Consolidated 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

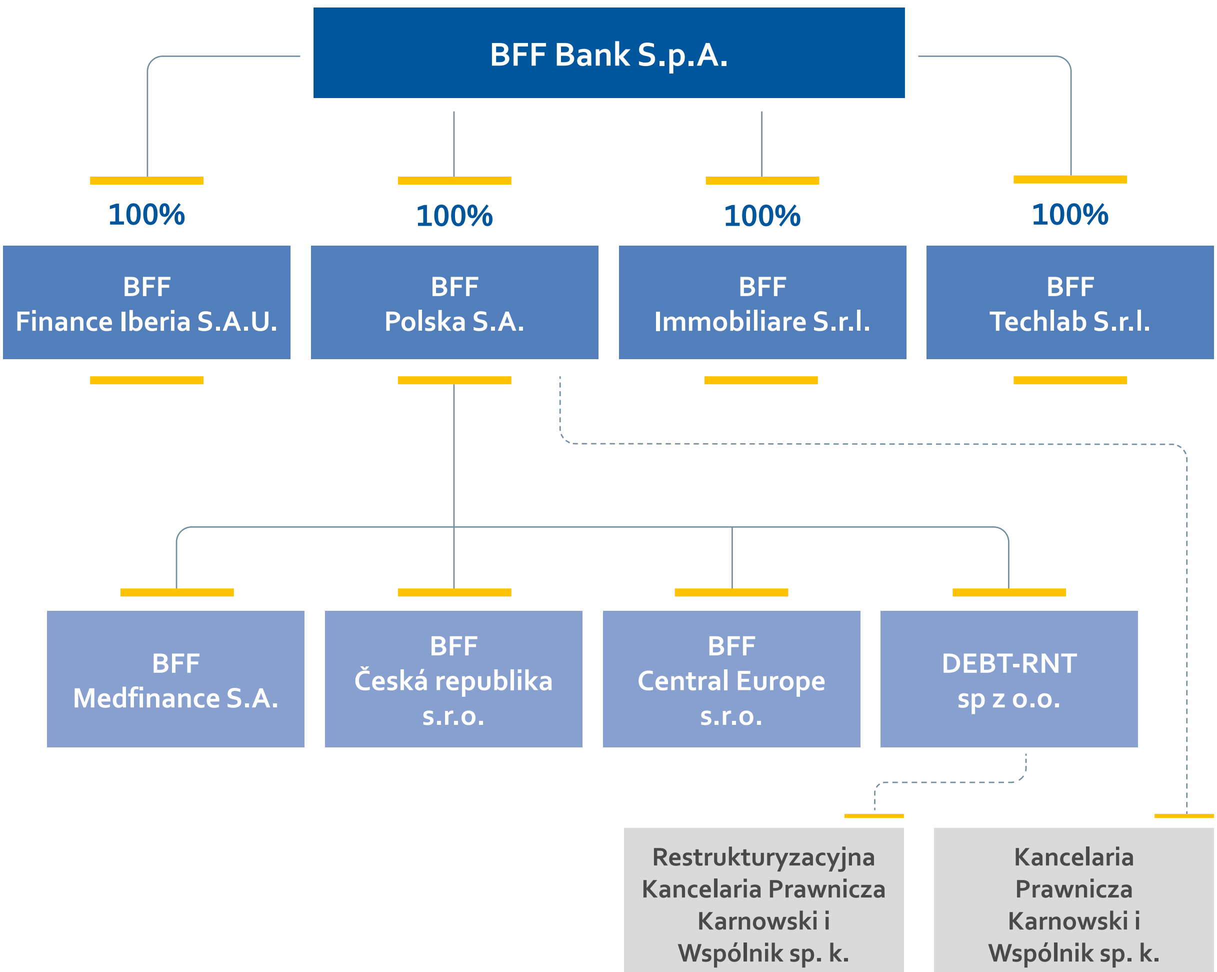
BFF Bank S.p.A.
Parent of the BFF Banking Group
Registered Office in Milan - Via Domenichino 5
Share Capital €142,851,591.88 (fully paid-in)
Milan Company Register no.,
Tax Code and VAT no. 07960110158

Consolidated Financial Statements

2022

Contents

Group Structure



At December 31, 2022, BFF Banking Group included the Parent BFF Bank S.p.A. and the following companies:

Company name	Registered and operating office	Relationship type (1)	Ownership relationship		Voting rights % (2)
			Held by	Holding %	
1. BFF Immobiliare S.r.l.	Milan Via Domenichino, 5	1	BFF Bank S.p.A.	100%	100%
2. BFF Techlab S.r.l.	Brescia Via Carlo Zima, 4	1	BFF Bank S.p.A.	100%	100%
3. BFF Finance Iberia. S.A.U.	Madrid Paseo de la Castellana, 81	1	BFF Bank S.p.A.	100%	100%
4. BFF Polska S.A.	Łódź Jana Kilińskiego, 66	1	BFF Bank S.p.A.	100%	100%
5. BFF Medfinance S.A.	Łódź Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o.	Bratislava Mostova, 2	1	BFF Polska S.A.	100%	100%
7. BFF Česká republika s.r.o.	Prague Roztylská, 1860/1	1	BFF Polska S.A.	100%	100%
8. Debt-Rnt sp. Z O.O.	Łódź Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
9. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw Plac Dąbrowskiego, 1	4	BFF Polska S.A.	100%	100%
10. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw Plac Dąbrowskiego, 1	4	BFF Polska S.A.	100%	100%
11. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
12. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łódź Jana Kilińskiego, 66	4	Debt-Rnt sp. Z O.O.	99%	99%

Key:

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

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

As far as points 9 and 10 are concerned, voting rights refer to the investors' right to vote at the Meeting.

The companies in points 11 and 12 above are limited partnerships and are consolidated according to the equity method since their total asset figures are not significant.

On January 19, 2022, the company BFF Immobiliare S.r.l., a wholly owned subsidiary of BFF Bank S.p.A., was established. This company was established with a view to finalizing the Casa BFF operation, which involved the purchase of a buildable area and the subsequent development of an office building which will become the new registered office of the BFF Group and will house all of the Bank's personnel present in the city of Milan, who are currently divided between three different buildings.
BFF Bank also holds a 26.46% stake in Unione Fiduciaria S.p.A., which is consolidated with the equity method (and not in its entirety), as it is a company subject to significant influence.

On October 3, 2022, BFF Bank finalized the acquisition of the IT company "MC3 Informatica S.r.l." which as of the same date changed its company name to BFF Techlab S.r.l. This transaction is consistent with the growth path outlined in the 2023 Business Plan, and will allow for the vertical integration of all development activities linked to the management and evolution of the Group's information system, favoring cost synergies and boosting operational efficiency.
The measurement criteria are adopted with a view to a going concern and comply with the principles of accruals, relevance and materiality of accounting information and the precedence of economic substance over legal form.

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 *BFFTechlab*, 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.

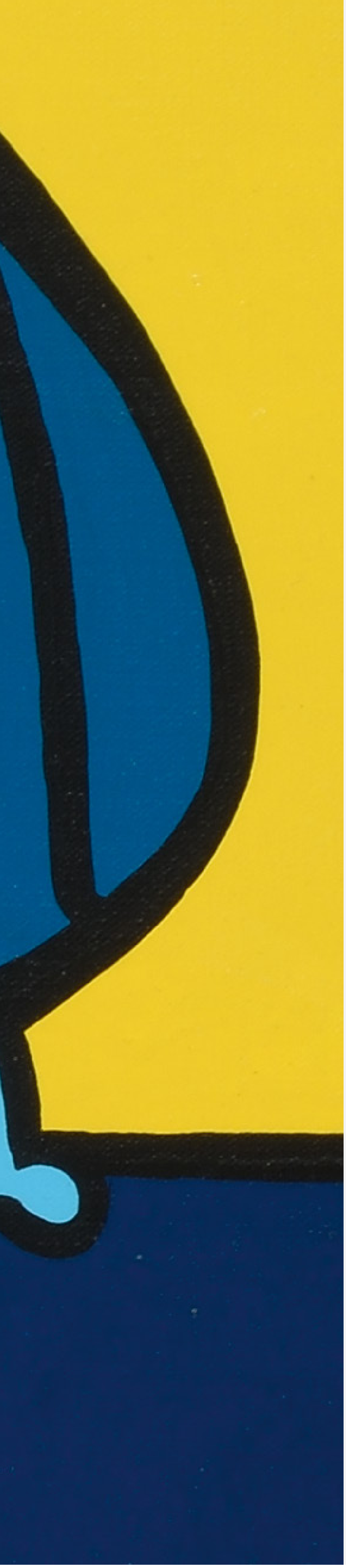
We are carefully monitoring the future issue of the decree on Pension Funds, which will also guide these entities in their choice of a custodian. The potential in this area is very significant, and would enable BFF to become the reference custodian in this sector as well. Looking beyond the core business 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 us 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 we 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 space 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

Non-Recourse Factoring

Financing for the public sector and healthcare

Credit Management

Custodian

Global custody

Fund accounting

Transfer agent

Payment intermediary

Corporate payments

Cheques and bills

OPPORTUNITY

> €400 billion in trade receivables per year

< 10% market penetration

Long-term growth in assets under management and administration in Italy

Epochal transition from cash payments to digital payments in Italy

ORGANIC GROWTH

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 statements 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 CO2, 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 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 2/20/2023.

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%. In the countries in which BFF carries on business, it is estimated that the most sustained growth rates in 2022 were recorded in Poland (+16.5%) and Greece (+9.0%) and, in 2023, they are expected to be reached by Slovakia (+18.0%), Poland (+16.5%) and the Czech Republic (+10.1%).

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 Slovakia (+14.2%), the Czech Republic (+13.0%), 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 Group'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 in the Group

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 parent'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 replacements. 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 Parent 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 parent'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 Banking Group

- Profit for the year of €232.0 million and Normalized Profit of €146.0 million (+16.6% year on year).
- Growth in loans and receivables with customers of +45% year on year and Loan/Deposit ratio to 76%.
- 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 accruals 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 €100 million at December 31, 2022.

Capital & Dividends

- CET1 ratio at 16.9% and TCR at 22.3%. €201 million in excess capital with respect to the TCR target of 15%.
- 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 Revenue	OPEX incl. D&A	Cost/ Income (%)	Provisions	PBT	Net Revenues	OPEX incl. D&A	Cost/ Income (%)	Provisions	PBT
Factoring & Lending P&L	170.1	(43.8)	*26%*	(6.3)	120.0	161.9	(38.8)	*24%*	(0.4)	122.8
+										
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	93.2	(67.0)	-	0.2	26.4	49.5	(79.1)	-	4.5	(25.1)
=										
BFF Banking Group Adj. P&L	379.1	(167.6)	*44%*	(6.2)	205.4	331.4	(177.6)	*54%*	4.1	157.9
Adjustments*	151.5	(15.7)	-	(10.0)	125.8	43.0	(2.8)	-	(1.5)	38.7
BFF Banking Group reported P&L	530.6	(183.3)	*35%*	(16.2)	331.2	374.4	(180.4)	*48%*	2.7	196.7

(*) 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 €119.4 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 €29.3 million, extraordinary provisions against a likely risk of a negative ruling for €10.0 million, other non-recurring items for €12.9 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 €4.5 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 Consolidated Financial Statements as of December 31, 2022 show the statement of financial position and income statement of the BFF Banking Group, including, as of 2022, BFF Immobiliare S.r.l., a company incorporated on January 19, 2022, 100% owned by BFF Bank S.p.A. and established specifically for the completion of the "Casa BFF" transaction, which saw the purchase of a building area for the development of the new headquarters of the BFF Group and *BFF Techlab* S.r.l. (formerly MC3 Informatica S.r.l.), an IT consulting firm headquartered in Brescia which BFF acquired, as it allows for the vertical integration of all development activities related to the management and evolution of the information system in the Factoring & Lending Business Unit.

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

In 2022 the Group 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 the Group 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 Group 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 the BFF Group 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 Group's BUs, influenced by the phenomena indicated above, led to a reported profit of €232.0 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 Group's normalized profit would stand at €146.0 million (up 16.6% year-on-year).

The main elements affecting the Group's 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 Group - Reported profit	**197.4**	**232.0**	**+17.6%**
Pre-acquisition normalized profit of DEPObank	**5.1**		
Exchange differences covered by Translation Reserve in Equity	(0.1)	(1.7)	
Stock Options & Stock Grants	3.3	3.3	
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	
Current taxation of dividend distributions from subsidiaries & write-off of a tax credit (DTA) in Poland		4.9	
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")		(100.1)	
BFF Group - Normalised profit/loss	**125.3**	**146.0**	**+16.6%**

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 Group 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 €148.7 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.

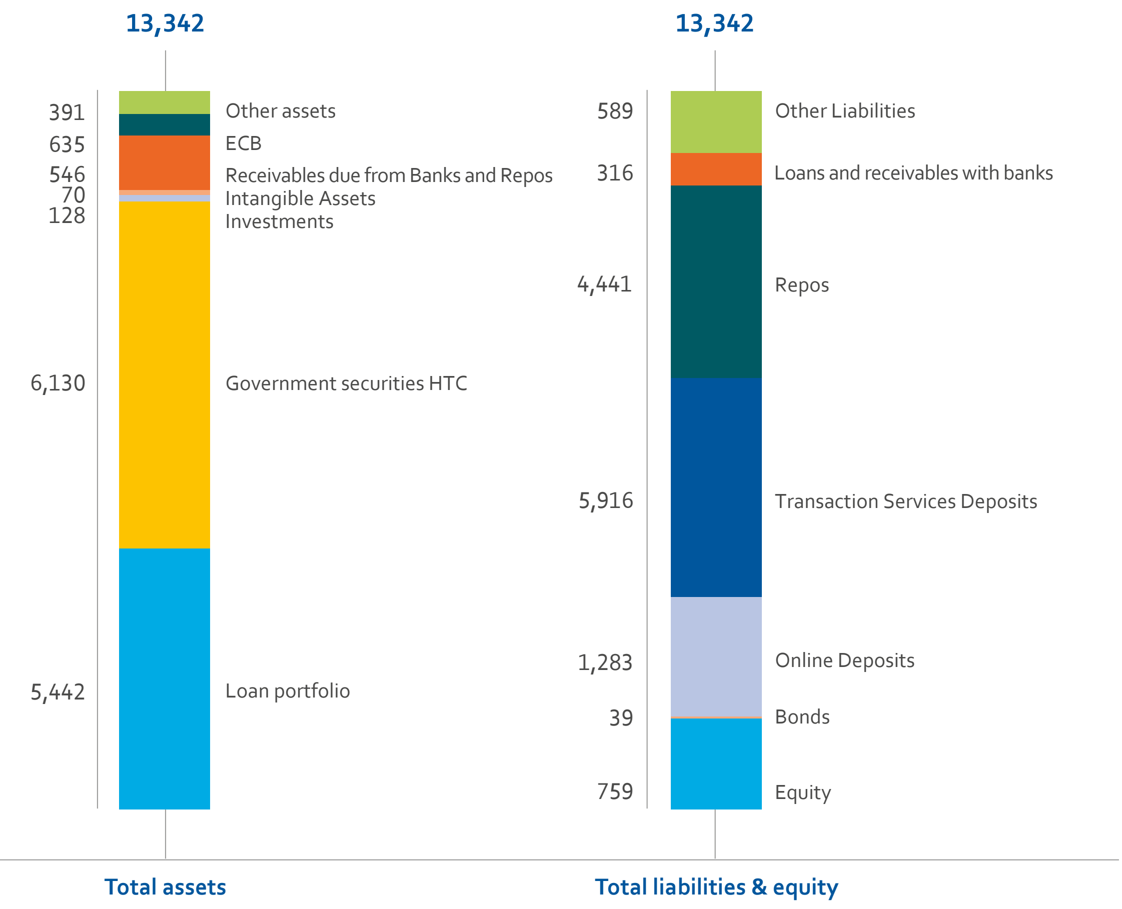
Group Statement of Financial Position

On the Statement of Financial Position front, as it did starting from the second quarter of 2021, during 2022 the Group 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 Group focused on better managing the forms of lending, resuming investments in government bonds and eliminating excess liquidity, with improved effects on both the Group's 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 the BFF Group "pre-acquisition".

(€m)



Lending

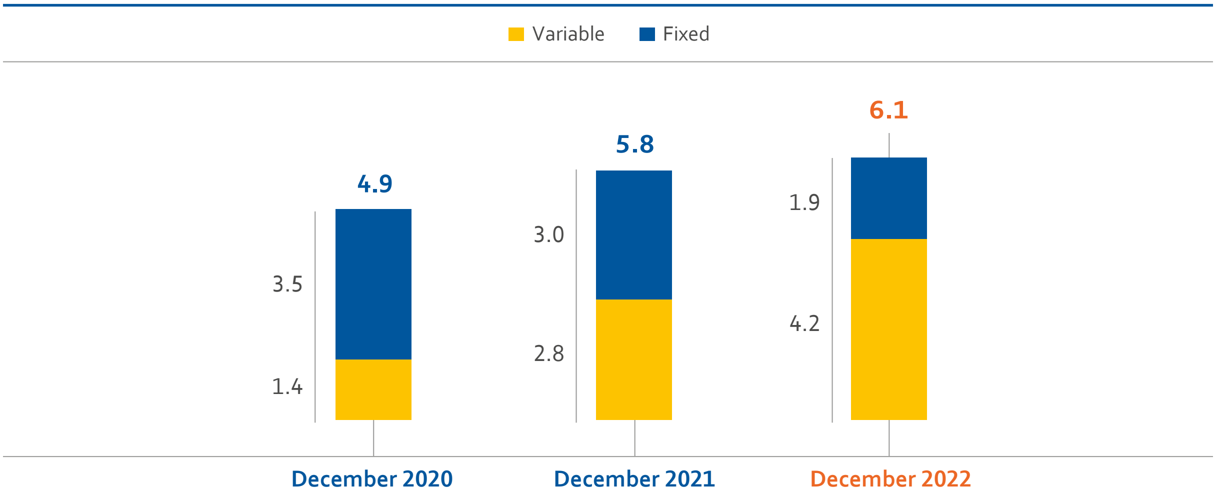
The Factoring & Lending Loan Portfolio was €5.4 billion, up by 45% compared to 2021: the international markets now account for roughly 38% of total loans and receivables with customers. The level reached by loans and receivables with customers marks an all-time high, also thanks to a favorable context 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
Spain	330	629
Poland	790	806
Slovakia	231	240
Portugal	207	239
Greece	70	131
Other countries (Croatia, France and the Czech Republic)	13	15
Total	**3,763**	**5,442**

(*) *Including "Ecobonus" tax assets for €221 million (€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 €466 million.*

The portfolio of government bonds reached €6.1 billion, €0.3 billion higher than at December 31, 2021. Indeed, in this area the Group continued with its investment policy to invest and optimize Group 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 Tier 1 bond issue, the call option redemption of the Tier 2 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 Group 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 Tier 1 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 Group'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 2).

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 €759 million at December 31, 2022, up compared to €572 million at December 31, 2021.

BFF Banking Group's own funds at December 31, 2022 amounted to €612 million and included the €150 million unsecured and rated subordinated Additional Tier 1 bonds placed on January 19, 2022 and €86 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.

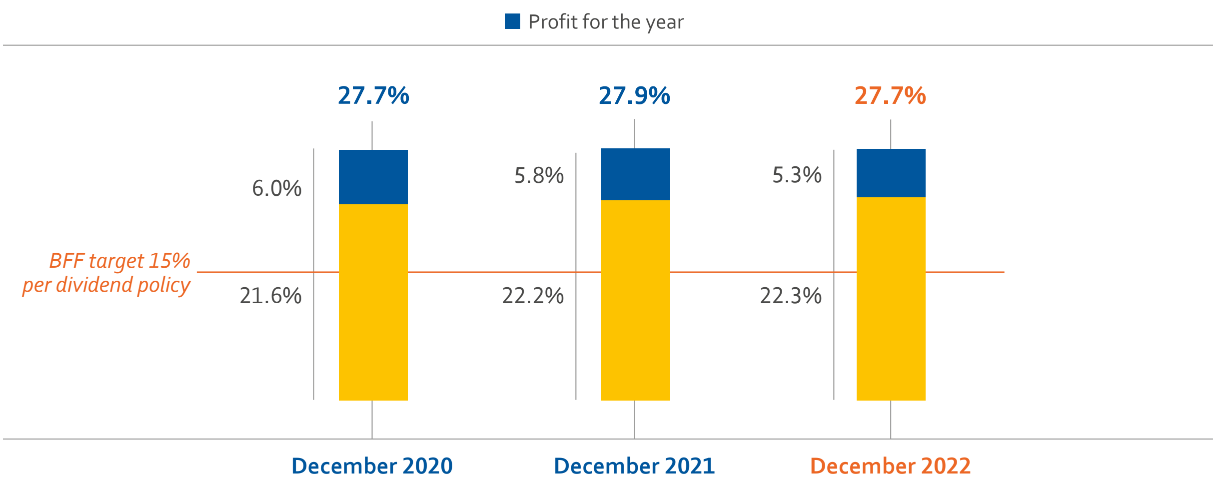
Indeed, the CET1, Tier 1 and Total capital ratios are 16.9%, 22.3% and 22.3%, respectively, with €201 million in capital in excess of the target TC ratio of 15%.

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

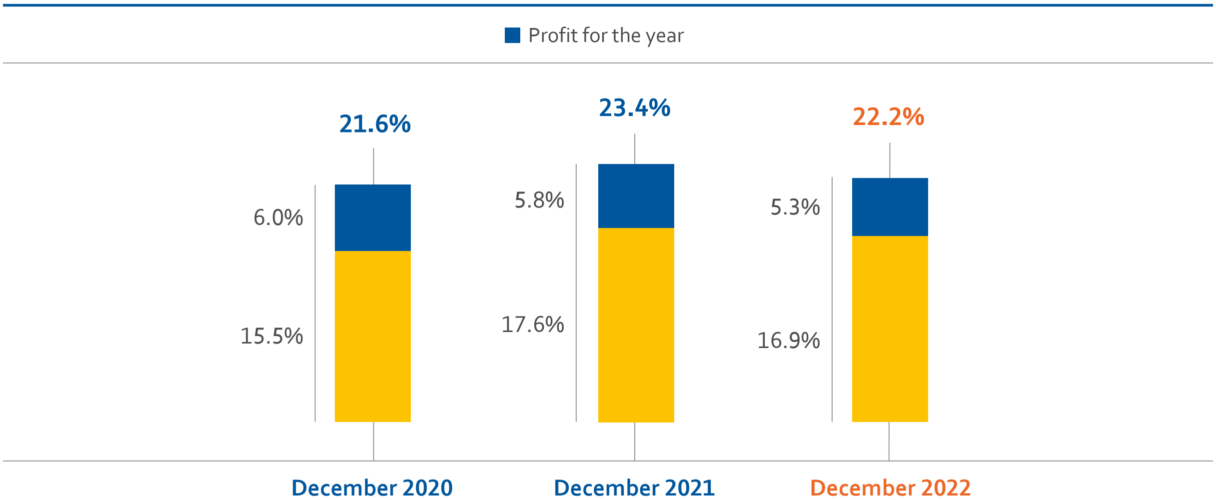
Finally, recall that on October 19, 2022 the Bank of Italy, as Resolution Authority, adopted the 2021 resolution plan for BFF Banking Group, identifying resolution as a crisis management strategy for the BFF Bank group.

