	173,635			X	X	X	155,885			X	X	X
3 Reverse repurchase agreements				X	X	X				X	X	X
4 Others				X	X	X				X	X	X
B. Loans and receivables with banks	**292,854**					**292,854**	**247,860**					**247,860**
1 Loans	292,854					292,854	247,860					
1.1 Current accounts				X	X	X				X	X	X
1.2 Time deposits	2,910			X	X	X	2,643			X	X	X
1.3 Other loans:	289,943			X	X	X	245,217			X	X	X
- Reverse repurchase agreements	183,994			X	X	X	160,438			X	X	X
- Loans for leases				X	X	X				X	X	X
- Others	105,950			X	X	X	84,779			X	X	X
2. Debt securities												
2.1. Structured securities												
2.2. Other debt securities												
Total	**478,203**					**478,203**	**403,898**					**403,890**

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

As mentioned above, starting from December 31, 2021, in line with what is set forth in the 7th update of Bank of Italy Circular 262/205, all sight deposits at Central Banks, with the exception of the mandatory reserve, as well as current accounts and sight loans and receivables (current accounts and sight deposits) with banks have been reclassified to Statement of Financial Position item 10 "Cash and cash equivalents".

Therefore, at December 31, 2022, the item "Loans and receivables with Central Banks - Mandatory Reserve", amounting to €174 million, also includes the amounts deposited in compliance with the reserve requirement of client banks, for which the parent provides the service indirectly, while "Time deposits" include the balance of the amount deposited with the national bank of Poland (*Narodowy Bank Polski*) for the funding made by the Polish branch through "Lokata Facto", amounting to €11,714 thousand.

"Loans and receivables with banks - time deposits" referred for €2,910 thousand to the amount deposited with Banco de España as CRM (Coeficiente de Reservas Mínimas), in relation to the funding carried out by the Bank's Spanish branch through "Cuenta Facto".

The item "Loans and receivables with banks – Reverse repurchase agreements", amounting to €184 million, refers to contracts governed by Global Master Repurchase Agreements (GMRAs) with other banks.

"Loans and receivables with banks – Other" consist mainly of trade receivables, i.e. trade 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.

Loans and receivables with customers

€11,726,530 thousand, including Hold to Collect securities of €6,130,036 thousand

Starting from January 1, 2018, the item "Financial assets measured at amortized cost – Loans and receivables with customers" includes debt securities in the Hold 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 €5,119.1 million (mainly amounts due from debtors in relation to factoring activities) and €6,129.2 million in debt securities in the HTC portfolio.

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

The 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. After this analysis, as of December 31, 2022, on the basis of the time series the Bank decided to modify its approach to estimating the late payment interest to be included in amortized cost, therefore assuming a collection percentage of 50% in place of the previous 45%, and changing the average collection timing from 1,800 to 2,100 days due to the impacts of the crisis caused by the COVID-19 pandemic, which influenced the suspension of the terms of procedural activities.

The cumulative value of late payment interest to which BFF Bank is entitled and not yet collected for receivables purchased outright (Allowance for late payment interest) amounted to €686.3 million, of which only €317.9 million was recognized in the income statement of the period and in previous periods.

This item also includes collection expenses ("40 euros"). Italian Legislative Decree no. 231 of 10/9/2002, implementing Directive 2000/35/EC on combating late payment in commercial transactions, establishes on compensation for collection expenses that "*The creditor is due, without any placement in default being required, a lump-sum amount of €40 by way of compensation for damages. This is without prejudice to proof of higher damages, which may include debt collection assistance costs".*

BFF's interpretation has been confirmed by the recent ruling won by it at the Court of Justice of the European Union on October 20, 2022, which constitutes the binding interpretation for the national rulings of all Member States as well, and confirmed the right to recover at least €40 for each past-due invoice with respect to the Public Administration, irrespective of the amount and whether a certain amount of invoices are part of a single payment agreement.

The parent therefore tracked the collections of collection expenses to develop a time series which currently has a depth of 4 years. Considering recent case law, the rising collection trend and growing collection percentages aligned with those of late payment interest, the decision was made to include this type of revenue in the financial statements by modifying the method for estimating revenue, accounting for 50% at the time of accrual and simultaneously recognizing the relative receivable.

The cumulative value of collection expenses to which BFF Bank is entitled and not yet collected for receivables purchased outright ("40 euros provision") amounted to €190.5 million, of which only €94.5 million recognized in the income statement for the year as a result of the transition from cash accounting to accruals accounting during the year.

Debt securities classified in the HTC portfolio, equal to €6,129 million, are measured at amortized cost. The relevant interest is therefore recognized in the income statement using the effective rate of return.

At December 31, 2022, this portfolio consists exclusively of government securities purchased to hedge liquidity risk and to optimize the cost of money. It has a total nominal amount of €6,125 million and fair value of €5,946 million, with a negative difference (before taxes) of around €183 million compared to the carrying amount on the same date, not recognized in the financial statements.

4.2 Financial assets measured at amortized cost: breakdown by type of loans to customers

€11,726,530 thousand

(Values in thousand euros)

Type of operations/Values	Total 12.31.2022						Total 12.31.2021					
	Carrying Amount			Fair Value			Carrying Amount			Fair Value		
	Stage one and Stage two	Stage three	Purchased or originated credit impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated credit impaired	L1	L2	L3
1. Loans	**4,867,119**	**246,308**	**5,672**			**5,119,099**	**3,474,899**	**79,295**	**5,287**			**3,559,481**
1.1 Current accounts	30,986	391		X	X	X	20,498	1,141		X	X	X
1.2 Reverse repos	67,897			X	X	X	127,451			X	X	X
1.3 Mortgages				X	X	X				X	X	X
1.4 Credit cards and personal loans, including salary backed loans	173			X	X	X	469			X	X	X
1.5 Finance leases				X	X	X				X	X	X
1.6 Factoring	2,507,838	224,021	5,672	X	X	X	1,985,606	76,462	5,287	X	X	X
1.7 Other loans	2,260,225	21,896		X	X	X	1,340,875	1,692		X	X	X
2. Debt securities	**6,129,228**			**5,946,465**			**5,792,627**			**5,839,220**		
2.1 Structured securities												
2.2 Other debt securities	6,129,228			5,946,465			5,792,627			5,839,220		
Total	**10,996,347**	**246,308**	**5,672**	**5,946,465**		**5,119,099**	**9,267,526**	**79,295**	**5,287**	**5,839,220**		**3,559,481**

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

This item breaks down as follows:

- Factoring of performing exposures amounted to a total of €2,507,838 thousand and consisted exclusively of receivables purchased outright, registered under the name of the assigned debtor, with the conditions for derecognition, and measured at amortized cost.

  Non-recourse trade receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued and accruing late payment interest on them and the right to collection expenses when they fall due are acquired upon purchase.

  Trade receivables purchased below nominal amount totaled €25,041 thousand in relation to late payment interest and €3,410 thousand for collection expenses.

- Other performing loans due from customers amounted to €2,260,225 thousand. They mainly include:
  - Accrued late payment interest of about €176,306 thousand; 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 €318 million late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2022, €176 million refers to the item

under review, while the remaining amount of €130 million was recognized under "factoring" and €11 million under receivables in other loans past due;

- Collection expenses of €84,304 thousand; this amount, along with the €7,521 thousand classified under impaired loans, has already been transferred to the income statement and refers to collection expenses already accrued on trade receivables purchased outright.
- Intercompany loans granted to the subsidiary BFF Finance Iberia and the BFF Polska Group for a total of €1,509,172 million;
- Security deposits of approximately €242,176 thousand for settlement activities related to the transactions typical of the Securities Services and Banking Payments business areas;
- Security deposits for transactions in place with Cassa Compensazione e Garanzia for €268,305 million.

- Reverse repurchase agreements amounting to €67,897 thousand. These are exposures arising from contracts with customers regulated by the Global Master Repurchase Agreement (GMRA).
- Current account credit facilities amounting to €30,986 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).
- BFF's net impaired assets amounted to a total of €251,980 thousand. They include:
  - Non-performing loans are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the parent.

    At December 31, 2022, the overall total of non-performing loans, net of impairment, amounted to €80,271 thousand, of which €5,672 thousand purchased already impaired. Net non-performing loans relating to Italian municipalities and provincial governments in financial distress amounted to €79,662 thousand, accounting for 99.2% of the total. This case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF is entitled to receive 100% of principal and late payment interest at the end of the insolvency procedure.

    The portion of the allowance for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €997 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €83,358 thousand and relevant adjustments totaled €3,087 thousand.
  - Unlikely-to-pay positions reflect the judgment made by the intermediary about the unlikelihood that – excluding such actions as the enforcement of guarantees – the debtor will fully meet (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 December 31, 2022, gross exposures classified as unlikely to pay amounted to €1,593 thousand, written down by €774 thousand. The net exposure therefore amounts to €819 thousand.
  - Net past due exposures totaled €170,890 thousand, of which €166,892 thousand (97.7%) attributable to public administration counterparties and public sector companies. The figure remained aligned with what was recorded at September 30, 2022, the date on which the trade receivables classified as past due increased as a result of the more stringent interpretations on the new "Definition of Default" (or "New DoD", Guidelines on the application of the definition of default pursuant to Art. 178 of Regulation (EU) no. 575/2013) issued by the Bank of Italy on September 23, 2022. However, there was no increase in the actual risk profile of the loan portfolio.

Fair value

The financial statement item "Loans and receivables with customers" mainly refers to non-recourse trade receivables, for which an active and liquid market is not available. In particular, these are past due trade 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 trade receivables on the reporting date.

4.3 Financial assets measured at amortized cost: breakdown by borrower/issuer of loans to customers

(Values in thousand euros)

Type of operations/Values	Total 12.31.2022			Total 12.31.2021		
	Stage one and Stage two	Stage three	Purchased or originated impaired	Stage one and Stage two	Stage three	Purchased or originated impaired
1. Debt securities	**6,129,228**			**5,792,627**		
a) Public administrations	6,129,228			5,792,627		
b) Other financial companies						
of which: insurance companies						
c) Non-financial companies						
2. Loans to:	**4,867,119**	**246,308**	**5,672**	**3,474,900**	**79,295**	**5,287**
a) Public administrations	2,702,696	241,080	5,672	2,092,928	77,056	5,287
b) Other financial companies	1,997,982	391		1,261,221	1,141	
of which: insurance companies	605			4		
c) Non-financial companies	117,572	2,748		85,070	719	
d) Households	48,869	2,088		35,681	379	
Total	**10,996,347**	**246,308**	**5,672**	**9,267,526**	**79,295**	**5,287**

The exposures to financial companies relate mainly to loans granted to the subsidiaries BFF Finance Iberia and BFF Polska Group (for a total of €1,509 million) and Cassa di Compensazione e Garanzia for €268.3 million.

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

(Values in thousand euros)

	Gross value					Total adjustments				Total partial write-offs (*)
	Stage one	of which: instruments with low credit risk	Stage two	Stage three	Purchased or originated credit impaired	Stage one	Stage two	Stage three	Purchased or originated credit impaired	
Debt securities	6,130,036					809				
Loans	4,415,955		930,007	249,484	5,678	445	194	3,176	6	
Total 12.31.2022	**10,545,991**	**-**	**930,007**	**249,484**	**5,678**	**1,254**	**194**	**3,176**	**6**	
Total 12.31.2021	**8,963,223**	**-**	**709,997**	**83,088**	**5,493**	**1,679**	**118**	**3,793**	**206**	

(*) Value presented for informative purposes.

Section 5 - Hedging derivatives - Item 50

The item is equal to zero.

5.1 Hedging derivatives: breakdown by coverage type and level

(Values in thousand euros)

	Fair Value 12.31.2022			NV 12.31.2022	Fair Value 12.31.2021			NV 12.31.2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives						**13**		**17,403**
1) Fair value								
2) Cash flows						13		17,403
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total						**13**		**17,403**

Key
NV = Notional Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item includes the positive fair value relating to currency swap hedges with notional in zloty defined with the aim of hedging the loans disbursed in zloty to Polish subsidiaries under current intercompany agreements. This item at December 31, 2022 is equal to zero.

5.2 Hedging derivatives: breakdown by portfolios hedged and hedge type

At December 31, 2022 this item in question was equal to zero.

Section 7 - Equity investments - Item 70

€151,876 thousand

The item totaled €152 million and consisted of investments in BFF Polska Group, BFF Finance Iberia, BFF Immobiliare S.r.l. (established in January 2022) and BFF Techlab S.r.l. (acquired in October 2022), all exclusively controlled by the parent BFF Bank which holds 100% of the capital, as well as Unione Fiduciaria, with an equity investment amounting to 26.46% of the share capital and resulting from the merger of DEPObank in March 2021, recognized in the financial statements for €8.6 million.

All investments are recorded in the separate financial statements according to the cost method.

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Stake %	Voting rights %
A. Companies held with sole control				
1. BFF Finance Iberia, S.A.	Madrid (Spain)	Madrid (Spain)	100%	100%
2. BFF Polska S.A.	Łódź (Poland)	Łódź (Poland)	100%	100%
3. BFF Immobiliare S.r.l.	Milan (Italy)	Milan (Italy)	100%	100%
4. BFF TechLab S.r.l.	Brescia (Italy)	Brescia (Italy)	100%	100%
B. Companies held with joint control				
C. Companies under significant influence				
1. Unione Fiduciaria	Milan (Italy)	Milan (Italy)	26.46%	26.46%

7.5 Equity investments: annual changes

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
A. Opening balance	**150,491**	**141,927**
B. Increases		
B.1 Purchases	1,384	
B.2 Impairment gains		
B.3 Revaluations		
B.4 Other changes		8,564
C. Decreases		
C.1 Sales		
C.2 Impairment losses		
C.3 Impairment		
C.4 Other changes		
D. Closing balance	**151,876**	**150,491**
E. Total revaluations		
F. Total adjustments		

Increases refer to the 100% stakes in the newly established BFF Immobiliare S.r.l. and the newly acquired BFF TechLab S.r.l. (equal to €1 million and €384 thousand, respectively).

Section 8 - Property, equipment and investment property - Item 80

€27,763 thousand

8.1 Property and equipment with functional use: breakdown of assets measured at cost

(Values in thousand euros)

Assets/Values	Total 12.31.2022	Total 12.31.2021
1. Proprietary assets		
a) land	6,325	6,326
b) buildings	9,361	11,017
c) furniture	165	210
d) electronic systems	925	1,344
e) others	312	448
2. Right-of-use assets		
a) land		
b) buildings	10,188	13,097
c) furniture		
d) electronic systems		
e) others	487	696
Total	**27,763**	**33,138**
of which: obtained by enforcement of guarantees received		

8.6 Property and equipment with functional use: annual changes

At December 31, 2022, the item "Property, equipment and investment property" amounted to a total of €27,763 thousand. The item was mainly composed of:

- Land of €6,325 thousand,
- Buildings (including capitalized extraordinary maintenance) of €9,631 also including the Rome property at Via Elio Chianesi 110/d owned by DEPObank, as well as the property at Via Domenichini 5;
- Right-of-use assets relating to the application of IFRS 16 on leases of €10,675 thousand, of which €10,188 thousand relating to assets leased by the parent and its foreign branches. For further information on this topic, please refer to Section M of the Notes.

In the course of 2022, the parent sold the property in Rome at via Bertoloni, realizing a capital gain gross of the tax effect of €317 thousand.

In the separate 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.

Section 9 - Intangible assets - Item 90

€36,142 thousand

9.1 Intangible assets: breakdown by type of asset

(Values in thousand euros)

Assets/Values	Total 12.31.2022		Total 12.31.2021	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	X		X	
A.2 Other intangible assets	**36,142**		**34,308**	
of which: software	**10,993**		**7,469**	
A.2.1 Assets measured at cost:				
a) intangible assets created internally				
b) other assets	36,142		34,308	
A.2.2 Assets measured at fair value:				
a) intangible assets created internally				
b) other assets				
Total	**36,142**		**34,308**	

Key
FIN: finite useful life
INDEF: indefinite useful life

Intangible assets are recognized at cost, net of amortization, calculated based on their estimated useful life.

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

The line item largely consists of the amount of Customer Contracts equal to €21,828 thousand (intangible assets with a finite useful life, arising following the finalization of the Purchase Price Allocation on the acquisition of the former DEPObank).

Measurement of the fair value of the Customer Contract recognized in the financial statements and relating to the Securities Services BU.

With respect to the Customer Contract of the Securities Services BU emerging during the PPA, connected to the business combination with DEPObank, the cancellation received from the customer Arca Fondi SGR (received in November 2021 as of 2023) constituted a trigger event pursuant to the IFRS. Therefore, already in 2021, its fair value was estimated.

In particular, the event in question resulted in:

(i) the need to repeat the measurement at December 31, 2021 (pursuant to IAS 36),

(ii) the need to evaluate if the remaining useful life (pursuant to IAS 38) of the intangible asset (which during the PPA was assumed to be equal to 10.5 years) had changed.

As set forth in the separate financial statements at December 31, 2021, as of that year the estimated value in use that emerged was aligned with the results of the PPA and therefore the stability of the value of the intangible assets recognized in the separate Financial Statements was confirmed.

At December 31, 2022, pursuant to IAS 36, the parent repeated the impairment test in order to verify whether the customer contract in question had retained its value.

In particular, with respect to the assessment performed in 2021, at December 31, 2022:

a) the use of a rate which does not consider the risk deriving from high customer concentration was confirmed;

b) revenue (net fee and commission income) estimated for 2023 in relation to existing customers at December 31, 2022 was considered;

c) a residual life equal to that of the PPA reduced by the time passed since the valuation date was used;

d) the same margin from customer relationships assumed for the PPA was considered;

e) an estimated opportunity cost of equity of 11.26% was used. In order to estimate the opportunity cost of equity (cost of equity - "coe") the Capital Asset Pricing Model was used, adjusted to consider the reduced size of BFF and its CGUs, based on which:

$Coe = Risk\ Free_t + \beta\ x\ (Equity\ Risk\ Premium) + Size\ Premium$

Risk Free t = in order to consider the effects of the Russia/Ukraine war, as suggested by ESMA and the Italian Valuation Authority, and to incorporate the upward interest rate trend, in partial discontinuity with the method used in the previous year the risk-free rate was estimated on the basis of the yield to maturity of the ten-year Italian government rate, corresponding to the 6-month average at the date of December 31, 2022 (at December 31, 2021 the 1-year average was considered) of the yields to maturity of the benchmark on ten-year government securities from the source Datastream;

β = coefficient expressing the risk of a security, estimated for the CGUs as equal to 0.97x and based, in continuity with the method applied in the prior year, on monthly historical yields at 5 years of the securities of comparable companies (operating in the Securities Services sector) and the respective local market indexes.

Equity Risk Premium = market risk premium. With the new rate scenario, the option was chosen to take as the extent of the equity risk premium the historical risk premium estimated by Credit Suisse (Credit SuisseGlobal Investment Returns Yearbook 2022) of the different EU countries, weighted by the weight of each country, as calculated by the EU agency BEREC (Body of European Regulators for Electronic Communications) in the document dated 06.09.2022 "WACC parameter calculations according to the European Commission's WACC Notice of 6th November 2019 (WACC parameters Report 2022)". This risk premium is aligned at 5.7%.

Size Premium = risk premium for reduced size and aligned with the premium for historical risk surveyed by the academics Fama and French since 1970. This estimate at December 31, 2022 is 1.9%.

This being stated, the estimated fair value of the Customer Relationship at December 31, 2022 was €9.6 million, lower than the carrying amount of the intangible at the same date, thus making it necessary to record an impairment loss (of €1.1 million) in order to adjust the carrying amount to the results of the impairment test.

Lastly, aside from customer contracts, the item also includes other intangible assets with a finite life that refer to investments in new multi-year software, amortized on a straight-line basis over their estimated useful lives (4 years).

9.2 Intangible assets: annual changes

(Values in thousand euros)

	Goodwill	Other intangible assets: generated internally		Other intangible assets: others		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance				**38,979**		**38,979**
A.1 Total net impairment losses				(4,671)		**(4,671)**
A.2 Opening net balances				**34,308**		**34,308**
B. Increases						
B.1 Purchases				12,910		**12,910**
B.2 Increases in internally generated assets	X					
B.3 Reversals of impairment losses	X					
B.4 Increases in fair value						
- to net equity	X					
- to profit or loss	X					
B.5 Exchange rate gains						
B.6 Other increases						
C. Decreases						
C.1 Sales						
C.2 Amortisation and impairment losses						
- Amortization	X			(9,973)		**(9,973)**
- Impairment losses				(1,103)		**(1,103)**
+ Equity	X					
+ Profit or loss				(1,103)		**(1,103)**
C.3 Decreases in fair value						
- to net equity	X					
- to profit or loss	X					
C.4 Transfers to non-current assets held for sale						
C.5 Exchange rate losses						
C.6 Other changes						
D. Closing net balances				**36,142**		**36,142**
D.1 Total net impairment losses				(7,163)		**(7,163)**
E. Closing gross balances				**43,305**		**43,305**
F. Measurement at cost				**43,305**		**43,305**

Key
FIN: finite useful life
INDEF: indefinite useful life

Section 10 - Tax assets and tax liabilities - Item 100 of assets and Item 60 of liabilities

As at December 31, 2022 current tax assets and liabilities amount to €53,243 thousand and €128,840 thousand, respectively, and include the net balance of the parent'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 year.

Recall that in 2021 the tax value and carrying amount relating to Banking Payments goodwill deriving from DEPObank were aligned (see what is described in the specific item 100 "Intangible Assets" of the Statement of Financial Position Assets of the 2021 separate financial statements) 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 year. Furthermore, the item also includes the share of deferred tax assets deriving from the financial statements of DEPObank relating to goodwill and the tax loss realized at the end of 2020.

10.1 Deferred tax assets: breakdown

€55,243 thousand

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

10.2 Deferred tax liabilities: composition

€106,292 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 profit in future years subsequent to collection, in accordance with Article 109, paragraph 7, of Italian Presidential Decree no. 917 of 1986, as well as prior years' allowance for impairment losses.

10.3 Changes in deferred tax assets (through profit or loss)
€54,840 thousand

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Initial amount	**55,188**	**6,739**
2. Increases		
2.1 Deferred tax assets recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) reversals of impairment losses		
d) others	8,457	32,106
2.2 New taxes or increases in tax rates		
2.3 Other increases		36,072
3. Decreases		
3.1 Deferred tax assets canceled during the year		
a) reversals	(8,805)	(19,729)
b) impairment of non-recoverable items		
c) changes in accounting criteria		
d) others		
3.2 Reductions in tax rates		
3.3 Other reductions:		
a) transformation into tax credits, Italian Law 214/2011		
b) other		
4. Final amount	**54,840**	**55,188**

10.3 bis Changes in deferred tax assets pursuant to Italian Law no. 214/2011
€15,187 thousand

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Initial amount	**17,400**	**496**
2. Increases	-	18,918
3. Decreases		
3.1 Reversals	(2,213)	(2,014)
3.2 Transformation into tax credits		
a) deriving from losses for the year		
b) deriving from tax losses		
3.3 Other reductions		
4. Final amount	**15,187**	**17,400**

10.4 Changes in deferred tax liabilities (through profit or loss)
€106,180 thousand

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Initial amount	**96,255**	**78,340**
2. Increases		
2.1 Deferred tax liabilities recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others	11,529	30,487
2.2 New taxes or increases in tax rates		
2.3 Other increases		5,019
3. Decreases		
3.1 Deferred tax liabilities canceled during the year		
a) reversals	(1,604)	(17,591)
b) due to changes in accounting criteria		
c) others		
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	**106,180**	**96,255**

10.5 Changes in deferred tax assets (recorded in equity)
€403 thousand

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Initial amount	**451**	**586**
2. Increases		
2.1 Deferred tax assets recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others		
2.2 New taxes or increases in tax rates		
2.3 Other increases	261	657
3. Decreases		
3.1 Deferred tax assets canceled during the year		
a) reversals		
b) impairment of non-recoverable items		
c) due to changes in accounting criteria		
d) others	(308)	(793)
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	**403**	**451**

10.6 Changes in deferred tax liabilities (recorded in equity)
€112 thousand

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Initial amount	**168**	**33**
2. Increases		
2.1 Deferred liabilities recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others		17,726
2.2 New taxes or increases in tax rates		
2.3 Other increases	26	120
3. Decreases		
3.1 Deferred liabilities canceled during the year		
a) reversals		
b) due to changes in accounting criteria		
c) others	(83)	(17,711)
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	**112**	**168**

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown
€389,016 thousand

(Values in thousand euros)

Breakdown	12.31.2022	12.31.2021
Security deposits	4,060	3,816
Invoices issued and to be issued	13,003	16,509
Payment flows to be credited	86,970	110,638
Other exposures	44,787	28,867
Accrued income and prepaid expenses	18,723	28,352
Ecobonus tax assets	221,474	17,678
Total	**389,016**	**205,860**

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 separate financial statements.

Accrued income and prepaid expenses mainly refer to the deferral of costs relating to administrative expenses.

Other exposures assets refer primarily to non-trade receivables due from sundry debtors, pending items, and legal fees to be recovered.

Ecobonus tax assets relate to tax assets acquired with non-recourse factoring transactions and resulting from existing tax incentives. As set forth by tax regulations in force, the tax assets in question are used to offset the payment of taxes and contributions and are classified in Asset item 130 “Other assets” in line with what has been defined by the Bank of Italy.

Compared to the previous year, this item increased significantly as a result of the Parent’s significant purchases of ecobonus tax assets in the course of 2022.

LIABILITIES

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

€11,933,207 thousand

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

- amounts due to banks of €1,165,557 thousand;
- amounts due to customers of €10,728,674 thousand;
- debt securities issued of €38,976 thousand.

