Consolidated Interim Financial Report

2023

The works of art reproduced in this report were created by the artist Valerio Adami, and they are part of Farmafactoring Foundation's contemporary art collection.

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

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

The art volume represents the first step in a more extensive project involving the promotion of the collection abroad, in a travelling exhibit throughout Europe, which will end in 2023.

www.art-factor.eu

BFF Bank S.p.A.
Parent of the BFF Banking Group
Registered Office in Milan - Via Domenichino 5
Share Capital €143,749,686.00 (fully paid-in)
Milan Company Register No.,
Tax Code and VAT No. 07960110158

2023

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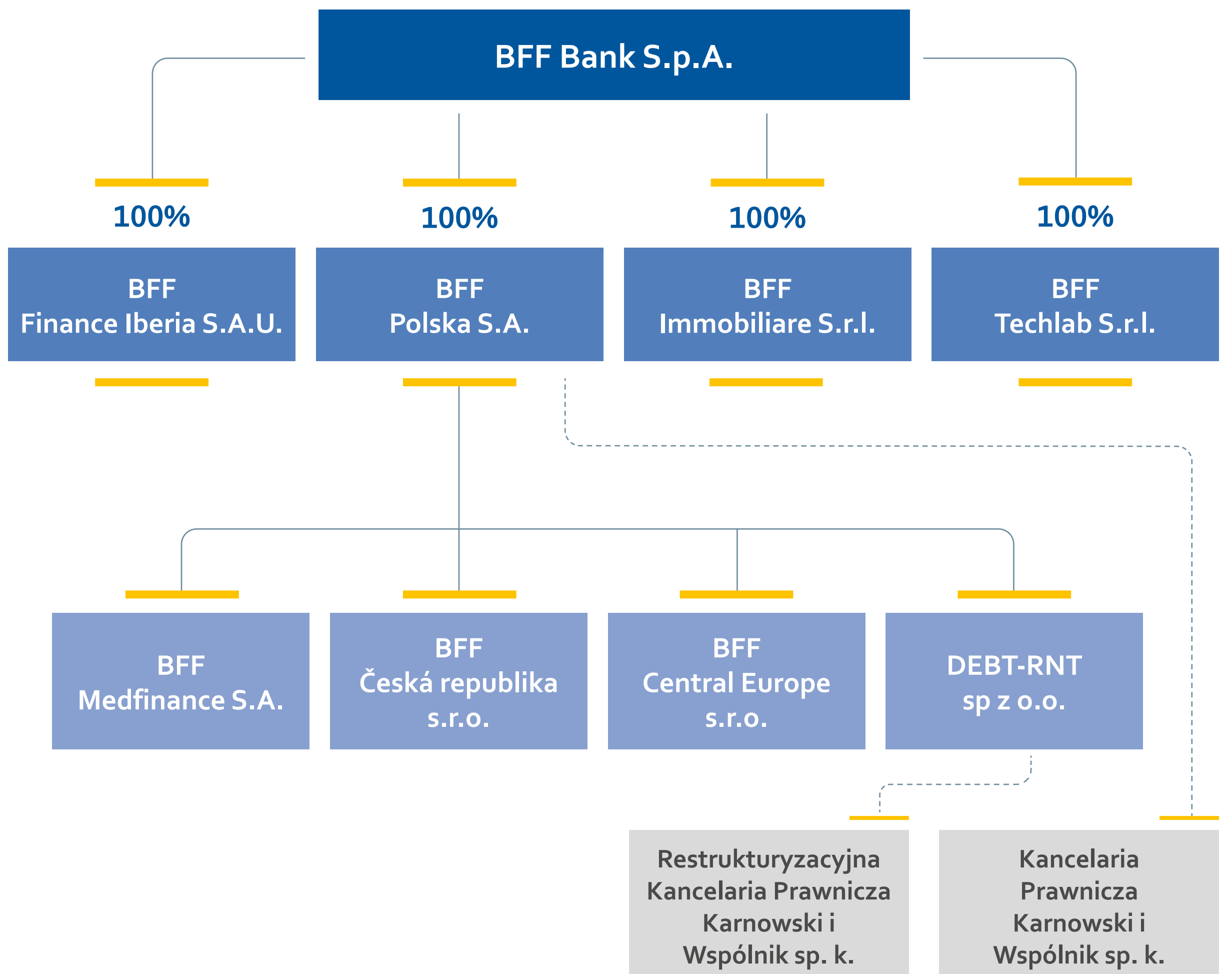
Financial Report

Contents

Group Structure



As at June 30, 2023, BFF Banking Group included the Parent BFF Bank S.p.A. (the “parent” or the “bank”) and the following companies:

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

Key:

(1) Type of relationship:

1 = having the majority of voting rights at ordinary shareholders’ meetings
2 = dominant influence at the ordinary shareholders’ meeting
3 = arrangements with other shareholders
4 = other forms of control

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

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

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

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

On October 3, 2022, BFF Bank finalized the acquisition of the IT company "MC3 Informatica S.r.l." which as of the same date changed its company name to BFF Techlab S.r.l. This transaction is consistent with the growth path outlined in the 2023 Business Plan, and will allow for the vertical integration of all development activities linked to the management and evolution of the Group's information system, favoring cost synergies and boosting operational efficiency.

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

Corporate Bodies as of June 30, 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	Vice 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 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 at December 31, 2023.

INDEPENDENT AUDITORS

KPMG S.p.A.

FINANCIAL REPORTING OFFICER

Giuseppe Manno

Composition of the board committees as of June 30, 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 Risks Committee: investigative, advisory and proposal-making 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.*

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	ORGANIC GROWTH
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	

Business Model

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

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

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

FACTORING & LENDING

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

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

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

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

SECURITIES SERVICES

PAYMENTS

- **The structural reduction of costs** for the customer thanks to outsourcing services that guarantee constant adaptation to and compliance with the regulatory framework without the financial burden that usually follows.
- A single interlocutor – **"one stop shop"** – for all back office services for better **cost efficiency and management**.

- **Rapid, customized solutions** thanks to a superior flexibility and agility in managing customer needs.

- **Operational simplification for PSPs*** thanks to a single interbank account, which can be monitored in real time, to join all Italian and European payment services at the same time.

** Payment Service Providers*

Our Mission

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 – aware of the growing importance of ESG factors – 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.

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

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

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

ESG targets achieved in the course of 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.

In fact, 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 Farmafactoring Foundation. BFF will increase its contribution to foundation initiatives based on a new long-term plan founded on the concept of "integrated welfare". The Foundation's plan will be presented to stakeholders in the fall of 2023.

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 72% and 21% 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

Already in 2022 BFF had embarked upon a path to engage in dialog with the main ESG (**"Environment, Social, Governance"**) rating agencies with a view to continuously improving its performance in the most accredited ESG ratings.
This approach, which led to an upgrade of the rating issued by MSCI, is an encouragement for BFF to continue on its path of sustainable growth.

On January 27, 2023 **MSCI** – a leading international ESG rating company that analyzes about three thousand companies globally – raised BFF's ESG rating to AA. MSCI ranks BFF in the highest score range compared to global peers for governance issues, highlighting as strengths the majority of the Board of Directors made up of independent Directors and the division of roles between Chairman and CEO in favor of strong oversight over management.
The rating also recognizes BFF's value of talent management initiatives, with special reference to the development of internal surveys and training initiatives aimed at staff.

2. Operational context and significant events

International Economic Landscape

The first six months of 2023 were marked by a slowdown in the major Western economies, and by a widespread partial reduction of inflation after last year's surge, the decrease being driven by a new sharp drop in energy prices. However, persistent unemployment rates near historic lows have kept core inflation (which excludes the volatile food and energy components) at 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 5.00% - 5.25%, the Bank of England raised the benchmark rate from 3.50% to 5.00%, and the ECB raised the main refinancing operations rate from 2.50% to 4.00%.

The European economy

THE MAIN MACROECONOMIC INDICATORS OF THE EUROPEAN UNION

Indicators	2021	2022	Consensus forecasts	
			2023	2024
Real GDP (annual change)	5.6%	3.5%	0.7%	1.4%
Inflation rate (annual change)	2.7%	8.9%	6.3%	2.9%
Unemployment rate	7.4%	6.5%	6.8%	6.7%
Balance of payments (% of GDP)	3.2%	1.2%	1.8%	2.2%
Public Budget Balance (% of GDP)	-4.8%	-3.4%	-3.3%	-2.7%

(*)Consensus estimates from Bloomberg, updated at 06/30/2023.

Economic growth in the European Union was weak in H1 2023. GDP in the first quarter grew by 0.1% compared to the last three months of 2022 (in which it contracted by 0.2%), on the one hand held back by a decline in consumption (-0.3%) and government spending (-0.9%), and on the other supported by investment (+0.3%) and net exports (which contributed 0.8% to GDP growth, but essentially due to a decrease in imports). In the spring months, economic data on the whole showed a fragile situation: industrial production and retail sales in real terms were stagnant, business owners became less optimistic due to the credit crunch, while household pessimism was reduced thanks to the decline in inflation. For 2023, the consensus estimates that growth will slow to 0.7%, from 3.5% last year.

Inflation in May fell to 7.1% from 10.4% in December, benefiting from the collapse in energy prices, while the core figure (excluding the volatile components of food, energy, alcohol and tobacco) decreased marginally, to 6.1% (from 6.2%). For this year, analysts expect inflation (annual average) to fall to 6.3%, from 8.9% in 2022.

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 4.00%), the deposit rate and the marginal lending rate were also raised by 150 basis points to 3.50% and 4.25%, respectively. As a result, traders revised their expectations for European short-term rates upward, with forward rates on the three-month Euribor maturing in December 2023 rising 36 basis points to 3.99% during the six-month period. Moreover, 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 in December 2024 at 3.44%.

In bond markets, the Fed's and ECB's restrictive stance caused short-term yields to rise (on two-year maturities by 43 basis points on the Bund), while long-term yields fell (on 10-year bonds, by 18 bps on the Bund) reflecting falling inflation and recessionary risk. Against this backdrop, the Italian bond market staged a partial recovery of 4.1% (based on the overall MTS index), following a 14.8% drop in 2022, driven upward by BTPs with maturities over 6 years (+7.4%). Like bonds of other non-core countries, our government bonds were able to benefit from the decrease in the risk premium following the expectation for a reversal of monetary policy in 2024. Specifically, the yield differential between BTPs and Bunds on the ten-year maturity in the half-year fell by 46 cents to 168.
Despite the economic slowdown and higher interest spending, the EU government deficit is expected to narrow slightly this year – to 3.3% of GDP (based on consensus estimates), from 3.4% in 2022 – 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.

After the strong stimulus received in 2020-2021 to deal with the pandemic, public expenditures as a percentage of GDP should continue to reduce, falling this year to 49.0% (from 49.8% in 2022) and then to 48.1% (according to European Commission estimates). Moreover, due to high nominal GDP growth, nominal public spending growth in 2023 is expected to be brisk in almost all countries. The Commission estimates that in the European Union it will increase by 5.3%, and among the countries BFF operates in double-digit growth rates are expected to be achieved by Slovakia (+26.9%), Poland (+21.3%), Croatia (+11.4%) and the Czech Republic (+10.3%). In contrast, Greece is expected to shrink in nominal terms (-1.4%). In 2024, against the 2.4% increase expected for the EU, public spending is expected to grow significantly in Croatia (+6.5%), France (+6.1%) and Poland (+4.8%), while it could be stagnant in Greece (-0.2%) and the Czech Republic (0.0%). Overall, government spending in the countries where BFF is present is expected to grow by 7.6% this year and 4.5% next year, significantly more than the expected increases for the European Union.

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)	7,874	49.8	5.3%	8,289	49.0	5.3%	8,487	48.1	2.4%
BFF countries	**3,951.9**	**53.2**	**6.2%**	**4,253.1**	**52.3**	**7.6%**	**4,446.3**	**51.5**	**4.5%**
France	1,533	58.1	3.8%	1,662	58.1	8.4%	1,763	58.1	6.1%
Italy	1,082	56.7	9.8%	1,127	52.5	4.1%	1,175	51.0	4.3%
Spain	634	47.8	3.8%	668	47.6	5.4%	688	47.1	3.0%
Poland	286	43.5	12.5%	347	46.6	21.3%	363	44.8	4.8%
Czech Republic	123	44.6	11.2%	136	44.3	10.3%	136	42.1	0.0%
Portugal	107	44.8	4.5%	114	44.5	6.2%	118	44.3	3.7%
Greece	109	52.5	4.6%	108	49.0	-1.4%	107	47.2	-0.2%
Slovakia	46.4	42.3	1.6%	58.8	47.7	26.9%	59.0	44.4	0.3%
Croatia	30.0	44.8	6.0%	33.4	45.8	11.4%	35.6	46.0	6.5%

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

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

So far public spending on goods and services has shown more dynamism than overall public spending. In fact, growth in the European Union in 2022 was 6.5%, with intermediate consumption (+6.8%) increasing slightly more than social benefits in kind (+6.2%). Looking at the countries where BFF is present, growth was particularly consistent in Poland (+16.2%), the Czech Republic (+13.2%), Slovakia (+12.2%) and Greece (+11.8%), while it was more limited in France (+3.6%).

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

Countries	2022 Intermediate Consumption (billion euros)	2022 Intermediate Consumption (% of GDP)	Chg yoy	2022 Social Benefits in Kind (billion euros)	2022 Social Benefits in Kind (% of GDP)	Chg yoy	2022 Public Expenditure for Goods and Services (billion euros)	2022 Public Expenditure for Goods and Services (% of GDP)	Chg yoy
European Union (27 countries)	953.1	6.0	6.8%	869.4	5.5	6.2%	1,822.5	11.5	6.5%
BFF countries	**425.6**	**5.7**	**8.4%**	**293.1**	**3.9**	**3.7%**	**718.6**	**9.7**	**6.4%**
France	138.0	5.2	6.4%	167.1	6.3	1.4%	305.1	11.6	3.6%
Italy	115.2	6.0	4.5%	50.8	2.7	6.2%	166.0	8.7	5.0%
Spain	78.1	5.9	9.7%	38.1	2.9	6.6%	116.2	8.8	8.7%
Poland	41.2	6.3	21.0%	11.7	1.8	2.1%	52.9	8.1	16.2%
Czech Republic	16.0	5.8	15.3%	9.4	3.4	9.8%	25.4	9.2	13.2%
Portugal	13.5	5.7	8.9%	4.7	2.0	12.3%	18.2	7.6	9.7%
Greece	11.7	5.6	11.1%	6.1	2.9	13.1%	17.8	8.6	11.8%
Slovakia	6.5	5.9	13.7%	3.7	3.4	9.5%	10.3	9.3	12.2%
Croatia	5.2	7.8	9.2%	1.4	2.1	8.2%	6.7	10.0	9.0%

Source: BFF calculations based on Eurostat data.

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 take a big leap, benefiting from the RRF, EU structural funds, government investment, and high nominal GDP growth. Compared to an increase of 14.5% estimated by the Commission for the European Union (for an increase as a percentage of GDP up from 3.2% last year to 3.4%), in the countries where BFF operates the increase is expected to be higher and equal to 15.7%, with highly positive trends in Slovakia (+67.1%), Croatia (+35.1%), Portugal (+34.1%) and in Italy (+29.3%). In 2024, the growth rate of public investment in the countries where BFF is present is expected to remain strong (+10.7%) and significantly higher than that of the EU (+4.3%, for a stable 3.4% of GDP), with Greece (+22.2%), Italy (+21.3%) and Poland (+11.7%) leading the way.

PUBLIC INVESTMENT OUTLOOKS IN THE COUNTRIES WHERE BFF IS PRESENT

Countries	2022 Public Investments (billion euros)	2022 Public Investments (% of GDP)	Chg 2022/2021	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)	502.5	3.2	7.1%	575.2	3.4	14.5%	599.9	3.4	4.3%
BFF countries	**245.4**	**3.3**	**7.6%**	**284.0**	**3.5**	**15.7%**	**314.3**	**3.6**	**10.7%**
France	98.7	3.7	9.5%	105.8	3.7	7.3%	115.3	3.8	9.0%
Italy	51.5	2.7	-1.1%	66.5	3.1	29.3%	80.7	3.5	21.3%
Spain	36.7	2.8	10.7%	40.7	2.9	10.9%	42.4	2.9	4.1%
Poland	26.4	4.0	11.3%	30.5	4.1	15.5%	34.0	4.2	11.7%
Czech Republic	12.8	4.6	14.2%	14.4	4.7	12.5%	13.9	4.3	-3.8%
Portugal	5.9	2.5	7.1%	7.9	3.1	34.1%	8.5	3.2	7.6%
Greece	7.3	3.5	10.2%	8.6	3.9	17.4%	10.5	4.6	22.2%
Slovakia	3.6	3.3	17.9%	6.0	4.9	67.1%	5.5	4.1	-9.8%
Croatia	2.5	3.8	-6.9%	3.4	4.7	35.1%	3.6	4.6	3.7%

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

The factoring market in Europe

With regard to the factoring market in Europe, preliminary data for the first quarter of 2023[1] confirm a growth trend that continues to build on the exceptional results recorded in the last two years. After the expansion experienced in 2021 and especially in 2022, the start of 2023 was characterized by a normalization of the sector, as observed in some countries such as Poland (+7% compared to a 25% increase in 2022), Italy (+5% compared to a growth rate of nearly 15% in 2022, and Portugal (+7% compared to a 22% increase in 2022). Although of a more moderate magnitude, these are notable achievements that testify to the fact that, especially in a scenario characterized by a tightening of credit supply, factoring proves to be a valuable tool to support companies' liquidity needs.

Looking specifically at the Italian market, from January 1 to May 31, 2023 factoring recorded a cumulative turnover of €110.2 billion (including €23.7 billion in recourse and €86.5 billion in non-recourse), up 3.01% from May 2022. In the same period, the outstanding amounted to €57.4 billion (of which €15.3 billion in recourse and €42.0 billion in non-recourse), a drop of 3.68% compared to May 2022. Advances and fees paid amounted to €44.2 billion, an increase of 0.62% over 2022. The ratio of advances to outstanding stood at 77%.

Restricting the analysis only to factoring for the public administration, in H1 2023 there was a 15.1% increase in turnover compared to H1 2022, with a total value of €4.95 billion, equal to 7.5% of total factoring volumes in Italy.

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 ongoing 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 the current complex landscape, marked by multiple critical economic issues (war, persistent inflation, and restrictive monetary policies).

With regard to outstanding exposures to public bodies, there was a growth of 6.5% compared to Q1 2022, for a total value of €8.47 billion. Based on the breakdown of outstanding exposures by type of debtor, those from the health care sector accounted for 34% of the total (36% as of March 2022), and those from central, local, and other government agencies for 66% (64% as of March 2022). Considering instead the breakdown by maturity, overdue exposures were recorded for €3.6 billion (equal to 42.5% of the total), of which €2.4 billion were overdue by more than one year, while in March 2022 overdue exposures amounted to €3.5 billion (equal to 44% of the total), again with €2.4 billion overdue by more than one year.

