Consolidated Financial Statements

2023

The works of art reproduced in this report were created by the artist Valerio Adami, and they are part of BFF'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.

In 2019, the Bank launched a collection digitalization and reconditioning project, involving a number of initiatives, including a traveling exhibit throughout Europe, accompanied by publications in English to promote Italian culture and art abroad.

Furthermore, since January 2023, a new volume has been available which draws its inspiration from the collection: "*Italian and American Art – An Interaction – 1930s–1980s*", dedicated to the mutual fascination between Italian art and American art.

The new phase of the project follows up on the traveling exhibit presented in Europe with new stops in the United States as well in 2024, and culminates in the museum area at the new Bank headquarters being built in Milan.

BFF's commitment in the cultural realm is the result of its sense of responsibility to the community and Italian artistic heritage, and its desire to return part of the value that BFF generates to society, in line with the Group's social and sustainability policies.

www.art-factor.eu

This document, prepared only to facilitate the reading of the Financial Statements, represents a supplementary version to the official one compliant with Directive 2004/109/EC ("Transparency Directive") and Delegated Regulation (EU) 2019/815 ("European Single Electronic Format - ESEF Regulation") published on the website at www.bff.com.

BFF Bank S.p.A.
Parent of the BFF Banking Group
Registered Office in Milan - Via Domenichino 5
Share Capital €144,157,893.80 (fully paid-in)
Milan Company Register No.,
Tax Code and VAT No. 07960110158

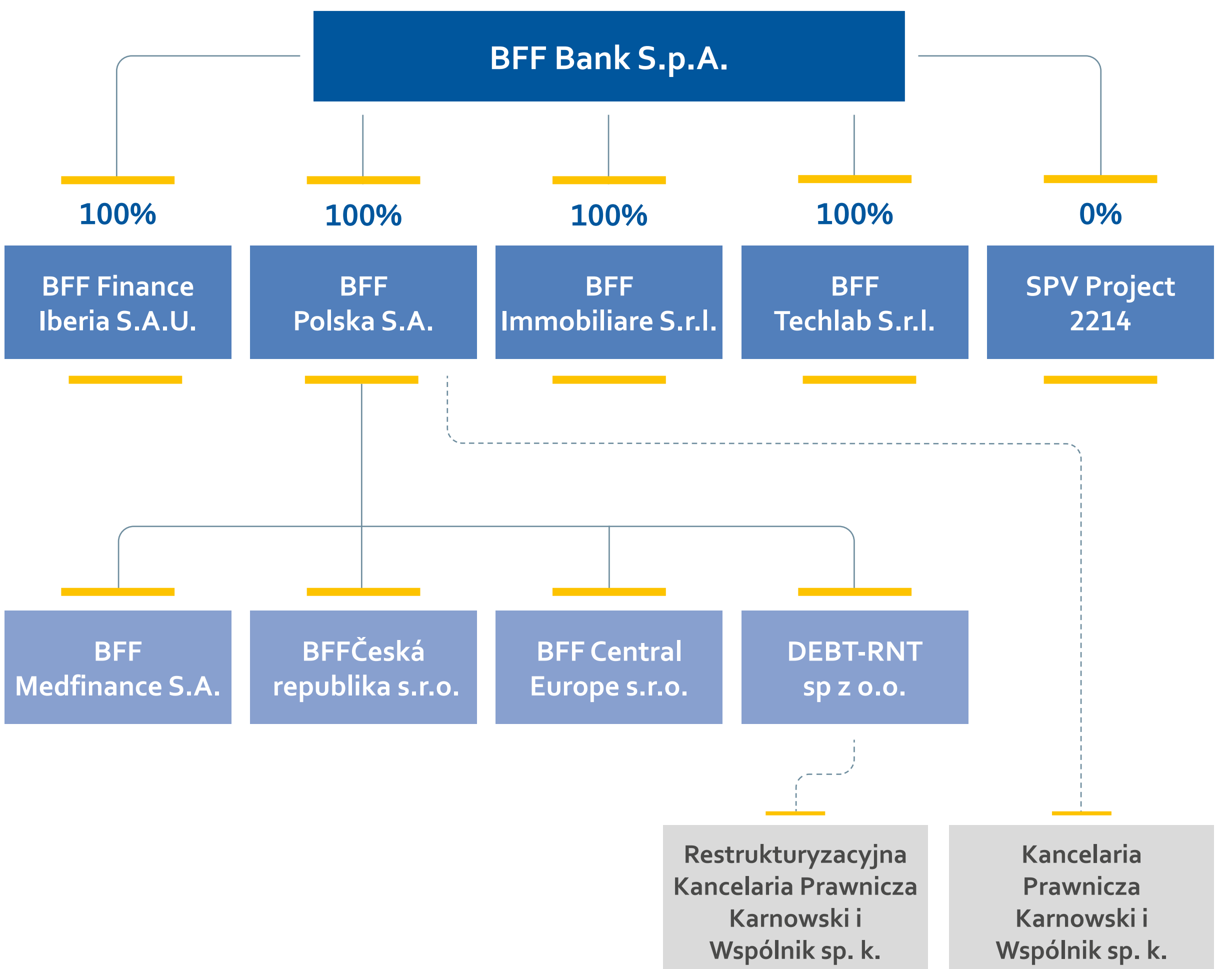
Consolidated Financial Statements

2023

BFF

Contents

Group Structure



At December 31, 2023, 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. SPV Project 2214	Milan Corso Vittorio Emanuele II, 24/28	4	BFF Bank S.p.A.	0%	0%
4. BFF Finance Iberia. S.A.U.	Madrid Paseo de la Castellana, 81	1	BFF Bank S.p.A.	100%	100%
5. BFF Polska S.A.	Łódź Jana Kilińskiego, 66	1	BFF Bank S.p.A.	100%	100%
6. BFF Medfinance S.A.	Łódź Jana Kilińskiego, 66	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. BFF Central Europe s.r.o.	Bratislava Mostova, 2	1	BFF Polska S.A.	100%	100%
9. Debt-Rnt sp. Z O.O.	Łódź Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
10. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw Plac Dąbrowskiego, 1	4	BFF Polska S.A.	100%	100%
11. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw Plac Dąbrowskiego, 1	4	BFF Polska S.A.	100%	100%
12. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
13. 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 10 and 11 are concerned, voting rights refer to the investors' right to vote at the Meeting.

The companies in points 12 and 13 above are limited partnerships and are consolidated according to the equity method since their total asset figures are not significant.

BFF Bank also holds a stake in Unione Fiduciaria S.p.A. amounting to 24% of the shares issued, which is consolidated with the equity method (and not line-by-line), as it is a company subject to significant influence.

As at December 31, 2023, the Bank consolidated the securitization vehicle SPV Project 2214, invested in via the subscription of units of the FPAM1 closed-end investment fund. The subscription of units of the fund in question, later reinvested in SPV Project 2214, fits within the scope of new factoring operations, to enable Italian SMEs to access the non-recourse factoring service via on-boarding on digital platforms with rapid response times ("Digital Platform"), launched in September 2023.

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 as of December 31, 2023

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 BOARD OF DIRECTORS MEMBERS AND INDEPENDENCE REQUIREMENTS

NAME	OFFICE HELD IN BFF	EXECUTIVE	NON-EXECUTIVE	INDEPENDENCE
Salvatore Messina	Chairman		✓	
Federico Fornari Luswergh	Deputy Chairman		✓	
Massimiliano Belingheri	Chief Executive Officer	✓		
Anna Kunkl	Director		✓	✓
Michaela Aumann	Director		✓	✓
Piotr Henryk Stępniak	Director		✓	
Domenico Gammaldi	Director		✓	✓
Monica Magrì	Director		✓	✓
Giovanna Villa	Director		✓	✓

The composition of BFF's Board of Directors meets the diversity and gender criteria and ensures the presence of a consistent number of Non-executive and/or independent directors, recommended by the Corporate Governance Code as set out in the Corporate By-laws, the Board of Directors' Regulations most recently approved by the Board on June 27, 2023 and the Board of Directors' Diversity Policy, most recently approved by the Board on July 28, 2021.

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 as of at December 31, 2023.

INDEPENDENT AUDITORS

KPMG S.p.A.

FINANCIAL REPORTING OFFICER

Giuseppe Manno

Composition of the board committees as of December 31, 2023

REMUNERATION COMMITTEE

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

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

NAME	QUALIFICATIONS	POSITION
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. Furthermore, since 2023, in order to incorporate the provisions introduced by the Bank of Italy's Supervisory expectations for ESG climate-related and environmental risks published on April 8, 2022 in line with analogous ECB initiatives and supplemented on November 24, 2022, the Control and Risks Committee has also supported the Board of Directors in approving the strategic aims and policies on sustainability, including the model for social and cultural responsibility and combating climate change, contributing towards ensuring better risk oversight and taking into account the objectives of the robust and sustainable creation and distribution of value for Bank stakeholders.

Letter from the Chairman of the Board of Directors

Dear Shareholders,

The report to the financial statements is always a valuable occasion to consider the main events characterizing the past year at macroeconomic level, and as a result the life of the Bank, and to reflect on our path of growth.

2023 saw significant geopolitical tensions, starting from the continuation of the conflict between Russia and Ukraine, until the outbreak of the Israel-Palestine conflict. From the macroeconomic perspective, during the year there was a widespread net decline in inflation, achieved thanks to lower energy prices and the decisive action of central banks, which raised official interest rates multiple times. Global economic growth slowed, held back by the difficulties experienced in the manufacturing sector.

In the Eurozone, more restrictive lending conditions and modest foreign demand weighed down on economic activity, and will continue to do so in 2024. The outlooks are particularly weak for the manufacturing and construction sectors, which have been adversely affected by lower foreign demand and high interest rates.

At global level, growth should remain limited in the short term, to then recover as a result of the increase in real income triggered by easing inflation.

In Italy, economic growth and inflation slowed considerably, reflecting the decline in both domestic and foreign demand; our significant exposure to the manufacturing industry penalized us with respect to the majority of European countries. However, despite the economic downturn, public accounts have remained under control, net debt in relation to GDP has reduced and, for the third consecutive year, the debt/GDP ratio has also dropped.

Expectations of an economic soft landing and an inversion of monetary policies towards a more expansionary approach resulted in brilliant stock market performance and positive overall performance in the bond markets. The decline in BTP yields caused the Italian Stock Exchange to stand out as the best market amongst the main markets in the Eurozone, driven by a banking sector rally. Banks benefited from the sharp improvement in profitability resulting from favorable net interest income trends. Furthermore, capital ratios improved: as shown by the stress test performed by the Bank of Italy, supervised banks overall would be capable of weathering the impact of adverse macroeconomic scenarios.

For BFF, 2023 was an important year, in which we celebrated the first 10 years since the Group's transformation into a Bank, in 2013. Ten years have passed, during which BFF has grown and expanded at an exceptional pace, becoming a leading European Banking Group with more than 800 employees representing over 20 different nationalities. Rapid, international growth resting on a solid foundation, but also on openness to change. In June 2023, strong from the path we had traveled until that point, we presented our new business plan to 2028, to be and act "*Ever more a bank like no other*", and our financial targets for 2026.

Looking at our operating segments, again in 2023 **Factoring** continued to display its potential as a tool for risk mitigation and liquidity support for businesses, in the context that we have described until this point, characterized by rising interest rates, high inflation and geopolitical uncertainty.

BFF has doubled down on its commitment to support its customers, offering alternative financial solutions to traditional ones, capable of guaranteeing constant liquidity inflows and a simultaneous reduction in business risk, within a scenario of decreased lending by traditional banks. Thanks to its ability to act as a trusted partner of Public Administration suppliers, BFF has thus continued along the path of growth it embarked upon in previous years.

The Business Plan to 2028 calls for a new branch to be opened in France, which will further consolidate our presence in this market, in which we currently operate under the freedom to provide services.

For the ***Payments*** sector, the past year was positive: managed volumes continued to rise, and we gained new customers amongst the major Italian banks, particularly in the SEPA (Single Euro Payments Area) segment. Thus, it was borne out that our reference market is increasingly favoring reliance on a "service" bank for non-competitive activities, to lower costs and make them variable while also always remaining at the cutting edge with respect to market requirements. In this area, BFF also reinforced its partnerships and enhanced its value added services.

In the ***Securities Services*** area, and in particular in the custodian bank service, the results for 2023 surely benefited from good stock market trends and the recovery in the final part of the year recorded in the bond markets. In 2023, we further 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 54.5% by number of Negotiated Funds.

We are focusing on social security institutions, a market which is appealing to us, and which already at the end of 2023 showed signs of change with tenders for custodian services. In this area, BFF offers a full range of services, including customized services, to facilitate the actions and back the mission of institutional investors, which recognize as playing a key role in supporting the real economy.

In Alternative Funds, during the year that just ended we reinforced our market share, acquiring the custodian service for a number of funds, although many of these initiatives will be launched in the course of 2024. Also in the realm of value added services offered to custodian bank customers, the results were positive, particularly as regards the check-IBAN service and supervisory reporting. Looking at the year that just began, we strive to continue to focus on growth in the Social Security Institutions and Alternative Funds segment, and to consolidate our leadership in Pension Funds.

Also for *Global Custody* services, 2023 was a positive year thanks especially to continued growth in specialized services and the acquisition of new corporate customers for the Paying Agent service.

We continue to be a Group with high asset quality and a very solid capital position, with a Common Equity Tier 1 ratio of 14.2% and a Total Capital Ratio of 19.1%. Regarding BFF's dividend policy, this will continue to be aimed at self-financing the Group's growth and distributing all profits generated in the year in excess of a target capital ratio to shareholders. The distribution of dividends is confirmed twice a year, in August and April, based on the adjusted net profit for the first half of the year and the entire year.

The year that just ended was also the year in which the first stone of "Casa BFF" was laid in Milan, in June 2023. Day after day, we witnessed the growth of the Bank's new headquarters, which will be completed by the end of 2024. This is a project we are particularly proud of, and which will lead to the construction of a meeting place, dedicated not only to all Group employees but - with the museum that will host works from our art collection and accessible outdoor spaces - to residents as well.

Alongside the "Casa BFF" project, again this year the Bank continued to be committed to Culture, again in line with our social and sustainability policies. Indeed, at the end of the year we presented a sneak preview of the new volume *"Italian and American Art - An Interaction - 1930s–1980s"*, which is part of the broader BFF project aimed at promoting Italian culture and contemporary art. The book, dedicated to the interaction and mutual fascination between Italian art and American art, draws inspiration from the Bank's works of art, which it began collecting in the mid-1980s. The initiative follows up on the traveling exhibit that crossed Europe over the last two years, and which in 2023 reached Madrid and Lisbon. The exhibit will continue in 2024 with new stops in the US as well: in New York in March and in Washington DC in April and May.

The wealth of these initiatives is a source of inspiration for us. BFF has always recognized art as having the capacity to teach everyone the importance of the imagination, creativity and innovation, which are indispensable tools to accompany the growth of a person, a business and society. We are proud of these and the other sustainability initiatives undertaken by the Group, which are described in the Non-Financial Statement.

Pleased with the goals achieved until this point, we are eagerly looking to the next few months, which will be replete with opportunities and challenges, and we would like to pay special recognition to our employees, customers and investors, who make our Group's performance possible each and every day.

In March 2024, my fourth term of office as Chairman will come to an end. After eleven years in this role, in 2023 I announced that I would not be seeking office again, as I would no longer meet the formal independence requirement established by corporate governance best practices. I am delighted to have participated in BFF's success over the years, starting from its transformation into a bank and until its development into a large listed multinational group.

To conclude, I would like to take this opportunity to express my sincere gratitude to the people who are part of BFF's history, hoping for everyone that this path of growth can continue to be a source of pride and satisfaction.

Salvatore Messina

01

Report on Operations

1. The Evolution of BFF: a story of success and constant value creation

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 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).

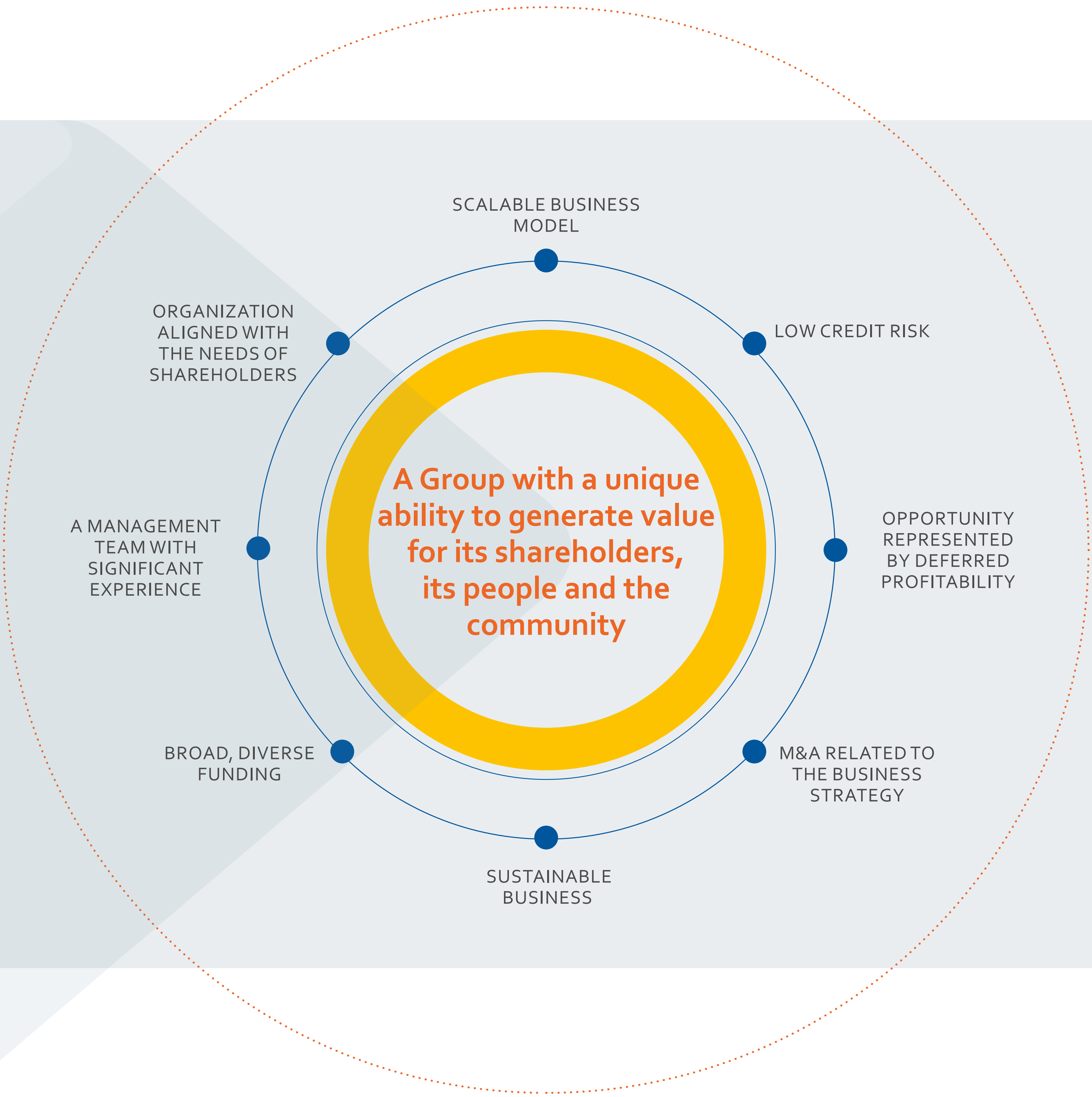
TODAY

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, through the merger with DEPObank, it also affirmed its leadership in securities services, as the only Italian custodian bank, and in payment services, distributed to more than 100 banks and PSPs in Italy.

In 2023, as part of the new business plan, it confirmed its willingness to grow in its core business and continue on the path of value creation vis-à-vis its shareholders and all stakeholders.


SCALABLE BUSINESS MODEL
LOW CREDIT RISK
OPPORTUNITY REPRESENTED BY DEFERRED PROFITABILITY
M&A RELATED TO THE BUSINESS STRATEGY
SUSTAINABLE BUSINESS
BROAD, DIVERSE FUNDING
A MANAGEMENT TEAM WITH SIGNIFICANT EXPERIENCE
ORGANIZATION ALIGNED WITH THE NEEDS OF SHAREHOLDERS
A Group with a unique ability to generate value for its shareholders, its people and the community

BFF 2028: ever more 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 disposal of trade receivables due from Public Administrations, and in the area of Securities Services and payment services.

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

OFFER	OPPORTUNITY
Non-Recourse Factoring Financing for the public sector and healthcare Credit Management	€1,000 billion of market opportunities with potential for volume growth in Italy and abroad
Custodian Global custody Fund accounting Transfer agent	Long-term growth in assets under management and administration in Italy
Payment intermediary Corporate payments Checks and bills	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.

The services offered and the relative benefits for customers are presented below.

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

Work with honesty and transparency, respecting and valuing people, maintaining leadership in innovation, customer service and execution in the markets, with a low risk profile and high operational efficiency.

Our Vision

Be a leader in specialty finance thanks to a value proposition that is unique in its target markets: a highly specialized and sustainable bank like no other.

Our Values

Meritocracy, ownership, pursuit of excellence (continuous improvement), results oriented, respect.

Sustainability of the BFF Banking Group business model

BFF Banking Group pays particular attention to topics linked to sustainability, assessing the impacts that its 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 consolidated financial statements with the main non-financial data and information.

During 2023, the Group reviewed the materiality analysis process and results, aimed at identifying the most relevant sustainability issues for its business. This process led to the updating of the list of impacts identified using an "Inside-Out" perspective, considering the context in which BFF operates.

In light of the activities carried out, the categorization of impacts into the material topics identified in 2022 was confirmed. This process enabled the consolidation of a framework used to measure progress in the medium term and to build an increasingly quantitative approach to ESG metrics, as well as the cultural dimension and value creation in this area.

ESG targets achieved in the course of 2023

In line with the objectives declared during the publication of the 2022 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 June 27, 2023, the BFF Bank Board of Directors approved BFF's Business Plan up to 2028. Over the Plan horizon BFF will continue its sustainability commitments, constantly focusing on achieving a positive impact in social, environmental and stakeholder spheres.

BFF is committed to achieving a target of net zero CO_2 emissions by 2026. Thanks to low-impact offices and efficient technology infrastructure. It is expected that by 2026, 80% of employees will work in green buildings (up from 47% today). The new sustainable headquarters, Casa BFF, will be opened by 2024 and will promote better integration between BFF and the surrounding community through a city garden, an outdoor theater, and an art gallery.

Furthermore, BFF is committed to improving its positive impact on the community, including by supporting the goals of the Fast Forward Foundation. BFF will increase its contribution to foundation initiatives based on a new long-term plan founded on the concept of "integrated welfare".

BFF continues to strive for excellence in its governance, a key component being the Board slate selection process, which aims to strengthen the profile of the Board in the interest of all stakeholders.

The BFF team is strongly aligned with stakeholders through incentives that promote meritocracy, accountability, and sustainability, with short-term incentive plans and long-term stock option plans respectively involving 90% and 27% of BFF employees. Sustainable performance metrics are integrated into BFF's compensation policy, promoting gender pay gap reduction, carbon footprint reduction and diversity.

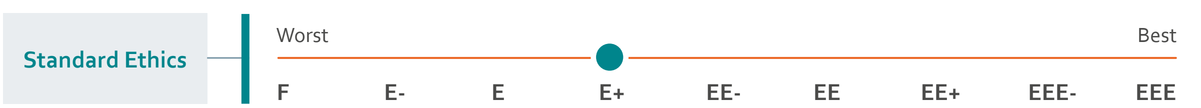
ESG Rating

BFF has continued 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 and increasing coverage.

This approach led to an upgrade in the following ESG risk ratings, for BFF representing further encouragement to continue on its path of sustainable growth.

The BFF Group currently has the following sustainability ratings.

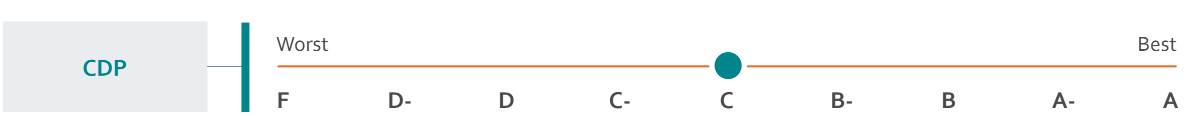
On November 21, 2023, **Standard Ethics** – "Self-Regulated Sustainability Rating", which issues non-financial sustainability ratings, undertaking to promote the main sustainability and governance standards of the European Union, the OECD and the United Nations – **revised the Bank's Corporate Standard Ethics Rating (SER) upwards to "E+" from the previous "E", assigning it a "Positive" outlook**. Standard Ethics highlighted the path undertaken by the Bank in progressively aligning its Sustainability governance tools with the recommendations of the UN, the OECD and the European Union. Furthermore, this alignment took place within a formalized and structural process, in areas relating to Diversity and Inclusion, IT security, the risk of offenses and tax matters. Since 2019, BFF's ESG (Environmental, Social, Governance) performance has been aligned with sector best practices, and an ESG Committee was introduced in July 2022. The Bank has made a tangible commitment in other areas as well, such as environmental policies and ESG financial topics, currently being implemented through targeted policies or specific measures.



On January 29, 2024, as part of an independent assessment related to the entire BFF Group, the rating company **Sustainalytics** improved BFF's ESG risk rating from 18.1 to 17, thus confirming the company's placement in the "Low Risk" category.

On January 25, 2024, **MSCI**, a leading international ESG rating company that analyzes about three thousand companies globally, confirmed BFF's ESG rating at AA.

On February 6, 2024, the rating agency **Carbon Disclosure Project (CDP)** evaluated the BFF Group's performance with a score of C (on a scale of A to F).This rating bears witness to the path undertaken in terms of the integration of climate factors into the business, operations and risk framework of the Group, and lays the foundations for the continuous strengthening of the commitments and oversight mechanisms adopted.



2. Operational context and significant events

International Economic Landscape

The year 2023 was marked by a slowdown in growth in the major Western economies and, after the surge of last year, a widespread reduction of the inflation rate driven by lower energy prices. Despite the continuation of the war in Ukraine and the outbreak of the conflict in Palestine, oil and gas prices indeed fell on expectations of a slowdown in global commodity demand. The crisis in the Middle East resulted in only a temporary rise in crude oil prices, due to the fear of a collapse in Iranian exports, which was eased only after the expectation of Tehran's involvement declined, also following deterrent measures undertaken by the United States.

On the other hand, persistent unemployment rates near historic lows have kept core inflation (which excludes the volatile food and energy components) at relatively elevated levels in both the US and the Old World, prompting central banks to tighten monetary policies. Specifically, the Federal Reserve raised the federal funds rate from 4.25% – 4.50% to 5.25% – 5.50%, the Bank of England raised the benchmark rate from 3.50% to 5.25%, and the ECB raised the main refinancing operations rate from 2.50% to 4.50%.

The European economy

THE MAIN MACROECONOMIC INDICATORS OF THE EUROPEAN UNION

Indicators	2021	2022	2023	2024
Real GDP (annual change)	6.0%	3.5%	0.5%(*)	0.9%(*)
Inflation rate (annual change)	2.7%	8.9%	6.2%	2.7%(*)
Unemployment rate	7.1%	6.2%	6.0%(**)	6.0%(**)
Balance of payments (% of GDP)	3.5%	1.6%	2.6%(*)	2.8%(*)
Public Budget Balance (% of GDP)	-4.7%	-3.3%	-3.2%(*)	-2.9%(*)

(*) Consensus estimates from Bloomberg, updated at 01/26/2024.

(**) European Commission estimates of November 2023.

In 2023, economic growth slowed in the European Union, impacted by the restrictive approach of monetary policy and weak foreign demand. The manufacturing sector in particular appeared to be in crisis, with industrial output declining and business pessimism, which had already emerged in the second half of the previous year, accentuating. On the demand side, consumption was stagnant – although household confidence improved thanks to declining inflation – and investments cooled, against the progressive deterioration of business sentiment starting from the spring months. Based on consensus data, it is estimated that GDP growth slowed from 3.5% in 2022 to 0.5% and may increase by 0.9% in 2024, when it should benefit from a recovery in real household income as well as exports.

Inflation in December fell to 3.4% from 10.4% one year prior, benefiting from the decrease in energy prices, while the core figure (excluding the volatile components of food, energy, alcohol and tobacco) decreased to less of an extent, from 6.2% to 4.0%. On average during the year, inflation fell from 8.9% in 2022 to 6.2% in 2023, and analysts expect it to decrease further to 2.7% in 2024.

To counter persistently high core inflation, the European Central Bank has continued to raise official interest rates. In addition to the main refinancing operations rate (raised to 4.50%), the deposit rate and the marginal lending rate were also raised by 200 basis points to 4.00% and 4.75%, respectively. However, given the significant economic slowdown and in view of a constant decline in inflation at core level as well, the market continues to expect the Frankfurt Institute to reverse the direction of rates in 2024, as seen by forward rates on the three-month Euribor maturing at year-end falling to 2.30%, a good 161 basis points below the spot value.

In the bond markets, despite the ECB's restrictive conduct, yields were down on short maturities (by 36 basis points on the Bund at two years) as well as long maturities (by 55 bps on the ten-year Bund), with a curve that accentuated its negative incline, reflecting the drop in inflation and the risk of recession. Against this backdrop, the Italian bond market staged a partial recovery of 8.5% (based on the overall MTS index), following a 14.8% drop in 2022, driven upward by BTPs with maturities over 6 years (+12.6%). Italian government bonds were able to benefit from the decrease in the risk premium following the expectation for a reversal of monetary policy in 2024 and the upgrade in Italy's rating by Moody's (from Baa3 with a negative outlook to Baa3 with a stable outlook). Specifically, the yield differential between BTPs and Bunds on the ten-year maturity in the year fell by 47 cents to 168.

Despite the economic slowdown and higher interest spending, the EU government deficit is expected to have stabilized in 2023 at 3.2% of GDP (based on consensus estimates, which in 2024 indicate that it may fall to 2.9%), benefiting from the complete elimination of temporary measures taken to deal with the pandemic and the reduction of measures taken to benefit households and businesses to counter the impact of rising energy prices.

In 2023, due to high nominal GDP growth, public spending growth was sustained in almost all countries. The Commission estimates that in the European Union it increased by 5.3%, and among the countries BFF operates in double-digit growth rates are expected to be achieved by Slovakia (+26.9%), Poland (+20.7%), the Czech Republic (+13.1%) and Croatia (+12.3%). In 2024, against the 3.1% increase expected for the EU, public spending is expected to grow significantly in Poland (+9.3%), Croatia (+8.7%) and Portugal (+8.5%), while it could be down slightly in Greece (-1.4%) and Italy (-1.0%). Overall, government spending in the countries where BFF is present is expected to grow by 4.8% in 2023 and for coming year, on the basis of Commission forecasts, an increase of 2.6% is expected.

PUBLIC EXPENDITURE OUTLOOKS IN THE COUNTRIES WHERE BFF IS PRESENT

Countries	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	2024 Public Expenditure (billion euros)	2024 Public Expenditure (% of GDP)	Chg 2024/2023
European Union (27 countries)	7,890	49.6	5.5%	8,307	48.9	5.3%	8,561	48.5	3.1%
BFF countries	**3,972.4**	**53.0**	**6.8%**	**4,162.7**	**51.8**	**4.8%**	**4,270.0**	**51.0**	**2.6%**
France	1,539	58.3	4.2%	1,589	56.5	3.3%	1,635	56.1	2.9%
Italy	1,092	56.1	10.7%	1,105	53.1	1.2%	1,094	51.1	-1.0%
Spain	638	47.4	4.5%	667	46.8	4.6%	694	46.7	4.1%
Poland	287	43.9	13.1%	347	47.3	20.7%	379	47.7	9.3%
Czech Republic	123	44.6	11.2%	139	45.6	13.1%	140	44.0	0.8%
Portugal	107	44.1	4.2%	111	42.5	3.7%	120	44.4	8.5%
Greece	109	52.9	4.7%	111	50.5	1.6%	110	47.9	-1.4%
Slovakia	46.4	42.3	1.6%	58.9	47.8	26.9%	59.8	45.4	1.5%
Croatia	30.5	44.9	7.9%	34.2	45.5	12.3%	37.2	46.5	8.7%

Source: BFF Insights calculations based on European Economic Forecast, Autumn 2023 and Eurostat data.

In the area of government spending, trends in spending on goods and services and investment are of particular significance to BFF's business.

So far public spending on goods and services has shown dynamism similar to that of overall public spending. The annual cumulative figure updated at the third quarter of 2023 indeed shows growth of 4.8% in the European Union, with intermediate consumption up in particular (+6.1%), while social benefits in kind rose to a more limited extent (+3.3%). Looking at the countries in which BFF operates, growth was aligned with that of the EU (4.8%). In detail, the increase was particularly consistent in Poland (+19.9%), Croatia (+15.2%), the Czech Republic (+14.6%) and Slovakia (+11.5%).

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

Countries	Intermediate Consumption Q3 2023(*) (billion euros)	Intermediate Consumption Q3 2023(*) (% of GDP)	Chg yoy	Social Benefits in Kind Q3 2023(*) (billion euros)	Social Benefits in Kind Q3 2023(*) (% of GDP)	Chg yoy	Public Expenditure for Goods and Services Q3 2023(*) (billion euros)	Public Expenditure for Goods and Services Q3 2023(*) (% of GDP)	Chg yoy
European Union (27 countries)	997.5	6.0	6.1%	887.8	5.3	3.3%	1,885.3	11.3	4.8%
BFF countries	**445.2**	**5.6**	**6.1%**	**300.9**	**3.8**	**3.0%**	**746.1**	**9.4**	**4.8%**
France	141.2	5.1	4.2%	168.5	6.1	0.7%	309.7	11.2	2.3%
Italy	118.6	5.9	1.1%	49.8	2.5	0.2%	168.4	8.3	0.9%
Spain	83.7	5.8	8.9%	39.4	2.7	5.3%	123.1	8.6	7.7%
Poland	45.7	6.3	19.0%	15.6	2.2	22.6%	61.3	8.5	19.9%
Czech Republic	17.6	5.8	14.4%	10.4	3.4	15.1%	28.0	9.3	14.6%
Portugal	13.8	5.3	5.4%	4.7	1.8	-0.3%	18.5	7.1	3.9%
Greece	11.7	5.4	0.1%	6.8	3.1	13.4%	18.6	8.5	4.6%
Slovakia	7.0	5.9	12.6%	4.0	3.4	9.6%	11.0	9.3	11.5%
Croatia	5.8	7.8	15.3%	1.6	2.1	14.6%	7.4	9.9	15.2%

Source: BFF Insights 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.

Public investment in 2023 is expected to have taken a big leap, benefiting from the RRF, EU structural funds, government investment, and high nominal GDP growth. Compared to an increase of 11.2% estimated by the Commission for the European Union (for a gradual increase as a percentage of GDP up from 3.2% last year to 3.3%), in the countries where BFF operates the increase is expected to have been higher and equal to 13.5%, with positively brilliant trends in Slovakia (+78.8%), Croatia (+35.1%), Poland (+23.6%) and Portugal (+22.0%). In 2024, the growth rate of public investment in the countries where BFF is present is expected to remain strong (+8.1%) and higher than that of the EU (+7.0%, or 3.4% of GDP), with Portugal (+23.1%), Italy (+21.3%) and Poland (+10.8%) leading the way. Please note, inter alia, that the annual cumulative figure for Italy updated to the second quarter of 2023 (respectively equal to €60.3 and €40.5 billion) already substantially surpassed the estimates developed by the European Commission for the end of 2023.