Amounts due to banks

€1,165,557 thousand

1.1 Financial liabilities measured at amortized cost: breakdown by type of amounts due to banks

(Values in thousand euros)

Type of operations/Values	Total 12.31.2022				Total 12.31.2021			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**4,141**	X	X	X	**3,888**	X	X	X
2. Amounts due to banks	**1,161,416**	X	X	X	**778,071**	X	X	X
2.1 Current accounts and sight deposits	716,230	X	X	X	626,707	X	X	X
2.2 Time deposits	444,571	X	X	X	150,819	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 Lease liabilities		X	X	X		X	X	X
2.6 Other Payables	**616**	X	X	X	545	X	X	X
Total	**1,165,557**			**1,165,557**	**781,959**			**781,959**

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

The item mainly consists of "current accounts and demand deposits" of €716,230 thousand, mainly deriving from payment service 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 mandatory reserve requirements.

Amounts due to customers

€10,728,674 thousand

1.2 Financial liabilities measured at amortized cost: breakdown by type of amounts due to customers

(Values in thousand euros)

Type of operations/Values	Total 12.31.2022				Total 12.31.2021			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	4,134,789	X	X	X	**6,840,879**	X	X	X
2. Time deposits	1,263,096	X	X	X	**154,942**	X	X	X
3. Loans	4,575,103	X	X	X		X	X	X
3.1 repurchase agreements	4,441,292	X	X	X	**1,118,527**	X	X	X
3.2 others	133,811	X	X	X	**59,994**	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments		X	X	X		X	X	X
5. Lease liabilities	10,679	X	X	X	**13,939**	X	X	X
6. Sundry liabilities	745,007	X	X	X	**718,518**	X	X	X
Total	**10,728,674**				**8,906,799**			

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

As at December 31, 2022, the item mainly consisted of "current accounts and demand deposits" for an amount of €4,134 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 and loans from "repurchase agreements" for €4,441 million.

The item includes €1,283,120 thousand for online deposit accounts ("conto facto") offered in Italy, Spain and Germany, the Netherlands, Ireland and Poland (restricted deposits and current accounts), compared to €230 million at December 31, 2021.

Other liabilities mainly refer to collections of managed exposures due to clients, as well as outstanding cashier's checks 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 liabilities totaling €11 million refer to the recognition of lease liabilities arising from right-of-use assets, included under line item 90 "Property, equipment and investment property" in the statement of financial position, 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 leases of the properties leased by the parent, and the lease contracts have a duration between 3 and 6 years. For more information see Part M - "Lease reporting" of the Notes to the separate financial statements.

Securities issued

€38,976 thousand

1.3 Financial liabilities at amortized cost: breakdown by type of securities issued

(Values in thousand euros)

Type of securities/Values	Total 12.31.2022				Total 12.31.2021			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	38,976	38,648			186,285	188,861		
1.1 structured								
1.2 others	38,976	38,648			186,285	188,861		
2. other securities								
2.1 structured								
2.2 others								
Total	**38,976**	**38,648**	**-**	**-**	**186,285**	**188,861**	**-**	**-**

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

Debt securities issued consist of bonds issued by the parent, with a total nominal amount of €38.6 million (€181.8 million at December 31, 2021), recognized in the separate financial statements in the amount of €38.9 million at amortized cost using the effective interest rate method.

The following main changes took place during the year:

- repayment of the €100 million subordinated unsecured and unrated Tier 2 bond (ISIN XS1572408380) issued by BFF Bank in March 2017 through the exercise of the call option reserved to the issuer in the fifth year in March 2022.
- repayment at maturity of the €42.8 million remaining on senior unsecured and unrated bonds (ISIN XS1639097747) issued by BFF Bank in June 2017;

As a result of the above, as of December 31, 2022, the item includes the senior unsecured bond (ISIN XS2068241400), with a "Ba1" rating assigned by the Moody's rating agency, issued by BFF Bank in October 2019 for €300 million, outstanding at the current date for a remaining nominal amount of €38.6 million, due in May 2023. The bonds pay an annual coupon of 1.75%.

Section 2 - Financial liabilities held for trading - Item 20

€950 thousand

2.1 Financial liabilities held for trading: commodity breakdown

(Values in thousand euros)

Type of operations/Values	Total 12.31.2022					Total 12.31.2021				
	NV	Fair Value			Fair Value (*)	NV	Fair Value			Fair Value (*)
		L1	L2	L3			L1	L2	L3	
A. On-statement-of-financial-position liabilities										
1. Amounts due to banks										
2. Amounts 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)										
B. Derivatives			950					2,725		
1. Financial derivatives			950					2,725		
1.1 Held for trading	X		950		X	X		2,725		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**		**950**		**X**	**X**	**-**	**2,725**		**X**
Total (A+B)	**X**		**950**		**X**	**X**	**-**	**2,725**		**X**

Key
NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

(*) *Fair value = Fair value* calculated excluding changes in value due to the change in creditworthiness of the issuer with respect to the issue date.

The item includes the negative fair value at December 31, 2022 of derivative instruments classified as trading assets but used for the operational hedges of currency risk that the Bank is exposed to.

Section 4 - Hedging derivatives - Item 40

€14,314 thousand

4.1 Hedging derivatives: breakdown by hedge type and hierarchical level

(Values in thousand euros)

	FV 12.31.2022			NV 12.31.2022	FV 12.31.2021			NV 12.31.2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives		**14,314**		255,298		**4,814**		**671,505**
1) Fair value								
2) Cash flows		14,314		255,298		4,814		671,505
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**14,314**		**255,298**		**4,814**		**671,505**

Key
FV = Fair value
NV = Nominal Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item includes the negative fair value at December 31, 2022 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.

4.2 Hedging derivatives: breakdown by portfolios hedged and hedge type

(Values in thousand euros)

Transactions/Hedge type	Fair Value							Financial flows		Foreign investments
	Microhedge						Macrohedge	Microhedge	Macrohedge	
	debt securities and interest rates	equity securities and stock indices	currency and gold	credit	commodities	others				
1. Financial assets measured at fair value through other comprehensive income					X	X	X		X	X
2. Financial assets measured at amortized cost		X			X	X	X	14,314	X	X
3. Portfolio	X	X	X	X	X	X		X	X	X
4. Other transactions							X		X	
Total assets								**14,314**	**X**	
1. Financial liabilities		X					X		X	X
2. Portfolio	X	X	X	X	X	X		X		X
Total liabilities										
1. Expected transactions	X	X	X	X	X	X	X		X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X		X		

Section 6 - Tax liabilities - Item 60

€128,840 thousand

See "Section 10 - Tax assets and liabilities - Item 100" of the statement of financial position assets.

Section 8 - Other liabilities - Item 80

€382,204 thousand

8.1 Other liabilities: breakdown

(Values in thousand euros)

Breakdown	Total 12.31.2022	Total 12.31.2021
Trade payables	9,727	16,478
Invoices to be received	27,452	19,716
Liabilities to tax authorities	8,837	4,855
Liabilities to social security and welfare bodies	2,072	2,178
Liabilities to employees	20,025	25,022
Collections pending allocation	49,594	48,878
Payment flows received to be charged	201,922	202,696
Sundry liabilities	56,997	89,232
Accrued expenses and deferred income	5,578	6,700
Total	**382,204**	**415,755**

"Trade payables" and "invoices to be received" refer to payables for purchases of goods and services, which remained aligned with the figure recorded in the previous year.

"Collections pending allocation" refer to payments received by December 31, 2022 but still outstanding since they had not been cleared and recorded by that date.

"Sundry liabilities" 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 and include settlements that were suspended in the first business days after the reporting date of these financial statements.

Section 9 - Post-employment benefits - Item 90

€3,118 thousand

9.1 Post-employment benefits: annual changes

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
A. Opening balance	**3,710**	**667**
B. Increases	**2,227**	**4,899**
B.1 Provision for the year	2,227	1,601
B.2 Other changes		3,298
C. Decreases	**(2,818)**	**(1,856)**
C.1 Payments made	(136)	(280)
C.2 Other changes	(2,683)	(1,576)
D. Closing balance	**3,118**	**3,710**
Total	**3,118**	**3,710**

The liability recorded in the financial statements at December 31, 2022 in relation to post-employment benefits of the parent is equal to the current value of the obligation estimated by an independent actuary on the basis of demographic and economic assumptions.

Actuarial assumptions used to determine the liability at December 31, 2022 are shown below.

Actuarial assumptions

Annual discount rate

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA 7-10 Index (in line with the duration of the items measured).

Annual increase rate of post-employment 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 Italian Legislative Decree 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 – Provisions for risks and charges – Item 100

€32,351 thousand

10.1 Provisions for risks and charges: breakdown

(Values in thousand euros)

Items/values	Total 12.31.2022	Total 12.31.2021
1. Provisions for credit risk relating to Commitments and financial guarantees given	225	58
2. Provisions for other commitments and guarantees issued		
3. Pension and similar obligations	7,712	5,901
4. Other provisions for risks and charges		
4.1 Legal and tax disputes		
4.2 Personnel costs		
4.3 Others	24,414	15,482
Total	**32,351**	**21,441**

Starting from January 1, 2018, this item also includes provisions for credit risk associated with commitments/financial guarantees provided by BFF Polska to its customers, based on impairment requirements provided for by the new IFRS 9.

The significant increase relates to provisions against a likely risk of an unfavorable ruling in the amount of €10 million.

10.2 Provisions for risks and charges: annual changes

(Values in thousand euros)

	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other provisions for risks and charges	Total
A. Opening balance	**22**	**5,901**	**15,482**	**21,405**
B. Increases	**203**	**3,541**	**10,397**	**14,141**
B.1 Provision for the year	64	2,357	10,397	**11,645**
B.2 Changes due to the passage of time		1,185		
B.3 Changes due to variations in the discount rate				
B.4 Other changes	140			140
C. Decreases		**(1,730)**	**(1,465)**	**(3,195)**
C.1 Utilization for the year		(1,084)	(1,365)	(2,449)
C.2 Changes due to variations in the discount rate				
C.3 Other changes		(646)	(100)	(746)
D. Closing balance	**225**	**7,712**	**24,414**	**32,351**

10.3 Allowances for credit risk relating to commitments and financial guarantees given

(Values in thousand euros)

	Provisions for credit risk relating to Commitments and financial guarantees given				
	Stage one	Stage two	Stage three	Purchased or originated credit impaired	Total
Loan commitments	208				208
Financial guarantees given	17				17
Total	**225**				**225**

10.5 Defined-benefit pension funds

The pension fund refers mainly to the non-compete agreement entered into with BFF's managers, amounting to €3.7 million (including the portion allocated to the parent's equity reserve for around €380 thousand) and the provisions relating to the incentive and deferred payment retention scheme envisaged for specific BFF Bank employees, amounting to €4.2 million. Both obligations to personnel are shown at their present value estimated by an independent actuary based on demographic and economic assumptions.

As of December 31, 2022, the provision in question also includes the provision for the commitment made by DEPObank to some employees who have left the bank, amounting to €155 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 parent achieves specific targets relating to its profitability, regulatory capital requirements established by existing regulations, and the employee's continued employment at the parent. In accordance with the provisions of IAS 19, accruals were quantified based on an actuarial calculation performed externally by a specialized firm. The parent'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 €24.4 million refer to:

- litigation liabilities for which the Bank has estimated a probable risk of loss for approximately €22.7 million;
- provision related to possible damages for operational errors as per contract with customers in the amount of approximately €1.7 thousand.

The main assumptions made by the external firm when discounting are as follows:

Non-compete agreement

The annual discount rate used to determine the present 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 December 31, 2022 and equal to 3.77%. 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	10.60%
Clawback frequency	0.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual remuneration for Executives	2.00%
Increase in annual remuneration for Supervisors	2.00%
Contribution rate	27.40%
Inflation rate	2.30%

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 3.34%.

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 3.7% (deferred 2021 MBO) and equal to zero (deferred 2020 MBO).

Section 12 - Equity - Items 110, 130, 140, 150, 160, 170 and 180

€734,201 thousand

12.1 “Share capital” and “Treasury shares”: breakdown

(Values in thousand euros)

Type	12.31.2022	12.31.2021
1. Share capital	**142,870**	**142,691**
1.1 Ordinary shares	142,870	142,691
2. Treasury shares	**(3,884)**	**(7,132)**

As regards the repurchase 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”.

12.2 Capital - Number of shares: annual changes

(Values in units)

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**185,312,690**	
- fully paid-in	185,312,690	
- not fully paid-in		
A.1 Treasury shares (-)	(974,461)	
A.2 Shares outstanding: initial balance	**184,338,229**	
B. Increases	**636,995**	
B.1 New issues		
- for consideration:		
- business combinations		
- conversion of bonds		
- exercise of warrants		
- others		
- without consideration:		
- to employees	233,262	
- to directors		
- others		
B.2 Sales of treasury shares		
B.3 Other changes	403,733	
C. Decreases		
C.1 Cancellation		
C.2 Repurchase of treasury shares		
C.3 Disposal of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**184,975,224**	
D.1 Treasury shares (+)	(570,728)	
D.2 Shares existing at the end of the year		
- fully paid-in	185,545,952	
- not fully paid-in		

12.4 Earnings-related 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 separate financial statements).

(Values in thousand euros)

	12.31.2022	Possibility of use (a)	Portion available	Summary of use in the last three years (*)	
				To cover losses	For other reasons
Share capital	**142,870**				
Reserves	**180,628**				
- Legal reserve (**)	28,539	*B*			
- Extraordinary reserve	89	*A, B, C*	89		
- Retained earnings (***)	141,581	*A, B, C*	141,581		303,089
- Stock option and financial instrument reserves	10,630	*A*			
- Other reserves	(211)				
Valuation reserves	**5,421**				
- HTCS securities	1,045				
- Others	4,376				
Treasury share reserve	**(3,884)**				
Share premium reserve	**66,277**	*A, B, C*	66,277		
Total share capital and reserves	**391,313**		**207,947**		**303,089**

a) Possibility of use: A = for share capital increases; B = for absorption of losses; C = for distribution to shareholders.
(*) Uses in the last three financial years amounting to €303,089 thousand include primarily €5,306 thousand for the exercise of stock options by certain beneficiaries in the course of 2020, 2021 and 2022, €3,195 thousand (net of the tax effect) for the payment of the interest coupon and €801 thousand (net of the tax effect) for structuring expenses relating to the Additional Tier 1 (AT1) financial instrument, as well as uses in the last three financial years relating to the payment of dividends distributed as per shareholders' resolutions in the amount of €293,787 thousand.
(**) including €26,196 thousand in tax suspension pursuant to Article 110 of Italian Legislative Decree 104/2020;
(***) including €50,387 thousand in tax suspension pursuant to Article 110 of Italian Legislative Decree 104/2020.

Changes in reserves are as follows:

(Values in thousand euros)

	Legal reserve	Retained earnings	Others	Total
A. Opening balance	**26,197**	**111,322**	**8,733**	**146,251**
B. Increases	**2,342**	**36,667**	**3,537**	**42,546**
B.1 Allocation of profits	2,342	36,667		39,009
B.2 Other changes			3,537	3,537
C. Decreases		**(6,408)**	**(1,762)**	**(8,169)**
C.1 Uses				
- coverage of losses				
- distribution				
- transfer to share capital				
C.2 Other changes		(6,408)	(1,762)	(8,169)
D. Closing balance	**28,539**	**141,581**	**10,508**	**180,628**

Retained earnings

The increase of €37 million is mainly due to the allocation of the profit of the previous year, net of €125 million distributed in April 2022.

Uses of the retained earnings primarily relate to the payment of the interest coupon on the new Additional Tier 1 instrument for €3,195 thousand (net of the tax effect).

Other reserves

The changes largely refer to the following events that occurred during the year 2022:

- increases for higher provisions of €700 thousand related to the variable remuneration parts of the "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;
- Increase for assignments in the course of 2022 relating to the outstanding stock option plan for approximately €2.8 million, and
- decrease for exercises of stock options or for share grants related to the parent's incentive scheme and non-compete agreement in the amount of approximately €1.7 million.

Tax suspension restriction

As noted previously, the parent took advantage of the facilitation provided under Art. 110 of Italian Decree-Law no. 104 of August 14, 2020 and proceeded with the realignment between the carrying and tax amounts of the item goodwill present in the separate financial statements at December 31, 2019 and 2020 of DEPObank, which was merged into BFF Bank on March 5, 2021. This transaction, which was approved by the parent's Board of Directors on June 30, 2021, entailed (i) the alignment of the item goodwill equal to roughly €79 million, (ii) the resulting payment of substitute tax equal to €2.4 million and (iii) the need to place a tax suspension restriction on the reserves of €76.6 million, equal to the difference between the aligned amount and the substitute tax, as set forth in paragraph 8 of Art. 110 of Italian Decree-Law 104/2020.

Considering that the transaction was carried out subsequent to the approval of the separate financial statements for the year at December 31, 2020 of DEPObank and its merger into BFF Bank, the tax suspension restriction is placed as a "Restricted share pursuant to paragraph 8 of Art. 110 of Italian Decree-Law 104/2020" on the following reserves:

- "Retained earnings" for €50,387 thousand;
- "Legal reserve" for €26,196 thousand.

13.5 Equity instruments: composition and annual changes

On January 19, 2022 the issue at par of an Additional Tier 1 Perpetual NC2027 instrument (ISIN XS2404266848) in the amount of €150 million was finalized, with a fixed-rate coupon of 5.875% per annum to be paid on a half-yearly basis.

In July 2022, as mentioned above, the parent paid the first interest coupon of €3,195 thousand (net of the tax effect).

Other information

1. Commitments and financial guarantees given (other than those designated at fair value)

	Nominal amount on commitments and financial guarantees given			Total 12.31.2022	Total 12.31.2021
	Stage one	Stage two	Stage three		
1. Loan commitments	**979,363**			**979,363**	**2,225,537**
a) Central Banks					
b) Public administrations					
c) Banks					
d) Other financial companies	916,228			**916,228**	2,210,335
e) Non-financial companies	63,135			**63,135**	15,200
f) Households					2
2. Financial guarantees given	**4,002**			**4,002**	**16,311**
a) Central Banks					
b) Public administrations					
c) Banks					
d) Other financial companies	4,002			**4,002**	16,311
e) Non-financial companies					
f) Households					

Loan commitments and financial guarantees given relating to Financial Companies refer to credit lines not used by Group companies and guarantees given by the bank in support of loans obtained by the BFF Polska Group from local credit institutions.

3. Assets given as collateral for own liabilities and commitments

(Values in thousand euros)

Portfolios	Amount 12.31.2022	Amount 12.31.2021
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 amortized cost	4,538,043	1,222,366
4. Property, equipment and investment property		
of which: Property, equipment and investment property held as inventories		

"Financial assets measured at amortized cost" consist of government securities used as collateral in operations with the ECB and repos.

4. Administration and brokerage for third parties

(Values in thousand euros)

Type of services	Amount
1. Execution of orders for customers	
a) Purchases	
1. settled	
2. not settled	
b) Sales	
1. settled	
2. not settled	
2. Portfolio management	
a) individual	
b) collective	
3. Custody and administration of securities	**150,482,775**
a) third-party securities deposited: relating to custodian bank activities (excluding portfolio management)	22,001,758
1. securities issued by consolidated companies	*1,860*
2. other securities	*21,999,897*
b) third-party securities deposited (excluding portfolio management): others	122,342,406
1. securities issued by consolidated companies	*12,776*
2. other securities	*122,329,630*
c) third party securities deposited with third parties	*142,411,232*
d) proprietary securities deposited with third parties	*6,138,611*
4. Other transactions	

Part C - Information on the 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

€293,808 thousand (of which interest income calculated using the effective interest rate method: €266,749 thousand)

(Values in thousand euros)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 12.31.2022	Total 12.31.2021
1. Financial assets measured at fair value through profit or loss:					
1.1. Financial assets held for trading	1			1	1
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		
3. Financial assets measured at amortized cost					
3.1 Loans and receivables with banks		8,908	X	**8,908**	**5,469**
3.2 Loans and receivables with customers	42,787	217,158	X	**259,945**	**143,417**
4. Hedging derivatives	X	X			
5. Other assets	X	X	2,328	**2,328**	**417**
6. Financial liabilities	X	X	X	**22,627**	**17,439**
Total	**42,787**	**226,066**	**2,328**	**293,808**	**166,742**
of which: interest income on impaired financial assets					
of which: interest income on finance leases	X		X		

1.2 Interest and similar income: other information

Interest income relating to "Loans and receivables with banks" mainly refers to temporary credit balances in the account of the Parent 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 €217.2 million and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse receivables, and late payment interest for the year.

As far as loans and receivables with customers deriving from the factoring business are concerned, the updating of the time series confirmed an estimated collection percentage much higher than 45%. Therefore, the percentage used to prepare the 2022 financial statements was increased from 45% to 50%.

On the other hand, to take into consideration the collection timing of the entire provision for late payment interest, the estimate of days to collection was prudently increased from 1800 to 2100 days. For more details please refer to item 40 b) of the Statement of Financial Position assets "Assets measured at amortized cost - loans and receivables with customers".

Interest income on debt securities linked to loans and receivables with customers and totaling approximately €42.7 million derive from government securities purchased by BFF Bank to hedge liquidity risk and to optimize the cost of money, relating to the HTC (Held to Collect) portfolio. The significant increase relates to the increase in market rates, which led to higher returns on the variable rate securities held by the parent.

The item lastly includes interest income accrued on financial liabilities for €22.7 million, due to the negative interest rates in the market until the first half of 2022.

1.3 Interest expense and similar expenses: breakdown

€91,494 thousand

(Values in thousand euros)

Items/Technical forms	Debt	Securities	Other transactions	Total 12.31.2022	Total 12.31.2021
1. Financial liabilities measured at amortized cost					
1.1 Amounts due to central banks	2,486	X	X	**2,486**	**3,277**
1.2 Amounts due to banks	11,690	X	X	**11,690**	**3,614**
1.3 Amounts due to customers	36,705	X	X	**36,705**	**8,038**
1.4 Securities issued	X	3,496	X	**3,496**	**13,667**
2. Financial liabilities held for trading				**-**	**-**
3. Financial liabilities carried at fair value				**-**	
4. Other liabilities and provisions	X	X	8	**8**	**8**
5. Hedging derivatives	X	X	33,379	**33,379**	**4,547**
6. Financial assets	X	X	X	**3,731**	**4,780**
Total	**50,880**	**3,496**	**33,387**	**91,494**	**37,931**
of which: interest expense relative to leasing liabilities	354	X	X	354	373

Interest expense increased from €37.9 million for 2021 to €91.5 million in the current year. This significant increase is linked primarily to the increase in financial expenses relating to hedging derivative transactions which, furthermore, were reclassified from Item 90 "gains/losses on hedging operations" to the item in question, in line with what is set forth in Bank of Italy Circular no. 262/2005, as well as the increase in interest expense on banking and corporate customer balances due to the inversion and increase in interest rates in the market, starting from the second half of 2022.

Interest expense on "Amounts due to central banks" refers to the interest accrued on the amounts deposited in the account with the Bank of Italy.

Interest expense on "Amounts due to banks" mainly refer to interest accruing on current accounts held with BFF Bank and in the name of a bank counterparty.

Interest expense pertaining to "Amounts due to customers" mainly refers to interest on BFF Bank's online deposit accounts ("Conto Facto" in Italy, "Cuenta Facto" offered in Spain by the Spanish branch of BFF Bank and "Lokata Facto" offered by the branch in Poland), interest accruing on account balances of corporate customers and interest relating to contracts governed by the Global Master Repurchase Agreement (GMRA) with Cassa di Compensazione Garanzia as the customer counterparty.

Finally, the item also includes interest expense for "Securities issued" amounting to approximately €3.5 million, which decreased due to the closure or maturity of some bonds. For more details on transactions involving outstanding bonds, please refer to item 10 c) of the Statement of Financial Position Liabilities "Financial liabilities measured at amortized cost".

Section 2 - Fees and commissions - Items 40 and 50

2.1 Fee and commission income: breakdown

€127,458 thousand

(Values in thousand euros)

Type of service/Amounts	Total 12.31.2022	Total 12.31.2021
a) Financial instruments		
1. Placement of securities		
1.1 With firm commitment and/or on the basis of an irrevocable commitment		
1.2 Without irrevocable commitment		
2. Receipt and transmission of orders and execution of orders for customers		
2.1 Receipt and transmission of orders of one or more financial instruments		
2.2 Execution of orders for customers		
3. Other commissions connected to activities linked to financial instruments		
of which: dealing on own account		
of which: individual portfolio management		
b) Corporate Finance		
1. Mergers and acquisitions consulting		
2. Treasury services		
3. Others commissions connected to corporate finance services		
c) Consulting activities related to investments	**55**	**59**
d) Clearing and settlement		
e) Collective portfolio management		
f) Custody and administration	**50,089**	**45,224**
1. Custodian bank	39,546	36,895
2. Other commissions linked to custody and administration activities	10,542	8,329
g) Central administrative services for collective portfolio management		
h) Fiduciary activities		
i) Payment services	**73,552**	**57,752**
1. Current accounts		120
2. Credit cards	1,408	1,806
3. Debit cards and other payment cards	7,892	5,704
4. Bank transfers and other payment orders	23,385	15,779
5. Other commissions linked to payment services	40,867	34,343
j) Distribution of third-party services		
1. Collective portfolio management		
2. Insurance products		
3. Other products		
of which: individual portfolio management		
k) Structured finance		
l) Servicing activities for securitization transactions		
m) Loan commitments		
n) Financial guarantees given	**168**	**848**
of which: credit derivatives		
o) Lending transactions		
of which: for factoring transactions		
p) Currency trading		
q) Commodities		
r) Other fee and commission income	**3,595**	**5,530**
of which: for management of multilateral trading systems		
of which: for management of organized trading systems		
Total	**127,458**	**109,413**

The item mainly includes fees and commissions relating to the mandates for the management and collection of receivables deriving from the factoring and management of trade receivables, as well as fees and commissions for custodian banking and payment services.