TOTAL CAPITAL RATIO - BANKING GROUP EX TUB

RWAs	1,616	2,171	2,740
RWA density	39%	45%	42%

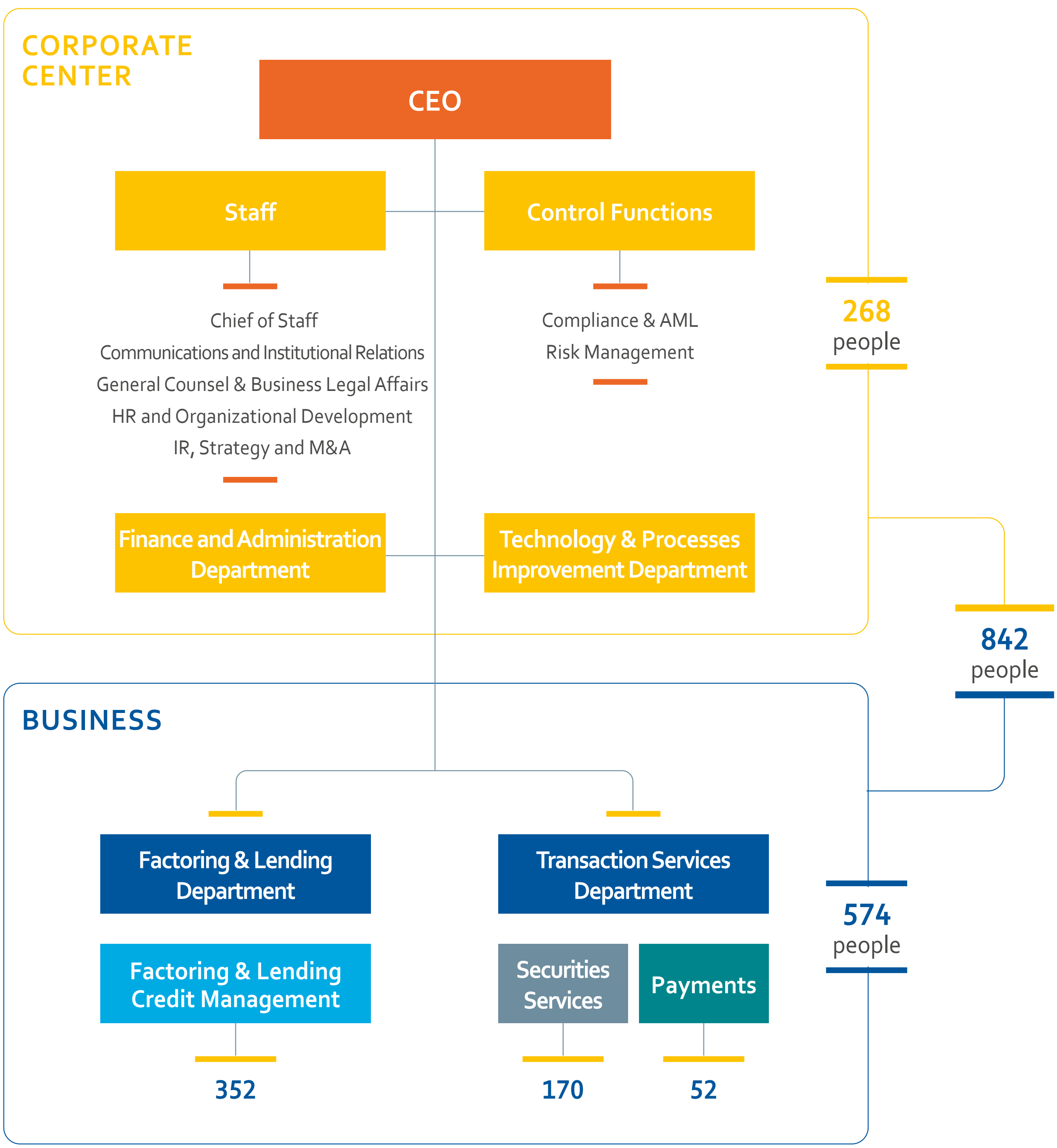


COMMON EQUITY TIER 1 RATIO - BANKING GROUP EX TUB



Organizational structure

As of December 31, 2022 the Group 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 Banking Group employees amounted to 842 persons, of whom 71 joined the Group in 2022: 31 in Italy (including *BFF Techlab*), 1 in Greece, 6 in Spain, 2 in Portugal, 28 in Poland, 2 in Slovakia and 1 in the Czech Republic.

The distribution of personnel within the various countries shows a reduction in personnel of 20 resources, including 10 in Italy, following the loss of the customers Arca and Anima (as mentioned previously) and despite the entry into the Group of 8 resources relating to BFF Techlab, 4 in Spain and 5 in Poland.

Below is the breakdown by country:

12.31.2021	Italy	Spain	Poland	Slovakia	Czech Rep.	Greece	Portugal	Total
Senior Executives/Executives	21	1	3				1	26
Managers/Coordinators	93	15	38	4		3	1	154
Specialists/Professionals	466	41	147	12	3	5	8	682
HEADCOUNT 12.31.2021	**580**	**57**	**188**	**16**	**3**	**8**	**10**	**862**

12.31.2022	Italy	Spain	Poland	Slovakia	Czech Rep.	Greece	Portugal	Total
Senior Executives/Executives	24	1	3	0	0	0	1	29
Managers/Coordinators	97	13	42	5	0	3	2	162
Specialists/Professionals	449	39	138	10	2	6	7	651
HEADCOUNT 12.31.2022	**570**	**53**	**183**	**15**	**2**	**9**	**10**	**842**

The breakdown of the workforce by gender as at December 31, 2022 basically remained unchanged from December 31, 2021, with 55% women and 45% men.

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

12.31.2021	Women		Men		Total
Italy	294	51%	286	49%	580
Spain	31	54%	26	46%	57
Poland	129	69%	59	31%	188
Slovakia	11	69%	5	31%	16
Czech Rep.	2	67%	1	33%	3
Greece	4	50%	4	50%	8
Portugal	3	30%	7	70%	10
Total Country	**474**	**55%**	**388**	**45%**	**862**

12.31.2022	Women		Men		Total
Italy	290	51%	280	49%	570
Spain	28	53%	25	47%	53
Poland	124	68%	59	32%	183
Slovakia	10	67%	5	33%	15
Czech Rep.	1	50%	1	50%	2
Greece	4	44%	5	56%	9
Portugal	3	30%	7	70%	10
Total Country	**460**	**55%**	**382**	**45%**	**842**

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 Group carries out these activities in nine countries (Italy, Croatia, France, Greece, Poland, Portugal, Czech Republic, Slovakia and Spain), 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 grew by 45% compared to the same period of the previous year (€5.4 billion vs. €3.8 billion) while volumes of loans and receivables acquired and disbursed were up significantly compared to last year (€7,783 million v €5,781 million) in nearly all countries (with the exception of Slovakia and Poland where, at constant exchange rates, volumes remained substantially constant), 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
Spain	94	132
Portugal	299	175
Greece	210	248
Croatia	282	52
France	107	79
Slovakia	796	785

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 €756 and €240 million, and €410 million and €120 million), while the relative receipts amounted to €73 million and €12 million, respectively, despite, especially in Italy, the delay recorded in finalizing agreements with debtors.

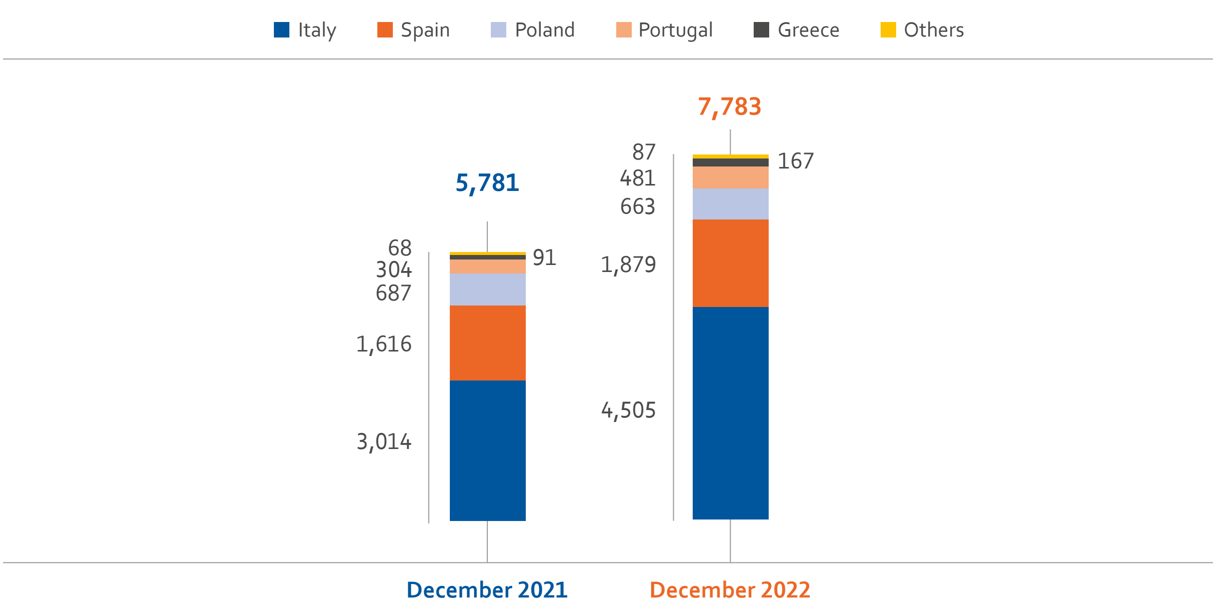
The gross yield on loans and receivables with customers remained constant compared to 2021, reaching 5.6% despite the growth in rates, impacted by the delay in customer repricing.

The cost of credit was confirmed at negligible levels, although up significantly compared to 2021. Despite the high standing of the customers served and the rigorous credit origination and monitoring process, in the course of 2022 there was an impact from changes to the curves representing the decay rates of macroeconomic scenarios, which were updated and affected collective impairment losses against a larger portfolio of loans to customers and some specific individual impairment losses in Poland.

(Values in € million)

	12.31.2021	12.31.2022
Acquired turnover/Loans disbursed during the year	5,781	7,783
Loan Portfolio	3,763	5,442
Late payment interest collected	67	73
Lump-sum indemnity (“40 euros”) collected	6	12
Provision for late payment interest	713	756
Lump-sum indemnity provision	226	240
Provision for late payment interest "not transferred" to the income statement	*415*	*410*
Lump-sum indemnity provision “not transferred” to the income statement	226	*120*
Gross yield on loans and receivables with customers % (net of “40 euros”)	5.6%	5.6%
Cost of risk %	0.02%	0.11%

FACTORING & LENDING VOLUMES BY COUNTRY



Normalized net interest income amounted to €153.7 million, compared to €148.9 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 12 million in 2022 and around 6 million in 2021).

Normalized direct costs amounted to €43.8 million, up by roughly 13% 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 €120.0 million, down €2.8 million compared to the same period last year, due mainly to the phenomena described previously.

€M (normalized values)

	12.31.2021	12.31.2022
Net interest income	**148.9**	**153.7**
of which "rescheduling/capital gains" spread	*7.4*	*14.0*
Net fee and commission income	5.6	3.5
Other operating income, net	7.4	12.8
Total net revenue	**161.9**	**170.1**
Direct costs and Amortisation, depreciation and net impairment losses on property, equipment and investment property/intangible assets	(38.8)	(43.8)
Net impairment losses/gains for credit risk and net provisions for risks and charges	(0.4)	(6.3)
Profit before tax from continuing operations	**122.8**	**120.0**

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 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 Group treasury and the reallocation of funding between the various BUs and any other forms of use. It incorporates all the staff and control functions as well as the Technology & Processes Improvement and Finance and Administration departments to support the business. Its results include everything not directly attributable to the other BUs. 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 Tier 2 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 was 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 Tier 1*	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 €73.5 million (compared to €35.6 million in 2021) and showed a very positive trend thanks to the funding synergies envisaged in the integration plan with DEPObank.

The Group 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 €5.2 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 Group 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(*)	**35.6**	**73.5**
Net fee and commission income	(1.2)	(0.8)
Other Revenue	15.2	20.4
Total Net Revenue	**49.5**	**93.2**
Personnel expenses	*(34.9)*	*(32.8)*
Other Administrative Expenses	*(37.5)*	*(28.0)*
Amortisation, depreciation and net impairment losses on property, equipment and investment property/intangible assets	(6.8)	(6.2)
Net impairment losses/gains for credit risk and net provisions for risks and charges	4.5	0.2
Profit before tax from continuing operations	**(25.1)**	**26.4**

(*) 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 €26.4 million, a clear increase over last year when a loss of €25.1 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 consolidated statement of financial position.

Cash and cash equivalents

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
a) Cash	192	207	15
b) Current accounts and sight deposits at Central Banks	360,142	489,810	129,668
c) Current accounts and sight deposits at banks	194,134	144,863	(49,271)
Total	**554,468**	**634,879**	**80,411**

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 parent and its subsidiaries at third-party banks, amounting to €145 million. Specifically, "Current accounts and sight deposits at banks" mainly refer for €134 million to BFF Bank, for €10 million to BFF Polska Group, for €660 thousand to BFF Finance Iberia and for €220 thousand to *BFF Techlab*.

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 mandatorily measured at fair value	32,503	90,330	57,827
Total	**36,598**	**90,541**	**53,943**

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 Group 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 parent.

Financial assets measured at fair value through other comprehensive income

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
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 parent 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	404,099	478,203	74,104
Loans and receivables with customers	3,872,771	5,288,419	1,415,649
Total	**10,069,497**	**11,895,850**	**1,826,354**

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 the Parent 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 by BFF Polska Group. 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 €148.7 million.

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Factoring activities (outright purchases, late payment interest and recovery expenses)	2,643,786	3,790,601	1,126,115
Trade receivables purchased below face value	23,864	28,971	5,108
Other exposures	1,205,122	1,468,847	284,425
Total	**3,872,771**	**5,288,419**	**1,415,648**

Credit quality

With regard to credit quality, total net impaired exposures increased by €283.8 million at December 31, 2022 compared to €104.1 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 Banking Group classifies exposures as Performing and Non-Performing.

Non-Performing exposures, whose overall gross amount was €307.0 million at December 31, 2022 with impairment losses totaling €23.2 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 Group.

At December 31, 2022, the total non-performing loans of the Banking Group, net of impairment, amounted to €86.4 million. Among these non-performing exposures, €79.7 million (92.2% of the total) concerned regional authorities in financial distress.

Gross non-performing loans amounted to €104.7 million and related adjustments amounted to €18.3 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 €16.4 million and related adjustments amounted to €4.3 million, a net amount of €12.1 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 €185.3 million for the entire Banking Group.

The Banking Group's gross exposures totaled €186.0 million and relevant adjustments amounted to around €0.7 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	Write-downs/ write-backs	Impairment Net value losses/ gains
Purchased performing impaired exposures (Stage 3)	118,965	(20,176)	98,789	301,329	(23,240)	278,090
Purchased non-performing impaired exposures (Stage 3)	5,493	(206)	5,287	5,678	(6)	5,672
Performing exposures (Stage 1 and 2)	3,770,502	(1,806)	3,768,696	5,005,907	(1,249)	5,004,658
Total	**3,894,960**	**(22,189)**	**3,872,771**	**5,312,914**	**(24,495)**	**5,288,419**

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

Property, equipment and investment property and intangible assets

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Property, equipment and investment property	36,452	54,349	17,897
Intangible assets	67,547	70,155	2,608
- of which goodwill	*30,874*	*30,957*	83
Total	**103,999**	**124,504**	**20,505**

At December 31, 2022, the item "Property, equipment and investment property" amounted to a total of €54,349 thousand. Of this amount, €27,764 thousand related to BFF Bank, €24,312 thousand related to BFF Immobiliare, €1,305 thousand to BFF Polska Group, €963 thousand to BFF Finance Iberia and €5 thousand related to *BFF Techlab*.

The amount includes primarily: i) land amounting to €22,575 thousand, including €6,325 thousand relating to BFF Bank and €16,250 thousand relating to the purchase of the building area located in Milan by the subsidiary BFF Immobiliare, for the purpose of building the future headquarters of BFF Bank; ii) buildings (including capitalized extraordinary maintenance) amounting to €17,424 thousand including the building in Rome - Via Elio Chianesi 110/d owned by DEPObank, and the property at Via Domenichino 5; iii) right-of-use assets relating to the application of IFRS 16 to leases amounting to €12,505 thousand.

Intangible assets largely consist of the goodwill arising from the acquisition of BFF Polska Group in 2016 and the former IOS Finance (now merged into BFF Finance Iberia) in 2019, totaling respectively €22,146 thousand and €8,728 thousand, and of *BFF TechLab* in the last quarter of 2022, totaling €83 thousand, as well as the Customer Relationships recognized following the acquisition of DEPObank.

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

At December 31, 2022, the Group, with the support of an independent expert, as required by IAS 36, performed the annual assessment on the carrying amount of goodwill recognized in the consolidated financial statements, without identifying any trigger event that could have impacts on its value; with respect to "Customer Relationships", it was instead found that it was necessary to recognize an impairment loss of roughly €1.1 million.

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	0	(13)
Equity investments	13,484	13,656	172
Financial liabilities held for trading	2,725	950	(1,775)
Hedging derivative liabilities	4,814	14,314	9,499

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 refers to the equity investment in two law firms in which BFF Polska is a limited partner, as well as the equity investment in Unione Fiduciaria of 26.46% of the capital thereof, deriving from the financial statements of DEPObank. Note that the aforementioned investments are measured using the equity method (and not in full).

The item Financial liabilities held for trading 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 Group is exposed to.

Tax assets and liabilities

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Tax assets	**100,519**	**60,707**	**(39,812)**
current	41,390	514	(40,876)
deferred	59,129	60,194	1,065
Tax liabilities	**100,684**	**136,003**	**35,318**
current	5,027	30,998	25,971
deferred	95,657	105,005	9,349

As at December 31, current tax assets and liabilities amount to €514 thousand and €30,998 thousand, respectively, and include the net balance of the Group's tax positions with respect to tax authorities, in accordance with the provisions of IAS 12.

The 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 BFF Bank’s late payment interest, recognized in the financial statements on an accruals 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	214,614	394,182	179,567
Other liabilities	460,856	401,369	(59,486)

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	795,053	1,166,365	371,312
Amounts due to customers	9,029,014	10,789,422	1,760,407
- of which to financial institutions	*0*	*0*	0
Securities issued	186,286	38,976	(147,310)
Total	**10,010,353**	**11,994,763**	**1,984,410**

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 also includes 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 face value 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 Tier 2 instrument in the amount of €100 million issued in 2017 and on June 29, 2022 of the Bonds (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	294	251	(43)
Employee benefits	6,133	7,861	1,728
Other provisions	15,533	24,900	9,367
Total	**21,960**	**33,012**	**11,052**

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 that Group companies may incur.

Main items in the Income Statement

The Group realized a profit of €232 million for the year ended December 31, 2022, compared to €197 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 €146.0 million compared to €125.3 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	136,452	178,817	42,365
Interest income on securities	10,268	42,787	32,519
Other interest income	83,595	133,202	49,607
Interest and similar income	**230,315**	**354,805**	**124,491**
Interest expenses	(39,546)	(92,988)	(53,442)
Net fee and commission income	**80,779**	**90,656**	**9,877**
Dividends and similar income	3,676	9,795	6,119
Net trading income	6,634	12,622	5,988
Net hedging income			
Profits (losses) on disposal or repurchase of:			
a) financial assets measured at amortized cost		166	166
b) financial assets measured at fair value through other comprehensive income		0	0
c) financial liabilities	(12,650)	0	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	2,733	5,154	2,422
Total income	**271,941**	**380,210**	**108,269**

Net interest income as at December 31, 2022 amounted to €261.8 million, up from €190.8 million last year (normalized values of €232.5 million and €194.6 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 €90.7 million, up from €80.8 million in 2021 but not much lower than the normalized €94.3 million in 2021, and was negatively impacted by the exit of Arca on November 1, 2022.

Total banking income as at December 31, 2022 amounted to €380.2 million, €348.5 million normalized, up from €271.9 million for the previous year (€303.2 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 a positive overall amount of €29.3 million.

As far as the loans and receivables recognized in the financial statements of the Parent BFF Bank and the Spanish subsidiary BFF Finance Iberia 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 "one off" amount of €29.3 million.

Administrative costs

(Values in thousand euros)

Items	12.31.2021	12.31.2022	Changes
Personnel expenses	73,234	74,352	1,118
Other administrative expenses	97,132	96,251	(881)
Total administrative expenses	**170,366**	**170,603**	**237**

Administrative expenses as at December 31, 2022 amounted to approximately €170.6 million, €159.5 million normalized, and were constant with respect to €170.4 million (which does not include the first two months of costs of DEPObank) but down from €169.1 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 Group recorded an amount equal to €119.4 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. Group'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 Banking Group assesses its ability to continue as a going concern by taking into account the trend of its main core indicators and available information about the future, covering at least 12 months after the reporting date.

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

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

- growing trend 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	195.3	261.8
Total income	271.9	380.2
EBTDA (gross of provisions)	206.5	349.8
Profit	**197.4**	232.0
R.O.E. (Return On Equity) (%)	**34.5%**	30.6%
R.O.T.E. (Return on Tangible Equity) (%)	39.2%	33.7%
Net interest income/Interest and similar income (%)	84.8%	73.8%
NPLs (net of impairment)/Loans and receivables with customers (%)	1.9%	1.6%
Own funds/Loans and receivables with customers (%)	49.1%	42.4%
Leverage Ratio	**3.5%**	4.6%
Equity	**571.6**	758.8
Own Funds	**481.1**	611.9

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 €389 thousand, compared to 2021 when it amounted to €106 thousand.

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

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 the BFF Group's low actual risk profile, since, beyond the definition of default - and probability of default (PD) - that can be adopted, the BFF Group'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 Group 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 Group 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 Group 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 Group 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 Group'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.

On the basis of the outcomes of the annual impairment test performed to prepare the consolidated financial statements at December 31, 2022, the Group did not recognize any impairment loss on the amount of goodwill recorded in the financial statements relating to the allocation of the acquisition cost of the BFF Polska Group, BFF Iberia and *BFF Techlab*.

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 BFF Group 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, the BFF Group 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 Banking Group's Internal Control system, as envisaged by the Corporate Governance Code.

Described below are the organizational framework of the Group's 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 Group'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 Group 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 Group's Business Model. Lastly, in 2022 the Group 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 and the Group - also through its reference persons/local functions at its subsidiaries and/or branches - continuously verifying whether internal processes and procedures are adequate in preventing such risk; 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 the BFF Banking Group 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 and the subsidiaries 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 Group's *Internal Audit* function, directly reporting to the Board of Directors. The Internal Audit function carries out independent controls, not only at the Parent but also at the subsidiary BFF Finance Iberia under a specific service agreement; it also performs management and coordination activities for the Internal Audit Function of the subsidiary BFF Polska. The regulation approved by the Board of Directors specifies that the Internal Audit function, within the third-level controls, evaluates the overall functioning of the internal control system, 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 parent, on the foreign branches, on the subsidiary BFF Finance Iberia and on BFF Polska and its subsidiaries. Moreover, such function carried out the audits provided for by the regulations applicable to Group 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 at a Group level, evaluating the adequacy of the coverage of the potential risk by performing adequacy and effectiveness tests on key controls on an ongoing basis, identifying possible points of improvement in the Internal Control System in the accounting area. In this context, the Financial Reporting Officer and the Chief Executive Officer of the Parent together certify the following aspects through specific reports attached to the annual separate and consolidated financial statements, and interim reporting: the suitability of the accounting procedures used in preparing the annual, consolidated and interim financial statements; compliance of documentation with applicable international 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 Group on a consolidated level and of the individual subsidiaries included under the scope of the consolidation; and the reliability of content, in relation to specific aspects, of the Director's report on operations and interim reporting.

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 *BFFTechlab* 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.

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

- the Spanish subsidiary BFF Finance Iberia adopted its own Organizational Model in accordance with Article 31-bis of the Spanish Penal Code, similar in its structure to the Bank's Model, and an independent, single-person Supervisory Body;
- the Polish subsidiary BFF Polska and its subsidiaries adopted specific guidelines to govern "anti- corruption" issues, with the identification of a relevant, single-person body, represented by BFF Polska's Compliance and AML function.

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 to 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 within the Group 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, at Group level, both aimed at existing customers and at a gradual expansion of business with SMEs. A multi-year project for creating a new and innovative Group 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, the Parent 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 [4] 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.