In this scenario, BFF's market share with respect to the PA stands at 33.1% in terms of outstanding and 19.5% in terms of turnover.[2]

1) Source: FCI - *In-Sight May 2023*.
2) The market share relative to the outstanding is calculated using a market value that includes only non-recourse loans. Conversely, the market share of the turnover is calculated using a value for the market that includes both non-recourse and recourse receivables (source Assifact).

The Italian Securities Services market

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

The performance of the Group's **Fund Services** and **Global Custody** businesses, which are highly correlated with each other, was favorably influenced in the first five months of the year by the increase in the equivalent value of assets under management in Italy, which rose by 2.2% to €2,258 billion.This growth was caused by the positive performance of equity markets and bond markets, and occurred despite the fact that net inflows were negative by nearly €16 billion.

THE ITALIAN MANAGED SAVINGS INDUSTRY

Management	Net inflows Jan. - May (*) (A)	(A)/ Assets under management Dec. 2022	Net inflows Jan. - Mar. 2023(*) (B)	(B)/ Assets under management Dec. 2022	Assets under management May 2023(*)	Assets under management May 2023/ Dec. 2022	Assets under management Mar. 2023(*)	Assets under management Mar. 2023/ Dec. 2022	Assets under management Dec. 2022(*)
Collective management	**-1,843**	**-0.2%**	**-2,783**	**-0.2%**	**1,192,125**	**2.8%**	**1,188,165**	**2.4%**	**1,160,146**
Open funds	-2,936	-0.3%	-3,668	-0.3%	1,103,768	2.7%	1,099,745	2.3%	1,074,806
Italian-law funds			735	0.3%			234,986	3.0%	228,159
Funds under foreign law			-4,403	-0.5%			864,759	2.1%	846,647
Closed funds	1,093	1.3%	885	1.0%	88,358	3.5%	88,419	3.6%	85,340
Italian-law funds			203	0.3%			70,726	1.4%	69,726
Funds under foreign law			682	4.4%			17,693	13.3%	15,614
Portfolio management	**-14,065**	**-1.3%**	**-4,288**	**-0.4%**	**1,066,334**	**1.6%**	**1,069,381**	**1.9%**	**1,049,608**
Management of insurance products			-5,766	-0.9%			672,233	1.4%	663,140
Management of retail assets	2,390	1.7%	1,139	0.8%	150,474	4.3%	148,683	3.1%	144,203
Management of social security assets			2,389	2.4%			103,434	2.9%	100,547
Open pension funds			558	2.4%			24,456	5.3%	23,236
Negotiated pension funds			1,684	3.3%			53,580	4.4%	51,333
Pre-existing pension funds			45	0.4%			12,053	5.8%	11,391
Pension funds			30	0.5%			5,977	4.8%	5,704
Other forms of social security			72	0.8%			7,368	-17.1%	8,884
Other management			-2,050	-1.4%			145,030	2.3%	141,718
Total managed savings	**-15,908**	**-0.7%**	**-7,071**	**-0.3%**	**2,258,459**	**2.2%**	**2,257,545**	**2.2%**	**2,209,755**

* Values in € million.

Source: BFF Bank processing of Assogestioni data.

In detail, net inflows were negative mainly for portfolio management (-€14.1 billion) and especially for institutional management (-€16.5 billion), while retail management (+€2.4 billion) was positive. There was a slight decline in net inflows from collective management schemes (-1.8 billion) due to a decrease in net inflows from open-end funds (-2.9 billion) and an increase in net inflows from closed-end funds (+1.1 billion).

Figures as of the end of March show that the negative inflows from institutional portfolio management were mainly attributable to insurance product management, while pension management – specifically negotiated pension funds, which are important to BFF's business – bucked the trend (growing in the quarter by €1.1 billion, with negotiated pension funds up by 1.7 billion). Among collective management schemes, it can be seen that the decline in net inflows, based on data for the first three months, was due to foreign-law open-end funds (-€4.4 billion) while that of Italian-law open-end funds grew (+€0.7 billion).

Assets under management thus rose at the end of May to €1,104 billion for open-end funds (48.9% of the total), €88.4 billion for closed-end funds (3.9%), €150.4 billion for retail portfolio management (6.7%) and €915.9 billion for institutional portfolio management (40.6%). Specifically, at the end of September the assets of the negotiated pension funds amounted to €53.6 billion, equal to little more than half of the total of the social security assets under management.

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

The Payment Market in Italy

The year 2023 opened in line with the trends that characterized 2022: the use of cash in Italy has decreased by 13 percentage points since 2019, and at the European level 31% of people (according to an ECB report) used cashless payments more frequently than before the pandemic. Thus there is a 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 PIs the ability to participate directly in settlement infrastructure limited to payment systems, excluding securities settlement infrastructure.

With PSD3, 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 rules to be dictated by individual National Central Banks if necessary. If so, this would open up a potentially more competitive scenario for the banking system and BFF.

The Digital Euro proposal outlines the basic principles of how the ECB's digital currency is to function, 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.

The end-user could have more than one digital wallet tied to payment accounts used for transactions, both offline and online, with a spending limit managed by the 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 provide 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 will complete the ongoing investigation into the technical characteristics and related deployment arrangements, and then decide whether to launch 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 H1 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 January 27, 2023 BFF announced the **upgrade from BBB to AA of the ESG rating attributed to the Group by MSCI**, a leading international ESG rating company that analyzes around 3,000 companies globally.

MSCI ranked BFF in the highest score range compared to global peers for governance issues, highlighting as strengths the majority of the Board of Directors made up of independent Directors and the division of roles between Chairman and CEO in favor of strong oversight over management. The rating also recognized BFF's value of talent management initiatives, with special reference to the development of internal surveys and training initiatives aimed at staff.

On February 20, 2023 BFF announced that in the period between February 13, 2023 and February 17, 2023 it purchased 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 purchased 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**, with a gross value per share of €0.419, which was approved by the Shareholders' Meeting on April 13.

On June 27, 2023 the BFF Board of Directors 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 into 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, in August and April, based on the adjusted profit for the first half of the year and the entire year.

Finally, 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**.

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"[3] while generating a steady revenue stream and ample operating deposits to the Group:
    - Payments: leading independent payments intermediary in Italy for banks and Payment Service Providers (PSP[4]), 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.

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

- 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.

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 Profit[5] by about 78% over 2022, to €255-265 million. EPS 2026: €1.37-1.43 (€1.34-1.39 fully diluted[6]),
  - Over €720 million, or about 40% of current market capitalization, to be distributed in dividends up to 2026,
- Net zero carbon emissions,[7]
- Doubling investment in social impact initiatives,
- More than 80% of employees in LEED-certified buildings[8] 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 provides 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.

5) Net accounting profit minus extraordinary costs and minus costs of stock options recognized in the income statement,
6) Based on the maximum dilution relative to all outstanding stock-option plans.
7) Considering scope 1 and 2 emissions
8) 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 2022. 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.

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

- Profit for the period of €76.1 million (+34% compared to H1 2022) and Normalized Profit of €81.9 million, up 20% compared to the same period in 2022, with total revenues up 72%, led by Factoring & Lending and the HTC government bond portfolio.
- Repricing of liabilities almost immediately while those of assets with a time lag (increase in interest rates still partially not factored in on the liabilities side).Increase in the late payment interest rate from 8% to 10.5% as of January 1, 2023. From July 1 the rate rose to 12% with impacts on the second half of the year.
- Increase in Loans and receivables with Customers up to €5.3 billion, at record levels, and reduction of the statement of financial position compared to the same period last year (-€0.4 billion) and compared to December 2022 (-€1.3 billion) mainly due to the reduction of the HTC securities portfolio.
- Solid statement of financial position with stable and diversified funding sources and a Loan/Deposit ratio at 71%, with a net positive inflow of retail deposits in the first half of 2023.

Capital and Dividends

- CET1 ratio at 15.6% and TCR at 20.8% with €106 million of capital in excess of the 12% CET1 target.
- Distribution of an interim dividend in the amount of €0.291 per share (maximum amount of €54,451,024.78) and part of the Retained Earnings recorded in the Bank's financial statements in the amount of €0.147 per share (maximum amount of €27,487,349.74) for a total amount of €81.9 million, scheduled after approval of the results presented in the 2023 Consolidated Interim Report and resolution of the Shareholders' Meeting, on September 7, 2023, +18% compared to the interim dividend distributed in August 2022.

Other significant information

- New Business Plan presented on June 29, 2023.
- New Credit Rating obtained from DBRS, with Investment Grade on long-term deposits.
- Start of the process that will lead to the Board of Directors submitting its own slate.

MAIN ITEMS IN THE INCOME STATEMENT

(€ million)

Normalized Income Statement	H1 2023	H1 2022
Factoring & Lending Revenue	**186.1**	**108.7**
Payments Revenue	**29.2**	**26.5**
Securities Services Revenue	**12.4**	**23.5**
Other revenue	125.1	46.4
of which HTC Securities Portfolio	78.6	7.7
Total Revenue	**352.8**	**205.0**
Cost of money (1)	(150.9)	(22.7)
Total Net Revenue	**201.9**	**182.3**
Operating Costs incl. amortisation, depreciation and net impairment losses on property and equipment and intangible	(88.0)	(82.4)
Cost / Income (%)	44%	45%
Net adjustments for credit risk	(1.9)	(2.4)
Normalized pretax profit	112.0	97.4
Normalized profit for the period	**81.9**	**68.5**
Reported profit for the period(2)	**76.1**	**56.6**

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

(2) The profit reported for the period includes some non-recurring items. The adjustments to H1 2023 refer to: the extraordinary costs incurred in the period (among which the most significant are M&A costs) amounting to €3.6 million, the positive change of the exchange rate difference covered by the translation reserve in equity amounting to €2.5 million, the cost of stock options for €0.7 million, the amortization of customer contracts amounting to €1.3 million.In H1 2023 these items refer to: the extraordinary costs incurred in the period (among which the most significant are M&A costs) amounting to €6.8 million, the positive movement of the exchange rate difference covered by the translation reserve in equity amounting to €1.2 million, the cost of stock options for €2.9 million, the amortization of the customer contract amounting to €1.4 million, and taxation arising from the distribution of dividends from subsidiaries and the write-off of a tax credit (DTA) in Poland amounting to €5.0 million.

The 2023 Consolidated Interim Financial Report shows the statement of financial position and income statement of the BFF Banking Group, including, as of 2022, BFF Immobiliare S.r.l., a company incorporated on January 19, 2022, 100% owned by BFF Bank S.p.A. and established specifically for the completion of the "Casa BFF" transaction, which saw the purchase of a building area for the development of the new headquarters of the BFF Group and *BFF Techlab* S.r.l. (formerly MC3 Informatica S.r.l.), an IT consulting firm headquartered in Brescia which BFF acquired, as it allows for the vertical integration of all development activities related to the management and evolution of the information system in the Factoring & Lending Business Unit.

During the first half of 2023, in line with what was recently 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 markets, 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 the first half of 2023, BFF continued its policy of investing in HTC securities based on Italian government bonds with medium to long time horizons by directing its purchases toward floating-rate instruments consistent with the rate structure prevailing in the Group's funding, and albeit in consideration of an overall strategy aimed at reducing the overall value of this form of lending within its statement of financial position and incentivizing core forms of lending. Lastly, note that the BFF Group has no commercial exposure to the Russian and Ukrainian markets and is committed to strictly monitoring the processing activities of the Payments business unit to ensure compliance with the restrictions imposed on Russia.

Group profit

Reported profit for the period

In terms of overall profitability, the cumulative performance of the Group's BUs, influenced by the phenomena indicated above, led to a reported net profit of €76.1 million, including the non-recurring items that influenced the profit for the period, the details of which are shown in the table below.

Normalized Profit for the period

Eliminating the non-recurring items that impacted the results for the six months ended June 30, 2023 and June 30, 2022, the Group's normalized profit stands at €81.9 million (up 20% 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 the same period in 2022 despite the commercial performance and mainly due to the loss of the customer Arca during 2022;
- €19.8 million in capital gains from the sale of €600 million in floating-rate government bonds;
- improved operating efficiency compared to the same period in 2022, with a declining cost/income ratio (from 45% in H1 2022 to 44% in H1 2023), despite the higher costs faced for the purpose of supporting business growth and implementing 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)	H1 2022	H1 2023	YoY %
BFF Group - Reported profit	**56.6**	**76.1**	**+34.4%**
Exchange differences covered by Translation Reserve in Equity	(0.8)	-	
Stock Options & Stock Grants	2.1	0.5	
Transaction and restructuring & M&A costs	4.7	2.6	
Current taxation of dividend distributions from subsidiaries & write-off of a tax credit (DTA) in Poland	5.0	-	
Settlement agreement with board member	-	1.8	
Amortization of DEPObank's "customer contracts"	0.9	0.9	
BFF Group - Normalized profit	**68.5**	**81.9**	**+19.5%**

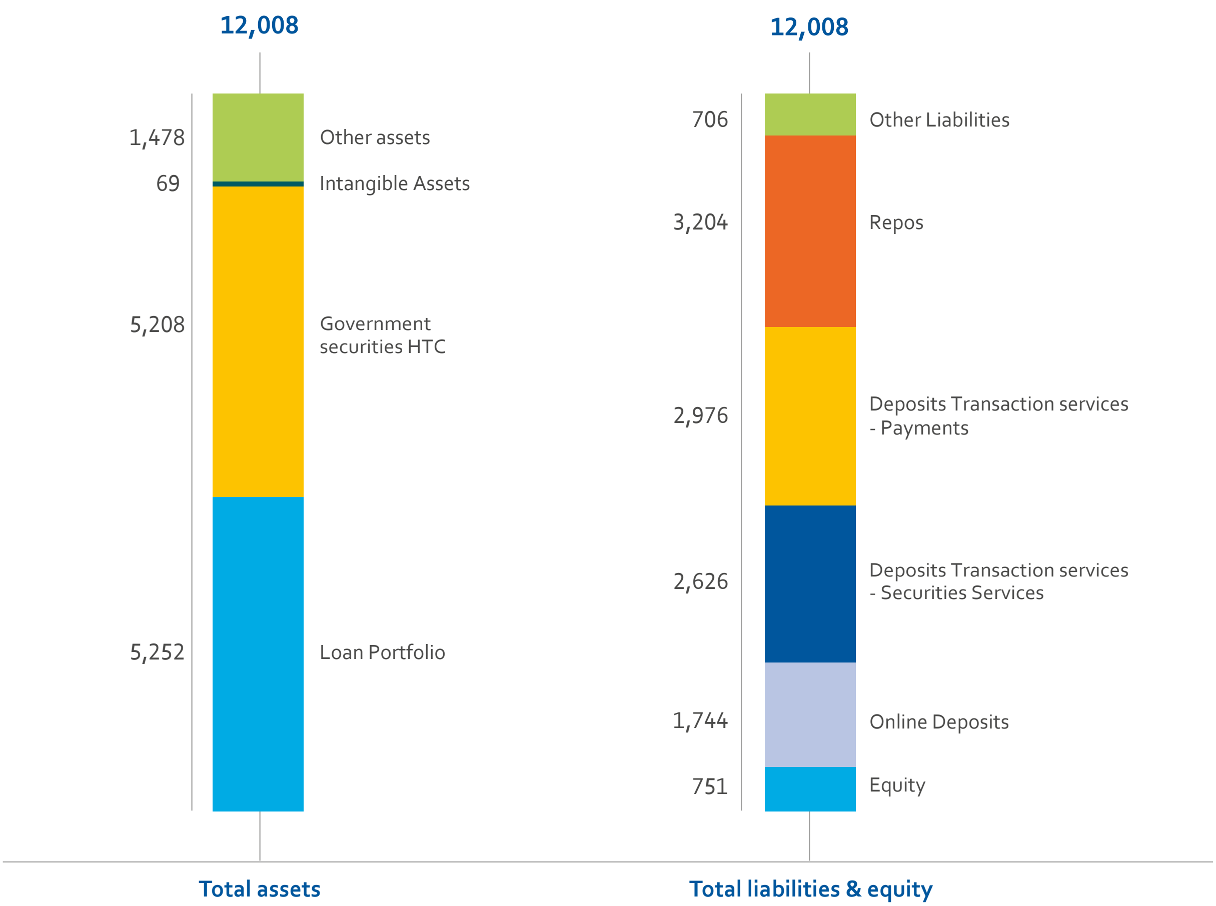
On the following pages, in order to provide a precise presentation of the performance of the various BUs, the comments will refer to normalized income statement data, eliminating the non-recurring elements that influenced the results for the six months ended June 30, 2023 and June 30, 2022.

Group Statement of Financial Position

On the statement of financial position front, during the first half of 2023 the Group continued to focus on optimizing the costs related to the various forms of funding while maintaining a certain 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 products 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 better manage and eliminate excess liquidity, with improved effects on both the Group's leverage and profitability.

(€m)



Lending

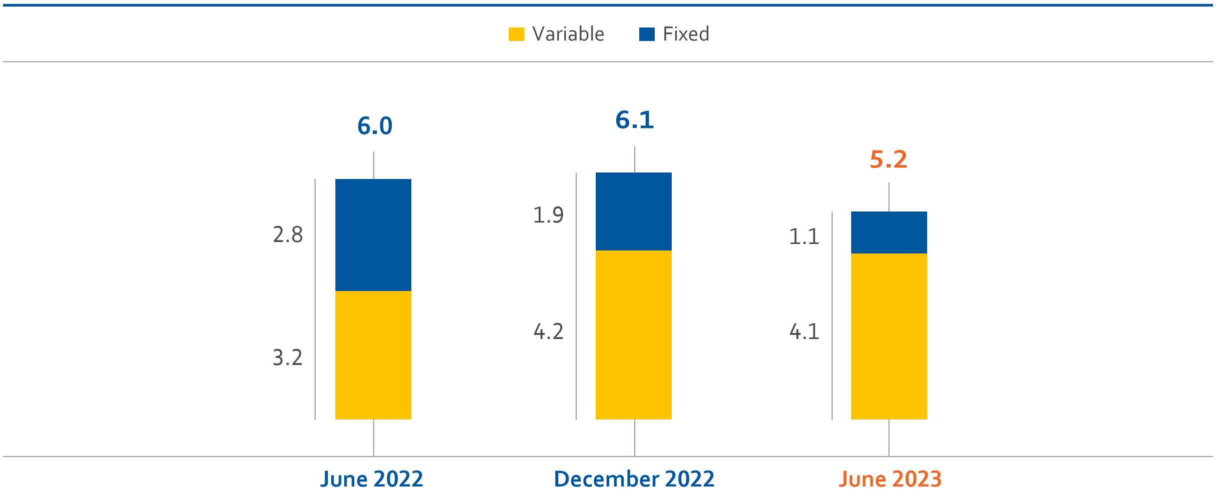
The Factoring & Lending Loan Portfolio was €5.3 billion, up by 16% compared to the same period of 2022: the international markets now account for roughly 36% of total loans and receivables with customers. The level reached by loans and receivables with customers marks an all-time high for the period, also thanks to a favorable context and good sales, and an increase compared to the previous year was recorded across all countries.