2.3 Fee and commission expense: breakdown

€36,924 thousand

(Values in thousand euros)

Service/Values	Total 12.31.2022	Total 12.31.2021
a) Financial instruments		
of which: trading in financial instruments		
of which: placement of financial instruments		
of which: individual portfolio management		
Own		
Delegated to third parties		
b) Clearing and settlement	**2,009**	1,613
c) Custody and administration	**5,515**	**4,561**
d) Collection and payment services	**25,696**	**19,661**
of which: credit cards, debit cards and other payment cards	4,428	4,046
e) Servicing activities for securitization transactions		
f) Commitments to receive funds		
g) Financial guarantees received	**46**	**34**
of which: credit derivatives		
h) Off-site offer of financial instruments, products and services		
i) Currency trading	**3**	**3**
j) Other fee and commission expense	**3,656**	**2,608**
Total	**36,924**	**28,480**

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 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

€85,758 thousand

(Values in thousand euros)

Items/Income	Total 12.31.2022		Total 12.31.2021	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	18		5	
B. Other financial assets subject to mandatory fair-value measurement	4,087			
C. Financial assets measured at fair value through other comprehensive income	5,690		3,671	
D. Equity investments	75,963			
Total	**85,758**		**3,676**	

With respect to 2022 the item mainly included dividends received from BFF Finance Iberia S.A and BFF Polska S.A. for €21.6 and €54.2 million classified in item 70 “Equity investments”, dividends received from the Bank of Italy amounting to €5.7 million, the shares of which subscribed by the parent are classified under item 30 of Assets "Financial assets measured at fair value through other comprehensive income" and dividends received in 2022 from Fondo Italiano di Investimento, amounting to roughly €4 million, whose UCI units are classified under item 20 of Assets "Financial assets measured at fair value through profit or loss".

Section 4 - Net trading profit - Item 80

4.1 Net trading profit: composition

€9,745 thousand

(Values in thousand euros)

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net profit [(A+B) - (C+D)]
1. Financial assets held for trading		**627**	**1**		**626**
1.1 Debt securities		627	1		626
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 Liabilities					
2.3 Others					
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**9,118**
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	
- Others					
4.2 Loan derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total		**627**	**1**		**9,745**

The net trading profit mainly derives from the effect of exchange rate differences related to foreign exchange trading functional to treasury management, in particular to bank and customer deposits in foreign currencies.

Section 5 - Profits (losses) from hedging - Item 90

The item is equal to zero

5.1 Profits (losses) from hedging: breakdown

€0

(Values in thousand euros)

Income items/Values	Total 12.31.2022	Total 12.31.2021
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	9,145	42,394
Total income from hedging (A)	**9,145**	**42,394**
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	(9,145)	(42,394)
Total charges from hedging (B)	**(9,145)**	**(42,394)**
C. Profits (losses) from hedging (A-B)	**-**	**-**
of which: result of hedging of net positions		

Section 6 - Profits (losses) on disposals/repurchases - Item 100

€166 thousand

6.1 Profits (Losses) on disposals/repurchases: breakdown

(Values in thousand euros)

Items/Income items	Total 12.31.2022			Total 12.31.2021		
	Profits	Loss	Net profit/ loss	Profits	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortized cost						
1.1 Loans and receivables with banks						
1.2 Loans and receivables with customers	204	(38)	166			
2. Financial assets measured at fair value through other comprehensive income						
2.1 Debt securities						
2.2 Loans						
Total assets (A)	**204**	**(38)**	**166**			
Financial liabilities						
1. Amounts due to banks						
2. Amounts due to customers						
3. Securities issued					(12,650)	**(12,650)**
Total liabilities (B)					**(12,650)**	**(12,650)**

For more details please refer to item 10 c) of the Statement of Financial Position liabilities "Financial liabilities measured at amortized cost".

Section 7 - Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss - Item 110

€5,154 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 subject to mandatory fair value measurement

(Values in thousand euros)

Transaction/Income items	Capital gains	Realized gains	Capital losses	Losses on disposal	Net profit/ loss
	(A)	(B)	(C)	(D)	[(A+B)-(C+D)]
1. Financial assets	**5,154**				**5,154**
1.1 Debt securities					
1.2 Equity securities					
1.3 UCI units	5,154				**5,154**
1.4 Loans					
2. Financial assets in foreign currency: foreign exchange differences	X	X	X	X	
Total	**5,154**				**5,154**

The item refers to the revaluation of the UCI units held by the parent at the last NAV made available by the relevant investment funds.

Section 8 - Net impairment losses/gains for credit risk - Item 130

-€180 thousand

8.1 Net impairment losses/gains for credit risk associated with financial assets measured at amortized cost: breakdown

(Values in thousand euros)

Transaction/Income items	Impairment losses						Impairment gains				Total 12.31.2022	Total 12.31.2021
	Stage one	Stage two	Stage three		Purchased or originated credit impaired		Stage one	Stage two	Stage three	Purchased or originated credit impaired		
			Write-offs	Others	Write-offs	Others						
A. Loans and receivables with banks	**(2)**						**5**				**3**	**5**
- Loans	(2)						5				3	5
- Debt securities							-					
B. Loans and receivables with customers	**(11)**	**(72)**	**(133)**	**(704)**			**432**		**104**	**200**	**(183)**	**2,600**
- Loans	(11)	(72)	(133)	(704)			417		104	200	(198)	1,410
- Debt securities							15				15	1,190
Total	**(13)**	**(72)**	**(133)**	**(704)**	**-**	**-**	**437**	**-**	**104**	**200**	**(180)**	**2,606**

Write-backs of "Stage 1" are mainly attributable to the calculation of impairment on intercompany loans granted to subsidiaries exclusively within the scope of consolidation.

8.2 Net impairment losses/gains for credit risk associated with financial assets measured at fair value through other comprehensive income: breakdown

(Values in thousand euros)

Transaction/ Income items	Impairment losses						Impairment gains						Total 12.31.2022	Total 12.31.2021
	Stage one	Stage two	Stage three		Purchased or originated credit impaired		Stage one	Stage two	Stage three		Purchased or originated credit impaired			
			Write-offs	Others	Write-offs	Others			Write-offs	Others	Write-offs	Others		
A. Debt securities														147
B. Loans														
- With customers														
- With banks														
Total														**147**

Section 10 - Administrative expenses - Item 160

€154,533 thousand

10.1 Personnel expenses: breakdown

€65,624 thousand

(Values in thousand euros)

Type of expense/Amount	Total 12.31.2022	Total 12.31.2021
1) Employees		
a) wages and salaries	42,380	43,424
b) social security contributions	11,102	10,524
c) post-employment benefits		29
d) pension costs		8
e) provision for post-employment benefits	1,967	1,424
f) provision for pensions and similar obligations:		
- defined contribution plans		231
- defined benefit plans		
g) payments to external complementary pension funds:		
- defined contribution plans		
- defined benefit plans	353	328
h) costs related to share-based payments	3,874	1,427
i) other employee benefits	2,891	3,244
2) Other personnel in service	105	91
3) Directors and statutory auditors	2,952	3,600
4) Early retirement costs		
Total	**65,624**	**64,330**

The item "personnel expenses" includes, in addition to the amount of expenses and contributions paid to employees, including the provisions of the group incentive system, expenses for stock options for certain employees of the Group for 2022, equal to approximately €3.9 million before taxes, offset by the related equity reserve.

10.2 Average number of employees per category

(Values in working units)

Categories	Average number 12.31.2022	Average number 12.31.2021
Executives/Senior Executives	23	26
Managers/Coordinators/Professionals	278	252
Specialists	321	392
Total	**622**	**670**

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

Please note that at December 31, 2021, the average number of employees set forth in the table above is calculated considering the personnel of the merged company DEPObank only as of March 1, 2021.

10.4 Other employee benefits

The amount in question of €3.9 thousand mainly refers to expenses incurred for training, meal tickets, donations and insurance for Bank employees.

10.5 Other administrative expenses: breakdown

€88,909 thousand

(Values in thousand euros)

Breakdown	Total 12.31.2022	Total 12.31.2021
Legal fees	3,010	1,637
Data processing services	15,878	16,189
External credit management services	577	705
Supervisory Body fees	41	42
Legal fees for loans and receivables under management	258	227
Notary fees	355	527
Notary fees to be recovered	1,584	963
Entertainment expenses and donations	1,073	841
Maintenance expenses	5,896	5,712
Non-deductible VAT	8,790	9,021
Other taxes	6,441	6,027
Consulting services	18,098	15,218
Head office operating expenses	2,865	2,381
Resolution Fund and FITD	5,734	12,970
Other expenses	18,308	19,242
Total	**88,909**	**91,702**

Other administrative expenses for 2021 amounted to €88.9 million, compared to €91.7 million for 2021.

Furthermore, with regard to contributions to the Deposit Guarantee Scheme, a cost of about €5.7 million before taxes was recorded for 2022. This cost was made up of:

- Resolution Fund for €3.6 million as the annual ordinary contribution;
- Interbank Deposit Protection Fund (FITD) for €2.1 million as the annual contribution, of which €700 thousand relating to the extraordinary contribution.

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".

"Other administrative expenses" mainly include services outsourced in 2022, which are listed below.

(Values in thousand euros)

Breakdown	Total 12.31.2022
Fees paid to external company for support to Internal Audit	171
Fees paid to external companies for Data Processing	4,098
Fees paid to external companies for Credit Checks	577

Section 11 - Net provisions for risks and charges - Item 170

€10,740 thousand

11.1 Net provisions for credit risk relating to loan commitments and financial guarantees given: breakdown

€140 thousand

(Values in thousand euros)

Breakdown	Total 12.31.2022	Total 12.31.2021
Provision for risk on commitments and guarantees	140	(721)
Total	**140**	**(721)**

11.3 Net provisions for risks and charges: breakdown

€10,600 thousand

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

(Values in thousand euros)

Breakdown	Total 12.31.2022	Total 12.31.2021
Disputes against the parent	10,437	(2,037)
Operating errors	163	5
Total	**10,600**	**(2,032)**

Section 12 - Depreciation and net impairment losses on property, equipment and investment property - Item 180

€4,130 thousand

12.1 Depreciation and net impairment losses on property, equipment and investment property: composition

(Values in thousand euros)

Asset/Income item	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a+b-c)
A. Property, plant and equipment				
1. Used in the business	4,130			**4,130**
- Owned	2,030			**2,030**
- Right-of use assets	2,100			**2,100**
2. Held for investment	X			
- Owned				
- Right-of use assets				
3. Inventories				
Total	**4,130**			**4,130**

As of 2019, following the application of International Accounting Standard IFRS 16, the item "Depcreation and net impairment losses on property, equipment and investment property" also includes the amortization of right-of-use assets depreciation to €2,100 thousand, the balancing entry to which is recognized under property, equipment and investment property.

Section 13 - Amortisation and net impairment losses on intangible assets - Item 190

€7,163 thousand

13.1 Amortisation and net impairment losses on intangible assets: breakdown

(Values in thousand euros)

Asset/Income item	Amortization (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a+b-c)
A. Intangible assets				
of which: software				
A.1 Owned	6,061	1,102		7,163
- Generated internally by the company				
- Others	6,061	1,102		**7,163**
A.2 Right-of-use assets				
Total	**6,061**	**1,102**		**7,163**

The item refers to amortization for the year relating to intangible assets with finite useful lives, which include the "Customer Contracts", which were written down by €1.1 million as a result of the impairment test.

For more details please refer to item 100 of the Statement of Financial Position assets "Intangible assets".

Section 14 - Other net operating income - Item 200

€128,075 thousand

14.1 Other operating expenses: breakdown

-€3,532 thousand

(Values in thousand euros)

Breakdown	Total 12.31.2022	Total 12.31.2021
Prior year expenses	(2,187)	(2,656)
Rounding and allowances	(93)	(8)
Other charges	(358)	(17)
Deposit guarantee scheme expenses		
Registry tax expenses	(893)	(319)
Total	**(3,532)**	**(3,000)**

14.2 Other operating income: breakdown

€131,607 thousand

(Values in thousand euros)

Breakdown	Total 12.31.2022	Total 12.31.2021
Recovery of legal fees for purchases of non-recourse trade receivables	1,410	1,198
Recovery of legal fees	127	218
Other recoveries	1,457	1,384
Prior year income	5,544	9,059
Recovery of assignor notary expenses	1,647	977
BFF Finance Iberia royalties	955	
Other income	120,467	92,011
Total	**131,607**	**104,847**

In 2022, the item includes a one-off amount, gross of the tax effect, relating to 50% of the "40 euros" provision consisting of all receivables accrued for the indemnity in question for an amount of €94.7 million (€68.7 million net of the tax effect). For more information, refer to Part A "Accounting policies".

Please recall that on December 31, 2021, this item included the amount of badwill deriving from the merger transaction with DEPObank in March 2021 of €76.9 million.

Section 19 - Income taxes on continuing operations - Item 270

€83,561 thousand

19.1 Income taxes on continuing operations: breakdown

(Values in thousand euros)

Income items/Sectors	Total 12.31.2022	Total 12.31.2021
1. Current taxes (-)	69,809	12,358
2. Adjustment to current tax of prior years (+/-)	3,447	
3. Reduction of current tax for the year (+)		
3.bis Reduction of current taxes for the year for tax credits pursuant to Italian Law no. 214/2011 (+)		
4. Change in deferred tax assets (+/-)	381	(33,535)
5. Change in deferred tax liabilities (+/-)	9,924	11,792
6. Taxes for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5)	**83,561**	**(9,384)**

19.2 Reconciliation of theoretical tax charge with actual tax charge

(Values in thousand euros)

Breakdown	IRES	IRAP
Taxable profit used for purposes of tax calculations	345,000	165,872
Theoretical tax charge: 27.5% IRES - 5.57% IRAP	**94,875**	**9,239**
Permanent non-deductible differences	(88,565)	987
Deductible IRAP	(62)	
Temporary differences taxable in future years	(41,997)	
Temporary differences deductible in future years	16,421	1,255
Reversal of temporary differences from previous years	(9,929)	(5,267)
Taxable profit	**220,867**	**162,847**
Current taxes for the year: 27.5% IRES - 5.57% IRAP	**60,738**	**9,071**

Section 22 - Earnings per share

22.1 Average number of ordinary shares with diluted capital

(Values in units)

Breakdown	Total 12.31.2022	Total 12.31.2021
Average number of shares outstanding	185,545,952	185,312,690
Average number of potentially dilutive shares	11,447,560	10,175,223
Average number of diluted shares	196,993,512	195,487,913

22.2 Other information

(Amounts in units, unless otherwise stated)

Breakdown	Total 12.31.2022	Total 12.31.2021
Profit for the year (in euros)	232,047,606	197,372,423
Average number of shares outstanding	185,545,952	185,312,690
Average number of potentially dilutive shares	11,447,560	10,175,223
Average number of diluted shares	196,993,512	195,487,913
Basic earnings per share (in euro units)	**1.25**	**1.06**
Diluted earnings per share (in euro units)	**1.18**	**1.01**

Part D - Comprehensive income

Statement of Comprehensive Income

(Values in euro units)

	Items	Total 12.31.2022	Total 12.31.2021
10.	**Profit for the year**	**261,438,216**	**164,289,349**
	Other components not reclassified to profit or loss		
20.	Equity instruments designated at fair value through other comprehensive income:		
	a) fair value changes		
	b) transfers to other equity items		
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness):		
	a) fair value changes		
	b) transfers to other equity items		
40.	Hedging of equity instruments designated at fair value through other comprehensive income:		
	comprehensive:		
	a) fair value changes (hedged instrument)		
	b) fair value changes (hedging instrument)		
50.	Property, equipment and investment property		
60.	Intangible assets		
70.	Defined-benefit plans	724,064	(47,353)
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves connected with equity-accounted investments		
100.	Income taxes on other comprehensive income not reclassified to profit or loss	(199,118)	13,022
	Other components reclassified to profit or loss		
110.	Hedging of foreign investments:		
	a) fair value changes		
	b) reclassification through profit or loss		
	c) other changes		
120.	Foreign exchange differences:		
	a) changes in value	3,420	(57,057)
	b) reclassification through profit or loss		
	c) other changes		
130.	Cash flow hedges:		
	a) fair value changes		
	b) reclassification through profit or loss		
	c) other changes		
	of which: result of net positions		

(CONT'D)

(Values in euro units)

	Items	Total 12.31.2022	Total 12.31.2021
140.	Hedging instruments (undesignated elements):		
	a) changes in value		
	b) reclassification through profit or loss		
	c) other changes		
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:		
	a) fair value changes	1,246,162	315,589
	b) reclassification through profit or loss		
	- 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 profit or loss		
	c) other changes		
170.	Share of valuation reserves for equity investments measured at equity:		
	a) fair value changes		
	b) reclassification through profit or loss		
	- adjustments due to impairment		
	- profits/losses on disposals		
	c) other changes		
180.	Income taxes on other components reclassified to profit or loss	(413,237)	(85,497)
190.	**Total other comprehensive income**	**1,361,292**	**138,704**
200.	**Comprehensive income (Items 10+190)**	**262,799,507**	**164,428,053**

Part E - Information on risks and related hedging policies

Introduction

BFF Bank 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 Bank 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 Bank 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 and of the liquidity risk governance and management system;
- The activities for the assessment of prospective capital adequacy, associated with the strategic planning process.

The corporate governance bodies of the Bank 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's corporate bodies perform the functions entrusted to them not only with regard to their specific business activities, but also taking into account the Bank'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.

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 Bank risks (Risk Appetite Framework);
- Establishing adequate risk management processes through the adoption and maintenance of suit- able 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 Bank's Internal Control system. It is independent of the Internal Audit Function, and subject to its control.

Section 1 - Credit Risk

Quantitative information

1. General aspects

The main activity of the Bank in this area is factoring, which is governed, in Italy, by the Italian Civil Code (Book IV - Title I, Chapter V, Articles 1260-1267) and Italian 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 Bank 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 Bank 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).

At this time, non-recourse factoring represents approximately 53% of all the exposures to customers of the Bank excluding the securities component.

With regard to the measures in response to COVID-19, the Bank 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 BFF Bank'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.

Impacts of the Ukraine-Russia crisis
Following the crisis between Russia and Ukraine, which culminated in the military intervention initiated by Russia on February 24, 2022 and the resulting countermeasures undertaken by the international community and parties in the international financial sector (e.g. sanctions against Russian natural persons or legal entities, limitations on transactions with Russian parties and/or regarding financial instruments issued by Russian parties and/or denominated in Russian currency), the parent has carried out a detailed review of risk positions and transactions

that could be directly or indirectly impacted by the aforementioned restrictions on operations, where necessary taking appropriate actions in order to fully comply with regulatory provisions and/or to avoid situations that could be considered risky. The parent's various corporate functions (e.g. CFO area, Risk Management, Compliance & AML) reported to the Parent's Board of Directors on the management's assessment of the potential impacts on the parent resulting from this and the actions taken. In the first part of April, BFF Bank also responded to the survey conducted by the Bank of Italy on an initial assessment of the impact that unfavorable developments related to the current crisis could have on the banking system. The results of the analysis showed that the parent has no direct exposure to the Russian and Ukrainian markets, and there are no Russian client companies, client companies controlled by Russian companies, beneficial owners or legal representatives of Russian nationality in the client portfolio of either BFF or its foreign subsidiaries. With regard to positions held in RUB (Russian roubles) and the possible exposure to exchange rate risk following the sharp fluctuation in the exchange rate of the currency in question, the asset and liability positions denominated in that currency held by BFF are of a very limited overall amount, relating exclusively to bank account balances (balances of bank accounts with BFF of counterparties of the Transaction Services Business Line, transferred to accounts held by BFF with Bank of New York, BFF's treasurer in that currency, and Euroclear Bank, an international settlement bank, while spot transactions, maturity deposits and currency swaps in that currency have been suspended since the start of the crisis) and substantially balanced.

Following the onset of the crisis between Russia and Ukraine, there was also an intensification of cyber warfare globally, mainly targeting infrastructure networks. In this regard, the parent has raised the level of attention of the SOC (security operation center) and strengthened the perimeter defense rules, as well as continuing to monitor the situation through reliable sources, such as CERTFin. On the business continuity and backup front, recent updates and tests of the Disaster Recovery plan have confirmed BFF Bank's resilience. Awareness-raising campaigns on phishing and security events are provided internally. Finally, primary outsourcers and suppliers were contacted in order to ascertain whether they too had raised their level of attention on the cybersecurity front and to receive more logs from defense systems in order to carry out more extensive monitoring through SIEM (security information and event management). To date, no attacks or disruptions following the Ukraine crisis have been recorded by BFF or its outsourcers or suppliers.

2. Credit risk management policies

2.1 Organisational aspects

The assessment of a transaction, for the different products offered by the Bank, 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 parent consists, as mentioned above, of the purchase of non-recourse trade receivables 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 Group is exposed may generate a corresponding decrease in the value of the credit position. It can be broken down as follows:

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

In light of the risks detailed above, the Bank 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, asset management companies and funds.

The Bank also marginally offers the following two types of services: "receivables management only" and "recourse factoring".

In the "loans and receivables management only" service, credit risk is considerably reduced because it is limited to the Bank'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 "loans and 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 residual activity for BFF Bank.

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 organizational 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 analyzed within the framework of the risk of delay in repaying liabilities.

The assessment of credit risk is part of an overall analysis of the adequacy of the Bank's capital in relation to the risks connected with lending.

With this in mind, the Bank uses the "standardized" approach to measure credit risk, as governed by Regulation (EU) No. 575/2013 (CRR) and adopted by the Bank of Italy Circular No. 285 "Supervisory provisions for banks" and Circular No. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries," both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes ("portfolios"), depending on the type of counterparty, and the application of diversified weighted ratios to each portfolio.

In particular, the parent 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 amounts 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 asset management companies; for rated private debtors, different weights are applied on the basis of the credit ratings issued by S&P Global Ratings;
- 100% for property, equipment and investment property, equity investments, collective investment undertakings and other;
- 150% for non-performing exposures, if the specific adjustments are 20% less than the non-collateralized portion, before any adjustments;
- 100% for non-performing exposures, if the specific adjustments are 20% or more than the non-collateralized portion, before any adjustments;
- 250% to deferred tax assets not deducted from own funds.

The Bank 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 December 31, 2022 is €160.2 million for the parent.

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 Bank'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 Bank performs an impairment test on the loan? portfolio, aimed at identifying any impairment of its assets, in line with the provisions of the applicable standards and the prudential criteria required by supervisory regulations and the internal policies adopted by the Bank.

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

- Exposures subject to generic adjustments ("collective impairment")
- Exposures subject to specific adjustments.

Note that IFRS 9 entered into force on January 1, 2018. This standard replaces the concept of incurred losses, envisaged by IAS 39, with that of expected credit losses.

The approach adopted by the Bank 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, in accordance with IFRS 9, impairment of exposures is recognized in three stages, each with different methods for calculating the losses to be recorded.

As for Stage 1, expected credit losses are measured over a 12-month period. As for Stage 2 (including financial assets whose credit risk increased significantly since initial recognition), expected credit 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 credit losses

Exposures subject to collective impairment losses ("collective impairment")

The impairment model is characterized by:

- The allocation of the transactions in the portfolio to different buckets, based on an assessment of the increase in the level of exposure/counterparty risk;
- The use of multi-period risk parameters (e.g., lifetime PD, LGD and EAD) to quantify expected credit losses (ECL) for financial instruments subject to a significant increase in credit risk since initial recognition.

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modeling approach. Therefore, by analyzing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Bank'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 standards are as follows:

- A forward-looking model, allowing the immediate recognition of all expected credit losses over the life of the exposure, 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 modeled 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).

Exposures subject to individual impairment losses ("individual impairment")

As required by IFRS 9 and in line with current supervisory provisions, the Bank 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 exposures, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures referred to in this section were carried out. This decision is supported by the fact that, in consideration of the Bank's core business, impaired past due positions, identified according to objective criteria, do not necessarily represent actual deterioration in the credit position. However, this approach does not provide an exemption to the competent functions from performing a precise/analytical assessment ("case-by-case assessment") of positions classified as past due if the adjustment calculated is not adequate.

BFF's impaired exposures consist of NPLs, unlikely to pay and past due exposures, for a total of €128,661 thousand - net of individual impairment - and are broken down as follows:

- non-performing loans of €80,722 thousand (gross exposure in the separate financial statements of €95,168 thousand with an adjustment of €14,446 thousand);
- unlikely-to-pay exposures amounting to €14,074 thousand (gross exposure in the separate financial statements equal to €18,420 thousand with adjustments equal to €4,346 thousand);
- impaired past due exposures of €33,865 thousand (gross exposure in the separate financial statements of €33,963 thousand with an adjustment of €98.4 thousand).

Amendments due to COVID-19

Assessment of the significant increase in credit risk (SICR)

In light of the Bank'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). In line with the EBA guidance 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 parent has not granted any moratoria.

Measuring expected credit 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, 2022 the parent updated the macroeconomic scenarios provided by the external infoprovider. These scenarios are constructed considering the evolution of the unemployment rate and the High Yield Spread in a geopolitical context characterized by both the ongoing effects of Covid-19 and the tensions of the Russia-Ukraine conflict, which has significantly changed the macroeconomic scenario since February 2022.