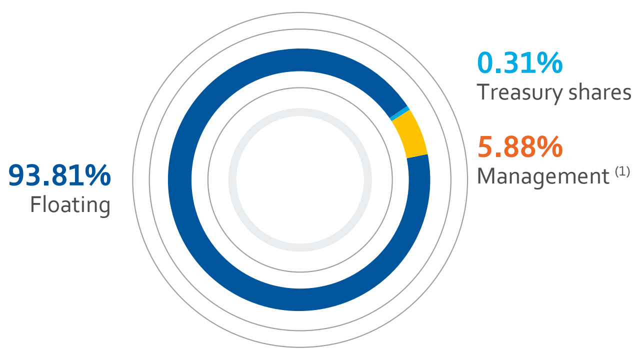
(4 Following the resolution of the Extraordinary Shareholders' Meeting of April 2, 2020 - to increase the share capital of the Bank without consideration, in a divisible manner and in several tranches, pursuant to Art. 2349 of the Italian Civil Code, for a total amount not exceeding €5,254,563.16, through the issue of up to 6,824,108 ordinary shares for the purposes connected with the Group's remuneration and incentive policies, including the "2020 Banca Farmafactoring Banking Group Stock Option Plan" (the 2020 Capital Increase) - 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:

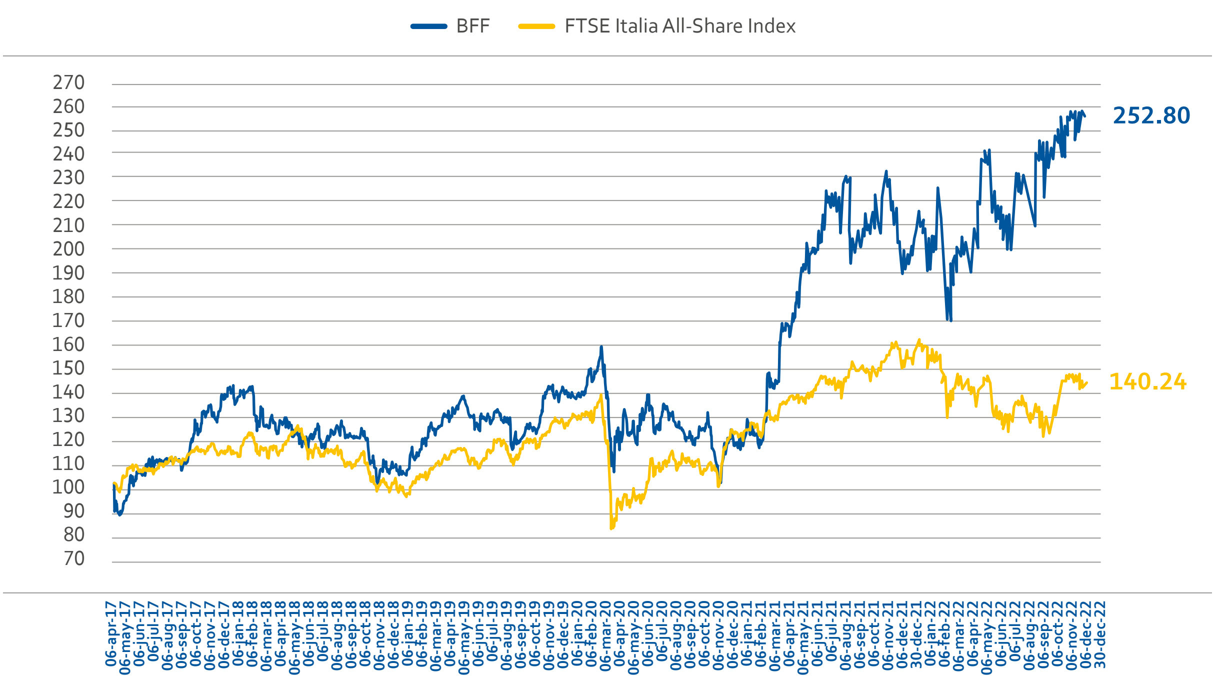
- to add a member to the Board of Statutory Auditors by appointing Nicoletta Paracchini as Chairwoman of the supervisory body, whose candidature was submitted by the law firm Trevisan & Associati on behalf of a group of shareholders;
- to appoint Ms. Francesca Masotti as Alternate Auditor, and to confirm 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 Group'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 Group 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 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 1 allows the Group 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. Allocation of the Banking Group's Profit

At December 31, 2022 the Banking Group's profit amounted to €232,047,605. This result includes, as described above, some non-recurring items, which net of the relative tax impacts amount to €86.0 million: +€87.2 million relating to the recognition of 50% of the provision relating to the lump-sum indemnity for debt collection ("40 euros"), +€20.1 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, -€2.7 million for the tax effect on intra-group dividends, -€2.2 million for the write-off of a tax receivable (DTA) in Poland, €-9.2 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) €85,970,465 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 parent'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 date). 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

Consolidated Financial Statements

Consolidated Statement of Financial Position

(Values in euro units)

Assets		12.31.2022	12.31.2021
10.	Cash and cash equivalents	634,879,242	554,467,803
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 mandatorily measured at fair value	*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	11,895,850,418	10,069,496,866
	a) loans and receivables with banks	*478,203,260*	*404,099,101*
	b) loans and receivables with customers	*11,417,647,158*	*9,665,397,765*
50.	Hedging derivatives	-	13,098
70.	Equity investments	13,655,906	13,483,781
90.	Property, equipment and investment property	54,349,168	36,451,859
100.	Intangible assets	70,154,575	67,547,298
	of which		
	- goodwill	*30,956,911*	*30,874,236*
110.	Tax assets	60,707,458	100,518,550
	a) current	*513,588*	*41,389,440*
	b) deferred	*60,193,870*	*59,129,110*
130.	Other assets	394,181,565	214,613,950
TOTAL ASSETS		**13,342,416,883**	**11,176,697,328**

(Values in euro units)

Liabilities and equity		12.31.2022	12.31.2021
10.	Financial liabilities measured at amortized cost	11,994,762,826	10,010,352,805
	a) due to banks	*1,166,365,115*	*795,053,359*
	b) due to customers	*10,789,421,645*	*9,029,014,284*
	c) debt 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	136,002,627	100,684,173
	a) current	*30,997,504*	*5,027,559*
	b) deferred	*105,005,123*	*95,656,614*
80.	Other liabilities	401,369,354	460,855,826
90.	Post-employment benefits	3,238,366	3,709,582
100.	Provision for risks and charges:	33,012,775	21,959,653
	a) commitments and guarantees given	*251,282*	*293,721*
	b) pensions and similar obligations	*7,861,441*	*6,132,998*
	c) other provisions for risks and charges	*24,900,052*	*15,532,934*
120.	Valuation reserves	6,852,891	5,268,845
140.	Equity instruments	150,000,000	-
150.	Reserves	233,153,339	166,903,826
155.	Interim dividend	(68,549,894)	-
160.	Share premium reserve	66,277,204	66,492,997
170.	Share capital	142,870,383	142,690,771
180.	Treasury shares	(3,883,976)	(7,132,434)
200.	Profit (loss) for the period	232,047,606	197,372,423
TOTAL LIABILITIES AND EQUITY		**13,342,416,883**	**11,176,697,328**

Consolidated Income Statement

(Values in euro units)

Items		2022	2021(*)
10.	Interest and similar income	354,805,437	230,314,704
	of which: interest income calculated according to the effective interest method	*321,564,757*	*201,786,632*
20.	Interest and similar expense (**)	(92,987,816)	(39,545,723)
30.	**Net interest income**	**261,817,621**	**190,768,981**
40.	Fee and commission income	127,594,743	109,277,422
50.	Fee and commission expense	(36,939,094)	(28,498,392)
60.	**Net fee and commission income**	**90,655,649**	**80,779,030**
70.	Dividends and similar income	9,794,598	3,675,911
80.	Profits (losses) on trading	12,622,171	6,633,662
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 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**	**380,210,380**	**271,941,267**
130.	Net impairment losses/gains for credit risks associated with:	(5,905,199)	196,904
	a) financial assets measured at amortized cost	*(5,905,199)*	*343,493*
	b) financial assets measured at fair value through other comprehensive income	*-*	*(146,589)*
150.	**Net income from banking activities**	**374,305,181**	**272,138,171**
180.	**Net income from banking and insurance activities**	**374,305,181**	**272,138,171**
190.	Administrative expenses:	(170,602,997)	(170,365,575)
	a) personnel expenses	*(74,351,758)*	*(73,233,590)*
	b) other administrative expenses	*(96,251,239)*	*(97,131,985)*
200.	Net provisions for risks and charges	(10,535,096)	2,265,324
	a) commitments and guarantees given	*65,131*	*233,720*
	b) other net provisions	*(10,600,227)*	*2,031,604*
210.	Depreciation and net impairment losses on property, equipment and investment property	(5,005,378)	(5,132,422)
220.	Amortization and net impairment losses on intangible assets	(7,641,714)	(4,950,500)
230.	Other net operating income	150,393,890	102,508,187
240.	**Operating costs**	**(43,391,294)**	**(75,674,985)**
250.	Profits on equity investments	287,857	195,391
290.	**Profit before tax from continuing operations**	**331,201,744**	**196,658,577**
300.	Income taxes on continuing operations	(99,154,138)	713,846
310.	**Profit after tax from continuing operations**	**232,047,606**	**197,372,423**
330.	**Profit (Loss) for the year**	**232,047,606**	**197,372,423**
350.	**Profit for the year attributable to the owners of the parent**	**232,047,606**	**197,372,423**
	Basic earnings per share	**1.25**	**1.06**
	Diluted earnings per share	**1.18**	**1.01**

(*) 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 "Profits (losses) on hedging" 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.

Consolidated Statement of Comprehensive Income

(Values in euro units)

Items		2022	2021
10.	Profit (loss) for the year	232,047,606	197,372,423
	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.	Hedging of equity instruments carried 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	580,380	(1,196,618)
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		4,832,475
170.	**Total other comprehensive income net of tax**	**1,939,383**	**3,812,750**
180.	**Comprehensive income (Items 10+170)**	**233,986,989**	**201,185,173**
190.	Comprehensive income attributable to non-controlling interests		
200.	**Comprehensive income attributable to the owners of the parent**	**233,986,989**	**201,185,173**

Statement of Changes in Consolidated Equity

2022	Balances as at 12.31.2021	Change to opening balances	Balances as at 01.01.2022	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) earnings-related	158,260,237		158,260,237	72,092,024	
b) other	8,643,589		8,643,589		
Valuation reserves	5,268,845		5,268,845		
Equity instruments					
Interim dividend					
Treasury shares	(7,132,434)		(7,132,434)		
Profit for the year	197,372,423		197,372,423	(72,092,024)	(125,280,399)
Equity attributable to the owners of the parent	571,596,428		571,596,428		(125,280,399)
Non-controlling interests					

2021	Balances as at 12.31.2020	Change to opening balances	Balances as at 01.01.2021	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	234,058,930		234,058,930	87,841,192	
b) other	7,414,381		7,414,381		
Valuation reserves	1,456,095		1,456,095		
Equity instruments					
Treasury shares	(3,517,312)		(3,517,312)		
Profit for the year	91,072,580		91,072,580	(87,841,192)	(3,231,388)
Equity attributable to the owners of the parent	462,578,775		462,578,775		(3,231,388)
Non-controlling interests					

(Values in euro units)

Changes in the year: Change in reserves	Equity transactions: 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	Comprehensive income 2022	Equity attributable to the owners of the parent as at 12.31.2022	Equity attributable to non-controlling interests as at 12.31.2022
	179,612									142,870,383	
(215,793)										66,277,204	
(7,617,807)										222,734,454	
(293,899)							2,069,195			10,418,885	
(355,337)									1,939,383	6,852,891	
					150,000,000					150,000,000	
			(68,549,894)							(68,549,894)	
3,248,458										(3,883,976)	
									232,047,606	232,047,606	
(5,234,378)	179,612	-	(68,549,894)	-	150,000,000		2,069,195		233,986,989	758,767,553	

(Values in euro units)

Changes in the year: Change in reserves	Equity transactions: 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	Comprehensive income 2021	Equity attributable to the owners of the parent as at 12.31.2021	Equity attributable to non-controlling interests as at 12.31.2021
	11,289,777								142,690,771	
	65,799,891								66,492,997	
1,635,534			(165,275,418)						158,260,237	
1,421,236						(192,028)			8,643,589	
								3,812,750	5,268,845	
									-	
2,363,892		(5,979,014)							(7,132,434)	
								197,372,423	197,372,423	
5,420,662	77,089,668	(5,979,014)	(165,275,418)	-		(192,028)		201,185,173	571,596,428	

Consolidated Statement of Cash Flow

Indirect method

(Values in euro units)

	Amount	
	12.31.2022	**12.31.2021**
A. OPERATING ACTIVITIES		
1. Operations	**371,082,993**	**199,314,609**
- Net profit/loss for the year (+/-)	232,047,606	197,372,423
- gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	530,806	(7,263,471)
- gain/losses on hedging operations (+/-)	14,313,592	(2,576,529)
- net impairment losses/gains for credit risk (+/-)	5,905,199	(196,903)
- depreciation, amortization and net impairment losses on property, equipment and investment property and intangible assets (+/-)	12,647,092	10,082,922
- net allocations to provisions for risks and charges and other costs/income (+/-)	10,535,096	(276,976)
- net premiums not collected (-)		
- other income/expenses from insurance activities not collected (-/+)		
- taxes, duties and unpaid tax credits (+/-)	99,154,138	2,368,535
- net impairment losses/reversals of impairment losses on discontinued operations, net of the tax effect (+/-)		
- other adjustments (+/-)	(4,050,536)	(195,391)
2. Cash flow absorbed by financial assets	**(2,080,465,626)**	**(4,700,768,927)**
- financial assets held for trading	3,353,047	(11,358,287)
- financial assets designated at fair value		
- other financial assets mandatorily measured at fair value	(52,671,663)	(32,503,527)
- financial assets measured at fair value through other comprehensive income	(45,426,272)	(83,341,856)
- financial assets measured at amortized cost	(1,832,258,751)	(4,305,041,315)
- other assets	(153,461,987)	(268,523,943)
3. Cash flow generated by financial liabilities	**1,866,942,586**	**5,034,680,576**
- financial liabilities measured at amortized cost	1,984,407,578	4,596,116,101
- financial liabilities held for trading	(1,774,721)	2,724,511
- financial liabilities carried at fair value		
- other liabilities	(115,690,271)	435,839,964
Net cash generated by operating activities	**157,559,952**	**533,226,258**

(CONT'D)

(Values in euro units)

	Amount	
	12.31.2022	12.31.2021
B. INVESTING ACTIVITIES		
1. Liquidity generated by	-	**3,675,199**
- sales of equity investments		(712)
- dividends collected on equity investments		3,675,911
- sales of property, plant and equipment		
- sales of intangible assets		
- sales of subsidiaries and business units		
2. Liquidity absorbed by	**(33,318,220)**	**(74,713,267)**
- purchases of equity investments	(172,125)	(13,396,767)
- purchases of property, plant and equipment	(22,897,104)	(26,705,613)
- purchases of intangible assets	(10,248,991)	(34,610,887)
- purchases of subsidiaries and business units		
Net cash absorbed by investing activities	**(33,318,220)**	**(71,038,068)**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares		(5,979,014)
- issue/purchase of equity instruments	150,000,000	77,164,253
- distribution of dividends and other purposes	(193,830,293)	(168,506,806)
- sale/purchase of ownership interests in subsidiaries		
Net cash generated/absorbed by financing activities	**(43,830,293)**	**(97,321,567)**
NET CASH GENERATED/ABSORBED DURING THE FINANCIAL YEAR	**80,411,439**	**364,866,623**

Reconciliation

(Values in euro units)

Financial statement items	12.31.2022	12.31.2021
Cash and cash equivalents at start of year	554,467,803	189,601,179
Total net cash generated during the year	80,411,439	364,866,623
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at end of year	**634,879,242**	**554,467,803**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Part A - Accounting policies

A.1 GENERAL

Section 1 - Statement of compliance with International Financial Reporting Standards

The consolidated financial statements 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 consolidated financial statements (the Framework), with particular reference to the fundamental principle of substance over legal form and the concept of materiality or significance of the information.

Section 2 - Basis of presentation

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

The consolidated financial statements consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows, the Notes to the Consolidated Financial Statements and 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 consolidated financial statements are denominated in euros, when not specified otherwise, and also show the corresponding comparisons with the previous year.

The consolidated financial statements were prepared based on the general principle of prudence and on an accruals and going concern basis, since, with reference to the operations and the financial position of the Group, and after examining the risks to which it is exposed, the Directors have not identified any issues that could raise doubts on the Group'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 consolidated 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 Group's Consolidated financial position at December 31, 2022, results of operations and cash flows for the year then ended.

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

As of the date of these consolidated 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 Group, are reasonably estimated to be immaterial.

Section 3 - Scope and basis of consolidation

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

Subsidiaries

Subsidiaries are companies over which BFF Banking Group exercises control. BFF Banking Group controls a company when it is exposed to the variable returns generated by it and has the ability to affect such returns through its power over the company. Generally, control is deemed to exist when more than half of the voting rights are directly or indirectly held, taking also into account potentially exercisable or convertible voting rights.

All subsidiaries are consolidated on a line-by-line basis from the date on which control is transferred to BFF Banking Group. Conversely, they are excluded from the scope of consolidation when such control ceases.

The financial statements of the companies that are consolidated on a line-by-line basis are prepared in accordance with the IASs/IFRSs used for the preparation of the consolidated financial statements.

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

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

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

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

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

1. Shares in companies within the scope of consolidation

At December 31, 2022, BFF Banking Group included the Parent BFF Bank S.p.A. and the following companies:

Company name	Registered and operating office	Relationship type(1)	Ownership relationship		Voting rights %(2)
			Held by	Holding %	
1. BFF Immobiliare S.r.l.	Milan Via Domenichino, 5	1	BFF Bank S.p.A.	100%	100%
2. BFF Techlab S.r.l.	Brescia Via C. Zima, 4	1	BFF Bank S.p.A.	100%	100%
3. BFF Finance Iberia. S.A.U.	Madrid Paseo de la Castellana, 81	1	BFF Bank S.p.A.	100%	100%
4. BFF Polska S.A.	Łódź Jana Kilińskiego, 66	1	BFF Bank S.p.A.	100%	100%
5. BFF Medfinance S.A.	Łódź Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
6. BFF Česká republika s.r.o.	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
7. BFF Central Europe s.r.o.	Bratislava Mostova, 2	1	BFF Polska S.A.	100%	100%
8. Debt-Rnt sp. Z O.O.	Łódź Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
9. Komunalny Fundusz Inwestycyjny Zamknięty	Warsaw Plac Dąbrowskiego, 1	4	BFF Polska S.A.	100%	100%
10. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw Plac Dąbrowskiego, 1	4	BFF Polska S.A.	100%	100%
11. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
12. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź Jana Kilińskiego, 66	4	Debt-Rnt sp. Z O.O.	99%	99%

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

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

As far as points 9 and 10 are concerned, voting rights refer to the investors' right to vote at the Meeting.

The companies in points 11 and 12 above are limited partnerships and are consolidated according to the equity method since their total asset figures are not significant.

On January 19, 2022, the company BFF Immobiliare S.r.l., a wholly owned subsidiary of BFF Bank S.p.A., was established. This company was established with a view to finalizing the Casa BFF operation, which involved the purchase of a buildable area and the subsequent development of an office building which will become the new registered office of the BFF Group and will house all of the Bank's personnel present in the city of Milan, who are currently divided between three different buildings.

BFF Bank also holds a 26.46% stake in Unione Fiduciaria S.p.A., which is consolidated with the equity method (and not in its entirety), as it is a company subject to significant influence.

On October 3, 2022, BFF Bank finalized the acquisition of the IT company "MC3 Informatica S.r.l." which as of the same date changed its company name to BFF Techlab S.r.l.

The measurement criteria are adopted based on the going concern assumption and comply with the principles of accruals, relevance and materiality of accounting information and the prevalence of economic substance over legal form.

Section 4 - Events after the reporting period

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 Parent 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 5 - 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 consolidated level the Group has put in place continuous monitoring of the risks that the BFF Group 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 Group 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 Group does not hold securities issued by issuers particularly exposed to risks arising from the current geopolitical 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 Group 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 Group'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 Group'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 credit losses. However, actions have been taken starting from the second quarter of 2020 that led the Group 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 Group 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 Group has maintained the necessary measures to monitor and control the liquidity position. The Group:
  (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 Group'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 Group 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 Group, through contractual agreements, has granted some of its counterparties moratoria of a strictly voluntary character. The amendments related solely to deferral of principal amounts, without any amendments to interest rates. Moreover, no reduction in the Group's credit exposures was foreseen in terms of either principal or interest. The amendments were considered non-substantial and therefore did not result in the derecognition of the positions subject to moratoria.

At December 31, 2022, €1.92 million in exposures benefited from moratoria, primarily represented by corporate clients (approximately 45%), public sector entities (approximately 22%) and retail clients (approximately 33%) based in Poland, Slovakia and the Czech Republic.

Statutory audit

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

A.2 - MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The following describes the accounting policies adopted to prepare the consolidated 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 payments 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 "Hold-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 "held-to-collect-and-sell" business models) or that fail the contractual characteristics test (SPPI test);
- equity instruments - which cannot be qualified as controlling or connected - for which the designation at fair value through 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 presented 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 represented by the price of the transaction, without considering the costs or income of the transaction directly attributable to the instrument itself.

Measurement criteria

After initial recognition, financial assets measured at fair value through profit or loss are measured at fair value. The effects of applying this measurement criterion are charged to the income statement.

To determine the fair value of financial instruments listed on an active market, market prices are used. In the absence of an active market, commonly adopted estimation and valuation models are used. These take into account all the risk factors related to the instruments and are based on observable market data such as: the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, the recorded values of recent comparable transactions, etc.

For equity instruments and derivatives not quoted on an active market, the cost criterion is used to estimate the fair value only on a residual basis and in a limited number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.

Derecognition criteria

Financial assets or parts of financial assets are 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 Group 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 Group defined a maximum annual turnover ratio for the securities portfolio allowing to distinguish this business model from the Other model (i.e., assets held for trading), calculated as the ratio of the total value of sales to the average stock for the year ((opening stock + closing stock)/2).

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

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

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

Recognition criteria

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 120 "Valuation reserves" except for impairment, which is recognized under item 130 "Net impairment losses/gains for credit risks associated with financial assets measured at fair value through other comprehensive income: b) financial assets measured at fair value through OCI".

Gains and losses are recognized in valuation 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 financial assets measured at fair value through OCI".

Fair value changes recognized under item 120 "Valuation reserves" are also reported in the consolidated statement of comprehensive income.

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

Equity instruments that were classified in this category are valued at fair value and the amounts recognised 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 120 "Valuation reserves" is transferred to the income statement under item 130 "Net impairment losses/gains for credit risks associated with financial assets measured at fair value through other comprehensive income: 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 of the Group companies 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 Group identified thresholds of significance for frequency and volumes of sales, required to analyze whether the HTC business model has been maintained.

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

With respect to the frequency of sales, the BFF Banking Group 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, including at the Group level.

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

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

The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. Gains or losses arising from the difference between the amortized cost of a financial asset and its fair value are recognized in the income statement in the case of a reclassification to FVPL, or in equity, as part of the relevant 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 Group, 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 by Group companies are measured at amortized cost, determined based on the present value of estimated future cash flows, with reference to both the principal and the late payment interest accruing as from the due date of the receivable and deemed recoverable.

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

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 and BFF Finance Iberia also included the estimate of recoverable late payment interest in the calculation of amortized cost, taking into account that:

- the business model and organizational structure envisage that the systematic recovery of late payment interest on 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.

Furthermore, BFF Bank and BFF Finance Iberia have time series of data concerning collection percentages and times - acquired through suitable analysis tools - enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series are updated on an annual basis when the financial statements are prepared, in order to determine the 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 financial statements of the Parent BFF Bank and the Spanish subsidiary BFF Finance Iberia 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.