PUBLIC INVESTMENT OUTLOOKS IN THE COUNTRIES WHERE BFF IS PRESENT

Countries	2022 Public Investments (billion euros)	2022 Public Investments (% of GDP)	Chg 2022/ 2021	Q3 2023 Public Investments(*) (billion euros)	2023 Public Investments (billion euros)	2023 Public Investments (% of GDP)	Chg 2023/ 2022	2024 Public Investments (billion euros)	2024 Public Investments (% of GDP)	Chg 2024/ 2023
European Union (27 countries)	504.2	3.2	7.3%	542.4	560.6	3.3	11.2%	600.1	3.4	7.0%
BFF countries	**246.5**	**3.3**	**7.7%**	**270.6**	**279.6**	**3.5**	**13.5%**	**302.3**	**3.6**	**8.1%**
France	98.4	3.7	9.2%	102.8	109.7	3.9	11.5%	113.7	3.9	3.6%
Italy	52.2	2.7	-0.2%	60.3	58.3	2.8	11.6%	70.7	3.3	21.3%
Spain	37.3	2.8	11.0%	40.5	38.5	2.7	3.3%	40.2	2.7	4.3%
Poland	26.7	4.1	12.7%	31.4	33.0	4.5	23.6%	36.6	4.6	10.8%
Czech Republic	12.9	4.7	14.7%	14.3	15.0	4.9	16.3%	15.0	4.7	0.2%
Portugal	5.8	2.4	3.4%	6.2	7.0	2.7	22.0%	8.7	3.2	23.1%
Greece	7.4	3.6	11.6%	7.7	8.8	4.0	19.6%	9.1	4.0	4.0%
Slovakia	3.3	3.0	7.8%	4.0	5.9	4.8	78.8%	4.9	3.7	-17.6%
Croatia	2.6	3.8	-6.1%	3.3	3.5	4.6	35.1%	3.6	4.5	4.1%

Source: BFF Insights calculations based on European Economic Forecast, Autumn 2023 and Eurostat data.

(*) Annual cumulative figures.

The factoring market in Europe

As concerns the factoring market in Europe, after the extraordinary growth observed in 2021 and 2022, following the post-COVID rebound effect, data from the first half of 2023[1] showed a further year-on-year increase of 5%, with turnover of €1.2 trillion, equal to 11.9% of GDP. Although these results suggest a progressive normalization of the path of growth, these are notable achievements that testify to the fact that, especially in a scenario characterized by an increase in the cost of money and a tightening of the credit supply, factoring proves to be a valuable tool to support companies' liquidity needs.

Restricting the analysis to the geographical area of BFF's operations, Spain, Portugal, Greece and France showed above-average growth rates, 8.2%, 7.8%, 7.4% and 6.5%, respectively. More modest growth was observed in Croatia (4.9%) and Poland (1.9%) and there was a stable or slightly declining trend in Slovakia (0.0%) and the Czech Republic (-1.4%).

Looking specifically at the Italian factoring market, turnover recorded at December 31, 2023 (based on preliminary data) came to of €289.8 billion (including €58.8 billion in recourse and €230.9 billion in non-recourse), up slightly (+1.0%) from the previous year.[2]In the same period, the outstanding amounted to €70.3 billion (of which €15.6 billion in recourse and €54.6 billion in non-recourse), up 1.2% compared to December 2022. Advances and fees paid amounted to €58.1 billion, an increase of 2.6% over the previous year. The ratio of advances to outstanding stood at 82.7%, up compared to 81.5% one year ago, highlighting the increased need for liquidity on the part of companies.

Restricting the analysis only to factoring for the public administration, in the first nine months of 2023 there was an 8.8% increase in turnover compared to September 2022, with a total turnover value of €14.8 billion, equal to 7.2% of total factoring volumes in Italy.
The factoring of trade receivables from the Public Administration therefore made a significant contribution to factoring market turnover. During the year, there was an evident change in tendency by public administration suppliers, with a yearly growth rate which went from -6.1% in December 2022 to +8.8% in September 2023.
The growth observed can be traced on the one hand to the increased financing needs of businesses, partly in light of the suspension of support measures implemented in response to the health emergency and the energy crisis, and on the other hand to the effect generated by the reversal of the volume contraction experienced during 2022. This also confirms how factoring is a strategic solution to support the working capital of Italian companies in a landscape marked by multiple critical economic issues (geopolitical tensions, inflation, and restrictive monetary policies).
With reference to the volume of receivables from public bodies, the figure in September 2023 came to €7.8 billion, a slight reduction compared to the same period of the previous year (-2.0%). Based on the breakdown of outstanding receivables by type of debtor, those from the health care sector accounted for 34% of the total and those from central, local, and other government agencies for 66%. Considering instead the breakdown by maturity, overdue loans were recorded for €3.6 billion (equal to 46% of the total, marking growth of 3% on an annual basis), of which €2.5 billion were overdue by more than one year, up by 5.5% compared to 2022.
In this scenario, BFF's market share with respect to the PA stands at 35.7% in terms of outstanding without recourse and 19% in terms of total turnover.[3]

1) Source: EUF - EU Federation for Factoring and Commercial Finance – Newsletter Autumn 2023.
2) Source: Assifact - *Quarterly statistics – September 2023 and Monthly statistics – December 2023.*
3) The market share relative to the outstanding is calculated using a market value that includes only non-recourse loans (this value is 26.7% considering the total outstanding); the market share of turnover is instead calculated using the market value that includes both non-recourse and recourse receivables, as the detailed breakdown is unavailable, and excluding tax and fiscal receivables (source: Assifact).

Estimates for the end of the final quarter of 2023 point to turnover growth in the overall factoring market aligned with the end of the third quarter and with the prior year (-0.5%). Operators are optimistic as concerns the resumption of growth in 2024, albeit at a moderate pace (+4.6%) compared to what was observed in the previous two years.

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, benefited in 2023 from the increase in the equivalent value of assets under management in Italy, which rose by 4.6% to €2,311 billion. This growth was caused by the decidedly positive performance of stock and bond markets alike, while net inflows were negative by nearly €48 billion.

THE ITALIAN MANAGED SAVINGS INDUSTRY

Management	2023 Net inflows(*) (A)	(A)/ Assets under management Dec. 2022	Net inflows Jan. - Sep. 2023(*) (A)	(A)/ Assets under management Dec. 2022	Managed equity Dec. 2023(*)	Assets under management Dec. 2023/ Dec. 2022	Managed equity Sep. 2023(*)	Assets under management Sep. 2023/ Dec. 2022	Managed equity Dec. 2022(*)
Collective management	**-16,036**	**-1.4%**	**-11,506**	**-1.0%**	**1,217,504**	**4.9%**	**1,180,187**	**1.7%**	**1,160,146**
Open funds	-20,545	-1.9%	-13,985	-1.3%	1,124,019	4.6%	1,088,463	1.3%	1,074,806
Italian-law funds			3,561	1.6%			236,719	3.8%	228,159
Funds under foreign law			-17,546	-2.1%			851,745	0.6%	846,647
Closed funds	4,509	5.3%	2,479	2.9%	93,485	9.5%	91,724	7.5%	85,340
Italian-law funds			714	1.0%			72,836	4.5%	69,726
Funds under foreign law			1,765	11.3%			18,888	21.0%	15,614
Portfolio management	**-31,717**	**-3.0%**	**-22,783**	**-2.2%**	**1,093,791**	**4.2%**	**1,043,553**	**-0.6%**	**1,049,609**
Management of insurance products			-21,131	-3.2%			653,272	-1.5%	663,140
Management of retail assets	2,030	1.4%	1,992	1.4%	156,495	8.5%	149,782	3.9%	144,203
Management of social security assets			4,017	4.0%			105,246	4.7%	100,547
Open pension funds			1,257	5.4%			25,286	8.8%	23,236
Negotiated pension funds			2,636	5.1%			54,572	6.3%	51,333
Pre-existing pension funds			172	1.5%			12,175	6.9%	11,391
Pension funds			-100	-1.7%			5,983	4.9%	5,704
Other forms of social security			51	0.6%			7,229	-18.6%	8,884
Other management			-7,661	-5.4%			135,253	-4.6%	141,718
Total managed savings	**-47,753**	**-2.2%**	**-34,289**	**-1.6%**	**2,311,295**	**4.6%**	**2,223,740**	**0.6%**	**2,209,755**

(*) Values in € million.

Source: BFF Insights calculations based on Assogestioni data.

In reality, the disaggregated data on net inflows for the first nine months of the year show a highly uneven situation. Indeed, the decline was concentrated on insurance product management (-€21.1 billion), foreign-law open-end funds (-€17.6 billion) and "other management" (-€7.7 billion). On the other hand, social security assets under management (+4.0 billion), Italian-law open-end funds (+3.6 billion), closed-end funds (+2.5 billion) and retail asset management (+2.0 billion) all posted growth.

Examining the numbers relating to social security assets under management in more detail, it can be seen that a good two-thirds of the increase (i.e., €2.6 billion) was realized by negotiated pension funds, which are of particular interest to BFF.

Assets under management thus came at the end of December to €1,124 billion for open-end funds (48.6% of the total), €93.5 billion for closed-end funds (4.0%), €156.5 billion for retail portfolio management (6.8%) and €893.8 billion for institutional portfolio management (40.6%). Amongst the latter, social security assets under management at the end of September amounted to €105.2 billion, of which just more than half (€54.6 billion) attributable to negotiated pension funds.

In the area of Alternative Funds, of note was a slowdown in the launch of new market-wide fund establishment initiatives, due to the rise in rates that has resulted in institutional investors shifting to other forms of investment. However, it can be seen that during the year the market showed some vitality with new fund launches.

The Payment Market in Italy

The year 2023 was characterized by the trends also seen in 2022: the use of cash in Italy has decreased by 13 percentage points since 2019, and at European level 31% of people (according to an ECB report) used cashless payments more frequently than before the pandemic. Thus, there is steady growth in digital payments, mainly driven by the payment card market.

The migration of the T2-T2S Consolidation project was successfully closed in March 2023, bringing operational efficiency at the level of regulations at the cost of a major effort in terms of system-wide investment.

From a perspective of initiatives in the area of payments at the European level, at the end of June 2023 three important innovations in the industry were voted by the European Parliament:

1) New Payment Systems Directive (PSD3) and its Regulations
2) Mandatory instant payments in the Eurozone
3) Regulation on Open Finance

These three initiatives will strongly change the payments market in the next 2-3 years, opening up further competitive challenges in the industry. In the same parliamentary session at the end of June, the Digital Euro development plan was also finalized.

The proposed amendment to the PSD directive aims to harmonize the rules on authorization and supervision of payment institutions. The main innovation of this initiative is the integration of the second e-money directive into the Payment Services Directive (PSD2) and the extensive reduction of authorization requirements, which will lead to lower administrative costs. The proposal integrates former e-money institutions (IMELs) as a subcategory of payment institutions (PIs). Moreover, a new article amends the Settlement Finality Directive (SFD) by granting payment institutions (PIs) the ability to participate directly in the monetary settlement phase of collection and payment transactions.

The new Instant Payments Regulation and the new Payment Services Directive (PSD3) would therefore allow all EU countries will be able to allow PIs and IMELs established in a member state to be able to settle SEPA transactions through Central Bank accounts, with standards and rules that will be dictated by individual National Central Banks. If so, this would open up a potentially more competitive scenario for the banking system and BFF.

It is also worth noting the approval of the instant payments regulation, which makes it compulsory for all Eurozone PSPs 18 months after publication (expected in the beginning of 2024): the regulation provides additional impetus to payment digitalization and provides a strong impulse especially to the use of SEPA instruments, also as an alternative to payment cards.

The Digital Euro proposal outlines the basic principles relating to the functioning of the ECB's digital currency, which, in its intentions, should complement the use of cash and have the same peculiarities of being free of charge to end users, facilitating both financial inclusion and access to digital payments, as well as being a key element in consolidating monetary sovereignty within the EU.

Every European citizen could have a digital wallet tied to a payment account, to be used for transactions, both offline and online, with a spending limit managed at operational level by their PSP that will provide the wallet service. Online transactions would offer the same level of data protection as existing digital means of payment, while offline payments would guarantee a high level of privacy and data protection for users.

Banks and other PSPs across the EU would distribute the Digital Euro to individuals and businesses, providing basic Digital Euro services free of charge to individuals. PSPs that will deliver the Digital Euro are left with the option of charging a fee for payments to merchants and offering value-added services for a fee to develop innovation.

Merchants throughout the Eurozone would be required to accept the Digital Euro, except for very small merchants who may choose not to accept digital payments. The Digital Euro project was launched in October 2021, and in the fall of 2023 the ECB Governing Council completed the ongoing investigation into the technical characteristics and related deployment arrangements, and launched a preparation phase in order to develop and test the new currency.

Given its role as a collector and intermediary for many banks and PSPs, BFF could play an important role in ensuring interoperability and reachability of the new digital currency, including greater efficiency and effectiveness in any distribution and reporting.

Key events in the Group

This section shows the main events that occurred in 2023.

On January 4, 2023, BFF announced that, pursuant to Article 2-ter of the regulations adopted by Consob Resolution no. 11971 of May 14, 1999 ("Issuers' Regulations"), as of January 1, 2023, the **Small and Medium Enterprise** ("SME") **status ceased to exist** as referred to in Article 1, paragraph 1, letter w-quater 1) of Italian Legislative Decree no. 58 of February 24, 1998 ("Consolidated Law on Finance"), as two years had passed since the date of entry into force of Italian 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.

On February 20, 2023 BFF announced that in the period between February 13, 2023 and February 17, 2023 it repurchased 291,888 ordinary shares, corresponding to 0.1573% of the 185,604,558 shares comprising the share capital, for a total market value – excluding commissions – of €2,794,383.98, as part of the share buyback program, the initiation of which was resolved by the Board of Directors of BFF on February 9, 2023, after obtaining the necessary authorization from the Bank of Italy on February 1, 2023, and in execution of the resolution by the Ordinary Shareholders' Meeting of BFF on March 31, 2022.

On April 11, 2023 the collective lay-off procedure began as a result of the exit of the customers Anima and Arca, with an agreement with labor unions involving 18 redundant workers. These workers were given economic incentives together with outplacement and outskilling services, not to mention access to Solidarity Fund benefits (emergency and extraordinary). Previously, in January 2023, with the aim of at least partially alleviating employment tensions, the Bank also offered employees an economic incentive for consensual termination of their employment, which saw the participation of an additional four people within the organizational scope covered by the restructuring plan, thus achieving a total reduction of 22 people.

On April 13, 2023, the Shareholders' Meeting was held, which approved the 2022 financial statements and the proposed 2022 dividend distribution of €0.419 per share, bringing the total dividend for 2022 to €0.7898 per share.

The Shareholders' Meeting also approved the **Remuneration Policy Report**, the **Policies for Determining Compensation in the Event of Early Termination of Office**, and the **Report on Compensation Paid**, casting an advisory vote on the latter.

Finally, the Shareholders' Meeting approved the **Buyback plan**, deciding to authorize the Board of Directors to proceed with the purchase of BFF ordinary shares on one or more occasions and for a period of 18 months from the date of approval in pursuit of the purposes set out in the aforementioned Report; the maximum number of BFF ordinary shares to be repurchase being 8,463,819, representing 5% of the Bank's capital (taking into account the treasury shares already in stock).

On April 26, 2023, BFF **paid the balance of the 2022 dividend**, which was approved by the Shareholders' Meeting on April 13.

On June 27, 2023 the Board of Directors approved the **Group's five-year strategic plan up to 2028: "*Ever more a bank like no other*", and financial targets to 2026**. For the details, please refer to the Focus section below.

In implementation of the BFF Banking Group's dividend policy, which calls for the distribution on a half-yearly basis of a dividend equal to the amount of the normalized consolidated profit generated during the year in excess of a common equity tier 1 ratio (CET 1 ratio) of 12.0%, on September 7, 2023 the BFF Shareholders' Meeting approved the distribution of part of the Retained Earnings recognized in the financial statements as at December 31, 2022, for €0.147 per share. This amount, added to the interim dividend of €0.291 per share approved by the Board of Directors on August 3, 2023, resulted in the distribution of a dividend on September 13, 2023 of €0.438 per share, equivalent to a total of €81.9 million (normalized consolidated profit for the first half of 2023).

On 11 September 2023, the Bank of Italy started an inspection on the Bank. The inspection was completed on 12 January 2024 and the Bank is waiting to receive the inspection report.

On September 29, 2023, BFF published its first *Social Bond Framework*, which defines the Bank's commitment to sustainable finance, with a specific focus on social topics, further reinforcing the link between sustainability and its financial strategies. BFF was the first operator in its sector to publish a *Social Bond Framework*, which was certified by an independent body.

On October 3, 2023, BFF announced the update of its medium and long-term bond program ("EMTN Program") and the simultaneous increase of the limit to €2,500,000,000. The EMTN Program update represents a further step forward in the continuous diversification of sources of funds by BFF and access to a broader and deeper investor base through an active, long-term commitment in the capital markets.

On October 4, 2023, BFF announced that it held a stake of 7.7% in Generalfinance S.p.A., a financial intermediary active in offering factoring services typically to businesses in difficulty and under financial stress, with great growth potential and operating in a strongly expanding market.

During the BFF Board of "Directors" meeting of October 26, 2023, the Chairman, Attorney Salvatore Messina, notified the Board that he would not be running on the list being prepared for the next three-year period, as he had been in office for nine years, meaning he no longer met the formal independence requirement established by corporate governance best practices. Having decided to no longer seek office, Chairman Messina will support the Bank in its work to commemorate its 40-year anniversary, in 2025, in line with the path of celebrating and spreading its culture and history, which he promoted throughout his term of office.

Focus on approval of the Group's five-year strategic plan up to 2028 and financial targets up to 2026.

The BFF Board of Directors approved BFF's five-year strategic plan up to 2028: *"Ever more a bank like no other"* ("Plan"), and three-year financial targets ("2026 Targets").

The strategic objectives for 2028 include:

- Develop the core business, in which BFF is a market leader:
  - *Factoring and Lending:* become the largest buyer of public receivables in Europe in a growing and underpenetrated market, through:
    - strong customer portfolio growth in existing markets and new regions, including through the opening of a subsidiary in France;
    - consolidation of our operational competitive advantage, including through the new Factoring IT system and increased efficiency of the legal process related to collections;
  - *Transaction Services:* further strengthen the role of "Second-Tier Bank" while generating a steady revenue stream and ample operating deposits to the Group:[4]
    - *Payments*: leading independent payments intermediary in Italy for banks and Payment Service Providers (PSPs[5]), capitalizing on the shift to electronic payments;
    - *Securities Services*: the only Italian bank that provides the full range of customized custodial banking and securities services to domestic banks and asset managers in a growing market.
- Invest further in operational infrastructure to support growth opportunities, managing operational risks, and to benefit from further efficiencies.
- Continue to provide our team with opportunities for growth and development while maintaining strong incentive alignment with stakeholders.
- Further optimize funding and capital.
- Deliver market-leading returns to shareholders in terms of capital and dividends, with capital exceeding the CET1 target of 12% related to shareholder pay-out.
- Maintain the Group's low risk profile by efficiently managing past due and calendar provisioning.
- Further increase our positive impact socially, environmentally and for all stakeholders, along with zero net goals and doubling investment in social impact initiatives.

4) Second-tier bank, that is, a bank that offers services to other banks.
5) PSP: a third-party company that enables companies to accept electronic payments, such as credit and debit card payments.

Sustainable growth targets up to 2026 include:

- A further improvement in the Cost/Revenue ratio, <40%,
- Solid capital ratios: CET1 Ratio of 12%,
- RoTE coefficient at 50% higher levels,
- High returns for shareholders:
  - Growth in Adjusted Net Income[6] by about 78% over 2022, to €255-265 million. EPS 2026: €1.37-1.43 (€1.34-1.39 fully diluted[7]),
  - Over €720 million, or about 40% of current market capitalization, to be distributed in dividends up to 2026,
- Net zero carbon emissions[8],
- Doubling investment in social impact initiatives;
- More than 80% of employees in LEED-certified buildings[9] by 2026.

The main directions identified by the Group to carry out the strategic plan and achieve the financial targets set are described below.

Significant growth potential is foreseen in the Factoring and Lending business area as a result of historical growth in government spending and investment and an increase in the customer base, the latter supported by BFF's established competitive advantage. Additional benefits may come from international expansion into new geographical areas.

The Payments area is expected to provide a steady stream of revenue and is an important source of liquidity, with potential for volume growth driven by the progressive alignment of digital payments in Italy with the European average. Growth is also supported by the NRRP "National Recovery and Resilience Plan," new regulations, and new technologies, which however are offset by reduced fees.

In the Securities Services sector, BFF offers customized services for Italian banks and asset managers, and holds a leading position in the area of Pension Funds. In certain market niches (Pension Funds, AIFs, but also small asset management companies), where local presence is a competitive advantage, BFF's opportunity for growth will also be supported by the forthcoming enactment of new laws – which will introduce a requirement for Pension Funds to appoint a custodian bank, opening up a market of about €110 billion in *Assets under Management* – and by increased penetration of AIFs, as well as the full deployment of value-added services. The *Securities Services* area is a very important source of stable and operational deposits for BFF, and provides a steady revenue stream with a mostly fixed cost base.

6) Accounting profit minus extraordinary costs and minus costs of stock options recognized in the income statement.
7) Based on the maximum dilution relative to all outstanding stock-option plans.
8) Considering scope 1 and 2 emissions.
9) LEED, or Leadership in Energy and Environmental Design, is a rating system developed by the US Green Building Council to assess a building's environmental performance.

BFF will continue to invest in its operational infrastructure to support growth opportunities, manage operational risks, and optimize its structure.

Strategic will be the new IT system for Factoring, the opening of a branch in France, the expansion of the online deposit platform into other markets, the introduction of AIRB (internal model for calculating credit risk), and an additional initiative aimed at the efficiency of legal fees incurred during debt collection.

In terms of financial management, BFF's statement of financial position is expected to remain stable from the end of FY2022. BFF intends to maintain a diversified funding base and continue to access as many funding channels as possible.

It is expected that Payments and Securities Services operational deposits will continue to be the main source of funding, and BFF will continue to access online deposits, with opportunities for growth in new countries. The Cost of Risk is also expected to remain low due to a loan portfolio almost entirely exposed to the public sector.

The Group has a strong capital position. Given the high RoTE (39% at year-end 22), the additional capital needed for the growth of the loan portfolio will be fully financed from retained earnings, maintaining an attractive absolute dividend.

Regarding BFF's dividend policy, this will continue to be aimed at self-financing the Group's growth and distributing all profits generated in the year in excess of a target capital ratio to shareholders. The distribution of dividends is confirmed twice a year, in August and April, based on the adjusted profit for the first half of the year and the entire year.

The BFF Board of Directors also resolved to:

- avail itself of the option to submit its own BoD slate, and consequently to initiate the related process according to the Regulatory Timeline, and
- approve the new "BFF Banking Group Dividend Policy" (the "*Dividend Policy*") by setting the CET1 ratio as the target capital ratio at 12% (in addition to the TCR > 15%, as long as required by the European Central Bank) compared to the previous Total Capital Ratio ("TCR") at 15%, to bring it in line with the capital target most widely used by other banks. The distribution of dividends remains unchanged, provided that all other regulatory capital requirements are met. The distribution of dividends is confirmed twice a year based on the adjusted profit for the first half of the year and the entire year.

Finally, BFF will continue to pursue its sustainability commitments with an ongoing focus on achieving positive social, environmental and stakeholder impact, as previously reported within the sustainability initiatives section of this document.

3. Operating performance

KEY HIGHLIGHTS

BFF BANKING GROUP

- In 2023, normalized profit came to €183.2 million and there was a positive spread between capital gains generated by collections of late payment interest accounted for during the year and rescheduling, totaling €29.3 million (+€15.2 million compared to 2022).
- Loans and receivables with customers reached a record level of €5.6 billion.
- Loan/Deposit ratio of 62%, solid balance sheet with sources of funds deriving primarily from retail deposits (2x last year) and operating deposits.
- Amounts not transferred to the Income Statement of provisions relating to late payment interest and the lump-sum indemnity for debt collection ("40 euros"), amounting to €606 million, +76 million compared to 2022.
- Positive impact on future profitability deriving from higher rates applied to calculate late payment interest from 12% to 12.5% as of January 1, 2024.

CAPITAL and DIVIDENDS

- CET1 ratio at 14.2% with €68 million of capital in excess of the 12% CET1 target.
- Distribution of a dividend of €183.2 million (€0.979 per share) with an initial tranche of €0.438 per share paid in September 2023 and a final tranche of €0.541 per share to be paid in April 2024.
- Cumulative dividend paid since the listing equal to €800 million, equal to the market capitalization at the listing date.

OTHER SIGNIFICANT INFORMATION

- The new board of directors will be appointed by the shareholders' meeting of April 18, 2024.
- BFF Bank won the first tender within the Pension Funds segment with Cassa Forense, with roughly €13 billion in assets under management.
- The process of revising the Directive on Late Payments is ongoing, and is expected to have favorable results for BFF.

MAIN ITEMS IN THE INCOME STATEMENT

(€ million)

Normalized Income Statement	2023	2022	%
Factoring & Lending Revenue	**437.3**	**263.7**	**66%**
Payments Revenue	**63.1**	**56.7**	**11%**
Security Services Revenue	**23.6**	**43.7**	**-46%**
Other revenue	268.0	97.8	174%
of which HTC Securities Portfolio	180.5	42.8	322%
Total Revenue	**791.9**	**461.9**	**71%**
Cost of money[10]	(354.9)	(82.8)	329%
Total Net Revenue	**437.0**	**379.1**	**15%**
Incl. depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	(178.4)	(167.6)	6%
Cost/Income ratio (%)	41%	44%	-3 bps
Net adjustments for credit risk	(8.9)	(6.2)	44%
Normalized pretax profit	249.8	205.4	22%
Normalized profit for the year	**183.2**	**146.0**	**25%**
Reported profit for the year[11]	**171.7**	**232.0**	**-26%**

10) Including the profit on trading in derivatives used to hedge exposures to interest rates and currencies.

11) The reported profit for the year includes some non-recurring items.In 2023 these items refer to: the non-recurring costs incurred in the period relating to restructuring and M&A costs amounting to €3.0 million, the settlement agreement with the Chief Executive Officer for €1.7 million, the cost of stock options for €2.4 million, the amortization of customer contracts amounting to €1.9 million and other costs of €2.5 million. In 2022, these items referred to non-recurring revenue of €100.1 million, primarily relating to the change in asset valuations, including those relating to late payment interest and the lump-sum indemnity for debt collection(“40 euros”), partially offset by non-recurring costs of €15.7 million relating mainly to the cost of stock options for €3.3 million, the amortization of customer contracts for €3.1 million, restructuring and M&A costs of €3.9 million and the taxation arising from the distribution of dividends from subsidiaries and the write-off of a tax credit (DTA) in Poland amounting to €4.9 million.

The consolidated financial statements at December 31, 2023 show the asset, liabilities, income and expense equity and economic elements of BFF Banking Group.

During 2023, in line with what was confirmed in the new Business Plan, the Group focused on consolidating and developing its core businesses by implementing initiatives to win more and more new customers and market shares, offer new products and services, expand its presence outside the domestic market, push its role as a "second-tier bank," and reprice its products to take into account changing macroeconomic conditions.

On the funding front, efforts were focused on using the funding made available by the Securities Services and Payments BUs and, with a view to diversifying funding sources and optimizing costs, by the online deposit accounts offered in all the regions the Group operates in with this product to finance its investments.

In 2023, (i) total revenue increased by 71% compared to 2022, despite the faster repricing of liabilities thanks to the performance of the Factoring & Lending division (1.7x compared to 2022) and the government bond portfolio held under the HTC Business Model (4x compared to 2022), (ii) net revenue increased by 15% compared to 2022, (iii) the cost of funding was higher due to the increase in interest rates, (iv) the strong focus on cost control continued, with a lower cost/income ratio (41%) than in 2022 (44%) and (v) the normalized profit came to €183.2 million (+25% compared to 2022).

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.

Group profit

Reported 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 €171.7 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 for the year

Eliminating the non-recurring items that impacted the results for 2023 the Group's normalized profit stands at €183.2 million (up 25% year-on-year).

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

- higher net interest income essentially due to the higher net return on loans, thanks to the repricing policies put in place for Factoring & Lending loans, the increase in the rate applied to calculate late payment interest, the good performance of interest collection with concurrent benefit on the capital gains front, the repricing of floating-rate HTC government bonds, and the gradually decreasing weight of fixed-rate HTC government bonds;
- commissions of the Securities Services and Payments BUs, the former decreasing and the latter increasing compared to 2022 despite commercial performance and mainly due to the loss of the customer Arca during 2022;
- €22.0 million in capital gains from the sale of €835 million in government bonds, primarily floating-rate and nearing maturity;
- improved operating efficiency compared to 2022, with a declining cost/income ratio (from 44% in 2022 to 41% in 2023), despite the higher costs incurred to support business growth and implement initiatives to improve the Group's processes and IT architecture, freeing up additional efficiency and reducing operational risks in the future.

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

Adjustments – €m	2023	2022	YoY %
BFF Group - Reported profit	**171.7**	**232.0**	**-26%**
Exchange differences covered by Translation Reserve in Equity	-	(1.7)	
Stock Options & Stock Grants	2.4	3.3	
Transaction and restructuring & M&A costs	3.0	3.9	
Extraordinary Resolution Fund and FITD	1.2	0.5	
Non-recurring taxes	1.3	4.9	
Settlement agreement with the CEO	1.7	-	
Amortization of DEPObank's "customer contracts"	1.9	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 - Normalized profit	**183.2**	**146.0**	**25%**

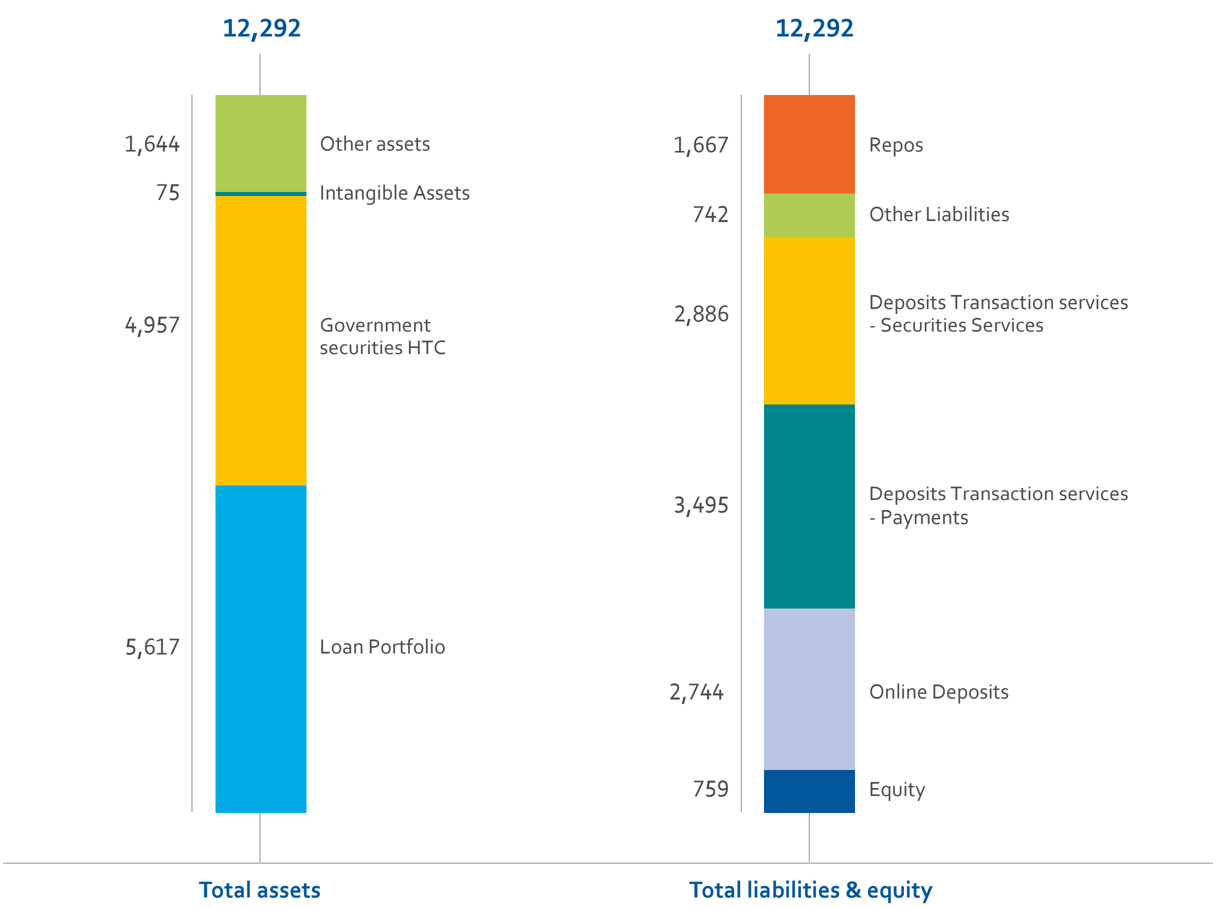
On the following pages, in order to provide a precise presentation of the performance of the various BUs, the comments will refer to normalized income statement data, eliminating the non-recurring elements that influenced the results influenced the results for 2023 and 2022 at December 31, 2023 and December 31, 2022.

Group Statement of Financial Position

On the statement of financial position front, during 2023 the Group continued to focus on optimizing the costs related to the various forms of funding while maintaining high diversification, and on improving the returns of the various forms of lending. The latter activity was carried out through a policy aimed at reducing the portfolio of government securities, especially fixed-rate securities, and through a policy of repricing its services to customers in order to factor in the changed macroeconomic scenario, especially on the applied interest rate front. What has been implemented has resulted in maintaining the size of the statement of financial position at constant levels compared to recent years by favoring growth in the forms of lending proper to Factoring & Lending and reducing the portion of lending in government securities.

The Group continued to effectively manage excess liquidity, with improved effects on both the Group's leverage and profitability.

(€m)



Lending

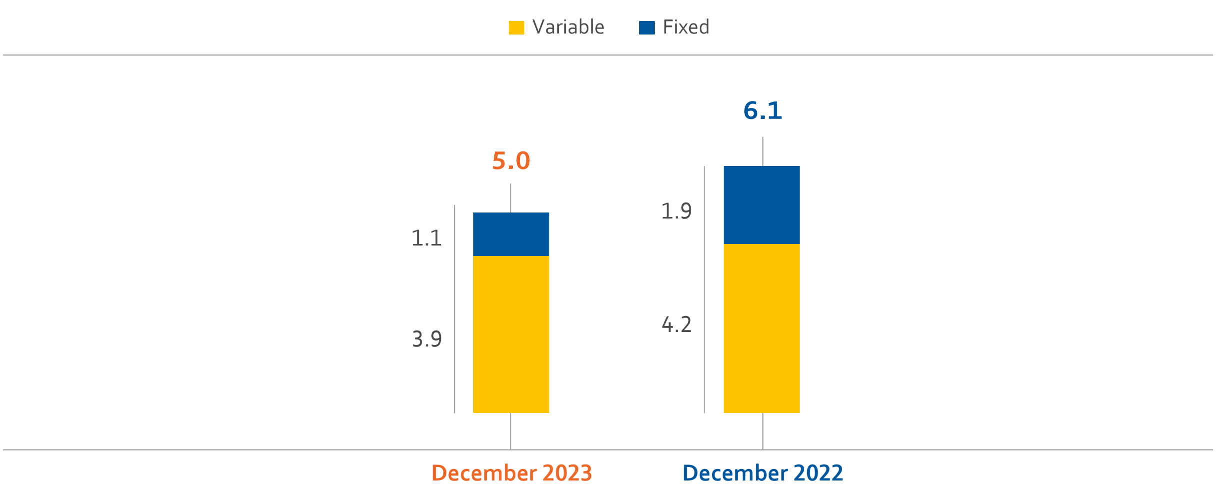
The Factoring & Lending Loan Portfolio was €5.6 billion, up by 3% compared to 2022: the international markets now account for roughly 39% of total loans and receivables with customers. The level of loans and receivables with customers reached an all-time high, also thanks to a favorable context and commercial performance, and all countries showed an increase compared to the prior year, with the exception of Spain and Portugal, where injections of liquidity were made by central governments equal to 28% and 6%, respectively, of total public expenditure.

Loan Portfolio (€m)	12.31.2023(*)	12.31.2022(*)
Italy	3,448	3,383
Spain	599	629
Poland	919	806
Slovakia	245	240
Portugal	223	239
Greece	166	131
Other countries (Croatia, France and the Czech Republic)	16	15
Total	**5,617**	**5,442**

(*) *Including "Ecobonus" tax assets for €354.2 million according to the HTC Business Model and €59.9 million according to the Trading Business Model (€221 million as of December 31, 2022), 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 €528 million (€466 million as of December 31, 2022).*

The government bond portfolio reached €5.0 billion, 1.2 billion lower than December 31, 2022, in line with the policy of gradually reducing the weight that this form of lending has on the Group's statement of financial position.

HTC SECURITIES PORTFOLIO (billion euros)



Funding

On the liabilities side, the rationalization of funding sources continued through the growth of online deposits, and the redemption at maturity, May 23, 2023, of the senior unsecured preferred bond issue for the remaining amount of €38.6 million (issued for original €300 million in October 2019).