The Risk Management Function, as it does every quarter of the year, performed a sensitivity analysis at December 31, 2022 between the macroeconomic scenarios for the fourth quarter of the year, provided by the external infoprovider, and the macroeconomic scenarios updated at June 30, 2022. The analysis shows that 2023 will be characterized by a decline in GDP growth and a strong inflationary drive generated by the Russia/Ukraine conflict, which reduces on one hand business investments and on the other the disposable income of consumers. However, the job market does not seem to be experiencing significant tensions, thanks to the recovery in hirings post-Covid-19. The economic slowdown will not be sufficient to cause widespread dismissals and the job market will continue to benefit from considerable excess demand. Therefore, job market stability will be one of the main factors that could prevent the economy from entering a recessive cycle. The comparative analysis of the scenarios shows that estimated GDP in December 2022 is worse than that currently in use in the model and therefore, the Risk Management Function is evaluating the impacts of that change on the model for estimating risk parameters in order to understand its magnitude, while also taking into consideration that the parent's Business Model and - in this specific area - the relative cost of risk are less sensitive to GDP trends than credit exposures concentrated in the corporate/retail area.

Moreover, the Risk Management Function compared the macroeconomic estimates released by the external infoprovider with those of the European Central Bank (ECB), observing, also in this case, a deterioration of GDP in 2023.

The same analyses will be performed at the end of the first quarter of 2023 as well in order to evaluate the possibility of updating the risk parameters early.

2.4 Credit risk mitigation techniques

In order to make non-recourse exposures 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.

2. Impaired credit exposures

In compliance with Bank of Italy Circular no. 272, the Bank's net "Impaired assets" amounted to a total of €251,980 thousand. They include:

- ***Non-performing loans*** consisting of exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the parent. At December 31, 2022, the overall total of non-performing loans, net of impairment, amounted to €80,271 thousand, of which €5,672 thousand purchased already impaired.Net non-performing loans relating to Italian municipalities and provincial governments in financial distress amounted to €79,662 thousand, accounting for 99.2% of the total. This case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF is entitled to receive 100% of principal and late payment interest at the end of the insolvency procedure.
  The portion of the allowance for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €997 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €83,358 thousand and relevant adjustments totaled €3,087 thousand.
- **Unlikely-to-pay positions** reflect the judgment made by the intermediary about the unlikelihood that - excluding such actions as the enforcement of guarantees - the debtor will fully meet (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 December 31, 2022, gross exposures classified as unlikely to pay amounted to €1,593 thousand, written down by €774 thousand. The net exposure therefore amounts to €819 thousand.
- Net **past due exposures** totaled €170,890 thousand, of which €166,892 thousand (97.7%) attributable to public administration counterparties and public sector companies. The figure remained aligned with what was recorded at September 30, 2022, the date on which the trade receivables classified as past due increased as a result of the more stringent interpretations on the new "Definition of Default" (or "New DoD", Guidelines on the application of the definition of default pursuant to Art. 178 of Regulation (EU) no. 575/2013) issued by the Bank of Italy on September 23, 2022. However, there was no increase in the actual risk profile of the loan portfolio.

3. Financial assets subject to commercial negotiations and forborne exposures

During 2022, the Bank has not granted any moratoria of a strictly voluntary character to customers, according to 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".

Quantitative information

A. Credit quality

A.1 Impaired and performing credit exposures: amounts, adjustments, trends and economic breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amount)

(Values in thousand euros)

Portfolios/quality	Non-performing loans	Unlikely-to-pay exposures	Impaired past due exposures	Other impaired exposures	Performing exposures	Total
1. Financial assets measured at amortized cost	80,271	819	170,890	1,734,997	9,739,554	11,726,530
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 12.31.2022	**80,271**	**819**	**170,890**	**1,734,997**	**9,739,554**	**11,726,530**
Total 12.31.2021	**65,944**	**860**	**17,779**	**1,506,361**	**8,165,063**	**9,756,006**

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

(Values in thousand euros)

Portfolios/quality	Impaired				Performing			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs (*)	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortized cost	255,162	3,182	251,980		11,475,999	1,448	11,474,550	11,726,530
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 measurement					X	X		
5. Financial assets held for sale								
Total 12.31.2022	**255,162**	**3,182**	**251,980**		**11,475,999**	**1,448**	**11,474,550**	**11,726,530**
Total 12.31.2021	**88,581**	**3,999**	**84,582**		**9,673,221**	**1,797**	**9,671,424**	**9,756,006**

(*) Value presented for informative purposes.

(Values in thousand euros)

Portfolios/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading			210
2. Hedging derivatives			
Total 12.31.2022			**210**
Total 12.31.2021			**4,107**

A.1.3 *Breakdown of financial assets by past-due bracket (carrying amounts)*

(Values in thousand euros)

Portfolios/risk stages	Stage one			Stage two			Stage three			Purchased or originated credit impaired		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortized cost	294,288	154,658	440,124	484	13,060	832,384	4,895	8,711	198,448			5,672
2. Financial assets measured at fair value through other comprehensive income												
3. Financial assets held for sale												
Total 12.31.2021	**294,288**	**154,658**	**440,124**	**484**	**13,060**	**832,384**	**4,895**	**8,711**	**198,448**			**5,672**
Total 12.31.2020	**204,601**	**118,888**	**473,083**	**1**	**190**	**709,598**	**59**	**401**	**77,600**			**5,287**

A.1.4 Financial assets,Loan commitments to disburse funds and financial guarantees given: trend in total impairment and total provisions

Description/risk stages	Total adjustments											
	Assets in stage one						Assets in stage two					
	Loans and receivables with banks and Central Banks on demand	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which collective impairment	Loans and receivables with banks and Central Banks on demand Financial assets measured at amortized cost	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which collective impairment
Opening total adjustments		**1,678**				**1,678**		**118**				**118**
Increases in purchased or originated financial assets												
Derecognitions other than write-offs												
Net value adjustments/write-backs for credit risk (+/-)	20	(425)				(405)	2	77				79
Contractual amendments without derecognitions												
Changes in estimate methodology												
Write-offs not recognized directly in the income statement												
Other changes												
Total final inventories	**20**	**1,254**				**1,274**	**2**	**194**				**197**
Recoveries from receipts on written-off financial assets												
Write-offs recognized directly on the income statement												

(Values in thousand euros)

Total adjustments											Total provisions on loan commitments and financial guarantees given				Total
	Assets in stage three					Purchased or originated credit impaired financial assets									
Loans and receivables with banks and Central Banks on demand Financial assets measured at amortized cost	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which collective impairment	Stage one	Stage two	Stage three	Loan commitments and financial guarantees given purchased or originated impaired	
	3,793			3,793		206			206		58				5,853
						X	X	X	X	X					
	(617)			(617)		(200)			*(200)*		167				(975)
	3,176			3,176		6			6		225				4,878
	133			133											133

A.1.5 Financial assets, loan commitments to disburse funds and financial guarantees issued: transfers between the various credit risk stages (gross and nominal amounts)

(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 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortized cost	1,714	216	11	5,091	12,582	1,944
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets held for sale						
4. Loan commitments and financial guarantees issued						
Total 12.31.2021	**1,714**	**216**	**11**	**5,091**	**12,582**	**1,944**
Total 12.31.2020	**6,671**		**3,350**	**21,218**	**10,839**	**9,379**

A.1.6 On and off-statement of financial position credit exposures to banks: gross and net values

(Values in thousand euros)

Type of exposures/ values	Gross exposure					Total impairment losses and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated credit impaired		Stage one	Stage two	Stage three	Purchased or originated credit impaired		
A. On-statement of financial position credit exposures												
A.1 On demand	623,791	618,797	4,995			22	20	2			623,769	
a) Impaired		X					X					
b) Performing	623,791	618,797	4,995	X		22	20	2	X		623,769	
A.2 Others	478,213	399,508	78,705			10	5	5			478,203	
a) Non-performing loans		X					X					
- of which: forborne exposures		X					X					
b) Unlikely-to-pay positions		X					X					
- of which: forborne exposures		X					X					
c) Impaired past due exposures		X					X					
- of which: forborne exposures		X					X					
d) Past due performing exposures				X					X			
- of which: forborne exposures				X					X			
e) Other performing exposures	478,213	399,508	78,705	X		10	5	5	X		478,203	
- of which: forborne exposures				X					X			
TOTAL (A)	**1,102,004**	**1,018,305**	**83,700**			**32**	**25**	**7**			**1,101,972**	
B. Off-statement of financial position exposures												
a) Impaired		X					X					
b) Performing	204			X					X		204	
Total (B)	**204**										**204**	
Total (A+B)	**1,102,208**	**1,018,305**	**83,700**			**32**	**25**	**7**			**1,102,176**	

(*) Value for disclosure purposes.

A.1.7 On- and off-statement of financial position credit exposures to customers: gross and net values

(Values in thousand euros)

Type of exposures/ values	Gross exposure					Total impairment losses and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated credit impaired		Stage one	Stage two	Stage three	Purchased or originated credit impaired		
A. On-statement of financial position credit exposures												
a) Non-performing loans	82,361	X		76,683	5,678	2,090	X		2,083	6	80,271	
- of which: forborne exposures		X					X					
b) Unlikely-to-pay positions	1,593	X		1,593		774	X		774		819	
- of which: forborne exposures	922	X		922		531	X		531		391	
c) Impaired past due exposures	171,208	X		171,208		318	X		318		170,890	
- of which: forborne exposures		X				-	X					
d) Past due performing exposures	1,735,216	889,158	846,059	X		220	89	131	X		1,734,997	
- of which: forborne exposures	-			X		-			X			
e) Other performing exposures	9,262,569	9,257,326	5,243	X		1,219	1,160	58	X		9,261,350	
- of which: forborne exposures				X					X			
TOTAL (A)	**11,252,948**	**10,146,484**	**851,302**	**249,484**	**5,678**	**4,621**	**1,249**	**190**	**3,176**	**6**	**11,248,327**	
B. Off-statement of financial position exposures												
a) Impaired		X					X					
b) Performing	989,100	983,365		X		225	209		X		988,874	
TOTAL (B)	**989,100**	**983,365**				**225**	**209**				**988,874**	
TOTAL (A+B)	**12,242,048**	**11,129,849**	**851,302**	**249,484**	**5,678**	**4,846**	**1,458**	**190**	**3,176**	**6**	**12,237,202**	

(*) Value for disclosure purposes.

A.1.9 On-statement of financial position credit exposure to Customers: trend of the gross impaired exposures

(Values in thousand euros)

Descriptions/Categories	Non-performing loans	Unlikely-to-pay positions	Impaired past due exposures
A. Starting gross exposure	69,229	1,554	17,798
- of which: assets sold but not derecognized			
B. Increases	**15,999**	**73**	**156,851**
B.1 inflows from performing exposures	12,219	18	155,982
B.2 transfers from purchased or originated credit impaired financial assets			
B.3 transfers from other impaired exposures			
B.4 contractual modifications without derecognitions			
B.5 other increases	3,780	55	869
C. Decreases	**2,867**	**35**	**3,441**
C.1 outflows to performing exposures	2,395		2,778
C.2 write-offs			
C.3 collections	472	35	
C.4 collections from disposals			
C.5 losses on disposal			
C.6 transfers to other impaired exposures			
C.7 contractual modifications without derecognitions			
C.8 other decreases			663
D. Final gross exposure	**82,361**	**1,593**	**171,208**
- of which: assets sold but not derecognized			

A.1.9 bis On-statement of financial position exposures to customers: changes in gross forborne exposures broken down by credit quality

(Values in thousand euros)

Descriptions/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Starting gross exposure	**929**	
- of which: assets sold but not derecognized		
B. Increases		
B.1 inflows from performing, non forborne exposures		
B.2 inflows from performing, forborne exposures		X
B.3 inflows from non-performing forborne exposures	X	
B.4 other increases		
C. Decreases		
C.1 transfers to performing exposures not subject to forbearance measures	X	
C.2 outflows towards forborne performing exposures		X
C.3 outflows towards non-performing forborne exposures	X	
C.4 write-offs		
C.5 collections		
C.6 collections from disposals		
C.7 losses on disposal		
C.8 other decreases	7	
D. Final gross exposure	**922**	
- of which: assets sold but not derecognized		

A.1.11 On-statement of financial position impaired credit exposure to customers: trend of total value adjustments

(Values in thousand euros)

Descriptions/Categories	Non-performing loans		Unlikely-to-pay positions		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**3,285**		**695**	**533**	**19**	
- of which: assets sold but not derecognized						
B. Increases						
B.1 adjustments to purchased or originated credit impaired assets						
B.2 other adjustments	97					
B.3 losses on disposal						
B.4 transfers from other categories of impaired exposures						
B.5 contractual modifications without derecognition						
B.6 other increases	18		88		308	
C. Decreases						
C.1 fair value gains						
C.2 impairment gains from collection	27				6	
C.3 gains on disposal						
C.4 write-offs						
C.5 transfers to other categories of impaired exposures						
C.6 contractual modifications without derecognition						
C.7 other decreases	1,283		8	2	3	
D. Total final adjustments	**2,090**		**774**	**531**	**318**	
- of which: assets sold but not derecognized						

A.2 Classification of financial assets, of loan commitments to disburse funds and financial guarantees issued on the basis of external and internal ratings

A.2.1 Distribution of financial assets, loan commitments to disburse funds and financial guarantees issued: by classes of external ratings (gross values)

(Values in thousand euros)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost	**30,208**	**251,884**	**9,149,291**	**126,288**			**2,173,489**	**11,731,161**
- Stage one	28,191	225,959	8,056,834	89,667			2,145,340	10,545,991
- Stage two	2,017	25,926	844,989	36,621			20,454	930,007
- Stage three			241,789				7,694	249,484
- Purchased or originated credit impaired			5,678					5,678
B. Financial assets measured at fair value through other comprehensive income								
- Stage one								
- Stage two								
- Stage three								
- Purchased or originated credit impaired								
C. Financial assets held for sale								
- Stage one								
- Stage two								
- Stage three								
- Purchased or originated credit impaired								
Total (A+B+C)	**30,208**	**251,884**	**9,149,291**	**126,288**			**2,173,489**	**11,731,161**
D. Loan commitments and financial guarantees issued								
- Stage one								
- Stage two								
- Stage three								
- Purchased or originated credit impaired								
Total D								
Total (A+B+C+D)	**30,208**	**251,884**	**9,149,291**	**126,288**			**2,173,489**	**11,731,161**

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

Credit quality class	ECAI
	DBRS Ratings Limited
1	from AAA to AAL
2	from AH to AL
3	from BBBH to BBBL
4	from BBH to BBL
5	from BH to BL
6	CCC

For rated private debtors, the ratings provided by S&P Global Ratings were used. A reconciliation between the risk classes and the ratings supplied by DBRS is provided below.

Credit quality class	ECAI
	S&P Global Ratings
1	≥ AA-
2	between A+ and A-
3	between BBB+ and BBB-
4	between BB+ and BB-
5	between B+ and B-
6	≤ CCC+

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)			
			Real estate - mortgages	Finance lease properties	Securities	Other collateral
1. Guaranteed On-statement of financial position credit exposures:	**183,995**	**183,994**			**181,972**	
1.1 totally secured	183,995	183,994			181,972	
- of which impaired						
1.2 partially secured						
- of which impaired						
2. Guaranteed "Off-statement of financial position" credit exposures:						
2.1 totally secured						
- of which impaired						
2.2 partially secured						
- of which impaired						

(Values in thousand euros)

Personal guarantees (2)										Total (1)+(2)
Credit link notes	Credit derivatives				Endorsement credits					
	Other derivatives				Public administrations	Banks	Other financial companies	Other entities		
	Central counterparties	Banks	Other financial companies	Other entities						
								181,972		
								181,972		

A.3.2 Guaranteed on- and off-statement of financial position credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)			
			Real estate - mortgages	Real estate - Loans for leases	Securities	Other collateral
1. Guaranteed On-statement of financial position credit exposures:	**68,090**	**68,004**	**98**		**66,488**	
1.1 totally secured	68,090	68,004	98		66,488	
- of which impaired	182	98	98			
1.2 partially secured						
- of which impaired						
2. Guaranteed Off-statement of financial position credit exposures:	**1,884**	**1,884**			**1,884**	
2.1 totally secured	1,884	1,884			1,884	
- of which impaired						
2.2 partially secured						
- of which impaired						

(Values in thousand euros)

Personal guarantees (2)									Total (1)+(2)
Credit derivatives					Endorsement credits				
Credit link notes	Other derivatives				Public administrations	Banks	Other financial companies	Other entities	
	Central counterparties	Banks	Other financial companies	Other entities					
								9	**66,594**
								9	66,594
									98
									1,884
									1,884

B. Breakdown and concentration of credit exposures

B.1 Distribution by sector of on- and off-statement of financial position credit exposures to customers

(Values in thousand euros)

Exposures/To counterparties	General governments		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-statement of financial position credit exposures										
A.1 Non-performing loans	79,861	427					82	596	329	1,066
- of which: forborne exposures										
A.2 Unlikely to pay			391	531			427	243		
- of which: forborne exposures			391	531						
A.3 Impaired past due exposures	166,892	288					2,239	22	1,760	8
- of which: forborne exposures										
A.4 Performing exposures	8,831,924	1,010	1,997,982	315			117,572	99	48,869	14
- of which: forborne exposures										
Total (A)	**9,078,677**	**1,726**	**1,998,374**	**846**			**120,320**	**960**	**50,957**	**1,089**
B. Off-statement of financial position credit exposures										
B.1 Impaired exposures										
B.2 Performing exposures			920,021	209			68,853	16		
Total (B)			**920,021**	**209**			**68,853**			
Total (A+B) 12.31.2022	**9,078,677**	**1,726**	**2,918,395**	**1,055**			**189,173**	**960**	**50,957**	**1,089**
Total (A+B) 12.31.2021	**7,967,901**	**1,302**	**3,488,950**	**2,504**			**100,988**	**751**	**36,062**	**1,274**

B.2 Territorial distribution of on- and off-statement of financial position credit exposures to customers

(Values in thousand euros)

Exposures/Geographic areas	Italy		Other European countries		The Americas		Asia		Rest of the World	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-statement of financial position credit exposures										
A.1 Non-performing loans	80,271	2,090								
A.2 Unlikely to pay	819	774								
A.3 Impaired past due exposures	170,782	317	107	2						
A.4 Performing exposures	9,127,791	1,117	1,868,556	321						
Total (A)	**9,379,664**	**4,298**	**1,868,663**	**323**						
B. Off-statement of financial position exposures										
B.1 Impaired exposures										
B.2 Performing exposures	424,791	225	564,084	1						
Total (B)	**424,791**	**225**	**564,084**	**1**						
Total (A+B) 12.31.2022	**9,804,454**	**4,522**	**2,432,747**	**324**						
Total (A+B) 12.31.2021	**9,093,248**	**5,187**	**2,368,232**	**612**	**132,417**	**32**				

(Values in thousand euros)

Exposures/Geographic areas	Northwest Italy		Northeast Italy		Central Italy		Southern Italy and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-statement of financial position credit exposures								
A.1 Non-performing loans	415	629	196	31	2,301	1,148	77,360	282
A.2 Unlikely to pay	391	563			330	159	97	52
A.3 Impaired past due exposures	2,885	16	8,376	2	24,864	82	134,658	217
A.4 Performing exposures	247,133	56	186,601	9	7,634,815	893	1,059,244	159
Total (A)	**250,824**	**1,265**	**195,173**	**41**	**7,662,310**	**2,282**	**1,271,359**	**710**
B. Off-statement of financial position exposures								
B.1 Impaired exposures								
B.2 Performing exposures	310,518	190	26,482	18	87,791	17		
Total (B)	**310,518**	**190**	**26,482**	**18**	**87,791**	**17**		
Total (A+B) 12.31.2022	**561,342**	**1,454**	**221,655**	**60**	**7,750,101**	**2,299**	**1,271,359**	**710**
Total (A+B) 12.31.2021	**1,269,253**	**2,451**	**153,568**	**43**	**6,667,217**	**2,170**	**1,003,209**	**523**

B.3 Territorial distribution of on- and off-statement of financial position credit exposures to banks

(Values in thousand euros)

Exposures/Geographic areas	Italy		Other European countries		The Americas		Asia		Rest of the World	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-statement of financial position credit exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay										
A.3 Impaired past due exposures										
A.4 Performing exposures	985,947	15	110,954	17	4,507		564			
Total (A)	**985,947**	**15**	**110,954**	**17**	**4,507**		**564**			
B. Off-statement of financial position exposures										
B.1 Impaired exposures										
B.2 Performing exposures	10		194							
Total (B)	**10**		**194**							
Total (A+B) 12.31.2022	**985,956**	**15**	**111,148**	**17**	**4,507**		**564**			
Total (A+B) 12.31.2021	**794,313**	**30**	**145,744**	**61**	**10,466**	**2**	**512**			

(Values in thousand euros)

Exposures/Geographic areas	Northwest Italy		Northeast Italy		Central Italy		Southern Italy and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-statement of financial position credit exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay								
A.3 Impaired past due exposures								
A.4 Performing exposures	70,634	4	64,076	4	832,096	5	19,141	2
Total A	**70,634**	**4**	**64,076**	**4**	**832,096**	**5**	**19,141**	**2**
B. Off-statement of financial position exposures								
B.1 Impaired exposures								
B.2 Performing exposures	10							
Total B	**10**							
Total (A+B) 12.31.2022	**70,643**	**4**	**64,076**	**4**	**832,096**	**5**	**19,141**	**2**
Total (A+B) 12.31.2021	**98,150**	**9**	**38,577**	**4**	**644,573**	**14**	**13,012**	**3**

B.4 Large exposures

At December 31, 2022 there were 7 “large exposures”, i.e. exposures equal to or higher than 10% of eligible capital. The nominal (unweighted) amount of these positions was €15,121,624 thousand, while the weighted amount was €125,616 thousand.

E. Disposal transactions

A. Financial assets sold and partially derecognized

Qualitative information

E.1 Financial assets sold and fully recognized and associated financial liabilities: carrying amounts

(Values in thousand euros)

	Financial assets sold and fully recognized				Associated financial liabilities		
	Carrying Amount	of which: subject to securitization transactions	of which: subject to sale agreements with repurchase clause	of which impaired	Carrying Amount	of which: subject to securitization transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading							
1. Debt securities				X			
2. Equity securities				X			
3. Loans				X			
4. Derivatives				X			
B. Other financial assets subject to mandatory fair value measurement							
1. Debt securities							
2. Equity securities				X			
3. Loans							
C. Financial assets at fair value							
1. Debt securities							
2. Loans							
D. Financial assets measured at fair value through other comprehensive income							
1. Debt securities							
2. Equity securities				X			
3. Loans							
E. Financial assets measured at amortized cost	**4,382,848**		**4,382,848**		**4,221,778**		**4,221,778**
1. Debt securities	4,382,848		4,382,848		4,221,778		4,221,778
2. Loans							
Total (12.31.2022)	**4,382,848**		**4,382,848**		**4,221,778**		**4,221,778**
Total (12.31.2021)	**1,070,465**		**1,070,465**		**1,070,721**		**1,070,721**

Section 2 - Market Risks

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 BFF Bank'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.

Quantitative information

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-statement of financial position financial assets and liabilities and financial derivatives

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
1. On-statement of financial position assets				1	1	3		
1.1 Debt securities				1	1	3		
- with option of advance repayment								
- others				1	1	3		
1.2 Other assets								
2. On-statement of financial position liabilities								
2.1 Repurchase agreements - payable								
2.2 Other liabilities								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								

2. Regulatory trading portfolio: distribution of exposures to equity securities and stock indices by the main listing market countries

(Values in thousand euros)

Transaction type/Listing index	Listed		Unlisted
	Italy	Others	
A. Equity securities	**1**		
- long positions	1		
- short positions			
B. Sales not yet settled on equity securities			
- long positions			
- short positions			
C. Other derivatives on equity securities			
- long positions			
- short positions			
D. Derivatives on stock indices			
- long positions			
- short positions			

2.2 Interest rate risk and price risk - banking book

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 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.

Exposure to interest rate risk is expressed from two different perspectives: volatility of economic value and volatility of profits (and, in particular, the interest margin).

Specifically:

- measurement in terms of economic value makes it possible to quantify the long-term effects of changes in interest rates. Indeed, this measurement fully expresses the effects of the above-mentioned change on items sensitive to shifts in interest rates and, therefore, provides indications functional to the strategic decisions and levels of capitalization deemed adequate over a long-term time horizon;
- measurement in terms of economic performance makes it possible to quantify the short-term effects on the

Bank's interest margin deriving from changes in interest rates and, as a result, on capital adequacy.

The Bank therefore performs the following measurements:

- *shift sensitivity* by classifying items sensitive to the changes in interest rates in time bands, on the basis of repricing dates for items at an index-linked rate and the maturity date for fixed-rate items. In order to quantify the exposure to interest rate risk, assets and liabilities are multiplied by weighting factors, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period. This measurement is performed at least quarterly. Through shift sensitivity, an estimate is determined of the change in the present value of capital in simplified form, by adopting the methodology established by the supervisory regulations. In this regard, it is specified that this measurement is referred to for the monitoring of internal capital to be held to cover interest rate risk;
- The change in the interest rate over a time span equal to the subsequent 12 months and 3 years, respectively, following an assumed change in the interest rate curve (the shocks applied are the same as those used for the change in economic value). This measurement is performed at least quarterly, adopting the simplified methodology established by the provisions, with the exception of the treatment of on demand items, which are measured with a more complex methodology that takes into account the actual repricing of the individual items.

Note that the 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 on a daily basis, recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase), as laid out in Bank of Italy Circular 285/2013 as updated. Internal capital is determined by the worst-case result obtained between the two 1st/99th percentile scenarios.