As for BFF Polska Group, late payment interest accrued on past due trade receivables is mainly recognized when there is a reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or court decisions.

With respect to the treatment in the consolidated Financial Statements of the right to receive the lump-sum indemnity for debt collection ("40 euros"), the Group 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 Group 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 consolidated 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 profit 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 consolidated 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 Group 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), for the Spanish subsidiary BFF Finance Iberia and for the indirect subsidiary BFF Central Europe.

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 consolidated 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 (i.e., Italian 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 consolidated 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 consolidated Financial Statements, but does not lead to any revision of previous consolidated Financial Statements.

At December 31, 2022, the Group (within the scope described above) 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 €119.4 million (€87.2 million net of the tax effect) and as of January 1, 2023 will calculate and recognize in the consolidated 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 Group carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets. IFRS 9 introduced the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. According to this concept, a loss does not necessarily have to occur before it is recognized in the financial statements; therefore, generally all financial assets will entail the recognition of a provision.

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

At each 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 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 risk 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 consolidated financial statements, even though legal title to these assets is effectively transferred.

4 - Hedging operations

Recognition criteria

The Group 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 the BFF Banking Group'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 Group, 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 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 "Net hedging income (expense)";
- 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 financial statements at cost, equal to the fair value of the consideration paid, adjusted for impairment.

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

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

Measurement criteria

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

Impairment indicators may essentially be divided into two categories:

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

The presence of impairment indicators implies the recognition of a impairment loss to the extent that the recoverable amount is less than the carrying amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use.

The value in use is the present value of the expected cash flows from the asset. It reflects the estimate of the expected cash flows from the asset, the estimate of possible changes in the amount and/or timing of the cash flows, the time value of money, the price to remunerate the risk of the asset and other factors that may influence market participants' valuation of the asset's expected cash flows.

Derecognition criteria

Equity investments are 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, equipment and investment property 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 a item of property, equipment and investment property (for lessees), assets granted under an operating lease (for lessors), as well as improvements and incremental expenses incurred on owned assets and rights of use 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 "90. Property, equipment and investment property", in the most appropriate category;
- if not independently identifiable and separable, in item "90. 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 "90. Property, equipment and investment property", in the most appropriate category;
- if not independently identifiable and separable, in item "130. 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 190 b) "other administrative expenses," if they refer to assets used in the Group's business activities.

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

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

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

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

Measurement criteria

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

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

- buildings: 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 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 carrying amount of the asset are recognized in the income statement under item 210 "depreciation and net impairment losses on property, equipment and investment property".

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 Group 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 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 at asset, net of accumulated depreciation and accumulated 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 Group, and from which future economic benefits are likely to flow.

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

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

Recognition criteria

Intangible assets are recognized in the annual or interim consolidated 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.

The goodwill recognized derives from the acquisition of BFF Polska in 2016, IOS Finance in 2019 (merged into BFF Iberia on December 31, 2019) and MC3 Informatica S.r.l. in 2022 (which changed its company name to BFF Techlab S.r.l.).

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 for the entire Banking Group:

- 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 is recognized in the income statement under item 220 "Amortization and net impairment losses on 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.

Intangible assets include goodwill. Goodwill can be recognized, in a business combination, when the positive difference between the consideration transferred and any recognition at fair value of non-controlling interests and the fair value of the net assets items acquired is representative of the investment's capability to produce future profit.

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

The Group has a policy ("Goodwill Impairment Test") that defines the content of the test, in relation to what is prescribed by the IFRS, also explaining so-called "trigger events", i.e. those indicators with an external/internal source of information that are monitored at least every six months and that trigger impairment tests on equity investments and goodwill. The impairment test may also be performed at the specific request of the Authorities in case of particularly exceptional events (e.g. the case of the COVID-19 pandemic).

Therefore, an impairment test is performed annually on goodwill (or whenever there is evidence of impairment). To this end, the cash-generating unit is identified to which goodwill is to be allocated.

The amount of any impairment is determined on the basis of the difference between the carrying amount and the recoverable amount, if lower, and is taken to the income statement under item 270 "Impairment of goodwill". Recoverable amount is defined as the higher of fair value of the cash-generating unit less costs of disposal and its value in use, which is the present value of the cash flows expected to be derived from a cash-generating unit for the years in which it is in operation and arising from its disposal at the end of its useful life, or considering the current market multiple method. The recognition of any subsequent impairment gains is not allowed.

On the basis of the outcomes of the annual impairment test performed to prepare the consolidated financial statements at December 31, 2022, the Group did not recognize any impairment loss on the amount of goodwill recorded in the consolidated financial statements relating to the purchase price allocation of the BFF Polska Group, IOS Finance and MC3 Informatica S.r.l.

In this regard, please note that at December 31, 2022, the newly acquired BFF Techlab S.r.l. (former MC3 Informatica S.r.l.) was consolidated line-by-line and furthermore the purchase price allocation ("PPA") process was concluded, which resulted in the recognition of goodwill at consolidated level of €83 thousand. For more information refer to Part G "Business combinations" of the Notes to the consolidated financial statements.

In addition, 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 consolidated financial statements in item "Intangible Assets".

Derecognition criteria

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

9 - Current and deferred taxes

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

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

Current tax assets and liabilities include the net balance of the Group'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 110 b) of assets. Deferred tax liabilities are recorded under item 60 b) of liabilities. Deferred tax assets and liabilities are constantly monitored and are recorded by applying the tax rates that it is expected will be applicable in the period in which the tax asset will be realized or the tax liability will be extinguished, on the basis of the tax rates and the tax law established by provisions in force.

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

In cases where deferred tax assets and liabilities concern transactions that directly concerned equity without impacting profit or loss (such as the adjustments resulting from the first-time adoption of 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 Group.

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

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 reporting date, statement of financial position 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.

16 - 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-employment benefits vested accrued 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-employment 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 accruals basis.

The costs for servicing the plan are recorded under personnel expenses, item 190 "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.

Revenue

Revenue are 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.

With respect to BFF Bank and BFF Finance Iberia, 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 and BFF Finance Iberia also included the estimate of recoverable late payment interest, including that claimed from tax authorities. As a matter of fact, BFF and BFF Finance Iberia have time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series are updated on an annual basis when the consolidated 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 Bank and BFF Finance Iberia, 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.

As regards BFF Polska Group, with the exception only of BFF Central Europe s.r.o., despite the negligible importance of the component of late payment interest on total loans and receivables, as part of the activities to complete the integration of Group processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent, late payment interest accrued on past-due trade receivables is primarily recognized when it is reasonably certain that it will be collected, on the basis of the agreements reached with the debtor counterparties or what has been agreed to in legal proceedings. As instead regards

BFF Central Europe, please note that the amortized cost method is used, and the majority of the revenues recognized relate to commissions received. All additional revenue linked to late payment interest is recognized only in specific cases, for which there is reasonable certainty of recovery and for which an estimated percentage of recovery has been defined based on experience.

Interest income on debt securities in portfolio and interest expense on securities issued by BFF Banking Group are recognized at amortized cost, i.e., by applying to the 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 Group 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 consolidated financial statements. Therefore, this accounting treatment results in a greater alignment between costs and revenues, on an accruals 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 Group.

2016 Stock-Option Plan of the Banca Farmafactoring Banking Group

On December 5, 2016, the parent'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 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 parent 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 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 fulfillment of the following conditions: (i) continuation of employment with the 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 consolidated financial statements, the Group 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 Group'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 consolidated 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 consolidated 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 the Group, 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 consolidated 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 BFF Banking Group uses as the basis for measuring expected credit losses, i.e., probability of default (PD), loss given default (LGD) and exposure at default (EAD).

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 Group shall recognize adjustments equal to lifetime expected credit losses. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is no longer an indication that credit risk has "increased significantly".

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

To allocate exposures subject to impairment in stages, the Group has adopted the following method, which can be summarized in 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 Group 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 Group's methodological decisions for the purposes of measuring the above parameters and measures.

Probability of Default (PD)

The multi-period PD parameter is interpreted by the Group by estimating a term structure of the probability of default starting from a 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 Group defines PD as the likelihood, over a particular time horizon, that a counterparty will be classified as in default.

The Group has adopted a model based mainly on external information sources (e.g. Rating agencies). The matrices taken into consideration for rated counterparties relate to the Sovereign, Corporate and Financial Institutions segments. With reference to the Group 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 Group applies a smoothing algorithm using exponential damping to the forward PDs. Therefore, the Group identifies time dependent weightings to be applied to the TTC PD curve and to the recalculated curve after application of the shocks.

Loss Given Default (LGD)

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

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

The Group assigns an LGD value to each transaction on the basis of appropriate portfolio segmentation, taking into account the following risk factors: the probability of default associated with the counterparty, the reference economic sector, and factors specific to the transaction (e.g., type of financing and positioning of the financing within the capital structure). In addition, only for the non-recourse factoring portfolio of BFF Bank S.p.A. and BFF Finance Iberia S.A., given the specific features of the recovery process for that technical form compared to those of other product types, the Group 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 based on recoveries, in the majority of the cases complete, historically experienced by the Group. 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 Group has identified the following factors for the computation of lifetime EAD:

- type of exposure;
- due date.

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

- exposures with a deterministic repayment plan (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 effective cash flows. Stochastic modelling 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) allows taking into account 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 third 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 Group'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 installment 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.

A.4 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 Group'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	36,487	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 measurement		90,225	104		32,399	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 carried 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. Gains recognised in:								
2.2.1 Profit or loss								
- of which gains								
2.2.2 Equity		X	X	X				
2.3. Transfers to 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 measured at fair value or measured 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	11,895,850	5,946,465		5,766,623	10,069,497	5,839,220		4,276,876
2. Investment property								
3. Non-current assets held for sale and discontinued operations								
Total	**11,895,850**	**5,946,465**		**5,766,623**	**10,069,497**	**5,839,220**		**4,276,876**
1. Financial liabilities measured at amortized cost	11,994,763	38,648		11,955,787	10,010,353	188,861		9,824,068
2. Liabilities associated with assets held for sale								
Total	**11,994,763**	**38,648**		**11,955,787**	**10,010,353**	**188,861**		**9,824,068**

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

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

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

Part B - Information on the Consolidated Statement of Financial Position

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

ASSETS

Section 1 - Cash and cash equivalents - Item 10

€634,879 thousand

1.1 Cash and cash equivalents: breakdown

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
a) Cash	207	192
b) Current accounts and sight deposits at Central Banks	489,810	360,142
c) Current accounts and sight deposits at banks	144,863	194,134
Total	**634,879**	**554,468**

Starting from December 31, 2021, in line with what is set forth in the 7th update of Bank of Italy circular 262/2005, 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 Bank and its subsidiaries at third-party banks at the end of 2022, amounting to €145 million. Specifically, "Current accounts and sight deposits at banks" mainly refer for €134 million to BFF Bank, for €10 million to BFF Polska Group, for €660 thousand to BFF Finance Iberia and for €220 thousand to BFF Techlab.

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 Group is exposed to;
- Other financial assets subject to mandatory fair value measurement of €90,330 thousand, 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 with units subscribed by the parent for a value of €60 million at December 31, 2022. The value of UCI units recognized in the consolidated 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						
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						
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	3	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		
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 parent 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	1,000	
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

€11,895,850 thousand

This item is broken down as follows:

- Loans and receivables with banks of €478,203 thousand;
- Loans and receivables with customers of €11,417,647 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	153			X	X	X
2. Compulsory 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**	**248,061**					**248,061**
1. Loans	292,854						248,061					
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	245,418			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	84,980			X	X	X
2. Debt securities												
2.1 Structured securities												
2.2 Other debt securities												
Total	**478,203**					**478,203**	**404,099**					**404,099**

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 BFF 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

€11,417,647, including Hold to Collect securities of €6,129,228 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 €5,288.4 million (mainly amounts due from debtors in relation to factoring activities) and €6,129.2 million in debt securities in the HTC portfolio.

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

BFF Bank and BFF Finance Iberia's non-recourse trade receivables include both principal and late payment interest accruing as from the due date of the trade 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 the 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.

With regard to the trade receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be close to 100% and, on average, collection times are lower than those recorded for trade receivables due from the Italian National Healthcare System. However, a prudent decision was made to consider, also for 2022, the use of the same parameters as those used by BFF Bank, i.e., a recovery rate of 50% with average collection times of 2,100 days.

As regards BFF Polska Group, with the exception only of BFF Central Europe s.r.o., despite the negligible importance of the component of late payment interest on total loans and receivables, as part of the activities to complete the integration of Group processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent, late payment interest accrued on past-due trade receivables is primarily recognized when it is reasonably certain that it will be collected, on the basis of the agreements reached with the debtor counterparties or what has been agreed to in legal proceedings. As instead regards BFF Central Europe, please note that the amortized cost method is used, and the majority of the revenues recognized relate to commissions received. All additional revenue linked to late payment interest is recognized only in specific cases, for which there is reasonable certainty of recovery and for which a percentage of recovery has been defined based on experience.

The cumulative amount of late payment interest due to BFF Bank (including branches and countries managed in compliance with regulations on the freedom to provide services) and BFF Finance Iberia but not yet collected for non-recourse trade receivables (so-called Allowance for late payment interest) amounted to €756 million, of which only €346 million was recognized in the income statement of the period and in previous periods.

The total net amount of impaired exposures for BFF Banking Group is €283.8 million. Of this amount, €86.4 million relates to non-performing loans (including €79.7 million relating to municipalities and provincial governments in financial distress, of which €5.7 million were purchased already impaired) and €12.1 million to unlikely-to-pay exposures. Past due exposures amounted to €185.3 million, of which 97% relating to public counterparties. The figure remained aligned with what was recorded at September 30, 2022, the date on which they 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.

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 requiring any placement in default, 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 the parent 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 the Group is entitled and not yet collected for trade receivables purchased outright ("40 euros provision") amounted to €240.3 million, of which only €119.4 million recognized in the income statement for the year as a result of the transition from cash accounting to accrual accounting.

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

€11,417,647 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	Purchased or originated credit impaired	L1	L2	L3
1. Loans	**5,004,658**	**278,090**	**5,672**			**5,288,419**	**3,768,697**	**98,788**	**5,287**			**3,872,777**
1.1 Current accounts	3,444	391		X	X	X	20,498	1,141		X	X	X
1.2 Reverse repos	67,897			X	X	X	127,452			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	468			X	X	X
1.5 Finance leases	1,619			X	X	X	2,851			X	X	X
1.6 Factoring	3,250,809	237,384	5,672	X	X	X	2,418,616	77,352	5,287	X	X	X
1.7 Other loans	1,680,716	40,315		X	X	X	1,198,811	20,295		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					
Total	**11,133,885**	**278,090**	**5,672**	**5,946,465**		**5,288,419**	**9,561,323**	**98,788**	**5,287**	**5,839,220**		**3,872,777**

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

This item breaks down as follows:

- Performing exposure factoring amounted to a total of €3,250,809 thousand for BFF Banking Group.
  This included non-recourse trade receivables purchased as performing, registered under the name of the assigned debtor, with the conditions for derecognition, and measured at amortized cost, worth a total of €2,507,838 thousand for BFF Bank and €570,385 thousand for the subsidiary BFF Finance Iberia.
  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 €25,562 thousand in relation to late payment interest and €3,410 thousand for collection expenses.

  Performing non-recourse factoring of BFF Polska Group totaled €172,585 thousand.
- Other performing loans due from customers amounted to €1,680,716 thousand. They mainly include:
  - accrued late payment interest of about €198,252 thousand, including €176,306 thousand relating to BFF Bank and €21,946 thousand relating to the Spanish subsidiary. This amount has already been recognized in the income statement in the current and prior years and refers only to late payment interest accrued on principal already collected. Therefore, of the €346.0 million in late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2022, €198.3 million refers to the item under review, while of the remaining amount, €136 million was recognized under "factoring" and €11.8 million under other loans past due;
  - collection expenses of €108,902 thousand, of which €84,304 thousand relating to BFF Bank, €23,480 thousand referring to the Spanish subsidiary and €1,118 thousand relating to BFF Central Europe; this amount, along with the €7,543 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;
  - security deposits of approximately €242.2 million 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 €268.3 million;
  - financing activities of BFF Polska Group of €855,094 thousand.
- 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 €3,444 thousand are for the use of lines of credit granted to funds and asset management companies using the custodian bank services (as part of the services offered by the Securities Services business unit) or by corporate customers to whom collection and payment services are provided (as part of the services provided by the Banking Payments Department).
- Performing finance leases of BFF Polska Group totaled €1,619 thousand.
- BFF Banking Group's net impaired assets amounted to a total of €283,762 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 Group.

At December 31, 2022, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €86,372 thousand, of which €5,672 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €79,662 thousand, accounting for 92.2% of the total.
Gross non-performing loans amounted to €104,663 thousand. The related impairment totaled €18,290 thousand. 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 €105,660 thousand and relevant adjustments totaled €19,287 thousand.
With reference to the parent, at December 31, 2022 total non-performing loans, net of any estimated impairment losses, amounted to €80,271 thousand, of which €79,662 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non- performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.
Specifically, the amount of €5,672 thousand refers to loans and receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.
The remaining positions referring to BFF Bank are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €21,151 thousand. After estimated impairment losses of €15,811 thousand they amounted to €5,340 thousand.

- BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgement made by the intermediary about the unlikelihood that - excluding such actions as the enforcement of guarantees - the debtor will fully fulfil (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
  At December 31, 2022, gross exposures classified as unlikely to pay amounted to €16,374 thousand, of which €14,439 thousand attributable to BFF Polska Group, €1,593 to the bank and €342 thousand to BFF Finance Iberia. The total net value is €12,132 thousand, referring primarily to BFF Polska Group.
- Net past due exposures of BFF Banking Group amounted to €185,257 thousand. They refer to the parent for €170,890 thousand, to the Spanish subsidiary for €13,556 thousand and to BFF Polska Group for €811 thousand. 97.4% of these exposures relate to public counterparties. 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.

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted for a total amount of €1,926 thousand and are mainly represented by corporate clients (approximately 45%), public sector entities (approximately 22%) and retail clients (approximately 33%). The main products affected are credit exposures deriving from amounts, accounting for approximately 64%, loans, 25% from loans (MEDLekarz - loans to medical practices), 7% from factoring operations and a residual 4% relating to finance lease operations. Compared to December 31, 2021 there was a decrease of about €200 thousand.

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)

	Total 12.31.2022			Total 12.31.2021		
	Stage one and Stage two	Stage three	Purchased or originated credit impaired	Stage one and Stage two	Stage three	Purchased or originated credit 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:	**5,004,658**	**278,090**	**5,672**	**3,768,696**	**98,789**	**5,287**
a) Public administrations	4,243,798	254,674	5,672	3,347,055	77,501	5,287
b) Other financial companies	516,352	391		220,300	1,141	
of which: insurance companies	1					
c) Non-financial companies	191,446	19,393		165,660	19,767	
d) Households	53,061	3,632		35,681	380	
Total	**11,133,885**	**278,090**	**5,672**	**9,561,323**	**98,789**	**5,287**

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	4,335,758		1,148,361	301,329	5,678	690	569	23,240	6	
Total 12.31.2022	**10,465,795**		**1,148,361**	**301,329**	**5,678**	**1,498**	**569**	**23,240**	**6**	
Total 12.31.2021	**9,106,742**		**861,118**	**118,965**	**5,493**	**1,975**	**463**	**20,176**	**206**	

(*) Value presented for informational purposes.

4.4a Loans measured at amortized cost subject to COVID-19 support measures: 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	
1. Loans granted in accordance with GL	1,381		119	426						
2. Loans subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne										
3. Loans subject to other forbearance measures										
4. New funding										
Total 12.31.2022	**1,381**		**119**	**426**						
Total 12.31.2021	**1,601**		**232**	**287**						

(*) Value presented for informative purposes.

Section 5 - Hedging derivatives - Item 50

The item is equal to zero

5.1 Hedging derivatives: breakdown by hedge 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								
1) Fair value								
2) Cash flows						13		17,403
3) Foreign investments								
B. Credit derivatives								
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

€13,656 thousand

The amount refers to the equity investment in two law firms in which BFF Polska is a limited partner, as well as the equity investment in Unione Fiduciaria of 26.46% of the capital thereof.

Note that the aforementioned investments are consolidated using the equity method (and not in full).

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Type of relationship	Ownership relationship		Voting rights %
				Held by	Holding %	
A. Jointly controlled companies						
B. Companies over which significant influence is exercised						
1. Unione Fiduciaria	Milan (Italy)	Milan (Italy)	Voting right in the Shareholders' Meeting	BFF Bank S.p.A.	26.46%	26.46%
2. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź (Poland)	Łódź (Poland)	Other forms of control	BFF Polska S.A.	99%	99%
3. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź (Poland)	Łódź (Poland)	Other forms of control	Debt-Rnt sp. Z O.O	99%	99%

7.4 Non-significant shareholdings: accounting information

(Values in thousand euros)

Name	Carrying amount of equity investments	Total assets	Total liabilities	Total revenue	Profit (loss) after tax from continuing operations	Profit (loss) from operations after tax	Profit (loss) for the year (1)	Other comprehensive components income, (expense), after taxes (2)	Comprehensive income (3) = (1) + (2)
A. Jointly controlled companies									
B. Companies over which significant influence is exercised									
1. Unione Fiduciaria S.p.A.	13,571	78,824	78,793	20,317	31		31		31
C. Exclusively controlled companies									
1. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	4	340	220	734	114		114		114
2. Restrukturyzacyjna Prawnicza Karnowski i Wspólnik sp.k.	81	80	4	8	(6)		(6)		(6)

7.5 Equity investments: annual changes

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
A. Opening balance	13,484	88
B. Increases	174	13,397
B.1 Purchases		
B.2 Impairment gains		
B.3 Revaluations	174	4,832
B.4 Other changes		8,565
C. Decreases	(2)	(1)
C.1 Sales		
C.2 Impairment losses		
C.3 Impairment		
C.4 Other changes	(2)	(1)
D. Closing balance	13,656	13,484
E. Total revaluations		
F. Total adjustments		

Section 9 - Property, equipment and investment property - Item 90

€54,349 thousand

9.1 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	41,844	20,161
a) land	22,575	6,324
b) buildings	17,424	11,017
c) furniture	199	252
d) electronic systems	1,070	1,516
e) others	576	1,052
2. Right-of-use assets	12,505	16,290
a) land		
b) buildings	11,822	15,290
c) furniture		
d) electronic systems		
e) others	683	1,000
Total	**54,349**	**36,452**
of which: obtained by enforcement of guarantees received		

9.6 Property and equipment with functional use: yearly changes

(Values in thousand euros)

	Land	Buildings	Furnishings	Electronic system	Others	Total
A. Gross opening balances	**6,325**	**34,932**	**2,881**	**11,338**	**6,868**	**62,345**
A.1 Total net impairment losses		(8,625)	(2,629)	(9,822)	(4,815)	(25,892)
A.2 Opening net balances	6,325	26,307	252	1,516	2,053	36,453
B. Increases:	**16,250**	**11,681**	**81**	**458**	**593**	**29,063**
B.1 Purchases			5	453	48	**506**
B.2 Capitalized improvement costs						
B.3 Reversals of impairment losses						
B.4 Increases in fair value through:						
a) equity						
b) profit or loss						
B.5 Exchange rate gains						
B.6 Transfers from investment property			X	X	X	
B.7 Other increases	16,250	11,681	76	5	545	**28,557**
C. Decreases:		**(8,742)**	**(134)**	**(902)**	**(1,388)**	**(11,166)**
C.1 Sales					(3)	(3)
C.2 Depreciation		(3,148)	(134)	(906)	(741)	(4,930)
C.3 Impairment losses						
recognised in:						
a) equity						
b) profit or loss						
C.4 Decreases in fair value hrough:						
a) equity						
b) profit or loss						
C.5 Exchange rate losses		(9)			(4)	**(13)**
C.6 Transfers to:						
a) investment property			X	X	X	
b) non-current assets held for sale and discontinued operations						
C.7 Other decreases		(5,585)		4	(640)	(6,220)
D. Closing net balances	**22,575**	**29,246**	**199**	**1,070**	**1,259**	**54,349**
D.1 Total net impairment losses		(7,722)	(2,787)	(10,745)	(5,642)	**(26,896)**
D.2 Closing Gross Amount	22,575	36,968	2,987	11,815	6,900	81,245
E. Measurement at cost	**22,575**	**36,968**	**2,987**	**11,815**	**6,900**	**81,245**

At December 31, 2022, the item "Property, equipment and investment property" amounted to a total of €54,349 thousand. Of this amount, €27,7634 thousand related to BFF Bank, €24,312 thousand related to BFF Immobiliare, €1,305 thousand to BFF Polska Group, €963 thousand to BFF Finance Iberia and €5 thousand related to BFF Techlab.