Loan Portfolio (€m)	06/30/22(*)	06/30/23(*)
Italy	2,930	3,375
Spain	261	306
Poland	786	891
Slovakia	233	239
Portugal	186	250
Greece	117	174
Other countries (Croatia, France and the Czech Republic)	14	17
Total	**4,529**	**5,252**

(*) *Including "Ecobonus" tax assets for €238 million (€213 million as of June 30, 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 compensation for recovery costs ("40 euros") for €508 million (€311 million as of June 30, 2022).*

The government bond portfolio reached €5.2 billion, 0.9 billion lower than December 31, 2022 mainly as a result of the normal run-off of the existing portfolio and in order to gradually reduce the impact 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 Transaction Services department, with its Securities Services and Payments BUs, raised approximately €5.6 billion compared to €7.8 billion in the same period of 2022, with a decrease in the share of Securities Services of €3.2 billion (€2.6 billion in the first half of 2023 vs €5.8 billion in the first half of 2022, of which €1.6 billion by the customer Arca) mainly due to the loss of the customer Arca and with an increase in the amount generated by Payments of approximately €0.9 billion (from €2.0 billion to €3.0 billion) thanks to the commercial effort with existing customers aimed at increasing 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 June 30, 2023 total nominal takings of Conto Facto, Cuenta Facto, and Lokata Facto amounted to a total of €1.7 billion, up by approximately €0.5 billion from December 31, 2022.

In light of the above, the nominal value of outstanding bond issues as of June 30, 2023 totaled €150 million (related to the AT1 issue) compared to €188.6 million as of December 31, 2022.

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 Bank continued to maintain its capital soundness, also in consideration of the fact that the capital ratios and own funds do not include the profit realized in the first half of 2023.

The BFF Banking Group's dividend policy stipulates that the amount of normalized profit generated during the year in excess of a 12.00% 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 the normalized profit for the first half of the year, and one payment based on the normalized profit at the end.
Therefore, following the approval of the results presented in the 2023 Consolidated Interim Report, in accordance with the Group's dividend policy in September 2023 the Bank is planning to distribute €0.438 per share (for a maximum amount of €81.9 million, the Group's normalized profit).

This amount is the combination of an interim dividend in the amount of €0.291 per share (for a maximum amount of €54.5 million) subject to approval by the Board of Directors on August 3, 2023 and, subject to approval by the Ordinary Shareholders' Meeting convened for September 7, 2023, the distribution of a portion of the Retained Earnings recorded in the Bank's separate financial statements as of December 31, 2022 in the amount of €0.147 per share (for a maximum amount of €27.5 million).

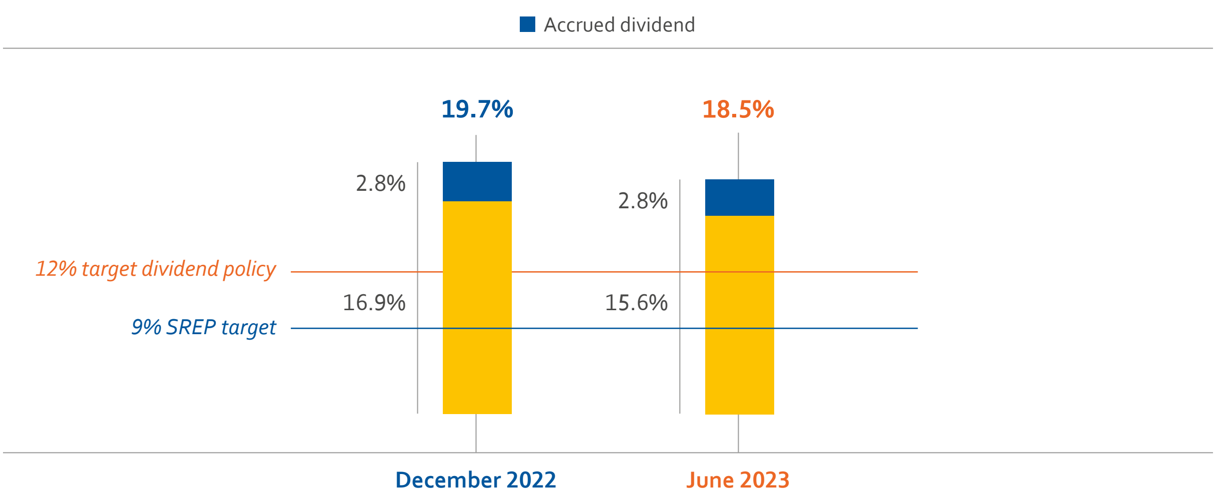
Equity as of June 30, 2023 amounted to €751 million, while BFF Banking Group's Equity as of the same date amounted to €603 million, including €150 million of an Additional Tier 1 unsecured and rated subordinated bonds placed on January 19, 2022, and net of both interim dividend distribution and distribution of reserves the

overall exposure to risks with respect to the business conducted is largely adequate to the capital endowment and risk profile.
Indeed, the CET1, Tier 1 and Total capital ratios are 15.6%, 20.8% and 20.8%, respectively, with €106 million in capital in excess of the target CET1 ratio of 12%.

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

COMMON EQUITY TIER 1 RATIO

RWAs	**2,740**	**2,896**
RWAs density	**42%**	**44%**



Changes in the workforce

At June 30, 2023 the total number of BFF Banking Group employees amounted to 824 persons, of whom 42 joined the Group in H1 2023: 17 in Italy, 11 in Spain, 2 in Portugal, 12 in Poland.

Below is the breakdown by country:

12/31/2022	Italy	Spain	Poland	Slovakia	Czech Republic	Greece	Portugal	Total
Senior Executive/ Executive	24	1	3				1	29
Manager/ Coordinator	97	13	42	5		3	2	162
Specialist/ Professional	449	39	138	10	2	6	7	651
HEADCOUNT 12/31/2022	**570**	**53**	**183**	**15**	**2**	**9**	**10**	**842**

06/30/2023	Italy	Spain	Poland	Slovakia	Czech Republic	Greece	Portugal	Total
Senior Executive/ Executive	22	1	4			1	1	29
Manager/ Coordinator	96	13	44	5		2	2	162
Specialist/ Professional	427	47	133	10	2	6	8	633
HEADCOUNT 06/30/2023	**545**	**61**	**181**	**15**	**2**	**9**	**11**	**824**

The breakdown of the workforce by gender as of June 30, 2022 basically remained unchanged from December 31, 2022, with 55% women and 45% men.

Below are the details broken down by country:

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**

06/30/2023	Women	%	Men	%	Total
Italy	274	50%	271	50%	545
Spain	33	54%	28	46%	61
Poland	125	69%	56	31%	181
Slovakia	9	60%	6	40%	15
Czech Republic	1	50%	1	50%	2
Greece	4	44%	5	56%	9
Portugal	4	36%	7	64%	11
Total	**450**	**55%**	**374**	**45%**	**824**

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 national governments, and thanks to rising interest and inflation rates, which are causing companies to reconsider their working capital strategies, and strong commercial performance, the main indicators of the Factoring & Lending BU showed very positive trends compared to the same period of 2022.

The loan portfolio was up 16% compared to H1 2022 (€5.3 billion v €4.5 billion), while volumes of loans and receivables acquired and disbursed were up significantly compared to the same period of last year (€3,644 million vs €3,395 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 showed an extension of collection times in Italy and essentially unchanged levels across almost all countries, with the exception of Portugal (following higher remittances, especially towards year-end, by the central government) and Croatia (where the figure is however influenced by the size of the business).

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

	06/30/2022	06/30/2023
Italy	114	144
Spain	71	70
Portugal	195	140
Greece	284	282
Croatia	170	37
France	93	86
Slovakia	786	785

The provision for late payment interest and the provision relating to the lump-sum compensation for recovery costs (“40 euros”) as well as the relative amounts not transferred to the Income Statement continued to grow compared to H1 2022 (reaching respectively €823 and €441 million, and €251 million and €126 million).

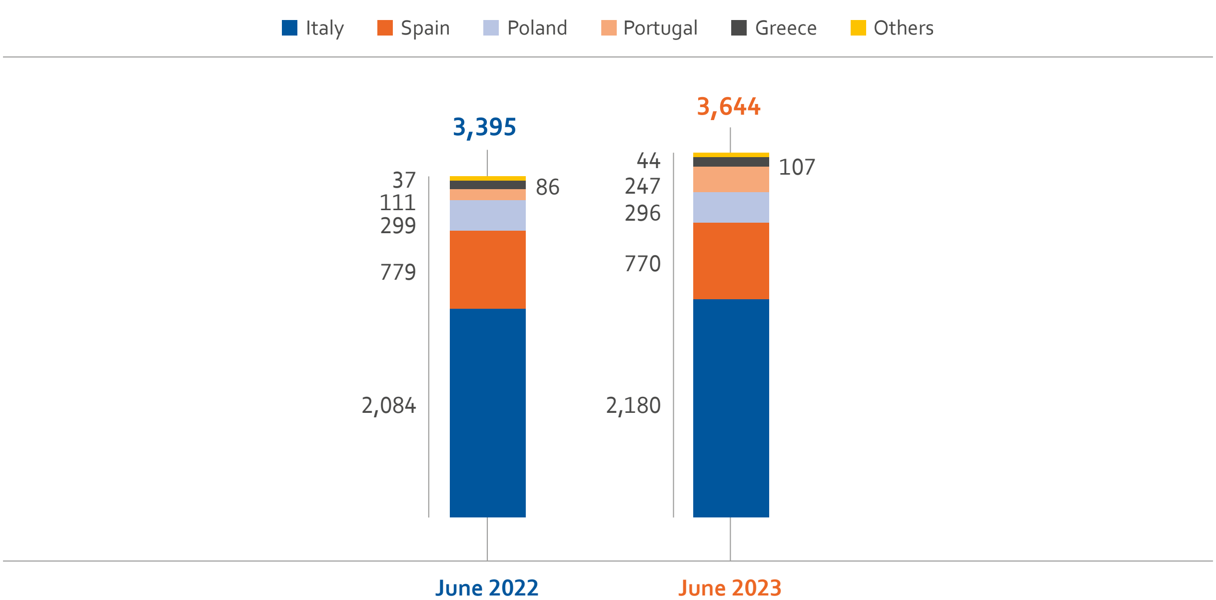
The gross yield on loans and receivables with customers increased compared to the first half of 2022, reaching 6.7%, thanks to the growth in rates, which impacted the rate to be applied on the calculation of default interest, and more generally the repricing carried out with customers.

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)

	06/30/2022	06/30/2023
Acquired turnover/Loans disbursed during the year	3,395	3,644
Provision for late payment interest	745	823
Lump-sum indemnity provision	230	251
Provision for late payment interest not transferred to the income statement	434	441
Lump-sum indemnity provision not transferred to the income statement	230	126
Gross yield on loans and receivables with customers % (net of ("40 euros")	5.0%	6.7%

VOLUMES



Normalized interest income amounted to €171.9 million compared to €101.6 million in the first half of 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 accrual basis and rescheduling, i.e., the effects related to the discounting of loans and receivables not collected according to internal estimates and therefore reprojected forward over time, was also positive when compared to the same period last year (+5.9%).

Normalized other operating income, included under Other revenue, benefited from an amount of receipts relating to the lump-sum compensation for recovery costs ("40 euros") higher than in the same period of 2022 in addition to accrual accounting, a change of estimate that took place in late 2022, and resulted in a positive impact of €11.4 million in the six-month period.
The Total normalized Net Revenue therefore amounted to €186.1 million, up €77 million compared to the same period last year, thanks mainly to the phenomena described previously.

€M (normalized values)

	06/30/2022	06/30/2023
Interest income	**101.6**	**171.9**
of which "rescheduling/capital gains" spread	*(1.1)*	*4.7*
Other Revenue (including other operating expenses and income)	7.0	14.2
Total net revenue	**108.7**	**186.1**

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 first half of the year the BU witnessed good commercial performance. This continued to be possible thanks to the launch of strategic initiatives aimed at i) further expansion and improvement of the commercial experience (through new services such as settlement processing in the various markets, securities lending for medium to small-sized Pension Funds; expansion of the activities of Paying Agents to foreign currencies as well; ii) an expansion of the customer base (through the offer of added-value custodian bank services to Pension Funds, Religious Bodies and Banking Foundations as well and participation in the calls for tenders of Pension Funds in addition to the offer of Paying Agent, Account and Custodian Bank services to Corporate customers) and iii) seizing the opportunities deriving 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 revenues.In the area of opportunities generated by regulations, in the first part of 2023 the BU also focused on monitoring the new legislation related to pension funds, both through institutions and trade associations.

The main indicators of the Securities Services BU compared to the first half of 2022 showed negative trends mainly due to the effects of the loss of the customer Arca in 2022. Net of these effects, the KPIs of the BU described below show a positive trend . In addition, as already mentioned in the 2022 Financial Statements, there is a considerable amount of new legislation that in the future will lead to further developments for the business, particularly as concerns contributions to supplementary pension funds for public administration employees and within mandatory services for Pension Funds.

The Custodian's Assets under Deposit (AuD) amounted to €52.4 billion, down from the same period in 2022 but up 10% excluding the portion of 2022 attributable to Arca as well as Global Custody 's Assets under Custody (AuC), which amounted to €170.0 billion, an increase of 4% from H1 2022.

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 and also decreased following the loss of the customer Arca.

	06/30/2022	06/30/2023
Custodian Bank (AuD, €M)	78,679	52,395
Global Custody (AuC, €M)	163,524	169,859
Deposits - Final Balance (€M)	5,830	2,626

The level of normalized Net Fees and Commissions was lower than the same period last year but 8% higher excluding the portion of 2022 attributable to Arca.

€M (normalized values)

	06/30/2022	06/30/2023
Net fee and commission income	23.5	12.3
Other Revenue (including other operating expenses and income)	(0.0)	0.0
Total net revenue	**23.5**	**12.4**

Payments BU
Main KPIs and Economic Results

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

As the leading independent operator in Italy in the field of processing services dedicated to PSPs (Payment Service Providers: Banks, IMELs, Payment Institutions) and in structured collection and payment services for companies and the Public Administration, BFF is benefiting from a growing payments market thanks to the progressive digitalization of payment instruments.

In the first six months of 2023 the BU saw good performance , which had positive effects on the area of intermediaries, corporate payments, and the settlement sector. There are also some active initiatives 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 aggregation of banks, not to mention potential increased competitiveness in the Payments sector, also led by the ECB and the European Commission, along with the entry of many new operators into the payments market, such as Payment Institutions, IMELs, TPPs and Fintech operators. Precisely these last two phenomena have meant that BFF continues to see a growing demand for payment intermediation services, a trend that BFF is further consolidating in these first months of 2023. The ongoing revision of the Directive may lead to a further enlargement of the market, 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 the same period of last year, showed positive trends.

The number of transactions grew by 12% to 359 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 €2,976 million was up compared to €2,008 million in H1 2022 thanks to the commercial efforts made with existing customers in order to boost liquidity and the larger balances in operating accounts.

	06/30/2022	06/30/2023
Transactions (no. transactions € m)	321	359
Deposits - Final Balance (€M)	2,008	2,976

The level of Net Fees and Commissions was higher than in H1 2022 and amounted to €29.2 million, primarily as a result of increased operations.

€M (normalized values)

	06/30/2022	06/30/2023
Net fee and commission income	20.8	23.4
Other Revenue (including other operating expenses and income)	5.7	5.8
Total net revenue	**26.5**	**29.2**

Operating costs

On the Administrative Expenses front, the Group continued to maintain a strong focus on cost control and, where possible, to improve its operational efficiency evidenced by a substantially stable cost/income ratio despite ongoing investments. This includes projects in place in 2023 designed to improve processes, boost the Group's technology infrastructure, and accompany the Group's growth in its core businesses.

Factoring & Lending, Payment and Corporate Center BU costs showed an increase over the same period last year justified by the need to support business growth as well as ongoing project initiatives. Regarding the costs of the Securities Services BU, on the other hand, the reduction 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, and the further effects which will be seen during the third quarter of 2023.

On the cost side, note that the item in the Corporate Center BU, as of June 30, 2023 includes contributions that the Bank pays annually to the Resolution Fund, while it does not include contributions to the Deposit Guarantee Fund that will be accounted for in the second half of 2023.

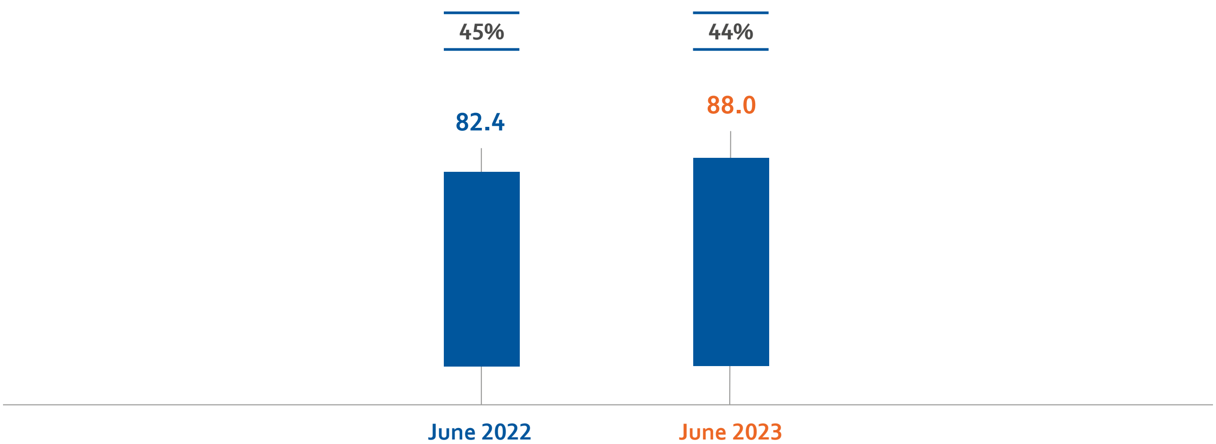
With regard to the Deposit Guarantee Fund, note that EU Directive 2014/49 (Deposit Guarantee Schemes Directive - DGS) introduced in 2015 a new mixed funding mechanism, based on ordinary (*ex-ante*) and extraordinary (*ex-post*) contributions on the basis of the amount of the covered deposits and the degree of risk incurred by the respective member bank.

The ordinary contribution for the year 2023 has not yet been recognized as it has not been reported, in keeping with what was done in previous half years.

With regard to the Resolution Fund, recall that Regulation (EU) 806/2014 governing the Single Resolution Mechanism, which came into force on January 1, 2016, has established the European Single Resolution Fund (SRF), managed by the new European resolution authority, the Single Resolution Board. Starting from that date, the National Resolution Funds (NRF) set up by Directive (EU) 2014/59 (Bank Recovery and Resolution Directive - BRRD) and implemented in 2015, became part of the new European Resolution Fund.