The Bank also measures the exposure to interest rate risk using additional interest rate shock scenarios. Specifically:

- the parallel ± 200 bps scenarios, for the determination of the risk index, given by the "interest rate risk exposure/own funds" ratio;
- the six interest rate shock scenarios required by the EBA Guidelines, used to calculate internal capital under stress and to determine the operating limit defined by the "interest rate risk exposure/Tier 1" ratio. To respect the limit, the scenario with the worst result is considered.

The parent relies on the option provided by the regulatory updates of Circular 285/2013 with respect to the refinement of the simplified methodologies as regards payable on demand items resulting from Transaction Services activities, while for receivable on demand items, what is set forth in regulations is applied (therefore, they are all classified in the "on demand" segment). The behavioral models used take into account the identification of the core share of funding, or the amount that could represent a stable source of funding despite the short contractual duration, even in the presence of significant changes in the interest rate context. As regards factoring loans, on the other hand, a forecast collection curve is applied.

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-statement of financial position financial assets and liabilities and financial derivatives

Currency of denomination: EUROS *(Values in thousand euros)*

	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
1. On-statement of financial position assets	**3,913,203**	**2,009,700**	**4,367,091**	**109,555**	**661,853**	**524,060**		
1.1 Debt securities		660,460	4,305,294	99,560	620,127	443,788		
- with option of advance repayment								
- others		660,460	4,305,294	99,560	620,127	443,788		
1.2 Loans and receivables with banks	614,864	445,879						
1.3 Loans and receivables with customers	3,298,339	903,361	61,797	9,995	41,727	80,271		
- current account	29,054							
- other loans	3,269,285	903,361	61,797	9,995	41,727	80,271		
- with option of advance repayment		43	33	36	61			
- others	3,269,285	903,318	61,765	9,959	41,666	80,271		
2. On-statement of financial position liabilities	**4,550,994**	**5,055,916**	**477,642**	**171,696**	**104,537**	**2,899**		
2.1 Amounts due to customers	3,897,587	4,630,331	438,666	171,696	104,537	2,899		
- current account	3,675,339	188,596	438,222	170,844	99,190			
- other payables	222,248	4,441,735	444	852	5,347	2,899		
- with option of advance repayment								
- others	222,248	4,441,735	444	852	5,347	2,899		
2.2 Amounts due to banks	653,407	425,586						
- current account	633,806							
- other payables	19,601	425,586						
2.3 Debt securities			38,976					
- with option of advance repayment								
- others			38,976					

(CONT'D)

Currency of denomination: EUROS *(Values in thousand euros)*

	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
2.4 Other liabilities								
- with option of advance repayment								
- others								
3. Financial derivatives		**938,764**						
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		938,764						
- Options								
+ long positions								
+ short positions								
- Other derivatives		938,764						
+ long positions		427,425						
+ short positions		511,339						
4. Other off-statement of financial position transactions	**9,689,628**	**9,689,628**						
+ long positions	9,687,743	1,884						
+ short positions	1,884	9,687,743						

(CONT'D)

Currency of denomination: OTHERS *(Values in thousand euros)*

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
1. On-statement of financial position assets	**57,271**	**707,567**						
1.1 Debt securities								
- with option of advance repayment								
- others								
1.2 Loans and receivables with banks	41,229							
1.3 Loans and receivables with customers	16,042	707,567						
- current account	2,323							
- other loans	13,719	707,567						
- with option of advance repayment								
- others	13,719	707,567						
2. On-statement of financial position liabilities	**553,753**	**271,032**	**58,760**	**13,599**	**15,115**			
2.1 Amounts due to customers	467,189	271,032	58,760	13,599	15,115			
- current account	467,189	271,032	58,760	13,599	15,115			
- other payables								
- with option of advance repayment								
- others								
2.2 Amounts due to banks	86,564							
- current account	86,564							
- other payables								
2.3 Debt securities								
- with option of advance repayment								
- others								
2.4 Other liabilities								
- with option of advance repayment								
- others								

Currency of denomination: OTHERS *(Values in thousand euros)*

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
3. Financial derivatives		**955,372**						
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		955,372						
- Options								
+ long positions								
+ short positions								
- Other derivatives		955,372						
+ long positions		511,904						
+ short positions		443,468						
4. Other off-statement of financial position transactions								
+ long positions								
+ short positions								

2.3 Currency risk

Qualitative information

A. General aspects, management processes and measurement methods for currency risk

Exposure to currency risk - determined on the basis of the net foreign exchange position using a method based on the supervisory regulations - is monitored in real time by the Finance and Administration Department and managed in compliance with the limits established by specific internal rules.

Positions exposed to currency risk may only be maintained within very limited limits of maximum overall exposure, as well as for single currency and RA.

At December 31, 2022, hedging liabilities realized through derivative instruments amounted to €14.3 million, relating to the main currencies in which the parent's funding and lending are expressed.

B. Currency risk hedging

Exchange rate risk is mitigated by making recourse to linear derivative instruments lacking optional components, such as currency swaps, which allow the Bank to perform optimized management of its equity investments and loans provided in currencies other than the euro in which the Bank operates, also through its subsidiaries.

Quantitative information

The portfolio the parent's 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. Currency risk is monitored by the Risk Management Function, in line with the requirements of European regulations (EU Regulation No. 575/2013 - CRR).

1. Breakdown by currency of assets, liabilities and derivatives

(Values in thousand euros)

Items	Currencies					
	US Dollar	Pounds	Yen	Canadian Dollar	Swiss francs	Other currencies
A. Financial assets	**18,247**	**5,542**	**836**	**999**	**752**	**827,096**
A.1 Debt instruments						
A.2 Equity instruments	1,379					87,254
A.3 Loans and receivables with banks	16,505	3,919	836	999	752	18,219
A.4 Loans and receivables with customers	363	1,623				721,622
A.5 Other financial assets						
B. Other assets	**2**	**3**	**1**	**11**	**2**	**16**
C. Financial liabilities	277,911	63,589	68,190	25,720	31,198	445,652
C.1 Amounts due to banks	42,941	12,574	1,739	4,956	9,854	14,499
C.2 Deposits from customers	234,970	51,015	66,451	20,764	21,343	431,152
C.3 Debt instruments						
C.4 Other financial liabilities						
D. Other liabilities		**4**				
E. Financial derivatives	**264,067**	**60,418**	**80,311**	**25,021**	**30,493**	**495,061**
- Options						
+ Long positions						
+ Short positions						
- Other derivatives	264,067	60,418	80,311	25,021	30,493	495,061
+ Long positions	263,137	59,469	73,836	25,021	30,474	59,966
+ Short positions	929	948	6,475		20	435,095
Total assets	**281,386**	**65,015**	**74,673**	**26,031**	**31,228**	**887,078**
Total liabilities	**278,840**	**64,542**	**74,665**	**25,720**	**31,217**	**880,747**
Difference (+/-)	2,546	473	7	311	11	6,331

Section 3 - Derivative instruments and hedging policies

4.1 Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: notional end-of-period values

Transactions carried out primarily through recourse to currency swaps are carried out by the Bank to optimize the management of liquidity deriving from funding expressed in a currency other than the euro and are functional to the activity with which the parent manages the currency risk deriving from the investment in Polish zloty held in BFF Polska Group and the loans expressed in a currency other than the euro, and particularly those in Polish zloty, Czech koruna and Croatian kuna. Note that BFF Bank does not hold innovative or complex financial products, so the parent makes recourse to linear instruments lacking optional components such as currency swaps.

(Values in thousand euros)

Underlying assets/Derivative types	12.31.2022				12.31.2021			
	Over the counter			Organized markets	Over the counter			Organized 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			12				12	
a) Options			12				12	
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
3. Currency and gold			389,958				935,711	
a) Options								
b) Swaps								
c) Forwards			389,958				935,711	
d) Futures								
e) Others								
4. Commodities								
5. Others								
Total	**-**	**-**	**389,970**	**-**	**-**	**-**	**935,723**	**-**

A.2 Trading financial derivatives: positive and negative gross fair value - breakdown by products

(Values in thousand euros)

Derivative types	Total 12.31.2022				Total 12.31.2021			
	Over the counter			Organized markets	Over the counter			Organized 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			204				4,086	
f) Futures								
g) Others								
Total			**204**				**4,086**	
2. Negative fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards			950				2,725	
f) Futures								
g) Others								
Total			**950**				**2,725**	

A.3 OTC trading financial derivatives - notional values, positive and negative gross fair value by counterparties

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not falling under netting agreements				
1) Debt securities and interest rates				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
2) Equity securities and stock indices		12		
- notional value	X	12		
- positive fair value	X			
- negative fair value	X			
3) Currency and gold		391,111		
- notional value	X	389,958		
- positive fair value	X	204		
- negative fair value	X	950		
4) Commodities				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
Contracts falling under netting agreements				
1) Debt securities and interest rates				
- notional value	X			
- positive fair value	X			
- negative fair value	X			

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
2) Equity securities and stock indices				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
3) Currency and gold				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
4) Commodities				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional value	X			
- positive fair value	X			
- negative fair value	X			

A.4 Residual life of OTC financial derivatives: notional values

(Values in thousand euros)

Underlying asset/Residual Life	Up to 1 year	More than 1 year to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and stock indices		12		12
A.3 Financial derivatives on currencies and gold	389,958			389,958
A.4 Financial derivatives on commodities				
A.5 Other financial derivatives				
Total 12.31.2022	**389,958**	**12**	**-**	**389,970**
Total 12.31.2021	**935,723**	**-**	**-**	**935,723**

1.3.2 Accounting hedges

Qualitative information

The parent operates in hedging derivatives through linear instruments lacking optional components, such as currency swaps, which make it possible to guarantee optimized management of equity investments and loans provided in currencies other than the euro in which the Bank operates, also through its subsidiaries, financed through intra-group finance solutions in currencies such as the zloty and the Czech koruna.

Quantitative information

A. Financial derivatives held for hedging

A.1 Financial derivatives held for hedging: notional end-of-period amounts

(Values in thousand euros)

Underlying assets/Derivative types	Total 12.31.2022				Total 12.31.2021			
	Over the counter			Organized markets	Over the counter			Organized 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			**255,298**				**688,908**	
a) Options								
b) Swaps								
c) Forwards			255,298				688,908	
d) Futures								
e) Others								
4. Commodities								
5. Other underlying								
Total	**-**	**-**	**255,298**	**-**	**-**	**-**	**688,908**	**-**

A.2 Hedging financial derivatives: positive and negative gross fair value - breakdown by products

(Values in thousand euros)

Derivative types	Total 12.31.2022				Total 12.31.2021			
	Over the counter			Organized markets	Over the counter			Organized 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							13	
f) Futures								
g) Others								
Total							**13**	
1. Negative fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards			14,314				4,814	
f) Futures								
g) Others								
Total			**14,314**				**4,814**	

A.3 OTC hedging financial derivatives: notional amounts, positive and negative gross fair value by counterparties

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not falling under netting agreements				
1) Debt securities and interest rates				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			
2) Equity securities and stock indices				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			
3) Currency and gold				
- notional amount	X	255,298		
- positive fair value	X			
- negative fair value	X	14,314		
4) Commodities				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			
Contracts falling under netting agreements				
1) Debt securities and interest rates				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			
2) Equity securities and stock indices				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			
3) Currency and gold				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			

(CONT'D)

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
4) Commodities				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			

A.4 Residual life of OTC hedging financial derivatives: notional values

(Values in thousand euros)

Underlying asset/Residual Life	Up to 1 year	More than 1 year to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and stock indices				
A.3 Financial derivatives on currencies and gold	255,298			255,298
A.4 Financial derivatives on commodities				
A.5 Other financial derivatives				
Total 12.31.2022	**255,298**			**255,298**
Total 12.31.2021	**688,908**			**688,908**

Section 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 parent 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 or due to the presence of limits on the disposal of assets, forcing the parent 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.

In defining liquidity risk, a distinction is drawn between short-term ("liquidity risk") and long-term ("funding risk" or "structural liquidity risk") risks:

- "liquidity risk", the current or potential risk that the entity is incapable of effectively managing its liquidity requirements in the short term;
- "funding risk", the risk that the entity does not have stable sources of funds in the medium and long term, with the resulting current or potential risk of not being able to meet its financial obligations, without an excessive increase in funding costs.

As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the parent adopted a Bank Risk Management Policy and a Bank Treasury and Finance Regulation, with a view to monitoring liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.

The governance policy, described in the "Bank Liquidity Risk Management Policy ", which incorporates the latest regulatory updates (see Bank of Italy Circular 285/2013), is approved by the Board of Directors and defined in a manner consistent with:

- the parent's strategic objectives;
- the risk/reward objectives defined in the Risk Appetite Framework;
- the monitoring processes and strategies to be adopted in the event of a state of tension or liquidity crisis, as defined in the "Contingency Funding Plan" document.

What is set forth in the above-mentioned "Bank Liquidity Risk Management Policy" is consistent with what is set forth in the "Bank Risk Management Policy", in which the scopes and responsibilities of the company structures are set forth in detail at global level for all risks, including liquidity risk.

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 parent's operational reality.

To ensure the implementation of the liquidity risk management and control processes, the Bank 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.

The liquidity management process (liquidity management and control of the relevant risks) of the BFF Group is centralized in the Parent. In this governance model, the Parent defines the Group strategy and the guidelines that must be applied to the subsidiaries, at the same time ensuring the management and control of the liquidity position at consolidated level. The subsidiaries participate in liquidity management and risk control with the local functions, each taking into account the specific nature of its core business, but always in compliance with the guidelines defined by the Parent. The operational and structural liquidity risk governance and management system is based on the general principles that all Group companies must pursue, aligned with the indications of the Supervisory Authority.

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.

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 Bank, aims to ensure the ability to meet expected or unforeseen cash payment commitments.

The parent also conducts liquidity risk stress tests to assess the prospective impacts of stress scenarios on the parent's solvency conditions.

The Risk Management Function identifies the scenarios that may impact the parent’s current or forward-looking liquidity risk profile. By way of example, the following different drivers are described, which are taken into consideration in the definition of stress scenarios:

- market-driven scenarios refer to stress events exogenous to the parent, such as situations of uncertainty in the financial and/or political markets that lead to difficulties in accessing the market;
- bank-specific scenarios, which concern stress events endogenous to the parent typically linked to a reputational loss with possible deterioration of creditworthiness;
- combined scenarios, or the market and idiosyncratic scenarios developed in a single framework to evaluate the overall effect of stress on the parent.

The parent's liquidity position, which is healthy and constantly monitored, has remained solid thanks to the extensive availability of liquid reserves deriving from funding, so that short- and medium/long-term liquidity indicators - Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) - show values as at December 31, 2022 of 297.856% and 161.143%, respectively, well above the regulatory limits.

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.

Quantitative information

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

Currency of denomination: EUROS *(Values in thousand euros)*

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
A. On-statement of financial position assets	**3,425,501**	**78,267**	**168,870**	**264,824**	**1,259,209**	**322,639**	**372,879**	**1,818,174**	**3,377,645**	**173,636**
A.1 Government Securities	44		484		589,084	260,214	362,639	1,769,501	3,281,002	
A.2 Other debt securities								4,500	2	
A.3 Units of UCIs	90,225									
A.4 Loans	3,335,231	78,267	168,387	264,824	670,125	62,425	10,241	44,173	96,641	173,636
- Banks	132,411	40,168	110,382		121,702					173,636
- Customers	3,202,821	38,098	58,005	264,824	548,423	62,425	10,241	44,173	96,641	
B. On-statement of financial position liabilities	**5,187,772**	**4,573,737**	**3,758**	**4,569**	**494,198**	**483,059**	**175,502**	**104,537**	**2,899**	
B.1 Deposits and current accounts	4,307,645	132,447	3,752	4,556	493,771	443,369	174,632	99,190		
- Banks	634,163	128,966			315,265					
- Customers	3,673,482	3,482	3,752	4,556	178,506	443,369	174,632	99,190		
B.2 Debt instruments						39,242				
B.3 Other liabilities	880,127	4,441,290	5	13	428	448	869	5,347	2,899	
C. Off-statement of financial position transactions	**9,689,628**	**10,186,468**	**161,981**	**279,943**			**45**			
C.1 Financial derivatives with exchange of capital		496,840	161,981	279,943						
- Long positions		161,789	72,548	193,087						
- Short positions		335,051	89,432	86,857						
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be collected	9,687,743	9,687,743								
- Long positions	9,687,743									
- Short positions		9,687,743								
C.4 Loans commitments	1,884	1,884								
- Long positions		1,884								
- Short positions	1,884									
C.5 Financial guarantees given							45			
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

Currency of denomination: OTHER CURRENCIES *(Values in thousand euros)*

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
A. On-statement of financial position assets	**39,795**		**82,465**	**276,969**	**349,727**					
A.1 Government Securities										
A.2 Other debt securities										
A.3 Units of UCIs										
A.4 Loans	39,795		82,465	276,969	349,727					
- Banks	33,896									
- Customers	5,900		82,465	276,969	349,727					
B. On-statement of financial position liabilities	**550,606**	**32,125**	**30,795**	**48,893**	**163,935**	**61,173**	**14,546**	**15,115**		
B.1 Deposits and current accounts	550,606	32,125	30,795	48,893	163,935	61,173	14,546	15,115		
- Banks	86,564									
- Customers	464,042	32,125	30,795	48,893	163,935	61,173	14,546	15,115		
B.2 Debt instruments										
B.3 Other liabilities										
C. Off-statement of financial position transactions	**3,742**	**498,533**	**165,128**	**291,711**						
C.1 Financial derivatives with exchange of capital		498,533	165,128	291,711						
- Long positions		336,009	89,277	86,618						
- Short positions		162,524	75,850	205,093						
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be collected										
- Long positions										
- Short positions										
C.4 Loan commitments										
- Long positions										
- Short positions										
C.5 Financial guarantees given	3,742									
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

Section 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 Bank, exposure to this category of risk is generated predominantly by failure in work processes, in organization and 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 Bank to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives with the aim of fostering the adoption of professional and responsible behavior at all operational levels, as well as designing, implementing and managing an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted by the parent 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 organizational 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's Risk Management Function also allows the parent 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 parent 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 organizational 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 parent 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 parent has implemented a quantitative operational risk assessment process (OpVaR) that monitors the parent'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 Bank:

- 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 parent’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 parent adopts specific Organization Models for the management of the risks regarding money laundering, occupational health and safety, information security and payment services.

Finally, the reporting stage aims to ensure timely and appropriate communication in support of management decisions of corporate bodies and organizational 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.

Part F - Information on Equity

Section 1 - The parent's equity

A. Qualitative information

The equity of the Bank includes the aggregated share capital, share premium, reserves, interim dividends, equity instruments, treasury shares, valuation reserves and profit for the year.

For supervisory purposes, the capital base relevant for this purpose is determined in accordance with the current provisions of the Bank of Italy, and constitutes the regulator of reference for prudential supervision provisions.

B. Quantitative information

B.1 Equity: breakdown

(Values in thousand euros)

Items/values	Amount 12.31.2022	Amount 12.31.2021
1. Share capital	142,870	142,691
2. Share premium reserve	66,277	66,493
3. Reserves	180,628	146,251
- earnings-related	170,209	137,607
a) legal	28,539	26,197
b) statutory		
c) treasury shares		
d) others	141,670	111,411
- earnings-related	10,419	8,644
3.5 Interim dividends (-)	(68,550)	
4. Equity instruments	150,000	
5. (Treasury shares)	(3,884)	(7,132)
6. Valuation reserves:	5,421	4,060
- 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	1,045	211
- Property, equipment and investment property		
- Intangible assets		
- Hedging of foreign investments		
- Cash flow hedges		
- Hedging instruments (undesignated elements)		
- Foreign exchange differences	3	1
- 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	335	(190)
- Share of valuation reserves for equity investments measured at equity		
- Special revaluation laws	4,038	4,038
7. Profit (Loss) for the year	261,438	164,289
Total	**734,201**	**516,652**

B.2 Valuation reserves of the financial assets measured at fair value through profit or loss: breakdown

(Values in thousand euros)

Assets/Values	Total 12.31.2022		Total 12.31.2021	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities				
2. Equity securities	1,045		211	
3. Loans				
Total	**1,045**	**-**	**211**	**-**

Financial assets measured at fair value through OCI (HTC&S) are recognized at fair value. At the end of the year, the carrying amount of securities must be compared with the previous year's fair value changes, and any difference is recognized in the valuation reserves of the statement of financial position.

At December 31, 2022, this reserve refers to non-controlling interests held by the Parent and measured at fair value in certain financial and non-financial companies for a total amount of roughly €3 million.

For more details, please refer to the specific table in part B of the Statement of Financial Position Asset Item 30 "Financial assets measured at fair value through other comprehensive income".

B.3 Valuation reserves of the financial assets measured at fair value through other comprehensive income: annual changes

(Values in thousand euros)

	Debt securities	Equity securities	Loans
1. Opening balances	-	**211**	-
2. Positive changes			
2.1 Increases in fair value		136	
2.2 Adjustments for credit risk		X	
2.3 Transfer to income statement of negative reserves following disposal		X	
2.4 Transfers to other equity items (equity securities)			
2.5 Other changes		2,876	
3. Negative changes			
3.1 Decreases in fair value			
3.2 Adjustments for credit risk			
3.3 Reclassification through profit or loss of positive reserves: following disposal		X	
3.4 Transfers to other net equity items (equity securities)			
3.5 Other changes		(2,179)	
4. Closing balances		**1,045**	-

B.4 Actuarial reserves for defined benefit plans: annual changes

IAS 19 envisages the booking of actuarial gains and losses in the statement of comprehensive income for the applicable year.

The results of the actuarial valuation reflect the impact of the provisions of Italian Law 296/2006 and the computation, for IAS 19 purposes, refers solely to accrued post-employment benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.

At December 31, 2022, this actuarial reserve amounts to €335 thousand.

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.

2.1 Own funds

A. Qualitative information

Own funds represent the first line of defense against risks associated with the complexity of financial activities and constitute the main reference parameter for the assessment of the parent'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 parent constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and Risks 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 parent'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, stock option reserve, and financial instruments reserve);
- Any undistributed portion of profit for the period;
- Valuation reserves (IASs/IFRS 9 transition reserve, actuarial reserve, and revaluation reserve for HTC&S securities);
- Any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets, including any goodwill, and certain categories of tax assets should be deducted from these items in accordance with the requirements of CRR II, as well as the effects of calendar provisioning.

Tier 1 (AT1) capital includes Tier 1 instruments issued.

In 2022 Own funds were influenced primarily by:

- the issuance in the first quarter of 2022 by the Parent, with a view to optimizing funding and the Group's capital structure, of a subordinated Additional Tier 1 Perpetual NC 2027 instrument with a nominal amount of €150 million, and the exercise of the call option for the redemption of the subordinated Tier2 10YNC5 instrument issued in March 2017 with a nominal amount of €100 million.
- the inclusion of the share of profit for the period referring primarily to the accrual accounting of rights to receive collection costs and the modification of the late payment interest collection rate from 45% to 50%.

B. Quantitative information

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
A. Common Equity Tier 1 (CET1) pre-application of prudential filters	**500,726**	**391,372**
of which CET1 instruments subject to transitional provisions		
B. Prudential CET1 filters (+/-)	(386)	
C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)	500,341	391,372
D. Elements to be deducted from CET1	(59,894)	(61,162)
E. Transitional rules - Impact on CET1 (+/-)		
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	**440,447**	**330,210**
G. Tier 1 (Additional Tier 1 - AT1) inclusive of elements to be deducted and effects of transitional rules	150,000	
of which AT1 instruments subject to transitional provisions		
H. Elements to be deducted from AT1		
I. Transitional rules - Impact on AT1 (+/-)		
L. Total Additional Tier 1 (AT1) (G - H +/- I)	150,000	
M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules		
of which T2 instruments subject to transitional provisions		
N. Elements to be deducted from T2		
O. Transitional rules - Impact on T2 (+/-)		
P. Total Tier 2 (T2) capital (M - N +/- O)		98,224
Q. Total own funds (F + L + P)	**590,447**	**428,434**

2.2 Capital adequacy

A. Qualitative information

Compliance with Bank 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 Bank's total exposure to risks at December 31, 2022, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

With regard to the Bank, the CET1 is 11.7% and the Tier 1 Capital Ratio and Total Capital Ratio are 15.7%.

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 original exposure method.

Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, 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 Bank 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 the Bank 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. Operating losses referring to 2022 were significantly lower than the capital requirement for operational risk and the requirement calculated at operational level in the 2020 ICAAP.

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 Bank 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 April 29, 2022. The Report has been prepared in compliance with the requirements envisaged in Circular no. 285 of the Bank of Italy.

In relation to the "Supervisory Review and Evaluation Process" (SREP), the Group must comply with a CET1 Ratio of 9.00%, a Tier 1 Ratio of 10.50% and a Total Capital Ratio of 12.50%.

B. Quantitative information

(Values in thousand euros)

Categories/values	Non-weighted amounts		Weighted amounts / requirements	
	12.31.2022	12.31.2021	12.31.2022	12.31.2021
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized methodology	12,949,671	11,008,349	3,047,238	2,212,578
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			243,779	177,006
B.2 Credit valuation adjustment risk			25	1,207
B.3 Settlement risks				
B.4 Market risks				
1. Standard methodology				262
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			56,531	45,309
2. Standardized methodology				
3. Advanced method				
B.6 Other calculation factors				
B.7 Total prudential requirements			**300,336**	**223,785**
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			3,754,197	2,797,306
C.2 CET 1/Risk-weighted assets (CET1 capital ratio) (%)			**11.73%**	**11.80%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**15.73%**	**11.80%**
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) (%)			**15.73%**	**15.32%**

Part G - Business combinations of companies or business units

Section 1 - Transactions completed during the year

On October 3, 2022, BFF Bank acquired the company MC3 Informatica S.r.l., which as of the same date changed its company name to BFF Techlab S.r.l. This new transaction gave rise to a laboratory for the Group's technological innovation. The new subsidiary BFF Techlab was born from the acquisition by BFF Bank of 100% of the share capital of the IT consulting firm MC3 Informatica Srl, which over the last few years has supported the parent in the implementation of the current core factoring system and in the definition of other application architectures.