At December 31, 2022 the item relating to BFF Bank was mainly composed of:

- Land in the amount of €22,575 thousand, of which €6,325 thousand related to the property owned by BFF Bank and €16,250 thousand related to the purchase of the building area located in Milan by the subsidiary BFF Immobiliare for the purpose of building the future headquarters of BFF Bank;
- Buildings (including capitalized extraordinary maintenance) of €17,424 thousand also including the Rome property at Via Elio Chianesi 110/d owned by DEPObank, as well as the property at Via Domenichino 5;
- Right-of-use assets relating to the application of IFRS 16 on leases of €12,505 thousand, of which €11,822 thousand relating to assets leased by the Parent and its subsidiaries.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 consolidated 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 10 - Intangible assets - Item 100

€70,155 thousand (of which €30,957 thousand relating to goodwill)

10.1 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	30,957	X	30,874
A.2 Other intangible assets	39,198		36,673	
of which: software	11,849		7,593	
A.2.1 Assets measured at cost:				
a) Intangible assets created internally				
b) Other assets	39,198		36,673	
A.2.2 Assets measured at fair value:				
a) Intangible assets created internally				
b) Other assets				
Total	**39,198**	**30,957**	**36,673**	**30,874**

The item primarily consists of the amount of goodwill arising from the acquisition of BFF Polska Group in 2016 of €22,146 thousand, the former IOS Finance (now merged into BFF Finance Iberia) in 2019 of €8,728 thousand and BFF Techlab in the final quarter of 2022 of €83 thousand, as well as the Customer Contracts amounting to €21,828 thousand, one of which subject to an impairment loss in accordance with the impairment test performed by an independent expert amounting to around €1,102 thousand.

For more information refer to Part G "Business combinations" of the Notes to the financial statements.

With respect to goodwill with an infinite useful life recognized in the financial statements and in line with what is described in IAS 36, an impairment test was performed in 2022 on goodwill recognized in the consolidated financial statements, concerning BFF Polska Group, BFF Iberia (formerly IOS Finance) and BFF Techlab (formerly MC3 - Informatica) in order to determine its recoverable amount.

Impairment test on the goodwill recognized in the consolidated financial statements relating to BFF Polska Group and BFF Iberia (formerly IOS Finance)

The impairment test on goodwill is meant to identify the likelihood that the recoverable amount of the cash generating unit or group of cash generating units to which it is allocated is no lower than their carrying amount, where the recoverable amount is the higher between the value in use and the fair value less costs to sell (IAS 36.18). Goodwill does not constitute an asset separable from the rest of the company, and therefore the impairment test is meant to verify that the value of the entire business (excluding assets not directly functional to the performance of the business, or "surplus assets") is higher than the overall carrying amount.

Specifically, the recoverable amount is estimated by making reference to the "Value in use" based on the 2023 budget, for the two CGUs referring to BFF Polska and BFF Finance Iberia (hereinafter also the "Polska CGU" and the "Iberia CGU"), and making reference to the fair value based on market multiples for the new BFF Techlab CGU. Furthermore, also for the Iberia and Polska CGUs, the relative fair value was estimated.

The estimated value in use is based for the two Polska and Iberia CGUs on expected cash flows in the 2023 budget. The estimation process requires the appropriate analyses to be performed on the difference between the preliminary figures and the budget to understand the reason underlying these differences. The forecast flows were used for the assessments, once the reasonableness of the projections was verified, carried out by:

a) analyzing the nature of the variances between the budget and the forecast (used for the preparation of the budget) and the incorporation of (permanent) variances in the projections made, and
b) verifying that the consolidated projections are in the range expressed by equity analysts.

The analysis of the projections of equity analysts at consolidated level highlights that analysts project significant growth for BFF subsequent to 2023 (the reference year of the budget). This demonstrates that the approach of using only the budget to estimate the recoverable amount is particularly prudent.

For the BFF Techlab CGU, acquired in October 2022, since it is a primarily captive business, in order to place more emphasis on external market indicators in keeping with what is set forth in IAS 36, the parent opted for an approach for estimating the recoverable amount based on the determination of fair value based on market multiples.

In particular, with respect to the two items of goodwill of Polska CGU and the Iberia CGU, in the course of 2022 the Dividend Discount Model method and assessment formula was adopted, based on which the value in use of each CGU is equal to the present value of the dividends expected in the explicit forecast period (budget year) and the terminal value obtained by projecting in perpetuity at the capitalization rate (coe-g) the sustainable dividend beyond the explicit forecast period.

The assessment formula uses an extent of distributable dividend compatible with an absorption in terms of regulatory capital equal to 12.50% of the Risk Weighted Assets. The formula prudently does not consider the distribution of any excess regulatory capital.

In order to estimate the opportunity cost of equity ("coe") the Capital Asset Pricing Model was used, adjusted to consider the reduced size of BFF Banking Group and its CGUs, based on which:

- Coe = *Risk Free*$_t$ +β x (Equity Risk Premium) + Size Premium,
- Risk Free t = in order to consider the effects of the Russia/Ukraine war, as suggested by 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 government rate of the country in which the CGU operates, 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 1.22x and based on monthly historical yields at 5 years of the securities of comparable companies and the respective local market indexes (once it had been verified that the beta estimates based on other time horizons were less significant). The comparable companies are the European companies surveyed by the provider RBICS FactSet as operating in the sub-sector to which BFF Banking Group belongs and corresponding to the Collection Agencies and Loan Factoring Services sub-sector. The companies considered were only those with revenue in the sub-sector exceeding 20% of the entire turnover

- Equity Risk Premium = market risk premium. With the new rate scenario, the Group opted to take as the extent of the equity risk premium the historical risk premium estimated by Credit Suisse (Credit Suisse Global 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 equal to 1.9%.

The "g" growth rate was prudently assumed to be equal to 0%.

In continuity with the previous year, the comparable companies selected were the European companies surveyed by the provider RBICS (FactSet) as operating in the sub-sector to which BFF Banking Group belongs and corresponding to the Collection Agencies and Loan Factoring Services sub-sector. Last year's sample was integrated with the companies surveyed this year as operating in the same sub-sector.

This being stated, with respect to the BFF Polska CGU, the estimated value in use (cum dividend 2022) which emerged is €158.5 million at December 31, 2022 (compared to €266.3 million at the end of the previous year). No impairment losses were identified from the comparison of this value with the carrying amount (of €125.2 million).

Pursuant to IAS 36, a sensitivity analysis was performed to identify the change in key variables that makes the recoverable amount equal to the carrying amount in the consolidated financial statements of the different CGUs.

This analysis shows that in relation to the Polska CGU an upward change in costs such so as to decrease margins (= net profit/total income) by 11.60% and a reduction of the total income of 22.33% would result in the alignment of the recoverable amount with the carrying amount.

With respect to the Iberia CGU, the relative estimated value in use which emerged is €133.17 million at December 31, 2022 (compared to €149.7 million at the end of the previous year). Also in this case, no impairment losses were identified from the comparison of this value with the carrying amount (of €35.6 million).

The sensitivity analysis performed in order to identify the change in key variables which makes the recoverable amount equal to the carrying amount in the consolidated financial statements of the different CGUs showed with respect to the Iberia CGU a reduction in margins (or net profit/total income) by 30.70% and a decline in total income of 71.53% would result in the alignment of the recoverable amount with the carrying amount. The increases in the cost of equity and the lowering of the income growth rate necessary to identify a value aligned with the carrying amount were not significant.

Purchase Price Allocation (PPA) of the business combination with BFF Techlab S.r.l. and relative impairment test

Before proceeding with the impairment test on the newly acquired BFF Techlab, in accordance with IFRS 3 - revised, the parent completed the purchase price allocation ("PPA") of the former MC3 Informatica S.r.l (now "BFF Techlab S.r.l") at December 31, 2022.

Specifically, the standard establishes that a business combination may be recognized on a provisional basis by the end of the year in which the combination is carried out, but must be finalized within 12 months of the acquisition date. IFRS 3 establishes that the consideration transferred in a business combination must be measured at fair value, calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities. In the case of BFF Techlab, the consideration of the business combination, amounting to €384.2 thousand, did not change as the profit for the year 2022 does not contribute to the formation of the price, as set forth in the purchase agreement.

Therefore, the acquirer must determine the amount of goodwill as the extent of the difference between amounts (a) and (b), as defined below:

a) Sum of the following elements:
   - the consideration of the business combination, measured in compliance with IFRS 3;
   - the amount of any non-controlling interests in the acquired business, determined in compliance with IFRS 3;
   - in business combinations carried out in multiple phases, the fair value at the acquisition date of the interests previously held by the acquirer in the acquired entity;
b) the net value of the amounts, at the acquisition date, of the identifiable assets acquired and liabilities.

As part of the PPA process, for the business combination October 3, 2022 was identified as the date of acquisition of control over the subsidiary by the parent. This date refers to the asset values of the former MC-3 at September 30, 2022 (last business day prior to the acquisition date).

The comparison between the consideration for the business combination of €384.2 million and the value of net assets of €301.5 million, as recognized in the statement of financial position at fair value at September 30, 2022 (date considered) of the former MC-3, generated a difference of €82.7 million to be allocated to goodwill in the consolidated financial statements at December 31, 2022.

For more information refer to Part G “Business combinations” of the Notes to the consolidated financial statements.

With respect to the impairment test, since it is a primarily captive business, in order to place more emphasis on external market indicators in keeping with what is set forth in IAS 36, the parent opted for an approach for estimating the recoverable amount based on the determination of fair value based on market multiples.

The fair value was estimated on the basis of multiples of comparable listed companies and, to that end, 28 listed Italian companies operating with the same ATECO code as BFF Techlab (code 6201 - production of software not related to publishing) were selected from the AIDA database.

Rather than using simple averages/medians of multiples of comparable companies, a value map was used. Given the industrial nature of the businesses (and less financial than the business of BFF Banking Group), the following steps were taken:

- an asset side value map was used which considers the Enterprise Value (sum of market capitalization, non-controlling interests and net financial position) which considers the Enterprise Value/Consensus Sales 2022 multiple expressed based on the expected EBITDA Margin for 2022;
- assumption of the median of the EV/Consensus EBITDA 2022 multiple.

The data required for the construction of multiples are from Datastream (forecast data for 2022 are from IBES).

The regression considered the variable linked to the 2022 EBITDA Margin as well as another variable represented by the size, as represented by the turnover natural logarithm.

The final regression used was:

$\textit{Enterprise Value / Consensus Sales}_{2022} = \alpha + \beta \times (\text{EBITDA 2022 }/\textit{Sales}\text{ 2022})$

$\textit{Enterprise Value} = \textit{Market}\ \text{Cap}_{i,01.26.2023} + \textit{Consensus}\ \text{Net Debt 2022} + \textit{Last Reported Minorities}$

The application of the value map to the BFF Techlab CGU returns an Enterprise Value of €556 thousand and a corresponding value of Equity, due to the presence of cash, of €842 thousand. This value is higher than the equity "*cum* allocated goodwill" (equal to €387 thousand) and therefore there is no need to recognize any impairment loss.

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 (which during the PPA was assumed to be equal to 10.5 years) had changed.

As set forth in the 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 consolidated 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 Banking Group and its CGUs, based on which:

Coe = Risk Free$_t$ *+ β 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 Group opted 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 asset 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 goodwill and 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 (not exceeding 4 years for the entire Banking Group).

10.2 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	**30,874**			**42,607**		**73,481**
A.1 Total net impairment losses				(5,934)		(5,934)
A.2 Opening net balances	**30,874**			**36,673**		**67,547**
B. Increases	**83**			**14,201**		**14,284**
B.1 Purchases	83			14,042		14,125
B.2 Increases in internally generated assets	X					
B.3 Reversals of impairment losses	X					
B.4 Increases in fair value						
- to equity	X					
- to profit or loss	X					
B.5 Exchange rate gains						
B.6 Other increases				159		159
C. Decreases				**(11,676)**		**(11,676)**
C.1 Sales						
C.2 Amortization and net impairment losses						
- Amortization	X			(10,452)		(10,452)
- Impairment losses				(1,102)		(1,102)
+ shareholders' equity	X					
+ profit or loss				(1,102)		(1,102)
C.3 Decreases in fair value						
- to equity	X					
- to profit or loss	X					
C.4 Transfers to non-current assets held for sale						
C.5 Exchange rate losses				(46)		(46)
C.6 Other changes				(76)		(76)
D. Closing net balances	**30,957**			**39,198**		**70,155**
D.1 Total net impairment losses				(5,780)		(5,780)
E. Closing gross balances	**30,957**			**44,978**		75,935
F. Measurement at cost	**30,957**			**44,978**		**75,935**

Key:
FIN = finite useful life
INDEF = indefinite useful life

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

As at December 31, 2022 current tax assets and liabilities amount to €60,707 thousand and €136,003 thousand, respectively, and include the net balance of the Group's tax positions with respect to tax authorities, in accordance with the provisions of IAS 12. In particular, these items include the net balance of current tax liabilities for the year, calculated according to a prudential estimate of the tax charge due for the year, determined on the basis of the current tax code, and current tax assets represented by prepayments made in the course of the year. Current taxes correspond to the amount of income taxes due for the 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 in the 2021 consolidated 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.

11.1 Deferred tax assets: breakdown
€60,194 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.

11.2 Deferred tax liabilities: breakdown
€105,005 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.

11.3 Changes in deferred tax assets (through profit or loss)
€59,792 thousand

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Initial amount	**58,678**	**10,657**
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	10,560	32,310
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	(8,844)	(19,808)
b) impairment of non-recoverable items		
c) changes in accounting criteria		
d) others	(547)	(553)
3.2 Reductions in tax rates		
3.3 Other reductions		
a) transformation into tax credits, Italian Law 214/2011		
b) other	(55)	
4. Final amount	**59,792**	**58,678**

11.4 Changes in deferred tax assets pursuant to Italian Law n. 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	(2,212)	(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**

11.5 Changes in deferred tax liabilities (through profit or loss)
€104,717 thousand

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Initial amount	**96,256**	**78,341**
2. Increases		
2.1 Deferred taxes liabilities recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others	11,528	30,487
2.2 New taxes or increases in tax rates		
2.3 Other increases		5,019
3. Decreases		
3.1 Deferred taxes liabilities cancelled during the year		
a) reversals	(3,067)	(17,591)
b) due to changes in accounting criteria		
c) others		
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	**104,717**	**96,256**

11.6 Changes in deferred tax assets (recorded in equity)
€402 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)	(792)
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	**402**	**451**

11.7 Changes in deferred tax liabilities (recorded in equity)

€287 thousand

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
1. Initial amount	**(600)**	**(468)**
2. Increases		
2.1 Deferred taxes 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	970	120
3. Decreases		
3.1 Deferred taxes liabilities canceled during the year		
a) reversals		
b) due to changes in accounting criteria		
c) others	(83)	(17,710)
3.2 Reductions in tax rates		
3.3 Other reductions		(267)
4. Final amount	**287**	**(600)**

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

€394,182 thousand

(Values in thousand euros)

Breakdown	12.31.2022	12.31.2021
Security deposits	4,126	3,883
Invoices issued and to be issued	13,067	16,046
Payment flows to be credited	86,970	110,638
Other exposures	52,698	39,051
Accrued income and prepaid expenses	15,847	27,318
Ecobonus tax assets	221,474	17,678
Total	**394,182**	**214,614**

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 consolidated 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

€11,994,763 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 €1,166,365 thousand;
- amounts due to customers of €10,789,422 thousand;
- debt securities issued of €38,976 thousand.

Amounts due to banks

€1,166,365 thousand

1.1 Financial liabilities measured at amortized cost: breakdown by type of payables 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	1,162,225	X	X	X	791,164	X	X	X
2.1 Current accounts and sight deposits	717,032	X	X	X	639,787	X	X	X
2.2 Time deposits	444,571	X	X	X	150,832	X	X	X
2.3 Loans	6	X	X	X		X	X	X
2.3.1 Repurchase agreements - payable		X	X	X		X	X	X
2.3.2 Others	6	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	**1,166,365**				**795,053**			

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

The item mainly consists of "current accounts and demand deposits" of €717 million, deriving especially 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

€10,789,422 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	4,134,113	X	X	X	6,839,795	X	X	X
2. Time deposits	1,263,096	X	X	X	154,942	X	X	X
3. Loans	4,631,902	X	X	X	1,294,867	X	X	X
3.1 repurchase agreements	4,441,292	X	X	X	1,118,527	X	X	X
3.2 others	190,610	X	X	X	176,340	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments		X	X	X		X	X	X
5. Lease liabilities	13,181	X	X	X	17,001	X	X	X
6. Sundry liabilities	747,130	X	X	X	722,409	X	X	X
Total	**10,789,422**				**9,029,014**			

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 reference corporate 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 €13 million at Group level, 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 assets, 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 Group, 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 consolidated 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 face value nominal amount of €38.6 million (€181.8 million at December 31, 2021), recognized in the consolidated 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 bonds (ISIN XS1572408380) issued by BFF Bank in March 2017 through the exercise of the call option reserved to the issuer in the fifth year (March 2022).
- repayment on maturity of the €42.8 million remaining on the 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 €300 million senior unsecured bonds (ISIN XS2068241400), with a "Ba1" rating assigned by the Moody's rating agency, issued by BFF Bank 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%.

Section 2 - Financial liabilities held for trading - Item 20

€950 thousand

2.1 Financial liabilities held for trading: breakdown by type

(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										
1. Financial derivatives										
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

This 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 Group is exposed to.

Section 4 - Hedging derivatives - Item 40

€14,314 thousand

4.1 Hedging derivatives: breakdown by hedge type and 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**		**23,452**		**4,814**		**671,505**
1) Fair value								
2) Cash flows		14,314		23,452		4,814		671,505
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total		**14,314**		**23,452**		**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

€136,003 thousand

See "Section 11 - Tax assets and liabilities - Item 110" of the statement of financial position assets.

Section 8 - Other liabilities - Item 80

€401,369 thousand

8.1 Other liabilities: breakdown

(Values in thousand euros)

Breakdown	Total 12.31.2022	Total 12.31.2021
Trade payables	11,155	18,499
Invoices to be received	28,612	20,647
Liabilities to tax authorities	11,006	5,654
Liabilities to social security and welfare bodies	2,244	2,351
Liabilities to employees	23,712	28,115
Collections pending allocation	58,076	77,911
Payment flows received to be charged	201,922	202,697
Sundry liabilities	57,765	96,969
Accrued expenses and deferred income	6,876	8,013
Total	**401,369**	**460,856**

"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 received to be charged" refer to suspense accounts with a credit balance that fall within the scope of bank payment intermediation and include suspended settlements that were made in the first business days after the reporting date of these consolidated financial statements.

Section 9 - Post-employment benefits - Item 90

€3,238 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	2,362	4,899
B.1 Provision for the year	2,227	1,601
B.2 Other changes	135	3,298
C. Decreases	(2,834)	(1,856)
C.1 Payments made	(136)	(280)
C.2 Other changes	(2,698)	(1,576)
D. Closing balance	**3,238**	**3,710**
Total	**3,238**	**3,710**

The liability recorded in the financial statements at December 31, 2022 primarily in relation to post-employment benefits of the parent is equal to the present 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 Decree-Law 4/2019.

Annual frequency of turnover and advances

– Executives: 1% advance frequency and 0.50% turnover frequency.

– Managers: 2.5% advance frequency and 3.0% turnover frequency.

– Employees 2.5% advance frequency and 3.0% turnover frequency.

Section 10 - Provisions for risks and charges - Item 100

€33,013 thousand

10.1 Provisions for risks and charges: breakdown

(Values in thousand euros)

Items/Components	Total 12.31.2022	Total 12.31.2021
1. Provisions for credit risk relating to Commitments and financial guarantees given	251	294
2. Provisions for other commitments and guarantees issued		
3. Pension and similar obligations	7,861	6,133
4. Other provisions for risks and charges		
4.1 Legal and tax disputes		
4.2 Personnel costs		
4.3 Others	24,900	15,533
Total	**33,013**	**21,960**

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 extraordinary provisions against the likely risk of a negative 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	**294**	**6,133**	**15,533**	**21,960**
B. Increases	**393**	**3,541**	**10,835**	**14,770**
B.1 Provision for the year	253	2,357	10,520	13,130
B.2 Changes due to the passage of time		1,185		1,185
B.3 Changes due to variations in the discount rate				
B.4 Other changes	140		316	455
C. Decreases	**(436)**	**(1,813)**	**(1,468)**	**(3,717)**
C.1 Utilization for the year	(436)	(1,167)	(1,368)	(2,970)
C.2 Changes due to variations in the discount rate				
C.3 Other changes		(646)	(100)	(745)
D. Closing balance	**251**	**7,861**	**24,900**	**33,012**

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	234				234
Financial guarantees issued	17				17
Total	**251**				**251**

10.5 Defined-benefit pension funds

The pension fund refers mainly to the non-compete agreement entered into with BFF Banking Group's managers, amounting to €3.7 million (including the portion allocated to the parent's equity reserve for roughly €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 €24.9 million refer to:

- litigation liabilities for which the Bank has estimated a probable risk of loss for approximately €23.2 million;
- provisions related to possible damages for operational errors as per contract with customers in the amount of approximately €1.7 million.

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% (2021 deferred MBO) and equal to zero (2020 deferred MBO)

Section 13 - Group equity - Items 120, 130, 140, 150, 160, 170 and 180

€758,768 thousand

13.1 "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 Directors' report on operations, under the section on "Treasury Shares".

13.2 Share capital - Number of parent shares: annual changes

(Values in thousand euros)

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		

13.4 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 consolidated 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	**233,153**				
- Legal reserve (**)	29,759	*B*			
- Extraordinary reserve	89	*A, B, C*	89		
- Retained earnings (***)	189,674	*A, B, C*	189,674		303,089
- Stock option and financial instrument reserves	10,630	*A*			
- Other reserves	3,002				
Valuation reserves	**6,853**				
- HTCS securities	1,045				
- Others	5,808				
Treasury share reserve	**(3,884)**				
Share premium reserve	**66,276**	*A, B, C*	66,276		
Total share capital and reserves	**445,269**		**256,039**		**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 primarily include €5,306 thousand for the exercise of stock options by certain beneficiaries made during 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 Decree-Law 104/2020.
(***) Including €50,387 thousand in tax suspension pursuant to Article 110 of Italian Legislative Decree 104/2020.