The *T*ransaction Services department, with its Securities Services and Payments BUs, raised approximately €6.4 billion compared to €6.0 billion in 2022, with a decrease in the share of Securities Services of €0.3 billion (from €3.2 billion as of December 31, 2022 to €2.9 billion as of December 31, 2023), primarily due to a change in fund investment policies, and with an increase in the amount generated by Payments of around €0.8 billion (from €2.8 billion as of December 31, 2022 to €3.5 billion as of December 31, 2023) 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, 2023 total nominal takings of *Conto Facto*, *Cuenta Facto* and *Lokata Facto* amounted to a total of €2.7 billion, up by approximately €1.5 billion from December 31, 2022.

In light of the above, the nominal value of outstanding bond issues as of December 31, 2023 totaled €150 million (related to the AT1 issue) compared to €188.6 million as of December 31, 2022.

Repos experienced a significant reduction compared to December 31, 2022, from €4.4 billion to €1.7 billion.

Finally, note that BFF continues to have no financing with the European Central Bank (ECB), neither ordinary (OMA) nor extraordinary (PELTRO, TLTRO etc).

Equity, Own Funds and Equity Ratios

BFF Banking Group continues to maintain its capital strength, also thanks to capital ratios and equity that do not include the normalized consolidated profit for the year.

The BFF Banking Group's dividend policy stipulates that the amount of normalized consolidated profit generated during the fiscal year in excess of a 12.0% CET 1 ratio level (subject to compliance with all other current and prospective regulatory indicators) will be distributed on a semi-annual basis, with one payment based on normalized profit for the first half of the year, and one payment based on normalized profit at year-end.

In this regard, please recall that following the approval of the results of the 2023 Interim Report, in accordance with the Group's dividend policy, in September 2023 the Bank distributed €0.438 per share (for a maximum amount of €81.9 million, the normalized profit result at June 30, 2023).

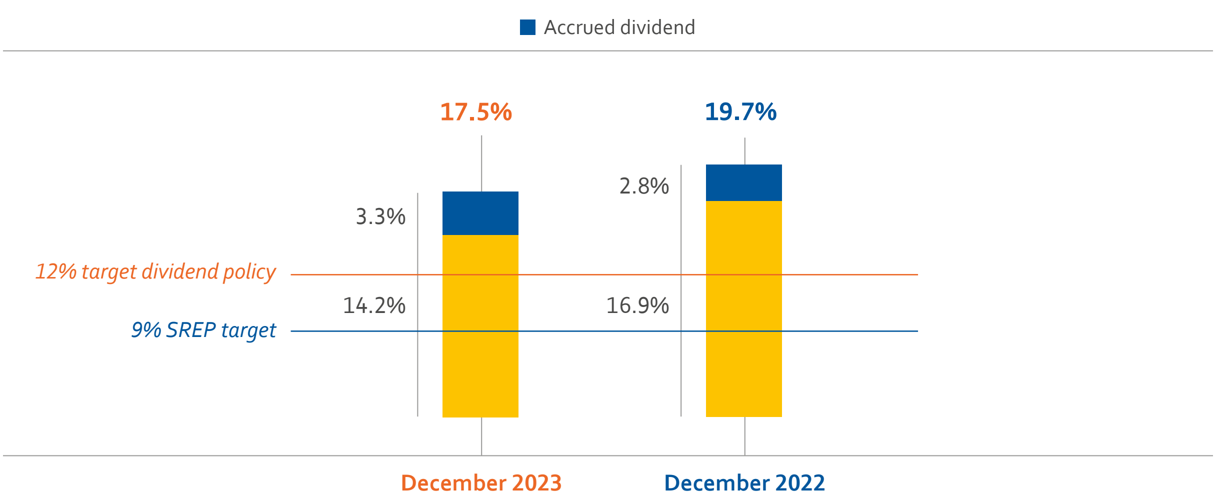
Equity as of December 31, 2023 amounted to €759 million, while BFF Banking Group's Own funds as of the same date amounted to €587 million, including 150 million of an Additional Tier 1 unsecured and rated subordinated bonds placed on January 19, 2022 and €65.1 million in profit for the year recognized under equity; the overall exposure to risks with respect to the business conducted is largely adequate to the capital endowment and risk profile identified.

Indeed, the CET1, Tier 1 and Total capital ratios are 14.2%, 19.1% and 19.1%, respectively, with €68 million in capital in excess of the target CET1 ratio of 12.0%. Furthermore, the Leverage ratio rose from 4.6% at December 31, 2022 to 4.8% at December 31, 2023.

Finally, recall that on September 18, 2023 the Bank of Italy, as Resolution Authority, adopted the 2022 resolution plan for BFF Banking Group, confirming resolution as a crisis management strategy for the BFF Bank Group and defining the MREL requirements applicable as of January 1, 2025.

COMMON EQUITY TIER 1 RATIO

RWAs	**3,077**	**2,740**
RWA density	**43%**	**42%**



Organizational structure

Changes in the workforce

At December 31, 2023 the total number of BFF Banking Group employees amounted to 830 persons. In the course of 2023, 95 people were hired, 42 in Italy, 15 in Spain, 5 in Portugal, 31 in Poland, 1 in Slovakia and 1 in Greece.

Below is the breakdown by country:

12/31/2023	Italy	Spain	Poland	Slovakia	Czech Republic	Greece	Portugal	Total
HEADCOUNT 12/31/2023	543	64	185	13	2	10	13	830

12/31/2022	Italy	Spain	Poland	Slovakia	Czech Republic	Greece	Portugal	Total
HEADCOUNT 12/31/2022	570	53	183	15	2	9	10	842

The breakdown of the workforce by gender as at December 31, 2023 basically remained unchanged from December 31, 2022, with 54% women and 46% men.

Below are the details broken down by country:

12/31/2023	Women	%	Men	%	Total
Italy	274	50%	269	50%	543
Spain	30	47%	34	53%	64
Poland	130	70%	55	30%	185
Slovakia	7	54%	6	46%	13
Czech Republic	1	50%	1	50%	2
Greece	4	40%	6	60%	10
Portugal	3	23%	10	77%	13
Total	**449**	**54%**	**381**	**46%**	**830**

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 Republic	1	50%	1	50%	2
Greece	4	44%	5	56%	9
Portugal	3	30%	7	70%	10
Total	**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.

The Group currently performs these activities in nine countries (Italy, Croatia, France, Greece, Poland, Portugal, the Czech Republic, Slovakia and Spain).

Despite the injections of liquidity made by certain 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 December 31, 2022 the main indicators of the Factoring & Lending BU showed positive trends.

The loan portfolio was up 3% compared to December 31, 2022 (€5.6 billion v €5.4 billion), reaching a new all-time high, while volumes of loans and receivables acquired and disbursed were up significantly compared to last year (€8,114 million vs €7,364 million) in nearly all countries (except Spain and Poland), thanks to the strong commercial drive enacted within a favorable macroeconomic context.

DSO recorded by BFF on factoring activities and credit management on behalf of third parties showed an extension of collection times in Italy, Spain, Greece and Slovakia and a decline in Portugal (following higher remittances, especially towards year-end, by the central government) 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):

	12.31.2023	12.31.2022
Italy	159	132
Spain	191	132
Portugal	127	175
Greece	254	248
Croatia	40	52
France	76	79
Slovakia	934	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 transferred and not transferred to the Income Statement continued to grow compared to 2022 (reaching respectively €869 and €264 million, €395 million and €132 million, €474 million and €132 million).

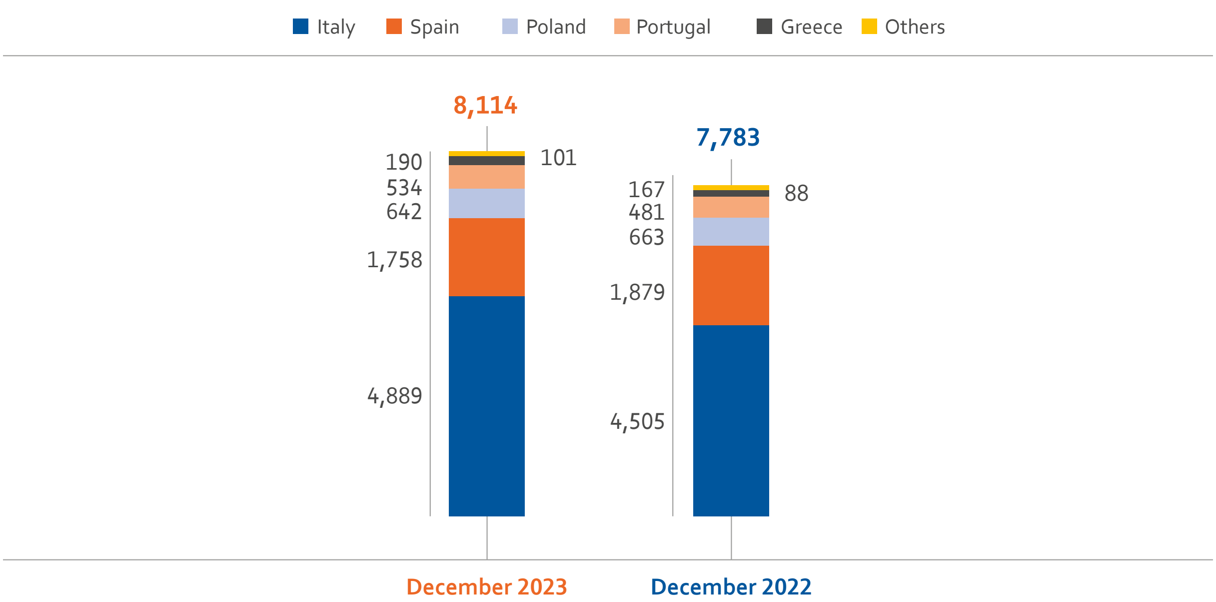
The gross yield on loans and receivables with customers increased compared to 2022, reaching 7.6%, thanks to the growth in rates, which impacted the rate to be applied on the calculation of late payment interest, and more generally the repricing carried out with customers.

The cost of credit remains at negligible levels thanks to the high standing of the customers served and the rigorous origination process and monitoring of credit, despite the larger portfolio of loans to customers and some specific write-downs in Poland.

(Values in € million)

	12.31.2023	12.31.2022
Acquired turnover/Loans disbursed during the year	8,114	7,783
Provision for late payment interest	869	756
Lump-sum indemnity provision	264	240
Provision for late payment interest not transferred to the income statement	474	410
Lump-sum indemnity provision not transferred to the income statement	132	120
Gross yield on loans and receivables with customers % (net of "40 euros")	7.6%	5.6%

VOLUMES



Normalized interest income amounted to €397.8 million compared to €247.4 million in 2022, and was positively affected by the growth in rates, which impacted the rate to be applied on the calculation of late payment interest, and more generally by the repricing implemented with customers as well as by the increase in the loan portfolio.

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 50% 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, also recorded a positive trend when compared to the previous year (+15.2 compared to last year), also thanks to significant settlements entered into with some debtors.

Normalized other operating expense and income included in Other revenue, include the economic impacts deriving from the lump-sum indemnity for debt collection ("40 euros") which in the course of 2023 led to a positive impact of €23.3 million (€14.8 million in 2022).

The Total normalized Net Revenue therefore amounted to €437.3 million, up €173.6 million compared to last year, thanks mainly to the phenomena described previously.

€M (normalized values)

	2023	2022
Interest income	397.8	247.4
of which "rescheduling/capital gains" spread	*29.3*	*14.0*
Other Revenue (including other operating expense and income)	39.5	16.4
Total net revenue	**437.3**	**263.7**

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 the year the BU witnessed good commercial performance 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, etc.); ii) an expansion of the customer base (through the offer of added-value custodian bank services to Pension Funds and Healthcare Funds, 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 also from regulatory interventions (such as T2-T2S Consolidation, ECMs, CSDR, SHRD II, SFTR Reports, operational management of MTS-Repos), 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 revenue. In the area of opportunities generated by regulations, the BU concentrated on overseeing and monitoring the new regulations on pension funds, both through institutions and trade associations. BFF Bank was appointed as custodian bank of Cassa Forense, with €13 billion in assets managed, which is expected to be onboarded in the second quarter of 2024.

The main indicators of the Securities Services BU showed generally positive trends compared to the end of 2022 due to the effects linked to good financial market performance and commercial initiatives. The decreased performance of AuCs is linked to the exit of a customer in the final quarter of the year with a limited impact on revenue.

The Custodian's Assets under Deposit (AuD) amounted to €58.8 billion, up 19% from 2022, while Global Custody's Assets under Custody amounted to €111.3 billion, a decrease of 27% from 2022, due to the exit of a lower-profitability customer.

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) as early as the second half of 2022.

	12.31.2023	12.31.2022
Custodian Bank (AuD, €M)	58,842	49,524
Global Custody (AuC, €M)	111,343	153,065
Deposits - Final Balance (€M)	2,886	3,167

The level of normalized Net Commissions was lower than the previous year but 3% higher excluding the portion of 2022 attributable to Arca.

€M (normalized values)

	2023	2022
Net fee and commission income	23.0	42.4
Other Revenue (including other operating expense and income)	0.6	1.2
Total net revenue	**23.6**	**43.6**

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, medium-large companies and boasts a partnership with Nexi. This business is focused on the Italian 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 progressive digitalization of payment instruments.

In the course of 2023, the BU had good commercial performance, with positive effects on the area of payment processing, corporate payments and the settlement sector; furthermore, several commercial initiatives were concluded successfully, deriving from the closure of Nexi's ACH, which enabled the BU to strengthen and expand its role as a service bank, obtaining new customers and increasing, on a forward-looking basis for the coming years, the volumes managed.

Initiatives were also launched specifically for the area of checks and bills of exchange (an area in structural decline for the market as a whole) for which the steady drop in volumes is raising the interest of some customers in BFF Bank's services.

As seen in 2022, 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, combined with the acquisition of new customers due to the closure of Nexi's ACH, have meant that BFF continues to see growing demand for payment intermediation services, a trend that strengthened significantly for BFF in 2023. The ongoing revision of the Payment Services Directive (PSD) and the requirement for PSPs to send and receive instant payments may lead to further market expansion, developing more competition but also new opportunities. Note that the ability to open Central Banks' money accounts to non-bank operators may reduce the current trend.

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

The number of transactions grew by 14% to 767 million thanks mainly to the card brokering and settlement business, partially offset by the structural decline of other services such as checks and bills of exchange.

The balance of deposits amounting to €3,495 million was up compared to €2,748 million in 2022 thanks to the commercial efforts made with existing customers in order to boost liquidity and the larger balances in operating accounts.

	12.31.2023	12.31.2022
Transactions (no. transactions € m)	767	675
Deposits - Final Balance (€M)	3,495	2,748

The level of Net fee and commission income was higher than in 2022 and amounted to €63.1 million, primarily as a result of increased operations and despite a pricing structure with steady fees.

€M (normalized values)

	2023	2022
Net fee and commission income	51.7	45.4
Other Revenue (including other operating expense and income)	11.4	11.3
Total net revenue	**63.1**	**56.7**

Operating costs

On the Administrative Expense front, the Group continued to maintain a strong focus on cost control and, where possible, to improve its operational efficiency, evidenced by a cost/income ratio that was down (41%) compared to 2022 (44%) despite the investments made and aimed at improving processes, improving the Group's technological infrastructure and supporting the Group's growth in its core business.

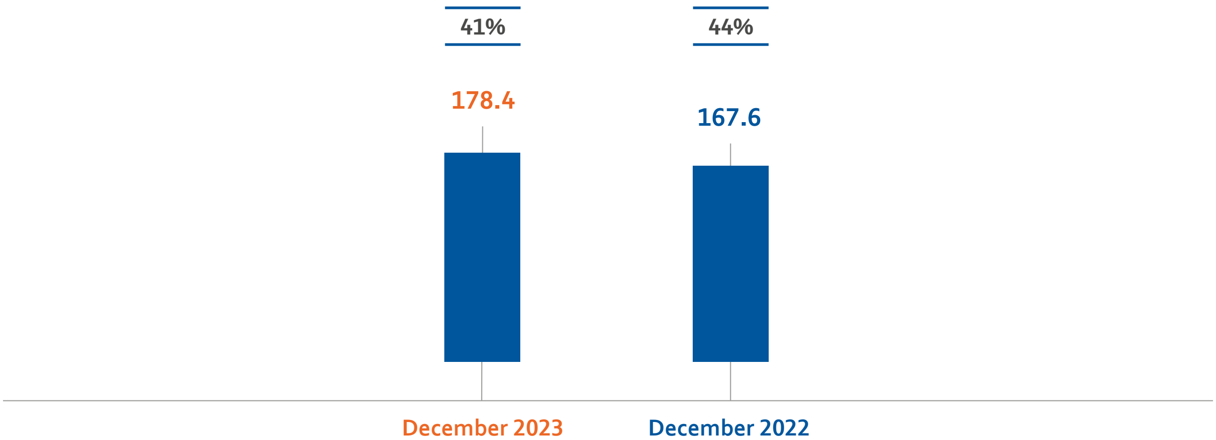
The costs of the Factoring & Lending BU rose by 6% compared to last year, justified for the most part by the increase in legal expense incurred for debt collection. Payments BU costs were up by 3% over last year due to increased volumes. Regarding the costs of the Securities Services BU, on the other hand, the reduction of 16% since last year is attributable to decreased operations and a reduction in personnel costs as a result of the lay-offs enacted following the exit of the customers Anima and Arca.

Other Costs increased by 16% compared to the previous year, mainly due to the increase in contributions that the Bank makes each year to the Resolution Fund and the Deposit Guarantee Fund (€6.3 million in 2023 and €3.6 million in 2022), costs of the AIRB project and ICT costs and the renewal of the banking sector national labor agreement.

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.

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.

COST / INCOME RATIO



	December 2023	December 2022
Factoring & Lending	(46.6)	(43.8)
Payments	(33.1)	(32.1)
Securities Services	(20.9)	(24.8)
Other	(77.8)	(67.0)

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	12.31.2023	12.31.2022	Changes
a) Cash	205	207	(2)
b) Current accounts and sight deposits at Central Banks	157,536	489,810	(332,273)
c) Current accounts and sight deposits at banks	99,467	144,863	(45,395)
Total	**257,208**	**634,879**	**(377,671)**

As of December 31, 2023, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €157 million, as well as current accounts held by the parent and its subsidiaries at third-party banks, amounting to €99.5 million. Specifically, "Current accounts and sight deposits at banks" mainly refer for €81.3 million to BFF Bank, for €17.3 million to BFF Polska Group, for €380 thousand to BFF Finance Iberia and €52 thousand to *BFF Techlab*.

Financial assets measured at fair value through profit or loss

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
a) Financial assets held for trading	1,167	211	957
c) Other financial assets subject to mandatory fair value measurement	164,856	90,330	74,526
Total	**166,023**	**90,541**	**75,483**

This item, which at December 31, 2023 amounted to €166.0 million, includes the "Financial assets held for trading" of €1,168 thousand, which mainly includes the positive fair value of derivative instruments classified as trading assets but used for operational hedges of the exchange rate risk that the Bank is exposed to, and the "Other financial assets subject to mandatory fair value measurement" of €164,856 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 the end of 2022, by a fund of which the Bank subscribed additional units in 2023 for €75 million with a commitment to subscribe another €15 million worth of units. The value of UCI units recognized in the financial statements as of December 31, 2023 has been updated to the latest available NAV made available by these funds.

Financial assets measured at fair value through other comprehensive income

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
Government securities - (HTC&S)	-	-	-
Equity securities	137,520	128,098	9,422
of which:			
a) Banks	125,534	125,432	103
b) Other issuers:	11,985	2,666	9,320
Total	**137,520**	**128,098**	**9,422**

This item, which as of December 31, 2023 amounted to €137.5 million, consists essentially of the stake in the Bank of Italy of €125 million, as well as other shares and equity investments amounting to about €12.0 million. The item increased compared to December 31, 2022 mostly due to (i) the purchase of an equity stake in the General Finance financial company for about €7.3 million and (ii) its adjustment to fair value for €2.1 million.

Financial assets measured at amortized cost

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
Government securities - (HTC)	4,957,182	6,129,228	(1,172,046)
Loans and receivables with banks	593,561	478,203	115,358
Loans and receivables with customers	5,255,083	5,288,419	(33,336)
Total	**10,805,826**	**11,895,850**	**(1,090,025)**

The amount relating to the item Government Securities – (HTC) consists entirely of Italian government securities classified in the Held to Collect (HTC) portfolio to hedge liquidity risk, for a total value of about €5.0 billion, down from the figure recorded as of December 31, 2022 (-€1.1 billion) following (i) the sale of some securities, in compliance with the provisions of the HTC Business Model, which produced a result in the Income Statement of €22.0 million and (ii) coupon repayments and collections for €1.152 million.

"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 subsidiary 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 subsidiary 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 €414.1 million, of which €354.2 million according to the HTC Business Model and €59.9 million under the Trading Business Model.

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
Factoring activities (outright purchases, late payment interest and recovery expense)	3,868,719	3,790,601	78,118
Trade receivables purchased below nominal amount	25,768	28,971	(3,203)
Other exposures	1,360,596	1,468,847	(108,251)
Total	**5,255,083**	**5,288,419**	**(33,336)**

Credit quality

With regard to credit quality, total net impaired exposures increased by €333.4 million at December 31, 2023 compared to €283.8 million at December 31, 2022. The increase was caused primarily by impaired past due exposures (+€35 million compared to the previous year).

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 €361.3 million at December 31, 2023 with impairment losses totaling €27.9 million, are divided into the following categories.

Please recall that impaired assets are classified in keeping with the prudential definition of default (i.e. past due, unlikely to pay and non-performing exposures sono bad loans), which assumes that there is an effective 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. The actual credit risk profile assumed by the BFF Group is limited, as it has been assumed with respect to public bodies, and the classification described above could result in significant distortions in the representation of the group’s accounting, prudential and capital strength information. This is also corroborated by the very limited credit losses recorded.

Non-performing loans

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

At December 31, 2023, the total non-performing loans of the Banking Group, net of impairment, amounted to €99.8 million. Among these non-performing exposures, €92.6 million (92.8% of the total) concerned regional authorities in financial distress.

Gross non-performing loans amounted to €120.9 million (€104.7 million in 2022) and related adjustments amounted to €21.1 million (€18.3 million in 2022).

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, 2023, gross exposures classified as unlikely to pay totaled €19.1 million (€16.4 million in 2022) and related adjustments amounted to €5.4 million (€4.2 million in 2022), a net amount of €13.7 million (€12.1 million in 2022).

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).

At December 31, 2023, total net past due exposures amounted to €219.9 million for the entire Banking Group.

The Banking Group's gross exposures totaled €221.2 million and relevant adjustments amounted to around €1.3 million. 93.9% of these exposures relate to public counterparties.

However, the increase in the level of impaired past due exposures compared to December 31, 2022 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	12.31.2023			12.31.2022		
	Gross amount	Impairment losses/ gains	Net value	Gross value	Impairment losses/ gains	Net value
Purchased performing non-performing exposures (Stage 3)	355,498	(27,668)	327,831	301,329	(23,240)	278,090
Purchased non-performing impaired exposures (stage 3)	5,785	(201)	5,584	5,678	(6)	5,672
Performing exposures (Stage 1 and 2)	4,923,350	(1,682)	4,921,668	5,005,907	(1,249)	5,004,658
Total	**5,284,634**	**(29,551)**	**5,255,083**	**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	12.31.2023	12.31.2022	Changes
Property, equipment and investment property	60,690	54,349	6,341
Intangible assets	74,742	70,155	4,588
- of which goodwill	*30,957*	*30,957*	-
Total	**135,432**	**124,504**	**10,928**

At December 31, 2023, the item "Property, equipment and investment property" amounted to a total of €60,690 thousand. Of this amount, €20,377 thousand related to BFF Bank, €37,135 thousand related to BFF Immobiliare, €2,217 thousand to BFF Polska Group, €802 thousand to BFF Finance Iberia and €159 thousand related to *BFF Techlab*.

The amount includes primarily: i) land amounting to €18,890 thousand, including €2,640 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 €24,868 thousand including the building in Rome - Via Elio Chianesi 110/d owned by DEPObank, and the property under construction by BFF Immobiliare; iii) right-of-use assets relating to the application of IFRS 16 to leases amounting to €14,527 thousand.The increase over 2022 was caused by progress made on the work to construct the new building that will house the BFF Bank headquarters for €12.822 million, partially offset by the classification of the via Domenichino land and building under assets held for sale, in the amount of €8,046 thousand, and depreciation for the year.

Intangible assets largely consist of (i) investments in new programs and software used for multiple years by BFF Bank for €21.6 million, (ii) customer relationships recognized in BFF Bank following the acquisition of Depo for €19.2 million and for the remainder (iii) the goodwill arising from the acquisition of BFF Polska Group in 2016 for €22,146 thousand, the former IOS Finance (now merged into BFF Finance Iberia) in 2019 totaling €8,728 thousand and BFF TechLab in the last quarter of 2022, totaling €83 thousand.

As of December 31, 2023, the Bank has not performed any impairment testing on intangible assets with a definite useful life, as no impairment trigger events have been identified.

In line with the provisions of IAS 36, the impairment test was performed on goodwill, without identifying any impairment.

Hedging derivatives, equity investments and financial liabilities held for trading

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
Equity investments	13,160	13,656	(496)
Financial liabilities held for trading	1,215	950	265
Hedging derivative liabilities	-	14,314	(14,314)

The items Hedging derivative liabilities respectively include the negative fair values related to the use of currency swap contracts to hedge loans disbursed in zloty to Polish subsidiaries under existing intercompany agreements and the Transaction Services BU's funding in currencies other than the euro. At December 31, 2023 there were no outstanding derivatives.

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 equal to 24% of the shares issued. Note that the aforementioned investments are measured using the equity method.

The item Financial liabilities held for trading includes the negative fair value at December 31, 2023 of derivative instruments classified as trading assets but used for operational hedges of the exchange rate risk that the Group is exposed to.

Tax assets and liabilities

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
Tax assets	**113,658**	**60,707**	**52,951**
current	57,414	514	56,900
deferred	56,244	60,194	(3,950)
Tax liabilities	**123,790**	**136,003**	**(12,212)**
current	2,472	30,998	(28,525)
deferred	121,318	105,005	16,313

As at December 31, 2023, current tax assets and liabilities amount to €57,414 thousand and €2,471 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.

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

Other assets and Other liabilities

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
Other assets	655,393	394,182	261,211
Other liabilities	555,354	401,369	153,985

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

At December 31, 2023, Other assets also include ecobonus tax assets acquired through non-recourse factoring transactions of €414.1 million (€221 million at December 31, 2022) of which €354.2 million according to the HTC Business Model and €59.9 million according to the Trading Business Model.

Financial liabilities measured at amortized cost

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
Amounts due to banks	2,269,074	1,166,365	1,102,709
Amounts due to customers	8,545,110	10,789,422	(2,244,312)
- of which to financial institutions		-	
Securities issued	14	38,976	(38,962)
Total	**10,814,197**	**11,994,763**	**(1,180,565)**

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.

Amounts due to customers mainly refer to "current accounts and demand deposits" relating to balances on operational accounts, i.e. accounts opened for customers (e.g. funds, asset management companies, corporate customers and other institutions) related to the custodian bank core business.

The item includes €2,743,858 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 €1,283,120 thousand at December 31, 2022.

As concerns Securities issued, on May 23, 2023 the remaining portion (with a residual nominal value of €38.6 million) of the senior unsecured bond (ISIN XS2068241400), rated "Ba1" by the Moody's rating agency, issued by BFF in October 2019, matured and was therefore redeemed.

Provisions for risks and charges

(Values in thousand euros)

Items	12.31.2023	12.31.2022	Changes
Commitments and other guarantees provided	530	251	279
Employee benefits	7,009	7,861	(852)
Other provisions	28,325	24,900	3,424
Total	**35,864**	**33,012**	**2,851**

At December 31, 2023 "Provisions for risks and charges" mainly include allocations to "Pension and similar obligations" and allocations to "Other Provisions" to cover likely risks of loss in litigation.

Main items in the Consolidated Income Statement

In 2023, the Group's profit amounted to €171.7 million, compared to €232.0 million recognized in 2022. Normalizing both results, i.e., eliminating all non-recurring items that affected the results of both years, the normalized profit for 2023 is €183.2 million compared to €146.0 million earned in the year 2022.

Total income

(Values in thousand euros)

Items	2023	2022	Changes
Maturity commissions and late payment interest on non-recourse trade receivables	192,938	178,817	14,121
Interest income on securities	180,454	42,787	137,668
Other interest	256,016	133,202	122,814
Interest and similar income	**629,408**	**354,805**	**274,602**
Interest expense	(345,256)	(92,988)	(252,268)
Net fee and commission income	**75,152**	**90,656**	**(15,503)**
Dividends and similar income	8,897	9,795	(898)
Net trading income	294	12,622	(12,328)
Net hedging income (loss)	-	-	-
Profits (losses) on disposal or repurchase of:			
a) financial assets measured at amortized cost	22,038	166	21,873
b) financial assets measured at fair value through other comprehensive income	(146)	-	(146)
c) financial liabilities	-	-	-
Profits on other financial assets and liabilities at fair value through profit or loss			
b) other financial assets subject to mandatory fair value measurement	1,843	5,154	(3,311)
Total income	**392,231**	**380,210**	**12,021**

Net interest income for 2023 was €284.2 million, up from €261.8 million in 2022 (normalized values of €284.2 million and €232.5 million, respectively) and benefited from: the higher net return on loans, thanks to the repricing policies put in place on the Factoring & Lending side, the increase in the rate applied to calculate late payment interest, the good performance of collections of late payment interest, also following a significant settlement entered into, resulting in a capital gain, the repricing of floating-rate HTC government bonds and the gradually decreasing impact of fixed-rate HTC government bonds, and the higher value of loans to customers (thanks to the growth in Factoring & Lending).

The value of et fee and commision income for 2023 was €75.2 million, down from €90.7 million in 2022 (normalized values of €75.2 million and €90.7 million, respectively) and was negatively impacted by the exit of Arca on November 1, 2022 and despite good business performance.

Total income for 2023 was €392.2 million (€392.2 million normalized), up from €380.2 million in 2022 (€348.5 million normalized) mainly due to the growth in net interest income. Of note in 2023 is the sale of €835 million euros of floating-rate government securities for a total capital gain of €22.0 million.

Administrative costs

(Values in thousand euros)

Items	2023	2022	Changes
Personnel expense	(75,980)	(74,352)	(1,628)
Other administrative expense	(104,136)	(96,251)	(7,885)
Total administrative expense	**(180,116)**	**(170,603)**	**(9,513)**

Administrative expense for 2023 amounted to approximately €180.1 million (€169.1 million normalized) and were up from €170.6 million (€159.5 million normalized) in 2022 as a result of higher costs incurred to support business growth and implement initiatives to improve the Group's IT processes and architecture, freeing up additional efficiency in the future and reducing operational risks. Nevertheless, the Group's operating efficiency improved compared to 2022, as evidenced by the decreasing cost/income ratio (from 41% in 2023 to 44% in 2022).

Other operating income, net

In 2023 under "Other operating income, net", the Group recorded an amount equal to €23.3 million (€23.3 million normalized) relating to the lump-sum indemnity for debt collection ("40 euros") compared to €119.4 million in 2022 (€14.8 million normalized, net of the effect of the change in the estimate at December 31, 2022): there was a +€7.5 million increase in the normalized value year-on-year.

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 consolidated financial statements are drawn up based on this assumption.

A performance review of the last few years shows a continuing positive trend in the main indicators, especially considering the fact that the profit for 2022 was positively influenced by several non-recurring elements.

The data can be summarized as follows:

- increase in net interest income and total income;
- stable equity;
- 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	2023	2022
Interest income	284.2	261.8
Total income	392.2	380.2
EBTDA (gross of provisions)	253.0	349.8
Net Profit	171.7	232.0
R.O.E. (Return On Equity) (%)	22.6%	30.6%
R.O.T.E. (Return on Tangible Equity) (%)	24.6%	33.7%
Net interest income/Interest and similar income (%)	45.1%	73.8%
NPLs (net of impairment)/Loans and receivables with customers (%)	1.9%	1.6%
Own funds/Loans and receivables with customers (%)	37.1%	42.4%
Leverage Ratio	4.8%	4.6%
Equity	758.8	758.8
Own Funds	586.9	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, 2023 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" (the "ICAAP/ILAAP 2023 Report" will be sent to the Bank of Italy by April 30, 2024) 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, 2023 the impact on CET 1 deriving from the application of calendar provisioning was roughly €1.09 million, compared to December 31, 2022 when it amounted to €389 thousand. This prudential deduction from CET1, considering that the actual credit risk profile assumed by the BFF Group is limited, as it has been assumed with respect to public bodies, could result in significant distortions in the representation of the group's accounting, prudential and capital strength information. This is also corroborated by the very limited credit losses recorded.

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 August 14, 2020 it published 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. This clarification note was later amended on October 15, 2020, February 15, 2021 and September 23, 2022, the latter date being that on which the Group adopted the most recent interpretation criteria concerning the definition of default.

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 also conducted 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.This would have the effect of a substantial reduction in the amount of past-due receivables, with the underlying credit risk remaining the same. The benefit of such an approach was also described by the Bank to the various reference trade associations, also in order to highlight the distortion in terms of the representation of the risk profile of the approach by counterparty in the most appropriate fora and in working groups with the supervisory authorities.

Monitoring and control of Liquidity

Despite the current macroeconomic scenario, characterized by the continuation of the tensions deriving from the Russia/Ukraine conflict, the recent outbreak of the Israel-Palestine conflict and international tensions, the Group has always been able to count on an adequate level of liquidity, largely respecting regulatory requirements and positioning itself on values higher than the internal levels of reporting indicators (LCR, NSFR).

The Group adopts strong safeguards to monitor and govern the liquidity position. Specifically, *(i)* when deemed necessary, it performs more frequent and more detailed stress analyses 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, and *(iv)* monitors changes in the collection trends of debtors, particularly of the Public Administration.

In this context, also by monitoring operational indicators, no particular liquidity tensions were identified 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

Also considering the current economic and political context, the Risk Management Function has developed a new forward-looking model for the conditioning of PDs, replacing the previous one which depended on the assumptions of the external infoprovider.The new model is based on the macroeconomic scenarios published by the EBA (European Banking Authority) during the 2023 stress test.

In continuity with the previous scenarios provided by the other infoprovider, these scenarios are characterized by an exacerbation of financial conditions and a considerable deterioration of economic outlooks caused by the high inflation generated, inter alia, by the Russia-Ukraine conflict. Furthermore, these scenarios also reflect an inversion in the real estate market trend in the presence of a decrease in household debt service capacity triggered by high interest rates.

Starting in the next few quarters, the Function will monitor the evolution of the macroeconomic variables used in the forward-looking model in order to identify any significant changes compared to the values used in the model updating phase.

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 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 & 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. In this regard, please note that on May 25, 2023 the Bank's Board of Directors established the ICT and Security Risk Control Function, which is responsible for managing and supervising ICT and security risks, as well as checking for the compliance of ICT operations with the ICT and security risk management system.
- **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.

Specifically, during the year, the Function mainly *(i)* carried out the ICAAP/ILAAP process, updated the risk management thresholds and metrics in line with the Group's strategic forecasts, revised the Contingency Funding Plan and Recovery Plan.

Lastly, in 2023 the Group conducted a series of careful assessments and analyses 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. The project activities to begin the process of adopting the IRB model have already been planned for 2024.

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 continued with its ex post assurance and control activities based on the Annual Plan approved by the Board of Directors.

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 29, 2023.

The Function also continued updating the set of internal rules 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 subsidiaries BFF Finance Iberia, BFF Techlab and BFF Immobiliare under specific service agreements; it also performs management and coordination activities of 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 2023, the Internal Audit function performed audits in line with the multi-year 2022-2024 Audit Plan prepared according to a risk-based approach, whose most recent update was approved by the Board of Directors in March 2023, 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 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 and the Recovery Plan.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 Company 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 accounting standards endorsed by the European Union; whether accounting books and records are suitable for providing a true and fair view of the financial position, financial performance and cash flows of the Group on a consolidated level and of the individual subsidiaries included under the scope of the consolidation; and the reliability of content, in relation to specific aspects, of the Director's report on operations and interim reporting.

Supervisory Body pursuant to Italian Legislative Decree no. 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 latest revision of the Model was approved by the Board of Directors on December 22, 2022.

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, complies with the rules in the Decree; iii) Table of Information Flows to the Supervisory Body. The Bank also adopted a Code of Ethics that defines the set of ethical values embraced by the Bank and the BFF Group, and that, among other things, ensures the prevention of criminal offenses as per the Decree. Moreover, the Bank has put in place a Whistleblowing procedure and a specific Anti-Corruption Policy.