The ordinary annual contribution fee required of BFF Bank by the Bank of Italy for the year 2023 was €6,368 thousand compared to €3,607 thousand in 2022.

COST / INCOME RATIO



	June 2022	June 2023
Factoring & Lending	(19.7)	(22.6)
Securities Services	(13.0)	(10.4)
Payments	(15.5)	(16.4)
Other	(34.2)	(38.6)

Main items in the statement of financial position

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

Cash and cash equivalents

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
a) Cash	207	213	6
b) Current accounts and sight deposits at Central Banks	489,810	51,038	(438,772)
c) Current accounts and sight deposits at banks	144,863	146,134	1,272
Total	**634,879**	**197,385**	**(437,494)**

As of June 30, 2023, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €51 million, as well as current accounts held by the parent and its subsidiaries at third-party banks, amounting to €146 million. Specifically, "Current accounts and sight deposits at banks" mainly refer for €138 million to BFF Bank, for €7.3 million to BFF Polska Group, for €413 thousand to BFF Finance Iberia and for €45 thousand to *BFF Techlab*.

Financial assets measured at fair value through profit or loss

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
a) Financial assets held for trading	211	1,622	1,411
c) other financial assets subject to mandatory fair value measurement	90,330	128,962	38,632
Total	**90,541**	**130,584**	**40,043**

This item, which at June 30, 2023 amounted to €130.6 million, includes the "Financial assets held for trading" of €1,622 thousand, which mainly includes the positive fair value of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the parent is exposed to and the "Other financial assets subject to mandatory fair value measurement" of €128,962 thousand, which mainly include the "UCI units" managed in part by the "Italian SGR Investment Fund," to a lesser extent by the "Atlante Fund" and, as of the end of 2022, by a fund of which the Bank has subscribed units for a value of €100 million. The value of UCI units recognized in the condensed interim consolidated as of June 30, 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	12.31.2022	06.30.2023	Changes
Government securities - (HTC&S)	-	-	-
Equity securities	128,098	130,672	2,574
of which:			
a) Banks	125,432	125,469	37
b) Other issuers:	2,666	5,203	2,537
Total	**128,098**	**130,672**	**2,574**

This item, which as of June 30, 2023 amounted to €130.7 million, consists essentially of the stake in the Bank of Italy of €125 million, as well as some shares and equity investments for an amount of about €5.7 million.
The item increased compared to December 31, 2022 due to the purchase of an equity stake in the General Finance financial company for about €2.4 million.

Financial assets measured at amortized cost

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
Government securities - (HTC)	6,129,228	5,207,745	(921,483)
Loans and receivables with banks	478,203	525,442	47,239
Loans and receivables with customers	5,288,419	5,095,289	(193,131)
Total	**11,895,850**	**10,828,475**	**(1,067,375)**

The amount relating to the item Government Securities – (HTC) consists entirely of government securities classified in the Held to Collect (HTC) portfolio to hedge liquidity risk, for a total value of €5.2 billion, down from the figure recorded as of December 31, 2022 (€6.1 billion) following the sale of some securities, in compliance with the provisions of the HTC Business Model, which produced a result in the Income Statement of €19.8 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 branch of the Bank through "Cuenta Facto", and with the National Bank of Poland (Narodowy Bank Polski) for the deposit-taking activities carried out by the Polish branch through "Lokata Facto". The item also includes "Loans and receivables with banks – Reverse repurchase agreements" relating to contracts governed by the Global Master Repurchase Agreement (GMRA) as well as "Loans and receivables with banks – Others" which derive from the provision of activities and services offered.

With regard to "Loans and receivables with customers", the item mainly includes trade receivables referring to factoring activities and loans made by BFF Polska Group. Note that, as indicated by the Bank of Italy, the ecobonus tax assets are recognized under "Other Assets" in the amount of approximately €238 million.

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
Factoring activities (outright purchases, late payment interest and recovery expenses)	3,790,601	3,482,850	(307,751)
Trade receivables purchased below nominal amount	28,971	28,091	(880)
Other exposures	1,468,847	1,584,348	115,501
Total	**5,288,419**	**5,095,289**	**861,598**

Credit quality

With regard to credit quality, total net impaired exposures increased by €303.1 million at June 30, 2023 compared to €283.8 million as of December 31, 2022.

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 €329.0 million at June 30, 2023 with impairment losses totaling €25.9 million, are divided into the following categories.

Non-performing loans

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

At June 30, 2023, the total non-performing loans of the Banking Group, net of impairment, amounted to €89.9 million. Among these non-performing exposures, €83.3 million (92.7% of the total) concerned regional authorities in financial distress.

Gross non-performing loans amounted to €109.7 million and related adjustments amounted to €19.8 million.

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

Unlikely-to-pay positions

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

At June 30, 2023, gross exposures classified as unlikely to pay totaled €17.9 million and related adjustments amounted to €4.8 million, a net amount of €13.1 million.

Impaired past due exposures

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

At June 30, 2023, total net past due exposures amounted to €200.0 million for the entire Banking Group.

The Banking Group's gross exposures totaled €201.3 million and relevant adjustments amounted to around €1.3 million.

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	12.31.2022			06.30.2023		
	Gross value	Impairment losses/gains	Net value	Gross amount	Impairment losses/gains	Net value
Purchased performing impaired exposures (Stage 3)	301,329	(23,240)	278,090	323,046	(25,696)	297,350
Purchased non-performing impaired exposures (Stage 3)	5,678	(6)	5,672	5,865	(203)	5,662
Performing exposures (Stage 1 and 2)	5,005,907	(1,249)	5,004,658	4,793,750	(1,473)	4,792,277
Total	**5,312,914**	**(24,495)**	**5,288,419**	**5,122,662**	**(27,373)**	**5,095,289**

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	12.31.2022	06.30.2023	Changes
Property, equipment and investment property	54,349	61,690	7,341
Intangible assets	70,155	69,448	(706)
- of which goodwill	*30,957*	*30,957*	-
Total	**124,504**	**131,138**	**6,635**

At June 30, 2023, the item "Property, equipment and investment property" amounted to a total of €61,690 thousand. Of this amount, €26,951 thousand related to BFF Bank, €32,430 thousand related to BFF Immobiliare, €1,267 thousand to BFF Polska Group, €896 thousand to BFF Finance Iberia and €147 thousand related to *BFF Techlab*.

The amount includes primarily: i) land amounting to €22,575 thousand, including €6,325 thousand relating to BFF Bank and €16,250 thousand relating to the purchase of the building area located in Milan by the subsidiary BFF Immobiliare, for the purpose of building the future headquarters of BFF Bank; ii) buildings (including capitalized extraordinary maintenance) amounting to €25,129 thousand including the building in Rome - Via Elio Chianesi 110/d owned by DEPObank, and the property at Via Domenichino 5; iii) right-of-use assets relating to the application of IFRS 16 to leases amounting to €12,583 thousand.

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

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

As of June 30, 2023, the Bank has not performed any further impairment testing of the intangible assets, as there are no trigger events that could have an impact on their valuation.
In accordance with the provisions of IAS 36, the above tests on the solidity of customer relationships recorded in the financial statements will be performed in conjunction with the preparation of the 2023 financial statements.

Hedging derivatives, equity investments and financial liabilities held for trading

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
Equity investments	13,656	13,128	(528)
Financial liabilities held for trading	950	1,012	63
Hedging derivative liabilities	14,314	66	(14,248)

The items Hedging derivative liabilities respectively include the negative fair values as of June 30, 2023 related to the use of currency swap contracts to hedge loans disbursed in zloty to Polish subsidiaries under existing intercompany agreements and Transaction Services BU's funding in currencies other than the euro.

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

The item Financial liabilities held for trading includes the negative fair value at June 30, 2023 of derivative instruments classified as trading assets but used for the operational hedges of exchange rate risk that the Group is exposed to.

Tax assets and liabilities

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
Tax assets	**60,707**	**60,956**	**248**
current	514	2,451	1,937
deferred	60,194	58,505	(1,689)
Tax liabilities	**136,003**	**156,119**	**20,116**
current	30,998	41,612	10,615
deferred	105,005	114,506	9,501

As at June 30, 2023, current tax assets and liabilities amount to €2,451 thousand and €41,612 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 interest, recognized in the financial statements on an accrual basis but which will form part of the taxable profit in future years subsequent to collection, in accordance with Article 109, paragraph 7, of Italian Presidential Decree no. 917 of 1986.

Other assets and liabilities

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
Other assets	394,182	516,141	121,960
Other liabilities	401,369	417,556	16,187

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.

Other assets also include ecobonus tax assets acquired through non-recourse factoring transactions, according to the HTC business model, of €237.6 million at June 30, 2023.

Financial liabilities measured at amortized cost

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
Amounts due to banks	1,166,365	1,023,317	(143,048)
Amounts due to customers	10,789,422	9,624,821	(1,164,600)
- of which to financial institutions	-	-	-
Securities issued	38,976	-	(38,976)
Total	**11,994,763**	**10,648,138**	**(1,346,624)**

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 €1,744,121 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 of June 30, 2023 the Bank no longer has any outstanding securities as they have been redeemed. Specifically, 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 Banca Farmafactoring in October 2019, matured and was therefore redeemed.

Provisions for risks and charges

(Values in thousand euros)

Items	12.31.2022	06.30.2023	Changes
Commitments and other guarantees provided	251	357	106
Employee benefits	7,861	6,879	(982)
Other provisions	24,900	24,413	(487)
Total	**33,012**	**31,649**	**(1,364)**

At June 30, 2023 "Provisions for risks and charges" mainly include allocations to "Pension and similar obligations" and allocations to "Other Provisions" to cover contingent liabilities that Group companies may incur.

Main items in the Income Statement

As of June 30, 2023, the Group realized a profit of €76.1 million compared to €56.6 million at the end of last year. Normalizing both results, i.e., eliminating all non-recurring items that affected the results of both periods, the normalized profit for H1 2023 is €81.9 million compared to €68.5 million earned in the same period last year.

Total income

(Values in thousand euros)

Items	H1 2022	H1 2023	Changes
Maturity commissions and late payment interest on non-recourse receivables	60,855	115,005	54,150
Interest income on securities	7,732	78,638	70,906
Other interest	67,526	77,668	10,143
Interest and similar income	**136,112**	**271,311**	**135,199**
Interest expenses	(27,835)	(145,686)	(117,851)
Net fee and commission income	**45,797**	**36,218**	**(9,578)**
Dividends and similar income	7,080	6,670	(410)
Net trading income (loss)	6,279	(5,252)	(11,531)
Net hedging income			
Profits (losses) on disposal or repurchase of:			
a) financial assets measured at amortized cost		19,842	19,842
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	4,007	(405)	(4,412)
Total income	**171,439**	**182,552**	**11,113**

Net interest income for the period ended June 30, 2023 was €125.6 million, up from €108.3 million in the first half of 2022 (normalized values of €125.6 million and €108.3 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 with concurrent benefit on the capital gains side, 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 net fee and commission income for the period ended June 30, 2023 was €36.2 million, down from €45.8 million in the first half of 2022 (normalized values of €36.2 million and €45.8 million, respectively) and was negatively impacted by the exit of Arca on November 1, 2022 and despite good business performance .

Total income for the period ended June 30, 2023 was €182.6 million (€182.6 million normalized), up from €171.4 million in the first half of 2022 (€170.3 million normalized) mainly due to the growth in net interest income. Of note in the first half of 2023 is the sale of €600 million of floating-rate government securities for a total capital gain of €19.8 million.

Administrative costs

(Values in thousand euros)

Items	H1 2022	H1 2023	Changes
Personnel expenses	(38,535)	(40,595)	(2,059)
Other administrative expenses	(49,384)	(49,245)	140
Total administrative expenses	**(87,920)**	**(89,839)**	**(1,920)**

Administrative expenses for the period ended June 30, 2023 amounted to approximately €89.8 million (€83.6 million normalized) and were up from €87.9 million (€78.2 million normalized) in the first half of 2022 as a result of higher costs incurred for the purpose of supporting business growth and implementing 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 is improving compared to the same period in 2022, as evidenced by the decreasing cost/income ratio (from 45% in H1 2022 to 44% in H1 2023).

Other operating income, net

For the period ended June 30, 2023, under "Other operating income, net", the Group recorded an amount equal to €11.4 million relating to the lump-sum compensation for recovery costs ("40 euros") compared with €3.0 million in the first half of 2022 as a result of both a good performance in terms of collections and the change of estimate related to the recovery of the "40 euros" (change made on December 31, 2022).

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

Risk Management and Compliance with Prudential Supervision Regulations

The prudential supervision regulations are mainly governed by the Bank of Italy Circular no. 285 "Supervisory provisions for banks" and Circular no. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries", both dated December 17, 2013, which adopt the harmonized regulation for banks and investment firms contained in the EC CRR regulation (Capital Requirements Regulation) and in the European Directive CRD IV (Capital Requirement Directive) of June 26, 2013.

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

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

The regulation applicable at June 30, 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" 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 provisions 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 June 30, 2023 the impact on CET 1 deriving from the application of calendar provisioning was limited to roughly €505 thousand, compared to December 31, 2022 when it amounted to €389 thousand.

Regarding the classification to NPE, note that on June 27, 2019 the Bank of Italy introduced certain amendments to Circular No. 272 concerning credit quality and the rules on the new definition of default, and on February 15, 2021 it updated its note containing the guidelines of the Supervisory Body on the application of Delegated Regulation (EU) No. 171/2018 on the materiality threshold of overdue credit obligations pursuant to Art. 178, para. 2, letter d) CRR (RD), and more generally on the application of the RD regulations. Lastly, the Group aligned itself with the new interpretation criteria on the definition of default, published by the Bank of Italy on September 23, 2022.

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

Finally, note that BFF 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.

Monitoring and control of Liquidity

Despite the current macroeconomic scenario, characterized by the continuation of the tensions deriving from the Russia/Ukraine conflict, 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)* it 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)* it monitors the markets, and *(iv)* it 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

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

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

The Baseline, High Growth and Mild Recession forecasts supplied by the external infoprovider were updated in June 2023 and provide the forecast default rates for the 20 quarters following the updating date. In February 2022, the outbreak of the Russia/Ukraine conflict significantly changed the geopolitical scenario with direct consequences on the European and global macro economy. The Risk Management Function, as it does every quarter of the year, performed a sensitivity analysis at June 30, 2023 between the macroeconomic scenarios for the second quarter of the year under way and the macroeconomic scenarios updated as of June 30, 2022. The analysis shows that 2023 is characterized by a decline in GDP growth and a strong inflationary drive generated by the Russia/Ukraine conflict, which reduces on one hand business investments and on the other the disposable income of consumers. In fact, inflation is expected to remain sustained for at least the next three years. However, the job market does not seem to be experiencing significant tensions, thanks to the recovery in hirings post-Covid-19. The economic slowdown will not be sufficient to cause widespread dismissals and the job market will continue to benefit from considerable excess demand. Therefore, job market stability will be one of the main factors that could prevent the economy from entering a recessive cycle. The backtesting analysis, i.e., the impact of updating the new risk parameter curves, also did not show a significant impact on the estimates of Expected Credit Losses. The increase in generic provisions compared to the previous quarter was about €270 thousand. However, this increase is mostly related to the corporate/retail sector while the public sector has not seen any particular change. This shows how much the Group's business allows for a cost of risk that is less sensitive to macroeconomic scenarios.

Moreover, the Risk Management Function compared the macroeconomic estimates released by the external infoprovider and used for impairment with those of the European Central Bank (ECB), observing a substantial alignment of the main macroeconomic drivers.

5. Internal Control System

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

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

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

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

- **First-level controls** (line controls) aim to ensure that transactions are carried out correctly, and are performed by the same operating structures that execute the transactions, also with the support of IT procedures and constant monitoring by the heads of such operating structures.
- **Second-level controls** aim to ensure the correct implementation of the risk management process and compliance with the regulatory framework, including the risk of money laundering and terrorist financing. The functions responsible for such controls, Risk Management and Compliance & AML, are distinct from business functions and contribute to the definition of risk governance policies and the risk management process. The Risk Management Function and the Compliance and AML Function – organizationally and functionally autonomous and distinct – report to the Chief Executive Officer and are independent of the internal audit function, as it performs audits on them. The duties and respective responsibilities are governed within the pertinent internal regulations of the same functions.
- **Third-level controls** and **internal audit** activities are instead carried out by the Group's Internal Audit Function, reporting directly to the Board of Directors.

Control functions

Risk Management

In terms of second-level controls, the function ensures the consistency of the risk measurement and control systems with the processes and methodologies of company activities by coordinating with the relevant company structures; oversees the realization of the internal process for determining adequacy of capital and liquidity risk governance and management systems ("ICAAP/ILAAP"); monitors the controls over the management of risks, in order to define methods to measure those risks; assists corporate bodies in designing the Risk Appetite Framework (RAF); verifies that the limits assigned to the various operating functions are being observed; and checks that the operations of the individual areas are consistent with the assigned risk and return objectives.

Specifically, during the first half of 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 H1 2023 the Group conducted a series of careful assessments with regard to the possibility of adopting the internal rating based (IRB) method for credit risk, in which the Risk Management Function is involved with regard to a number of topics.

Compliance and Anti-Money Laundering (AML)

This Function supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory framework for the parent and the Group - also through its reference persons/local functions at its subsidiaries and/or branches - continuously verifying whether internal processes and procedures are adequate in preventing such risk; the function also has the duty of preventing and combating money laundering and terrorist financing transactions, moreover identifying on an ongoing basis the regulations applicable in that area.

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

The monitoring of the risk of non-compliance, money laundering and financing of terrorism has continued on a regular basis in accordance with the annual program of the department's activities approved by the Board of Directors on March 29, 2023.

The Function also continued updating the body of internal rules – including for instance the Non-Compliance Risk Management Policy and the AML Policy of the Polish branch – 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 the first half of 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 internal structures of the parent, on the foreign branches, on the subsidiary BFF Finance Iberia and on BFF Polska and its subsidiaries. Moreover, such function carried out the audits provided for by the regulations applicable to Group activities, including those relating to remuneration and incentive policies, ICAAP and ILAAP processes 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 together certify the following aspects through specific reports attached to the annual and consolidated financial statements, and interim reporting: the suitability of the accounting procedures used in preparing the annual separate and consolidated financial statements and condensed interim financial statements; compliance of documentation with applicable international reporting standards endorsed by the European Union; whether accounting books and records are suitable for providing a true and fair view of the financial position, financial performance and cash flows of the Group on a consolidated level and of the individual subsidiaries included under the scope of the consolidation; and the reliability of content, in relation to specific aspects, of the Directors' report on operations and interim reporting.