Changes in reserves that make up the equity are shown below:

(Values in thousand euros)

	Legal reserve	Retained earnings	Others	Total
A. Opening balance	**27,417**	**127,542**	**11,945**	**166,904**
B. Increases	**2,342**	**68,540**	**3,537**	**74,419**
B.1 Allocation of profits	2,342	68,540		70,882
B.2 Other changes			3,537	3,537
C. Decreases		**(6,408)**	**(1,762)**	**(8,170)**
C.1 Uses				
- coverage of losses				
- distribution				
- transfer to share capital				
C.2 Other changes		(6,408)	(1,762)	(8,170)
D. Closing balance	**29,759**	**189,674**	**13,720**	**233,153**

Retained earnings

The increase of €68.5 million is mainly due to the allocation of the profit of the previous year, net of €125.3 million of dividends 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:

- 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 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, in 2021 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 consolidated 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

(Values in thousand euros)

	Nominal amount on commitments and financial guarantees given				Total 12.31.2022	Total 12.31.2021
	Stage one	Stage two	Stage three	Purchased or originated credit impaired		
1. Loan commitments	**425,679**				**425,679**	**1,405,488**
a) Central Banks						
b) Public administrations	51				50,827	54,231
c) Banks						
d) Other financial companies	356				356,101	*1,190,638*
e) Non-financial companies	19				18,751	160,618
f) Households						2
2. Financial guarantees given	**45**				**45**	**49**
a) Central Banks						
b) Public administrations						
c) Banks						
d) Other financial companies	*45*				*45*	*49*
e) Non-financial companies						
f) Households						

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	1,232,860
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.

5. 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	**292,894**
a) Third-party securities deposited: relating to custodian bank activities (excluding portfolio management)	22,002
1. securities issued by consolidated companies	2
2. other securities	22,000
b) third-party securities deposited (excluding portfolio management): others	122,342
1. securities issued by consolidated companies	13
2. other securities	122,330
c) third party securities deposited with third parties	142,411
d) proprietary securities deposited with third parties	6,139
4. Other transactions	

Part C - Consolidated Income Statement

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

Section 1 - Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

€354,805 thousand (of which interest income calculated using the effective interest rate method: €321,565 thousand)

(Values in thousand euros)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2022	Total 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 measurement					
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		10,095	X	10,095	6,147
3.2 Loans and receivables with customers	42,787	276,824	X	319,611	206,157
4. Hedging derivatives	X	X			154
5. Other assets	X	X	2,328	2,328	417
6. Financial liabilities	X	X	X	22,771	17,439
Total	**42,787**	**286,919**	**2,328**	**354,805**	**230,315**
of which: interest income on impaired financial assets					
of which: interest income on finance leases	X	144	X	144	154

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 "Loans and receivables with customers" for loans amounted to €276.8 million and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse trade receivables, and late payment interest for the year, relating to BFF Bank and BFF Finance Iberia.

As far as the receivables recognized in the financial statements of the Parent BFF Bank and the Spanish subsidiary BFF Finance Iberia 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".

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's portfolio, for a total amount of €91.7 million.

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 and similar expense: breakdown

€92,988 thousand

(Values in thousand euros)

Items/Technical forms	Debt	Securities	Other transactions	Total 2022	Total 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	**5,135**
1.3 Amounts due to customers	36,858	X	X	36,858	**8,132**
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	9	9	**8**
5. Hedging derivatives	X	X	34,719	34,719	**4,547**
6. Financial assets	X	X	X	3,731	**4,780**
Total	**51,033**	**3,496**	**34,727**	**92,988**	**39,546**
of which: interest expense relative to lease liabilities	440	X	X	**440**	**438**

Interest expense increased from €39.5 million for 2021 to €92.9 million in the current year. This significant increase is linked primarily to the increase in financial expense relating to hedging derivative transactions which, furthermore, were reclassified from Item 90 "Profits (losses) on hedging" 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 refers 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 expenses 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

€127,595 thousand

(Values in thousand euros)

Type of service/Amounts	Total 2022	Total 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. Other 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	**73,696**	**57,985**
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	41,011	34,577
i) 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	**160**	**606**
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**	**5,402**
of which: for management of multilateral trading systems		
of which: for management of organized trading systems		
Total	**127,595**	**109,277**

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, deriving from the merger with the former DEPObank.

2.2 Fee and commission expense: breakdown

€36,939 thousand

(Values in thousand euros)

Service/Values	Total 2022	Total 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	**3,671**	**2,626**
Total	**36,939**	**28,498**

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

€9,795 thousand

(Values in thousand euros)

Items/Income	Total 2022		Total 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				
Total	**9,795**	**-**	**3,676**	**-**

With respect to 2022 the item mainly included dividends received in March 2022 from the Bank of Italy amounting to €5.7 million, whose share subscribed by the Parent BFF Bank are classified under item 30 of the Assets “Financial assets measured at fair value through other comprehensive income”, and dividends received in 2022 from Fondo Italiano di Investimento, amounting to around €4 million, whose UCI units are classified under item 20 of the Assets "Financial assets measured at fair value through profit or loss".

Section 4 - Net trading profit - Item 80

4.1 Net trading profit: composition

€12,622 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**	**11,996**
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**		**12,622**

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

(Values in thousand euros)

Income items/Values	Total 2022	Total 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	-	

The financial expense deriving from hedging derivative transactions was moved from the income statement item in question to item 20 - "Interest and similar expenses", in line with what is set forth in Bank of Italy Circular no. 262/2005. For more details, please refer to item 20 of the income statement "Interest and similar expense".

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 2022			Total 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 measured at amortized cost						
1. Amounts due to banks						
2. Amounts due to customers						
3. Securities issued					(12,650)	(12,650)
Total liabilities (B)					**(12,650)**	**(12,650)**

In 2022, the item in question amounted to €166 thousand, and represents the net balance of sales of the three securities classified in asset item 40 b) "Financial assets measured at amortized cost - loans and receivables with customers" (two USD and one BTP Italia for a nominal value of USD 150 million and €170 million, respectively).

Please note that sales always took place in compliance with the conditions imposed by the HTC business model, which the Group adopted on the first-time application of IFRS 9 in 2018.

Lastly, recall that the loss on Securities issued amounting to €12.6 million at December 31, 2021 had been recorded following the cash buyback transaction executed at the end of June 2021.

For more details please refer to item 10 c) of the Statement of Financial Position liabilities "Financial liabilities measured at amortized cost - Securities issued".

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 - Item 130

€5,905 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 2022	Total 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	**(8)**						**5**				**(3)**	**6**
- Loans	(8)						5				(3)	6
- Debt securities												
B. Loans and receivables with customers	**(11)**	**(104)**	**(133)**	**(6,323)**			**364**		**104**	**200**	**(5,902)**	**338**
- Loans	(11)	(104)	(133)	(6,323)			348		104	200	(5,917)	(852)
- Debt securities							15				15	1,190
Total	**(19)**	**(104)**	**(133)**	**(6,323)**			**369**		**104**	**200**	**(5,905)**	**343**

Stage 3 adjustments of impairment largely refer to changes in specific positions of BFF Polska Group.

8.1a Net impairment losses for credit risk relating to loans measured at amortized cost subject to COVID-19 support measures: breakdown

This item is not significant.

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 (1)			Impairment gains (2)		Total 2022	Total 2021
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Debt securities						-	(147)
B. Loans							
- To customers							
- To banks							
of which: purchased or originated credit-impaired financial assets							
Total						-	(147)

Section 12 - Administrative expenses- item 190

€170,603 thousand

12.1 Personnel expenses: breakdown

€74,352 thousand

(Values in thousand euros)

Type of expense/Sectors	Total 2022	Total 2021
1) Employees	**71,036**	**69,370**
a) wages and salaries	48,160	49,579
b) social security contributions	12,772	12,099
c) post-employment benefits		29
d) pension costs	5	8
e) provision for post-employment benefits	1,979	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	4,441	1,652
i) other employee benefits	3,324	4,020
2) Other personnel in service	333	219
3) Directors and statutory auditors	2,983	3,645
4) Early retirement costs		
Total	**74,352**	**73,234**

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 €4.4 million before taxes, offset by the related equity reserve.

12.2 Average number of employees broken down by category

(Values in working units)

Categories	Average number 2022	Average number 2021
Senior Executives/Executives	29	28
Managers/Middle Managers/Professionals	396	284
Specialists	410	478
Total	**835**	**790**

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 number of employees set forth in the table above is calculated considering the personnel of the merged DEPObank starting only from March 1, 2021.

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

12.4 Other employee benefits

The amount in question of €3.3 million mainly refers to expenses incurred for training, meal tickets, donations and insurance for Group employees.

12.5 Other administrative expenses: breakdown
€96,251 thousand

(Values in thousand euros)

Breakdown	Total 2022	Total 2021
Legal fees	3,483	2,684
Data processing services	15,878	16,189
External credit management services	641	771
Supervisory Body fees	41	42
Legal fees for loans and receivables under management	258	227
Notary fees	358	527
Notary fees to be recovered	1,584	963
Entertainment expenses and donations	3,369	2,347
Maintenance expenses	5,924	5,807
Non-deductible VAT	8,790	9,021
Other taxes	7,380	6,986
Consulting services	19,354	16,013
Head office operating expenses	2,990	2,412
Resolution Fund and FITD	5,734	12,970
Other expenses	20,468	20,172
Total	**96,251**	**97,132**

Other administrative expenses for 2022 amounted to €96.3 million, compared to €97.1 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:

- €3.6 million as ordinary annual contribution to the *Resolution Fund*;
- €2.1 million as the annual contribution to the *Interbank Deposit Protection Fund (FITD)*, of which €713 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 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	641

Section 13 - Net provisions for risks and charges - Item 200

€10,535 thousand

13.1 Net provisions for credit risk relating to loan commitments and financial guarantees given: breakdown

-€65 thousand

(Values in thousand euros)

Breakdown	Total 2022	Total 2021
Provision for risk on commitments and guarantees	(65)	(234)
Total	**(65)**	**(234)**

13.3 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 2022	Total 2021
Litigation against the parent	10,437	(2037)
Operating losses	163	(5)
Total	**10,600**	**(2,032)**

The significant increase relates to extraordinary provisions against the likely risk of a negative ruling in the amount of €10 million.

Section 14 - Depreciation and net impairment losses/reversals of impairment losses on property, equipment and investment property - Item 210

€5,005 thousand

14.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

(Values in thousand euros)

Asset/Income items	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	5,005			**5,005**
- Owned	2,332			**2,332**
- Right-of-use assets	2,674			**2,674**
2. Held for investment				
- Owned				
- Right-of-use assets				
3. Inventories	x			
Total	**5,005**			**5,005**

As of 2019, following the application of IFRS 16, the item "Depreciation and net impairment losses on property, equipment and investment property" also includes the depreciation of right-of-use assets amounting to €2,674 thousand, the contra entry of which is recognized under property, equipment and investment property.

Section 15 - Amortization and net impairment losses on intangible assets - Item 220

€7,642 thousand

15.1 Amortization and net impairment losses on intangible assets: breakdown

(Values in thousand euros)

Asset/Income items	Amortization (a)	Impairment gains (b)	Reversals of impairment losses (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned				
- Generated internally by the company				
- Others	6,540	1,102		**7,642**
A.2 Right-of-use assets				
Total	**6,540**	**1,102**		**7,642**

The item refers to amortization for the year relating to intangible assets with finite useful lives, which include the "Customer Contracts", one of which was subject to an impairment loss of €1.1 million following the impairment test.

For more details please refer to item 100 of the Statement of Financial Position assets "Intangible assets".

Section 16 - Other operating income, net - Item 230

€150,354 thousand

16.1 Other operating expenses: breakdown

-€3,930 thousand

(Values in thousand euros)

Breakdown	Total 2022	Total 2021
Prior year expenses	(2,187)	(2,656)
Rounding and allowances	(93)	(9)
Other charges	(756)	(23)
Deposit guarantee scheme expenses		
Registry tax expenses	(893)	(319)
Total	**(3,930)**	**(3,008)**

16.2 Other operating income: breakdown

€154,324 thousand

(Values in thousand euros)

Breakdown	Total 2022	Total 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	5,562	9,314
Recovery of assignor notary expenses	1,647	977
Other income	144,121	92,424
Total	**154,324**	**105,515**

In 2022, the item includes a one-off effect relating to 50% of the "40 euros" provision consisting of all receivables accrued for the indemnity in question in the amount of €119.4 million. For more information, refer to Part A "Accounting policies".

Please recall that on December 31, 2021, this item included the definitive badwill amount of €76.9 million resulting from the merger transaction with DEPObank in March 2021.

Section 17 - Profits on equity investments - Item 250

17.1 Profits on equity investments: breakdown

(Values in thousand euros)

Income item/Values	Total 2022	Total 2021
1) Companies subject to joint control		
A. Income		
1. Revaluations		
2. Gains on disposal		
3. Impairment gains		
4. Other income		
B. Expenses		
1. Impairment		
2. Impairment losses		
3. Losses on disposal		
4. Other charges		
Net profit/loss		
1) Companies subject to significant influence		
A. Income		
1. Revaluations		
2. Gains on disposal		
3. Impairment gains		
4. Other income	288	195
B. Expenses		
1. Impairment		
2. Impairment losses		
3. Losses on disposal		
4. Other charges		
Net profit/loss	**288**	**195**
Total	**288**	**195**

Section 21 - Income taxes on continuing operations - Item 300

-€714 thousand

21.1 Income taxes on continuing operations: breakdown

(Values in thousand euros)

Income items/Sectors	Total 2022	Total 2021
1. Current taxes (-)	86,509	20,606
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 (+/-)	(765)	(12,566)
5. Change in deferred tax liabilities (+/-)	9,962	(8,754)
6. Taxes for the year (-) (-1+/-2+3+ 3 *bis* +/-4+/-5)	**99,154**	**(714)**

21.2 Reconciliation of theoretical tax charge with actual tax charge

The reconciliation between the theoretical tax charge and actual tax charge recognized in the financial statements for the Parent and the Italian subsidiaries (when applicable) is provided below.

(Values in thousand euros)

Breakdown	IRES	IRAP
Taxable profit used for purposes of tax calculations	345,006	165,981
Theoretical tax charge: 24-27.5% IRES - 3.90-5.57% IRAP	**94,876**	**9,243**
Permanent non-deductible differences	(88,564)	987
Deductible IRAP	(64)	
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	**220,873**	**162,956**
Current taxes for the year: 24-27.5% IRES - 3.90-5.57% IRAP	**60,740**	**9,075**

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

(Values in units)

Breakdown	Total 2022	Total 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

25.2 Other information

(Amounts in units, unless otherwise stated)

Breakdown	Total 2022	Total 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 - Consolidated Comprehensive Income

Statement of Comprehensive Income

(Values in euro units)

	Items	2022	2021
10.	**Profit for the year**	**232,047,606**	**197,372,423**
	Other income 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:		
	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		
	b) reclassification through profit or loss		
	c) other changes	224,653	(1,406,716)
130.	Cash flow hedges:		
	a) fair value changes		
	b) reclassification through profit or loss		
	c) other changes		
	of which: result of net positions		
140.	Hedging instruments (undesignated elements):		

(Values in euro units)

	Items	2022	2021
	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 connected with equity-accounted investments:		
	a) fair value changes		7,220,193
	b) reclassification through profit or loss		
	- adjustments due to impairment		
	- profits/losses on disposals		
	c) other changes		
180.	Income taxes relating to other components reclassified to profit or loss	(56,379)	(2,281,985)
190.	**Total other comprehensive income**	**1,939,383**	**3,812,750**
200.	**Comprehensive income (Items 10+190)**	**233,986,989**	**201,185,173**
210.	**Comprehensive income attributable to non-controlling interests**		
220.	**Comprehensive income attributable to the owners of the Parent**	**233,986,989**	**201,185,173**

Part E - Information on risks and related hedging policies

Introduction

BFF Banking Group has adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed. These measures are part of the governance of the organization and of the internal control system, aimed at ensuring management practices grounded in efficiency, effectiveness and fairness, covering every type of business risk, consistently with the characteristics, dimensions and complexity of the business activities carried out by the Group.

With this in mind, the Group formalized its risk management policies and periodically reviews them to ensure their effectiveness over time. It constantly monitors the functioning of the risk management and control processes.

Such policies define:

- The governance of risks and the responsibilities of the Organizational Units involved in the management process;
- The mapping of the risks to which the Group is exposed, the measuring and stress testing methods, and the information flows that summarize the monitoring activities;
- The annual assessment process on the adequacy of internal capital 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 - as BFF Banking Group's Parent - 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 governance bodies perform the functions entrusted to them not only with regard to their specific business activities, but also taking into account the Group's operations as a whole and the risks to which it is exposed, and involving, as appropriate, the governance bodies of the subsidiaries in the decisions concerning risk management procedures and policies.

At the Group level, the Risk Management Function cooperates in the process of defining and implementing the risk governance policies through an adequate risk management process. The Function Head is not involved in the operating activities he or she has to monitor, and his or her tasks and responsibilities are governed by specific Internal Regulations.

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

- Cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Group risks (Risk Appetite Framework);
- Establishing adequate risk management processes through the adoption and maintenance of 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 Banking Group's Internal Control system. It is independent of the Internal Audit Function, and subject to its control.

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Impaired and performing credit exposures: amounts, adjustments, trends and economic distribution

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	86,372	12,132	185,257	2,192,825	9,419,264	11,895,850
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets held for sale						
Total 12.31.2022	**86,372**	**12,132**	**185,257**	**2,192,825**	**9,419,264**	**11,895,850**
Total 12.31.2021	**72,233**	**12,413**	**19,428**	**1,714,944**	**8,250,479**	**10,069,497**

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	307,008	23,246	283,762		11,614,156	2,067	11,612,089	11,896
2. Financial assets measured at fair value through other comprehensive income								
3. Financial assets designated at fair value					X	X		
4. Other financial assets mandatorily measured at fair value					X	X		
5. Financial assets held for sale								
Total 12.31.2022	**307,008**	**23,246**	**283,762**	**-**	**11,614,156**	**2,067**	**11,612,089**	**11,895,850**
Total 12.31.2021	**124,458**	**20,383**	**104,075**	**-**	**9,967,860**	**2,439**	**9,965,422**	**10,069,497**

(*) 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			211
2. Hedging derivatives			
Total 12.31.2022			**211**
Total 12.31.2021			**4,107**

B. Disclosure on structured entities (other than securitization companies)

B.2 Structured entities not consolidated for accounting purposes

(Values in thousand euros)

Financial statement items/ Type of structured entity	Asset accounting portfolio	Total assets (A)	Liability accounting portfolio	Total liabilities (B)	Carrying amount (C = B-A)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and carrying amount (E = D-C)
UCI	Financial assets measured at fair value through profit or loss	90,226			90,226	138,348	48,122

Section 2 - Prudential consolidation risks

1.1 - Credit risk

Qualitative information

1. General aspects

The main activity of the Banking Group in that area is factoring, which is governed, in Italy, by the Italian Civil Code (Book IV - Title I, Chapter V, Articles 1260-1267) and Law No. 52 of February 21, 1991 and subsequent amendments, and which consists of a plurality of financial services that can be structured in various ways, mainly through the sale of trade receivables. The Group mainly offers non-recourse factoring services with debtors belonging to the public administration, in addition to other lending products always with a focus on the public administration. From March 2021, with the integration of DEPObank, the Group began to provide credit as an instrumental activity in addition to specific treasury activities (managed through the granting of operating limits) and securities services (mainly managed through the granting of account overdraft facilities).

Moreover, for the purpose of diversifying its business and its geographical presence, the Banking Group comprises the companies of BFF Polska Group, which mostly provide financial services to companies operating in the healthcare sector and to public administration agencies in the countries in which they operate.

At this time, non-recourse factoring represents approximately 66% of all the exposures to customers of the Group excluding the securities component.

With regard to the measures in response to COVID-19, the Group follows the applicable provisions contained in the EBA Guidelines ("Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis - EBA/GL/2020/07").

Impacts of the COVID-19 pandemic

In light of the BFF Banking Group's business model and the nature of its counterparties, the COVID-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

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 BFF Group 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 Group 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 BFF Group 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 BFF Group 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 Group'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 Organizational aspects

The assessment of a transaction, for the different products offered by the Banking Group, is conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial relationship underlying the credit quality and the customer/ debtor's ability to repay.

The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on June 30, 2021, and by the "Credit Regulation" of subsidiaries. A further organizational measure tackling credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the aforementioned "Credit Regulation".

Credit risk is therefore monitored at various levels within the framework of the multiple operating processes.

2.2 Management, measurement and control systems

The management, measurement and control system relating to credit risk has been created to ensure control over the main types of risks belonging to the credit risk category.

For this purpose, it must be noted that the core business carried out by the Group consists, as mentioned above, 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 Group is exposed, which is fairly limited considering the nature of the Group's counterparties, the majority of which are not subject to bankruptcy proceedings or other procedures that could undermine their substantial solvency;
- Dilution risk: the risk that the amounts owed by the assigned debtor are reduced due to allowances or offsets arising from returns and/or disputes concerning the quality of the product or service or any other issue;
- Factorability risk: the risk related to the nature and characteristics of the commercial relationship subject to factoring/sale, affecting the ability of the 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 trade receivables sold compared to those expected by the Group.

In light of the risks detailed above, the Group has internal regulations that describe the phases that industry regulations identify as components of the credit process:

- Background check;
- Decision;
- Disbursement;
- Monitoring and review;
- Dispute.

Non-recourse factoring by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line application is carried out with the utmost care.

With regard to the granting of credit to counterparties using the custodian bank service, credit risk is very low, as it is mainly concentrated on bank counterparties, asset management companies and funds.

The Group also marginally offers the following two types of services: “loans and 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 Group’s exposure to the customer for payment of the agreed fees and commissions, that is, the reimbursement of legal fees incurred. The granting of a credit line for “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 marginal activity for BFF Banking Group, since this type of factoring is only included in BFF Polska S.A.’s product portfolio.

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

BFF Polska S.A. mainly operates in three sectors:

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

Also with regard to the specific types of investment by BFF Polska S.A. and its subsidiaries, Group credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin and loan portfolio value. As a general rule, the Banking Group’s customers have a suitable credit standing and, if necessary, adequate guarantees are requested to mitigate the risk of financial losses arising from customers’ non-performance.

With regard to the allocation of operating limits and/or “intermediation” caps, there is no specific request from customers and the assessment is initiated at the initiative of the Finance and Treasury OU or the relevant 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 Group's capital in relation to the risks connected with lending.

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

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

- 0% for exposures to government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish public sector entities and other local authorities as provided for by EBA lists "*EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013*" and "*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013*";
- 20% for *(i)* exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the local currency, *(ii)* exposures to public sector entities of countries with Credit Quality Step 1, *(iii)* exposures to public sector entities and supervised intermediaries with an original duration of three months or less;
- 50% for exposures to the public administration agencies of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector;
- 100% for *(i)* exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy, Portugal and Greece)-please note that on May 3, 2019 DBRS upgraded Greece from BH to BBL, thus improving the credit quality step from 5 to 4, but leaving the capital absorption percentage unchanged at 100%) and *(ii)* exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Czech Republic and Croatia);
- 50% or 100% for 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.

BFF Banking Group constantly maintains, as a capital requirement for credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposures for credit risk. The Risk Weighted Amount is determined by the sum of the risk weighted assets of the various classes.

Based on the method described above, the capital requirement for credit and counterparty risk at December 31, 2022 is €160.2 million for BFF Banking Group.

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

Specifically:

- "Large exposure" means any risk position equal to or greater than 10% of the eligible capital, as defined in CRR II (equal to Tier 1 capital);
- For banking groups, each risk position must not be greater than 25% of the eligible capital.

Considering the fact that the Group's exposure consists almost entirely of receivables purchased on a non-recourse basis and due from individual public administration entities, portfolio risk is considered limited, since the derecognition of receivables entails the allocation of the exposure to a higher number of counterparties (i.e., the assigned debtors), which, in the case of certain exposures, receive preferential treatment in terms of weighting for large exposures.

Credit quality assessment

The Group performs an impairment test on the 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 BFF Banking Group.

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 Group is based on a prospective model that may require the recognition of expected credit losses over the lifetime of the exposure 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 Group's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.

The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous 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 Group carried out a review of the assets classified as impaired in order to identify any objective impairment of individual positions.