The parent makes sure that all employees receive adequate training on the Decree, especially in the event of updates to related regulations.

The work done by the Supervisory Body during 2023 was mainly aimed at ascertaining recipients' effective compliance with the Model; the Model's effectiveness and adequacy with respect to the corporate structure and its effective ability to prevent the crimes referred to in the Decree; the appropriateness of updating the Model where it is found to be necessary to adapt it.

Furthermore, in 2023 the Supervisory Body performed a quality review of the Model with the support of a qualified third party consultant, in order to verify its alignment with market best 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 2023. Specifically, it noted that it had not received any report related to the proper application of the Model.

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

- the Italian subsidiaries BFF Immobiliare Srl and BFF Techlab Srl are have their own Organization, Management and Control Models in the start-up phase;
- 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 & 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 June 27, 2023 the Bank approved the update of the RPT Regulation and Conflict of Interest Management Policy to better clarify the proper interpretation of a specific provision in order to make it consistent with the underlying regulatory rationale.

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 consolidated 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 conduct 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

In accordance with the Group's new Business Plan, presented in June 2023, the projects identified during the year continued to pursue the main objectives of business development, efficiency of internal processes aimed at risk containment and the constant improvement of services, and the strengthening of IT systems and technological infrastructure.

More specifically, the most important initiatives are as follows:

- Analysis of new products and services with the goal of guaranteeing increasingly extensive coverage of the reference market through a comprehensive range of services: in *Factoring & Lending*, the process of opening a branch in France has begun, in order to strengthen the Group's presence in a country where it has operated for years under the freedom to provide services while, in *Transaction Services*, the feasibility analysis was completed intended to define the target operating model to be adopted for the introduction of *Crypto Asset* services.
- Multi-year project for creating an 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 the Group operates in.
- The completion of projects whose investments are aimed at the implementation of innovative technological solutions designed both to manage regulatory compliance and to further improve business and administrative processes to make them more efficient, including through automation mechanisms (RPA) aimed at further reducing processing time and increasing automatic controls, while improving the level of service offered to customers.

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

On July 19, 2023, DBRS Morningstar ("DBRS") assigned its first rating to the Group, with Long-Term Deposits rated Investment Grade at BBB (low) with a stable outlook.This assessment reflects BFF's strong liquidity position and improved funding profile following the acquisition of DEPObank. The Group can rely on a diversified mix of funding sources, primarily operating deposits and term deposits. The rating further strengthens the Bank's operations in the Italian Securities Services and Banking Payments market.

The analysis of DBRS's rating also reflects (i) the Group's long-term profitability and growth potential, (ii) solid capital and liquidity position, and (iii) good asset quality.

Specifically, the rating agency DBRS assigned the following ratings to BFF:

- Long-Term Issuer Rating: “BB (high),” outlook stable;
- Short-Term Issuer Rating: “R-3,” outlook stable;
- Long-Term Senior Debt: “BB (high),” outlook stable;
- Short-Term Debt: “R-3,” outlook stable;
- Long-Term Deposits: “BBB (low),” outlook stable;
- Short-Term Deposits: “R-2 (middle)”, outlook Stable.

For further details, see the press release issued by DBRS, also dated July 19, 2023.

On November 22, 2023, Moody’s reconfirmed all of BFF’s ratings, following the rating action on the outlook of Italian government bonds with a rating of Baa3 to stable from negative and the modification of Italy’s Macro Profile.

As of December 31, 2023, the ratings assigned to BFF by Moody's were:

- 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.”

As regards the bonds issued by BFF, please recall that the only issue outstanding at December 31, 2023 consists of the Additional Tier 1 bond issued in January 2022 in the amount of €150 million, which Moody’s gave a rating of B2.

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.

For ESG ratings, please refer to the "Sustainability of the BFF Banking Group business model" section.

Events after the reporting date

There are no significant events subsequent to year-end to report.

7. Share Capital, Shareholder Structure, Shareholder Resolutions, and Share Performance

Share capital

During 2023, the share capital increased from 185,545,952 shares, corresponding to €142,870,382.96 as at December 31, 2022, to 186,944,029 shares corresponding to €143,946,902 as at December 31, 2023, as a result of the partial execution of the delegated free capital increase in the period between January 2, 2023 and December 29, 2023 through the issuance of new BFF ordinary shares equal to 1,398,077[12] for a nominal amount of €1,076,519 and assigned to BFF Group personnel for needs related to remuneration and incentive plans (2020 Management by Objectives and 2016 and 2020 Stock Option Plan).

As of December 31, 2023, the option rights relating to the stock option plans in place amounted to 13,221,900 options assigned and not yet exercised, of which 8,996,900 could be exercised. As of December 31, 2022, the option rights relating to the Stock Option Plans in place amounted to 16,169,288 options assigned and not yet exercised, of which 1,086,788 could be exercised.

With regard to the options granted under the 2016 Stock Option Plan, as of December 31, 2023 96,000 were assigned and exercisable as they have vested, representing all plan shares still in existence. The number of options outstanding as at December 31, 2022 was 1,086,788, of which 232,000 could not yet be exercised.

With regard to the 2020 Stock Option Plan, as of December 31, 2023, the number of stock options granted and not exercised is 5,461,400, of which 2,227,700 have vested and are exercisable. The number of options outstanding as at December 31, 2022 was 8,384,500.None of these options could be exercised yet.

With regard to the 2022 Stock Option Plan, as of December 31, 2023, 7,664,500 options have been granted (of which 3,439,500 are equity settled and cash-less and 4,225,000 are cash settled/phantom shares), none of which yet exercisable. In 2022, 5,593,000 options had been granted, of which 2,500,500 equity settled and cash-less and 3,092,500 cash settled/phantom, none of which yet exercisable.

Treasury shares

As of December 31, 2023, the Bank held 494,854 treasury shares, equal to 0.26% of the share capital, down from 570,728 as of December 31, 2022 as a result of the assignment of treasury shares, as described in more detail below, partially offset by the repurchase of 291,888 shares as part of the share buyback program that took place between February 13, 2023 and February 17, 2023.

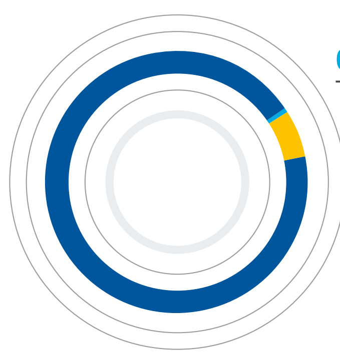
12) Following the resolution of the Extraordinary Shareholders' Meeting of April 2, 2020 - to increase the share capital of the Bank without consideration, in a divisible manner and in several tranches, pursuant to Art. 2349 of the Italian Civil Code, for a total amount not exceeding €5,254,563.16, through 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 1,398,077 new ordinary shares in the period between January 2 and December 29, 2023.

In 2023, 367,762 treasury shares were allotted following the exercise of stock options and the payment of variable remuneration in financial instruments, of which 97,286 to the Chief Executive Officer and 270,476 to beneficiaries not on staff.

Shareholder Structure

BFF represents one of the few Italian listed companies that is truly shareholder-owned, with a free float equal to almost the entire share capital.

As of December 31, 2023, Management and their Closely Associated Persons held 5.98% of the share capital, up from 5.88% as of December 31, 2022. Treasury shares held by the Bank – 494,854 – amount to 0.26% of the share capital.



Total number of shares issued 186,944,029
Source: Forms 120A - 120B - 120D and Internal Dealing communications. Percentage is calculated based on the total number of shares issued at 12/31/2023.

(1) As at 12/31/2023 Capital Research and Management Company held 9.7 million BFF shares, for a quota equal to 5.2% of the share capital. As at 12/31/2023 JPMorgan Asset Management Holdings Inc. held 5.9 million BFF shares, for a quota equal to 3.2% of the share capital.
(2) As at 12/31/2023 the Chief Executive Officer Massimiliano Belingheri and his Closely Related Persons (Bray Cross Ltd., Scalve S.a. r.l., The Bali Trust, The Bomi Trust and Bomi S.a.r.l.) held 10.88 million BFF shares, for a quota equal to 5.82% 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.

Shareholders’ Meeting Resolutions

On April 13, 2023, the Ordinary Shareholders’ Meeting of the Bank resolved:

- 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 date of April 25, 2023 (record date); to approve:
  - the new "2023 Remuneration and Incentive Policy for the members of the Strategic Supervision, Management and Control Bodies and Personnel of the BFF Banking Group" included in Section I 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;
  - to revoke the previous authorization to repurchase and dispose of treasury shares granted by the Shareholders' Meeting of March 31, 2021 for the part not executed by the date of April 13, 2023, 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”.

On September 7, 2023, the Ordinary Shareholders’ Meeting of the Bank resolved to:

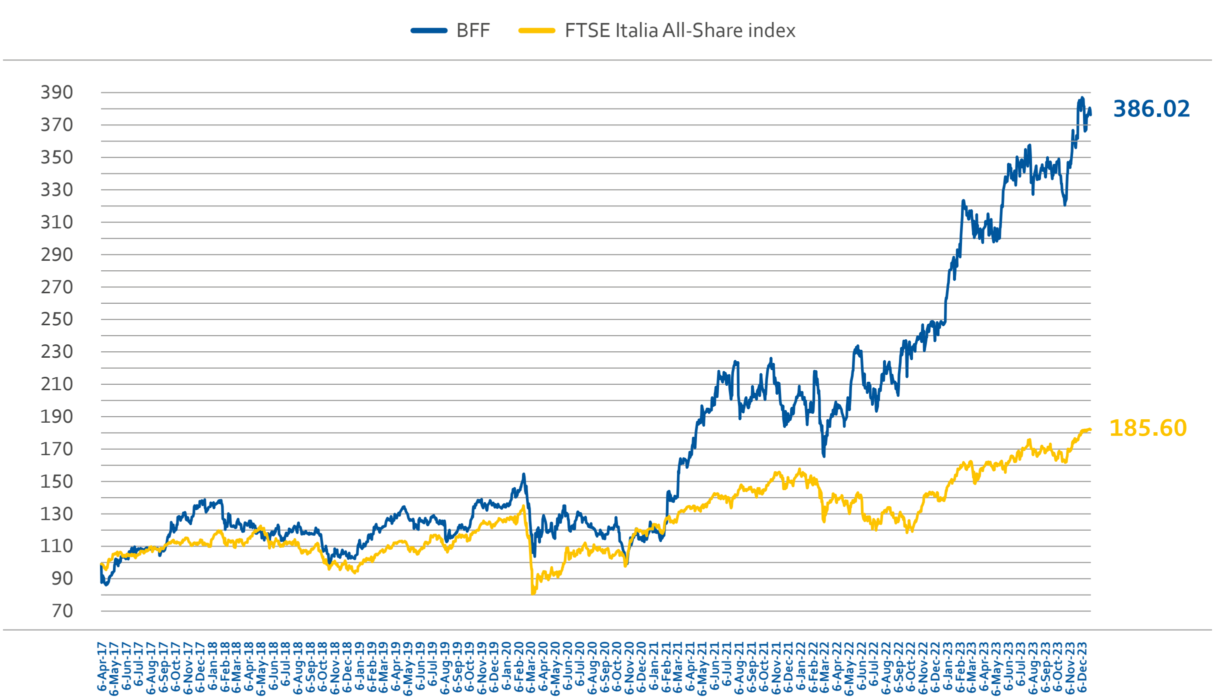
- distribute to Shareholders a Unit dividend for up to €27,487,349.74 using part of the retained earnings and to distribute, gross of withholding taxes required by law, €0.147 for each of the ordinary shares outstanding at the record date, with a coupon date (no. 8) of September 11, 2023 (ex date).Such 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 date of September 12, 2023 (record date).

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 29, 2023 was €10.32, up by 120% over the IPO share placement price of €4.70. From listing to December 29, 2023, the Bank distributed a total gross dividend of €3.850 per share. Taking into consideration the distributed dividends, and assuming them to be reinvested in the BFF share on ex-date, total return for shareholders at December 29, 2023 compared to the IPO placement price was 286%. The FTSE Italia All-Share Index total return was 86%.

Total return since the IPO, with reinvested dividends(*)



(*) *At December 29, 2023, 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 latest five-year strategic plan, approved by BFF's Board of Directors on June 27, 2023 ("BFF 2028" or the "Plan"), the Group's objectives during 2024 (as among other things approved in the 2024 Budget) and in subsequent years include:

1. Develop the core business, in which the Group is a market leader:
2. Invest further in operational infrastructure to support growth opportunities, managing operational risks, and to benefit from further efficiencies.
3. Continue to provide Group personnel with opportunities for growth and development while maintaining strong incentive alignment with stakeholders.
4. Further optimize funding and capital.
5. Deliver market-leading returns to shareholders in terms of capital and dividends, with capital exceeding the CET1 target of 12%.
6. Maintain the Group's low risk profile by efficiently managing past due and calendar provisioning.
7. Further increase our positive impact socially, environmentally and for all stakeholders, along with the achievement of carbon neutrality targets and doubling investment in social impact initiatives.

9. Allocation of the Banking Group's Profit

At December 31, 2023 the Banking Group's profit amounted to €171,661,757. This result includes, as described above, some non-recurring items, which net of the relative tax impacts amount to €11.5 million and primarily refer to costs for stock options of €2.4 million, restructuring and M&A costs amounting to €3.0 million, the settlement agreement with the Chief Executive Officer for €1.7 million, the amortization of customer contracts amounting to €1.9 million, extraordinary contributions to the "Interbank Deposit Protection Fund" for €1.2 million and non-recurring taxes incurred by a subsidiary for €1.3 million.

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 CET 1 Ratio of 12% (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) €203,417 to the legal reserve (to bring the reserve to 20% of the Share Capital as of today);

ii) €65,059,011 to the Retained earnings, of which €24,402,280 relating to extraordinary tax on extra profits of banks equal to two and a half times the extraordinary tax calculated on the increase in net interest income;

iii) €183,152,369 to the Shareholders, of which 101,213,994 (52,303,766 from the profit for the year and 48,910,228 to be taken from the distributable portion of the retained earnings) to be distributed in April 2024 and €81,938,375 (€54,451,025 from profit for the year and 27,487,351 from the distributable portion of the retained earnings) already distributed in September 2023 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 18, 2024 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 18, 2024 at 11:00 a.m. (the "**Shareholders' Meeting**") at the registered office of BFF Bank S.p.A.(the "**Company**" or 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.

Please recall that Article 26 introduced by the Omnibus Decree, published in the Official Gazette on August 10, 2023 and subsequently converted into law with amendments by "Law No. 136 of October 9, 2023 - Conversion into law, with amendments, of Decree-Law No. 104 of August 10, 2023, containing urgent provisions to protect users, on economic and financial activities and strategic investments" (the "**Tax**" and the "**Measure**"), in force as of October 10, 2023, introduced the tax on extra profits of Banks, calculated on the increase in net interest income.

This tax, which is extraordinary in nature, is determined by applying a 40% rate on the amount of net interest income included in item 30 of the income statement, drafted according to the layouts approved by the Bank of Italy, relating to the year 2023, which exceeds by at least 10% the same net interest income in the year 2022, and in any event, the amount thus calculated cannot be higher than 0.26% of the total amount of risk exposure on an individual basis, with reference to 2022 year-end close.

The extraordinary tax is paid within six months of 2023 year-end close and is not deductible for income tax or regional business tax purposes.

In place of payment, banks may allocate an amount equal to two and a half times the tax calculated as specified above to a non-distributable reserve identified for this purpose when they approve the financial statements relating to the year 2023. This reserve meets the conditions set forth in Regulation (EU) No. 575/2013 to be calculated under common equity tier 1 items.

Please note that, with reference to the effects deriving from the law, the amendments introduced by the extraordinary tax were considered "adjusting events" pursuant to IAS 10; the nature of the tax falls within the scope of application of IFRIC 21 as it is applied on net interest income, so the recognition of the tax in the income statement is required when the obligating event resulting in the emergence of this liability takes place: in the case in question, the obligating event is not only recording net interest income above the threshold identified by law (equal to 0.26% of the total amount of risk exposure on an individual basis, at 2022 year-end close), but also the Bank's decision not to settle the tax and to establish a specific non-distributable reserve.

This being stated, for BFF the tax would amount to 0.26% of the total Risk Weighted Assets relating to the separate financial statements at December 31, 2022 (inclusive of all Pillar 1 risks as defined pursuant to paragraphs 3 and 4 of Article 92 of Regulation (EU) No. 575/2013) and is equal to €9.76 million; alternatively, the non-distributable reserve amounts to €24.4 million.

Therefore, the following potential scenarios are assumed by the Bank and submitted to the Board of Directors:

i) any payment of the tax would have a direct impact on the Group's reported profit of €9.8 million in 2023 (and not on adjusted profit, since the maneuver is extraordinary in nature), with a resulting decrease in Group reserves, subsequently replenished in 2024 in order to comply with the dividend policy;

ii) the recognition of €24.4 million of profit for the year in non-distributable reserves, with no impact – calculated based on 2023-2028 Business Plan data – on Group dividends, considering the possibility to distribute other income-related reserves, which are currently extensively distributable.

The Board of Directors has approved proposing to the Shareholders' Meeting called to approve the 2023 financial statements to recognize the amount of €24.4 million in the non-distributable reserves, corresponding to two and a half times the extraordinary tax calculated on the increase in net interest income, taken from 2023 net profit (or, if there is not enough, from other distributable reserves).

The parent's separate Financial Statements at December 31, 2023, to be approved by the Shareholders' Meeting, show a profit of €131,360,488, which it is proposed be allocated as follows:

i) €203,417 to the legal reserve (to bring the reserve to 20% of the Share Capital as of today);

ii) €24,402,280 to the Retained earnings (corresponding to two and a half times the extraordinary tax calculated on the increase in net interest income - Extraordinary tax on extra profits of banks);

iii) €106,754,790 to the Shareholders, of which 52,303,766 to be distributed in April 2024 and €54,451,025 already distributed in September 2023 in the form of an interim dividend.

The amount of €106,754,790 indicated above added to (i) €48,910,228, expected to be distributed by drawing from the distributable share of the Retained earnings and (ii) €27,487,351 already taken from the distributable share of the Retained earnings and distributed in September 2023 in the form of an interim dividend, would result in the total amount of dividends distributed in 2023 being €183,152,369, corresponding to the Group's normalized profit.

Therefore, the Shareholders will be due a dividend (balance) of roughly €0.541 for each of the 187,218,044 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. 11) of April 22, 2024 (the ex 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 23, 2024("record date"). The payment of such dividend, gross of the withholdings required by law, is planned for April 24, 2024 ("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 allocate €203,417 to the Legal Reserve;

ii) to allocate €24,402,280 to the Retained earnings;

iii) to set aside €52,303,766 for the distribution to Shareholders of the distributable part of profit for the year;

iv) to approve the distribution of part of the Retained Earnings recorded in the Bank's separate financial statements as of December 31, 2023 amounting to €48,910,228. The sum of the amount in point iii) and point iv) of this resolution corresponds, gross of withholding taxes required by law, to approximately €0.541 for each of the 187,218,044 ordinary shares outstanding at coupon date (no. 9) of April 22, 2024 (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 date of April 23, 2024 (record date);

v) to pay the above-mentioned dividend as of April 24, 2024 (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		12.31.2023	12.31.2022
10.	Cash and cash equivalents	257,208,240	634,879,242
20.	Financial assets measured at fair value through profit or loss	166,023,303	90,540,554
	a) financial assets held for trading	*1,166,851*	*210,963*
	c) other financial assets subject to mandatory fair value measurement	*164,856,452*	*90,329,591*
30.	Financial assets measured at fair value through other comprehensive income	137,519,601	128,097,995
40.	Financial assets measured at amortized cost	10,805,825,610	11,895,850,418
	a) loans and receivables with banks	*593,560,790*	*478,203,260*
	b) loans and receivables with customers	*10,212,264,820*	*11,417,647,158*
70.	Equity investments	13,160,322	13,655,906
90.	Property, equipment and investment property	60,689,761	54,349,168
100.	Intangible assets	74,742,079	70,154,575
	of which		
	- *goodwill*	*30,956,911*	*30,956,911*
110.	Tax assets	113,658,100	60,707,458
	a) current	*57,413,940*	*513,588*
	b) deferred	*56,244,160*	*60,193,870*
120.	Non-current assets held for sale and discontinued operations	8,046,041	-
130.	Other assets	655,392,873	394,181,565
TOTAL ASSETS		**12,292,265,929**	**13,342,416,883**

(Values in euro units)

Liabilities and equity		12.31.2023	12.31.2022
10.	Financial liabilities measured at amortized cost	10,814,197,420	11,994,762,826
	a) due to banks	*2,269,073,826*	*1,166,365,115*
	b) due to customers	*8,545,109,938*	*10,789,421,645*
	c) debt securities issued	*13,655*	*38,976,066*
20.	Financial liabilities held for trading	1,214,962	949,790
40.	Hedging derivatives	-	14,313,592
60.	Tax liabilities	123,790,151	136,002,627
	a) current	*2,472,113*	*30,997,504*
	b) deferred	*121,318,038*	*105,005,123*
80.	Other liabilities	555,354,208	401,369,354
90.	Post-employment benefits	3,033,173	3,238,366
100.	Provision for risks and charges:	35,863,650	33,012,775
	a) commitments and guarantees given	*530,143*	*251,282*
	b) pensions and similar obligations	*7,008,959*	*7,861,441*
	c) other provisions for risks and charges	*28,324,548*	*24,900,052*
120.	Valuation reserves	7,993,073	6,852,891
140.	Equity instruments	150,000,000	150,000,000
150.	Reserves	277,761,749	233,153,339
155.	Interim dividend	(54,451,025)	(68,549,894)
160.	Share premium reserve	66,277,204	66,277,204
170.	Share capital	143,946,902	142,870,383
180.	Treasury shares	(4,377,295)	(3,883,976)
200.	Profit (loss) for the period	171,661,757	232,047,606
TOTAL LIABILITIES AND EQUITY		**12,292,265,929**	**13,342,416,883**

Consolidated Income Statement

(Values in euro units)

Items		12.31.2023	12.31.2022
10.	Interest and similar income	629,407,737	354,805,437
	of which: interest income calculated according to the effective interest method	*580,712,587*	*321,564,757*
20.	Interest and similar expense	(345,255,987)	(92,987,816)
30.	**Net interest income**	**284,151,750**	**261,817,621**
40.	Fee and commission income	112,370,513	127,594,743
50.	Fee and commission expense	(37,218,345)	(36,939,094)
60.	**Net fee and commission income**	**75,152,168**	**90,655,649**
70.	Dividends and similar income	8,896,918	9,794,598
80.	Profits (losses) on trading	294,424	12,622,171
100.	Profits (losses) on disposal or repurchase of:	21,892,959	165,940
	a) financial assets measured at amortized cost	*22,038,492*	*165,940*
	b) financial assets measured at fair value through other comprehensive income	*(145,533)*	-
110.	Profits on other financial assets and liabilities at fair value through profit or loss	1,842,962	5,154,401
	b) other financial assets subject to mandatory fair value measurement	*1,842,962*	*5,154,401*
120.	**Total income**	**392,231,180**	**380,210,380**
130.	Net impairment losses/gains for credit risks associated with:	(4,931,903)	(5,905,199)
	a) financial assets measured at amortized cost	*(4,931,903)*	*(5,905,199)*
150.	**Net income from banking activities**	**387,299,277**	**374,305,181**
180.	**Net income from banking and insurance activities**	**387,299,277**	**374,305,181**
190.	Administrative expense:	(180,116,291)	(170,602,997)
	a) personnel expense	*(75,979,911)*	*(74,351,758)*
	b) other administrative expense	*(104,136,380)*	*(96,251,239)*
200.	Net provisions for risks and charges	(3,660,908)	(10,535,096)
	a) commitments and guarantees given	*(277,773)*	*65,131*
	b) other net provisions	*(3,383,135)*	*(10,600,227)*
210.	Depreciation and impairment losses on property, equipment and investment property	(4,803,519)	(5,005,378)
220.	Amortization and impairment losses on intangible assets	(8,251,393)	(7,641,714)
230.	Other net operating income	44,798,653	150,393,890
240.	**Operating costs**	**(152,033,457)**	**(43,391,294)**
250.	Profits on equity investments	(267,397)	287,857
290.	**Profit before tax from continuing operations**	**234,998,423**	**331,201,744**
300.	Income taxes for the period on continuing operations	(63,336,666)	(99,154,138)
310.	**Profit after tax from continuing operations**	**171,661,757**	**232,047,606**
330.	**Profit (loss) for the period**	**171,661,757**	**232,047,606**
350.	**Profit (Loss) for the financial year attributable to the Parent Company**	**171,661,757**	**232,047,606**
	Basic earnings per share(*)	**0.92**	**1.26**
	Diluted earnings per share(*)	**0.91**	**1.25**

(*) The values in question as at December 31, 2022 were restated to make the data more comparable.

Consolidated Statement of Comprehensive Income

(Values in euro units)

Items		12.31.2023	12.31.2022
10.	Profit (loss) for the period	171,661,757	232,047,606
	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 designated at fair value through other comprehensive income		
50.	Property, equipment and investment property		
60.	Intangible assets		
70.	Defined-benefit plans	(26,491)	524,946
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves connected with equity-accounted investments		
100.	Revenue or costs of a financial nature related to insurance contracts issued		
	Other income components, net of taxes, reclassified to the income statement		
110.	Hedging of foreign investments	(4,251,718)	
120.	Foreign exchange differences	6,036,071	580,380
130.	Cash flow hedges		
140.	Hedging instruments (undesignated elements)		
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,488,383	834,057
160.	Non-current assets held for sale and discontinued operations		
170.	Share of valuation reserves connected with equity-accounted investments	-	-
180.	Revenue or costs of a financial nature related to insurance contracts issued		
190.	Revenue or costs of a financial nature relating to outward reinsurance		
200.	**Total other comprehensive income net of tax**	**3,246,244**	**1,939,383**
210.	**Comprehensive income (Items 10+200)**	**174,908,001**	**233,986,989**
220.	Consolidated comprehensive income attributable to non-controlling interests		
230.	**Consolidated comprehensive income attributable to the owners of the parent**	**174,908,001**	**233,986,989**

Statement of Changes in Consolidated Equity

At 12.31.2023	Balances as at 12.31.2022	Change to opening balances	Balances as at 01.01.2023	Allocation of profit for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
a) ordinary shares	142,870,383		142,870,383		
b) other shares					
Share premium reserve	66,277,204		66,277,204		
Reserves:					
a) retained earnings	222,734,454		222,734,454	86,017,876	
b) other	10,418,885		10,418,885		
Valuation reserves	6,852,891		6,852,891		
Equity instruments	150,000,000		150,000,000		
Interim dividend	(68,549,894)		(68,549,894)	68,549,894	
Treasury shares	(3,883,976)		(3,883,976)		
Profit (Loss) for the financial year	232,047,606		232,047,606	(154,567,770)	(77,479,836)
Equity attributable to the owners of the parent	758,767,553		758,767,553		(77,479,836)
Non-controlling interests					

At 12.31.2022	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:					
- ordinary shares	142,690,771		142,690,771		
- other shares					
Share premium reserve	66,492,997		66,492,997		
Reserves:					
- earnings-related	158,260,237		158,260,237	72,092,024	
- others	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					

(Values in euro units)

Changes in the year										Shareholders' equity attributable to the group as at 12.31.2023	Equity attributable to non-controlling interests as at 12.31.2023
Equity transactions									Consolidated comprehensive income 2023		
Change in reserves	Issue of new shares	Purchase of treasury shares	Interim dividend	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests			
	1,076,519									143,946,902	
										66,277,204	
(13,209,718)				(27,487,350)						268,055,262	
513,734							(1,226,132)			9,706,487	
(2,106,061)									3,246,244	7,993,074	
										150,000,000	
			(54,451,025)							(54,451,025)	
2,301,065		(2,794,384)								(4,377,295)	
									171,661,757	171,661,757	
(12,500,980)	1,076,519	(2,794,384)	(54,451,025)	(27,487,350)			(1,226,132)		174,908,001	758,812,366	

(Values in euro units)

Changes in the year										Shareholders' equity attributable to the group as at 12.31.2022	Equity attributable to non-controlling interests as at 12.31.2022
Equity transactions									Consolidated comprehensive income 2022		
Change in reserves	Issue of new shares	Repurchase of treasury shares	Interim dividend	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests			
	179,612									142,870,383	
(215,793)										66,277,204	
(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	

Consolidated Statement of Cash Flows

Indirect method

(Values in euro units)

	Amount	
	12.31.2023	**12.31.2022[(*)]**
A. OPERATING ACTIVITIES		
1. Operations	**226,256,852**	**371,082,993**
- net profit/loss for the year (+/-)	171,661,757	232,047,606
- gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)		530,806
- gains/losses on hedging operations (-/+)	(14,313,592)	14,313,592
- net impairment losses/gains for credit risk (+/-)	39,029	5,905,199
- depreciation, amortization and net impairment losses on property, equipment and investment property and intangible assets (+/-)	13,054,912	12,647,092
- net allocations to provisions for risks and charges and other costs/income (+/-)	(3,660,908)	10,535,096
- net revenue and costs of insurance contracts issued and outward reinsurance (-/+)		
- taxes, duties and unpaid tax credits (+/-)	63,336,666	99,154,138
- net impairment losses/reversals of impairment losses on discontinued operations, net of the tax effect (+/-)		
- other adjustments (+/-)	(3,861,012)	(4,050,536)
2. Cash flow generated/absorbed by financial assets	**703,554,157**	**(2,098,085,016)**
- financial assets held for trading	707	3,353,047
- financial assets designated at fair value	(74,526,861)	
- other financial assets subject to mandatory fair value measurement		(52,671,663)
- financial assets measured at fair value through other comprehensive income	(7,347,002)	(45,426,272)
- financial assets measured at amortized cost	1,174,079,518	(1,850,551,649)
- other assets	(388,652,205)	(152,788,479)
3. Cash flow generated/absorbed by financial liabilities	**(1.114.685.702)**	**1,883,326,018**
- financial liabilities measured at amortized cost	(1,257,190,504)	2,000,434,662
- financial liabilities held for trading	530,344	(1,774,721)
- financial liabilities designated at fair value		
- other liabilities	141.974.458	(115,333,923)
4. Cash generated/absorbed by insurance contracts issued and outward reinsurance	-	-
- insurance contracts issued that constitute liabilities/assets (+/-)		
- outward reinsurance constituting assets/liabilities (+/-)		
Net cash generated/absorbed by funding activities	**(184,472,745)**	**156,323,995**

(cont'd)

(Values in euro units)

	Amount	
	12.31.2023	12.31.2022(*)
B. INVESTING ACTIVITIES		
1. Liquidity generated by	-	-
- sales of equity investments		
- dividends collected on equity investments		
- sales of property, plant and equipment		
- sales of intangible assets		
- sales of subsidiaries and business units		
2. Liquidity absorbed by	**(31,666,179)**	**(33,396,475)**
- purchases of equity investments		(173,689)
- purchases of property, plant and equipment	(19,051,419)	(22,934,473)
- purchases of intangible assets	(12,614,760)	(10,288,313)
- purchases of subsidiaries and business units		
Net cash absorbed by investing activities	**(31,666,179)**	**(33,396,475)**
C. FINANCING ACTIVITIES		
- issue / purchase of treasury shares	(2,794,384)	
- issue/purchase of equity instruments		150,000,000
- distribution of dividends and other purposes	(159,418,211)	(193,830,293)
- sale/purchase of ownership interests in subsidiaries		
Net cash generated/absorbed by financing activities	**(162.212.594)**	**(43,830,293)**
NET CASH GENERATED/ABSORBED DURING THE FINANCIAL YEAR	**(378,753,466)**	**79,097,226**

(*) Certain items as at December 31, 2022 were restated to make the data more comparable.

Reconciliation

Financial statement items	Amount	
	12.31.2023	12.31.2022
Cash and cash equivalents at start of financial year	634,879,242	554,467,803
Total net cash generated/absorbed during the financial year	(378,753,466)	79,097,226
Cash and cash equivalents: effect of changes in exchange rates	1,082,465	1,314,212
Cash and cash equivalents at end of financial year	**257,208,240**	**634,879,242**

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

Part A - Accounting policies

A.1 - GENERAL INFORMATION

Section 1 - Statement of compliance with International Financial Reporting Standards

The consolidated financial statements at December 31, 2023 have been prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the IASB, endorsed by the European Commission, as provided for by Regulation (EC) No 1606 of July 19, 2002 governing the application of IASs/IFRSs and related interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period.

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 accrual 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 issue that could raise doubts on the Group's ability to meet its obligations in the foreseeable future.

Standards, amendments and interpretations effective from 2024 or amended and not yet endorsed

As of the date of these consolidated financial statements, the following standards or revisions 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);
- First-time application of IFRS 17 and IFRS 9: Comparative information (Reg. EU 2022/1491);
- Amendments to IAS 12 Income Taxes: Deferred Taxes Related to Assets and Liabilities Arising from a Single Transaction (May 2021).

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 and applicable as of financial statements beginning January 1, 2024:

- Amendments to IAS 12 Income Taxes: International Tax Reform - Pillar 2 Model Rules (May 23, 2023);
- Amendments to IFRS 16: Lease liabilities in a sale and leaseback transaction (September 22, 2022);
- Amendments to IAS 1: Classification of liabilities as current or non-current and Non-current liabilities with covenants (October 31, 2022);
- Amendments to IAS 7 and IFRS 7: "Supplier finance" agreements (May 25, 2023).

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

Section 3 - Scope and basis of consolidation

The criteria adopted by BFF Banking Group to define the area 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, revenue 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 consolidated equity and in the consolidated income statement;
- gains and losses, including the related tax effects, arising from transactions between companies consolidated on a line-by-line basis and not yet realized with reference to third parties, are eliminated, except for losses, which are not eliminated when the transaction provides evidence that the transferred asset is impaired. Reciprocal amounts receivable and payable, revenue and expense, 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 year-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 expense 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 expense 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, 2023, 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. SPV Project 2214	Milan Corso Vittorio Emanuele II, 24/28	4	BFF Bank S.p.A.	0%	0%
4. BFF Finance Iberia. S.A.U.	Madrid Paseo de la Castellana, 81	1	BFF Bank S.p.A.	100%	100%
5. BFF Polska S.A.	Łódź Jana Kilińskiego, 66	1	BFF Bank S.p.A.	100%	100%
6. BFF Medfinance S.A.	Łódź Jana Kilińskiego, 66	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. BFF Central Europe s.r.o.	Bratislava Mostova, 2	1	BFF Polska S.A.	100%	100%
9. Debt-Rnt sp. Z O.O.	Łódź Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
10. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw Plac Dąbrowskiego, 1	4	BFF Polska S.A.	100%	100%
11. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw Plac Dąbrowskiego, 1	4	BFF Polska S.A.	100%	100%
12. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
13. 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 10 and 11 are concerned, voting rights refer to the investors' right to vote at the Meeting.

BFF Bank also holds a 24% 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.

As at December 31, 2023, the Parent consolidated the securitization vehicle SPV Project 2214, invested in via the subscription of units of the FPAM1 closed-end investment fund. The subscription of units of the fund in question, later reinvested in SPV Project 2214, fits within the scope of new factoring operations, to enable Italian SMEs to access the non-recourse factoring service via on-boarding on digital platforms with rapid response times ("Digital Platform"), launched in September 2023.

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.

Section 4 - Events after the reporting period

No significant events occurred after the reporting date at December 31, 2023. In particular, in relation to what is required under IAS 10, in the period between the end of 2023 and the date of the approval of these financial statements, no events took place that would require an adjustment of the data presented in the financial statements.

Section 5 - Other issues

Extraordinary tax calculated on increase in net interest income

The extraordinary tax in question was introduced by Article 26 of the Omnibus Decree, launched by the Council of Ministers and published in the Official Gazette on August 10, 2023 and subsequently converted into law with amendments by "LAW No. 136 of October 9, 2023 - Conversion into law, with amendments, of Decree-Law No. 104 of August 10, 2023, containing urgent provisions to protect users, on economic and financial activities and strategic investments" (the "Measure"), in force as of October 10, 2023.

On October 6, 2023, the Board of Directors was provided with information on: i) the two alternative scenarios for the Parent, analyzed first of all on the basis of the proposed law and the relative amendments, and ii) the impact at individual and consolidated level, calculated based on 23-26 Business Plan data, of such scenarios.