The transaction was finalized with the payment of a price of €384.2 thousand.

BFF Techlab is a company established in 1997 by a group of professionals with extensive experience in the field of design analysis and programming, and thanks to its know-how accrued in the area of artificial intelligence offers customers operating system design and development services, managing every phase of the process: design and analysis, coding and checking of applications.

At December 31, 2022, in accordance with the provisions of IFRS 3 revised ("Business Combinations"), the parent carried out the definitive Purchase Price Allocation of the newly acquired company (PPA) in light of the investigations performed both in the due diligence and preliminary phase conducted prior to the acquisition and based on the further assessments performed following the acquisition of the company.

Specifically, the recognition of business combinations is governed by the IFRS issued by the IASB and endorsed by the European Commission, and specifically by IFRS 3 Business Combinations.

In accordance with IFRS 3, each business combination requires the identification of an acquirer. 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 this method, BFF Bank 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 favorable deal.

Furthermore, pursuant to paragraph 8 of IFRS 3, the acquirer must identify the acquisition date, or the date on which it effectively obtains control over the acquired company. The date on which the acquirer obtains control over the acquired company is generally the contract closing date, or the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree.

In the case in question, the sale and purchase agreement of the former MC3 Informatica was entered into on October 3, 2022, the date which, lacking other written agreements between the parties, was identified as the moment in which the parent acquired control. As a result, for the purposes of the business combination, September 30, 2022 (last business day prior to the acquisition date) was considered to be the reference date of the PPA.

The comparison between the acquisition cost of €384.2 thousand and equity at September 30, 2022 of the former MC-3, equal to €301.5 thousand, generated a difference of €82.7 thousand to be allocated to goodwill.

The financial statements of BFF Techlab at September 30, 2022 are provided below, prepared in accordance with Italian GAAP and compared with the fair value measurement at the same date:

(Values in thousand euros)

	Carrying amounts at September 30, 2022	Fair value measurement
Statement of Financial Position - Assets		
Cash and cash equivalents	0.4	0.4
Loans and receivables with customers	355.5	355.5
Loans and receivables with banks	217.2	217.2
Property, equipment and investment property	5.6	5.6
Tax assets	11.8	11.8
Other assets	9.9	9.9
Total assets	**600.4**	**600.4**
Statement of Financial Position - Liabilities		
Liabilities to employees	188.3	188.3
Tax liabilities	14.9	14.9
Other liabilities	95.7	95.7
Total liabilities	**298.9**	**298.9**
Total net assets acquired	**301.5**	**301.5**
Acquisition cost		**384.2**
Goodwill		**82.7**

In keeping with the provisions of IFRS 3 revised, the purchase price must be allocated to the assets (both property, equipment and investment property and intangible assets) and liabilities of BFF's consolidated financial statements that were not already recognized at fair value in the subsidiary's financial statements. Any residual amount remaining after measuring the individual financial statement items at fair value is recognized indistinctly as "Goodwill" in "Intangible Assets".

As a result, this positive difference of €82.7 thousand was recognized in goodwill, also as a result of the technical skill and know-how acquired by the management of the newly acquired company.

Part H - Transactions with related parties

Related parties, as defined by IAS 24, include:

- The parent;
- Subsidiaries;
- Directors and key management personnel and their close family.

The following table provides the income statement and statement of financial position amounts arising from related party transactions performed by the Bank at December 31, 2022, 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)	Other related parties	Total related parties	Financial statement item	% of financial statement item	Statement of cash flows items	% of cash flow statement item
Impact of transactions on the statement of financial position								
Equity investments								
2022			8,564	**8,564**	**151,876**	**5.6%**	**(1,384)**	**N/A**
Amounts due to customers								
2022		(386)		**(386)**	**(10,728,674)**	**0.0%**	**2,058,164**	**0.0%**
Provision for risks and charges: a) pension and similar obligations								
2022		(1,057)		**(1,057)**	**(7,712)**	**13.7%**	**(75,371)**	**1.4%**
Other liabilities								
2022		(577)		**(577)**	**(382,205)**	**0.2%**	**(75,371)**	**0.8%**
Reserves								
2022		(5,190)		**(5,190)**	**(180,628)**	**2.9%**	**(75,371)**	**6.9%**
Impact of transactions on the income statement								
Interest and similar expense								
2022		(575)		**(575)**	**(91,494)**	**0.6%**		
Administrative expenses: a) personnel expenses								
2022		(9,629)		**(9,629)**	**(65,624)**	**14.7%**		

(1) Including members of the Board of Directors.

At December 31, 2022 the option rights relating to the outstanding stock option plans were equal to 16,169,288 options awarded: if the price of the shares reached €15, the dilution would be 2.21%.

Specifically, at December 31, 2022, 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 1,086,788 (2,534,684 at December 31, 2021). The vesting period has matured for 854,788 of these (1,581,684 at December 31, 2021).

With regard to the 2020 stock option plan, 8,384,500 options were assigned as of December 31, 2022 (compared to 8,615,000 options assigned as of December 31, 2021), exercisable starting from 2023.

Lastly, with regard to the 2022 Stock Option Plan, 6,698,000 options had been granted at December 31, 2022, of which 2,547,000 in cash-less form and 4,151,000 in phantom share form, exercisable starting in 2025.

In order to optimize the Group's funding activities, the Parent has entered into intercompany loan agreements with subsidiaries, regulated at arm's length.

More specifically, the balances of the intercompany positions at December 31, 2022 are as follows:

- BFF Finance Iberia (through the Spanish branch of BFF Bank): €526.9 million.
- BFF Polska: PLN 2,872 million, of which PLN 1,305.5 million through the Polish branch of BFF Bank and equal to €12.3 million.
- BFF Central Europe: €221.3 million.
- BFF MedFinance: PLN 401.5 million, of which PLN 331.5 million through the Polish branch of BFF Bank.
- BFF Česká Republika: CZK 44 million.
- BFF Immobiliare: €27.3 million.

BFF Bank has the following license agreements in place:

- With BFF Finance Iberia, which 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 December 31, 2022 amounted to about €955 thousand.
- With BFF Central Europe, which allows the use, under license, of the software, organizational methods and communication lines of BFF (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at December 31, 2022 amounted to about €652 thousand.
- With BFF Česká Republika, which allows the use, under license, of the software, organizational methods and communication lines of BFF (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at December 31, 2022 amounted to about €4 thousand.

There is an Intragroup Service and cost sharing agreement in place which focuses on service provision and optimal cost sharing between all Group companies and the branches of the Parent, between BFF Bank and:

- its foreign branches for an amount of about €452 thousand as of December 31, 2022;
- BFF Polska S.A. for about €591 thousand as at December 31, 2022;
- BFF Finance Iberia S.A.U. for about €298 thousand as at December 31, 2022;
- BFF Medfinance S.A. for an amount of about €80 thousand as of December 31, 2022;
- Kancelaria Karnowski for an amount of about €71 thousand as of December 31, 2022;
- BFF Central Europe s.r.o. for an amount as of December 31, 2022 equal to €85 thousand;
- BFF Ceska Republika s.r.o. for an amount as of December 31, 2022 equal to €20 thousand.

During 2016, BFF Finance Iberia purchased Italian healthcare exposures from the Parent for about €82 million. At the end of the reporting period, these exposures were already collected for about €80.9 million with an outstanding balance of about €0.9 million.

- 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;
- Administration, internal audit, compliance, risk management, corporate affairs secretariat and IT services for the subsidiary BFF Immobiliare S.r.l., amounting to €44 thousand per year;
- Administration, internal audit, compliance, risk management, corporate affairs secretariat and IT services for the subsidiary BFF Techlab S.r.l., amounting to €33 thousand per year.

The parent has also entered into agreements with its shareholders in relation to factoring services and the management and collection of exposures at arm's length.

Lastly, it should be noted that the conditions of deposit accounts relating to parent 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 parent or shares that have already been issued and are included in the parent's portfolio when the option is exercised;
- *Beneficiaries*: the identification of beneficiaries and the granting of options are decided by:
  a) The Board of Directors, after consulting with the Remuneration Committee, with reference to directors, senior executives and executives directly reporting to the Chief Executive Officer;
  b) The Chief Executive Officer, within the limits of his/her powers, with reference to other beneficiaries whose remuneration falls within his/her duties;
- *Type of exercise*: ordinary or cashless exercise. On March 28, 2019 the Ordinary Shareholders' Meeting approved the introduction of an alternative method for exercising options under the plan, in addition to the ordinary option (so-called cashless). According to the new exercise option, authorized beneficiaries who requested it can be allocated a number of shares determined based on the market value of the shares at the exercise date, with no obligation for them to pay the exercise price.

In line with current regulations, the options granted under the 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 strategic supervision, management and control bodies, and personnel of the parent, 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 parent 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 December 31, 2022 the number of stock options assigned and not exercised amounted to 1,086,788. The vesting period has matured for 854,788 of these, which are thus exercisable.

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 parent 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 newly issued ordinary shares of the parent or shares that have already been issued and are included in the parent's 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 Bank 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 Bank 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.

As of December 31, 2022, 8,384,500 cash-less options were assigned, exercisable starting from 2023.

BFF Bank 2022 Long-Term Incentive Plan

On March 31, 2022, the Ordinary Shareholders' Meeting approved a new "2022 Long-Term Incentive Plan" for employees and directors holding executive positions in the parent and/or its subsidiaries, having the following characteristics.

- Subject: the plan provides for the allocation of a maximum of 9,700,000 options divided into three tranches. The options can be of two types: (i) Class A options, which grant the right to receive newly issued ordinary shares of the Company, "equity settled", and (ii) Class B options, which grant the right to receive phantom shares, to be converted into cash in accordance with the provisions of the plan, "cash settled".
- *Vesting conditions (exercise)*: options granted under each tranche vest upon completion of the three-year period from the relevant grant date. Vesting is also subject to the fulfilment of the following conditions: (i) continuation of employment with the parent and/or office in the Board of Directors and absence of notice of resignation or dismissal; and (ii) achievement of KPIs (i.e. company performance indicators), without prejudice to the deferral and lock-up provisions applicable to the most significant personnel (i.e. Risk Takers) of the Bank and the other detailed forecasts of the plan, already disclosed to the market in accordance with applicable regulations.

At December 31, 2022, 6,698,000 options had been granted of which 2,547,000 in cash-less form and 4,151,000 in phantom share form, exercisable starting in 2025.

Part M - Lease Reporting

On January 1, 2019, the new standard IFRS 16 with the new definition and accounting model for "leases" came into effect. This standard is based on conveying the right to 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 statement of financial position 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, is 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 statement of financial position 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 periodic lease payments.

Section 1 - Lessee

Qualitative information

During 2018, BFF Bank launched a project 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) or that have a short lease term (12 months or less).

For the purposes of the first adoption of the 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 parent does not need to apply the standard retrospectively (therefore considering complex comparative information), and the amount relating to right-of-use assets under "Property, equipment and investment property" is equal to the financial liability amount.

Quantitative information

The right-of-use assets accounted for as “Property, equipment and investment property” at first- time adoption and at December 31, 2022 are shown below.

(Values in thousand euros)

	Right-of-use assets 12.31.2022	Right-of-use assets 12.31.2021
BFF Bank	10,675	13,793
Total	**10,675**	**13,793**

For more details on the accounting impacts related to Property, equipment and investment property and Financial liabilities measured at amortized cost, please refer to the specific section of Part B of the Notes to the separate financial statements.

Other information

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

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers’ Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to 2021 for audit and non-audit services provided by the audit firm and other companies in its network. Such fees represent the costs incurred and recorded in the consolidated financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

(Values in thousand euros)

Type of services	BFF Bank S.p.A.			
	KPMG S.p.A.		KPMG S.p.A. Network	
	Italy	Outside Italy	Italy	Outside Italy
Statutory audit	189	92		
Certification services (*)	58			
Tax consultancy services				16
Other services (**)	595		94	15
	842	**92**	**94**	**31**

(*) The amounts refer to the certifications regarding the Non-Financial Disclosure.
(**) Amounts refer to agreed-upon audit procedures and due diligence activities.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Certification by the Financial Reporting Officer

CERTIFICATION OF THE 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,
   - Giuseppe Manno, as Financial Reporting Officer of BFF Bank S.p.A.,

   hereby certify, having taken into account the provisions of art. 154-*bis*, paragraphs 3 and 4, of legislative decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the Bank, and
   - the effective implementation of the administrative and accounting procedures employed to draw up the 2022 financial statements.

2. The suitability and effective application of the administrative and accounting process employed to draw up the 2022 financial statements 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 financial statements at 31 December 2022:

   a) were drafted in accordance with the applicable International Financial Reporting 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, financial performance and cash flows of the issuer.

   3.2 the Report on Operations includes a reliable analysis of the important events and their impact on the financial statements, together with a description of the main risks and uncertainties to which they are exposed. The Report on Operations includes, moreover, a reliable analysis of the information concerning major transactions with related parties.

Milan, 8 March 2023

Massimiliano Belingheri
Chief Executive Officer

Giuseppe Manno
Financial Reporting Officer

04

Report of the Board of Statutory Auditors

BFF BANK S.P.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS

TO THE SHAREHOLDERS' MEETING OF

BFF BANK S.P.A., PURSUANT TO ART. 153 OF ITALIAN LEGISLATIVE DECREE NO. 58/1998

To the Shareholders' Meeting of BFF Bank S.p.A.

Shareholders,

The Board of Statutory Auditors ["the **Board**"], also in its capacity as Internal Control and Audit Committee ["**ICAC**"], is called upon to report to the Shareholders' Meeting of BFF Bank S.p.A., Parent Company of the BFF Banking Group [hereinafter also "**BFF**" or "**the Bank**" or "**the Company**", and the "**Group**"], convened for the approval of the Financial Statements for the year ended December 31, 2022, on the supervisory activities carried out during the year and on the other activities established by law.

The supervisory activity was carried out by the Board of Statutory Auditors in accordance with the Italian Civil Code, the rules of the By-laws, Italian Legislative Decree No. 58 of February 24, 1998 ["**Consolidated Law on Finance**"], Italian Legislative Decree No. 385 of September 1, 1993 ["**Consolidated Law on Banking**"] and special laws on the matter, as well as pursuant to Arts. 17 and 19 of Italian Legislative Decree No. 39/2010, and took into account the regulations imposed by the Authorities that exercise supervisory and control activities for banks and listed companies, in accordance with the Rules of Conduct of the Board of Statutory Auditors of Listed Companies prepared by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Council of Chartered Accountants and Accounting Experts).

Auditing is entrusted to the Independent Auditors KPMG S.p.A. ["**KPMG**"], whose external audit for the years 2021-2029 was assigned at the proposal of the Board of Statutory Auditors by the Ordinary Shareholders' Meeting of April 2, 2020.

The function of the Supervisory Body pursuant to Italian Legislative Decree 231/2001 ["**SB**"] was not transferred to the Board of Statutory Auditors, but is carried out by a separate collective body, appointed by the Board of Directors on May 10, 2021.

In this Report we provide an account of what we have done to fulfill our duties in accordance with the law.

a) *Appointment and self-assessment, activities of the Board of Statutory Auditors*

The term of office of the Board of Statutory Auditors in office at the date of this Report will expire with the Shareholders' Meeting convened to approve the financial statements at December 31, 2023.

In the course of 2022 a number of changes took place, as set forth in detail in the Governance Report, in the role of Chairman of the Board of Statutory Auditors, until reaching its current composition:

- Nicoletta Paracchini, standing member appointed at the shareholders' meeting of June 22, 2022, who was assigned the chairmanship;
- Fabrizio Riccardo Di Giusto, standing member appointed at the shareholders' meeting of March 25, 2021;
- Paolo Carbone, standing member appointed at the shareholders' meeting of March 25, 2021.

In order to govern the composition, operating methods and responsibilities of the control body, in accordance with the principles set forth by the applicable laws and regulations, as well as by the Corporate Governance Code which the Company follows, the Board of Statutory Auditors adopted its "Regulations of the Board of Statutory Auditors", updated most recently on July 13, 2021.

For the 2022 financial year, the Board of Statutory Auditors assessed, any time the need arose, the suitability of its members and the adequate composition of the body – with reference to the requirements of professionalism, competence, integrity, fairness and independence and the non-existence of causes of incompatibility established by law –, as well as the availability of adequate time and resources for the complexity of the office and its proper functioning, taking into account the size, intricacy and nature of the activities carried out by the intermediary. The members of the Board of Statutory Auditors have observed the maximum number of offices that can be held pursuant to Art. 144-terdecies of the Italian Issuers' Regulation and Italian Ministerial Decree No. 169/2020.

The self-assessment of the Board of Statutory Auditors for 2022 was carried out at

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the end of the year, pursuant to and for the purposes of Art. 26, paragraph 5 of the Consolidated Law on Banking and Section VI of the Provisions on Corporate Governance contained in Circular 285 of 2013 as updated, which – recalling the purposes of the self-assessment process established for the strategic supervisory body – provides that "*the body with a control function also carries out a self-assessment of its composition and functioning, inspired by the purposes listed above and on the basis of criteria and methods consistent with its characteristics*".

The self-assessment also took into account what is set forth in the By-laws and the "Regulations of the Board of Statutory Auditors", as well as best practices disseminated over time, including the Corporate Governance Code of 2020, and was conducted with the support of an independent advisor, resulting in an overall positive evaluation and identifying points for attention and improvement deemed suitable to strengthen the Body's effective functioning.

The Board of Statutory Auditors took part in training sessions organized by the Bank or trade associations and/or the reference professional associations, concerning issues relating to the role and responsibilities of the Board of Statutory Auditors, corporate governance, internal control and risk management systems, the bank's financial statements, international accounting standards, the Bank's business areas, anti-money laundering and the regulation of the banking and financial sector.

§ § §

The Board of Statutory Auditors confirms that despite a minor emergency phase deriving from the COVID-19 pandemic, the Bank continued to respect all safeguards in order to avoid the spread of the disease and, in the course of the year, permitted the normalization of activities, in compliance with special regulations and with remote and in-person activities.

The activities of the Board of Statutory Auditors were performed in manners, including with the acquisition of data and information in electronic format and by holding meetings for the most part by video or audio conference, which did not decrease or jeopardies the degree of reliability of the information received and the effectiveness of its activities.

During the year under review, the Board of Statutory Auditors carried out the activities within its remit, holding 61 meetings, on the basis of an Annual Audit Plan shared with the second and third level Control Functions, and additional meetings

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on extraordinary matters.

With justified absences of several members, the Board of Statutory Auditors, as composed over time during 2022, participated in all of the 22 meetings with the Board of Directors and all of the 16 meetings of the Control and Risks Committee, as well as the Shareholders' Meeting of March 31, 2022 and the Shareholders' Meeting of June 22, 2022.

As represented by at least one of its members, the Board of Statutory Auditors also attended all meetings of the Committee for the evaluation of transactions with related parties and associated entities, the Remuneration Committee and the Appointments Committee.

For the aspects within its remit, the Board of Statutory Auditors also supervised

- observance of the law and the By-laws,
- respect for the principles of proper administration,
- the adequacy of the organizational structure, the internal control system, the administrative-accounting system and the reliability of the latter to provide a correct representation of the Company's operations,
- the methods for concretely implementing the corporate governance rules set forth in the codes of conduct which the Company has stated that it follows, also providing disclosure to the public,
- the adequacy of the instructions given to the Subsidiaries pursuant to Art. 114, paragraph 2 of the Consolidated Law on Finance.

During the year under review, the Board of Statutory Auditors – which is also the Internal Control and Audit Committee provided for under Italian Legislative Decree No. 39 of January 27, 2010 – carried out the verifications entrusted to it pursuant to Art. 19 of the aforementioned Decree and Regulation (EU) No. 537/2014.

b) <u>Observance of the law and the By-laws</u>

In carrying out its supervisory and control activities, the Board held meetings with the Top Management, the internal control functions (Internal Audit, Compliance and Anti Money Laundering and Risk Management), the Financial Reporting Officer and the Managers of various Divisions and Organizational Units of the Bank, and exchanged information with the Independent Auditors and the SB.

Participation in meetings of the Board of Directors and the examination of information flows prepared by individual operating functions allowed the Board to gain necessary, useful information in various sectors regarding the general operating performance and its foreseeable developments, the organization, the internal control and risk management system, as well as the administrative and accounting system, in order to evaluate its suitability with respect to the Company's needs and its operational reliability, and the most significant transactions from the economic, capital and financial perspective.

Lastly, its presence at meetings of the Board of Directors and the Board Committees and information flows sent to the corporate bodies make it possible to confirm that the management actions carried out and of which the Board of Statutory Auditors was informed are compliant with the law and the By-laws.

c) *Significant operations and events during the financial year*

The draft Financial Statements of BFF Bank S.p.A. submitted for your approval are accompanied by the Report on Operations and, for the year ended December 31, 2022, show a profit of €261,438,216 compared to €164,289,349 in the previous year, an exhaustive breakdown of which is given in the Directors' Report on Operations and in the Notes to the financial statements, which should be referred to for the details.

In referring you to the description of the most significant transactions contained in the Report on Operations and in this report, the Board of Statutory Auditors highlights some significant events during the year below:

i) on January 19, 2022 BFF Immobiliare S.r.l., wholly-owned by the Bank, was established, as a vehicle which manages and develops all of the Group's owned real estate assets;

ii) in 2022, the "Casa BFF" construction project began on the building that will be the Bank's new headquarters located in the Fiera di Milano area, bringing together the over 500 employees operating today across three different locations;

iii) in August, for the first time, an interim dividend was distributed on the basis of the half-yearly results, approved by the Board of Directors, and after obtaining the positive opinion of the Independent Auditors;

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iv) in October, 100% of MC3 Informatica S.r.l, now BFF TechLab S.r.l., was acquired, an IT consulting firm that supported the Bank in the implementation of the core factoring system and which will now contribute to the vertical integration of development activities relating to the management and evolution of the Group's IT system;

v) at year-end, the migrations of the customers Arca and Anima were completed, after which the Bank recorded a reduction in activities relating to the Security Services BU. The Bank enacted new strategies to offset the decline in liquidity and redefined the new organizational structure, putting into place a new restructuring procedure, which currently involves 19 people.

The Board of Statutory Auditors also notes that the Bank continued in 2022 to contribute to the Deposit Guarantee Fund (Interbank Deposit Protection Fund, introduced by Directive 2014/49/EU - Deposit Guarantee Schemes - DGS) in the amount of €1,415 thousand on a mandatory basis, as well as to the Single Resolution Fund established by European Regulation No. 806/2014 – in force since January 1, 2016 – in the amount of €3,607 thousand.

On July 16, 2021, the Bank of Italy, in its capacity as Resolution Authority, adopted the 2020 Resolution Plan for the BFF Banking Group, identifying resolution as a crisis management strategy. In this context, the Bank of Italy, the reference authority for less significant national banks like BFF, in a letter dated August 18, 2022, announced the initiation of the MREL procedure for the determination of the minimum requirements of own funds and additional eligible liabilities with respect to those determined by the Supervisory Authority as part of the SREP supervision process (the result of which on the capital decision was formalized with a measure dated August 7, 2022).

On October 19, 2022, the MREL process was concluded and by Bank of Italy letter, the parameters already proposed were confirmed and, to complete the framework of the resolution plan, additional objectives were defined.

On September 23, 2022, the Bank of Italy issued more stringent interpretation guidelines on the new "Definition of Default" ["**DoD**"] pursuant to EU Regulation No. 575/2013 as updated, the practical application of which had an impact on impaired past due exposures, thus increasing the capital absorption to cover credit risk, but without affecting the actual risk profile. In this regard, the Company, after analyzing all loans in the portfolio, initiated a project to allow for the adoption of an internal model that, in accordance with the Authority, may be more representative of the Group's actual credit risk.

The Board of Statutory Auditors highlights that the estimated percentage of collection of default interest to be included in the amortized cost was increased to 50% following the update of the time series, carried out also observing that collections in the year 2022 confirmed an estimated percentage recovery much higher than 45%, the percentage used in 2021.

On the other hand, the average collection times for the entire interest provision were estimated at 2100 days (1800 in 2021) in order to prudently take into consideration the longer collection timing of the entire default interest provision, which slowed following the COVID-19 pandemic due to the blocking of court activities and the suspension of enforcement actions.

The two changes were accounted for in accordance with IFRS 15, respecting the requirements set forth therein, and generated an overall positive impact net of the tax burden in the income statement of €18.6 million.

Furthermore, the Board notes that a recent ruling of the European Court, which constitutes the binding interpretation for national rulings as well, confirmed that the minimum amount of €40 to be recognized to creditors, on the basis of Directive 2011/7/EU, by way of compensation for collection expenses, refers to the individual expired Public Administration ["**PA**"] invoice, irrespective of whether the demand, including judicial, of the creditors includes multiple invoices. The amount of such indemnity, which has been requested since 2018, is normally included in the settlement agreements that the Bank enters into with its debtors. Considering that the percentages of recovery of these expenses are aligned with those of default interest, on the basis of the analyses performed on the collection time series, the Group has decided to modify the accounting estimate approach pursuant to IAS 8, aligning it with that applied to default interest, therefore generating a positive impact in the income statement net of tax of €68.5 million on the profit for the year 2022, against the recognition of the provision established over time on the basis of the €40 fees to which the right has been accrued at that date.