It should be noted that, with reference to past due 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 Group's core business, impaired past due positions, identified according to objective criteria, do not necessarily represent actual deterioration. 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 Banking Group's impaired exposures consist of NPLs, unlikely to pay and past due exposures, for a total of €283,762 thousand - net of individual impairment - and are broken down as follows:

- non-performing loans of €86,372 thousand (gross exposure in the financial statements of €104,663 thousand with an adjustment of €18,290 thousand);
- unlikely-to-pay exposures amounting to €12,132 thousand (gross exposure in the financial statements equal to €16,374 thousand with adjustments equal to €4,241 thousand);
- impaired past due exposures of €185,257 thousand (gross exposure in the financial statements of €185,971 thousand with an adjustment of €714 thousand).

As regards the impairment policies adopted, BFF Polska Group and BFF Finance Iberia submit specific periodic reports to the Parent, so that the corresponding functions of the parent can report on the activities conducted in this area and check the correctness of the conclusions.

Changes due to COVID-19

Assessment of the significant increase in credit risk (SICR)

In light of the BFF Group's business model and the nature of its risk counterparties, the COVID-19 epidemic did not entail changes to the model of the significant increase in credit risk (SICR). However, also in line with the EBA guidelines of December 2, 2020 "*Guidelines amending EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis*", the Group has granted some of its counterparties based in Poland moratoria of a strictly voluntary character. For more details on the amount granted and the type of counterparties involved, refer to paragraph 4 "Financial assets subject to commercial negotiations and forborne exposures".

Measuring expected 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 Bank 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 geo-political 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 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 Group'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.

3. Impaired credit exposures

In compliance with Bank of Italy Circular no. 272, BFF Banking Group's net "Impaired assets" amounted to a total of €238,762 thousand. They include the following items:

- ***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 Group.
  At December 31, 2022, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €86,372 thousand, of which €5,672 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €79,662 thousand, accounting for 92.2% of the total.
  Gross non-performing loans amounted to €104,663 thousand. The related impairment totaled €18,290 thousand. 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 €105,660 thousand and relevant adjustments totaled €19,287 thousand.
  With reference to the parent, at December 31, 2022 total non-performing loans, net of any estimated impairment losses, amounted to €80,271 thousand, of which €79,662 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non- performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.
  Specifically, the amount of €5,672 thousand refers to loans and receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.
  The remaining positions referring to BFF Bank are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €21,151 thousand. After estimated impairment losses of €15,811 thousand they amounted to €5,340 thousand.

- BFF Banking Group's ***unlikely to pay exposures*** mainly refer to BFF Polska Group's positions. These exposures reflect the judgement made by the intermediary about the unlikelihood that - excluding such actions as the enforcement of guarantees - the debtor will fully fulfil (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
  At December 31, 2022, gross exposures classified as unlikely to pay amounted to €16,374 thousand, of which €14,439 thousand attributable to BFF Polska Group, €1,593 to the bank and €342 thousand to BFF Finance Iberia. The total net value is €12,132 thousand, referring primarily to BFF Polska Group.

- Net ***past due exposures*** of BFF Banking Group amounted to €185,257 thousand. They refer to the parent for €170,890 thousand, to the Spanish subsidiary for €13,556 thousand and to BFF Polska Group for €811 thousand. 97.4% of these exposures relate to public counterparties. 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.

4. Financial assets subject to commercial negotiations and forborne exposures

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

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted for a total amount of €1,926 thousand and are mainly represented by corporate clients (approximately 45%), public sector entities (approximately 22%) and retail clients (approximately 33%). The main products affected are credit exposures deriving from amounts, accounting for approximately 64%, loans, 25% from loans (MEDLekarz - loans to medical practices), 7% from factoring operations and a residual 4% relating to finance lease operations. Compared to December 31, 2021 there was a decrease of about €200 thousand.

Quantitative information

A. Credit quality

A.1 Impaired and performing credit exposures: amounts, adjustments, trends and economic breakdown

A.1.1 Prudential consolidation - Financial assets broken down by past due amounts (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	410,514	236,577	508,144	494	14,622	1,022,474	5,386	9,308	215,827			5,672
2. Financial assets measured at fair value through other comprehensive income												
3. Financial assets held for sale												
Total 12.31.2022	**410,514**	**236,577**	**508,144**	**494**	**14,622**	**1,022,474**	**5,386**	**9,308**	**215,827**			**5,672**
Total 12.31.2021	**260,397**	**133,584**	**489,832**	**10**	**15,583**	**815,538**	**81**	**431**	**85,351**			**5,287**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: trend in total adjustments 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 fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which collective impairment
Opening total adjustments		**1,975**				**1,975**		**463**				
Increases in purchased or originated financial assets												
Derecognitions other than write-offs												
Net impairment losses/ gains for credit risk (+/-)	27	(477)				(450)		106				106
Contractual modifications without derecognitions												
Changes in estimate methodology												
Write-offs not recognized directly in profit or loss												
Other changes												
Total final adjustments	**27**	**1,498**				**1,525**		**569**				**569**
Recoveries from receipts on written-off financial assets												
Write-offs recognized directly in profit or loss												

(Values in thousand euros)

Total impairment losses – Assets in stage three: Loans and receivables with banks and Central Banks on demand	Total impairment losses – Assets in stage three: Financial assets measured at amortized cost	Total impairment losses – Assets in stage three: Financial assets measured at fair value through other comprehensive income	Total impairment losses – Assets in stage three: Financial assets held for sale	Total impairment losses – Assets in stage three: of which: individual impairment	Total impairment losses – Assets in stage three: of which collective impairment	Total impairment losses – Purchased or originated credit impaired financial assets: Financial assets measured at amortized cost	Total impairment losses – Purchased or originated credit impaired financial assets: Financial assets measured at fair value through other comprehensive income	Total impairment losses – Purchased or originated credit impaired financial assets: Financial assets held for sale	Total impairment losses – Purchased or originated credit impaired financial assets: of which: individual impairment	Total impairment losses – Purchased or originated credit impaired financial assets: of which collective impairment	Total provisions on loans commitments and financial guarantees given: Stage one	Total provisions on loans commitments and financial guarantees given: Stage two	Total provisions on loans commitments and financial guarantees given: Stage three	Total provisions on loans commitments and financial guarantees given: Loans commitments and financial guarantees given purchased or originated impaired	Total
	20,176			**20,176**		**206**			**206**		**294**				**23,115**
						X	X	X	X	X					
	3,063			3,063							(42)				**2,676**
	23,240			**23,240**		**6**			**6**		**251**				**25,591**
	133			133											**133**

A.1.3 Prudential consolidation - Financial assets, loan commitments to disburse funds and financial guarantees given: transfers among the various credit risk stages (gross amounts and nominal amounts)

(Values in thousand euros)

Portfolios/risk stages	Gross values / nominal amount					
	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	20,685	11,646	1,966	5,091	13,720	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 given					592	
Total 12.31.2022	**20,685**	**11,646**	**1,966**	**5,091**	**14,312**	**1,944**
Total 12.31.2021	**4,356**	**23,143**	**21,420**	**3,512**	**9,999**	**11,367**

A.1.4 Prudential consolidation - On- and off-statement of financial position credit exposures to banks: gross and net

(Values in thousand euros)

Type of exposures/ values	Gross exposure 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	**1,112,915**	1,029,215	83,700			39	32	7			1,112,876	
A.1 On demand	**634,702**	629,707	4,995			29	27	2			634,673	
a) Impaired		X					X					
b) Performing	634,702	629,707	4,995	X		29	27	2	X		634,673	
A.2 Others	**478,213**	399,508	78,705			10	5	5			478,203	
a) Non-performing loans		X					X					
- of which: forborne exposure		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)	**1,112,915**	**1,029,215**	**83,700**			**39**	**32**	**7**			**1,112,876**	
B. Off-statement of financial position exposures	**204**										204	
a) Impaired		X					X					
b) Others	204			X					X		**204**	
Total (B)	**204**										**204**	
Total (A+B)	**1,113,119**	**1,029,215**	**83,700**	**-**		**39**	**32**	**7**	**-**		**1,113,080**	**-**

(*) Value provided for disclosure purposes.

A.1.5 Prudential consolidation - On- and off-statement of financial position credit exposures to customers: gross and net

(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	104,663	X		98,984	5,678	18,290	X		18,284	6	86,372	
- of which: forborne exposures	489	X		489		196	X		196		293	
b) Unlikely-to-pay positions	16,374	X		16,374		4,241	X		4,241		12,132	
- of which: forborne exposures	10,886	X		10,886		1,091	X		1,091		9,795	
c) Impaired past due exposures	185,971	X		185,971		714	X		714		185,257	
- of which: forborne exposures	380	X		380		114	X		114		265	
d) Past due performing exposures	2,193,072	1,155,336	1,037,736	X		247	100	147	X		2,192,825	
- of which: forborne exposures				X					X			
e) Other performing exposures	8,942,871	8,910,951	31,920	X		1,811	1,393	418	X		8,941,060	
- of which: forborne exposures	5,960		5,960	X		176		176	X		5,784	
TOTAL (A)	**11,442,951**	**10,066,287**	**1,069,656**	**301,329**	**5,678**	**25,303**	**1,493**	**564**	**23,240**	**6**	**11,417,647**	**-**
B. Off-statement of financial position exposures												
a) Impaired		X					X					
b) Performing	425,724	425,724		X		232	232		X		425,492	
Total (B)	**425,724**	**425,724**				**232**	**232**				**425,492**	
Total (A+B)	**11,868,675**	**10,492,011**	**1,069,656**	**301,329**	**5,678**	**25,536**	**1,725**	**564**	**23,240**	**6**	**11,843,139**	**-**

(*) Value provided for disclosure purposes.

A.1.5a Loans subject to COVID-19 support measures: transfers between the various credit risk stages (gross values)

(Values in thousand euros)

Portfolios/risk stages	Gross values / nominal amount					
	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
A. Loans measured at amortized cost	**46**	**72**	**32**	**4**	**85**	**3**
A.1 subject to forbearance in accordance with GL	46	72	32	4	85	3
A.2 subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne						
A.3 subject to other forbearance measures						
A.4 new loans						
B. Loans measured at fair value through other comprehensive income						
B.1 subject to forbearance in accordance with GL						
B.2 subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne						
B.3 subject to other forbearance measures						
B.4 new loans						
Total 12.31.2022	**46**	**72**	**32**	**4**	**85**	**3**
Total 12.31.2021	**101**	**63**	**223**	**-**	**31**	**2**

A.1.7 Prudential consolidation - On-balance statement of financial position exposures to customers: trend in gross impaired exposures

(Values in thousand euros)

Descriptions/Categories	Non-performing loans	Unlikely-to-pay positions	Impaired past due exposures
A. Starting gross exposure	87,467	17,505	19,486
- of which: assets sold but not derecognized	-	-	-
B. Increases	**21,411**	**3,304**	**171,324**
B.1 inflows from performing exposures	13,685	3,113	170,147
B.2 transfers from purchased or originated credit impaired financial assets			
B.3 transfers from other impaired exposures	2,131		
B.4 contractual modifications without derecognitions			
B.5 other increases	5,595	191	1,177
C. Decreases	**4,215**	**4,435**	**4,839**
C.1 outflows to performing exposures	2,842		3,399
C.2 write-offs			
C.3 collections	1,373	2,385	
C.4 collections from disposals			
C.5 losses on disposal			
C.6 transfers to other impaired exposures		2,050	82
C.7 contractual modifications without derecognitions			
C.8 other decreases			1,358
D. Final gross exposure	**104,663**	**16,374**	**185,971**
- of which: assets sold but not derecognized			

A.1.7a On-balance statement of financial position exposures to customers subject to COVID-19 support measures: gross and net values

(Values in thousand euros)

Type of exposures/values	Gross exposure					Total adjustments					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. Non-performing loans:	**233**			**233**								
a) Subject to forbearance in accordance with GL	**233**			233								
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne												
c) Subject to other forbearance measures												
d) New loans												
B. Loans unlikely to pay:	150			150								
a) Subject to forbearance in accordance with GL	150			150								
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne												
c) Subject to other forbearance measures												
d) New loans												
C. Impaired past due loans:	**47**			47								
a) Subject to forbearance in accordance with GL	47			47								
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne												
c) Subject to other forbearance measures												
d) New loans												
D. Past due performing loans:	**763**	**760**	**3**									
a) Subject to forbearance in accordance with GL	763	760	**3**									
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne												
c) Subject to other forbearance measures												
d) New loans												
E. Other overdue performing loans:	**733**	**617**	**116**									
a) Subject to forbearance in accordance with GL	733	617	116									
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne												
c) Subject to other forbearance measures												
d) New loans												
Total (A+B+C+D+E)	**1,926**	**1,378**	**119**	**430**								

(*) Value provided for disclosure purposes.

A.1.7 bis Prudential consolidation - On-statement of financial position exposures to customers: changes in gross forborne exposures broken down by credit quality

(Values in thousand euros)

Descriptions/Quality	Forborne exposures: impaired	Forborne exposures: performing
A. Starting gross exposure	**11,544**	**786**
- of which: assets sold but not derecognized	-	
B. Increases	**209**	**5,960**
B.1 inflows from performing, non forborne exposures		5,939
B.2 inflows from performing, forborne exposures		X
B.3 inflows from non-performing forborne exposures	X	20
B.4 inflows from impaired, non forborne exposures		
B.5 other increases	209	
C. Decreases		**786**
C.1 transfers to performing exposures not subject to forbearance measures	X	15
C.2 outflows towards forborne performing exposures		X
C.3 outflows towards non-performing forborne exposures	X	86
C.4 write-offs		
C.5 collections		450
C.6 collections from disposals		
C.7 losses on disposal		
C.8 other decreases		235
D. Final gross exposure	**11,754**	**5,960**
- of which: assets sold but not derecognized	-	-

A.1.9 Prudential consolidation - On-statement of financial position impaired credit exposures to customers: trend of total 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	15,234	905	5,092	384	58	23
- of which: assets sold but not derecognized		-			-	
B. Increases	**5,183**	**177**	**411**	**707**	**684**	**98**
B.1 adjustments to purchased or originated credit impaired assets		X		X		X
B.2 other adjustments	2,940	150				
B.3 losses on disposal						
B.4 transfers from other categories of impaired exposures	31	27			569	33
B.5 contractual modifications without derecognition						
B.6 other increases	2,213		411	707	115	65
C. Decreases	**2,127**	**886**	**1,262**		**27**	**6**
C.1 fair value gains						
C.2 impairment gains from collection	485	1			6	
C.3 gains on disposal						
C.4 write-offs						
C.5 transfers to other categories of impaired exposures	1,642	884			22	6
C.6 contractual modifications without derecognition						
C.7 other decreases			1,262			
D. Total final adjustments	**18,290**	**196**	**4,241**	**1,091**	**714**	**114**
- of which: assets sold but not derecognized	-	-	-	-	-	-

A.2 Classification of exposures based on internal and external ratings

A.2.1 Prudential consolidation - Credit exposures, loan commitments and financial guarantees given broken down by external rating classes (gross amounts)

(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**	**1,803,930**	**9,150,982**	**126,288**			**809,755**	**11,921,163**
-Stage one	28,191	1,558,729	8,057,247	89,667			731,961	10,465,795
-Stage two	2,017	231,583	846,268	36,621			31,872	1,148,361
-Stage three		13,618	241,789				45,922	301,329
- 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**	**1,803,930**	**9,150,982**	**126,288**	**-**	**-**	**809,755**	**11,921,163**
D. Loan commitments and financial guarantees given		**50,827**	**1,884**				**373,013**	**425,724**
-Stage one		50,827	1,884				373,013	425,724
-Stage two								
-Stage three								
- Purchased or originated credit impaired								
Total D	**-**	**50,827**	**1,884**	**-**	**-**	**-**	**373,013**	**425,724**
Total (A+B+C+D)	**30,208**	**1,854,757**	**9,152,867**	**126,288**	**-**	**-**	**1,182,768**	**12,346,888**

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

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 Prudential consolidation - Guaranteed on- and off-statement of financial position 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. Secured 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 derivatives					Endorsement credits				
Credit linked notes	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 Prudential consolidation - Guaranteed on- and off-statement of financial position credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)			
			Real estate - mortgages	Finance lease properties	Securities	Other collateral
1. Guaranteed On-statement of financial position credit exposures:	**69,709**	**69,622**	**98**		**66,488**	**1,619**
1.1 totally secured	69,709	69,622	98		66,488	1,619
- of which impaired	182	98	98			
1.2 partially secured						
- of which impaired						
2. Secured 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 linked notes	Other derivatives				Public administrations	Banks	Other financial companies	Other entities	
	Central counterparties	Banks	Other financial companies	Other entities					
								9	**68,213**
								9	68,213
									98
									1,884
									1,884

B. Breakdown and concentration of credit exposures

B.1 Prudential consolidation - Sector breakdown of on- and off-statement of financial position credit exposures to customers

(Values in thousand euros)

Exposures/Counterparties	Public administrations		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					5,334	13,190	1,178	4,673
- of which: forborne exposures							262	120	31	76
A.2 Unlikely to pay			391	531			11,380	2,279	361	1,431
- of which: forborne exposures			391	531			9,358	386	46	174
A.3 Impaired past due exposures	180,485	314					2,679	95	2,093	306
- of which: forborne exposures							211	65	54	49
A.4 Performing exposures	10,373,026	1,094	516,352	59	1		191,446	729	53,061	176
- of which: forborne exposures							5,765	175	19	1
Total A	**10,633,372**	**1,834**	**516,743**	**590**	**1**		**210,839**	**16,293**	**56,693**	**6,586**
B. Off-statement of financial position credit exposures										
B.1 Impaired exposures										
B.2 Performing exposures	50,826	1	355,938	208			24,446	40		
Total B	**50,826**	**1**	**355,938**	**208**			**24,446**	**40**	-	-
Total (A+B) 12.31.2022	**10,684,198**	**1,835**	**872,681**	**798**	**1**		**235,285**	**16,333**	**56,693**	**6,586**
Total (A+B) 12.31.2021	**9,276,700**	**1,455**	**1,412,106**	**1,978**	-		**345,773**	**18,385**	**36,062**	**1,274**

B.2 Prudential consolidation - 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		America		Asia		Rest of the World	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-statement of financial position credit exposures										
A.1 Non-performing loans	80,271	2,090	6,101	16,201						
A.2 Unlikely to pay	819	774	11,314	3,467						
A.3 Impaired past due exposures	170,782	317	14,474	398						
A.4 Performing exposures	9,101,941	1,114	2,031,944	943						
Total A	**9,353,813**	**4,295**	**2,063,834**	**21,009**						
B. Off-statement of financial position credit exposures										
B.1 Impaired exposures										
B.2 Performing exposures	376,856	225	54,354	24						
Total B	**376,856**	**225**	**54,354**	**24**						
Total (A+B) 12/31/2022	**9,730,669**	**4,520**	**2,118,188**	**21,033**						
Total (A+B) 12/31/2021	**9,035,259**	**5,187**	**1,843,619**	**17,870**	**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	219,591	54	186,601	9	7,636,370	893	1,059,381	159
Total A	**223,283**	**1,262**	**195,173**	**41**	**7,663,865**	**2,282**	**1,271,496**	**710**
B. Off-statement of financial position credit exposures								
B.1 Impaired exposures								
B.2 Performing exposures	262,583	190	26,482	18	87,791	17		
Total B	**262,583**	**190**	**26,482**	**18**	**87,791**	**17**		
Total (A+B) 12/31/2022	**485,865**	**1,452**	**221,655**	**60**	**7,751,656**	**2,299**	**1,271,496**	**710**
Total (A+B) 12/31/2021	**1,269,253**	**2,451**	**153,568**	**43**	**6,668,577**	**2,170**	**1,003,209**	**522**

B.3 Prudential consolidation - 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		America		Asia		Rest of the World	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On 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	986,148	15	121,656	23	4,507		564			
Total A	**986,148**	**15**	**121,656**	**23**	**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	**985,157**	**15**	**121,851**	**23**	**4,507**		**564**			
Total (A+B) 12/31/2021	**794,313**	**30**	**157,184**	**63**	**10,466**		**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	70,835	4	64,076	4	832,096	5	19,141	2
Total A	**70,835**	**4**	**64,076**	**4**	**832,096**	**5**	**19,141**	**2**
B. Off statement of financial position credit exposures								
B.1 Impaired exposures								
B.2 Performing exposures	10							
Total B	**10**							
Total (A+B) 12/31/2022	**70,845**	**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 11 “large exposures”, i.e. exposures equal to or higher than 10% of eligible capital.

The nominal unweighted amount of these positions was €13,257,691 thousand, while the weighted amount was €284,899 thousand.

However, none of these positions exceed the individual concentration limit of 25% of eligible capital.

D. Disposal transactions

Quantitative information

D.1. Prudential consolidation - 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 designated 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							
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)	**1,080,959**		**1,070,465**		**1,070,721**		**1,070,721**

E. Prudential consolidation - credit risk assessment models

1.2 Market risk

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-statement of financial position financial assets and liabilities and financial derivatives

Qualitative information

(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 years 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								

A. General aspects

Impacts of the COVID-19 pandemic

In light of the BFF Banking Group's business model and the nature of its counterparties, the COVID-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

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 Group'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 Group’s interest margin deriving from changes in interest rates and, as a result, on capital adequacy.

The Group 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 Group relies on the option provided by the regulatory updates to 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)

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 years to 10 years	More than 10 years	Indefinite duration
1. On-statement of financial position assets	**3,888,261**	**2,086,882**	**4,382,307**	**109,861**	**666,260**	**537,828**	**1,069**	
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	618,851	445,879						
1.3 Loans and receivables with customers	3,269,410	980,543	77,013	10,301	46,134	94,040	1,069	
- current account	1,512							
- other loans	3,267,898	980,543	77,013	10,301	46,134	94,040	1,069	
- with option of advance repayment		43	33	36	61			
- others	3,267,898	980,500	76,981	10,266	46,073	94,040	1,069	
2. On-statement of financial position liabilities	**4,608,244**	**5,055,916**	**477,642**	**171,696**	**104,537**	**2,899**		
2.1 Amounts due to customers	3,954,831	4,630,331	438,666	171,696	104,537	2,899		
- current account	3,674,701	188,596	438,222	170,844	99,190			
- other payables	280,129	4,441,735	444	852	5,347	2,899		
- with option of advance repayment								
- others	280,129	4,441,735	444	852	5,347	2,899		
2.2 Amounts due to banks	653,413	425,586						
- current account	633,806							
- other payables	19,607	425,586						
2.3 Debt securities			38,976					
- with option of advance repayment								
- others			38,976					
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						

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	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-statement of financial position assets	**63,315**	**613,770**	**117,944**	**29,709**	**26,020**	**7,296**		
1.1 Debt securities								
- with option of advance repayment								
- others								
1.2 Loans and receivables with banks								
1.3 Loans and receivables with customers	15,170	613,770	117,944	29,709	26,020	7,296		
- current account	2,323							
- other loans	12,847	613,770	117,944	29,709	26,020	7,296		
- with option of advance repayment								
- others	12,847	613,770	117,944	29,709	26,020	7,296		
2. On-statement of financial position liabilities	**558,057**	**271,032**	**58,760**	**13,599**	**15,115**			
2.1 Amounts due to customers	470,693	271,032	58,760	13,599	15,115			
- current account	467,151	271,032	58,760	13,599	15,115			
- other payables	3,543							
- with option of advance repayment								
- others	3,543							
2.2 Amounts due to banks	87,364							
- current account	86,564							
- other payables	799							
2.3 Debt securities								
- with option of advance repayment								
- others								
2.4 Other liabilities								
- with option of advance repayment								
- others								
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								

Currency risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate 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 Group's funding and lending are expressed and which include transactions aimed at hedging the stake in Polish zloty held in BFF Polska Group.

B. Currency risk hedging

Currency risk is mitigated by making recourse to linear derivative instruments lacking optional components, such as currency swaps, which allow the Group to perform optimized management of its equity investments and loans provided in currencies other than the euro in which the Group operates, also through its subsidiaries.