On the basis of what is set forth in the Measure, the tax determined by applying a 40% rate on the amount of net interest income included in item 30 of the income statement, drafted according to the layouts approved by the Bank of Italy, relating to the year prior to that underway at January 1, 2024, which exceeds by at least 10% the same net interest income prior to that underway at January 1, 2022. The amount thus calculated cannot be higher than 0.26% of the total amount of risk exposure on an individual basis, with reference to the year-end close prior to the year underway at January 1, 2023.

The extraordinary tax is paid within six months of year-end close prior to the year underway at January 1, 2024 and is not deductible for income tax or regional business tax purposes.

In place of payment, banks may allocate an amount equal to two and a half times the tax calculated as specified above to a non-distributable reserve identified for this purpose when they approve the financial statements relating to the year prior to that underway at January 1, 2024. This reserve meets the conditions set forth in Regulation (EU) No. 575/2013 to be calculated under common equity tier 1 items.

Taking into account the information provided above and the fact that, considering the entry into force of the Measure on October 10, 2023, the Board of Directors approved proposing to the Shareholders' Meeting called for April 18, 2024 to approve the 2023 financial statements to recognize the amount of €24.4 million in the non-distributable reserves, corresponding to two and a half times the extraordinary tax calculated on the increase in net interest income.The restriction on the reserve does not have any impact on the consolidated capital ratios set forth in the plan or on Group dividends.

Indeed, in this respect, please note that with capital ratios remaining the same, there would be an increase in common equity tier 1 (due to the recognition in the non-distributable reserve of the amount of the tax on extra profits previously determined) offset by a simultaneous reduction in existing profit reserves (in order to keep the 2023 dividend in line with the Bank's dividend policy).

Board renewal process

The BFF Board of Directors has begun the process of submitting its slate, in accordance with market corporate governance best practices, and on November 26, 2023 it approved the Advice to Shareholders on the qualitative/quantitative composition of the Board of Directors, a document aimed at providing shareholders with useful support for the selection of candidates to be elected to the Board of Directors.On the same date, the Chairman of the BFF Board of Directors, Attorney Salvatore Messina, announced that he would not be running on the list being prepared for the next three-year period, as he had been in office for nine years, meaning he no longer met the formal independence requirement established by corporate governance best practices. The appointment of the new Board of Directors will take place at the Shareholders' Meeting to approve the 2023 financial statements, coinciding with the expiration of the term of office of the corporate bodies currently in office.

In this regard, please recall that, since the provision for the CEO's Golden Parachute triggered in the event of non-renewal of the office of CEO at the expiration of the term of office has been removed, no compensation will be paid to such person if the office is not renewed.

The above removal is the result of a settlement agreement entered into with the CEO, subject to all of the provisions set forth in the regulation and the 2023 remuneration and incentive policy approved by the Shareholders' Meeting on April 13, 2023 relating to "parachutes" (for example, 60% deferral over a 5-year period, 51% paid in financial instruments in each installment).

Authorization to repurchase treasury shares

The treasury share purchase aims 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".

The Bank's Ordinary Shareholders' Meeting of April 13, 2023 approved revoking the previous authorization granted by the Shareholders' Meeting of March 31, 2022, for the part not yet executed, and authorizing the Board of Directors to proceed with the purchase of BFF ordinary shares, on one or more occasions and for a period of 18 months from the date of the Shareholders' Meeting, in pursuit of the purposes set out in the aforementioned illustrative Report; the maximum number of shares to be purchased is 8,463,819, representative of 5% of the 185,623,140 shares without a nominal amount representing the entire subscribed and paid-up share capital of the Parent, amounting to €142,929,817.72 (taking into account the treasury shares already in stock on the date of publication of the Report).

On October 6, 2023 - in execution of the above-mentioned Shareholders' Meeting authorization - the Board of Directors of BFF Bank S.p.A. approved initiating the regulatory procedure to be completed for the issue by the Bank of Italy of its 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 purchase treasury shares of the Parent, up to the maximum amount of €8.5 million, with an impact equal to roughly 30 bps on the Group's CET 1 ratio, calculated on a pro-forma basis at September 30, 2023.

Resolution of the Shareholders' Meeting on the allocation of profits

On April 13, 2023, the Shareholders' Meeting approved: i) the separate financial statements for the year ended December 31, 2022, which show a profit for the year of €261,438,216; ii) the cash distribution to shareholders of a portion of the 2022 separate net profit for the second half of the year, amounting to €77,479,836, corresponding to a dividend before statutory withholding taxes of €0.419 for each of the 185,623,140 ordinary shares, against an interim dividend distributed in August 2022 of €68,549,894 corresponding to €0.3708 per share, for a total dividend distribution related to the 2022 fiscal year of €146,029,730 corresponding to €0.7898 per share; iii) to allocate the remaining part of the 2022 separate net income to the Bank's "Retained earnings reserve," amounting to €115,361,074, and the remaining €47,410 to the "Legal reserve"; iv) the 2023 Remuneration and Incentive Policy, the policies for determining compensation in the event of early termination of office and the Report on compensation paid in fiscal year 2022, expressing an advisory vote on the latter point; v) the proposal to authorize the Board of Directors to proceed with the purchase of BFF ordinary shares (up to 8,463,819, taking into account the treasury shares already in stock).

On September 7, 2023, the Ordinary Shareholders' Meeting approved the distribution to Shareholders of a Unit dividend of up to €27,487,349.74, inclusive of the share attributable to any treasury shares held by the company at the record date, using part of the retained earnings reserve, and the distribution, gross of withholding taxes required by law, of €0.147 for each of the ordinary shares outstanding at the record date, with a coupon date (no. 8) of September 11, 2023 ("ex date").

Risks, uncertainties and impacts of the Russia/Ukraine conflict and the Israel/ Palestine war

During the fourth quarter of 2023 there are still signs of continuing tensions in the global geo-political environment arising from the conflict between Russia and Ukraine, which erupted in early 2022 and is having serious repercussions on the European and global macroeconomic situation.

Also looking ahead, the conflict represents a factor of instability that, in general, can significantly affect the macroeconomic landscapes of the countries that BFF operates in and their growth prospects. Consequently, at a consolidated level the parent has put in place continuous monitoring of the risks that 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 parent carried out a specific assessment identifying only certain counterparties that could potentially be impacted by commodity price increases. As part of this, additional monitoring was put in place. Furthermore, no customers with significant business operations with Russia, Belarus or Ukraine were identified.
- With regard to securities trading, the parent does not hold securities issued by issuers particularly exposed to risks arising from the current geo-political environment and conflict.
- With regard to profitability, note that custodian bank fees are calculated on the basis of the funds' AuM, and therefore the depreciation of these securities in the funds' portfolio had an insignificant impact compared to, for example, normal market volatilities.
- With regard to operational risks related to cyberattacks, note that the parent has not recorded any attacks of this nature, and moreover there are no operations in the countries affected by the conflict.

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

With regard to the Bank's operations, note that the impacts of the Russia/Ukraine conflict were contained also thanks to development of the business, as discussed in the part relating to commercial aspects.

In light of the Bank's business model and the nature of its risk counterparties, the Russia/Ukraine conflict did not entail changes to the model for determining expected losses.However, with the annual update of the macroeconomic scenarios, the Group Risk Management Function monitors the trend of risk parameters against the evolution of the conflict in order to understand any impact on the determination of expected losses (for more details see the section "IFRS 9 - Update to reflect the financial crisis due to the Russia/Ukraine conflict”).

On the other hand, as regards the Israel/Palestine conflict that emerged in the final months of 2023, the Parent performed analyses intended to identify potential destabilizing factors in the macroeconomic scenario and as a result the macroeconomic scenarios of the countries in which the Group operates. However, considering the results of the analyses performed, at the moment no critical elements have been identified that would require the implementation of additional activities to monitor the risks of the above-mentioned conflict.

Following is information on topics and measures already undertaken in 2022 with a view to continuity also during 2023:

- Commercial aspects: with regard to the Factoring and Lending BU, an overall increase in factoring and customer financing volumes should be noted, which is particularly higher than the general factoring market trend and was obtained despite the repricing policy enacted by the Parent, thanks to the commercial efforts made to retain existing customers and achieve greater market penetration and the tendency to reduce liquidity in the market.
  The Securities Services BU continues to see an upward trend in business initiatives put in place by the Parent, with a focus on value-added services and AIF fund custodian services.There was only a delay in the start-up of new funds established by asset management customers.
  The Payment BU also performed positively at the overall industry level, especially as it pertains to electronic/digital payments.Checks and bills of exchange on the other hand continued their system-wide decline due to the gradual abandonment of related payment instruments by the public and businesses (a trend also found in Bank of Italy analyses).

- Liquidity: the current macroeconomic scenario is characterized by a high degree of uncertainty, influenced by the continuation of the Russia/Ukraine conflict, the recent outbreak of the Israel/Palestine conflict and tensions at international level, with repercussions on the credit system as well.In this context, the Parent focused its attention on the oversight mechanisms required to monitor the liquidity position, and in particular:
  - (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 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 December 31, 2023, capital ratios were still well above the minimum requirements set by the Regulator.

On the other hand, the consequences of the Russia/Ukraine conflict and the Israel/Palestine war 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).

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, 2023, 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

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

This item therefore includes:

- debt instruments and loans that are included in an other/trading model (therefore not related to the "hold-to-collect" or "held-to-collect-and-sell" business models) or that fail the contractual characteristics test (SPPI test);

- equity instruments – which cannot be qualified as controlling or connected – for which the designation at fair value through other comprehensive income has not been made upon initial recognition;
- UCI units.

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

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

Recognition criteria

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

Financial assets at fair value through profit or loss are initially recorded at fair value, normally 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 connected 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 Parent 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 fulfill the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.

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

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

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

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

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

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

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

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

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

Equity instruments that were classified in this category are valued at fair value and the amounts recognized as a contra-entry of equity (Statement of 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 "Revaluation reserves" is transferred to the income statement under item 130 "Net impairment losses/gains for credit risks associated with: b) financial assets measured at fair value through OCI". The amount transferred to the income statement is equal to the difference between the asset's carrying amount (value at initial recognition net of any previous impairment losses already recognized in the income statement) and its current fair value.

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

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

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

Equity 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:

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

Receivables due from banks relate essentially to ordinary current accounts of the Group companies and loans with banking counterparties in the various technical forms.

Receivables due from 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 revenue 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 revaluation reserve, in the case of a reclassification to FVOCI.

Recognition criteria

With respect to receivables from factoring transactions, such assets are initially recognized at fair value, which usually corresponds to the consideration paid, including transaction costs and income which are directly attributable to the acquisition 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 face value of the receivable net of fees and commissions charged to the assignor;

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

As for financial assets related to loans originated by the Group, they are initially recognized at the loan date. 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 reversal of impairment and amortization, calculated using the effective interest rate method, taking into account the difference between the amount disbursed and the amount repayable when due, relating to ancillary costs/income directly attributable to the individual receivable.

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

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

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

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

Furthermore, BFF 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 50%. Therefore, the percentage used to prepare the 2023 financial statements remained unchanged compared to 2022 at 50%.

Furthermore, please recall that to take into consideration the collection timing of the entire provision for late payment interest, the estimate of days to collection remained at 2100 days, the value updated when the 2022 Financial Statements were drafted.

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.

Please also recall that the above analyses regarding late payment interest collection percentages and times also include an analysis of the collection percentage of the lump-sum indemnity for debt collection ("40 euros").

On the basis of the results arising from these time series, starting from the closing of the 2022 Financial Statements, the Group has decided to account for such indemnity on an accruals basis, based on the collection percentages 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, included in the time series considered, is 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".

In fiscal terms, the accrual of revenue deriving from the right to collect the "40 euros" directly forms taxable income as set forth in Art. 109, paragraph 1 of the TUIR (Italian Consolidated Income Tax Law), ("*Revenue, expense and other positive and negative components, for which the previous rules of this Section do not establish otherwise, contribute towards forming accrued income for the year; however, revenue, expense 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 financial statements.

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 IAS/IFRS and European regulations. The expected cash flows take into account the expected recovery times and the presumed realization value of any guarantees.

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

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

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

Derecognition criteria

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

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

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

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

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 consolidated 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 Parent 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 an impairment loss to the extent that the recoverable amount is less than the carrying amount. The recoverable amount is the higher of the fair value net of costs to sell and the value in use.

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

Derecognition criteria

Equity investments are 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 right-of-use assets and relating to the use of a item of property and equipment (for lessees), assets granted under an operating lease (for lessors), as well as improvements and incremental expense incurred on owned assets and right-of-use assets.

Improvements and incremental expense 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 right-of-use assets, recognized on the basis of the provisions of IFRS 16, to which they refer.

Improvements and incremental expense 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 expense incurred subsequently (e.g., ordinary maintenance costs) are recognized, in the period incurred, in the income statement under item 190 b) "other administrative expense," 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. Depreciation begins as of the date on which the property, equipment and investment property are ready for the use intended by the management.

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 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 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 right-of-use assets under lease contracts

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

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

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

The lessee may choose to recognize lease payments:

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

The lease term is determined taking into account:

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

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

- measure the right-of-use asset at cost, net of accumulated depreciation and accumulated 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 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 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 accounting standard, 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 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, 2023, the Group did not recognize any impairment loss on the amount of goodwill recorded in the consolidated financial statements relating to the allocation of the acquisition cost of the BFF Polska Group, BFF Finance Iberia and BFF Techlab S.r.l.

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".

8 - Non-current assets held for sale or discontinued operations

The asset item "Non-current assets held for sale or discontinued operations" and liability item "Liabilities linked to assets held for sale" include non-current assets or groups of assets/liabilities for which a disposal process has been initiated and the sale of which is deemed highly likely. These assets/liabilities are measured at the lower between their carrying amount and fair value less costs to sell, with the exception of certain types of assets (e.g. financial assets falling within the scope of application of IFRS 9) for which IFRS 5 specifically requires the application of the valuation criteria of the applicable accounting standard.

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 the 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 expense 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 consolidated 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 consolidated 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 company.

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 consolidated 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 measured 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 measured 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 translated of monetary elements at rates other than those of initial translated, or of translated 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 revenue 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 accrued up to December 31, 2023 (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, 2023, 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 vesting starting on January 1, 2007 must be transferred to the Italian social security institute (INPS) or to supplemental pension funds, they qualify as a "defined contribution plan", since the employer's obligation ceases once payment is made and the contribution is recorded in the income statement on an accrual basis.

The costs for servicing the plan are recorded under personnel expense, item 190 "Administrative expense: a) personnel expense" as the net total of contributions paid, contributions accrued in previous periods and not yet recorded and expected revenue from assets servicing the plan. Actuarial gains and losses, as envisaged by IAS 19, are recorded in a valuation 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 revenue.

Revenue

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

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

a. the parties to the contract have approved the contract and have undertaken to meet their respective obligations;
b. the entity can identify the rights of each of the parties as regards the goods or services to be transferred;
c. the entity can identify the conditions of payment of the goods or services to be transferred;
d. the contract has commercial substance (or the risk, timing or amount of the future cash flows of the entity are destined to change following the contract);
e. it is likely that the entity will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating the likelihood of receiving the amount of the consideration, the entity must take into account only the capacity and intention of the customer to pay the amount of the consideration when it will be due.

Interest income and expense

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

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

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, in the calculation of amortized cost. As a matter of fact, BFF and BFF Finance Iberia have time series of data concerning collection percentages and times – acquired through suitable analysis tools – enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series are updated on an annual basis when the 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 2023. This confirmed an estimated recovery percentage much higher than 50%. Therefore, the percentage used to prepare the 2023 financial statements is 50%, with estimated collection days of 2100.

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 revenue 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 face value of the securities the effective interest rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount.

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

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

- when the receivables are entrusted for management (fees and commissions on acceptance, and handling expense);
- 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 revenue linked to periodic fees that could include the provision of multiple services, transaction fees and one-off revenue.

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 revenue, 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.

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.

As of December 31, 2023, the option rights relating to the stock option plans in place amounted to 13,221,900 options assigned and not yet exercised, of which 8,996,900 could be exercised. As of December 31, 2022, the option rights relating to the Stock Option Plans in place amounted to 16,169,288 options assigned and not yet exercised, of which 1,086,788 could be exercised.

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.
  As of December 31, 2023, 96,000 were assigned and still exercisable as they have vested, representing all plan shares still in existence.The number of options outstanding as at December 31, 2022 was 1,086,788, of which 232,000 could not yet be 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.

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.

As of December 31, 2023, the number of stock options granted and not exercised is 5,461,400, of which 2,227,700 have vested and are exercisable. The number of options outstanding as at December 31, 2022 was 8,384,500.None of these options could be exercised yet.

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" or "bank" and/or its subsidiaries, having the following characteristics.

- *Subject*: the plan provides for the allocation of a maximum of 9,700,000 options divided into three tranches. The options can be of two types: (i) Class A options, which grant the right to receive newly issued ordinary shares of the Company, "equity settled", and (ii) Class B options, which grant the right to receive phantom shares, to be converted into cash in accordance with the provisions of the plan, "cash settled."
- *Vesting conditions (exercise)*: options granted under each tranche vest upon completion of the three-year period from the relevant grant date.Vesting is also subject to the 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 Parent and the other detailed forecasts of the plan, already disclosed to the market in accordance with applicable regulations.

As of December 31, 2023, 7,664,500 options have been granted (of which 3,439,500 are equity settled and cash-less and 4,225,000 are cash settled/phantom shares), none of which yet exercisable.In 2022, 5,593,000 options had been granted, of which 2,500,500 equity settled and cash-less and 3,092,500 cash settled/phantom, none of which yet exercisable.

Use of estimates and assumptions in the preparation of financial reporting

As part of the preparation of the consolidated financial statements, the Parent had to make valuations and estimates that influence the application of accounting standards 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.

In accordance with IFRS, the elaboration of estimates by management is a prerequisite for the preparation of the consolidated financial statements at December 31, 2023. 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 emergency situation deriving from the Russia/Ukraine conflict, the current values recognized in the consolidated financial statements at December 31, 2023 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 due to BFF, based on an analysis of historical multi-year company data;
- Impairment losses on loans and receivables and other financial assets in general;
- The fair value of financial instruments used for financial disclosure purposes;
- The fair value of financial instruments not traded in active markets, determined with measurement models;
- Expense 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 as of December 31, 2023, there are no trigger events that could impact the valuation of equity investments, goodwill and intangible assets with a finite useful life recorded as of December 31, 2023.

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 bad 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.

In the fourth quarter of 2023, the Parent – at consolidated level – revised the methodological set-up of the staging allocation, establishing criteria more representative of the deterioration of credit risk with respect to the Group's business and the methodology of forward-looking and point in time components relating to Probability of Default, which is more aligned with market best practices and the specific nature of the business.

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 the 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 the 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:

- <u>quantitative criterion</u>: definition of a "delta rating" threshold for transfer to stage 2;
- <u>qualitative criterion</u>: use of transfer logic triggers, i.e., identification of events triggering transfers between stages;
- <u>practical expedients</u>: 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:

- for Italian Municipality and Province counterparties, the internal PRA (Pricing Risk Adjusted) rating is considered an indicator of a possible deterioration of credit quality. In particular, a relative threshold is defined which has the aim of measuring the downgrade in the PRA rating between the origination date and the reporting date and classifying in stage 2 if the notching down of the defined risk categories is equal to or greater than 1;
- a relative threshold is defined, which has the purpose of measuring the ECAI 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;
- for exposures originating from Factoring activities, if days continuously past due, calculated according to the criteria adopted by the Group on the definition of default, exceed 30, then the counterparty is classified in Stage 2; for exposures originating from Lending activities (operations of the Polska Group), days past due are calculated at individual transaction level, comparing the reporting date with the maturity date: in this case, if the difference is greater than 30, then the transaction is allocated to Stage 2. For other technical forms, including those deriving from Custodian Bank activities, days past due are calculated considering the overdraft in relation to the credit line attributed to the counterparty: in this case, if days past due exceed 30, then the transaction is allocated to 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.

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.

In order to develop PDs according to IFRS 9, the Group uses the matrices of rating agencies (ECAI) relating 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 ex-post adjustments of TTC multi-period PDs on the initial years, considering the point-in-time and forward-looking information given by forecasts on default rates. With a view to applying this adjustment, the specific methodological approach is broken down into the following steps:
   - macroeconomic model: definition of the macroeconomic scenarios to be applied (i.e., baseline, adverse and positive); in particular, the model defined by the Group calls for the conditioning of the TTC matrix by means of the application of 3 macroeconomic scenarios (i.e., projections of macroeconomic variables selected as regressors of the satellite model);
   - satellite model: use of regression models for the estimate of forecast default rates; the satellite models used are differentiated by legal entity, one for BFF (including branches and FOSs) and Spain and one for Poland and by counterparty segment (Public Sector, Non-Public and Financial Intermediaries);
   - conditioning model: in order to estimate a PD measurement inclusive of point-in-time and forward-looking components (i.e., PIT FLI PD), the TTC matrix is conditioned using the Merton - Vasicek methodology, a widespread market practice amongst banking institutions of similar size;
   - multi-scenario model: from the PIT FLI marginal migration matrices over the projection horizon, cumulative curves (CPD) are estimated up to 3 years, applying an appropriate non-homogeneous Markovian stochastic process, or with time-dependent migration matrices that vary over time. This makes it possible to obtain the PIT FLI cumulative migration matrix at t projection years for each scenario and weighted with the relative likelihood of occurrence.

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 modeling, the following cases have been defined:

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

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

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

1. a qualitative methodology, based on which the due date is determined on the basis of the conditions of the contract or the review by the Credit Evaluation O.U.;
2. a quantitative methodology based on a behavioral model.

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

As already mentioned, during the fourth quarter of 2023, the Risk Management Function developed a new forward-looking model for the conditioning of PDs, replacing the previous one which depended on the assumptions of the external infoprovider. The new model is based on the macroeconomic scenarios published by the EBA (European Banking Authority) during the 2023 stress test.

In continuity with the previous scenarios provided by the other infoprovider, these scenarios are characterized by an exacerbation of financial conditions and a considerable deterioration of economic outlooks caused by the high inflation generated by the Russia/Ukraine conflict. Furthermore, these scenarios also reflect an inversion in the real estate market trend in the presence of a decrease in household debt service capacity triggered by high interest rates.

Starting in the next few quarters, the Function will monitor the evolution of the macroeconomic variables used in the forward-looking model in order to identify any significant changes compared to the values used in the model updating phase.

As regards the Israel/Palestine conflict that began in late 2023, considering the results of the analyses performed by the Parent, at the moment no critical elements have been identified that would require the implementation of additional activities to monitor the risks of the above-mentioned conflict.

A4 - INFORMATION ON FAIR VALUE

Qualitative information

The IFRS 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, 2023 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.

A.4.2 Processes and sensitivity of valuations

At December 31, 2023 the Group does not own financial instruments classified in fair value level 3.

A.4.3 Fair value hierarchy

At December 31, 2023, as in 2022, there were no transfers between Level 1, Level 2 and Level 3.

A.4.5 Fair value hierarchy

Quantitative information

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

(Values in thousand euros)

Financial assets / liabilities measured at fair value	12.31.2023			12.31.2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	6	166,017	-	7	90,429	104
a) financial assets held for trading	6	1,161	-	7	204	
b) financial assets carried at fair value	-		-	-	-	-
c) other financial assets subject to mandatory fair value measurement		164,856			90,225	104
2. Financial assets measured at fair value through other comprehensive income	9,366	128,153	-	225	127,873	-
3. Hedging derivatives						
4. Property, equipment and investment property						
5. Intangible assets						
Total	**9,372**	**294,170**	**-**	**232**	**218,303**	**104**
1. Financial liabilities held for trading		1,215			950	
2. Financial Liabilities at fair value						
3. Hedging derivatives					14,314	
Total		**1,215**	**-**		**15,263**	

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 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 from other levels								
2.4. Other increases								
3. Decreases					**104**			
3.1 Sales								
3.2 Repayments								
3.3 Losses recognised in								
3.3.1 Profit or loss					104			
- of which losses								
3.3.2 Equity		X	X	x				
3.4 Transfers to other levels								
3.5 Other decreases								
4. Closing balances					-			

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	12.31.2023				12.31.2022			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	10,805,826	4,891,959		5,848,643	11,895,850	5,946,465		5,766,623
2. Investment property								
3. Non-current assets held for sale and discontinued operations	8,046			12,000				
Total	**10,813,872**	**4,891,959**	**-**	**5,848,643**	**11,895,850**	**5,946,465**		**5,766,623**
1. Financial liabilities measured at amortized cost	10,814,197			10,814,197	11,994,763	38,648		11,994,763
2. Liabilities linked to assets held for sale								
Total	**10,814,197**	**-**	**-**	**10,814,197**	**11,994,763**	**38,648**		**11,994,763**

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

€257,208 thousand

1.1 Cash and cash equivalents: breakdown

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
a) Cash	205	207
b) Current accounts and sight deposits at Central Banks	157,536	489,810
c) Current accounts and sight deposits at banks	99,467	144,863
Total	**257,208**	**634,879**

As of December 31, 2023, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €157.5 million (compared to €489.8 million as of December 31, 2022), as well as current accounts held by the Parent and its subsidiaries at third-party banks as of December 31, 2023, amounting to €99.5 million. Specifically, "Current accounts and sight deposits at banks" mainly refer for €81.3 million to BFF Bank, for €17.3 million to BFF Polska Group, for €380 thousand to BFF Finance Iberia and €52 thousand to BFF Techlab.

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

€166,023 thousand

This item is broken down as follows:

- Financial assets held for trading of €1.2 million, which primarily includes the positive fair value of derivative instruments classified as trading assets but used for the operational hedges of exchange rate risk that the Group is exposed to;
- Other financial assets subject to mandatory fair value measurement of €164.9 million, which mainly include the "UCI units" managed in part by the "Italian SGR Investment Fund" and, to a lesser extent, by the "Atlante Fund" and, as of 2022, by the Ingenii Fund, with units subscribed by the Parent for a value of €135 million at December 31, 2023. The value of UCI units recognized in the 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 12.31.2023			Total 12.31.2022		
	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	5			6		
2. Equity securities	1			1		
3. UCI units						
4. Loans						
4.1 Reverse repurchase agreements						
4.2 Others						
Total (A)	**6**	**-**	**-**	**7**	**-**	**-**
B. Derivatives						
1. Financial derivatives						
1.1 held for trading		1,140			204	
1.2 connected to the fair value option						
1.3 others						
2. Credit derivatives						
2.1 held for trading		21				
2.2 connected to the fair value option						
2.3 others						
Total (B)	**-**	**1,161**	**-**	**-**	**204**	**-**
Total (A+B)	**6**	**1,161**	**-**	**7**	**204**	**-**

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 12.31.2023	Total 12.31.2022
A. On-statement of financial position		
1. Debt securities	5	6
a) Central Banks		
b) Public administrations	2	3
c) Banks	3	3
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)	**6**	**7**
B. Derivatives		
a) Central counterparties		
b) Others	1,161	204
Total (B)	**1,161**	**204**
Total (A+B)	**1,167**	**211**

2.5 Other financial assets subject to mandatory fair value measurement: breakdown by type

(Values in thousand euros)

Items/values	Total 12.31.2023			Total 12.31.2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						**104**
3. UCI units		**164,856**			**90,226**	
4. Loans						
4.1 Reverse repurchase agreements						
4.2 Others						
Total	**-**	**164,856**	**-**	**-**	**90,226**	**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 12.31.2023	Total 12.31.2022
1. Equity securities		
of which: banks		
of which: other financial companies		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	**164,856**	**90,226**
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	**164,856**	**90,330**

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

€137,520 thousand

At December 31, 2023 this item included:

- the stake in the Bank of Italy of €125 million;
- other minor investments worth approximately €12 million.

Regarding minor holdings of equity securities, note that in 2023 the Parent purchased a share of the company "General Finance S.p.A." for €7 million, measured at fair value at December 31, 2023 at €9 million.

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

(Values in thousand euros)

Items/values	Total 12.31.2023			Total 12.31.2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities	9,366	128,153		225	127,873	
3. Loans						
Total	**9,366**	**128,153**	**-**	**225**	**127,873**	**-**

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 12.31.2023	Total 12.31.2022
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	**137,520**	**128,098**
a) Banks	125,534	125,432
b) Other issuers:	11,985	2,666
- other financial companies	10,698	1,379
of which: insurance companies		
- non-financial companies	1,287	287
- 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	**137,520**	**128,098**

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

€10,805,826 thousand

This item is broken down as follows:

- Loans and receivables with banks of €593,561 thousand;
- Loans and receivables with customers of €10,212,265 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Held to Collect (HTC) securities portfolio of €4,957,182 thousand.

Loans and receivables with banks

€593,561 thousand

4.1 Financial assets measured at amortized cost: breakdown by type of loans and receivables with banks from banks

(Values in thousand euros)

Type of operations/Values	Total 12.31.2023						Total 12.31.2022					
	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	**203,963**					**203,963**	**185,349**					**185,349**
1. Time deposits	14,757			X	X	X	11,714			X	X	X
2. Mandatory reserve	189,206			X	X	X	173,635			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	**389,598**					**389,598**	**292,854**					**292,854**
1. Loans	389,598						292,854					
1.1. Current accounts				X	X	X				X	X	X
1.2. Time deposits	15,966			X	X	X	2,910			X	X	X
1.3. Other loans:	373,632			X	X	X	289,943			X	X	X
- Reverse repurchase agreements	299,776			X	X	X	183,994			X	X	X
- Loans for leases				X	X	X				X	X	X
- Others	73,856			X	X	X	105,950			X	X	X
2. Debt securities												
2.1. Structured securities												
2.2. Other debt securities												
Total	**593,561**	**-**	**-**	**-**		**593,561**	**478,203**	**-**		**-**	**-**	**478,203**

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

As of December 31, 2023, the item "Loans and receivables with Central Banks - Mandatory Reserve," amounting to €189.2 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 €14,757 thousand.

"Loans and receivables with banks - time deposits" referred for €15,966 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 €299.8 million, refers to contracts governed by Global Master Repurchase Agreements (GMRAs) with other banks.

"Loans and receivables with banks – Others" 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

€10,212,265 thousand, including Held to Collect securities of €4,957,182 thousand

This item mainly includes loans to customers of €5,255.1 million (mainly amounts due from debtors in relation to factoring activities) and €4,957.2 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 accruals basis, BFF Bank updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the consolidated financial statements are prepared. After this analysis, on the basis of the time series, the Parent kept the parameters relating to the approach for estimating late payment interest to be included in amortized cost unchanged at 50% for recovery rates and 2,100 days for collection times.

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 2023, the use of the same parameters as those used by BFF Bank.

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 revenue 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 €869 million, of which only €396 million was recognized in the income statement during the year and in previous years.

The total net amount of impaired exposures for BFF Banking Group is €333.4 million. Of this amount, €99.8 million relates to bad loans (including €92.6 million relating to municipalities and provincial governments in financial distress, of which €5.6 million were purchased already impaired) and €13.7 million to unlikely-to-pay exposures. Past due exposures amounted to €219.9 million, of which 93.9% relating to public counterparties.

This item also includes lump-sum debt collection expense (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 expense that "*The creditor is due, without any placement in default being required, a lump-sum amount of €40 by way of compensation for damages. This is without prejudice to proof of higher damages, which may include debt collection assistance costs*".

BFF's interpretation has been confirmed by the 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 expense to develop a time series which currently has a depth of 5 years. Considering recent case law, the rising collection trend and growing collection percentages aligned with those of late payment interest, starting from December 31, 2022 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 expense to which the Group is entitled and not yet collected for trade receivables purchased outright 40 euros provision), amounting to €264.0 million, of which only €132.0 million was transferred to the income statement during the year and in previous years as a result of the change in the estimate on the basis of the percentage of collection relating to the time series, in accordance with the provisions of IAS 8.

Debt securities classified in the HTC portfolio, equal to €4,957,182 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, 2023, this portfolio consists primarily of government securities purchased to hedge liquidity risk and to optimize the cost of money. It has a total face value of €4,962 million and fair value of €4,892 million, with a negative difference (before taxes) of around €65 million compared to the carrying amount on the same date, not recognized in the consolidated financial statements.

4.2 Financial assets measured at amortized cost: breakdown by type of loans and receivables to customers

€10,212,265 thousand

(Values in thousand euros)

Type of operations/ Values	Total 12.31.2023						Total 12.31.2022					
	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	**4,921,668**	**327,831**	**5,584**			**5,255,082**	**5,004,658**	**278,090**	**5,672**			**5,288,419**
1.1 Current accounts	21,049	447		X	X	X	3,444	391		X	X	X
1.2 Reverse agreements	52,424			X	X	X	67,897			X	X	X
1.3 Mortgages				X	X	X				X	X	X
1.4 Credit cards and personal loans, including salary-backed loans	62			X	X	X	173			X	X	X
1.5 Finance leases	520			X	X	X	1,619			X	X	X
1.6 Factoring	3,233,839	272,207	5,584	X	X	X	3,250,809	237,384	5,672	X	X	X
1.7 Other loans	1,613,774	55,177		X	X	X	1,680,716	40,315		X	X	X
2. Debt securities	**4,957,182**			**4,891,959**			**6,129,228**			**5,946,465**		
2.1. Structured securities												
2.2. Other debt securities	4,957,182			4,891,959			6,129,228			5,946,465		
Total	**9,878,850**	**327,831**	**5,584**	**4,891,959**	**-**	**5,255,082**	**11,133,885**	**278,090**	**5,672**	**5,946,465**	**-**	**5,288,419**

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

This item breaks down as follows:

- Performing factoring loans amounted to a total of €3,233,839 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 €2,544,768 thousand for BFF Bank and €524,656 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 expense when they fall due are acquired upon purchase.

Trade receivables purchased below face value totaled €22,872 thousand in relation to late payment interest and €2,896 thousand for collection expense.

Performing non-recourse factoring loans of BFF Polska Group totaled €164,415 thousand.

- Other performing loans due from customers amounted to €1,613,774 thousand. They mainly include:
  - accrued late payment interest of about €218,939 thousand, including €192,013 thousand relating to BFF Bank and €26,927 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. Therefore, of the €395.8 million in late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2023, €218.9 million refers to the item under review, while of the remaining amount, €176.9 million was recognized under "factoring" and €18.8 million under other loans past due;
  - collection expense of €125,537 thousand, of which €92,133 thousand relating to BFF Bank, €29,768 thousand referring to the Spanish subsidiary and €1,382 thousand relating to BFF Central Europe; this amount, along with the €8,891 thousand classified under impaired loans, has already been transferred to the income statement and refers to collection expense already accrued on trade receivables purchased outright;
  - security deposits of approximately €73.6 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 €128.1 million;
  - financing activities of BFF Polska Group of €948,524 thousand.
- Reverse repurchase agreements amounting to €52,424 thousand. These are exposures arising from contracts with customers regulated by the Global Master Repurchase Agreement (GMRA).
- Current account credit facilities amounting to €21,049 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 €520 thousand.
- BFF Banking Group's net impaired assets amounted to a total of €333,414 thousand, compared to €283,762 at December 31, 2022. The increase was caused primarily by impaired past due exposures (+€35 million compared to the previous year). They include:
  - Non-performing loans are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the parent. At December 31, 2023, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €99,806 thousand, of which €5,584 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €92,644 thousand, accounting for 92.8% of

the total. Gross non-performing loans amounted to €120,923 thousand (€104,663 thousand in 2022). The related impairment totaled €21,117 thousand (€18,290 thousand in 2022). 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 €1 million, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €121,926 thousand and relevant adjustments totaled €22,120 thousand.
With reference to the parent, at December 31, 2023 total non-performing loans, net of any estimated impairment losses, amounted to €93,228 thousand, of which €92,644 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. In this regard, the Parent asked the Bank of Italy for an interpretative clarification concerning the requirement for automatic classification - or without an intermediary's autonomous assessment - of receivables in financial distress as non-performing, as the Parent expects such credit exposures to be fully repaid.
Specifically, the amount of €5,584 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 €23,239 thousand. After estimated impairment losses of €18,076 thousand they amounted to €5,163 thousand.

- BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions.These exposures reflect the judgment made by the intermediary about the unlikelihood that – excluding such actions as the enforcement of guarantees – the debtor will fully fulfill (for principal and/or interest) its credit obligations.This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
  At December 31, 2023, gross exposures classified as unlikely to pay amounted to €19,125 thousand (€16,374 million in 2022), of which €15,840 thousand attributable to BFF Polska Group (€14,439 thousand in 2022), €3,087 thousand to the Parent (€1,593 thousand in 2022) and €198 thousand to BFF Finance Iberia (€342 thousand in 2022).The total net value is €13,718 thousand (€12,132 thousand in 2022), referring primarily to BFF Polska Group.
- Net past due exposures of BFF Banking Group amounted to €219,891 thousand. They refer to the parent for €206,520 thousand, to the Spanish subsidiary for €12,720 thousand and to BFF Polska Group for €651 thousand. 93.9% of these exposures relate to public counterparties.