Supervisory Body pursuant to Italian Legislative Decree 231/2001

The Bank has an Organization, Management and Control Model (hereinafter referred to as the "Model") prepared pursuant to Italian Legislative Decree 231 of June 8, 2001 (hereinafter also referred to as the "Decree"), drafted in compliance with the requirements of such Decree as well as the guidelines of ASSIFACT and ABI. The 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 in Spain, Portugal, Poland and Greece – 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 the first half of 2023 was mainly aimed at ascertaining recipients' effective compliance with the Model, as well as that of all the Bank's contractors and business and financial partners (within the prescribed limits), 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 to compliance with anti-money laundering requirements.

Furthermore, in H1 2023 the Supervisory Body decided to initiate a quality review of the Model with the support of a qualified third-party consultant, in order to verify its alignment with best market practices, and also in relation to the evolution and growth of the Bank over the last few years.

The Supervisory Body reported to the Board of Directors on its work during H1 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 in the process of preparing and/or approving their own Organization, Management and Control Models;
- 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 favourable 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 Bank'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 Condensed Interim 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 conducts pursuant to Article 89-*bis* of the Issuers' Regulation

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 in the first half of the year also have as their main objectives 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 in the Factoring & Lending area, at the Group level, and in the Transaction Services area, with the aim of ensuring an increasingly broad coverage of the target market through an extensive range of 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.
- Investments 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

As of June 30, 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".

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

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

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

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

Events after the reporting period

Assignment of new rating

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.
https://investor.bff.com/it/comunicati-stampa/dbrs-attribuisce-il-rating-a-bff-assegnando-investment-grade-ai-depositi-a-lungo-termine

Board renewal process

The BFF Board of Directors has begun the process of submitting its slate, in accordance with market 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.

Note 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 with the CEO, subject to all the provisions of the variable compensation set forth in the Group's Remuneration Policy (60% deferral over a 5-year period, 51% paid in financial instruments in each installment).

Distribution of part of the Retained Earnings recorded in the Bank's separate financial statementsas of December 31, 2022

The BFF Banking Group's dividend policy stipulates that the amount of normalized profit generated during the year in excess of a 12.00% 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 the normalized profit at the end of the year.

To follow up on this policy, on August 3 the Board of Directors resolved to convene an Ordinary Shareholders' Meeting with a proposal to approve the distribution of part of the Retained Earnings recorded in the Bank's separate financial statements as of December 31, 2022.

The Ordinary Shareholders' Meeting, which will be held on September 7, will therefore be called upon to approve the distribution of €0.147 per share, for a maximum amount of €27.5 million, which, added to the interim dividend approved by the Board of Directors on August 3, 2023 (€0.291 per share), will lead to the distribution on September 13, 2023 of a dividend per share of €0.438, for a maximum amount of €81.9 million (Group's profit for the period ended June 30, 2023 to be distributed in accordance with the Group's dividend policy).

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

Share capital

In 2023 the share capital increased from 185,545,952 shares, corresponding to €142,870,382.96 at December 31, 2022 to 186,499,956 share corresponding to €143,604,966 as of June 30, 2023 as a result of the partial execution of the delegated free capital increase in the period between February 7, 2023 and June 29, 2023 through the issuance of new BFF ordinary shares equal to 992.968* for a nominal amount equal to €764,585.36 and assigned to BFF Group personnel for needs related to remuneration and incentive policies (2020 Management by Objectives and 2016 Stock Option Plan).

With regard to the options granted under the 2016 Stock Option Plan, as of June 30, 2023 198,160 were assigned and exercisable as they have vested. The number of options outstanding and not yet exercised as of December 31, 2022 was 1,086,788.

With regard to the 2020 Stock Option Plan, as of June 30, 2023 the number of stock options granted and not exercised are 6,301,500, of which 2,967,000 have vested and are exercisable. As of December 31, 2022, the number of options reported to be granted but exercisable from 2023 was 8,384,500 options.

With regard to the 2022 Stock Option Plan, as of June 30, 2023, 5,748,000 options have been granted, of which 2,620,500 are equity settled (A Options) and 3,127,500 are cash settled (B Options), exercisable starting in 2025.

Treasury shares

As of June 30, 2023, the Bank held 575,190 treasury shares, equal to 0.31% of the share capital, up from 570,728,461 as of December 31, 2022 as a result of the conclusion of the share buyback program that took place between February 13, 2023 and February 17, 2023.

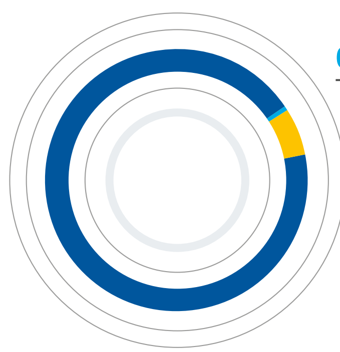
In 2023, 287,426 own shares were allotted following the exercise of stock options and the payment of variable remuneration in financial instruments, of which 203,946 to the Chief Executive Officer, 8,000 to other employee beneficiaries and 75,480 to non-employee beneficiaries.

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

Shareholder Structure

The Bank's free float has reached nearly 100% of the share capital, confirming its position as one of the few truly shareholder-driven listed businesses in Italy.

As of July 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 – 574,705 – amount to 0.31% of the share capital.



Total number of shares issued: 186,687,904

Source: Forms 120A - 120B - 120D and Internal Dealing communications. Percentage is calculated based on the total number of shares issued at 07/31/2023.

(1) As at 07/31/2023 Capital Research and Management Company held 9.4 million BFF shares, for a quota equal to 5.1% of the share capital.

(2) As at 07/31/2023 the Chief Executive Officer Massimiliano Belingheri and his Closely Related Persons (Bray Cross Ltd., Scalve S.à.r.l., The Bali Trust, The Bomi Trust and Bomi S.a.r.l.) held 10.83 million BFF shares, for a quota equal to 5.80% of the share capital. The remaining quota of the management refers to the BFF shares held by the 4 vice presidents in office at that date and by their respective Closely Related Persons.

With regard to the options granted under the 2016 Stock Option Plan, as of June 30, 2023 198,160 were assigned and exercisable as they have vested. The number of options outstanding and not yet exercised as of December 31, 2022 was 1,086,788.

With regard to the 2020 Stock Option Plan, as of June 30, 2023 the number of stock options assigned and not exercised was 6,301,500. The vesting period has matured for 2.967.000 of these and are thus exercisable. As of December 31, 2022, the number of options reported to be granted but exercisable from 2023 was 8,384,500 options.

With regard to the 2022 Stock Option Plan, as of June 30, 2023, 5,748,000 options have been granted, of which 2,620,500 are equity settled (A Options) and 3,127,500 are cash settled (B Options), exercisable starting in 2025.

Shareholders' Meeting Resolutions

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

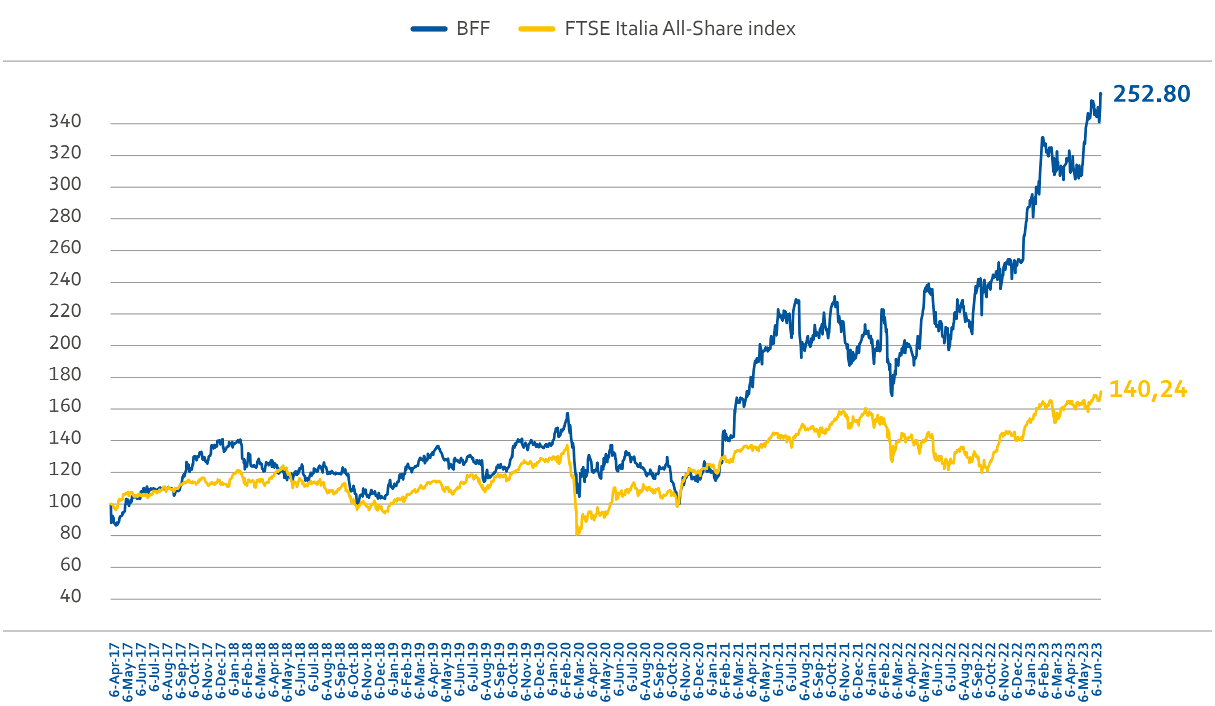
- to distribute to Shareholders part of the profit for the year of €77,479,836, equal to approximately €0.419 before tax for each of the 185,623,140 ordinary shares outstanding at coupon date (no. 7) of April 24, 2023 (ex date). Such dividend includes the portion attributable to any treasury share held by the Parent 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 held, for the purposes indicated under "Repurchase of treasury shares".

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 June 30, 2023 was €9.99, up by 113% over the IPO share placement price of €4.70. From listing to June 30, 2023, the Bank distributed a total gross dividend of €3.412 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 June 30, 2023 compared to the IPO placement price was 259%. The FTSE Italia All-Share Index total return was 71%.

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



(*) At June 30, 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 2023 (as among other things approved in the 2023 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 our 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% related to shareholder pay-out.
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 zero net goals and doubling investment in social impact initiatives.

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

9. Distribution of an interim dividend and part of the Retained Earnings recorded in the Parent's financial statements

The BFF Banking Group's dividend policy stipulates that the amount of normalized profit generated during the year in excess of a 12.00% 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 the normalized profit for the first half of the year, and one payment based on the normalized profit at the end.

Therefore, following the approval of the results presented in the 2023 Consolidated Interim Report, in accordance with the Group's dividend policy in September 2023 the Bank is planning to distribute €0.438 per share (for a maximum amount of €81.9 million, the Group's normalized profit).

This amount is the combination of an interim dividend in the amount of €0.291 per share (for a maximum amount of €54.5 million) subject to approval by the Board of Directors on August 3, 2023 and, subject to approval by the Ordinary Shareholders' Meeting convened for September 7, 2023, the distribution of a portion of the Retained Earnings recorded in the Bank's separate financial statements as of December 31, 2022 in the amount of €0.147 per share (for a maximum amount of €27.5 million).

See the "Report on the Distribution of the Interim Dividend" and the "Report on the Distribution of Reserves" for full details.

02

Condensed Interim Consolidated Financial Statements

as of June 30, 2023

Statement of Financial Position

(Values in euro units)

Assets		06.30.2023	12.31.2022
10.	Cash and cash equivalents	197,385,378	634,879,242
20.	Financial assets measured at fair value through profit or loss	130,583,877	90,540,554
	a) financial assets held for trading	*1,621,974*	*210,963*
	c) other financial assets subject to mandatory fair value measurement	*128,961,903*	*90,329,591*
30.	Financial assets measured at fair value through other comprehensive income	130,671,729	128,097,995
40.	Financial assets measured at amortized cost	10,828,474,942	11,895,850,418
	a) loans and receivables with banks	*525,441,858*	*478,203,260*
	b) loans and receivables with customers	*10,303,033,084*	*11,417,647,158*
70.	Equity investments	13,128,233	13,655,906
90.	Property, equipment and investment property	61,690,208	54,349,168
100.	Intangible assets	69,448,231	70,154,575
	of which		
	- goodwill	*30,956,911*	*30,956,911*
110.	Tax assets	60,955,598	60,707,458
	a) current	*2,450,872*	*513,588*
	b) deferred	*58,504,726*	*60,193,870*
130.	Other assets	516,141,384	394,181,565
TOTAL ASSETS		**12,008,479,580**	**13,342,416,883**

(Values in euro units)

Liabilities and equity		06.30.2023	12.31.2022
10.	Financial liabilities measured at amortized cost	10,648,138,359	11,994,762,826
	a) due to banks	*1,023,316,808*	*1,166,365,115*
	b) due to customers	*9,624,821,551*	*10,789,421,645*
	c) securities issued	-	*38,976,066*
20.	Financial liabilities held for trading	1,012,384	949,790
40.	Hedging derivatives	65,773	14,313,592
60.	Tax liabilities	156,118,777	136,002,627
	a) current	*41,612,462*	*30,997,504*
	b) deferred	*114,506,315*	*105,005,123*
80.	Other liabilities	417,556,036	401,369,354
90.	Post-employment benefits	3,073,668	3,238,366
100.	Provision for risks and charges:	31,649,037	33,012,775
	a) commitments and guarantees given	*357,200*	*251,282*
	b) pensions and similar obligations	*6,879,016*	*7,861,441*
	c) other provisions for risks and charges	*24,412,821*	*24,900,052*
120.	Valuation reserves	6,615,016	6,852,891
140.	Equity instruments	150,000,000	150,000,000
150.	Reserves	312,614,078	233,153,339
155.	Interim dividend	-	(68,549,894)
160.	Share premium reserve	66,277,204	66,277,204
170.	Share capital	143,604,966	142,870,383
180.	Treasury shares	(4,392,046)	(3,883,976)
200.	Profit for the period	76,146,328	232,047,606
TOTAL LIABILITIES AND EQUITY		**12,008,479,580**	**13,342,416,883**

Income Statement

(Values in euro units)

Items		H1 2023	H1 2022
10.	Interest and similar income	271,311,299	136,111,969
	of which: interest income calculated according to the effective interest method	*258,684,890*	*128,296,535*
20.	Interest and similar expense	(145,686,435)	(27,835,379)
30.	**Net interest income**	**125,624,864**	**108,276,590**
40.	Fee and commission income	55,035,629	64,319,920
50.	Fee and commission expense	(18,817,149)	(18,523,108)
60.	**Net fee and commission income**	**36,218,480**	**45,796,812**
70.	Dividends and similar income	6,669,630	7,079,953
80.	Profits (losses) on trading	(5,252,009)	6,278,724
100.	Profits (losses) on disposal or repurchase of:	19,696,166	-
	a) financial assets measured at amortized cost	*19,841,699*	-
	b) financial assets measured at fair value through other comprehensive income	*(145,533)*	-
110.	Profits (losses) on other financial assets and liabilities at fair value through profit or loss	(404,932)	4,007,101
	b) other financial assets subject to mandatory fair value measurement	*(404,932)*	*4,007,101*
120.	**Total income**	**182,552,199**	**171,439,180**
130.	Net impairment losses for credit risks associated with:	(1,855,803)	(2,442,503)
	a) financial assets measured at amortized cost	*(1,855,803)*	*(2,442,503)*
150.	**Net income from banking activities**	**180,696,396**	**168,996,677**
180.	**Net income from banking and insurance activities**	**180,696,396**	**168,996,677**
190.	Administrative expenses:	(89,839,170)	(87,919,562)
	a) personnel expenses	*(40,594,665)*	*(38,535,233)*
	b) other administrative expenses	*(49,244,505)*	*(49,384,329)*
200.	Net provisions for risks and charges	415,434	(143,564)
	a) commitments and guarantees given	*(104,946)*	*251,321*
	b) other net provisions	*520,380*	*(394,885)*
210.	Depreciation and net impairment losses on property, equipment and investment property	(2,331,651)	(2,591,892)
220.	Amortization and net impairment losses on intangible assets	(3,927,535)	(3,062,976)
230.	Other operating income, net	19,314,551	12,043,043
240.	**Operating costs**	**(76,368,371)**	**(81,674,950)**
250.	Profits (losses) on equity investments	(424,871)	174,906
290.	**Profit before tax from continuing operations**	**103,903,154**	**87,496,633**
300.	Income taxes for the period on continuing operations	(27,756,826)	(30,846,825)
310.	**Profit after tax from continuing operations**	**76,146,328**	**56,649,808**
330.	**Profit for the period**	**76,146,328**	**56,649,808**
350.	**Profit for the period attributable to the owners of the parent**	**76,146,328**	**56,649,808**
	Basic earnings per share	**0.40**	**0.30**
	Diluted earnings per share	**0.39**	**0.29**

(*) Note that:

- *with respect to the period ended June 30, 2022, for comparative purposes, the financial charges pertaining to the period incurred for transactions in hedging derivatives were reclassified from item 90 "Profits (losses) on hedging" to item 20 "Interest and similar expense";*
- *with respect to the period ended June 30, 2022, for comparative purposes, provisions relating to costs for pensions and similar obligations to employees were reclassified from item 170 b) "Net provisions for risks and charges - other net provisions" to item 160 a) "Personnel expenses," in line with what is set forth in Bank of Italy Circular 262 of 2005 as updated.*

Statement of Comprehensive Income

(Values in euro units)

	Items	H1 2023	H1 2022
10.	**Profit for the period**	**76,146,328**	**56,649,808**
	Other components net of taxes that may not be reclassified to profit or loss		
20.	Equity instruments designated at fair value through other comprehensive income		
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)		
40.	Hedges of equity instruments designated at fair value through other comprehensive income		
50.	Property, equipment and investment property		
60.	Intangible assets		
70.	Defined-benefit plans	(4,341)	401,999
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves connected with equity-accounted investments		
100.	Revenues or costs of a financial nature related to insurance contracts issued		
	Other components, net of taxes, reclassified to profit or loss		
110.	Hedging of foreign investments	(2,133,917)	
120.	Foreign exchange differences	2,142,560	282,530
130.	Cash flow hedges		
140.	Hedging instruments (undesignated elements)		
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	259,783	740
160.	Non-current assets held for sale and discontinued operations		
170.	Share of valuation reserves connected with equity-accounted investments		
180.	Revenues or costs of a financial nature related to insurance contracts issued		
190.	Revenues or costs of a financial nature relating to outward reinsurance		
200.	**Total other comprehensive income net of tax**	**264,085**	**685,270**
210.	**Comprehensive income (Items 10+200)**	**76,410,413**	**57,335,078**
220.	Comprehensive income attributable to non-controlling interests		
230.	**Comprehensive income attributable to the owners of the parent**	**76,410,413**	**57,335,078**

Statement of Changes in Equity

H1 2023	Balances as at 31.12.2022	Change to opening balances	Balances as at 01.01.2023	Allocation of profit for the previous period	
				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 for the period	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					