Quantitative information

The portfolio of the Group'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)	(833,058)
A.1 Debt instruments						
A.2 Equity instruments	(1,379)					
A.3 Loans and receivables with banks	(16,505)	(3,919)	(836)	(999)	(752)	(25,135)
A.4 Loans and receivables with customers	(363)	(1,623)	(0)	(0)	(0)	(807,923)
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**	**449,955**
C.1 Amounts due to banks	42,941	12,574	1,739	4,956	9,854	15,299
C.2 Deposits from customers	234,970	51,015	66,451	20,764	21,343	434,656
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)	0	(20)	(435,095)
Total assets	**(281,386)**	**(65,015)**	**(74,673)**	**(26,031)**	**(31,228)**	**(893,040)**
Total liabilities	**278,840**	**64,542**	**74,665**	**25,720**	**31,217**	**885,050**
Difference (+/-)	(2,546)	(473)	(7)	(311)	(11)	(7,990)

1.3 Derivative instruments and hedging policies

1.3.1 Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: notional end-of-period values

FX transactions carried out primarily through recourse to currency swaps are carried out by the Group 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 Group 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 Group makes recourse to linear instruments lacking optional components such as currency swaps.

(Values in thousand euros)

	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)

	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. 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 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				
- notional value	X			
- 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			12
- 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			
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			

(CONT'D)

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
- 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. Regulatory trading portfolio				
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and stock indices		12		12
A.3Financial 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**			**389,970**
Total 12.31.2021	**935,723**			**935,723**

1.3.2 Accounting hedges

Qualitative information

The Group operates in hedging derivatives through linear instruments lacking optional components, such as currency swaps, which make it possible to guarantee optimized management of funding and loans provided in currencies other than the euro in which the Group operates, also through its subsidiaries, financed through intra-group finance solutions in currencies such as the zloty and the Czech koruna.

Quantitative information

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								
f) Futures								
g) Others								
c) Forwards			14,314				4,814	
d) Futures								
e) 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	255,298		
- positive fair value	X			
- negative fair value	X	14,314		
3) Currency and gold				
- notional amount	X			
- positive fair value	X			
- negative fair value	X			
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				
- positive fair value				
- negative fair value				
2) Equity securities and stock indices				
- notional amount				
- positive fair value				
- negative fair value				
3) Currency and gold				
- notional amount				
- positive fair value				

(CONT'D)

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
- negative fair value				
4) Commodities				
- notional amount				
- positive fair value				
- negative fair value				
5) Others				
- notional amount				
- positive fair value				
- negative fair value				

A.4 Residual life of OTC hedging financial derivatives: notional amounts

(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**

1.4 Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is defined as the risk that the Group will be unable to meet its obligations at maturity and/or that it will have to bear non-market financing costs in relation to an unbalanced net financial position due to the inability to raise funds or due to the presence of limits on the disposal of assets, forcing the Group to slow or halt the development of its business, or sustain excessive funding costs to meet its obligations, with significant negative impacts on the profitability of its activities.

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 Group adopted a Group Risk Management Policy and a Group 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 "Group 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 Group'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 "Group Liquidity Risk Management Policy" is consistent with what is set forth in the "Group 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 Group's operational reality.

To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

- Separation of processes for the management of liquidity and processes for the control of liquidity risk;
- Development of processes to manage and control liquidity risk, consistent with the hierarchical structure and through a process for the delegation of powers;
- Sharing of decisions and clear responsibilities among management, control and operational bodies;
- Making liquidity risk management and monitoring processes consistent with prudential supervisory requirements.

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 Group 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 Group, 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 Group's solvency conditions.
The Risk Management Function identifies the scenarios that may impact the Group’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 Group, 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 Group 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 Group.

The Group'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 220.058% and 162.372%, 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
On-statement of financial position assets										
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	3,308,521	107,803	198,637	386,548	567,072	77,889	10,548	48,739	111,569	173,636
- banks	136,203	40,168	110,382		121,702					173,636
- customers	3,172,318	67,634	88,255	386,548	445,370	77,889	10,548	48,739	111,569	
On-statement of financial position liabilities										
B.1 Deposits and current accounts	4,307,007	132,447	3,752	4,556	493,771	443,369	174,632	99,190		
- banks	634,163	128,966			315,265					
- customers	3,672,844	3,482	3,752	4,556	178,506	443,369	174,632	99,190		
B.2 Debt instruments						39,242				
B.3 Other liabilities	941,557	4,441,290	5	13	428	448	869	5,347	2,899	
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of capital										
- 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										
- long positions	9,687,743									
- short positions		9,687,743								
C.4 Loan commitments										
- 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
On-statement of financial position assets										
A.1 Government Securities										
A.2 Other debt securities										
A.3 Units of UCIs										
A.4 Loans	56,463	45,501	2,671	2,728	10,716	19,389	33,040	150,241	537,256	
- banks	40,813									
- customers	15,650	45,501	2,671	2,728	10,716	19,389	33,040	150,241	537,256	
On-statement of financial position liabilities										
B.1 Deposits and current accounts	551,367	32,125	30,795	48,893	163,935	61,173	14,546	15,115		
- banks	87,364									
- customers	464,004	32,125	30,795	48,893	163,935	61,173	14,546	15,115		
B.2 Debt instruments										
B.3 Other liabilities										
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of capital										
- 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										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

1.4 Operational risks

Qualitative information

A. General aspects, management processes and methods used to measure operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.

With regard to the Banking Group, exposure to this category of risk is generated predominantly by failure in work processes, in organization 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 Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives with the aim of fostering the adoption of professional and responsible behavior at all operational levels, as well as designing, implementing and managing an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted by the Group consists of five stages: (i) identification, (ii) measurement, (iii) monitoring, (iv) management and (v) reporting.

The stage of identifying operational risks involves collecting operational risk information through the consistent, coordinated treatment of all relevant sources of information. The goal is to establish a complete information base. The necessary information is internal loss data accompanied by all information relevant for management purposes and subjective assessments acquired through risk self-assessment and control processes. This information is collected based on specific classification models, designed to ensure a uniform representation of the data. The Identification stage consists of the following processes:

- Identification of operational risks within company procedures (operational risk map for controls): this activity consists in identifying operational risk through an in-depth analysis of company 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 Risk Management Function also allows the Group to have a database of operational losses generated by risk events (Event Type), useful for identifying risk factors, mitigation actions and retention and transfer strategies, as well as for the possible development over time of internal operational risk measurement systems;
- Risk Self Assessment (RSA): the Group performs an annual overall assessment of the level of exposure to Operational Risks using the RSA process. The Risk Self Assessment (RSA) is an annual self-assessment of the prospective exposure to the operational risk inherent in business processes, aimed at enhancing the

perception of risk by the key figures (Business Experts) who govern the execution of these processes, taking into account the expected evolution of the business and the 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 Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems, and mitigates the consequent operational risk that may arise through the preventive involvement of the corporate Control Functions and the definition of specific policies and regulations on various subjects and topics.
- Identification of operational risks associated with Major Transactions (MT): the risk resulting from an MT is assessed by assessing the consistency of the MT’s risk profile with the risk appetite defined in the RAF.

The measurement phase consists of computing the capital requirements for operational risk using the Basic Indicator Approach (BIA), according to which capital requirements are computed by applying a regulatory coefficient to an indicator of the volume of business activity (Relevant Indicator). Moreover, for a better assessment of risk exposure, the Bank has implemented a quantitative operational risk assessment process (OpVaR) that monitors the Group's operational risk calculated to the 99.9th percentile.

The monitoring stage consists of the adoption of an articulated control system that provides for the analysis of the causes of loss events and the monitoring of the trend of loss events, in terms of evaluating the trend of losses deriving from the LDC and RSA processes. Within the framework of the measures adopted regarding the exposure to operational risk, the following specific risks are also monitored by the Group:

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

The stage of managing operational risk seeks to continually assess the risk control and reduction strategies, deciding - based on the nature and scale of the risk and in relation to the risk propensity expressed by senior managers - whether to accept it and therefore assume it, on the part of the person in charge of the process, to refuse it and therefore reduce activities, to implement mitigation policies or to transfer it to third parties by way of insurance policies. In addition, in order to control the above mentioned risks, the Group adopts specific Organization Models for the management of the risks regarding money laundering, occupational health and safety and information and payment service security.

Finally, the reporting stage aims to ensure timely and appropriate communication in support of management decisions of corporate bodies and 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.

Section 4 - Risks of the other companies

Qualitative information

The consolidated financial statements include the aggregated statement of financial position items of BFF Bank S.p.A., BFF Finance Iberia, BFF Polska Group, BFF Immobiliare and BFF Techlab.

These companies do not show further and relevant risk factors other than those mentioned in the preceding paragraphs.

Part F - Information on Equity

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the prudential scope of consolidation coincides with the accounting scope and establishes BFF Bank S.p.A. as the parent.

Section 1 - Equity

A. Qualitative information

The equity of the Banking Group includes the aggregated share capital, reserves, valuation reserves and profit for the period of the companies in the Group.

B. Quantitative information

B.1 Equity: breakdown by type of enterprise

(Values in thousand euros)

Items in equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	142,870				142,870
2. Share premium reserve	66,277				66,277
3. Reserves	233,153				233,153
3.5 Interim dividends (-)	(68,550)				(68,550)
4. Equity instruments	150,000				150,000
5. (Treasury shares)	(3,884)				(3,884)
6. Valuation reserves:	6,853				6,853
-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				1,045
-Property, equipment and investment property					
-Intangible assets					
-Hedging of foreign investments					
-Cash flow hedges					
-Hedging instruments [undesignated elements]					
-Foreign exchange differences	(3,139)				(3,139)
-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				335
- Share of valuation reserves for equity-accounted investments					
-Special revaluation laws	8,612				8,612
7. Profit (+/-) for the year attributable to owners of the parent and non-controlling interests	232,048				232,048
Total	**758,768**				**758,768**

B.2 Valuation reserves of the financial assets measured at fair value through profit or loss: breakdown

(Values in thousand euros)

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total 12.31.2022	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities										
2. Equity securities	1,045								1,045	
3. Loans										
Total	**1,045**								**1,045**	
Total 12.31.2021	**211**								**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 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 on 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 is negative for €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.

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation at December 31, 2022 envisages that BFF Bank S.p.A. is the parent.

Own funds

Qualitative information

Own funds represent the first line of defense against risks associated with the complexity of financial activities and constitute the main reference parameter for the assessment of the Group's capital adequacy.

The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum mandatory capitalization in relation to the risks assumed.

The Group constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and 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 Group's own funds are computed in Common Equity Tier 1 (CET1), and are the following:

- Paid-in share capital;
- Reserves (legal reserve, extraordinary reserve, retained earnings, stock option reserve, and Fair value 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, as well as 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.

Additional Tier 1 (AT1) capital includes Tier 1 instruments issued during the year.

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%.

Quantitative information

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

(Values in thousand euros)

ITEMS/VALUES	Total 12.31.2022	Total 12.31.2021
A. Common Equity Tier 1 (CET1) pre-application of prudential filters	**525,293**	**446,316**
of which CET1 instruments subject to transitional provisions		
B. Prudential CET1 filters (+/-)	(234)	(128)
C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)	525,059	446,188
D. Elements to be deducted from CET1	(63,160)	(63,355)
E. Transitional period - Impact on CET1 (+/-), including non-controlling interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) (C - D +/-E)	**461,900**	**382,833**
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 period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**150,000**	
M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules		*98,224*
of which T2 instruments subject to transitional provisions		
N. Elements to be deducted from T2		
O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions		
P. Total Tier 2 (T2) capital (M - N +/- O)		*98,224*
Q. Total own funds (F + L + P)	**611,900**	**481,057**

2.3 Capital adequacy

Qualitative information

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

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

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

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

In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005 "Banks' financial statements: layout and preparation", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).

The Group's total exposure to risks at December 31, 2022, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

With regard to the Banking Group, the CET1 is 16.9% and the Tier 1 Capital Ratio and the Total Capital Ratio are 22.3%.

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 Group measures operational risk using the "Basic" approach: the capital requirement is deter- mined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statements 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 Parent 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 Group measures market risk using the "Standardized" approach.

Pillar II - The ICAAP/ILAAP Report

The supervisory regulations require intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Supervisory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, to take appropriate corrective action.

BFF Banking Group annually submits the "ICAAP/ILAAP Report" to the Bank of Italy, thus providing an update on the internal processes for determining adequacy of capital and of liquidity risk governance and management systems of the Group. In accordance with prudential supervisory provisions, the Group has prepared the "ICAAP/ ILAAP Report" approved by the BFF Board of Directors on 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%.

Quantitative information

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

(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	13,070,543	11,261,862	2,002,716	1,525,292
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			160,217	122,023
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			58,933	50,199
2. Standardized methodology				
3. Advanced method				
B.6 Other calculation factors				
B.7 Total prudential requirements			**219,176**	**173,691**
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			2,739,701	2,171,141
C.2 CET 1/Risk-weighted assets (CET1 capital ratio) (%)			**16.86%**	**17.63%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**22.33%**	**17.63%**
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) (%)			**22.33%**	**22.16%**

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 Group 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	Directors and key management personnel (1)	Other related parties	Total related parties	Financial statements item	% of financial statements item	Statement of cash flows item	% of statement of cash flows item
Impact of transactions on the statement of financial position								
Equity investments								
At December 31, 2022			13,570	13,570	13,656	99.4%	(172)	N/A
Amounts due to customers								
At December 31, 2022		(386)		(386)	(10,789,422)	0.0%	1,984,408	0.0%
Provision for risks and charges: a) pensions and similar obligations								
At December 31, 2022		(1,057)		(1,057)	(7,861)	13.4%	(115,690)	0.9%
Other liabilities								
At December 31, 2022		(577)		(577)	(401,369)	0.1%	(115,690)	0.5%
Reserves								
At December 31, 2022		(5,190)		(5,190)	(233,153)	2.2%	(115,690)	4.5%
Impact of transactions on the income statement								
Interest and similar expense								
2022		(575)		(575)	(92,988)	0.6%		
Administrative expenses: a) personnel expenses								
2022		(9,629)		(9,629)	(74,352)	13.0%		

(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 doubles (for example up to €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 Ceska 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 Česká 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 Group 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 Group directors and other related parties correspond to those recorded in the relevant prospectus at the time the deposit accounts were opened.

Part I - Share-Based Payments

A. Qualitative information

2016 Stock Option Plan

On December 5, 2016, the Parent'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 Banking Group, and in accordance with the law.

The vesting conditions of the options included in the plan are as follows:

- The options awarded in each tranche will vest starting from the twelfth month following the award, which is subject to a series of conditions detailed in the plan, and assuming:
  (a) Continuation of employment relationship with the Group and/or of the office held in the Board of Directors; and
  (b) Levels of capital and liquidity resources suitable to cover the activities undertaken and compliance with other parameters, also of a regulatory nature.

Note that the plan is subject to malus and clawback conditions: options are subject to ex post correction mechanisms (malus and/or clawback) which, when the pre-set circumstances arise, result in the loss and/ or the restitution of the rights attributed by the plan.

At 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 Company and/or its subsidiaries, having the following characteristics:

- *Purpose*: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe 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 Group and/or of the office held in the Board of Directors and absence of notice due to resignation or dismissal; and (ii) Levels of capital and liquidity resources necessary to cover the activities undertaken and compliance with other parameters, also of a regulatory nature.

As of December 31, 2022, 8,384,500 cash-less options were assigned, exercisable starting from 2023.

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 Company 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 fulfillment of the following conditions: (i) continuation of employment with the 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, 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 L - Segment reporting

Consistent with the business areas identified in order to monitor and analyze the Group's results, the Group segment information is divided into representative sections of the three BUs that offer products/services to customers:

- Factoring & Lending BU, which offers products such as non-recourse factoring, lending and credit management mainly to public sector suppliers and public administration bodies.
- Securities Services BU, which deals with custodian banking for investment funds and related services such as global custody, fund accounting and transfer agents for national managers and banks and for various investment funds such as pension funds, mutual funds and alternative funds.
- Payments BU, which deals with payment processing, corporate payments and checks and bills and has as customers medium-small Italian banks, medium-large companies and boasts a partnership with Nexi.

For comments and details on the items listed, please refer to the specific sections contained in the chapter on Operating Performance.

Factoring & Lending BU

Turnover acquired / Loans disbursed during the year / Loans and receivables with customers	FY'21	FY'22
Turnover acquired / Loans disbursed during the year	**5,781**	**7,783**
Italy	3,014	4,505
Spain	1,616	1,879
Poland	687	663
Slovakia	29	28
Portugal	304	481
Greece	91	167
France	35	55
Croatia	2	2
Czech Republic	2	2
Loans and receivables with customers	**3,745**	**5,221**
Italy	2,105	2,852
Spain	330	629
Poland	790	806
Slovakia	231	240
Portugal	207	239
Greece	70	131
France	10	13
Croatia	1	1
Czech Republic	2	2

Income Statement	FY'21	FY'22
Total net revenue	161.9	170.1
Direct costs and Amortisation, depreciation and net impairment losses/reversals of impairment losses on property, equipment and investment property/intangible assets	(38.8)	(43.8)
Net impairment losses/gains for credit risk	(0.7)	(5.8)
Net provisions for risks and charges	0.3	(0.5)
Profit before tax from continuing operations	**122.8**	**120.0**

Securities Services BU

Amounts managed, customers served, transactions executed and deposits	FY'21	FY'22
Custodian Bank (AuD, €m)	83,573	49,524
Global Custody (AuC, €m)	172,625	153,065
Deposits - Final Balance (€m)	6,092	3,167

Income Statement	FY'21	FY'22
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**

Payments BU

Transactions executed and deposits	FY'21	FY'22
Interbank processing (no. trans. millions)	312	331
Settlements (no. transactions #m)	191	257
Deposits - Final Balance (€m)	2.408	2.852

Income Statement	FY'21	FY'22
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**

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 an 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 periodical lease payments.

Section 1 - Lessee

Qualitative information

During 2018, BFF Banking Group 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-time 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 would shall adopt the "Modified Retrospective Approach". As a result, the Group does not need to apply the standard retrospectively (therefore considering complex comparative information), and the amount relating to right-of-use assets under "Property, equipment and investment property" is equal to the financial liability amount.

Quantitative information

BFF Banking Group's right-of-use assets accounted for as "Property, equipment and investment property" 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	10,675	13,793
BFF Finance Iberia	772	1,011
BFF Polska Group	1,058	1,486
Total BFF Banking Group	**12,505**	**16,290**

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 consolidated financial statements.

Section 2 - Lessor

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

Quantitative information

(Values in thousand euros)

	Total 12.31.2022	Total 12.31.2021
Time periods	Lease payments to be received	Lease payments to be received
Up to 1 year	313	312
More than 1 year to 2 years	280	312
More than 2 year to 3 years	241	286
More than 3 year to 4 years	185	264
More than 4 year to 5 years	25	209
Over 5 years	12	113
Total lease payments to be received	**1,057**	**1,497**
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)		
Unguaranteed residual value (-)		
Loans for leases	**1,619**	**2,851**

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.				Companies of the Group			
	KPMG S.p.A.		KPMG S.p.A. Network		KPMG S.p.A.		KPMG S.p.A. Network	
	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy
Statutory audit	189	92			22	271		
Certification services (*)	58							
Tax consultancy services				16				
Other services (**)	595		94	15				
Total	**842**	**92**	**94**	**31**	**22**	**271**		

(*) 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 CONSOLIDATED FINANCIAL REPORT IN ACCORDANCE WITH ARTICLE 81-*TER* OF CONSOB REGULATION N. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned
   - Massimiliano Belingheri, in his capacity as Chief Executive Officer,
   - 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 Group, and
   - the effective implementation of the administrative and accounting procedures employed to draw up the 2022 Consolidated Financial Statements.

2. The suitability and effective application of the administrative and accounting process employed to draw up the 2022 Consolidated 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 2022 Consolidated Financial Statements:

   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 and all the companies included in the scope of consolidation.

   3.2 the Report on Operations includes a reliable analysis of the important events and their impact on the Consolidated Financial 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 Independent Auditors

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
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(The accompanying translated consolidated financial statements of the BFF Banking Group 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 consolidated financial statements

Opinion

We have audited the consolidated financial statements of the BFF Banking Group (the "group"), 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 consolidated financial statements give a true and fair view of the financial position of the BFF Banking Group 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 consolidated financial statements*" section of our report. We are independent of BFF Bank S.p.A. (the "parent") 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

BFF Banking Group
Independent auditors' report
31 December 2022

Recognition of late payment interest on performing loans and receivables acquired without recourse

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.16 "Other information - Revenue recognition criterion"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets measured at amortised cost"

Notes to the consolidated financial 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 group 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 parent'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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BFF Banking Group
Independent auditors' report
31 December 2022

Recognition of the lump-sum compensation for recovery costs("40 euros")

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets measured at amortised cost"

Notes to the consolidated financial statements "Part C - Information on the income statement": sections 16.2 "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 group 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 group's right to recover 40 euros for each invoice. The group 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 consolidated 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 group recognised accrued compensation of €119 million (€87 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 parent'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).

KPMG

BFF Banking Group
Independent auditors' report
31 December 2022

Measurement of intangible assets with finite and indefinite useful lives

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the consolidated financial statements "Part B - Notes to the statement of financial position - Assets": section 10 "Intangible assets"

Notes to the consolidated financial statements "Part C - Information on the income statement": section 15 "Amortisation and net impairment losses on intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
As a result of certain business combinations carried out in previous years, the consolidated financial statements at 31 December 2022 include intangible assets with an indefinite useful life of €30.9 million, which mostly comprise goodwill of €22.1 million, €8.7 million and €0.08 million arising from the acquisitions of BFF Polska Group, former IOS Finance (now merged into BFF Finance Iberia) and MC3 Informatica S.r.l., respectively, the latter carried out in 2022. Moreover, during 2021, further to the business combination with DEPOBank S.p.A. and the completion of the PPA procedure, the group 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 consolidated 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. As disclosed in the notes, in accordance with IFRS 3, the directors allocated the intangible assets with indefinite useful lives to certain cash-generating units ("CGUs") they identified. The directors tested the reporting-date carrying amounts for impairment by comparing the carrying amount of the CGUs to which the intangible assets with finite and indefinite useful lives were allocated to their recoverable amount. They estimated the recoverable amount based on value in use calculated using the discounted cash flow model.	Our audit procedures principally included: • understanding the process adopted to prepare the impairment tests approved by the parent's directors; • gaining an understanding of the process used to draft the group's long-term plan approved by the parent's 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 consolidated financial statements; • assessing the main assumptions used by the directors to determine the CGUs' value in use. Our assessment included checking the consistency of the method adopted with that used in previous years and comparing the main assumptions used to the information acquired externally, where available; we carried out these procedures with the assistance of experts of the KPMG network; • checking the sensitivity analysis presented in the notes in relation to the key assumptions used for testing goodwill for impairment; • assessing the appropriateness of the disclosures about intangible assets with finite and indefinite useful lives and the related impairment tests.

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BFF Banking Group
Independent auditors' report
31 December 2022

Key audit matter	Audit procedures addressing the key audit matter
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 group'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 finite and indefinite useful lives is a key audit matter.	

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated 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 group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated 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 parent 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 group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists.

KPMG

BFF Banking Group
Independent auditors' report
31 December 2022

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 consolidated 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 consolidated 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 group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- 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 group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

BFF Banking Group
Independent auditors' report
31 December 2022

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 parent'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 parent in conducting the statutory audit.

We confirm that the opinion on the consolidated 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 parent'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 consolidated financial statements at 31 December 2022 to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the consolidated financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the consolidated financial statements at 31 December 2022 have been prepared in XHTML format and have been marked up, in all material respects, in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Due to certain technical limitations, some information included in the notes to the consolidated financial statements when extracted from the XHTML format to an XBRL instance may not be reproduced in an identical manner with respect to the corresponding information presented in the consolidated financial statements in XHTML format.

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 parent's directors are responsible for the preparation of the group's reports on operations and on corporate governance and ownership structure at 31 December 2022 and for the consistency of such reports with the related consolidated 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 group's consolidated 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 group's consolidated 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.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of BFF Bank S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 23 March 2023

KPMG S.p.A.

(signed on the original)

Roberto Spiller
Director of Audit

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