In the financial statements, the Directors reported on the Group's capital adequacy described at individual and Group level, as well as the underlying reasons for the changes with respect to 2021.

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The Bank's Equity at December 31, 2022 amounted to €734.2 million, compared to €516.7 million in the previous year.

Own Funds at the same date and at the level of separate financial statements amounted to €590.4 million compared to €428.4 million at December 31, 2021, with an overall exposure to risks, in relation to the activity carried out, that is adequate for the capital base and the risk profile identified.

The CET 1 Capital Ratio stood at 11.73%, compared to 11.80% in 2021; the Tier 1 Capital Ratio stood at 15.73%, compared to 11.80% in 2021 and the Total Capital Ratio was 15.73%, compared to 15.32% in 2021.

At consolidated level, Own Funds amounted to €611.9 million (compared to €481.1 million at December 31, 2021); the CET 1 Capital Ratio stood at 16.86%, compared to 17.63% in 2021; the Tier 1 Capital Ratio stood at 22.33%, compared to 17.63% in 2021 and the Total Capital Ratio was 22.33%, compared to 22.16% in 2021.

d) Atypical or unusual transactions

The Directors' Report on Operations, as well as the information acquired during participation in meetings of the Board of Directors and information received from the Chairperson and the Chief Executive Officer ["**CEO**"], as well as from management and the Control Functions and the independent auditors, did not reveal the existence of atypical and/or unusual transactions.

e) Intra-group transactions or related party transactions

The Board of Statutory Auditors monitored compliance of the policies, regulations and procedures in use at the Bank, as well as observance thereof.

The main reference documents for transactions with related parties consist of the "Policies on internal controls adopted by the BFF Group for the management of conflicts of interest" most recently updated on December 30, 2021 and the "BFF Banking Group Regulations for the management of transactions with persons in conflict of interest" most recently updated on October 27, 2022, with the favorable opinion of the Board of Statutory Auditors, in order to include amongst ordinary transactions those carried out by the subsidiaries BFF Immobiliare S.r.l. and BFF TechLab S.r.l.

During the year under review, the Board of Statutory Auditors did not detect the existence of atypical or unusual transactions carried out with related parties, intra-

group, or with different entities, nor did it have indications to that effect from the Board of Directors or the Independent Auditors.
Information regarding related-party transactions are outlined in detail in the special section of the Financial Statements.

f) *Supervisory and control activities conducted by the Board of Statutory Auditors in relation to the tasks assigned to it in its capacity as "Internal Control and Audit Committee"*

Pursuant to Art. 19, paragraph 1, of Italian Legislative Decree No. 39/2010, as amended by Italian Legislative Decree 135/2016, as well as Regulation (EU) No. 537, the Board of Statutory Auditors, in its role as ICAC, has conducted autonomous assessments on organizational structures targeted at fully implementing the regulatory provisions which aim, in particular, to strengthen the quality of auditing and the independence of the independent auditors, in order to improve market and investor confidence in financial reporting.
During the year, the ICAC maintained continuous interaction with the independent auditors, attributing particular emphasis to verifying the continued fulfillment of the independence requirement by the independent auditors and the exchange of information with the Board of Statutory Auditors, in relation to the various responsibilities and types of control.
With regard to accounting auditing activity, during the numerous meetings held with KPMG, the Board of Statutory Auditors:

(i) acquired information on the audits conducted, as well as on the proper bookkeeping of the Company's accounts and proper reporting of management operations in the accounting records;

(ii) received from the independent auditors, pursuant to Art. 11 of EU Regulation No. 537/2014, the Additional Report for the ICAC, which showed a potential increase in the risks of significant errors relating to expected credit losses and the fair value of financial instruments due to the higher degree of uncertainty deriving from the Russia-Ukraine conflict, which were evaluated with the involvement of specialists on financial risks, resulting in an extension of the auditing procedures; this describes the significance, audit plan and scope of consolidation, the methodology used, the summary of risks and the key

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aspects of the audit. From these considerations, it emerged that: i) there are no significant deficiencies in the internal control system in relation to the financial reporting process; ii) no cases of fraud or suspicion of fraud were brought to the attention of the ICRC; iii) no issues considered significant concerning cases of non-compliance, actual or alleged, with laws, regulations or provisions of the by-laws were identified; iv) no significant difficulties were encountered in the course of the audit; v) no significant errors were identified; vi) there were no aspects to be reported with respect to the company's bookkeeping and the proper reporting of management operations;

(iii) acknowledging that no significant aspects emerged to be reported with regard to the provisions of EU Delegated Regulation 2019/815 "Regulatory technical standards on the specification of a single electronic reporting format" (ESEF).

The Board of Statutory Auditors received from the independent auditors, pursuant to Art. 6, paragraph 2, letter a) of EU Regulation 537/2014, and pursuant to paragraph 17 of ISA Italia 260, confirmation of their independence, in which the auditors declare that they respected the ethical principles pursuant to Arts. 9 and 9-bis of Italian Legislative Decree 39/2010 and that they have not identified situations that compromised their independence, nor did the Bank identify situations capable of compromising it.

The Board of Statutory Auditors also examined the reports drawn up by the independent auditors KPMG S.p.A. issued on March 23, 2023. The activity of the independent auditors integrates the general framework of the Control Functions established by the regulations with reference to the financial reporting process.

The text of the Audit Report also includes the Key Aspects of the audit, i.e. those aspects considered most significant in the context of the audit of the separate financial statements and the consolidated financial statements.

With respect to opinions and certifications, the Independent Auditors proceeded as follows in their Audit Report on the Financial Statements:

– They issued an opinion showing that the separate financial statements and the consolidated financial statements of BFF Bank S.p.A. and the BFF Banking Group, respectively, provide a true and fair representation of the financial position of the Bank and the Group as at December 31, 2022, the results of operations and cash flows for the year ended on that date in accordance with

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the International Financial Reporting Standards adopted by the European Union, as well as the measures issued in implementation of Art. 9 of Italian Legislative Decree No. 38/2005 and Art. 43 of Italian Legislative Decree No. 136/15;

- They issued an opinion on consistency, showing that the Directors' Reports on Operations accompanying the separate financial statements and the consolidated financial statements as at December 31, 2022, and some specific information contained in the "Report on Corporate Governance and Ownership Structures" indicated in Art. 123-*bis*, paragraph 4, of the Consolidated Law on Finance, responsibility for which lies with the directors, were drawn up in accordance with the law;
- They issued an assessment on compliance with the provisions of Delegated Regulation (EU) 2019/815 of the separate financial statements and consolidated financial statements in XHTML format and the mark-up of the consolidated financial statements, in all their significant aspects;
- With reference to any major errors in the Directors' Report on Operations, based on the knowledge and understanding of the Company and respective information acquired during the course of the audit, they declared that they had nothing worthy of note to report.

Instead, as for identifying Key Aspects, the Board of Statutory Auditors was able to ascertain how they pertain to: i) the recognition of default interest on performing loans and receivables that were acquired outright; ii) the recognition of the lump-sum debt collection indemnity (€40); iii) the recoverability of the value of equity investments in subsidiaries recognized in the financial statements; iv) the valuation of intangible assets with a definite and indefinite useful life.
In this regard, the Board of Statutory Auditors has taken note of the audit procedures outlined by the independent auditors in response to the Key Aspects, by agreeing on the measures to be taken to mitigate any risks associated with them.

The Independent Auditors also issued, pursuant to Art. 3, paragraph 10, of Italian Legislative Decree No. 254/2016 and Art. 5 of Consob Regulation Resolution No. 20267/2018, the "Report of the independent auditors on the consolidated non-financial disclosure" in which they state, on the basis of the work carried out, that no evidence had come to their attention to suggest that the Consolidated Non-Financial

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Disclosure relating to the year ended December 31, 2022 was not drawn up, in all significant aspects, in accordance with the requirements of Arts. 3 and 4 of Italian Legislative Decree No. 254/2016 and the GRI Reporting Initiative Sustainability Reporting Standards defined by the GRI – Global Reporting Initiative.

g) <u>Independence of the auditor</u>

The Board of Statutory Auditors supervised the independence of the independent auditors through constant monitoring of auditor activities, with reference to both Audit Services and Non-Audit Services, preventively subject to assessments and the expression of an opinion by the ICAC, in order to exclude, among these, the presence of services considered prohibited by Art. 5 of the aforementioned Regulation.

In the course of 2022, the Board of Statutory Auditors carried out its own independent assessments on the potential risks to the independence of the independent auditors and the safeguards applied pursuant to Art. 22 ter of Directive 2006/43/EC, also making reference to the "Group Regulations for the Approval of the so-called "Non-Audit Services" to be granted to the firm assigned the external audit of the accounts", most recently updated on July 28, 2021, which define the general principles and operating procedures in relation to the assignment of Non-Audit Services, conferred on the Group Independent Auditors and their Network, and ascertaining, mainly:

- that Non-Audit Services are not part of prohibited services, as defined in Art. 5, paragraph 1 of the EU Regulation, unless otherwise provided for by Member States;
- the reasons for the appointment of KPMG or entities of its network by the management of the Public Interest Entity (the Bank, pursuant to Art. 16 of Italian Legislative Decree 39/2010);
- that the fees requested appeared to be determined in such a way as to guarantee the quality and reliability of the work, and were such as not to give rise to possible risks to the independence of the auditor.

The Board of Statutory Auditors examined the Report on the independence of the independent auditors pursuant to Art. 6, paragraph 2, letter a) of EU Regulation 537/2014 and pursuant to paragraph 17 of ISA Italia 260, issued by the latter on March 23, 2023, which shows that no situations have compromised their independence and that there are no causes of incompatibility, pursuant to Arts. 10 and 17 of Italian Legislative Decree No. 39/2010 and Arts. 4 and 5 of European Regulation 537/2014.

The Financial Statements specify, in accordance with Article 149-*duodecies* of the CONSOB Issuers' Regulation (resolution No. 11971 of May 14, 1999, as amended) the fees for the year 2022 for audit and non-audit services provided by the independent auditors and other companies in their network.

It should also be noted that the Bank engaged KPMG S.p.A.(i) to perform a limited audit of the Consolidated Non-Financial Disclosure ["**NFD**"], pursuant to Italian Legislative Decree No. 254/2016 relating to the year 2022, an activity categorized as an audit service; (ii) to perform auditing and assurance activities on the data made available by a third-party company subject to a possible acquisition. In the view of the ICAC, these activities did not influence auditor independence.

With regard to the above, in relation to the tasks assigned to KPMG and its network by BFF Bank S.p.A. and the Group companies, the Board of Statutory Auditors does not believe that there are any critical aspects concerning the independence of the Auditor.

h) *Respect for the principles of proper administration*

The information obtained during the year and described in brief in this report enable the Board of Statutory Auditors to affirm that the transactions carried out were inspired by respect for the principles of proper administration, approved and carried out in compliance with the law and the by-laws and also to rule out that any transactions carried out were clearly imprudent or risky, conflicting with resolutions passed by the Company or such so as to compromise the integrity of its assets.

i) *Administrative, accounting and financial reporting process*

Art. 19 of Italian Legislative Decree No. 39/2010 provides that the ICAC is responsible for monitoring the financial reporting process and making recommendations or proposals to ensure its integrity, as well as for monitoring the effectiveness of internal control and risk management systems with regard to financial reporting.

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The Board of Statutory Auditors has taken note that the Board of Directors of BFF Bank S.p.A., in compliance with the provisions of Italian Law No. 262 of December 28, 2005 and Art. 154 bis of the Consolidated Law on Finance, established in its governance structure the role of Financial Reporting Officer, and approved the Financial Reporting Officer Functioning Regulations and the Methodological Note of the Financial Reporting Officer.

Due to the subsequent expiry at September 30, 2022 of the term of office of the Financial Reporting Officer Mr. Claudio Rosi, the Board of Directors appointed Mr Giuseppe Manno to replace him effective as of October 1, 2022, after obtaining the favorable opinion of the Control and Risks Committee, the Appointments Committee and the Board of Statutory Auditors, obtaining confirmation of his suitability for the role from the Bank of Italy in a letter dated August 8, 2022.

As for the tasks assigned to the Board of Statutory Auditors, during the year it monitored the work of the Function of the Financial Reporting Officer with whom it held regular meetings, examining the reference model structured according to market best practices (COSO Report) capable of providing reasonable certainty on the reliability of the financial reporting process, as well as on the effectiveness and efficiency of operations, in compliance with laws and internal rules.

In particular, the Board of Statutory Auditors showed how the Bank chose the "mixed" control model as a suitable one for guaranteeing the monitoring of the Internal Control System on periodic financial reports based on the characteristics of the Group, with a diversified application of these to the Subsidiaries which, for the purposes of carrying out the planned activities, call for:

- the preliminary identification of the scope of activities ("scoping") with direct controls for the Parent Company and for BFF Finance Iberia S.A.U. ["**BFF ES**"] and indirect controls on the subsidiary BFF Polska S.A. ["**BFF PL**"] through a local resource who reports hierarchically to the Chief Financial Officer of the subsidiary and functionally to the structure of the Financial Reporting Officer of the Parent Company;
- the identification of audits on the Internal Control System ["**ICS**"], evaluated as a whole at governance and Entity level ["**Entity Level Controls**" or "**ELCs**"], highlighting that at corporate level all aspects for improvement suggested previously were remedied and that in terms of general compliance

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with the requirements set forth by the control model, the overall level of adequacy is "Medium High";

- the performance of adequacy and effectiveness checks on the ICS at process level ("direct approach");
- the review of the results of the audit activities performed by the Group Control Functions in order to identify any elements useful for the evaluation provided by the ICS on financial misstatement risks;
- the identification of any critical issues, evaluated based on their impact in terms of residual risk and potential impacts on profit and loss, and corrective actions initiated to remedy any gaps identified;
- the monitoring of and follow-up on corrective actions subject to specific reporting to the Chief Executive Officer.

The activities described above are preparatory to the issue of the certification pursuant to Art. 81-ter of Consob Regulation No. 11971 of May 14, 1999 as amended, signed by the Chief Executive Officer and the Financial Reporting Officer, and must ensure the adequacy and effective application of the administrative and accounting procedures for the preparation of the financial statements, instrumental to confirming the correspondence of the company accounting documents with the results of the accounting books and their suitability to provide a true and fair representation of the financial position, profit and loss and cash flows.

The Board of Statutory Auditors was able to examine the outcome of the audits in which it was revealed, in various areas, that the situation was, on the whole, monitored, and that there were no critical aspects or shortcomings such as to affect the judgment of the adequacy and effective application of the administrative and accounting procedures, although there were areas for improvement on which corrective action should be taken.

Furthermore, with regard to the subsidiaries acquired in 2022, BFF Immobiliare S.r.l. was not considered within the scope of controls due to its low degree of significance, while BFF Techlab S.r.l., consolidated line-by-line in the Consolidated financial statements as at December 31, 2022, will be tested in the second quarter of 2023.

Therefore, the Board of Statutory Auditors, with regard to the structure and content of the periodic reports drawn up by the Financial Reporting Officer when the Half-Yearly Financial Report, the Separate Financial Statements and the Consolidated

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Financial Statements were drafted, believes that the activities carried out to assess the adequacy and effective application of the processes and procedures functional to the financial reporting of the Group are adequate to justify the certification requested from the Chief Executive Officer and the Financial Reporting Officer, pursuant to Art. 154 bis of the Consolidated Law on Finance.

j) Consolidated Non-Financial Disclosure

The Board of Statutory Auditors supervised compliance with the provisions established by Italian Legislative Decree No. 254/2016 and examined the NFD relating to the 2022 financial year, ascertaining its compliance with the provisions governing its drafting pursuant to the aforementioned Decree.

In particular, it acknowledges that, in line with the new GRI – Sustainability Reporting Standards issued in 2021 and applicable as of the 2022 NFD, the Bank has drafted the document "in accordance" with all of the reporting requirements established, providing a full disclosure for each material topic.

The Bank updated its materiality analysis pursuant to GRI 3, initiating the adoption of the concept of double materiality established by the EFRAG, to include both Impact Materiality and Financial Materiality, and increased the disclosure on regulatory compliance and the resulting improvements to be enacted, also reporting information concerning Taxonomy Eligibility.

On July 28, 2022, the Board of Directors approved the establishment of an ESG Committee, as a managerial body with proposal and advisory functions in favor of the CEO. It also began a process of engaging with the main ESG rating agencies in order to incentivize performance improvement thanks to substantial and not only formal initiatives. The Group approved the Diversity & Inclusion Policy in December 2022.

As mentioned above, the independent auditors KPMG expressed a positive opinion. For all matters not addressed, the Board of Statutory Auditors refers the reader to the 2022 NFD.

k) Adequacy of the organizational structure

The Board of Statutory Auditors supervised the adequacy of the organizational structure.

It found it to be adequately monitored by the management body and the Board of Directors, as well as subject to periodic updates to make it more efficient and effective in relation to the needs emerging due to economic trends, business requirements, market dynamics and regulatory developments.

The Company's organizational chart clearly identifies lines of responsibility, breaking them down until the more operational functions, and is periodically reviewed and updated by the Administrative Body with the support of the responsible offices. The organizational chart also represents the functions of the individual structures that are reflected in the representation of the delegations and powers attributed to an appropriate level of skill and responsibility, with the objective of an adequate separation of duties.

The Board of Statutory Auditors noted that, during 2022, the integration process of the former DEPOBank Banca Depositaria Italiana S.p.A. continued, particularly with regard to aspects relating to the streamlining of the organizational structure, internal regulations and the harmonization and implementation of the IT system.

Also in view of what has been stated in previous sections of this Report, the Board of Statutory Auditors is of the opinion that the Bank's organizational structure is on the whole substantially adequate based on its size and operating characteristics, and requires continuous monitoring and the performance of improvement actions in line with the complexities arising from the Group's growth in size and operational diversification and the associated risks to which it is exposed.

l) *Instructions given to the subsidiaries*

The Bank, as Parent Company and point of reference for the Supervisory Authority, in exercising its management and coordination activities, issued the various instructions to the Subsidiaries required to implement the general and special instructions issued by the Bank of Italy in the interests of Group stability, pursuant to Art. 61, paragraph 4 of the Consolidated Law on Banking and Circular No. 285/2013.

Relationships with the subsidiaries are defined in the "Intra-group Regulations" and the instructions are given by the individual Functions in order to update the subsidiaries on internal regulations applicable to them and the information needed for the reporting package, the main activities of which are performed in a centralized

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manner.

Recalling that there are no equivalent control bodies in the Group's foreign Companies, the Board of Statutory Auditors in any event carried out its own in-depth analysis during periodic meetings with the Bank's company control functions. In this regard, it should be recalled that the control functions have direct responsibility for their respective analogous structures in relation to BFF Finance Iberia S.A.U., while they are recipients of functional reporting from the corresponding similar functions of the BFF Polska Group.

The Board of Statutory Auditors considers the instructions issued by the Bank to its subsidiaries to be adequate on the whole, including for the purpose of providing all the information necessary to fulfill the disclosure obligations required by law, pursuant to Art. 114, paragraph 2, of the Consolidated Law on Finance.

m) Adequacy of the internal control and risk management system

The internal control system is defined as the set of directives, procedures and operating practices adopted by the company in order to reach the following objectives through an adequate process for identifying, measuring, managing and monitoring the main risks:

- strategic objectives, to ensure the compliance of the Administrative Body's decisions with the directives received and the purpose that the Company and the Group aim to achieve, as well as with the protection of stakeholder interests;
- operating objectives, aimed at guaranteeing the effectiveness and efficiency of company activities;
- reporting objectives, aimed at guaranteeing data reliability and trustworthiness;
- compliance objectives, to ensure the compliance of business activities with laws and regulations in force.

The Board of Statutory Auditors also confirms that it held periodic meetings with the Chief Executive Officer responsible for the ICS and with the Corporate Control Functions - Internal Audit, Compliance and AML, Risk Management, the Function of the Financial Reporting Officer and the independent auditors KPMG -, in addition to its constant participation in the work of the Control and Risks Committee.

It acknowledges the extensive disclosure provided to the Board of Directors by the Chief Executive Officer about the implementation status of Board of Directors resolutions and the progress made in activities intended to reach strategic objectives.

The Board of Statutory Auditors verified that each company of the Group had adopted an internal control system consistent with the Group's strategy and policy, especially with regard to the foreign subsidiaries, for which, in compliance with local restrictions, initiatives have been put in place to ensure, overall, adequate standards and organizational controls. Further strengthening initiatives have already been carried out, including as a result of the inspections of the Supervisory Authority carried out in the course of 2021, as well as in light of the greater complexity deriving from the growth and operational diversification of the Group.

In this regard, it is once again recalled that, in its capacity as Parent Company of the BFF Banking Group, BFF Bank S.p.A. performs the functions of management and coordination, as well as unitary control, of BFF Finance Iberia S.A.U., BFF Polska S.A., BFF Immobiliare S.r.l. and BFF TechLab S.r.l., complying with the "Intra-group Regulations", which define the organizational architecture, objectives and content of the management, coordination and control activities, and other Group Regulations aimed at better governing the application of the relevant legislation.

Indeed, in the internal control system, the regulatory structure of the Bank and the Group and the constant updating of policies and regulations are particularly important; specifically, in 2022: i) the Organization, Management and Control Model pursuant to Italian Legislative Decree No. 231/2001 and the Code of Ethics were updated; ii) the Group anti-money laundering and anti-terrorism regulation was updated; iii) the Compliance risk management policy was updated; iv) the Diversity & Inclusion Policy was approved; v) the ESG Managerial Committee Regulation was approved; vi) the Intra-group Regulation was updated; viii) the Internal dealing procedure was updated; viii) the Procedure for the maintenance and updating of registers of people with access to significant and inside information was updated; ix) the Internal procedure for the management and external disclosure of inside information was updated; x) the 2022 Remuneration and incentive policy was approved; xi) the Regulation for the management of transactions with persons in conflict of interest was updated; xii) the Credit regulation was updated; xiii) the Credit Committee Regulation was updated; xiv) the Group Risk Management Function Regulation was updated; xv) the Group Pillar 3 Reporting Disclosure

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Policy was updated; xvi) the Stress Test Framework Regulation was updated.

The Board of Statutory Auditors also acknowledged the activities carried out by the Supervisory Body appointed to guarantee the adequacy, observance and updating of the organization and management model pursuant to Italian Legislative Decree 231/01 and, during periodic meetings, confirmed the fulfillment of the requirements of efficiency and independence by that body, exchanged information concerning the Bank's oversight mechanisms, the controls performed and the ensuing results, and obtained confirmation of the accuracy and frequency of the information flows to be sent to it.

The Board of Statutory Auditors also ascertained the Bank's compliance with its obligations to correspond with and send disclosures to the Supervisory Bodies.
The activities resulting from the inspections carried out by the Supervisory Authority during the year and on the basis of the Remediation Plan consequently prepared at the end of 2021 were constantly monitored, updated and reported on a quarterly basis to the Board of Directors. The objectives set forth in the plan are in the conclusion phase, without prejudice to a few activities that need to be replanned linked to the development of the IT system, but also as a result of additions and implementations made necessary by developments planned by the Bank, regulatory amendments or subsequent discussions with the Authority.
Based on the activities carried out and the information acquired, the Board of Statutory Auditors hence believes that overall there are no critical issues such so as to affect the structure of the ICS, in any event highlighting the extensive context to which the assessments, still ongoing, on the corporate governance system and on the check and balance mechanisms subject to Bank of Italy observation must be applied.

The Board of Statutory Auditors monitored the adequacy of the risk management system by examining the periodic reports of the Control Functions and the periodic information provided, as well as the results of monitoring activities and actions taken to implement corrective measures identified and through participation in meetings of the Control and Risks Committee.
The Group has adopted a structured reference framework, through the implementation of a process regulated by specific risk appetite framework ["**RAF**"]

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internal regulations, which is evaluated by the Board according to the business model and the Strategic Plan and provides for the approval of risk objectives, risk trigger thresholds and tolerance thresholds.

In this regard, the Board of Statutory Auditors has supervised, within the limits of its remit, the comprehensiveness, adequacy, functionality and reliability of the RAF, also evaluating the changes to the framework during the year under review in relation to developments in terms of metrics and calibration of risk limits, in order to incorporate equal changes in the Bank's business models, or in consideration of regulatory indications.

The Board of Statutory Auditors confirms that the Board of Directors has defined ICS guidelines, ensuring that the main corporate risks are identified, managed and monitored in an appropriate manner. In particular, it assessed the types of risks at a consolidated level and approved the assumption thereof in a structured manner for all entities of the Group and for all the countries in which the Group operates.

Overall, the control and risk management system appears to be consistent with the legal and regulatory framework and the Group's organizational structure. On the basis of the above-mentioned Remediation Plan, the Bank has identified remedial actions that have had impacts on the activities and methodologies adopted by the control functions, with particular reference to the Risk Management Function and the Internal Audit Function. These actions were necessary to ensure the alignment of the ICS with the complexities deriving from the growth in size and diversification of the Group's activities.

The Board of Statutory Auditors has constantly monitored, including for the year 2022, the activities carried out by the Control Functions, reporting on the most important aspects and on the outcome of checks carried out, with regard to which the following should be observed.

On April 29, 2022, the Board of Directors of BFF Bank S.p.A. approved the 2021 ICAAP/ILAAP Report, analyzing the considerations of the Control Functions concerned and of the Control and Risks Committee.