H1 2022	Balances as at 31.12.2021	Change to opening balances	Balances as at 01.01.2022	Allocation of profit for the previous period	
				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					
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	571,596,430		571,596,430		(125,280,399)
Non-controlling interests					

(Values in euro units)

Changes in the period											
Equity transactions									2023 comprehensive income	Equity attributable to the owners of the parent as at 06.30.2023	Equity attributable to non-controlling interests as at 06.30.2023
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			
	734,583									**143,604,966**	
										66,277,204	
(6,119,355)										**302,632,975**	
989,399							(1,427,181)			**9,981,103**	
(501,959)									264,085	**6,615,016**	
										150,000,000	
2,286,315		(2,794,384)								**(4,392,046)**	
									76,146,328	**76,146,328**	
(3,345,600)	**734,583**	**(2,794,384)**					**(1,427,181)**		**76,410,412**	**750,865,546**	

(Values in euro units)

Changes in the period										
Equity transactions								2022 comprehensive income	Equity attributable to the owners of the parent as at 06.30.22	Equity attributable to non-controlling interests as at 06.30.22
Change in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests			
	158,917								**142,849,688**	
									66,492,997	
(2,416,398)									**227,935,863**	
(641,760)						1,224,533			**9,226,362**	
								685,270	**5,954,114**	
				150,000,000					**150,000,000**	
2,105,215									**(5,027,219)**	
								56,649,808	**56,649,808**	
(952,943)	**158,917**			**150,000,000**		**1,224,533**		**57,335,077**	**654,081,614**	

Statement of Cash Flows

Indirect method

(Values in euro units)

	Amount	
	H1 2023	**H1 2022**
A. OPERATING ACTIVITIES		
1. Operations	**109,906,983**	**96,331,621**
- profit for the period (+/-)	76,146,328	56,649,808
- gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	(28,045)	1,004
- gains/losses on hedging operations (-/+)	65,773	1,665,604
- net impairment losses/gains for credit risk (+/-)	1,855,803	2,442,503
- depreciation, amortization and net impairment losses on property, equipment and investment property and intangible assets (+/-)	6,259,186	5,654,867
- net allocations to provisions for risks and charges and other costs/income (+/-)	(415,434)	3,078,310
- net revenues and costs of insurance contracts issued and outward reinsurance (-/+)		
- taxes, duties and unpaid tax credits (+/-)	27,756,826	30,846,825
- net impairment losses/reversals of impairment losses on discontinued operations, net of the tax effect (+/-)		
- other adjustments (+/-)	(1,733,454)	(4,007,301)
2. Cash flow generated/absorbed by financial assets	**899,992,341**	**(1,425,112,045)**
- financial assets held for trading	(1,382,965)	(2,886,015)
- financial assets designated at fair value		
- other financial assets mandatorily measured at fair value	(39,037,244)	4,739,365
- financial assets measured at fair value through other comprehensive income	(2,833,517)	(45,000,795)
- financial assets measured at amortized cost	1,065,519,673	(1,195,809,534)
- other assets	(122,273,605)	(186,155,067)
3. Cash flow generated/absorbed by financial liabilities	**(1,354,752,760)**	**1,154,819,581**
- financial liabilities measured at amortized cost	(1,346,624,467)	1,084,215,717
- financial liabilities held for trading	62,594	(770,215)
- financial liabilities carried at fair value		
- other liabilities	(8,190,886)	71,374,079
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 absorbed by operating activities	**(344,853,436)**	**(173,960,843)**

(cont'd)

(Values in euro units)

	Amount	
	H1 2023	H1 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	**(12,366,208)**	**(17,988,393)**
- purchases of equity investments	527,673	(135,631)
- purchases of property, plant and equipment	(9,672,691)	(16,491,562)
- purchases of intangible assets	(3,221,191)	(1,361,201)
- purchases of subsidiaries and business units		
Net cash absorbed by investing activities	**(12,366,208)**	**(17,988,393)**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	(2,794,384)	-
- issue/purchase of equity instruments	-	150,000,000
- distribution of dividends and other purposes	(77,479,836)	(125,280,399)
- sale/purchase of ownership interests in subsidiaries	-	-
Net cash generated by financing activities	**80,274,220**	**24,719,601**
NET CASH ABSORBED DURING THE PERIOD	**(437,493,864)**	**(167,229,635)**

Reconciliation

(Values in euro units)

Financial statements items	Amount	
	H1 2023	H1 2022
Cash and cash equivalents at start of the period	634,879,242	554,467,803
Total net cash absorbed during the period	(437,493,864)	(167,229,635)
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at end of the period	**197,385,378**	**387,238,167**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

Part A - Accounting policies

A.1 GENERAL

Section 1 - Statement of compliance with International Financial Reporting Standards

The condensed interim consolidated financial statements (hereinafter also "interim consolidated financial statements") as of June 30, 2023 were prepared in compliance with Article 154b of Italian Legislative Decree 58/1998 and in compliance with the International Financial Reporting Standards (IASs/IFRSs) issued by the IASB, endorsed by the European Commission, as provided for by Regulation (EC) No 1,606 of July 19, 2002 governing the application of IASs/IFRSs and related interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period.

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

Specifically, these interim consolidated financial statements were prepared in compliance with IAS 34 "Interim Financial Statements", which indicates avoiding the repetition of information that has already been recorded in the last Annual Financial Statements, including with regard to the accounting policies continued from the previous year.
Consequently, this document must be read in conjunction with BFF Banking Group's last annual consolidated financial statements as of December 31, 2022.
Although it does not include all the information required for full disclosure in accordance with IFRSs, specific Explanatory Notes are included to explain the events and transactions that are relevant to understanding the changes in the Group's financial position and performance since the last annual financial statements.

Section 2 - Basis of presentation

The interim 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 interim 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 condensed interim 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 interim consolidated financial statements are drafted in euros, when not specified otherwise, and also show the corresponding comparisons with the previous year with regard to items in the statement of financial position, and with the same period of the previous year with regard to items in the the income statement.

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

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

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

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

Section 3 - Scope and basis of consolidation

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

Subsidiaries

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

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

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

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

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

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

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

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

1. Shares in companies within the scope of consolidation

On June 30, 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 Carlo Zima 4	1	BFF Bank S.p.A.	100%	100%
3. BFF Finance Iberia. S.A.U.	Madrid – Paseo de la Castellana, 81	1	BFF Bank S.p.A.	100%	100%
4. BFF Polska S.A.	Łódź - Jana Kilińskiego, 66	1	BFF Bank S.p.A.	100%	100%
5. BFF Medfinance S.A.	Łódź - Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
6. BFF Česká republika s.r.o.	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
7. BFF Central Europe s.r.o.	Bratislava - Mostova 2	1	BFF Polska S.A.	100%	100%
8. Debt-Rnt sp. Z O.O.	Łódź - Jana Kilińskiego 66	1	BFF Polska S.A.	100%	100%
9. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
10. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
11. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
12. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łódź - Jana Kilińskiego 66	4	Debt-Rnt sp. Z O.O.	99%	99%

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

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

As far as points 9 and 10 are concerned, voting rights refer to the investors' right to vote at the Meeting.
The companies in points 11 and 12 above are limited partnerships and are consolidated according to the equity method since their total asset figures are not significant.

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

Assignment of new rating

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.

Board renewal process

The BFF Board of Directors has begun the process of submitting its slate, in accordance with market 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.
Note 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 with the CEO, subject to all the provisions of the variable compensation set forth in the Group's Remuneration Policy (60% deferral over a 5-year period, 51% paid in financial instruments in each installment).

Distribution of part of the Retained Earnings recorded in the Bank's separate financial statements as of December 31, 2022

The BFF Banking Group's dividend policy stipulates that the amount of normalized profit generated during the year in excess of a 12.00% 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 the normalized profit for the first half of the year, and one payment based on the normalized profit at the end.

To follow up on this policy, on August 3 the Board of Directors proposed to convene an Ordinary Shareholders' Meeting with a proposal to approve the distribution of part of the Retained Earnings recorded in the Bank's separate financial statements as of December 31, 2022.

The Ordinary Shareholders' Meeting, which will be held on September 7, will therefore be called upon to approve the distribution of €0.147 per share, for a maximum amount of €27.5 million, which, added to the interim dividend approved by the Board of Directors on August 3, 2023 (€0.291 per share), will lead to the distribution on September 13, 2023 of a dividend per share of €0.438, for a maximum amount of €81.9 million (the Group's profit for the period ended June 30, 2023 to be distributed in accordance with the Group's dividend policy).

Section 5 - Other issues

Authorization to repurchase treasury shares

On February 1, 2023, after it initiated the regulatory procedure communicated to the market on November 25, 2022, BFF Bank S.p.A. received the Bank of Italy's authorization pursuant to Arts. 27 et seq. of Delegated Regulation (EU) no. 241 of January 7, 2014, adopted by the European Commission, and Art. 78 of Regulation (EU) no. 575 of June 26, 2013, to repurchase treasury shares of the Bank, in execution of the authorization granted pursuant to Art. 2387 of the Italian Civil Code by the ordinary shareholders' meeting of March 31, 2022 up to the maximum amount of €2.8 million.

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

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

Recall that the parent's Ordinary Shareholders' Meeting of April 13, 2023, after examining the relevant illustrative Report by the Board of Directors, decided to revoke the previous authorization, granted by the Shareholders' Meeting of March 31, 2022, for the part not yet executed, and to authorize the Board of Directors to proceed with the repurchase of BFF ordinary shares, on one or more occasions and for a period of 18 months from the date of the Shareholders' Meeting, in pursuit of the purposes set out in the aforementioned illustrative Report; the maximum number of shares to be purchased is 8,463,819, 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 held on the date of publication of the Report).

Resolution of the Shareholders' Meeting on April 13, 2023 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 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 profit 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 2022, expressing an advisory vote on the latter point; v) the proposal to authorize the Board of Directors to proceed with the repurchase of BFF ordinary shares (up to 8,463,819, taking into account the treasury shares already held).

Risks, uncertainties and impacts of the Russia/Ukraine conflict

During the first half 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 summarised 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 COVID-19 and the Russia/Ukraine conflict”). Following is information on topics and measures already undertaken in 2022 with a view to continuity also during the first half of 2023:

- Business continuity: the parent has continuously monitored the situation and its operations have been guaranteed without any critical issues. In this context, particular attention has been paid to operational risks and those deriving from the conflict, with appropriate measures to guarantee operations. To date there have not been any business continuity issues.
  Staff are now fully operational, working both remotely and in person, and are equipped with the tools needed to telework. The services provided by suppliers and outsourcers have not suffered any deterioration in terms of quality or quantity, nor has service been disrupted. Any deterioration in the quality of the service – which in any case is not able to compromise the Group's operations – is in fact subject to tracking and evaluation/resolution in a specific internal application.
- Commercial aspects: with regard to the Factoring and Lending BU, a significant rebound in non-recourse factoring and/or customer financing volumes should be noted thanks to the significant commercial effort and also to 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 Bank, 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: despite the current macroeconomic environment characterized by the continuation of the Russia/Ukraine conflict and some market turbulence following the events related to Silicon Valley Bank and Credit Suisse, the Bank has maintained the necessary safeguards to monitor and safeguard its liquidity position. The parent:

(i) when deemed necessary, reserves the right to perform stress analyses that are more frequent and more detailed as well as with increasing and variable impacts;

(ii) maintains a significant share of assets 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; in H1 capital ratios were still well above the minimum requirements set by the Regulator.
  On the other hand, the consequences of the Russia/Ukraine conflict have not particularly affected lease contracts (IFRS 16), actuarial gains/losses related to post-employment benefits (IAS 19) and the vesting conditions of share-based payments (IFRS 2).

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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements were prepared using the same accounting policies already in use for the preparation of the consolidated financial statements at December 31, 2022, in accordance with IAS 1 and the instructions contained in Bank of Italy Circular no. 262 of December 22, 2005, as amended.

These accounting policies include the main criteria for recognizing, classifying, measuring and derecognizing the main assets and liabilities as well as for recognizing revenue and costs, along with other information.

Use of estimates and assumptions in the preparation of financial reporting

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

The significant assessments of the Bank in the application of the accounting policies and the main sources of estimation uncertainty are unchanged from those already illustrated in the Bank's and Group's last annual financial statements, closed at December 31, 2022.

In accordance with IFRS, the elaboration of estimates by management is a prerequisite for the preparation of the interim consolidated financial statements at June 30, 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 Russia/Ukraine conflict, the current values recognized in the interim consolidated financial statements as of June 30, 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;
- Expenses recorded on the basis of provisional values that are not definitive at the date on which these interim 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 June 30, 2023, there are no trigger events that could impact the valuation of equity investments and goodwill recorded as of June 30, 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 non-performing loans, unlikely to pay, and exposures past due and/or in arrears as per the Bank of Italy's Circular no. 262/2005.

The impairment model is characterized by:

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

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

As of June 30, 2023 the Bank updated the macroeconomic scenarios provided by the external infoprovider. These scenarios are constructed considering the evolution of the unemployment rate and the High Yield Spread in a geopolitical context characterized by the tensions of the Russia-Ukraine conflict, which has significantly changed the macroeconomic scenario since February 2022.

The Risk Management Function, as it does every quarter of the year, performed a sensitivity analysis at June 30, 2023 between the macroeconomic scenarios for the second quarter of the year under way and the macroeconomic scenarios updated as of June 30, 2022. The analysis shows that 2023 is characterized by a decline in GDP growth and a strong inflationary drive generated by the Russia/Ukraine conflict, which reduces on one hand business investments and on the other the disposable income of consumers. In fact, inflation is expected to remain sustained for at least the next three years. However, the job market does not seem to be experiencing significant tensions, thanks to the recovery in hirings post-Covid-19. The economic slowdown will not be sufficient to cause widespread dismissals and the job market will continue to benefit from considerable excess demand. Therefore, job market stability will be one of the main factors that could prevent the economy from entering a recessive cycle. The backtesting analysis, i.e., the impact of updating the new risk parameter curves, also did not show a significant impact on the estimates of Expected Credit Losses. The increase in generic provisions compared to the previous quarter was about €270 thousand. However, this increase is mostly related to the corporate/retail sector while the public sector has not seen any particular change. This shows how much the Group's business allows for a cost of risk that is less sensitive to macroeconomic scenarios.

Moreover, the Risk Management Function compared the macroeconomic estimates released by the external infoprovider and used for impairment with those of the European Central Bank (ECB), observing a substantial alignment of the main macroeconomic drivers.

A4 - INFORMATION ON FAIR VALUE

Qualitative information

IASs/IFRSs require that financial instruments classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through 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 of June 30, 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.

The only instrument classified as Level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme.

A.4.2 Processes and sensitivity of valuations

At June 30, 2023, as mentioned above, the only instrument classified as Level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme. The most recent fair value estimate received by the Fund and prepared by a major consulting firm has been adopted.

A.4.3 Fair value hierarchy

At June 30, 2023, as in 2022, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information

A.4.5 Fair value hierarchy

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

(Values in thousand euros)

Financial assets / liabilities measured at fair value	06.30.2023			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	7	130,577		7	90,429	104
a) financial assets held for trading	7	1,615		7	204	
b) financial assets carried at fair value						
c) other financial assets subject to mandatory fair value valuation		128,962			90,225	104
2. Financial assets measured at fair value through other comprehensive income	2,637	128,035		225	127,873	-
3. Hedging derivatives						
4. Property, equipment and investment property						
5. Intangible assets						
Total	**2,644**	**258,612**	**-**	**232**	**218,303**	**104**
1. Financial liabilities held for trading		1,012			950	
2. Financial liabilities measured at fair value		-				
3. Hedging derivatives		66			14,314	
Total		**1,078**			**15,263**	

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	06.30.2023				12.31.2022			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	10,828,475	5,100,494		5,620,729	11,895,850	5,946,465		5,766,623
2. Investment property								
3. Non-current assets held for sale and discontinued operations								
Total	**10,828,475**	**5,100,494**	**-**	**5,620,729**	**11,895,850**	**5,946,465**	**-**	**5,766,623**
1. Financial liabilities measured at amortized cost	10,648,138			10,648,138	11,994,763	38,648		11,955,787
2. Liabilities associated with assets held for sale								
Total	**10,648,138**	**-**	**-**	**10,648,138**	**11,994,763**	**38,648**	**-**	**11,955,787**

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 Statement of Financial Position

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

ASSETS

Section 1 - Cash and cash equivalents - Item 10

€197,385 thousand

1.1 Cash and cash equivalents: breakdown

(Values in thousand euros)

	Total 06.30.2023	Total 12.31.2022
a) Cash	213	207
b) Current accounts and sight deposits at Central Banks	50,891	489,810
c) Current accounts and sight deposits at banks	146,281	144,863
Total	**197,385**	**634,879**

As of June 30, 2023, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €50.9 million (compared to €489.8 million as of December 31, 2022), as well as current accounts held by the Bank and its subsidiaries at third-party banks as of June 30, 2023, amounting to €146.3 million. Specifically, "Current accounts and sight deposits at banks" mainly refer for €138.4 million to BFF Bank, for €7.3 million to BFF Polska Group, for €413 thousand to BFF Finance Iberia and €45 thousand to BFF Techlab.

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

€130,584 thousand

This item is broken down as follows:

- Financial assets held for trading of €1.6 million, which primarily includes the positive fair value of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Group is exposed to;
- Other financial assets subject to mandatory fair value measurement of €128.9 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 €100 million at June 30, 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 06.30.2023			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	6			6		
2. Equity securities	1			1		
3. UCI units						
4. Loans						
4.1 Reverse repurchase agreements						
4.2 Others						
Total (A)	**7**	**-**	**-**	**7**	**-**	**-**
B. Derivatives						
1. Financial derivatives						
1.1 held for trading		1,615			204	
1.2 connected to the fair value option						
1.3 others						
2. Credit derivatives						
2.1 held for trading						
2.2 connected to the fair value option						
2.3 others						
Total (B)	**-**	**1,615**	**-**	**-**	**204**	**-**
Total (A+B)	**7**	**1,615**	**-**	**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 06.30.2023	Total 12.31.2022
A. On-statement of financial position assets		
1. Debt securities	6	6
a) Central Banks		
b) Public administrations	3	3
c) Banks	2	3
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	2	1
a) Banks	-	-
b) Other financial companies:		
of which: insurance companies		
c) Non-financial companies	2	1
d) Other issuers		
3. UCI units	-	-
4. Loans		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total A	**7**	**7**
B. Derivatives		
a) Central counterparties		
b) Others	1,615	204
Total B	**1,615**	**204**
Total (A+B)	**1,622**	**211**

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

(Values in thousand euros)

Items/values	Total 06.30.2023			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	-	128,962	-	-	90,226	-
4. Loans						
4.1 Reverse repurchase agreements						
4.2 Others						
Total	-	128,962	-	-	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 06.30.2023	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	**128,962**	**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	**128,962**	**90,330**

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

€130,672 thousand

At June 30, 2023 this item included:

- the stake in the Bank of Italy of €125 million;
- other minor investments worth approximately €5 million.