Please recall that impaired assets are classified in keeping with the prudential definition of default (i.e. past due, unlikely to pay and non-performing), which assumes that there is an effective 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. The actual credit risk profile assumed by the BFF Group is limited, as it has been assumed with respect to public bodies, and the classification described above could result in significant distortions in the representation of the group's accounting, prudential and capital strength information. This is also corroborated by the very limited credit losses recorded.

Fair value

The financial statements item "Loans and receivables with customers" mainly refers to non-recourse trade receivables, for which an active and liquid market is not available. In particular, these are past due trade receivables due from public administration agencies, for which the price in a hypothetically independent transaction cannot be easily determined, partly due to difficulties in reasonably assessing the liquidity risk that would be accepted by the market for such transactions.

Consequently, the carrying amount (determined based on the amortized cost and taking into account any individual and collective impairment), in relation to the nature, type, duration of such assets and related collection projections, was deemed to be substantially representative of the fair value of these trade receivables on the reporting date.

4.3 Financial assets measured at amortized cost: breakdown by borrower/issuer of loans to customers

(Values in thousand euros)

Type of operations/Values	Total 12.31.2023			Total 12.31.2022		
	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:	**4,957,182**			**6,129,228**		
a) Public administrations	4,950,043			6,129,228		
b) Other financial companies	7,139,691					
of which: insurance companies						
c) Non-financial companies						
2. Loans to:	**4,921,668**	**327,831**	**5,584**	**5,004,658**	**278,090**	**5,672**
a) Public administrations	4,388,259	293,572	5,584	4,243,798	254,674	5,672
b) Other financial companies	223,602	447		516,352	391	
of which: insurance companies	1			1		
c) Non-financial companies	256,794	26,653		191,446	19,393	
d) Households	53,014	7,159		53,061	3,632	
Total	**9,878,850**	**327,831**	**5,584**	**11,133,885**	**278,090**	**5,672**

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	4,959,156					1,974				
Loans	4,939,816		577,110	355,498	5,785	1,212	485	27,668	201	
Total 12.31.2023	**9,898,972**	**-**	**577,110**	**355,498**	**5,785**	**3,186**	**485**	**27,668**	**201**	**-**
Total 12.31.2022	**10,465,795**	**-**	**1,148,361**	**301,329**	**5,678**	**1,498**	**569**	**23,240**	**6**	**-**

(*) Value presented for informative purposes.

Section 7 - Equity investments - Item 70

€13,160 thousand

The amount refers to the equity investment in Unione Fiduciaria of 24% of the capital thereof, as well as the equity investment in two law firms in which BFF Polska is a limited partner.

Note that the aforementioned investments are measured 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.	24%	24%
C. Exclusively controlled companies						
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 Wspolnik 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 income components, after taxes (2)	Comprehensive (expense) income (3) = (1) + (2)
A. Jointly controlled companies									
B. Companies over which significant influence is exercised									
1. Unione Fiduciaria S.p.A.	13,068	80,082	79,883	21,930	199		199		199
C. Exclusively controlled companies									
1. Kancelaria Prawnicza Karnowski I Wspolnik sp.k.	5	528	275	1,084	246	-	246	-	246
2. Restrukturyzacyjna Prawnicza Karnowski I Wspolnik sp.k.	88	83	7	3	(11)	-	(11)	-	(11)

7.5 Equity investments: annual changes

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
A. Opening balance	13,656	13,484
B. Increases	6	174
B.1 Purchases		
B.2 Impairment gains		
B.3 Revaluations	-	174
B.4 Other changes	6	-
C. Decreases	(502)	(2)
C.1 Sales		
C.2 Impairment losses		
C.3 Impairment	(502)	
C.4 Other changes		(2)
D. Closing balance	13,160	13,656
E. Total revaluations		
F. Total adjustments		

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

€60,690 thousand

9.1 Property and equipment with functional use: breakdown of assets measured at cost

(Values in thousand euros)

Assets/Values	Total 12.31.2023	Total 12.31.2022
1. Proprietary assets	46,163	41,272
a) land	18,890	22,575
b) buildings	24,868	16,852
c) furniture	332	199
d) electronic systems	747	1,070
e) others	1,325	576
2. Right-of-use assets	14,527	12,505
a) land		
b) buildings	13,806	11,822
c) furniture		
d) electronic systems	5	
e) others	716	683
Total	**60,690**	**53,777**
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:	**22,575**	**36,968**	**2,987**	**11,815**	**6,900**	**81,245**
A.1 Total net impairment losses		(7,722)	(2,787)	(10,745)	(5,642)	(26,896)
A.2 Opening net balances	22,575	29,246	199	1,070	1,259	54,349
B. Increases:	**-**	**17,103**	**338**	**490**	**1,669**	**19,601**
B.1 Purchases		12,822	233	482	579	14,116
B.2 Capitalized leasehold improvements						
B.3 Reversals of impairment losses						
B.4 Increases in fair value through:						
a) equity						
b) profit or loss						
B.5 Exchange rate gains		115			29	143
B.6 Transfers from investment property			X	X	X	
B.7 Other changes		4,166	105	8	1,061	5,341
C. Decreases:	**(3,685)**	**(7,675)**	**(205)**	**(809)**	**(886)**	**(13,260)**
C.1 Sales					(7)	(7)
C.2 Depreciation		(3,087)	(204)	(807)	(706)	(4,804)
C.3 Impairment losses charged to:						
a) equity						
b) profit or loss						
C.4 Decreases in fair value through:						
a) equity						
b) profit or loss						
C.5 Exchange rate losses		(15)			(7)	(22)
C.6 Transfers to:						
a) investment property			X	X	X	
b) non-current assets held for sale and discontinued operations	(3,685)	(4,278)			(83)	(8,046)
C.7 Other changes		(295)	(1)	(3)	(83)	(381)
D. Closing net balances	**18,890**	**38,674**	**333**	**751**	**2,041**	**60,690**
D.1 Total net impairment losses		(15,837)	(2,989)	(11,552)	(8,162)	(38,539)
D.2 Closing Gross Amount	18,890	54,511	3,322	12,303	10,203	99,229
E. Measurement at cost	**18,890**	**54,511**	**3,322**	**12,303**	**10,203**	**99,229**

At December 31, 2023, the item “Property, equipment and investment property” amounted to a total of

€60,690 thousand. Of this amount, €20,377 thousand related to BFF Bank, €37,135 thousand related to BFF Immobiliare, €2,218 thousand to BFF Polska Group, 801 thousand to BFF Finance Iberia and €159 thousand related to BFF Techlab.

At December 31, 2023 the item relating to BFF Bank was mainly composed of:

- Land in the amount of €18,890 thousand, of which €2,640 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 of €24,868 thousand include the Parent's Rome property at Via Elio Chianesi 110/d owned by the former DEPObank, amounting to €3,979 thousand, and the amount "under construction" of Casa BFF owned by BFF Immobiliare, totaling €20,885 thousand;
- Right-of-use assets relating to the application of IFRS 16 on leases of €14,527 thousand, of which €13,806 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 accordance with the provisions of IFRS 5, after the sale agreement was signed for the property located at via Domenichino 5, owned by the Parent, at December 31, 2023 its carrying amount of €8,046 thousand was reclassified from the item in question to asset item 120 in the statement of financial position "Non-current assets and discontinued operations". The sale will be completed by the end of 2024.

Section 10 - Intangible assets - Item 100

€74,742 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 12.31.2023		Total 12.31.2022	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	X	30,957	X	30,957
A.2 Other intangible assets	43,785	-	39,198	-
of which: software	13,960		11,849	
A.2.1 Assets measured at cost:				
a) Intangible assets created internally				
b) Other assets	43,785		39,198	
A.2.2 Assets measured at fair value:				
a) Intangible assets created internally				
b) Other assets				
Total	**43,785**	**30,957**	**39,198**	**30,957**

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 (formerly MC3 – Informatica) in the final quarter of 2022 of €83 thousand, as well as the Customer Contracts amounting to €19,129 thousand.

With respect to goodwill with an indefinite useful life recognized in the consolidated financial statements and in line with what is described in IAS 36, an impairment test was performed at December 31, 2023 on goodwill recognized in the consolidated financial statements, concerning BFF Polska Group, BFF Iberia (formerly IOS Finance) and BFF Techlab in order to determine its recoverable amount.

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).

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

The impairment test aims to check for any losses in the value of goodwill and intangible assets with an indefinite useful life (the "Intangible assets") and consists of verifying that the recoverable amount of the cash generating unit or group of cash generating units to which the Intangible assets are allocated is no lower than their carrying amount.The recoverable amount is the higher between the value in use and the fair value less costs to sell (IAS 36.18).

The estimation process requires the appropriate analyses to be performed on the difference between the final figures and the budget to understand the reason underlying these differences and possibly to reflect any corrections in the outlook flows used in the assessments.

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 oriented towards the determination of fair value based on the market multiples approach.

With respect to the BFF Polska CGU, the estimated value in use which emerged from the impairment test was €217.1 million against a carrying amount of €154.2 million.

On the other hand, as regards the BFF Finance Iberia CGU, the related estimated value in use that emerged from the impairment test amounted to €239.8 million, against a carrying amount of €51.1 million.

The application of the market multiples approach to the BFF Techlab CGU returned an Enterprise Value of €1.0 million.This value was higher than the equity "cum goodwill" allocated (equal to €0.4 million) and therefore there is no need to recognize any impairment loss.

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 CGUs, based on which:

- Coe = Risk Free$_t$ +β x (Equity Risk Premium) + Size Premium;
- Risk Free$_t$ = Rate of risk-free assets calculated as the 6-month average of the gross yield of ten-year government bonds of the countries where the CGUs operate (source: Datastream) and equal to 5.6% for Poland and 3.6% for Spain;
- β= coefficient expressing the risk of a security, estimated for the CGUs as equal to 1.2x and based on monthly historical yields at 5 years of the securities of comparable companies and the respective local market indexes. 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.
- Equity Risk Premium = market risk premium, or the average market yield, determined on the basis of the long-term yield spread between equities and bonds (source: Kroll 2023). This risk premium is 5.5%.
- Specific Risk Premium = this is primarily the risk premium due to reduced size, equal to 3.1%.

The “g” growth rate was prudently assumed to be equal to the inflation rate forecast by the IMF in October 2023 for Poland, 2.5% and for Spain, 1.7%.

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, taking into account the changes taking place during the year.

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.

For both CGUs, increases in the cost of capital and reduction of the growth rate of 1% did not have impacts on the test results.

Lastly, no trigger events were identified relating to other intangible assets with a finite useful life. Therefore, consistent with the requirements of IAS 36, no impairment test was performed.

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	**30,957**			**44,978**		**75,935**
A.1 Total net impairment losses				(5,780)		(5,780)
A.2 Opening net balances	30,957	-	-	39,198	-	70,155
B. Increases				**13,068**		**13,068**
B.1 Purchases				12,659		12,659
B.2 Increases internally-generated intangible 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				409		409
B.6 Other changes						
C. Decreases				**(8,481)**		**(8,481)**
C.1 Sales						
C.2 Amortization and net impairment losses						
- Amortization	X			(8.251)		(8.251)
- Impairment						
+ Equity	X					
+ Profit or loss						
C.3 Decreases in fair value						
- to equity	X					
- to income statement profit or loss	X					
C.4 Transfers to non-current assets held for sale						
C.5 Exchange rate losses				(175)		(175)
C.6 Other changes				(55)		(55)
D. Closing net balances	**30,957**	**-**	**-**	**43,785**	**-**	**74,742**
D.1 Total net impairment losses	-	-	-	(14,491)	-	(14,491)
E. Closing gross balances	**30,957**	**-**	**-**	**58,275**	**-**	**89,232**
F. Measurement at cost	**30,957**	**-**	**-**	**58,275**	**-**	**89,232**

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

As at December 31, 2023 current tax assets and liabilities amount to €57,414 thousand and €2,472 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.

11.1 Deferred tax assets: breakdown
€56,244 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
€121,318 thousand

Deferred tax liabilities mainly refer to the taxes on BFF Bank's late payment interest, recognized in the consolidated 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 Italian Presidential Decree no. 917 of 1986, as well as prior years' loss allowance.

11.3 Changes in deferred tax assets (through profit or loss)

€56,000 thousand

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
1. Initial amount	**59,792**	**58,678**
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	3,972	10,560
2.2 New taxes or increases in tax rates		
2.3 Other increases	366	-
3. Decreases		
3.1 Deferred taxes canceled during the year		
a) reversals	(4,342)	(8,844)
b) impairment of non-recoverable items		
c) changes in accounting criteria		
d) others	(2,702)	(547)
3.2 Reductions in tax rates		
3.3 Other reductions		
a) transformation into tax credits, Italian Law 214/2011		
b) other	(1,086)	(55)
4. Final amount	**56,000**	**59,792**

11.4 Changes in deferred tax assets pursuant to Law n. 214/2011
€12,897 thousand

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
1. Initial amount	**15,187**	**17,400**
2. Increases		
3. Decreases		
3.1 Reversals	(2,290)	(2,212)
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	**12,897**	**15,187**

11.5 Changes in deferred tax liabilities (through profit or loss)
€118,986 thousand

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
1. Initial amount	**104,717**	**96,256**
2. Increases		
2.1 Deferred tax liabilities recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others	16,388	11,528
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities canceled during the year		
a) reversals	(2,119)	(3,067)
b) due to changes in accounting criteria		
c) others		
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	**118,986**	**104,717**

11.6 Changes in deferred tax assets (recorded in equity)

€244 thousand

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
1. Initial amount	**403**	**451**
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	182	261
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)
3.2 Reductions in tax rates		
3.3 Other reductions	(341)	
4. Final amount	**244**	**403**

11.7 Changes in deferred tax liabilities (recorded in equity)
€2,332 thousand

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
1. Initial amount	**287**	**(600)**
2. Increases		
2.1 Tax liabilties recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others	885	
2.2 New taxes or increases in tax rates		
2.3 Other increases	1,162	970
3. Decreases		
3.1 Tax liabilties canceled during the year		
a) reversals		
b) due to changes in accounting criteria		
c) others	(2)	(83)
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	**2,332**	**287**

Section 12 - Non-current assets held for sale and discontinued operations and associated liabilities - Asset item 120 and Liability item 70

12.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
A. Assets held for sale		
A.1 Financial assets		
A.2 Equity investments		
A.3 Property, equipment and investment property	8,046	-
of which: obtained by enforcement of guarantees received		
A.4 Intangible assets		
A.5 Other non-current assets		
Total (A)	**8,046**	**-**
of which measured at cost	8,046	
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss		
- financial assets held for trading		
- financial assets designated at fair value		
- other financial assets subject to mandatory fair value measurement		
B.2 Financial assets measured at fair value through other comprehensive income		
B.3 Financial assets measured at amortized cost		
B.4 Equity investments		
B.5 Property, equipment and investment property		
of which: obtained by enforcement of guarantees received		
B.6 Intangible assets		
B.7 Other assets		
Total (B)	**-**	**-**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		

(cont'd)

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
C. Liabilities linked to assets held for sale		
C.1 Liabilities		
C.2 Securities		
C.3 Other liabilities		
Total (C)	-	-
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
D. Liabilities linked to discontinued operations		
D.1 Financial liabilities measured at amortized cost		
D.2 Financial liabilities held for trading		
D.3 Financial liabilities designated at fair value		
D.4 Provisions		
D.5 Other liabilities		
Total (D)	-	-
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		

In accordance with the provisions of IFRS 5, after the sale agreement was signed for the property located at via Domenichino 5, owned by the Parent, at December 31, 2023 its carrying amount of €8,046 thousand was reclassified from the item in question to asset item 120 in the statement of financial position "Non-current assets and discontinued operations". The sale will be completed by the end of 2024.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

€655,393 thousand

(Values in thousand euros)

Breakdown	12.31.2023	12.31.2022
Security deposits	4,107	4,126
Invoices issued and to be issued	11,663	13,067
Payment flows to be credited	128,613	86,970
Other exposures	77,335	52,698
Accrued income and prepaid expense	19,584	15,847
Ecobonus tax assets	414,092	221,474
Total	**655,393**	**394,182**

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 expense mainly refer to the deferral of costs relating to administrative expense.

Other exposures refer primarily to non-trade receivables due from sundry debtors, pending items, and legal fees to be recovered.

At December 31, 2023, the item ecobonus tax assets, amounting to €414.1 million, includes both receivables acquired through factoring transactions according to the HTC Business Model of €354.2 million and €59.9 million according to the Trading Business Model. These receivables are recognized and measured in accordance with the fair value method.Specifically, HTC Ecobonus tax assets, up compared to the figure recorded at the end of the previous year, relate to receivables purchased by the Parent Company with non-recourse factoring operations and deriving from existing tax incentives.As set forth by tax regulations in force, these 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 in the Bank of Italy/Consob/Ivass Document no. 9: "Coordination table between Bank of Italy, Consob and Ivass on the application of IAS/IFRS”.

LIABILITIES

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

€10,814,197 thousand

This item is broken down as follows at December 31, 2023:
- due to banks of €2,269,074 thousand;
- due to customers of €8,545,110 thousand;
- debt securities issued of €13 thousand.

Due to banks

€2,269,074 thousand

1.1 Financial liabilities measured at amortized cost: breakdown by type of amounts due to banks

(Values in thousand euros)

Type of operations/Values	Total 12.31.2023				Total 12.31.2022			
	CA	*Fair value*			CA	*Fair value*		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**3,582**	**X**	**X**	**X**	**4,141**	**X**	**X**	**X**
2. Amounts due to banks	**2,265,492**	**X**	**X**	**X**	**1,162,225**	**X**	**X**	**X**
2.1 Current accounts and sight deposits	920,978	X	X	X	717,032	X	X	X
2.2 Time deposits	181,081	X	X	X	444,571	X	X	X
2.3 Loans	1,089,129	X	X	X	6	X	X	X
2.3.1 Repurchase agreements - payable	1,089,129	X	X	X	-	X	X	X
2.3.2 Others		X	X	X	6	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	74,304	X	X	X	616	X	X	X
Total	**2,269,074**	**-**	**-**	**-**	**1,166,365**	**-**	**-**	**-**

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

The item mainly consists of "current accounts and sight deposits" of about €920.9 million, deriving especially from payment service operations, and includes the balances of accounts of bank customers. The item also includes the amount of Repo contracts with bank counterparties for roughly €1.1 billion.

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

€8,545,110 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 12.31.2023				Total 12.31.2022			
	CA	*Fair value*			CA	*Fair value*		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	4,297,019	X	X	X	4,134,113	X	X	X
2. Time deposits	2,711,140	X	X	X	1,263,096	X	X	X
3. Loans	796,014	X	X	X	4,631,902	X	X	X
3.1 repurchase agreements	568,796	X	X	X	4,441,292	X	X	X
3.2 Others	227,217	X	X	X	190,610	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments		X	X	X		X	X	X
5. Lease liabilities	15,236	X	X	X	13,181	X	X	X
6. Other liabilities	725,702	X	X	X	747,130	X	X	X
Total	**8,545,110**				**10,789,422**			

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

As at December 31, 2023, the item mainly consisted of "current accounts and sight deposits" for an amount of €4,297 million relating to balances on operational accounts, i.e. accounts opened for customers (e.g. funds, asset management companies, corporate customers and other institutions) related to the custodian bank core business and loans from "repurchase agreements" for €568.8 million.

The item includes €2,743,858 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 €1,283,120 million at December 31, 2022.

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 €15.2 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.

1.3 Financial liabilities at amortized cost: breakdown by type of securities issued

(Values in thousand euros)

Type of securities/Values	Total 12.31.2023				Total 12.31.2022			
	CA	*Fair value*			CA	*Fair value*		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	14			14	38,976	38,648		
1.1 structured								
1.2 others	14			14	38,976	38,648		
2. other securities								
2.1 structured								
2.2 others								
Total	**14**	**-**	**-**	**14**	**38,976**	**38,648**	**-**	**-**

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

The securities outstanding represented bonds issued by the Parent.

The decrease is attributable to the repayment on maturity on May 23, 2023 of the Bonds (ISIN XS2068241400, rating "Ba1" assigned by the Moody's rating agency), issued for an original €300 million in October 2019 and outstanding on December 31, 2022 for a residual nominal amount of €38.6 million.

Section 2 - Financial liabilities held for trading - Item 20

€1,215 thousand

2.1 Financial liabilities held for trading: breakdown by type

(Values in thousand euros)

Type of operations/Values	Total 12.31.2023					Total 12.31.2022				
	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		1,196		X	X		950		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		19		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**	**-**	**1,215**	**-**	**X**	**X**	**-**	**950**	**-**	**X**
Total (A+B)	**X**	**-**	**1,215**	**-**	**X**	**X**	**-**	**950**	**-**	**X**

Key:
NV = Nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3
(*) *Fair value* = *Fair value* calculated excluding changes in value due to the change in creditworthiness of the issuer with respect to the issue date.

The item includes the negative fair value at December 31, 2023 of derivative instruments classified as trading assets but used for the operational hedges of exchange rate and interest rate risk that the Group is exposed to.

Section 4 - Hedging derivatives - Item 40

€0

4.1 Hedging derivatives: breakdown by coverage type and level

(Values in thousand euros)

	FV 12.31.2023			NV 12.31.2023	*FV* 12.31.2022			NV 12.31.2022
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives						**14,314**		**23,452**
1) Fair value								
2) Cash flows						14,314		23,452
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total	-	-	-		-	**14,314**	-	**23,452**

Key:
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Section 6 - Tax liabilities - Item 60

€121,318 thousand

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

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

Section 8 - Other liabilities - Item 80

€555,354 thousand

8.1 Other liabilities: breakdown

(Values in thousand euros)

Breakdown	Total 12.31.2023	Total 12.31.2022
Trade payables	9,654	11,155
Invoices to be received	27,001	28,612
Liabilities to tax authorities	16,112	11,006
Liabilities to social security and welfare bodies	2,323	2,244
Liabilities to employees	19,501	23,712
Collections pending allocation	86,020	58,076
Payment flows received to be charged	342,609	201,922
Sundry liabilities	44,283	57,765
Accrued expense and deferred income	7,852	6,876
Total	**555,354**	**401,369**

"Trade payables" and "invoices to be received" refer to accounts payable for purchases of goods and services.

"Collections pending allocation" refer to payments received by December 31, 2023 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

€3,033 thousand

9.1 Post-employment benefits: annual changes

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
A. Opening balance	**3,239**	**3,710**
B. Increases	**2,353**	**2,362**
B.1 Provision for the year	2,291	2,227
B.2 Other changes	62	135
C. Decreases	**(2,558)**	**(2,833)**
C.1 Payments made	(371)	(136)
C.2 Other changes	(2,187)	(2,697)
D. Closing balance	**3,033**	**3,239**
Total	**3,033**	**3,239**

The liability recorded in the consolidated financial statements at December 31, 2023 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, 2023 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

€35,864 thousand

10.1 Provisions for risks and charges: breakdown

(Values in thousand euros)

Items/Components	Total 12.31.2023	Total 12.31.2022
1. Provisions for credit risk relating to Commitments and financial guarantees given	530	251
2. Provisions for other commitments and guarantees issued		
3. Pension and similar obligations	7,009	7,861
4. Other provisions for risks and charges		
4.1 Legal and tax disputes		
4.2 Personnel costs		
4.3 Others	28,325	24,900
Total	**35,864**	**33,013**

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 IFRS 9.

As of December 31, 2023 "Provisions for risks and charges" mainly include allocations to "Pension and similar obligations" and allocations to "Other Provisions" to cover contingent liabilities that the Parent may incur.

The significant increase compared to December 31, 2022, attributable to "other provisions for risks and charges", relates to provisions against the likely risk of an unfavorable ruling in the amount of roughly €4 million.

The item "Pension and similar obligations" decreased compared to December 31, 2022 due to payments to certain categories of employees of deferred bonuses related to targets achieved in previous years, partly offset by accruals made in 2023.

10.2 Provisions for risks and charges: annual changes

(Values in thousand euros)

	Provisions for other commitments and guarantees issued	Pension and similar obligations	Other provisions for risks and charges	Total
A. Opening balance	**251**	**7,861**	**24,900**	**33,013**
B. Increases	**301**	**1,119**	**4,279**	**5,700**
B.1 Provision for the year	301	1,069	4,279	5,650
B.2 Changes due to the passage of time		50		50
B.3 Changes due to variations in the discount rate				
B.4 Other changes				
C. Decreases	**(22)**	**(1,971)**	**(854)**	**(2,847)**
C.1 Utilization for the year	(22)	(1,367)	(854)	(2,242)
C.2 Changes due to variations in the discount rate		(605)		(605)
C.3 Other changes				
D. Closing balance	**530**	**7,009**	**28,324**	**35,864**

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
Commitments to disburse funds	351				351
Financial guarantees given	6		173		179
Total	**357**	**-**	**173**	**-**	**530**

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 €3.3 million (including the portion allocated to the parent's equity reserve) and the provisions relating to the incentive and deferred payment retention scheme envisaged for specific BFF Bank employees, amounting to €2.5 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, 2023, the provision in question also includes the provision for the commitment made by DEPObank to some employees who have left the Parent, amounting to €161 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 between three and a maximum six years later, 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 €28.3 million refer to:

- litigation liabilities for which the Parent has estimated a probable risk of loss for approximately €27 million;
- provisions related to possible damages for operational errors as per contract with customers in the amount of approximately €1.3 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, 2023 and equal to 3.10%.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	2.00%

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 3.20%.

Mortality and disability

To estimate the phenomenon of mortality, the RG48 mortality table used by the Italian State General Accounting Office to estimate the retirement expense 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 and 2022 deferred MBO).

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

€758,812 thousand

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

(Values in thousand euros)

Type	12.31.2023	12.31.2022
1. Share capital	**143,947**	**142,870**
1.1 Ordinary shares	143,947	142,870
2. Treasury shares	**(4,377)**	**(3,884)**

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

13.2 Share capital - Number of parent shares: annual changes

(Values in units)

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	**185,545,952**	
- fully paid-in	185,545,952	
- not fully paid-in		
A.1 Treasury shares (-)	(570,728)	
A.2 Shares outstanding: initial balance	**184,975,224**	
B. Increases	**1,765,839**	
B.1 New issues		
- for consideration:		
- business combinations		
- conversion of bonds		
- exercise of warrants		
- others	4,000	
- without consideration:		
- to employees	1,394,077	
- to directors		
- others		
B.2 Sales of treasury shares		
B.3 Other changes	367,762	
C. Decreases	**(291,888)**	
C.1 Cancellation		
C.2 Repurchase of treasury shares	(291,888)	
C.3 Disposal of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**186,449,175**	
D.1 Treasury shares (+)	(494,854)	
D.2 Shares existing at the end of the year		
- fully paid-in	186,944,029	
- 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)

	12.31.2023	Possibility of use (a)	Portion available	Portion with tax suspension	Summary of use in the last three years (*)	
					To cover losses	For other reasons
Share capital	**143,947**					
Reserves	**277,762**					
- Legal reserve (**)	29,806	*B*		26,196		
- Extraordinary reserve	89	*A, B, C*	89			
- Retained earnings (***)	238,160	*A, B, C*	238,160	50,387		346,321 (*)
- Stock option and financial instrument reserves	8,883	*A*				
- Other reserves	823					
Valuation reserves	**7,993**					
- HTCS securities	2,534					
- Others	5,459					
Treasury share reserve	**(4,377)**					
Share premium reserve	**66,277**	**A, B, C**	**66,277**			
Total share capital and reserves	**491,602**		**304,527**	**76,583**		**346,321**

(a) Possible uses: A = for share capital increases; B = for absorption of losses; C = for distribution to shareholders.
(*) Uses in the last three financial years amounting to €346,321 thousand include primarily €12,235 thousand for the exercise of stock options by certain beneficiaries in the course of 2021, 2022 and 2023, €12,811 thousand for the payment of the interest coupon and structuring expense 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 €321,275 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	**29,759**	**189,674**	**13,720**	**233,153**
B. Increases	**47**	**86,107**	**1,810**	**87,964**
B.1 Allocation of profits	47	86,018	-	86,065
B.2 Other changes	-	89	1,810	1,899
C. Decreases	**-**	**(37,531)**	**(5,824)**	**(43,355)**
C.1 Uses				-
- coverage of losses	-	-	-	-
- distribution	-	(27,487)	-	(27,487)
- transfer to share capital	-	-	-	-
C.2 Other changes	-	(10,044)	(5,824)	(15,868)
D. Closing balance	**29,806**	**238,249**	**9,706**	**277,762**

Retained earnings

The increase of about €86 million is mainly due to the allocation of the share of consolidated profit of the previous year, not distributed as a dividend.

Decreases relate for roughly €27.5 million to the distribution of the reserve to shareholders, approved by the Shareholders' Meeting held on September 13, 2023, and for around €10 million to uses connected mainly to the payment of the interest coupon of the new "Additional Tier 1" instrument for €8.8 thousand (gross of the tax effect) and to the free capital increases following the exercise of the stock options by the beneficiaries.

Other reserves

The changes largely refer to the following events that occurred during the year 2023:

- increases for higher provisions of €1.8 million related to the variable remuneration parts of the so-called "Key Personnel" (Risk Takers), in compliance with the provisions as set out in the First Part, Title IV, Chapter 2, Section III, paragraph 2.1, 3 of Bank of Italy Circular 285/2013, as subsequently updated, according to which a portion must be paid in financial instruments;
- 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 €2.6 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 alignment between the carrying and tax amounts of the item goodwill present in the 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 Decree-Law 104/2020.

Considering that the transaction was carried out subsequent to the approval of the 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 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

As of December 31, 2023 there were no changes compared to December 31, 2022. The item represents only the Additional Tier 1 Perpetual NC2027 instrument (ISIN XS2404266848) in the amount of €150 million, with a fixed-rate coupon of 5.875% per annum to be paid on a half-yearly basis.

Note that the parent paid the accrued interest coupon of €8.8 million (gross 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 12.31.2023	Total 12.31.2022
	Stage one	Stage two	Stage three	Purchased or originated credit impaired		
1. Commitments to disburse funds	**481,926**		**2**		**481,928**	**425,679**
a) Central Banks						
b) Public administrations	42,809				42,809	50,827
c) Banks	4,994				4,994	
d) Other financial companies	400,654				400,654	*356,101*
e) Non-financial companies	33,469		2		33,471	18,751
f) Households						
2. Financial guarantees given	**550**		**14,318**		**14,868**	**45**
a) Central Banks						
b) Public administrations						
c) Banks						
d) Other financial companies	*89*				89	*45*
e) Non-financial companies	*461*		14,318		14,779	
f) Households						

2. Other commitments and other guarantees provided

(Values in thousand euros)

	12.31.2023	12.31.2022
Other guarantees provided	**35,846**	**5,211**
of which: impaired credit exposures	2,641	
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
e) Non-financial companies	35,846	5,211
f) Households		
Other commitments	**153,678**	**524**
of which: impaired credit exposures	59	
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
e) Non-financial companies	153,678	524
f) Households		

3. Assets given as collateral for own liabilities and commitments

(Values in thousand euros)

Portfolios	Amount 12.31.2023	Amount 12.31.2022
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	2,196,656	4,538,043
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	**191,926,314**
a) third-party securities deposited: relating to depositary bank activities (excluding portfolio management)	26,317,044
1. securities issued by consolidated companies	3,291
2. other securities	26,313,753
b) third-party securities deposited (excluding portfolio management): others	68,990,997
1. securities issued by consolidated companies	6,452
2. other securities	68,984,545
c) third party securities deposited with third parties	91,525,484
d) proprietary securities deposited with third parties	5,092,789
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

€629,408 thousand (of which interest income calculated using the effective interest rate method: €580,713 thousand)

(Values in thousand euros)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2023	Total 2022
1. Financial assets measured at fair value through profit or loss:					
1.1. Financial assets held for trading	2			2	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	**5**		**X**	**5**	
3. Financial assets measured at amortized cost:					
3.1 Loans and receivables with banks		17,112	X	17,112	10,095
3.2 Loans and receivables with customers	180,449	414,257	X	594,706	319,611
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**17,335**	**17,335**	**2,328**
6. Financial liabilities	**X**	**X**	**X**	**248**	**22,771**
Total	**180,456**	**431,369**	**17,335**	**629,408**	**354,805**
of which: interest income on impaired financial assets					
of which: interest income on finance leases	X	54	X	54	144

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 €414.3 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 a percentage of estimated recovery used for the preparation of the consolidated financial statements equal to 50%.

On the other hand, to take into consideration the collection timing of the entire provision for late payment interest, starting with the financial statements as of December 31, 2022 the estimate of days to collection has been maintained at 2,100 days.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's portfolio, for a total amount of €111 million.

Interest income on debt securities linked to loans and receivables with customers and totaling approximately €180.4 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.

1.3 Interest and similar expense: breakdown

€354,256 thousand

(Values in thousand euros)

Items/Technical forms	Debt	Securities	Other transactions	Total 2023	Total 2022
1. Financial liabilities measured at amortized cost					
1.1 Amounts due to central banks		X	X		2,486
1.2 Amounts due to banks	111,065	X	X	111,065	11,690
1.3 Amounts due to customers	203,846	X	X	203,846	36,858
1.4 Securities issued	X	353	X	353	3,496
2. Financial liabilities held for trading					
3. Financial liabilities carried at fair value					
4. Other liabilities and provisions	X	X	109	109	9
5. Hedging derivatives	X	X	4,127	4,127	34,719
6. Financial assets	X	X	X	25,755	3,731
Total	**314,911**	**353**	**4,236**	**345,256**	**92,988**
of which: interest expense relative to lease liabilities	426	X	X	426	440

Interest expense went from €92.9 million for the previous year to €345.3 million for 2023. This significant increase is linked primarily to the increase in interest expense on banking and corporate customer balances due to the inversion and increase in interest rates in the market.

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 expense for "Securities issued" amounting to approximately €353 thousand, which decreased as a result of the repayment of the last portion of the bonds on May 23, 2023. For more details on this 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
€112,371 thousand

(Values in thousand euros)

Type of service/Amounts	Total 2023	Total 2022
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	**70**	**55**
d) Clearing and settlement		
e) Collective portfolio management		
f) Custody and administration	**29,462**	**50,089**
1. Custodian bank	17,357	39,546
2. Other commissions linked to custody and administration activities	12,105	10,542
g) Central administrative services for collective portfolio management		
h) Fiduciary activities		
i) Payment services	**77,007**	**73,696**
1. Current accounts		
2. Credit cards	1,548	1,408
3. Debit cards and other payment cards	16,960	7,892
4. Bank transfers and other payment orders	16,256	23,385
5. Other commissions linked to payment services	42,242	41,011
J) Distribution of third-party services		
1. Collective portfolio management		
2. Insurance products		
3. Other products		
of which: individual portfolio management		
k) Structured finance		
l) Servicing activities for securitization transactions		
m) Commitments to disburse funds		
n) Financial guarantees given	**757**	**160**
of which: credit derivatives		
o) Lending transactions		
of which: for factoring transactions		
p) Currency trading		
q) Commodities		
r) Other fee and commission income	**5,074**	**3,595**
of which: for management of multilateral trading systems		
of which: for management of organized trading systems		
Total	**112,371**	**127,595**

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. Commissions were down mainly due to the loss of the customer Arca SGR in 2022.

2.2 Fee and commission expense: breakdown

€37,218 thousand

(Values in thousand euros)

Service/Values	Total 2023	Total 2022
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	**1,776**	**2,009**
c) Collective portfolio management		
d) Custody and administration	**5,268**	**5,515**
e) Collection and payment services	**24,874**	**25,696**
of which: credit cards, debit cards and other payment cards	11,964	4,428
f) Servicing activities for securitization transactions		
g) Commitments to receive funds		
h) Financial guarantees received	**15**	**46**
of which: credit derivatives		
i) Off-site offer of financial instruments, products and services		
j) Currency trading	**1**	**3**
k) Other fee and commission expense	**5,284**	**3,671**
Total	**37,218**	**36,939**

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

€8,897 thousand

(Values in thousand euros)

Items/Income	Total 2023		Total 2022	
	Dividends	Similar revenue	Dividends	Similar revenue
A. Financial assets held for trading	18		18	
B. Other financial assets subject to mandatory fair value measurement	3,139		4,087	
C. Financial assets measured at fair value through other comprehensive income	5,740		5,690	
D. Equity investments				
Total	**8,897**	**-**	**9,795**	**-**

In 2023, the item mainly included dividends received in March 2023 from the Bank of Italy amounting to €5.7 million, whose shares 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 2023 from Fondo Italiano di Investimento, amounting to around €3.1 million, whose UCI units are classified under item 20 of the Assets "Financial assets measured at fair value through profit or loss".