To that end, the Board of Statutory Auditors evaluated the ICAAP/ILAAP process adopted by the Bank as structured in compliance with regulatory provisions on the matter. It agreed with the remarks made by the Control Functions on the proposed initiatives which, subject to a refinement of stress scenarios, monitoring of the impacts and risks connected to the new ESG regulations and the inclusion of these

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risks connected with the ICAAP framework, are intended to establish a solid and secure structure in support of risk governance and control processes based on the new Group configuration.
In the course of its in-depth analysis, the Board of Statutory Auditors ascertained the consistency with the Group's business model, the RAF, the ICAAP process, as well as the general structure of the Bank.

On April 29, 2022, the Board of Directors of the Bank approved the "Recovery Plan of BFF Banking Group" ["***Recovery Plan***"], as requested by the Bank of Italy.
The Board also expressed its considerations on the 2021 Annual Report on "Outsourced Critical or Important Functions" ["**CIF**"] drafted by the Internal Audit Function, expressing its opinion in favor of its approval during the Board of Directors meeting of April 29, 2022.
In the context of the activities carried out by the Anti-Money Laundering Function, with reference to legislation to combat money laundering and terrorist financing, the Board of Statutory Auditors has constantly monitored the aforementioned activities as well as the outcome of the *ex post* verifications, in respect of which no particularly critical situations have been reported. The Board of Statutory Auditors also examined the self-assessment on risks related to money laundering and terrorist financing.
In this regard, the Board of Statutory Auditors noted that, in the opinion of the Manager of the Function, the overall assessment of the residual risk of Group money laundering should be considered "low".

The Board of Statutory Auditors also verified the comprehensiveness, adequacy, functionality and reliability of the Business Continuity Plan, the residual risks of which deemed "Medium High" are inherent in the critical issues linked to a supplier's operational continuity technological solutions. The Board of Directors approved the Operational continuity plan at December 22, 2022, accepting that residual risk and identifying the actions to be carried out urgently, in order to monitor and reduce residual risk.
On the same date, the "*ICT strategic guidance document*" was approved, which defines the methods for managing and improving the company's IT system to cover the Group's current and future needs, a document updated in light of the changes

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that have taken place and priorities and objectives, also with reference to the 2021-2023 ICT strategic plan.

In light of the 40th update of Circular 285/2013 published on November 2, 2022, the current year will be fundamental to define the ICT infrastructure and obtain the specialized skills required to perform assurance duties.

At the reporting date, with reference to the current Russia-Ukraine geopolitical crisis, which represents a factor of instability and influences the European and global macroeconomic situation, note that the Group has enacted constant monitoring of the risks to which it may be exposed.

Part E of the separate and consolidated financial statements includes "Information on risks and related hedging policies".

In conducting the relevant audits, the Board of Statutory Auditors continued its constant dialog with the Internal Audit Function, including for the year under review, sharing the results of the verification activities carried out, both with regard to the Parent Company and individual investees.

In this regard, the Board of Statutory Auditors was able to note that the activities planned by the Internal Audit Function for the year 2022 covered the scope of activities that the Function had undertaken to perform.

The Audit Plan, prepared on a three-year basis for the 2022-2024 period, provides for a process-oriented planning of activities according to a risk-assessment based approach. It is reviewed and/or supplemented annually and submitted for approval to the Board of Directors, after examination by the Control and Risks Committee, with prior sharing with the Chairman of the Board of Directors, the Chief Executive Officer, the Board of Statutory Auditors and the 231/2001 Supervisory Body.

The Board of Statutory Auditors examined the Group Audit Plan for the 2022-2024 three-year period, noting, in particular with regard to the foreign subsidiaries, that: i) for the BFF Polska Group, the reports relating to the audits – the results of which are included in the Tableau de Bord of the Internal Audit Function of the Parent Company – are shared by the local Internal Audit Function with the corporate bodies of BFF Polska S.A. and transmitted to the Internal Audit Function of the Parent Company, which involves, where necessary, and for matters within their field of competence, the Company Functions concerned; ii) for BFF Finance Iberia S.A.U., the results of the checks carried out by the Parent Company's Internal Audit function on the basis of a specific service contract are forwarded in advance to the Board of Directors of the subsidiary and included in the Tableau de Bord of the Parent Company's Internal Audit Function.

With a positive outcome, the Board of Statutory Auditors examined the update to the Group's "*Internal Audit Manual*", approved by the Board of Directors on January 28, 2022.

It must be noted that the Internal Audit Function is also responsible for the internal reporting system ("whistleblowing"), in relation to which there were no reports received during the year 2022.

n) *Remuneration policies*

The remuneration policies of the Group are governed by the Remuneration and Incentive Policy for members of the strategic supervision, management and control bodies, as well as employees [the "**Policy**"], drawn up in accordance with the provisions of Title IV, Chapter 2 of the Supervisory Provisions for banks, aimed at incorporating the innovations introduced in this area by Directive 2019/878/EU (CRD V) and the Guidelines of the European Banking Authority in implementation of the Directive (EBA/GL/2021/04). The Bank has also taken into account in its Policy the updates of the Corporate Governance Code, with the exception of the provisions on share ownership, considering it more appropriate to apply what is established in the Supervisory Provisions.

The Policy currently in force, available on the Bank's website, which should be referred to for the details, was approved by the Shareholders' Meeting on March 31, 2022 with the predefined formulas for the determination of the amounts recognized within the scope of agreements with employees.

Consistent with the Supervisory Provisions, in January and February 2022 the Internal Audit Function performed a specific audit to check the compliance of remuneration and incentive practices with the policies adopted by the Group, as well as the guidelines on the matter provided by the Shareholders' Meeting. On the basis of its findings, the Internal Audit Function deemed that the remuneration policies for the year 2021 were properly applied, although some areas for improvement continued to be identified in the relative process.

The Board of Statutory Auditors checked the procedure that characterized the preparation of the Annual Report on the remuneration policy and the fees paid to the strategic supervision, management and control bodies and to personnel of the BFF Banking Group, as part of the disclosure required pursuant to Art. 123-ter of Italian Legislative Decree No. 58 of 1998 and Art. 84-quarter of the Issuers' Regulation, which is divided into two sections:

- The first contains the remuneration policy of the BFF Banking Group for the year 2023 and will be submitted for approval to the next Shareholders' Meeting;
- The second describes the methods with which the remuneration policy in force in 2022 was implemented during that year, providing a final balance of the remuneration actually paid out.

o) Reports, petitions, omissions or objectionable actions, opinions given and initiatives taken

During 2022, and up to the date of preparation of this report, no reports were received pursuant to Art. 2408 of the Italian Civil Code.

Complaints and reports were received by the Group during the year which were managed and periodically reported by the Compliance & AML Function. The number of complaints accepted is marginal with respect to the activity carried out.

No reports of objectionable events were received.

The events and reports made by the Board of Statutory Auditors in its previous composition were already described in the Report of the Board of Statutory Auditors to the Financial Statements at December 31, 2021, to which the Board refers for further information.

The Board in any event reports that:

- CONSOB has initiated a procedure for alleged breaches of the market disclosure obligations set forth in Art. 17 of the MAR and Art. 114, par. 1 of the Consolidated Law on Finance. On March 20, 2023, after the Bank's submission of its briefs and counter-arguments, Consob notified the Bank that it was applying a fine of €15,000.00. The Bank has 30 days, as of the notification date, to appeal that measure;
- in the second half of 2022, the Bank of Italy (i) launched penalty proceedings pursuant to Art. 145 of the Consolidated Law on Banking for the alleged

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violation of remuneration and incentive policies and practices pursuant to Art. 53, par. 1, letters b) and d) of the Consolidated Law on Banking, (ii) disclosed its observations relating to critical issues included *a)* in the CEO contract approved in 2022, which weaken the check and balance mechanism in Bank governance and *b)* in the governance structures, particularly with regard to the functioning of the Corporate Bodies and the conduct of the relative members. With reference to point (i), the critical issue was removed by eliminating the clause from the CEO contract; the penalty procedure is still ongoing and the Bank is waiting for the decisions of the Supervisory Body. With reference to point (ii) *a)*, amendments to the CEO contract were developed and have already been shared with the Authority. Lastly, the observations pursuant to point (ii) *b)* triggered extensive considerations by the Board of Directors, also with the support of an external advisor, as suggested by the Authority, generating positive changes such as reinstating a fair working environment both within the Board of Directors and in interactions between the Board of Statutory Auditors and the Board of Directors, and generating assessments for any future changes and improvements in the governance structures.

p) *Opinions of the Board of Statutory Auditors*

During the year, and up to the date of preparation of this Report, the Board of Statutory Auditors gave the opinions and made the observations assigned to it under regulations in force and under the Supervisory Provisions for banks and listed companies.

In the course of the activities carried out and based on the information obtained, no omissions, objectionable actions, other irregularities or in any case significant circumstances were found that would require reporting to the Supervisory Authorities or mention in this Report, in addition to the above.

q) *Governance*

The Board of Statutory Auditors acknowledges that the “Report on Corporate Governance and Ownership Structures” illustrates the governance model adopted and its compliance with the Corporate Governance Code promoted by Borsa Italiana, most recently approved in 2020, and describes compliance with the recommendations set forth in the letter of the Chair of the Corporate Governance Committee, Ms. Lucia Calvosa, of February 1, 2023.

During the year 2022, the Board of Statutory Auditors also conducted an audit on the proper application of the criteria and procedures to assess the independence requirements of members of the Board of Directors pursuant to the Consolidated Law on Finance, the Corporate Governance Code and the Fit and Proper Decree. To that end, the Board of Statutory Auditors acknowledges that, based on the documentation and statements provided by each Director, both the Appointments Committee and the Board of Directors conducted audits on the independence of the Directors.

The Board of Statutory Auditors acknowledge that in 2022 the activity was launched for the drafting of the "Independent directors regulation", which was approved during the year.

In the final quarter of 2022, the Board of Statutory Auditors monitored the Board of Directors self-assessment process, which was performed with the support of an external advisor and completed in February 2023, identifying the formal accuracy of the activities carried out and the relative procedure, the details of which are provided in the Governance Report, to which the Board also refers for information about the relative results.

With reference to the changes made in the Board of Directors and the Board of Statutory Auditors, the Report on Operations and the Governance Report list the events that took place in the first part of 2022. The Board of Statutory Auditors, acknowledging this specific moment being experienced by the Bank, confirms that actions have been taken to further improve the corporate governance structure and foster both fluid interactions between the governance bodies and the utmost effectiveness of their actions, both elements necessary to reach the Bank's objectives.

Conclusions

On the basis of the supervisory activities carried out by the Board of Statutory Auditors, as described above, we can therefore reasonably affirm that corporate activities were carried out in 2022 in compliance with law and the By-laws and that the organizational, administrative and accounting structure, as well as its practical functioning, were adequate.

The Board has read the reports issued on March 23, 2023 by the Independent Auditors pursuant to Arts. 14 and 16 of Italian Legislative Decree 39/2010, on the Bank's Separate Financial Statements and on the Consolidated Financial Statements of the Banking Group at December 31, 2022, which express a positive opinion without any remarks or comments, or requests for further information. They also express an opinion on the consistency and compliance of the Directors' Report on Operations with the financial statements pursuant to Art. 14, paragraph 2, letter e) of Italian Legislative Decree No. 39/2010.

On the same date, the Independent Auditors issued their report on the Non-Financial Consolidated Disclosure, which contained no remarks worthy of note.

Taking into account all of the above, recalling that the shareholders' meeting will be held by means of telecommunication, the Board of Statutory Auditors, to the extent of its remit, does not find any reason not to approve the draft Separate Financial Statements as at December 31, 2022 and the allocation of the profit formulated by the Board of Directors.

Milan, March 23, 2023

The Board of Statutory Auditors

Nicoletta Paracchini

Fabrizio Di Giusto

Paolo Carbone

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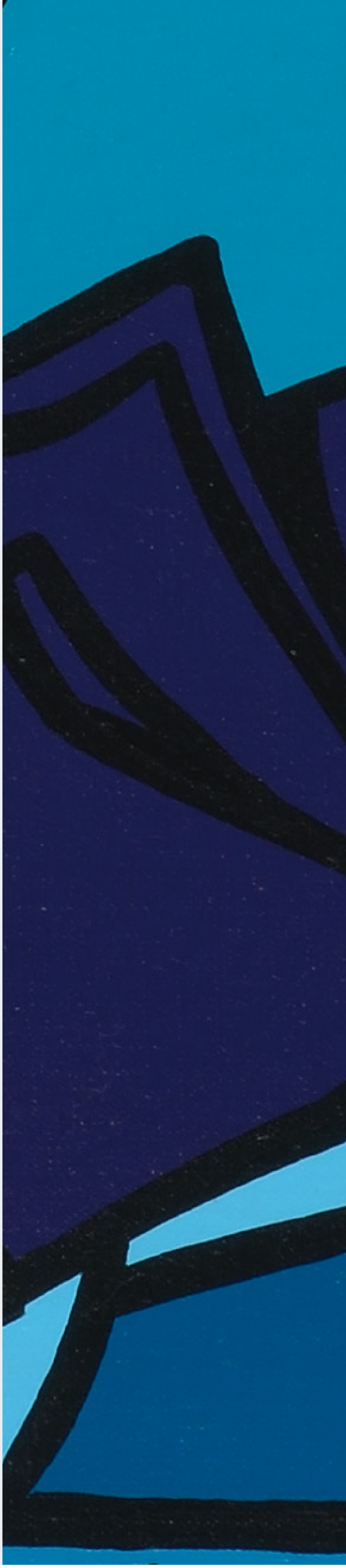
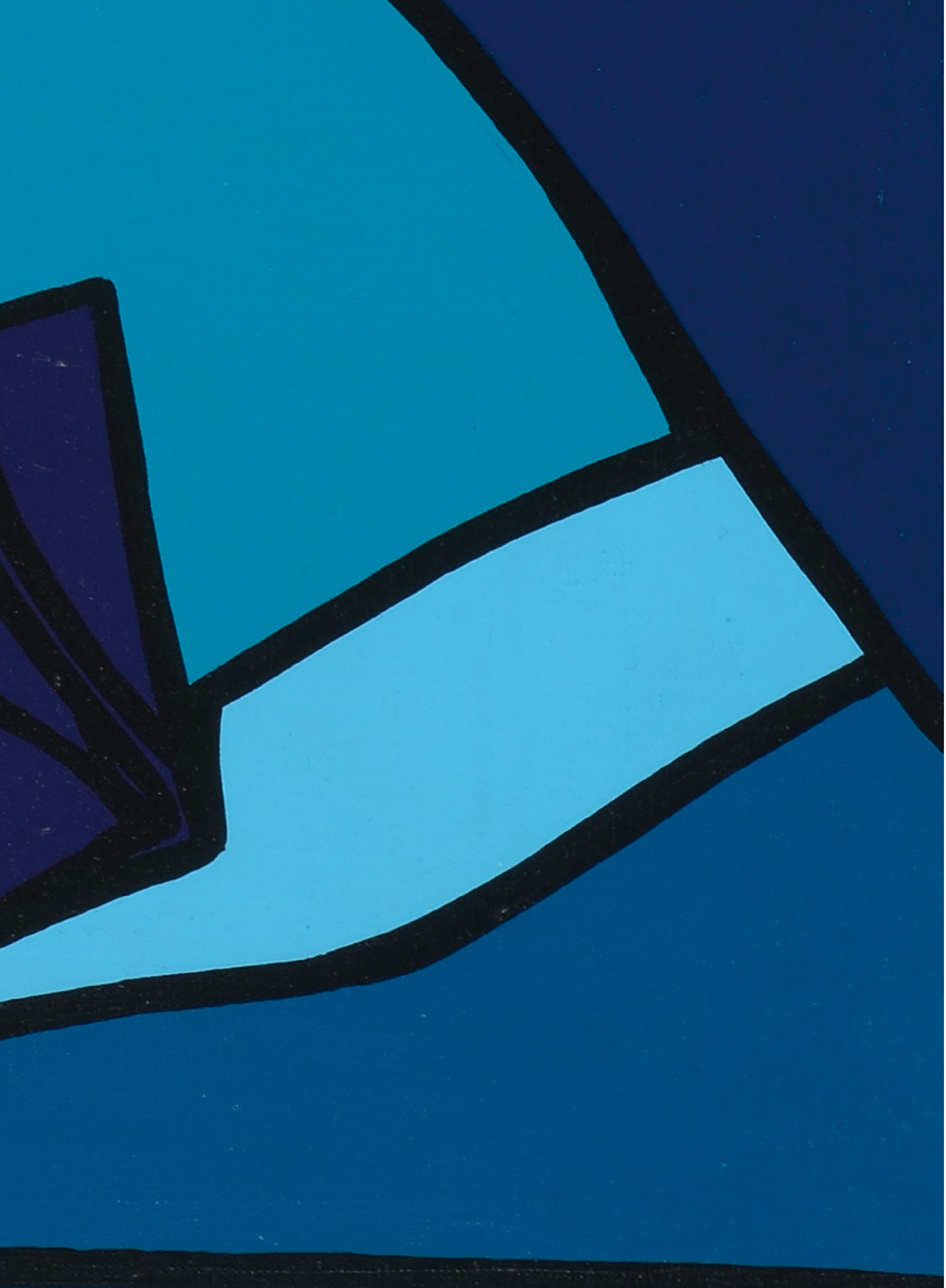
Report of the Independent Auditors





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(The accompanying translated separate financial statements of BFF Bank S.p.A. constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of BFF Bank S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of BFF Bank S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2022, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of BFF Bank S.p.A. as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Recognition of late payment interest on performing loans and receivables acquired without recourse

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets at amortised cost"

Notes to the separate statements "Part A - Accounting policies": paragraph A.2.15 "Other information - Revenue recognition criterion"

Notes to the separate financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets measured at amortised cost"

Notes to the separate statements "Part C - Income statement: paragraph 1.2 "Interest income and similar revenue: other information"

Key audit matter	Audit procedures addressing the key audit matter
When measuring loans and receivables with customers acquired without recourse, the bank includes the estimated late payment interest that is deemed to be recoverable, in line with Document no. 7 on the treatment of late payment interest under Legislative decree no. 231/2002 on performing loans and receivables acquired without recourse issued jointly by Bank of Italy, Consob (the Italian Commission for listed companies and the stock exchange) and IVASS (the Italian supervisory body for private insurance) on 9 November 2016. We focused on this issue because: • the carrying amount of uncollected late payment interest is significant; • the parameters used to estimate such interest income require the use of statistically-reliable historical figures, based on cash flows and collection times observed at the reporting date; • it requires judgement by the directors. The complexity of the directors' estimation process has increased as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies. For the above reasons, we believe that the recognition of late payment interest on performing loans and receivables acquired without recourse is a key audit matter.	Our audit procedures included: • gaining an understanding of the bank's processes and IT environment in relation to the estimation of default interest; • analysing the late payment interest estimation models used and checking the reasonableness of the main assumptions and variables included therein; • assessing the appropriateness of the disclosures about late payment interest.

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Recognition of the lump-sum compensation for recovery costs("40 euros")

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the separate financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets measured at amortised cost"

Notes to the separate financial statements "Part C - Information on the income statement": sections 14.2 "Other operating income: breakdown"

Key audit matter	Audit procedures addressing the key audit matter
In accordance with Directive 2011/7/EU of the European Parliament and of the Council on combating late payment in commercial transactions, which established that a creditor is entitled to obtain from the debtor, as a minimum, a fixed sum of 40 euros as compensation for recovery costs, since 2018, the bank has been claiming 40 euros from its debtors for each past-due invoice as lump-sum compensation for recovery costs. In its recent decision of 20 October 2022, the Court of Justice of the European Union confirmed the bank's right to recover 40 euros for each invoice. The bank estimated the recoverability of late payment interest based on collections' historical trends, in order to obtain a reliable estimate of the collectable compensation. Therefore, starting from the separate financial statements at 31 December 2022, it decided to recognise the above compensation on an accruals basis, based on the collection percentage inferred from historical figures and the analyses carried out. This is in line with the model already adopted for the recognition of late payment interest. At the reporting date, the bank recognised accrued compensation of €95 million (€69 million excluding taxes). We focused on this issue because: • the impact of the change in estimation is significant; • the parameters used to estimate such compensation require the use of statistically-reliable historical figures, based on cash flows and collection times observed at the reporting date; • it requires judgement by the directors. For the above reasons, we believe that the recognition of the lump-sum compensation for recovery costs (40 euros) on an accruals basis is a key audit matter.	Our audit procedures included: • gaining an understanding of the bank's processes and IT environment in relation to the estimation of late payment interest and the lump-sum compensation for recovery costs (40 euros); • analysing the models used to estimate late payment interest and the lump-sum compensation for recovery costs (40 euros) and checking the reasonableness of the main assumptions and variables included therein; • checking, on a sample basis, the accuracy of the accounting records; • assessing the appropriateness of the disclosures about the recognition of the lump-sum compensation for recovery costs (40 euros).

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Recoverability of the carrying amount of investments in subsidiaries

Notes to the separate financial statements "Part A – Accounting policies": paragraph A.2.5 "Equity investments"

Notes to the separate financial statements "Part B - Notes to the statement of financial position - Assets": section 7 "Equity investments"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2022 include investments in the subsidiaries BFF Polska Group, BFF Finance Iberia, Unione Fiduciaria, BFF Immobiliare S.r.l. and BFF Techlab S.r.l. recognised at a cost of €109.2 million, €32.7 million, €8.6 million, €1 million and €0.4 million, respectively, accounting for 1.1% of total assets. At each reporting date, the directors check whether there is evidence that these equity investments may be impaired. If indicators of impairment are identified, the directors test these equity investments for impairment by comparing their carrying amount to the cash-generating unit's ("CGU") recoverable amount, calculated using appropriate valuation methods under the circumstances, including with the assistance of external consultants. The complexity of the directors' estimation process has increased as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies. Considering the materiality of the financial statements caption and the high level of estimate required to measure the equity investments' recoverable amount, we believe that the recoverability of the carrying amount of investments in subsidiaries is a key audit matter.	Our audit procedures included: • understanding the process adopted to measure investments in subsidiaries and to identify any related indicators of impairment; • understanding the process adopted to prepare the impairment tests approved by the bank's directors; • analysing the key assumptions used by the directors to determine the equity investments' recoverable amount. Our analyses included, for each equity investment, checking the indicators of impairment and the assumptions underlying the valuation models and comparing the key assumptions used to external information, where available; we carried out these procedures with the assistance of experts of the KPMG network; • assessing the appropriateness of the disclosures about investments in subsidiaries and the related impairment test.

Measurement of intangible assets with a finite useful life

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the separate financial statements "Part B - Information on the statement of financial position - Assets": Section 9 "Intangible assets"

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Notes to the separate financial statements "Part C - Information on the income statement": section 13 "Amortisation and net (?) impairment losses on intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
During 2021, further to the business combination with DEPOBank S.p.A. and the completion of the PPA procedure, the bank recognised an intangible asset with a finite useful life of €25.7 million relating to customer contracts. Customer contracts amount to €21.8 million in the separate financial statements at 31 December 2022. Amortisation and net impairment losses relating to intangible assets with a finite useful life recognised in profit or loss during the year total €3.9 million and comprise amortisation of €2.8 million and impairment losses of €1.1 million recognised as a result of the impairment test. The directors tested the reporting-date carrying amounts for impairment. They estimated the recoverable amount based on value in use calculated using the discounted cash flow model. Impairment testing requires complex valuations and a high level of judgement, especially in relation to: • the expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of the bank's sector and the directors' forecasts about its future performance; • the financial parameters to be used to discount the cash flows. The complexity of the directors' estimation process has increased as a result of the geopolitical uncertainties caused by the conflict in Ukraine and the persisting Covid-19 emergency in 2022. These uncertainties have severely worsened current economic conditions and the outlook for future macroeconomic scenarios and have had a strong impact on the energy market, supply chains, inflationary pressure and its effect on monetary policies, leading central banks to raise interest rates in the main economies. For the above reasons, we believe that the measurement of intangible assets with a finite useful life is a key audit matter.	Our audit procedures included: • understanding the process adopted to prepare the impairment tests approved by the directors; • gaining an understanding of the process used to draft the bank's long-term plan approved by the directors; • checking any discrepancies between the previous year historical and business plan figures, in order to check the accuracy of the forecasting process; • analysing the criteria used to identify the CGUs and tracing the carrying amounts of the assets and liabilities allocated thereto to the separate financial statements; • assessing the main assumptions used by the directors to determine the CGUs' value in use and comparing them to the information acquired externally, where available; we carried out these procedures with the assistance of experts of the KPMG network; • assessing the appropriateness of the disclosures about intangible assets with a finite useful life and the related impairment tests.

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Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

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

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

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- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures taken to eliminate those threats or the safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 2 April 2020, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2021 to 31 December 2029.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The bank's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the separate financial statements to be included in the annual financial report.

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We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the separate financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the separate financial statements at 31 December 2022 have been prepared in XHTML format in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of the reports on operations and on corporate governance and ownership structure at 31 December 2022 and for the consistency of such reports with the related financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the report on operations and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2022 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the report on operations and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2022 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 23 March 2023

KPMG S.p.A.

(signed on the original)

Roberto Spiller
Director of Audit

Resolutions of the Ordinary Shareholders' Meeting

"The Shareholders' Meeting of BFF Bank S.p.A., having considered the Report on Operations presented by the Board of Directors, the Report of the Board of Statutory Auditors and the Report of the Independent Auditors, and having examined the Financial Statements for the year ended December 31, 2022, and having considered the Group's Consolidated Financial Statements,

resolved

i) to approve the Financial Statements for the year ended December 31, 2022, along with the Report on Operations presented by the Board of Directors, which report a net profit for the financial year of Euro 261,438,216."

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Valerio Adami, Paracelso, 1997

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