Regarding minor holdings of equity securities, note that in H1 2023 the Parent purchased a share of the company "General Finance SpA" for €2.4 million.

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

(Values in thousand euros)

Items/values	Total 06.30.2023			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	2,637	128,035	-	225	127,873	-
3. Loans	-	-	-	-	-	-
Total	**2,637**	**128,035**	**-**	**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 06.30.2023	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	**130,672**	**128,098**
a) Banks	125,469	125,432
b) Other issuers:	5,203	2,666
- other financial companies	3,916	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	**130,672**	**128,098**

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

€10,828,475 thousand

This item is broken down as follows:

- Loans and receivables with banks of €525,442 thousand;
- Loans and receivables with customers of €10,303,033 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Held to Collect (HTC) securities portfolio of €5,207,745 thousand.

Loans and receivables with banks

€525,442 thousand

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

(Values in thousand euros)

Type of operations/ Values	Total 06.30.2023						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 Central Banks	**164,140**					**164,140**	**185,349**					**185,349**
1. Time deposits	12,635			X	X	X	11,714			X	X	X
2. Mandatory reserve	151,505			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	**361,302**					**361,302**	**292,854**					**292,854**
1. Loans	361,302						292,854					
1.1. Current accounts	-			X	X	X	-			X	X	X
1.2. Time deposits	10,559			X	X	X	2,910			X	X	X
1.3. Other loans:	350,743			X	X	X	289,943			X	X	X
- Reverse repurchase agreements	254,317			X	X	X	183,994			X	X	X
- Loans for leases	-			X	X	X	-			X	X	X
- Others	96,426			X	X	X	105,950			X	X	X
2. Debt securities	-						-					
2.1. Structured securities	-						-					
2.2. Other debt securities	-						-					
Total	**525,442**	**-**	**-**	**-**	**-**	**525,442**	**478,203**	**-**	**-**	**-**	**-**	**478,203**

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

As of June 30, 2023, the item "Loans and receivables with Central Banks - Mandatory Reserve," amounting to €151.5 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 €12,635 thousand.

"Loans and receivables with banks - time deposits" referred for €10,560 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 – Repurchase agreements," amounting to €254 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. 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

€10,303,033 thousand, including Held to Collect securities of €5,207,745 thousand.

This item mainly includes loans to customers of €5,095.3 million (mainly amounts due from debtors in relation to factoring activities) and €5,207.7 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 financial statements are prepared. After this analysis, as of December 31, 2022, on the basis of the time series the Bank modified its approach to estimating the late payment interest to be included in amortized cost, therefore assuming a collection percentage of 50% in place of the previous 45%, and changed the average collection timing from 1,800 to 2,100 days due to the impacts of the crisis caused by the COVID-19 pandemic, which influenced the suspension of the terms of procedural activities.

With regard to the trade receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be close to 100% and, on average, collection times are lower than those recorded for trade receivables due from the Italian National Healthcare System. However, a prudent decision was made to consider, also for 2023, the use of the same parameters as those used by BFF Bank, i.e., a recovery rate of 50% with average collection times of 2,100 days.

As regards BFF Polska Group, with the exception only of BFF Central Europe s.r.o., despite the negligible importance of the component of late payment interest on total loans and receivables, as part of the activities to complete the integration of Group processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent, late payment interest accrued on past-due trade receivables is primarily recognized when it is reasonably certain that it will be collected, on the basis of the agreements reached with the debtor counterparties or what has been agreed to in legal proceedings. As instead regards BFF Central Europe, please note that the amortized cost method is used, and the majority of the revenue recognized relates 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 receivables (so-called Allowance for late payment interest) amounted to €823 million, of which only €382 million was recognized in the income statement of the period and in previous periods.

The total net amount of impaired exposures for BFF Banking Group is €303.0 million. Of this amount, €89.9 million relates to non-performing loans (including €83.3 million relating to municipalities and provincial governments in financial distress, of which €5.7 million were purchased already impaired) and €13.1 million to unlikely-to-pay exposures. Past due exposures amounted to €200.0 million, of which 95.8% relating to public counterparties.
This item also includes collection expenses (40 euros). Italian Legislative Decree no. 231 of 10/9/2002, implementing Directive 2000/35/EC on combating late payment in commercial transactions, establishes on compensation for collection expenses that "*The creditor is due, without any placement in default being required, a lump-sum amount of €40 by way of compensation for damages. This is without prejudice to proof of higher damages, which may include debt collection assistance costs".*
BFF's interpretation has been confirmed by the recent ruling won by it at the Court of Justice of the European Union on October 20, 2022, which constitutes the binding interpretation for the national rulings of all Member States as well, and confirmed the right to recover at least €40 for each past-due invoice with respect to the Public Administration, irrespective of the amount and whether a certain amount of invoices are part of a single payment agreement.

The parent therefore tracked the collections of collection expenses to develop a time series which currently has a depth of 4 years. Considering recent case law, the rising collection trend and growing collection percentages aligned with those of late payment interest, 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 expenses to which the Group is entitled and not yet collected for trade receivables purchased outright 40 euros provision), amounting to €250.8 million, of which only €125.5 million was transferred to the income statement in the previous year as a result of the change in the estimate on the basis of the percentage of collection relating to the historical series, in accordance with the provisions of IAS 8.

Debt securities classified in the HTC portfolio, equal to €5,208 million, are measured at amortized cost. The relevant interest is therefore recognized in the income statement using the effective rate of return.
At June 30, 2023, this portfolio consists exclusively of government securities purchased to hedge liquidity risk and to optimize the cost of money. It has a total nominal amount of €5,217 million and fair value of €5,100 million, with a negative difference (before taxes) of around €108 million compared to the carrying amount on the same date, not recognized in the condensed interim consolidated financial statements.

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

€10,303,033 thousand

(Values in thousand euros)

Type of operations/ Values	Total 06.30.2023						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	**4,792,276**	**297,350**	**5,662**				**5,004,658**	**278,090**	**5,672**			**5,288,419**
1.1 Current accounts	24,297	417		X	X	X	3,444	391		X	X	X
1.2 Reverse repurchase agreements	80,693			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	97			X	X	X	173			X	X	X
1.5 Finance leases	868			X	X	X	1,619			X	X	X
1.6 Factoring	2,906,255	251,306	5,662	X	X	X	3,250,809	237,384	5,672	X	X	X
1.7 Other loans	1,780,066	45,627		X	X	X	1,680,716	40,315		X	X	X
2. Debt securities	**5,207,745**			**5,100,494**	**-**	**-**	**6,129,228**			**5,946,465**		
2.1. Structured securities												
2.2. Other debt securities	5,207,745			5,100,494	-	-	6,129,228			5,946,465		
Total	**10,000,021**	**297,350**	**5,662**	**5,100,494**	**-**	**-**	**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:

- Factoring of performing exposures amounted to a total of €2,906,254 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 €2,493,808 thousand for BFF Bank and €243,541 thousand for the subsidiary BFF Finance Iberia.
  Non-recourse trade receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued and accruing late payment interest on them and the right to collection expenses when they fall due are acquired upon purchase.
  Trade receivables purchased below their nominal amount totaled €24,810 thousand in relation to late payment interest and €3,281 thousand for collection expenses.
  Performing non-recourse factoring of BFF Polska Group totaled €168,905 thousand.

- Other performing loans due from customers amounted to €1,780,066 thousand. They mainly include:
  - accrued late payment interest of about €215,282 thousand, including €190,591 thousand relating to BFF Bank and €24,690 thousand relating to the Spanish subsidiary. This amount has already been recognized in the income statement in the current and prior years and refers only to late payment interest accrued on principal already collected. Therefore, of the €382.4 million in late payment interest recognized in the income statement, and referring to the provision existing at June 30, 2023, €215.3 million refers to the item under review, while of the remaining amount, €151.9 million was recognized under "factoring" and €15.2 million under other loans past due;
  - collection expenses of €114,709 thousand, of which €87,877 thousand relating to BFF Bank, €25,513 thousand referring to the Spanish subsidiary and €1,319 thousand relating to BFF Central Europe; this amount, along with the €8,344 thousand classified under impaired loans and the €2,413 million that flow into the factoring item, has already been transferred to the income statement and refers to collection expenses already accrued on trade receivables purchased outright;
  - security deposits of approximately €254.3 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 €228.4 million;
  - financing activities of BFF Polska Group of €943,714 thousand.
- Reverse repurchase agreements amounting to €80,693 thousand. These are exposures arising from contracts with customers regulated by the Global Master Repurchase Agreement (GMRA).
- Current account credit facilities amounting to €24,297 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 €868 thousand.
- BFF Banking Group's net impaired assets amounted to a total of €303,011 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 June 30, 2023, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €89,891 thousand, of which €5,662 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €83,334 thousand, accounting for 92.7% of the total.
    Gross non-performing loans amounted to €109,658 thousand. The related impairment totaled €19,767 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 €110,658 thousand and relevant adjustments totaled €20,768 thousand.
    With reference to the parent, at June 30, 2023 total non-performing loans, net of any estimated impairment losses, amounted to €86,155 thousand, of which €83,334 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 €5,662 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 €22,353 thousand. After estimated impairment losses of €17,130 thousand they amounted to €5,223 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 fulfil (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
  At June 30, 2023, gross exposures classified as unlikely to pay amounted to €17,913 thousand, of which €15,125 thousand attributable to BFF Polska Group, €1,636 thousand to the bank and €1,152 thousand to BFF Finance Iberia. The total net value is €13,147 thousand, referring primarily to BFF Polska Group.
- Net past due exposures of BFF Banking Group amounted to €199,974 thousand. They refer to the parent for €184,503 thousand, to the Spanish subsidiary for €14,637 thousand and to BFF Polska Group for €834 thousand. 95.8% of these exposures relate to public counterparties.

Fair value

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

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

4.4 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		Stage two	Stage three	Purchased or originated credit impaired	Stage one	Stage two	Stage three	Purchased or originated credit impaired	
		of which: Instruments with low credit risk								
Debt securities	5,208,410					665				
Loans	4,188,705	19,574	1,130,502	323,046	5,865	820	668	25,696	**203**	
Total 06.30.2023	**9,397,115**	**19,574**	**1,130,502**	**323,046**	**5,865**	**1,485**	**668**	**25,696**	**203**	
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

€13,128 thousand

The amount refers to the equity investment in two law firms in which BFF Polska is a limited partner, as well as the equity investment in Unione Fiduciaria of 26.46% of the capital thereof.
Note that the aforementioned investments are 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.	26.46%	26.46%
2. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź (Poland)	Łódź (Poland)	Other forms of control	BFF Polska S.A.	99%	99%
3. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łódź (Poland)	Łódź (Poland)	Other forms of control	Debt-Rnt sp. Z O.O	99%	99%

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

€61,690 thousand

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

(Values in thousand euros)

Assets/Values	Total 06.30.2023	Total 12.31.2022
1. Proprietary assets	**49,107**	**41,844**
a) land	22,575	22,575
b) buildings	25,129	17,424
c) furniture	199	199
d) electronic systems	737	1,070
e) others	466	576
2. Right-of-use assets	**12,583**	**12,505**
a) land		
b) buildings	11,877	11,822
c) furniture		
d) electronic systems		
e) others	706	683
Total	**61,690**	**54,349**
of which: obtained by enforcement of guarantees received	-	-

Section 10 - Intangible assets - Item 100

€69,448 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 06.30.2023		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	**38,491**		**39,198**	
of which: software	**12,239**		**11,849**	
A.2.1 Assets measured at cost:				
a) Intangible assets created internally				
b) Other assets	38,491		39,198	
A.2.2 Assets measured at fair value:				
a) Intangible assets created internally				
b) Other assets				
Total	**38,491**	**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 in the final quarter of 2022 of €83 thousand, as well as the Customer Contracts amounting to €20,489 thousand.

With respect to goodwill with an infinite useful life recognized in the financial statements and in line with what is described in IAS 36, an impairment test was performed at the end of 2022 on goodwill recognized in the financial statements, concerning BFF Polska Group, BFF Iberia (formerly IOS Finance) and BFF Techlab (formerly MC3 - Informatica) in order to determine its recoverable amount.
The impairment test on goodwill is meant to identify the likelihood that the recoverable amount of the cash generating unit or group of cash generating units to which it is allocated is no lower than their carrying amount, where the recoverable amount is the higher between the value in use and the fair value less costs to sell (IAS 36.18). Goodwill does not constitute an asset separable from the rest of the company, and therefore the impairment test is meant to verify that the value of the entire business (excluding assets not directly functional to the performance of the business, or "surplus assets") is higher than the overall carrying amount.
The estimation process requires the appropriate analyses to be performed on the difference between the preliminary figures and the budget to understand the reason underlying these differences. The forecast flows were used for the assessments, once their reasonableness was verified. This reasonableness is checked by analyzing and verifying:
a) the nature of the variances between the budget and the forecast (used for the preparation of the budget) and the incorporation of (permanent) variances in the projections made,
b) that the consolidated projections are in the range expressed by equity analysts.

As of June 30, 2023, the Group did not perform any further verification of the goodwill recorded. It is believed that the evidence obtained at the end of 2022 is still valid since as of June 30, 2023, all the CGUs achieved economic results in excess of the budget expectations, showing no signs of impairment. In line with the provisions of IAS 36, impairment tests will be performed on all goodwill recorded in the financial statements in conjunction with the preparation of the 2023 financial statements.

Specifically, with respect to the BFF Polska CGU, the estimated value in use which emerged at the end of the previous year was €158.5 million against a carrying amount of €125.2 million.
On the other hand, as regards the CGU BFF Finance Iberia, the related estimated value in use that emerged at the end of the previous year amounted to €133.2 million, against a carrying amount of €35.6 million.
The application of the value map to the BFF Techlab CGU at the end of 2022 returned an Enterprise Value of €556 thousand and a corresponding value of Equity, due to the presence of cash, of €842 thousand. This value was higher than the equity "cum allocated goodwill" (equal to €387 thousand) and therefore there is no need to recognize any impairment loss.

With regard to the Customer Contracts arising following the acquisition of Depobank, at the end of the previous year an impairment test was performed due to the cancellation received from the customer Arca. The estimated fair value of the Customer Relationship was lower than the carrying amount of the intangible asset at the same date, thus making it necessary to record an impairment loss in order to adjust the carrying amount to the results of the impairment test.

As of June 30, 2023, the Group has not performed any further checks on Customer Contracts. It is believed that the results obtained at the end of 2022 are still valid, as, as of June 30, 2023, the evidence was consistent with expectations, showing no signs of impairment.

Lastly, aside from goodwill and customer contracts, the item in question 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 four years for the entire Banking Group).

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

As at June 30, 2023, current tax assets and liabilities amount to €60,956 thousand and €156,119 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
€58,505 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

€114,506 thousand

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

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

€516,141 thousand

(Values in thousand euros)

Breakdown	06.30.2023	12.31.2022
Security deposits	4,127	4,126
Invoices issued and to be issued	11,654	13,067
Payment flows to be credited	191,857	86,970
Other exposures	52,557	52,698
Accrued income and prepaid expenses	18,301	15,847
Ecobonus tax assets	237,645	221,474
Total	**516,141**	**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 condensed interim consolidated financial statements.

Accrued income and prepaid expenses mainly refer to the deferral of costs relating to administrative expenses.

Other exposures refer primarily to non-trade receivables due from sundry debtors, pending items, and legal fees to be recovered.
Ecobonus tax assets, up compared to the figure recorded at the end of the previous year, relate to receivables purchased by the Parent with non-recourse factoring operations and deriving from existing tax incentives. As set forth by tax regulations in force, the tax assets in question are used to offset the payment of taxes and contributions and are classified in Asset item 130 "Other assets" in line with what has been defined by the Bank of Italy 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

€10,648,138 thousand

Starting from January 1, 2018 (and based on guidance provided in IFRS 9), this item is broken down as follows:
- amounts due to banks of €1,023,317 thousand;
- amounts due to customers of €9,624,822 thousand.

Amounts due to banks

€1,023,317 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 06.30.2023				Total 12.31.2022			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**2,666**	X	X	X	**4,141**	X	X	X
2. Amounts due to banks	**1,020,651**	X	X	X	**1,162,225**	X	X	X
2.1 Current accounts and sight deposits	808,035	X	X	X	717,032	X	X	X
2.2 Time deposits	170,941	X	X	X	444,571	X	X	X
2.3 Loans	-	X	X	X	6	X	X	X
2.3.1 Repurchase agreements - payable	-	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	-	X	X	X	616	X	X	X
Total	**1,023,317**	-	-	-	**1,166,365**	-	-	-

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

The item mainly consists of "current accounts and demand deposits" of about €808 million, deriving especially from payment service operations, and includes the balances of accounts of bank customers.

The item also includes "Time deposits", which are mainly related to deposits required for the services rendered to client banks, such as indirect compliance with mandatory reserve requirements.

Amounts due to customers

€9,624,822 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 06.30.2023				Total 12.31.2022			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	3,794,250	X	X	X	4,134,113	X	X	X
2. Time deposits	1,706,992	X	X	X	1,263,096	X	X	X
3. Loans	3,420,398	X	X	X	4,631,902	X	X	X
3.1 repurchase agreements - payable	3,203,498	X	X	X	4,441,292	X	X	X
3.2 Others	216,900	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	11,712	X	X	X	13,181	X	X	X
6. Sundry liabilities	691,470	X	X	X	747,130	X	X	X
Total	**9,624,822**				**10,789,422**			

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

As at June 30, 2023, the item mainly consisted of "current accounts and demand deposits" for an amount of €3,794 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 €3,203 million.

The item includes €1,744,121 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 as of December 31, 2022.

Sundry 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 €12 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.

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

(Values in thousand euros)

Type of securities/Values	Total 06.30.2023				Total 12.31.2022			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds					38,976	38,648		
1.1 structured								
1.2 others					38,976	38,648		
2. other securities								
2.1 structured								
2.2 others								
Total	**-**	**-**	**-**	**-**	**38,976**	**38,648**	**-**	**-**

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

The securities outstanding, represented by bonds issued by the parent, are zero.
The decrease is attributable to the repayment 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

€1,012 thousand

2.1 Financial liabilities held for trading: breakdown by type

(Values in thousand euros)

Type of operations/Values	Total 06.30.2023					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		1,012		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				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**	**-**	**1,012**	**-**	**X**	**X**	**-**	**950**	**-**	**X**
Total (A+B)	**X**	**-**	**1,012**	**-**	**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 June 30, 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

€66 thousand

4.1 Hedging derivatives: breakdown by coverage type and level

(Values in thousand euros)

	FV 06.30.2023			NV 06.30.2023	*FV 12.31.2022*			NV 12.31.2022
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	-	66	-	85,172	-	14,314	-	23,452
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	66	-	85,172	-	14,314	-	23,452
3) Foreign investments	-	-	-		-	-	-	
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**66**	**-**	**85,172**	**-**	**14,314**	**-**	**23,452**

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

The item includes the negative fair value at June 30, 2023 relating to interest rate swap hedges with notional in zloty defined with the aim of hedging the loans disbursed in zloty to Polish subsidiaries under current intercompany agreements.