Section 4 - Profits (losses) on trading - Item 80

€294 thousand

4.1 Profits (losses) on trading: composition

€294 thousand

(Values in thousand euros)

Transactions/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	**1**	**10,482**	**-**	**1**	**10,482**
1.1 Debt securities		541		1	540
1.2 Equity securities					1
1.3 UCI units					-
1.4 Loans		9,941			9,941
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**	**(10,190)**
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		21		19	2
of which: natural hedging related to the fair value option	X	X	X	X	
Total	**1**	**10,503**	**-**	**19**	**294**

The net profit on trading 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.

In 2023, this item also includes the positive result deriving from factoring purchases of ecobonus tax assets falling under the Trading Business Model and classified in asset item 130 “Other assets” in the statement of financial position, for a total of €9.9 million.

Section 6 - Profits (losses) on disposals/repurchases - Item 100

€21,893 thousand

6.1 Profits (Losses) on disposals/repurchases: breakdown

€21,893 thousand

(Values in thousand euros)

Items/Income items	Total 2023			Total 2022		
	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	23,288	(1,249)	22,038	204	(38)	166
2. Financial assets measured at fair value through other comprehensive income						
2.1 Debt securities		(146)	(146)			
2.2 Loans						
Total assets (A)	**23,288**	**(1,395)**	**21,893**	**204**	**(38)**	**166**
Financial liabilities measured at amortized cost						
1. Amounts due to banks						
2. Amounts due to customers						
3. Securities issued						
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

In 2023, the item in question amounted to €21,893 thousand, and represents the net balance of sales of debt securities classified in asset item 40 b) "Financial assets measured at amortized cost – loans and receivables with customers" (for a nominal value of €835 million).

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.

Section 7 - Profits (losses) on other financial assets and liabilities at fair value through profit or loss - Item 110

€1,843 thousand

7.2 Net change of value of other financial assets and liabilities 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 (A)	Realized gains (B)	Capital losses (C)	Losses on disposal (D)	Net profit [(A+B)-(C+D)]
1. Financial assets		**1**	**1,842**		**1,843**
1.1 Debt securities					-
1.2 Equity securities		1			1
1.3 UCI units			1,842		1,842
1.4 Loans					-
2. Financial assets in foreign currency: exchange differences	X	X	X	X	
Total	**-**	**1**	**1,842**	**-**	**1,843**

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 and the Ingenii Fund.

Section 8 - Net impairment losses - Item 130

€4,932 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 2023	Total 2022
	Stage one	Stage two	Stage three		Purchased or originated credit impaired		Stage one	Stage two	Stage three	Purchased or originated credit impaired		
			Write-offs	Other	*Write-offs*	Other						
A. Loans and receivables with banks	**(11)**	**-**	**-**	**-**	**-**	**-**	**27**	**-**	**-**	**-**	**16**	**(3)**
- Loans	(11)	-	-	-	-	-	27	-	-	-	16	(3)
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	0
B. Loans and receivables with customers	**(1,906)**	**(129)**	**(58)**	**(4,841)**	**-**	**(195)**	**313**	**233**	**1,634**	**-**	**(4,948)**	**(5,902)**
- Loans	(591)	(129)	(58)	(4,841)	-	(195)	313	233	1,634	-	(3,633)	(5,917)
- Debt securities	(1,315)	-	-	-	-	-	-	-	-	-	(1,315)	15
Total	**(1,917)**	**(129)**	**(58)**	**(4,841)**	**-**	**(195)**	**341**	**233**	**1,634**	**-**	**(4,932)**	**(5,905)**

Impairment losses relating to debt securities in Stage one are due to the updating of the input parameters of the impairment model following the issue of new transition matrices relating to the Sovereign segment by Moody's.

As concerns Stage three, the increase in impairment losses derives mainly from changes in specific positions of BFF Polska Group of BFF and an increase in impairment losses on exposures due from assigning counterparties of the Parent.

8.2 Net impairment losses/gains for credit risk associated with financial assets measured at fair value through other comprehensive income: breakdown

(Values in thousand euros)

Transaction/Income items	Impairment losses						Impairment gains				Total 2023	Total 2022
	Stage one	Stage two	Stage three		Purchased or originated credit impaired		Stage one	Stage two	Stage three	Purchased or originated credit impaired		
			Write-offs	Other	*Write-offs*	Other						
A. Debt securities			146								146	
B. Loans												
- To customers												
- To banks												
of which: originated credit-impaired financial assets												
Total			**146**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**146**	**-**

Section 12 - Administrative expense - item 190

€180,116 thousand

12.1 Personnel expense: breakdown

€75,980 thousand

(Values in thousand euros)

Type of expense/Sectors	Total 2023	Total 2022
1) Employees	70,613	71,036
a) wages and salaries	48,533	48,160
b) social security contributions	13,053	12,772
c) post-employment benefits		
d) pension costs	2	5
e) provision for post-employment benefits	2,192	1,979
f) provision for pensions and similar obligations:		
- defined contribution plans		
- defined benefit plans		
g) payments to external complementary pension funds:		
- defined contribution plans		
- defined benefit plans	347	353
h) costs related to share-based payments	3,468	4,441
i) other employee benefits	3,016	3,324
2) Other personnel in service	456	333
3) Directors and statutory auditors	4,911	2,983
4) Early retirement costs		
Total	**75,980**	**74,352**

The item "personnel expense" includes, in addition to the amount of expense and contributions paid to employees, including the provisions of the Group incentive system, expense for stock options for certain employees of the Group for 2023, equal to approximately €3,468 thousand before taxes, with an offsetting entry in part in the related equity reserve and in part in liability item 80 “Other liabilities” in the statement of financial position.

12.2 Average number of employees broken down by category

(Values in working units)

Categories	Average number 2023	Average number 2022
Senior Executives/Executives	30	29
Managers/Middle Managers/Professionals	405	396
Specialists	412	410
Total	**847**	**835**

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.

12.4 Other employee benefits

The amount in question of €3,016 thousand mainly refers to expense incurred for training, meal tickets, donations and insurance for Group employees.

12.5 Other administrative expense: breakdown
€104,136 thousand

(Values in thousand euros)

Breakdown	Total 2023	Total 2022
Legal fees	3,504	3,483
Data processing services	13,540	15,878
External credit management services	766	641
Supervisory Body fees	46	41
Legal fees for loans and receivables under management	155	258
Notary fees	258	358
Notary fees to be recovered	1,639	1,584
Entertainment expense and donations	4,061	3,369
Maintenance expense	6,981	5,924
Non-deductible VAT	9,652	8,790
Other taxes	7,201	7,380
Consulting services	18,628	19,354
Head office operating expense	4,431	2,990
Resolution Fund and FITD	10,778	5,734
Other expense	22,495	20,468
Total	**104,136**	**96,251**

Other administrative expense for 2023 amounted to €104.1 million, up from the previous year.

With regard to contributions to the Deposit Guarantee Scheme, a cost of about €10.8 million before taxes was recorded for 2023, up considerably compared to the previous year. This cost was made up of:

- Resolution Fund for €6.3 million as the annual ordinary contribution;
- *Interbank Deposit Protection Fund (FITD)* for €4.4 million as the annual contribution, of which €1.7 thousand relating to the extraordinary contribution.

These amounts are recognized under other administrative expense, 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 expense" mainly include services outsourced in 2023, which are listed below.

(Values in thousand euros)

Breakdown	Total 2023
Fees paid to external company for support to Internal Audit	113
Fees paid to external companies for Data Processing	4,969
Fees paid to external companies for Credit Checks	766

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

€3,661 thousand

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

-€278 thousand

(Values in thousand euros)

Breakdown	Total 2023	Total 2022
Provision for risk on commitments and guarantees	278	(65)
Total	**278**	**(65)**

13.3 Net accruals to provisions for risks and charges: breakdown

€3,383 thousand

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

(Values in thousand euros)

Breakdown	Total 2023	Total 2022
Other provisions	3,383	10,600
Total	**3,383**	**10,600**

Section 14 - Depreciation and net impairment losses on property, equipment and investment property - item 210

€4,804 thousand

As of 2019, following the application of IFRS 16, the item “Impairment losses on property, equipment and investment property” also includes the depreciation of right-of-use assets amounting to €2.7 million, the counterpart of which is recognized under property, equipment and investment property.

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 and equipment				
1. Used in the business	4,804			4,804
- Owned	2,111			2,111
- Right-of-use assets	2,692			2,692
2. Investment property				
- Owned				
- Right-of-use assets				
3. Inventories	x			
Total	**4,804**	**-**	**-**	**4,804**

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

€8,251 thousand

15.1 Amortization and net impairment losses on intangible assets: breakdown

(Values in thousand euros)

Asset/Income items	Amortization (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned				
- Generated internally by the company				
- Others	8,251			8,251
A.2 Right-of-use assets				
Total	**8,251**	**-**	**-**	**8,251**

The item refers to amortization for the period relating to intangible assets with finite useful lives, which also includes customer contracts.

Section 16 - Other net operating income - Item 230

€44,799 thousand

16.1 Other operating expense: breakdown

-€2,088 thousand

(Values in thousand euros)

Breakdown	Total 2023	Total 2022
Prior year expense	(1,769)	(2,187)
Rounding and allowances	(6)	(93)
Other charges	(83)	(756)
Deposit guarantee scheme expense		
Registry tax expense	(231)	(893)
Total	**(2,088)**	**(3,930)**

16.2 Other operating income: breakdown

€46,887 thousand

(Values in thousand euros)

Breakdown	Total 2023	Total 2022
Recovery of legal fees for purchases of non-recourse trade receivables	969	1,410
Recovery of legal fees	910	127
Other recoveries	727	1,457
Prior year income	5,720	5,562
Recovery of assignor notary expense	2,061	1,647
BFF Finance Iberia royalties		
Other income	36,500	144,121
Total	**46,887**	**154,324**

In 2022, the item "other income" included the 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 around €120 million.

In 2023 this item included the amount for the year of €23.3 million.

Section 17 - Profits/losses on equity investments - Item 250

17.1 Profits on equity investments: breakdown

(Values in thousand euros)

Income item/Values	Total 2023	Total 2022
1) Companies subject to joint control		
A. Income		
1. Revaluations		
2. Gains on disposal		
3. Impairment gains		
4. Other income		
B. Expense		
1. Impairment		
2. Impairment losses		
3. Losses on disposal		
4. Other charges		
Net profit/loss	**-**	**-**
2) Companies subject to significant influence		
A. Income	(267)	288
1. Revaluations		
2. Gains on disposal		
3. Impairment gains		
4. Other income	(267)	288
B. Expense		
1. Impairment		
2. Impairment losses		
3. Losses on disposal		
4. Other charges		
Net profit/loss	**(267)**	**288**
Total	**(267)**	**288**

Section 21 - Income taxes on continuing operations - item 300

€63,337 thousand

21.1 Income taxes on continuing operations: breakdown

(Values in thousand euros)

Income items/Sectors	Total 2023	Total 2022
1. Current taxes (-)	46,484	86,509
2. Adjustment to current tax of prior years (+/-)	(487)	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 (+/-)	3,071	(765)
5. Change in deferred tax liabilities (+/-)	14,269	9,962
6. Taxes for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5)	**63,337**	**99,154**

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.

	Tax	% of theoretical taxable profit
Income taxes - theoretical tax charge	**77,714**	**33.07**
Increases in taxes	**258**	**0.11**
Others	258	0.11
Decreases in taxes	**(14,635)**	**(6.24)**
Permanent differences	(4,955)	(2.12)
Others	(4,891)	(2.08)
Effects of subsidiaries	(4,790)	(2.04)
Actual tax charge	**63,337**	**26.94**

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

Breakdown	Total 2023	Total 2022
average number of shares outstanding	185,626,946	184,669,974
Average number of potentially dilutive shares	2,568,406	1,623,192
Average number of diluted shares	188,195,353	186,293,165

25.2 Other information

(Amounts in units, unless otherwise stated)

Breakdown	Total 2023	Total 2022(*)
Profit for the year (in euros)	171,661,757	232,047,606
Average number of shares outstanding	185,626,946	184,669,974
Average number of potentially dilutive shares	2,568,406	1,623,192
Average number of diluted shares	188,195,353	186,293,165
Basic earnings per share (in euro units)	**0.92**	**1.26**
Diluted earnings per share (in euro units)	**0.91**	**1.25**

(*) Certain numbers relating to the previous year were restated to make the data comparable.

Part D - Consolidated Comprehensive Income

Consolidated Statement of Comprehensive Income

(Values in euro units)

Items		2023	2022
10.	**Profit for the year**	**171,661,757**	**232,047,606**
	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	(36,540)	724,064
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 components without not reclassified to profit or loss	10,048	(199,118)
	Other income components reclassified to profit or loss		
110.	Hedging of foreign investments:		
	a) fair value changes	(6,352,485)	
	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	6,036,070	224,653
130.	Cash flow hedges:		
	a) fair value changes		
	b) reclassification through profit or loss		

(cont'd)

(Values in euro units)

Items		2023	2022
	c) other changes		
	of which: result of net positions		
140.	Hedging instruments (undesignated elements):		
	a) changes in value		
	b) reclassification through profit or loss		
	c) other changes		
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:		
	a) fair value changes	2,074,605	1,246,162
	b) reclassification through profit or loss		
	- adjustments for credit risk		
	- profits/losses on disposals		
	c) other changes		
160.	Non-current assets held for sale and discontinued operations		
	a) fair value changes		
	b) reclassification through income statement		
	c) other changes		
170.	Share of valuation reserves connected with equity-accounted investments:		
	a) fair value changes		
	b) reclassification through profit or loss		
	- adjustments due to impairment		
	- profits/losses on disposals		
	c) other changes		
180.	Income taxes on other components reclassified to profit or loss	1,514,545	(56,379)
190.	**Total other comprehensive income**	**3,246,244**	**1,939,383**
200.	**Comprehensive income (Items 10+190)**	**174,908,001**	**233,986,989**
210.	Comprehensive income attributable to non-controlling interests		
220.	**Comprehensive income attributable to the owners of the parent**	**174,908,001**	**233,986,989**

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 - termine IFRS.

(Values in thousand euros)

Portfolios/quality	Non-performing loans	Unlikely-to-exposures	Impaired past due exposures	Other impaired exposures	Performing exposures	Total
1. Financial assets measured at amortized cost	99,806	13,718	219,891	2,368,874	8,103,537	10,805,826
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets designated at fair value						
4. Other financial assets subject to mandatory fair value measurement						
5. Financial assets held for sale						
Total 12.31.2023	**99,806**	**13,718**	**219,891**	**2,368,874**	**8,103,537**	**10,805,826**
Total 12.31.2022	**86,372**	**12,132**	**185,257**	**2,192,825**	**9,419,264**	**11,895,850**

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	361,283	27,869	333,414		10,476,082	3,671	10,472,411	10,805,826
2. Financial assets measured at fair value through other comprehensive income								
3. Financial assets designated at fair value					X	X		
4. Other financial assets subject to mandatory fair value measurement					X	X		
5. Financial assets held for sale								
Total 12.31.2023	**361,283**	**27,869**	**333,414**	**-**	**10,476,082**	**3,671**	**10,472,411**	**10,805,826**
Total 12.31.2022	**307,008**	**23,246**	**283,762**	**-**	**11,614,156**	**2,067**	**11,612,089**	**11,895,850**

(*) 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			1,167
2. Hedging derivatives			
Total 12.31.2023	**-**	**-**	**1,167**
Total 12.31.2022	**-**	**-**	**211**

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

B.2 Structured entities not consolidated for accounting purposes

(Values in thousand euros)

Financial statements 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	165,846			165,846	235,532	69,686

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 67% of all the exposures to customers of the Group excluding the securities component.

Impacts of the Ukraine-Russia crisis

In relation to the Ukraine/Russia conflict, which broke out in 2022, 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. BFF also has just one current account denominated in UAH (Ukrainian hryvnia), held with Bank of New York, which it did not use in 2023 and which has a negligible debt balance (equivalent to a few dozen euros).

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 December 21, 2023, 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) 575/201*3";
- 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 unrated 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, 2023 is €182.8 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);
- banking groups are required to contain each risk position within the limit of 25% of Eligible Capital, excluding exposures to banking entities or banking groups for which the limit is equal to the maximum value between 25% of Eligible Capital and €150 million.

Considering the fact that the Group's exposure consists almost entirely of exposures purchased on a non-recourse basis and due from individual public administration entities, portfolio risk is considered limited, since the derecognition of exposures 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 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). Under 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 ("specific 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 €333,414 thousand – net of individual impairment – and are broken down as follows:

- non-performing loans of €99,806 thousand (gross exposure in the financial statements of €120,923 thousand with an adjustment of €21,117 thousand);
- unlikely-to-pay exposures amounting to €13,718 thousand (gross exposure in the consolidated financial statements equal to €19,125 thousand with adjustments equal to €5,407 thousand);
- impaired past due exposures of €219,891 thousand (gross exposure in the consolidated financial statements of €221,236 thousand with an adjustment of €1,344 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.

Measuring expected credit losses

In the fourth quarter of 2023, the Parent – at consolidated level – revised the methodological set-up of the staging allocation, establishing criteria more representative of the deterioration of credit risk with respect to the Group's business and the methodology of forward-looking and point in time components relating to Probability of Default, which is more aligned with market best practices and the specific nature of the business.

The new forward-looking model, which strengthens the previous model that was mostly based on the assumptions of an external infoprovider, takes into consideration the macroeconomic scenarios published by the EBA (European Banking Authority) during the 2023 stress test and through a regression model links the default rate to the trend of macroeconomic variables over a future time horizon of three years.

In continuity with the previous scenarios provided by the other infoprovider, these scenarios are characterized by an exacerbation of financial conditions and a considerable deterioration of economic outlooks caused by the high inflation generated by the Russia/Ukraine conflict. Furthermore, these scenarios also reflect an inversion in the real estate market trend in the presence of a decrease in household debt service capacity triggered by high interest rates.

Starting in the next few quarters, the Function will monitor the evolution of the macroeconomic variables used in the forward-looking model in order to identify any significant changes compared to the values used in the model updating phase.

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 Parent 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 €333,414 thousand. They include:

- non-performing loans are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the parent.
  At December 31, 2023, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €99,806 thousand, of which €5,584 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €92,644 thousand, accounting for 92.8% of the total.
  Gross non-performing loans amounted to €120,923 thousand. The related impairment totaled €21,117 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 €1 million, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €121,926 thousand and relevant adjustments totaled €22,120 thousand.
  With reference to the parent, at December 31, 2023 total non-performing loans, net of any estimated impairment losses, amounted to €93,228 thousand, of which €92,644 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 €5,584 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 €23,239 thousand. After estimated impairment losses of €18,076 thousand they amounted to €5,163 thousand.
- BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that – excluding such actions as the enforcement of guarantees – the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
  At December 31, 2023, gross exposures classified as unlikely to pay amounted to €19,125 thousand, of which €15,840 thousand attributable to BFF Polska Group, €3,087 to the Parent and €198 thousand to BFF Finance Iberia. The total net value is €13,718 thousand, referring primarily to BFF Polska Group.
- net past due exposures of BFF Banking Group amounted to €219,891 thousand. They refer to the Parent for €206,520 thousand, to the Spanish subsidiary for €12,720 thousand and to BFF Polska Group for €651 thousand. 93.9% of these exposures relate to public counterparties.

Please recall that impaired assets are classified in keeping with the prudential definition of default (i.e. past due, unlikely to pay and non-performing), which assumes that there is an effective 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. The actual credit risk profile assumed by the BFF Group is limited, as it has been assumed with respect to public bodies, and the classification described above could result in significant distortions in the representation of the group's accounting, prudential and capital strength information. This is also corroborated by the very limited credit losses recorded.

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	325,689	241,334	1,338,491	4,679	9,156	449,524	3,837	8,461	257,912			5,584
2. Financial assets measured at fair value through other comprehensive income												
3. Financial assets held for sale												
Total 12.31.2023	325,689	241,334	1,338,491	4,679	9,156	449,524	3,837	8,461	257,912	-	-	5,584
Total 12.31.2022	410,514	236,577	508,144	494	14,622	1,022,474	5,386	9,308	215,827	-	-	5,672

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 write-downs	of which collective write-downs
Opening total adjustments	**25**	**1,498**				**1,523**	**2**	**569**				**571**
Increases in purchased or originated financial assets												
Derecognitions other than write-offs												
Net value adjustments/write-backs for credit risk (+/-)	(3)	1,687				1,685		(83)				(83)
Contractual modifications without derecognitions												
Changes in estimate methodology												
Write-offs not recognized directly in profit or loss statement												
Other changes												
Total final adjustments	**22**	**3,186**				**3,208**	**2**	**487**				**487**
Recoveries from receipts on written-off financial assets												
Write-offs recognized directly in profit or loss												

(Values in thousand euros)

Total adjustments											Total provisions on commitments to disburse funds and financial guarantees given				Total
Assets in stage three						Purchased or originated credit impaired financial assets									
Loans and receivables with banks and Central Banks on demand	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which collective impairments	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which collective impairment	Stage one	Stage two	Stage three	Commitments to disburse funds and financial guarantees issued purchased or originated impaired	
-	**23,240**	**-**	**-**	**23,240**	**-**	**6**	**-**	**-**	**6**	**-**	**251**	**-**	**-**	**-**	**25,591**
						X	X	X	X	X					-
															-
	4,428			4,428		*195*			*195*		106		*173*		6,503
															-
															-
															-
															-
-	**27,668**	**-**	**-**	**27,668**	**-**	**201**	**-**	**-**	**201**	**-**	**357**	**-**	**173**	**-**	**32,094**
															-
	58			58											58

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between the various credit risk stages (gross 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	120,752	3,915	1,287	88	9,776	3,762
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets held for sale						
4. Commitments to disburse funds and financial guarantees issued					592	
Total 12.31.2023	**120,752**	**3,915**	**1,287**	**88**	**10,369**	**3,762**
Total 12.31.2022	**20,685**	**11,646**	**1,966**	**5,091**	**14,312**	**1,944**

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

(Values in thousand euros)

Type of exposures/ values	Gross exposure					Total impairment losses and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated credit impaired		Stage one	Stage two	Stage three	Purchased or originated credit impaired		
A. On-statement of financial position												
A.1 On demand	**256,717**	**252,205**	**4,512**			**24**	**22**	**2**			**256,694**	
a) Impaired		X					X					
b) Performing	256,717	252,205	4,512	X		24	22	2	X		256,694	
A.2 Others	**593,576**	**593,576**				**15**	**15**				**593,563**	
a) Non-performing loans		X					X					-
- of which: forborne exposures		X					X					
b) Unlikely-to-pay positions		X					X					
- of which: forborne exposures		X					X					
c) Impaired past due exposures		X					X					
- of which: forborne exposures		X					X					
d) Past due performing exposures				X					X	-		
- of which: forborne exposures				X					X			
e) Other performing exposures	593,578	593,576		X		15	15		X		593,563	
- of which: forborne exposures				X					X			
Total (A)	**850,294**	**845,781**	**4,512**	**-**		**39**	**37**	**2**	**-**		**850,257**	**-**
B. Off-statement of financial position exposures												
a) Impaired		X					X					
b) Others	1,161			X					X		1,161	
Total (B)	**1,161**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,161**	**-**
Total (A + B)	**851,454**	**845,781**	**4,512**	**-**	**-**	**39**	**37**	**2**	**-**	**-**	**851,418**	**-**

(*) Value presented for informative purposes.

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

(Values in thousand euros)

Type of exposures/ values	Gross exposure					Total impairment losses and total provisions					Net exposure	Total partial write-offs (*)
		Stage one	Stage two	Stage three	Purchased or originated credit impaired		Stage one	Stage two	Stage three	Purchased or originated credit impaired		
A. On-statement of financial position credit exposures												
a) Non-performing loans	120,923	X		115,138	5,785	21,117	X		20,916	201	99,806	
- of which: forborne exposures	582	X		582		261	X		261		321	
b) Unlikely-to-pay positions	19,125	X		19,125		5,407	X		5,407		13,718	
- of which: forborne exposures	11,691	X		11,691		1,314	X		1,314		10,377	
c) Impaired past due exposures	221,236	X		221,236		1,344	X		1,344		219,891	
- of which: forborne exposures	90	X		90		44	X		44		45	
d) Past due performing exposures	2,369,377	1,905,830	463,547	X		503	316	187	X		2,368,874	
- of which: forborne exposures	19,151		19,151	X		-			X		19,151	
e) Other performing exposures	7,513,130	7,399,567	113,563	X		3,154	2,855	298	X		7,509,976	
- of which: forborne exposures	9,236		9,236	X		92		92	X		9,143	
TOTAL (A)	**10,243,790**	**9,305,397**	**577,110**	**355,498**	**5,785**	**31,525**	**3,171**	**485**	**27,668**	**201**	**10,212,265**	**-**
B. Off-statement of financial position exposures												
a) Impaired	17,020	X		17,020		173	X		173		16,847	
b) Performing	510,783	510,783		X		357	357		X		510,425	
Total (B)	**527,803**	**510,783**	**-**	**17,020**	**-**	**530**	**357**	**-**	**173**	**-**	**527,445**	**-**
Total (A+B)	**10,771,593**	**9,816,180**	**577,110**	**372,518**	**5,785**	**32,055**	**3,528**	**485**	**27,840**	**201**	**10,739,710**	**-**

(*) Value presented for informative purposes.

A.1.7 Prudential consolidation – On-statement of financial position credit 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	**104,663**	**16,374**	**185,971**
- of which: assets sold but not derecognized			
B. Increases	**34,336**	**6,216**	**114,159**
B.1 inflows from performing exposures	14,298	251	45,980
B.2 transfers from purchased or originated credit impaired financial assets			
B.3 transfers from other impaired exposures	6,574	276	1,801
B.4 contractual modifications without derecognitions			
B.5 other increases	13,464	5,689	66,378
C. Decreases	**18,076**	**3,465**	**78,894**
C.1 outflows to performing exposures	534	39	16,863
C.2 write-offs			
C.3 collections	15,740	2,668	55,938
C.4 collections from disposals			
C.5 losses on disposal			
C.6 transfers to other impaired exposures	1,801	757	6,092
C.7 contractual modifications without derecognitions			
C.8 other decreases			
D. Final gross exposure	**120,923**	**19,125**	**221,236**
- of which: assets sold but not derecognized			

A.1.7bis 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: non-performing	Forborne exposures: performing
A. Starting gross exposure	**11,754**	**5,960**
- of which: assets sold but not derecognized		
B. Increases	**785**	**28,070**
B.1 inflows from performing, non forborne exposures		24,216
B.2 inflows from performing, forborne exposures		X
B.3 inflows from non-performing forborne exposures	X	39
B.4 inflows from impaired, non forborne exposures		
B.5 other increases	785	3,815
C. Decreases	**176**	**5,643**
C.1 transfers to performing exposures not subject to forbearance measures	X	
C.2 outflows towards forborne performing exposures		X
C.3 outflows towards non-performing forborne exposures	X	
C.4 write-offs		
C.5 collections	176	5,643
C.6 collections from disposals		
C.7 losses on disposal		
C.8 other decreases		
D. Final gross exposure	**12,363**	**28,387**
- of which: assets sold but not derecognized		

A.1.9 Prudential consolidation - On-statement of financial position non-performing credit exposures to Customers: trend of the 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	**18,290**	**196**	**4,241**	**1,091**	**714**	**114**
- of which: assets sold but not derecognized					-	
B. Increases	**5,469**	**68**	**2,863**	**310**	**1,106**	**-**
B.1 adjustments to purchased or originated credit impaired assets		X		X		X
B.2 other adjustments						
B.3 losses on disposal						
B.4 transfers from other categories of impaired exposures	626	45	65	65		
B.5 contractual modifications without derecognition						
B.6 other increases	4,843	23	2,798	245	1,105	
C. Decreases	**2,642**	**3**	**1,697**	**87**	**476**	**70**
C.1 fair value gains						
C.2 impairment gains from collection	2,641	3	1,058	5	330	5
C.3 gains on disposal						
C.4 write-offs						
C.5 transfers to other categories of impaired exposures			607	45	84	65
C.6 contractual modifications without derecognition						
C.7 other decreases			33	37	62	
D. Total final adjustments	**21,117**	**261**	**5,407**	**1,314**	**1,344**	**44**
- of which: assets sold but not derecognized						

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

A.2.1 Prudential consolidation – Financial assets, commitments to disburse funds 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	**15,998**	**1,926,734**	**8,288,925**	**28,703**	**14,827**	**-**	**562,179**	**10,837,366**
- Stage one	15,627	1,572,208	7,779,207	28,703	14,827	-	488,401	9,898,972
- Stage two	371	328,803	235,576				12,360	577,110
- Stage three		25,723	268,553				61,222	355,498
- Purchased or originated credit impaired			5,589				196	5,785
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)	**15,998**	**1,926,734**	**8,288,925**	**28,703**	**14,827**	**-**	**562,179**	**10,837,366**
D. Commitments to disburse funds and financial guarantees given		**42,809**					**453,987**	**496,796**
- Stage one		42,809					439,667	482,476
- Stage two								
- Stage three							14,320	14,320
- Purchased or originated credit impaired								
Total (D)		**42,809**					**453,987**	**496,796**
Total (A+B+C+D)	**15,998**	**1,969,543**	**8,288,925**	**28,703**	**14,827**	**-**	**1,016,166**	**11,334,162**

COURTESY TRANSLATION

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

Credit quality class	ECAI
	DBRS Ratings Limited
1	from AAA to AAL
2	from AH to AL
3	from BBBH to BBBL
4	from BBH to BBL
5	from BH to BL
6	CCC

For rated private debtors, the ratings provided by S&P Global Ratings were used. A reconciliation between the risk classes and the ratings supplied by DBRS is provided below.

Credit quality class	ECAI
	S&P Global Ratings
1	≥ AA-
2	between A+ and A-
3	between BBB+ and BBB-
4	between BB+ and BB-
5	between B+ and B-
6	≤ CCC+

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 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. Secured on-statement of financial position exposures:	**299,777**	**299,776**	-	-	**298,425**	-
1.1 totally secured	299,777	299,776			298,425	
- 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					
-	-	-	-	-	-	-	-	-	**298,425**
									298,425
-	-	-	-	-	-	-	-	-	-

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. Secured on-statement of financial position exposures:	**53,184**	**53,033**	**79**	**-**	**52,269**	**520**
1.1 totally secured	53,184	53,033	79		52,269	520
- of which impaired	239	89	79			
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				
CLN	Other derivatives				Public administrations	Banks	Other financial companies	Other entities	
	Central counterparties	Banks	Other financial companies	Other entities					
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**52,878**
								10	52,878
								10	89
-	-	-	-	-	-	-	-	-	-

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 value adjustments	Net exposure	Total adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-statement of financial position credit exposures										
A.1 Non-performing loans	92,647	461					5,896	15,964	1,263	4,692
- of which: forborne exposures							277	136	44	125
A.2 Unlikely-to-pay			447	531			12,822	3,212	448	1,665
- of which: forborne exposures			447	531			9,896	671	34	112
A.3 Impaired past due exposures	206,509	249					7,935	834	5,448	262
- of which: forborne exposures									45	44
A.4 Performing exposures	9,338,301	2,318	230,741	392	1		256,794	850	53,014	97
- of which: forborne exposures	22,454	6					5,800	82	41	5
Total (A)	**9,637,456**	**3,028**	**231,189**	**923**	**1**	**-**	**283,446**	**20,860**	**60,173**	**6,715**
B. Off-statement of financial position credit exposures										
B.1 Impaired exposures							16,847	173		
B.2 Performing exposures	42,808	1	400,493	250			67,124	106		
Total (B)	**42,808**	**1**	**400,493**	**250**	**-**	**-**	**83,971**	**279**	**-**	**-**
Total (A+B) 12.31.2023	**9,680,265**	**3,029**	**631,681**	**1,173**	**1**	**-**	**367,417**	**21,138**	**60,173**	**6,715**
Total (A+B) 12.31.2022	**10,684,198**	**1,835**	**872,681**	**798**	**1**	**0**	**235,285**	**16,333**	**56,693**	**6,586**

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		The Americas		Asia		Rest of the World	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-statement of financial position credit exposures										
A.1 Non-performing loans	93,228	2,247	6,578	18,870						
A.2 Unlikely-to-pay	1,567	1,520	12,151	3,887						
A.3 Impaired past due exposures	193,263	754	26,628	590						
A.4 Performing exposures	7,749,451	2,934	2,129,399	723						
Total (A)	**8,037,509**	**7,456**	**2,174,756**	**24,070**	-	-	-	-	-	-
B. Off-statement of financial position credit exposures										
B.1 Impaired exposures	16,847	173								
B.2 Performing exposures	439,249	256	71,176	101						
Total (B)	**456,096**	**429**	**71,176**	**101**	-	-	-	-	-	-
Total (A+B) 12.31.2023	**8,493,605**	**7,884**	**2,245,932**	**24,171**	-	-	-	-	-	-
Total (A+B) 12.31.2022	**9,730,669**	**4,520**	**2,118,188**	**21,033**	-	-	-	-	-	-

(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 value adjustments	Net exposure	Total value adjustments
A. On-statement of financial position credit exposures								
A.1 Non-performing loans	412	677	173	53	2,615	1,149	90,028	369
A.2 Unlikely to pay	484	580	696	658	345	170	42	112
A.3 Impaired past due exposures	6,412	357	2,928	2	39,317	192	144,606	204
A.4 Performing exposures	280,429	768	127,812	22	6,442,637	1,936	898,574	208
Total (A)	**287,737**	**2,382**	**131,609**	**734**	**6,484,914**	**3,447**	**1,133,249**	**893**
B. Off-statement of financial position credit exposures								
B.1 Impaired exposures			14,147	173	2,700			
B.2 Performing exposures	299,172	255	31,500		108,577	1		
Total (B)	**299,172**	**255**	**45,647**	**173**	**111,277**	**1**	**-**	**-**
Total (A+B) 12.31.2023	**586,910**	**2,637**	**177,256**	**907**	**6,596,191**	**3,448**	**1,133,249**	**893**
Total (A+B) 12.31.2022	485,865	1,452	221,655	60	7,751,656	2,299	1,271,496	710

COURTESY TRANSLATION

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		The Americas		Asia		Rest of the World	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value 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	746,398	18	100,714	20	2,348		798			
Total (A)	746,398	18	100,714	20	2,348	-	798	-	-	-
B. Off-statement of financial position exposures										
B.1 Impaired exposures										
B.2 Performing exposures	181		979							
Total (B)	181	-	979	-	-	-	-	-	-	-
Total (A+B) 12.31.2023	746,579	18	101,693	20	2,348	-	798	-	-	-
Total (A+B) 12.31.2022	985,157	15	121,851	23	4,507	-	564	-	-	-

B.4 Large exposures

At December 31, 2023 there were 19 “large exposures”, i.e. exposures equal to or higher than 10% of eligible capital. The nominal (unweighted) amount of these positions was €9,682,789 thousand, while the weighted amount was €507,116 thousand.

C. Securitization transactions

Disclosure on the transaction with “TeamSystem S.p.A. – Invoice Trading PA.”

Qualitative information

Strategies, processes and objectives

The Parent BFF has initiated a project with its partner TeamSystem S.p.A. to extend its operations to small and medium-sized enterprises through a digital invoice trading platform.

The Parent participated in the project by investing in an Alternative Investment Fund (“AIF” - FPAM1 Fund) reserved for the purchase of receivables due from the Public Administrations.

The Fund, established on March 6, 2023, managed by TeamSystem Capital at Work SGR S.p.A., aims to increase the value of its assets through investments made to acquire, subscribe and/or sell ABS securities issued by the "SPV Project 2214 S.r.l." securitization vehicle, the underlying assets of which are represented by PA/NHS receivables acquired from assignor companies.

Transaction details

BFF subscribed units of the fund on July 11, 2023; subsequently, its operations began, with the acquisition of the first invoice and the issue of notes by the vehicle in early September 2023.

The securitization transaction was carried out through the vehicle established by Zenith Service S.p.A., which acquires trade receivables owed from PA and NHS entities and issues notes on the basis of Italian legislation, Italian Legislative Decree130/99, in partly paid mode. TeamSystem Capital at Work SGR S.p.A. has taken on the role of Portfolio Manager in the transaction structure, and in particular has been made responsible for verifying the consistency between the Fund Investment Policy and the individual PA Receivables that will be acquired as part of the securitization transaction.

At consolidated level, the vehicle falls within the accounting scope of consolidation of BFF Banking Group, but not the prudential scope of consolidation.

At December 31, 2023, the vehicle had no receivables in its portfolio.

Description of the risk profile

Investment in the Fund entails a degree of risk typical of investments in an AIF, primarily connected to possible changes in the value and profitability of the assets in which the Fund has invested.

To mitigate the risk connected to the investment, the fund's Investment Policy and the investment limits set forth in the Fund Regulation have been carefully assessed.

In particular, the main guidelines are set forth in brief below:

- the PA Receivables underlying the ABS securities in which the Fund Assets are invested must be certain, liquid and payable at the due date specified on the invoice;
- the Fund cannot invest in ABS Securities with PA Receivables as their underlying asset for which, at the moment of acquisition, the relative assigned debtors are in a proven state of insolvency and, in particular:
  - PA Receivables referring to debtors that are found to be subject to distress, pre-distress or in recovery, compulsory administrative liquidation or another applicable bankruptcy procedure;
  - PA Receivables that refer to credit exposures and/or debtors classified as in default pursuant to Art. 178 of Regulation (EU) 575/2013 of the European Parliament and the Council, as well as the implementing provisions and/or interpretative guidelines of such provision (past due, UTP, non-performing);

- the PA Receivables underlying the ABS Securities must also have the following characteristics:
  - minimum amount by individual invoice of €5,000;
  - performing receivable or receivable past due for no more than 30 days;
  - term not exceeding 90 days, where term refers to the payment terms of the invoice (to be calculated as the difference between the invoice issue date and the invoice due date);
  - being monetary receivables deriving from or relating to supply contracts and/or trade contracts governed by Italian law that have been signed/executed by an Assignor Company;
  - relating to services already provided excluding payments on account and/or receivables relating to the real estate sector and subject to the assessment of work in progress.

Qualitative information

Type of financial instruments held

The Parent does not hold any financial instruments connected with the transaction.

D. Disposal transactions

A. Financial assets sold and partially derecognized

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 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	1,642,570		1,642,570		1,591,122		1,591,122
2. Loans							
Total 12.31.2023	**1,642,570**		**1,642,570**		**1,591,122**		**1,591,122**
Total 12.31.2022	**4,382,848**		**4,382,848**		**4,221,778**		**4,221,778**

E. Prudential consolidation - credit risk assessment models

1.2 Market risk

Interest rate risk and price risk - regulatory trading portfolio

Quantitative information

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

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years to 10 years	More than 10 years	Indefinite duration
1. On-statement of financial position assets	-	-	-	-	**4**	**1**	-	-
1.1 Debt securities					4	1		
- with option of advance repayment								
- others					4	1		
1.2 Other assets								
2. On-statement of financial position liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements - payable								
2.2 Other liabilities								
3. Financial derivatives	-	**20,458**	-	-	-	-	-	-
3.1 With underlying security		20,458						
- Options								
+ long positions								
+ short positions								
- Other derivatives		20,458						
+ long positions		11,220						
+ short positions		9,239						
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								

2. Regulatory trading portfolio: distribution of exposures to equity securities and stock indices by the main listing market countries

(Values in thousand euros)

Transaction type/Listing index	Listed		Unlisted
	Italy	Others	
A. Equity securities	**1**		
- long positions	1		
- short positions			
B. Sales not yet settled on equity securities			
- long positions			
- short positions			
C. Other derivatives on equity securities			
- long positions			
- short positions			
D. Derivatives on stock indices			
- long positions			
- short positions			

1.2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Banking portfolio interest rate risk is the risk of a decrease in the value of the 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, risk deriving from the exposure of the Group's positions to changes in the slope and shape of the yield curve;
- basis risk, risk related to imperfect correlation in the adjustment of lending and borrowing rates on different instruments but with similar repricing characteristics. As interest rates change, these differences can lead to unexpected changes in cash flows and yield differentials between assets and liabilities with similar maturities or rate revision frequencies.

Exposure to interest rate risk is expressed from two different perspectives: volatility of economic value and volatility of profits (and, in particular, net interest income).

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 measurement of interest rate risk in terms of economic value is based on the use of "static" type models, which, borrowing the simplified approaches of regulatory origin in their measurement methods, do not take into account assumptions regarding the projection of cash flows. In compliance with the "ongoing balance" principle, to measure the change in net interest income, maturing items are instead replaced with the same amounts without therefore envisaging any increase or decrease in volumes.

In summary, the Group 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;
- 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 Parent 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.

For compliance with the limits, the scenario with the worst result is taken into account.

The parent relies on the option provided by the regulatory updates of Circular 285/2013 with respect to the refinement of the simplified methodologies as regards payable on demand items resulting from Transaction Services activities, while for receivable on demand items, what is set forth in regulations is applied (therefore, they are all classified in the "on demand" segment). The behavioral models used take into account the identification of the core share of funding, or the amount that could represent a stable source of funding despite the short contractual duration, even in the presence of significant changes in the interest rate context. As regards factoring loans, on the other hand, a forecast collection curve is applied."

Furthermore, following the publication of the new EBA guidelines (EBA GL 2022 14), the Parent performed an initial analysis to evaluate and monitor the Credit Spread Risk in the Banking Book (CSRBB), or the risk linked to changes in the credit spreads on financial instruments held in the portfolio, not identified by another existing prudential framework like the IRRBB or expected credit risk/risk of default, which influences both the economic value of equity and net interest income.

The CSRBB considers the combination of two elements:

- changes in the "market credit spread" or "market price of credit risk" (separate from the idiosyncratic credit spread), representing the credit risk premium requested by market operators for a specific credit quality;
- Changes in the "market liquidity spread", which represents the liquidity premium that stimulates the market propensity to invest and the presence of willing buyers and sellers.

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	Between 5 and 10 years	More than 10 years	Indefinite duration
1. On-statement of financial position assets	**3,380,272**	**1,488,985**	**3,911,843**	**21,843**	**1,171,388**	**113,298**	**964**	-
1.1 Debt securities		137,414	3,845,472	14,190	952,966	7,140		
- with option of advance repayment								
- others		137,414	3,845,472	14,190	952,966	7,140		
1.2 Loans and receivables with banks	246,384	553,466						
1.3 Loans and receivables with customers	3,133,889	798,105	66,371	7,653	218,422	106,158	964	
- current account	19,778							
- other loans	3,114,111	798,105	66,371	7,653	218,422	106,158	964	
- with option of advance repayment		13	11	19	18			
- others	3,114,110	798,091	66,360	7,633	218,404	106,158	964	
2. On-statement of financial position liabilities	**5,156,629**	**2,594,844**	**876,318**	**427,275**	**156,507**	**1,995**		-
2.1 Amounts due to customers	4,244,604	1,359,246	876,318	427,275	156,507	1,995		
- current account	3,879,017	790,037	875,805	426,327	150,091			
- other payables	365,587	569,209	513	948	6,416	1,995		
- with option of advance repayment								
- others	365,587	569,209	513	948	6,416	1,995		
2.2 Amounts due to banks	912,025	1,235,597						
- current account	821,219							
- other payables	90,806	1,235,597						
2.3 Debt securities								
- with option of advance repayment								
- others								
2.4 Other liabilities								
- with option of advance repayment								
- others								
3. Financial derivatives	-	**696,735**	-	-	-	-	-	-
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security	-	696,735	-	-	-	-	-	-
- Options								
+ long positions								
+ short positions								
- Other derivatives		696,735						
+ long positions		327,499						
+ short positions		369,236						
4. Other off-statement of financial position transactions	**2,470,799**	**2,470,799**	-	-	-	-	-	-
+ long positions	2,470,799							
+ short positions		2,470,799						

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	**69,982**	**694,558**	**132,316**	**35,827**	**34,100**	**7,144**	**-**	**-**
1.1 Debt securities								
- with option of advance repayment								
- others								
1.2 Loans and receivables with banks	50,405							
1.3 Loans and receivables with customers	19,577	694,558	132,316	35,827	34,100	7,144		
- current account	1,719							
- other loans	17,859	694,558	132,316	35,827	34,100	7,144		
- with option of advance repayment								
- others	17,859	694,558	132,316	35,827	34,100	7,144		
2. On-statement of financial position liabilities	**540,834**	**276,868**	**119,287**	**63,103**	**8,555**	**-**	**-**	**-**
2.1 Amounts due to customers	437,482	258,769	119,287	63,103	8,555			
- current account	437,482	258,769	119,287	63,103	8,555			
- other payables								
- with option of advance repayment								
- others								
2.2 Amounts due to banks	103,352	18,100						
- current account	102,302							
- other payables	1,051	18,100						
2.3 Debt securities								
- with option of advance repayment								
- others								
2.4 Other liabilities								
- with option of advance repayment								
- others								
3. Financial derivatives	**-**	**952,020**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		952,020						
- Options								
+ long positions								
+ short positions								
- Other derivatives		952,020						
+ long positions		496,935						
+ short positions		455,085						
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions								
+ short positions								

1.2.3 Currency risk

Qualitative information

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

Exposure to currency risk – determined on the basis of the net foreign exchange position using a method based on the supervisory regulations – is monitored in real time by the Finance and Administration Department and managed in compliance with the limits established by specific internal rules.

Positions exposed to currency risk may only be maintained within limited limits of maximum overall exposure, as well as for single currency and VaR.

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	**(15,478)**	**(6,212)**	**(3,291)**	**(2,343)**	**(1,753)**	**(946,715)**
A.1 Debt instruments						
A.2 Equity instruments	(1,659)					(207)
A.3 Loans and receivables with banks	(12,277)	(6,212)	(3,291)	(2,343)	(1,744)	(24,539)
A.4 Loans and receivables with customers	(1,543)				(10)	(921,969)
A.5 Other financial assets						
B. Other assets		**(3)**			**(2)**	**(1)**
C. Financial liabilities	**307,571**	**62,417**	**67,280**	**15,217**	**28,073**	**528,089**
C.1 Amounts due to banks	87,362	10,925	679	3,248	9,244	9,994
C.2 Amounts due to customers	220,210	51,492	66,602	11,969	18,829	518,095
C.3 Debt instruments						
C.4 Other financial liabilities						
D. Other liabilities		**1**				
E. Financial derivatives	**(293,763)**	**(56,251)**	**(64,100)**	**(12,899)**	**(26,438)**	**(498,570)**
- Options						
+ long positions						
+ short positions						
- Other derivatives	(293,763)	(56,251)	(64,100)	(12,899)	(26,438)	(498,570)
+ long positions	(292,741)	(56,240)	(64,049)	(12,899)	(26,384)	(44,623)
+ short positions	(1,022)	(11)	(51)		(54)	(453,947)
Total assets	**(308,219)**	**(62,455)**	**(67,340)**	**(15,242)**	**(28,140)**	**(991,338)**
Total liabilities	**308,593**	**62,429**	**67,331**	**15,217**	**28,127**	**982,036**
Difference (+/-)	374	(26)	(9)	(25)	(13)	(9,303)

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

Transactions carried out primarily through recourse to currency swaps are carried out by the Parent 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 Group loans expressed in a currency other than the euro, and particularly those in Polish zloty and Czech koruna. 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 and cross-currency swaps.

(Values in thousand euros)

	12.31.2023				12.31.2022			
	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			**20,458**				**-**	
a) Options								
b) Swaps								
c) Forwards			20,458				-	
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			**705,911**				**389,958**	
a) Options								
b) Swaps								
c) Forwards			705,911				389,958	
d) Futures								
e) Others								
4. Commodities								
5. Others								
Total			**726,381**				**389,970**	

A.2 Trading financial derivatives: positive and negative gross fair value – breakdown by products

(Values in thousand euros)

	12.31.2023				12.31.2022			
	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			1,161				204	
f) Futures								
g) Others								
Total			**1,161**				**204**	
2. Negative fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards			1,215				950	
f) Futures								
g) Others								
Total			**1,215**				**950**	

A.3 OTC trading 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		**20,498**		
- notional value	X	20,458		
- positive fair value	X	21		
- negative fair value	X	19		
2) Equity securities and stock indices		**12**		
- notional value	X	12		
- positive fair value	X			
- negative fair value	X			
3) Currency and gold		**708,287**		
- notional value	X	705,911		
- positive fair value	X	1,161		
- negative fair value	X	1,215		
4) Commodities				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
Contracts falling under netting agreements				
1) Debt securities and interest rates				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
2) Equity securities and stock indices				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
3) Currency and gold				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
4) Commodities				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional value	X			
- positive fair value	X			
- negative fair value	X			

A.4 Residual life of OTC financial derivatives: notional 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. Regulatory trading portfolio				
A.1 Financial derivatives on debt securities and interest rates	20,458			20,458
A.2 Financial derivatives on equity securities and stock indices		12		12
A.3 Financial derivatives on currency and gold	705,911			705,911
A.4 Financial derivatives on commodities				
A.5 Other financial derivatives				
Total 12.31.2023	**726,369**	**12**	**-**	**726,381**
Total 12.31.2022	**389,958**	**-**	**-**	**389,970**

1.3.2 Accounting hedges

Qualitative information

At December 31, 2022, the Parent operated 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 operated, also through its subsidiaries, financed through intra-group finance solutions in currencies such as the zloty and the Czech koruna.

A.1 Financial derivatives held for hedging: notional end-of-period amounts

(Values in thousand euros)

Underlying assets/ Derivative types	12.31.2023				12.31.2022			
	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**	
a) Options								
b) Swaps								
c) Forwards			-				255,298	
d) Futures								
e) Others								
4. Commodities								
5. Others								
Total			**-**				**255,298**	

A.2 Hedging financial derivatives: positive and negative gross fair value – breakdown by products

(Values in thousand euros)

Derivative types	12.31.2023				12.31.2022			
	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								
f) Futures								
g) Others								
Total								
2. Negative fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards							14,314	
f) Futures								
g) Others								
Total							**14,314**	

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				
A.4 Financial derivatives on commodities				
A.5 Other financial derivatives				
Total 12.31.2023	**–**			**–**
Total 12.31.2022	**255,298**			**255,298**

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 Finance and Treasury 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 managerial, "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 could 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, 2023 of 297.73% and 192.43%, respectively, well above the regulatory limits.

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		350		89,794	102,272	463,471	1,025,001	3,470,002	
A.2 Other debt securities							664	4,503	7,000	
A.3 Units of UCIs	165,846									
A.4 Loans	3,103,988	136,896	182,342	535,386	319,132	68,809	7,975	232,974	124,372	189,206
- banks	88,812	66,939	88,538	128,842	79,948					189,206
- customers	3,015,176	69,957	93,804	406,544	239,183	68,809	7,975	232,974	124,372	
On-statement of financial position liabilities										
B.1 Deposits and current accounts	4,691,625	201,699	44,750	71,464	648,806	897,521	442,619	150,091		
- banks	821,288	151,402	2,500		9,000					
- customers	3,870,337	50,297	42,250	71,464	639,806	897,521	442,619	150,091		
B.2 Debt instruments										
B.3 Other liabilities	1,033,374	568,710	9	1,087,788	481	518	969	6,416	1,995	
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		88,392	249,101							
- short positions		201,401	158,018	19,810						
C.2 Financial derivatives without exchange of capital										
- long positions										
- short positions										
C.3 Deposits and loans to be collected										
- long positions	2,470,799									
- short positions		2,470,799								
C.4 Commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees given	44						45	14,606		
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	70,437	62,830	1,506	3,983	10,152	34,088	44,073	162,487	589,465	
- banks	50,419									
- customers	20,018	62,830	1,506	3,983	10,152	34,088	44,073	162,487	589,465	
On-statement of financial position liabilities	-	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	533,467	35,547	25,537	43,120	177,263	123,304	66,972	8,572	130	
- banks	103,347	18,107								
- customers	430,120	17,440	25,537	43,114	177,263	123,304	66,972	8,572	130	
B.2 Debt instruments										
B.3 Other liabilities										
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		251,927	225,098	19,910						
- short positions		139,513	315,571							
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 Commitments to disburse funds										
- 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										

1.5 Operational risks

Qualitative information

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

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

With regard to the Banking Group, exposure to this category of risk is generated predominantly by failure in work processes, in organization, governance - human errors, computer software malfunctions, inadequate organization and control measures - as well as by any loss of human resources in key corporate management positions. Exposure to operational risks deriving from external sources appears to be of negligible importance, partly due to the mitigation tools adopted to address such adverse events (such as, by way of example: the business continuity plan, data storage processes, back up tools, insurance policies, etc.).

The process adopted by the Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives with the aim of fostering the adoption of professional and responsible 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 Company's Risk Management Function also allows the Group to have a database of operational losses generated by risk events (Event Type), useful for identifying risk factors, mitigation actions and retention and transfer strategies, as well as for the possible development over time of internal operational risk measurement systems;

- Risk Self Assessment (RSA): the Group performs an annual overall assessment of the level of exposure to Operational Risks using the RSA process. The Risk Self Assessment (RSA) is an annual self-assessment of the prospective exposure to the operational risk inherent in business processes, aimed at enhancing the perception of risk by the key figures (Business Experts) who govern the execution of these processes, taking into account the expected evolution of the business and the 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 Parent 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 Parent 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.

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, the securitization vehicle SpV Project 2214 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 Consolidated 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 - Consolidated equity

A. Qualitative information

The equity of the Banking Group includes the aggregated share capital, share premium, reserves, interim dividends, equity instruments, treasury shares, valuation reserves and profit for the year of the companies that make it up.

B. Quantitative information

B.1 Consolidated 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	143,947				143,947
2. Share premium reserve	66,277				66,277
3. Reserves	277,762				277,762
3.5 Interim dividends (-)	(54,451)				(54,451)
4. Equity instruments	150,000				150,000
5. (Treasury shares)	(4,377)				(4,377)
6. Valuation reserves:	7,993				7,993
- 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	2,534				2,534
- Property, equipment and investment property					
- Intangible assets					
- Hedging of foreign investments					
- Cash flow hedges	-				-
- Hedging instruments [undesignated elements]					
- Foreign exchange differences	1,751				1,751
- 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	308				308
- Share of valuation reserves for equity-accounted investments					
- Special revaluation laws	3,400				3,400
7. Profit (+/-) for the year attributable to owners of the parent and non-controlling interests	171,662				171,662
Total	**758,812**				**758,812**

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 12.31.2023	
	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	2,534								2,534	-
3. Loans									-	-
Total	**2,534**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,534**	**-**
Total 12.31.2022	**1,045**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,045**	**-**

(Values in thousand euros)

Assets/Values	Total 12.31.2023		Total 12.31.2022	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities				
2. Equity securities	2,534		1,045	
3. Loans				
Total	**2,534**	**-**	**1,045**	**-**

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.

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 recognized in the consolidated financial statements of roughly €12.5 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	-	**1,045**	-
2. Positive changes			
2.1 Increases in fair value		1,488	
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			
3. Negative changes			
3.1 Decreases in fair value			
3.2 Adjustments in for credit risk			
3.3 Reclassification through profit or loss of positive reserves:			
- on disposal		X	
3.4 Transfers to other equity items (equity securities)			
3.5 Other changes			
4. Closing balances	-	**2,534**	-

B.4 Actuarial reserves for defined benefit plans: annual changes

IAS 19 envisages the booking of actuarial gains and losses in the statement of comprehensive income for the year of competence.

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, 2023, this actuarial reserve amounts to €308 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, 2023 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 IFRS prudential filters.

The main components of the Group's own funds are computed in Common Equity Tier 1 (CET1), and are the following:

- Paid-in share capital;
- Reserves (legal reserve, extraordinary reserve, retained earnings reserve, stock option reserve and financial instruments reserve);
- Any undistributed portion of profit for the period;
- Valuation reserves (IASs/IFRS 9 transition reserve, actuarial reserve for defined benefit plans, and valuation 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 previous year.

In 2023 Own funds were influenced primarily by:

- the distribution of the Group's normalized profit, which was higher than the profit for the year by around €11 million;
- the payment of coupons relating to the Additional Tier 1 issue for €8.8 million.

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 12.31.2023	Total 12.31.2022
A. Common Equity Tier 1 (CET1) pre-application of prudential filters	**503,344**	**525,293**
of which CET1 instruments subject to transitional provisions		
B. Prudential CET1 filters (+/-)	(319)	(234)
C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)	**503,026**	**525,059**
D. Elements to be deducted from CET1	**(66,080)**	**(63,160)**
E. Transitional period - Impact on CET1 (+/-), including non-controlling interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) (C - D +/-E)	**436,946**	**461,900**
G. Additional Tier 1 (AT1) inclusive of elements to be deducted and effects of transitional rules	**150,000**	**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**	**150,000**
M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules		
of which T2 instruments subject to transitional provisions		
N. Elements to be deducted from T2		
O. Transitional 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)		
Q. Total own funds (F + L + P)	**586,946**	**611,900**

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, 2023, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

With regard to the Banking Group, at December 31, 2023 the *CET1 is 14.2%* and the Tier 1 Capital Ratio and the *Total Capital Ratio* are 19.1%.

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 determined 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 Operational Risk Management framework applied, the Parent uses 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. The operational risk results obtained from the forward-looking assessment process were also used for quantifying internal capital against operational risk for ICAAP purposes. Operating losses referring to 2023 were significantly lower than the capital requirement for operational risk and the requirement calculated at operational level in the 2022 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 Risk Management 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 27, 2023. 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	
	12.31.2023	12.31.2022	12.31.2023	12.31.2022
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized methodology	11,989,854	13,070,543	2,284,715	2,002,716
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**182,777**	**160,217**
B.2 Credit valuation adjustment risk			**21**	**25**
B.3 Settlement risks				
B.4 Market risks			**568**	
1. Standard methodology			568	
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			62,754	58,933
2. Standardized methodology				
3. Advanced method				
B.6 Other calculation factors				
B.7 Total prudential requirements			**246,121**	**219,176**
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			3,076,507	2,739,701
C.2 CET 1/Risk-weighted assets (CET1 capital ratio) (%)			**14.20%**	**16.86%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**19.08%**	**22.33%**
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) (%)			**19.08%**	**22.33%**

Part G - Business combinations of companies or business units

Section 1 - Transactions completed during the year

As of December 31, 2023 there are no extraordinary operations of business combinations falling within the definition provided by IFRS 3 (revised).

Section 2 - Transactions after the reporting date

After the end of 2023, there were no business combinations falling under the definition of the revised IFRS 3.

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, 2023, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statements item.

(Values in thousand euros)

	Parent company	Directors and Executives with key management responsibilities (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, 2023			13,068	13,068	13,160	99.3%	-	N/A
Amounts due to customers								
At December 31, 2023		(1,496)		(1,496)	(8,545,110)	0.0%	(1,257,191)	0.1%
Provision for risks and charges: a) pension and similar obligations								
At December 31, 2023		(1,328)		(1,328)	(7,009)	19.0%	141.974	(0.9)%
Other liabilities								
At December 31, 2023		(942)	(8)	(950)	(555,354)	0.2%	141.974	(0.7)%
Reserves								
At December 31, 2023		(6,924)		(6,924)	(277,762)	2.5%	-	
Impact of transactions on the income statement								
Interest and similar expense								
2023			(20)	(20)	345,256	0.0%	-	
Administrative expense: a) personnel expense								
2023		(12,974)		(12,974)	(75,980)	17.1%	-	
Administrative expense: a) other administrative expense								
2023			(15)	(15)	(104,136)	0.0%	-	

(1) Including members of the Board of Directors.

As of December 31, 2023, the option rights relating to the stock option plans in place amounted to 13,221,900 options assigned and not yet exercised, of which 8,996,900 could be exercised for shares of the Parent Company, for which, if the price reached €15, the dilution would be 1.79%.

In order to optimize the Group's funding activities, the Parent Company has entered into intercompany loan agreements with subsidiaries, regulated at arm's length.

More specifically, the balances of the intercompany positions at December 31, 2023 are as follows:

- BFF Finance Iberia (through the Spanish branch of BFF Bank): €460.9 million;
- BFF Polska: PLN 3,133.5 million, of which PLN 1,573.5 million through the Polish branch of BFF Bank and equal to €12.3 million.
- BFF Central Europe: €222.3 million.
- BFF MedFinance: PLN 376.5 million through the Polish branch of BFF Bank.
- BFF Ceska Republika: CZK 71 million.
- BFF Immobiliare: €40.7 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, 2023 amounted to about €1,500 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, 2023 amounted to about €828 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, 2023 amounted to about €5 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 €369 thousand as at December 31, 2023;
- BFF Polska S.A. for about €658 thousand as at December 31, 2023;
- BFF Finance Iberia S.A.U. for about €238 thousand as at December 31, 2023;
- BFF Medfinance S.A. for an amount of about €80 thousand as of December 31, 2023;
- Kancelaria Karnowski for an amount of about €86 thousand as of December 31, 2023;
- BFF Central Europe s.r.o. for an amount as of December 31, 2023 equal to €60 thousand;
- BFF Ceska Republika s.r.o. for an amount as of December 31, 2023 equal to €11 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 Fast Forward Foundation (formerly 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.

With regard to the options granted under the 2016 Stock Option Plan, as of December 31, 2023 96,000 were assigned, not exercised, have vested and may be exercised.There were no other options existing at that date. The number of options outstanding and not yet exercised as at December 31, 2022 was 1,086,788.

2020 Stock Option Plan

On April 2, 2020, the Ordinary Shareholders' Meeting approved a new Stock Option Plan ("2020 Plan") for employees and directors holding executive positions in the parent and/or its subsidiaries, having the following characteristics:

- *Purpose*: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe newly issued ordinary shares of the parent or shares that have already been issued and are included in the parent's portfolio when the option is exercised;
- *Recipients*: the beneficiaries are identified by the Board of Directors and/or the CEO at their sole discretion – within the limits envisaged by the applicable legislation and the plan – among the employees and/or Directors with executive positions in the parent and/or its subsidiaries;
- *Type of exercise*: ordinary or cashless exercise.

The options assigned within each tranche accrue upon completion of the vesting period, i.e. after 3 years from the relative assignment date. Vesting is subject to the following conditions being met: (i) The continuation of the employment relationship with the Bank and/or of the office held in the Board of Directors and absence of notice due to resignation or dismissal; and (ii) Levels of capital and liquidity resources necessary to cover the activities undertaken and compliance with other parameters, also of a regulatory nature.

With regard to the 2020 Stock Option Plan, as of December 31, 2023, the number of stock options granted and not exercised is 5,461,400, of which 2,227,700 have vested and are exercisable. There were no other options existing at that date. The number of options outstanding as at December 31, 2022 but not yet exercisable was 8,384,500.

BFF Banking Group 2022 Long-Term Incentive Plan

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

- Subject: the plan provides for the allocation of a maximum of 9,700,000 options divided into three tranches. The options can be of two types: (i) Class A options, which grant the right to receive newly issued ordinary shares of the Bank, "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 Bank 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 Parent and the other detailed forecasts of the plan, already disclosed to the market in accordance with applicable regulations.

With regard to the 2022 Stock Option Plan, as of December 31, 2023, 7,664,500 options have been granted, of which 3,439,500 are equity settled (A Options) and 4,225,000 are cash settled (phantom shares), not yet exercisable. As of December 31, 2022, 5,593,000 options have been granted, of which 2,500,500 equity settled and cash-less and 3,092,500 cash settled (phantom shares), none of which yet exercisable.

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 and Loans and receivables with customers	2023	2022
Loans and receivables with customers*	**5,617**	**5,442**
Italy	3,448	3,383
Spain	599	629
Poland	919	806
Slovakia	245	241
Portugal	223	239
Greece	166	131
France	14	13
Croatia	-	1
Czech Republic	3	2
Acquired turnover/Loans disbursed during the year	**8,114**	**7,783**
Italy	4,889	4,505
Spain	1,758	1,879
Poland	642	663
Slovakia	31	28
Portugal	534	481
Greece	190	167
France	65	55
Croatia	-	2
Czech Republic	4	2

Income Statement (€ million, normalized values)	2023	2022
Interest and similar income	398	247
of which "rescheduling/capital gains" spread	29	14
Other income (including other operating income and expense)	40	16
Total net revenue	**437**	**264**

(*) Loans and receivables with customers include ecobonus tax assets for €414.1 million (€221 million in 2022).

Securities Services BU

Amounts managed and deposits	2023	2022
Custodian Bank (AuD, €m)	58,842	49,524
Global Custody (AuC, €m)	111,343	153,065
Deposits - Final Balance (€m)	2,886	3,167
Income Statement (€ million, normalized values)	**2023**	**2022**
Net fee and commission income	23	43
Other income (including other operating income and expense)	1	1
Total net revenue	**24**	**44**

Payments BU

Transactions executed and deposits	2023	2022
Transactions (no. trans. millions)	767	675
Deposits - Final Balance (€m)	3,495	2,748
Income Statement (€ million, normalized values)	**2023**	**2022**
Net fee and commission income	52	45
Other income (including other operating income and expense)	11	11
Total net revenue	**63**	**57**

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 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 expense, 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 asset shall be equal to the value of the financial liability, less some specific items, e.g. those relating to the direct costs incurred in obtaining the lease;
- For subsequent measurement of the asset and over the lease term, the asset is depreciated on a systematic basis, while the financial liability includes any interest expense, calculated based on the interest rate implicit in the lease where expressly stated or on the cost of funding for the period, and any periodic lease payments.

Section 1 - Lessee

Qualitative information

During 2018, BFF 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 euros) 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 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, plant and equipment" at first- time adoption and at December 31, 2023 are shown below.

(Values in thousand euros)

	Right-of-use assets 12.31.2023	Right-of-use assets 12.31.2022
BFF	11,752	10,675
BFF Finance Iberia	607	772
BFF Polska Group	2,023	1,058
BFF Techlab	145	-
Total BFF Banking Group	**14,527**	**12,505**

For more details on the accounting impacts related to property, plant and equipment 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

2. Financial leasing

2.1 Classification by time bands of payments to be received and reconciliation with leases recognized in assets

(Values in thousand euros)

	Total 12.31.2023	Total 12.31.2022
Time periods	Lease payments to be received	Lease payments to be received
Up to 1 year	182	438
More than 1 year to 2 years	43	382
More than 2 years to 3 years	296	67
More than 3 years to 4 years		735
More than 4 years to 5 years		
Over 5 years		
Total lease payments to be received	**521**	**1,623**
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)	(1)	(4)
Unguaranteed residual value (-)		
Loans for leases	**520**	**1,619**

Other information

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

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 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 expense 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	186	92		64	43	243		
Certification services (*)	122			17				
Tax consultancy services								
Other services (**)	286		60	26				
	594	**92**	**60**	**107**	**43**	**243**	**-**	**-**

(*) The amounts refer to the attestations regarding the Non-Financial Disclosure and the EMTN program.
(**) Amounts refer to agreed-upon audit procedures, due diligence and methodological support activities.

03

Certification by the Financial Reporting Officer

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

1. The undersigned
   - Massimiliano Belingheri, in his capacity as Chief Executive Officer,
   - 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 2023 Consolidated Financial Statements.

2 The suitability and effective application of the administrative and accounting process employed to draw up the 2023 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 2023 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, 7 March 2024

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
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(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 2023, 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 material information on the 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 2023 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 the 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 audit 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.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

Ancona Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
Euro 10.415.500,00 i.v.
Registro Imprese Milano Monza Brianza Lodi
e Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

KPMG

BFF Banking Group
Independent auditors' report
31 December 2023

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 and similar income: other information"

Key audit matter	Audit procedures addressing the key audit matter
When measuring loans and receivables with customers acquired without recourse, the director include 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 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. The complexity of the directors' estimation process has been affected by the ongoing uncertainties which have an impact on the current economic conditions and potential future macroeconomic scenarios, with potentially significant effects stemming from the energy market, supply chains, inflationary pressure and the effects of monetary policies on interest rates. 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.

KPMG

BFF Banking Group
Independent auditors' report
31 December 2023

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": section 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 as compensation for recovery costs, since 2018, the directors have been claiming €40 from its debtors for each past-due invoice as lump-sum compensation for recovery costs. In its decision of 20 October 2022, the Court of Justice of the European Union confirmed the group's right to recover €40 for each invoice. Based on their analysis of historical trends of collected compensation, the directors obtained a reliable estimate of the collectable amount. Therefore, starting from the consolidated financial statements at 31 December 2022, they decided to recognise the above compensation on an accruals basis, based on the same collection percentage adopted in the late payment interest model. At the reporting date, the directors recognised the estimated compensation accrued during the year of €23 million. We focused on this issue because: • 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) 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 the lump-sum compensation for recovery costs (€40); • analysing the models used to estimate the lump-sum compensation for recovery costs (€40) 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).

3

KPMG

BFF Banking Group
Independent auditors' report
31 December 2023

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 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 2023 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 BFF Techlab S.r.l., respectively, the latter carried out in 2022. Moreover, further to the business combination with DEPOBank S.p.A., which occurred in 2021, and the completion of the PPA procedure, the directors recognised an intangible asset with a finite useful life of €25.7 million relating to customer contracts. Customer contracts amount to €19 million in the consolidated financial statements at 31 December 2023. Amortisation and net impairment losses relating to intangible assets with a finite useful life recognised in profit or loss during the year total €2.7 million and solely comprise amortisation charges. As disclosed in the notes, in accordance with IFRS 3, the directors allocated the intangible assets with a indefinite useful life 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 a indefinite useful life were allocated to their recoverable amount. They estimated the recoverable amount based on value in use, calculated using the discounted cash flow model. Impairment testing requires complex valuations and a high level of judgement, especially in relation to: • the expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of the group's sector and the directors' forecasts about its future performance; • the financial parameters to be used to discount the cash flows.	Our audit procedures included: • assessing the conditions leading to impairment; • 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 key 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; • 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.

BFF Banking Group
Independent auditors' report
31 December 2023

Key audit matter	Audit procedures addressing the key audit matter
The complexity of the directors' estimation process has been affected by the ongoing uncertainties which have an impact on the current economic conditions and potential future macroeconomic scenarios, with potentially significant effects stemming from the energy market, supply chains, inflationary pressure and the effects of monetary policies on interest rates. 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. 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.

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 this 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 2023 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 2023 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 2023 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 operation 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 2023 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 2023 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 consolidated non-financial statement separately.

Milan, 28 March 2024

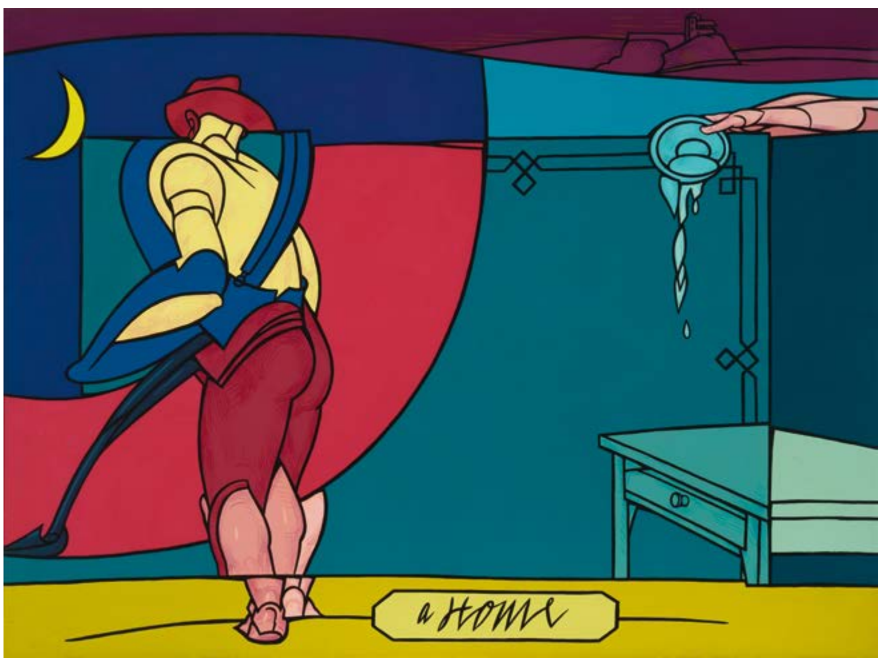
KPMG S.p.A.

(signed on the original)

Roberto Spiller
Director of Audit

Graphic design and layout
Red Point Srl

Printing
Varano Fotocomposizione Snc



Valerio Adami, “A Home - Nocturne”, 1990
180x240 cm, Acrylic on canvas
Collezione BFF