Section 6 - Tax liabilities - Item 60

€156,119 thousand

See “Section 11 - Tax assets and liabilities - Item 110” of the 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

€417,556 thousand

8.1 Other liabilities: breakdown

(Values in thousand euros)

Breakdown	Total 06.30.2023	Total 12.31.2022
Trade payables	6,369	11,155
Invoices to be received	22,588	28,612
Liabilities to tax authorities	6,818	11,006
Liabilities to social security and welfare bodies	1,244	2,244
Liabilities to employees	21,698	23,712
Collections pending allocation	70,262	58,076
Payment flows received to be charged	245,300	201,922
Sundry liabilities	35,238	57,764
Accrued expenses and deferred income	8,039	6,876
Total	**417,556**	**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 June 30, 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 condensed interim consolidated financial statements.

Section 9 - Post-employment benefits - Item 90

€3,074 thousand

9.1 Post-employment benefits: annual changes

The liability recorded in the condensed interim consolidated financial statements at June 30, 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, 2022 are shown below.

Actuarial assumptions

Annual discount rate

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA 7-10 Index (in line with the duration of the items measured).

Annual increase rate of post-employment benefits

In compliance with Article 2120 of the Italian Civil Code, such rate is equal to 75% of inflation plus 1.5 percentage points.

The demographic assumptions used are as follows:

- Death: mortality tables RG48 published by the Italian State General Accounting Office (Ragioneria Generale dello Stato);
- Disability: INPS 2000 tables broken down by age and sex;
- Retirement: 100% upon reaching AGO requisites, as updated by Italian Decree-Law 4/2019.

Annual frequency of turnover and advances

- Executives: 1% advance frequency and 0.50% turnover frequency;
- Managers: 2.5% advance frequency and 3.0% turnover frequency;
- Employees 2.5% advance frequency and 3.0% turnover frequency.

Section 10 - Provisions for risks and charges - Item 100

€31,649 thousand

10.1 Provisions for risks and charges: breakdown

(Values in thousand euros)

Items/Components	Total 06.30.2023	Total 12.31.2022
1. Provisions for credit risk relating to Commitments and financial guarantees given	357	251
2. Provisions for other commitments and guarantees issued		
3. Pension and similar obligations	6,879	7,861
4. Other provisions for risks and charges		
4.1 Legal and tax disputes		
4.2 Personnel costs		
4.3 Others	24,413	24,900
Total	**31,649**	**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 the new IFRS 9.

As of June 30, 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 Bank may incur.

The item 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 allocations made in H1 2023.

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 €3.9 million (including the portion allocated to the parent's equity reserve for roughly €346 thousand) and the provisions relating to the incentive and deferred payment retention scheme envisaged for specific BFF Bank employees, amounting to €3.1 million. Both obligations to personnel are shown at their present value estimated by an independent actuary based on demographic and economic assumptions.
As of June 30, 2023, the provision in question also includes the provision for the commitment made by DEPObank to some employees who have left the bank, amounting to €162 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 €24.4 million refer to:

- litigation liabilities for which the Bank has estimated a probable risk of loss for approximately €22.9 million;
- provisions related to possible damages for operational errors as per contract with customers in the amount of approximately €1.5 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 June 30, 2023 and equal to 3.60%. The yield with a comparable duration to that of the collective being valued was chosen for this purpose.

Death	RG48 mortality tables published by the State General Accounting Office
Retirement	100% on reaching the AGO requirements
Frequency of voluntary resignation	10.60%
Clawback frequency	0.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual remuneration for Executives	2.00%
Increase in annual remuneration for Supervisors	2.00%
Contribution rate	27.40%
Inflation rate	2.30%

Deferred bonus

Discount rate

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA Index (in line with the duration of the plan). Discount rate used was equal to 3.84%.

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 expenses of the Italian population was used. For the probability of total and permanent disability, the tables adopted in the INPS model for the 2010 forecasts were used.

Frequency of resignations and dismissals

Equal to 3.7% (2021 and 2022 deferred MBO).

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

€750,866 thousand

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

(Values in thousand euros)

Type	06.30.2023	12.31.2022
1. Share capital	**143,605**	**142,870**
1.1 Ordinary shares	143,605	142,870
2. Treasury shares	**(4,392)**	**(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 period	**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	1,241,430	
B.1 New issues		
- for consideration:		
- business combinations		
- conversion of bonds		
- exercise of warrants		
- others		
- without consideration:		
- to employees	954,004	
- to directors		
- others		
B.2 Sales of treasury shares		
B.3 Other changes	287,426	
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	**185,924,766**	-
D.1 Treasury shares (+)	(575,190)	
D.2 Shares existing at the end of the period		
- fully paid-in	186,499,956	
- 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 condensed interim consolidated financial statements).

(Values in thousand euros)

	06.30.2023	Possibility of use (a)	Portion available	Summary of use in the last three years (*)	
				To cover losses	For other reasons
Share capital	**143,605**				
Reserves	**312,614**				
- Legal reserve (**)	29,806	*B*			
- Extraordinary reserve	89	*A, B, C*	89		
- Retained earnings (***)	269,525	*A, B, C*	269,525		309,683
- Stock option and financial instrument reserves	9,942	*A*			
- Other reserves	3,252				
Valuation reserves	**6,615**				
- HTCS securities	1,305				
- Others	5,310				
Treasury share reserve	**(4,392)**				
Share premium reserve	**66,277**	*A, B, C*	66,277		
Total share capital and reserves	**524,719**		**335,891**		**309,683**

(a): Possible uses: *A*=for share capital increase *B*=to cover losses *C*=for distribution to shareholders.
(*) Uses in the last three financial years amounting to €309,683 thousand include primarily €7,493 thousand for the exercise of stock options by certain beneficiaries in the course of 2021, 2022 and 2023, €8,403 thousand (net of the tax effect) for the payment of the interest coupons for structuring expenses relating to the Additional Tier 1 (AT1) financial instrument, as well as uses in the last three financial years relating to the payment of dividends distributed as per shareholders' resolutions in the amount of €293,787 thousand.
(**) Including €26,196 thousand in tax suspension pursuant to Article 110 of Italian Decree-Law 104/2020.
(***) Including €50,387 thousand in tax suspension pursuant to Article 110 of Italian Legislative Decree 104/2020.

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

(Values in thousand euros)

	Legal reserve	Retained earnings	Others	Total
A. Opening balance	**29,759**	**189,674**	**13,720**	**233,153**
B. Increases	**47**	**86,090**	**1,590**	**87,727**
B.1 Allocation of profits	47	86,090		86,138
B.2 Other changes			1,590	1,590
C. Decreases		**(6,239)**	**(2,027)**	**(8,266)**
C.1 Uses				
- coverage of losses				
- distribution				
- transfer to share capital				
C.2 Other changes		(6,239)	(2,027)	(8,266)
D. Closing balance	**29,806**	**269,525**	**13,283**	**312,614**

Retained earnings

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

The uses of approximately €6.2 million are mainly related to the payment of the interest coupon of the new "Additional Tier 1" instrument for €4,406 thousand (net 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 occurred during H1 2023:

- increases for higher provisions of €1.3 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 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 June 30, 2023 there were no changes compared to December 31, 2022. There is 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 €4,406 thousand (net of the tax effect).

Other information

1. Commitments and financial guarantees given

(Values in thousand euros)

	Nominal amount on commitments and financial guarantees given				Total 06.30.2023	Total 12.31.2022
	Stage one	Stage two	Stage three	Purchased or originated credit impaired		
1. Commitments to disburse funds	**424,773**		2		**424,776**	**425,679**
a) Central Banks						
b) Public administrations	37,677				37,677	50,827
c) Banks	2,011				2,011	
d) Other financial companies	339,629				339,629	356,101
e) Non-financial companies	45,456		2		45,459	18,751
f) Households						
2. Financial guarantees given	**45**		14,318		**14,363**	**45**
a) Central Banks						
b) Public administrations						
c) Banks						
d) Other financial companies	45				45	45
e) Non-financial companies			14,318		14,318	
f) Households						

3. Assets given as collateral for own liabilities and commitments

(Values in thousand euros)

Portfolios	Amount 06.30.2023	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	2,977,830	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	**319,367,468**
a) third-party securities deposited: relating to depositary bank activities (excluding portfolio management)	23,542,551
1. securities issued by consolidated companies	3,344
2. other securities	23,539,207
b) third-party securities deposited (excluding portfolio management): others	134,939,518
1. securities issued by consolidated companies	7,729
2. other securities	134,931,789
c) third party securities deposited with third parties	155,672,808
d) proprietary securities deposited with third parties	5,212,591
4. Other transactions	-

Part C - Income Statement

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

Section 1 - Interest - Items 10 and 20

Interest and similar income: breakdown
€271,311 thousand (of which interest income calculated using the effective interest rate method: €258,685 thousand)

(Values in thousand euros)

Items/Technical forms	Debt securities	Loans	Other transactions	Total H1 2023	Total H1 2022
1. Financial assets measured at fair value through profit or loss:					
1.1. Financial assets held for trading	2			2	
1.2. Financial assets designated at fair value					
1.3. Other financial assets subject to mandatory fair value valuation					
2. Financial assets measured at fair value through other comprehensive income	5		X	5	
3. Financial assets measured at amortized cost:					
3.1 Loans and receivables with banks		5,477	X	5,477	5,448
3.2 Loans and receivables with customers	78,633	178,262	X	256,895	111,265
4. Hedging derivatives	X	X			
5. Other assets	X	X	8,806	8,806	70
6. Financial liabilities	X	X	X	126	19,329
Total	**78,640**	**183,740**	**8,806**	**271,311**	**136,112**
of which: interest income on impaired assets					
of which: interest income on finance leasing	X	39	X	39	46

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 €178.3 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 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 was prudently increased from 1,800 to 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 €54.4 million.

Interest income on debt securities linked to loans and receivables with customers and totaling approximately €78.6 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

€145,686 thousand

(Values in thousand euros)

Items/Technical forms	Debt	Securities	Other transactions	Total H1 2023	Total H1 2022
1. Financial liabilities measured at amortized cost					
1.1 Amounts due to central banks	-	X	X	-	2,339
1.2 Amounts due to banks	45,445	X	X	45,445	421
1.3 Amounts due to customers	87,614	X	X	87,614	4,595
1.4 Securities issued	X	340	X	340	3,062
2. Financial liabilities held for trading	-	-	1,861	1,861	-
3. Financial liabilities carried at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	5
5. Hedging derivatives	X	X	1,042	1,042	14,479
6. Financial assets	X	X	X	9,384	2,933
Total	**133,059**	**340**	**2,903**	**145,686**	**27,836**
of which: interest expense relative to lease liabilities	199	X	X	**199**	198

Interest expense went from €27.8 million for H1 of the previous year to €145.7 million for H1 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 expenses for "Securities issued" amounting to approximately €340 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

€55,036 thousand

(Values in thousand euros)

Type of service/Amounts	Total H1 2023	Total H1 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. Others commissions connected to corporate finance services		
c) Consulting activities related to investments	**28**	**28**
d) Clearing and settlement		
e) Collective portfolio management		
f) Custody and administration	**14,948**	**26,997**
1. Custodian bank	9,283	21,952
2. Other commissions linked to custody and administration activities	5,665	5,046
g) Central administrative services for collective portfolio management		
h) Fiduciary activities		
i) Payment services	**37,455**	**35,605**
1. Current accounts	-	116
2. Credit cards	710	672
3. Debit cards and other payment cards	9,025	2,847
4. Bank transfers and other payment orders	7,872	11,660
5. Other commissions linked to payment services	19,848	20,310
i) Distribution of third-party services		
1. Collective portfolio management		
2. Insurance products		
3. Other products		
of which: individual portfolio management		
kj) Structured finance		
l) Servicing activities for securitization transactions		
m) Commitments to disburse funds		
n) Financial guarantees given	**255**	**114**
of which: credit derivatives		
o) Lending transactions		
of which: for factoring transactions		
p) Currency trading		
q) Commodities		
r) Other fee and commission income	**2,350**	**1,576**
of which: for management of multilateral trading systems		
of which: for management of organized trading systems		
Total	**55,036**	**64,320**

The item mainly includes fees and commissions relating to the mandates for the management and collection of receivables deriving from the factoring and management of trade receivables, as well as fees and commissions for custodian banking and payment services.

2.2 Fee and commission expense: breakdown

€18,817 thousand

(Values in thousand euros)

Service/Values	Total H1 2023	Total H1 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	**842**	**961**
c) Collective portfolio management		
d) Custody and administration	**2,646**	**2,839**
e) Collection and payment services	**12,908**	**13,171**
of which: credit cards, debit cards and other payment cards	6,511	2,029
f) Servicing activities for securitization transactions		
g) Commitments to receive funds		
h) Financial guarantees received	**7**	**21**
of which: credit derivatives		
i) Off-site offer of financial instruments, products and services		
j) Currency trading	**1**	**1**
k) Other fee and commission expense	**2,413**	**1,530**
Total	**18,817**	**18,523**

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

€6,670 thousand

(Values in thousand euros)

Items/Income	Total H1 2023		Total H1 2022	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	18		18	
B. Other financial assets subject to mandatory fair value measurement	917		1,395	
C. Financial assets measured at fair value through other comprehensive income	5,735		5,667	
D. Equity investments				
Total	**6,670**		**7,080**	

With respect to the first half of 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 H1 2023 from Fondo Italiano di Investimento, amounting to around €900 thousand, 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

4.1 Profits (losses) on trading: breakdown

€5,252 thousand

(Values in thousand euros)

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Capital losses (C)	Losses from trading (D)	Net loss [(A+B)-(C+D)]
1. Financial assets held for trading	**10**	**170**	**10**		**171**
1.1 Debt securities	10	170	10		171
1.2 Equity securities					
1.3 UCI units					
1.4 Loans					
1.5 Others					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Liabilities					
2.3 Others					
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**(5,423)**
4. Derivatives					
4.1 Financial derivatives:					
- On debt securities and interest rates					
- On equity securities and stock indices					
- On currency and gold	X	X	X	X	
- Others					
4.2 Loan derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total	**10**	**170**	**10**		**(5,252)**

The net loss 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.

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

€19,696 thousand

6.1 Profits (Losses) on disposals/repurchases: breakdown

(Values in thousand euros)

Items/Income items	Total H1 2023			Total H1 2022		
	Profits	Loss	Net profit	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	21,091	(1,249)	19,842			
2. Financial assets measured at fair value through other comprehensive income						
2.1 Debt securities		(146)	(146)			
2.2 Loans						
Total assets (A)	**21,091**	**(1,395)**	**19,696**	**-**	**-**	**-**
Financial liabilities measured at amortized cost						
1. Amounts due to banks						
2. Amounts due to customers						
3. Securities issued						
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

The item in question amounted to €19,696 thousand for the first half of 2023, 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 amount of €735 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

-€405 thousand

7.2 Net change of value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets and liabilities subject to mandatory fair value measurement

(Values in thousand euros)

Transaction / Income items	Capital gains (A)	Realized gains (B)	Capital losses (C)	Losses on disposal (D)	Net loss [(A+B)-(C+D)]
1. Financial assets			**(405)**		**(405)**
1.1 Debt securities					
1.2 Equity securities					
1.3 UCI units			(405)		(405)
1.4 Loans					
2. Financial assets in foreign currency: foreign exchange differences	X	X	X	X	
Total			**(405)**		**(405)**

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

€1,856 thousand

8.1 Net impairment losses for credit risk associated with financial assets measured at amortized cost: breakdown

(Values in thousand euros)

Transaction/Income items	Impairment losses						Impairment gains				Total H1 2023	Total H1 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	Others	Write-offs	Others						
A. Loans and receivables with banks	**-**	**-**	**-**	**-**	**-**	**-**	**26**	**-**	**-**	**-**	**26**	**4**
- Loans	-	-	-	-	-	-	26	-	-	-	26	4
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	
B. Loans and receivables with customers	**(4)**	**(104)**	**(46)**	**(2,326)**	**-**	**-**	**314**	**-**	**286**	**-**	**(1,882)**	**(2,447)**
- Loans	-	(104)	(46)	(2,326)	-	-	314	-	286	-	(1,877)	(2,107)
- Debt securities	(4)	-	-	-	-	-	-	-	-	-	(4)	(340)
Total	**(5)**	**(104)**	**(46)**	**(2,326)**	**-**	**-**	**340**	**-**	**286**	**-**	**(1,856)**	**(2,442)**

Impairment losses related to stage 3 consist mainly of changes in specific positions of BFF Polska Group and impairment losses of a collective nature on the bank's past due exposures to private counterparties.

Section 12 - Administrative expenses- item 190

€89,839 thousand

12.1 Personnel expenses: breakdown

€40,595 thousand

(Values in thousand euros)

Type of expense/Sectors	Total H1 2023	Total H1 2022
1) Employees	**36,613**	**36,406**
a) wages and salaries	26,525	25,550
b) social security contributions	6,648	6,515
c) post-employment benefits	14	
d) pension costs		
e) provision for post-employment benefits	978	942
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	152	166
h) costs related to share-based payments	722	1,729
i) other employee benefits	1,573	1,504
2) Other personnel in service	269	117
3) Directors and statutory auditors	3,713	2,012
4) Early retirement costs		
Total	**40,595**	**38,535**

The item "personnel expenses" includes, in addition to the amount of expenses and contributions paid to employees, including the provisions of the group incentive system, expenses for stock options for certain employees of the Group for H1 2023, equal to approximately €700 thousand before taxes, offset by the related equity reserve.

12.5 Other administrative expenses: breakdown

€49,245 thousand

(Values in thousand euros)

Breakdown	Total H1 2023	Total H1 2022
Legal fees	2,332	1,249
Data processing services	6,549	8,566
External credit management services	352	403
Supervisory Body fees	20	20
Legal fees for loans and receivables under management	124	72
Notary fees	106	156
Notary fees to be recovered	898	729
Entertainment expenses and donations	1,294	1,302
Maintenance expenses	3,015	2,556
Non-deductible VAT	4,294	5,026
Other taxes	3,360	3,473
Consulting services	8,364	11,595
Head office operating expenses	2,047	1,323
Resolution Fund and FITD	6,382	3,607
Other expenses	10,108	9,310
Total	**49,245**	**49,384**

Other administrative expenses for the first half of 2023 amounted to €49.2 million, in line with the previous half year.

Furthermore, note that, with regard to contributions to the deposit guarantee fund, at June 30, 2023, a cost of about €6.4 million before taxes was recorded for the Resolution Fund on June 16, 2023.

This amount was recognized under other administrative expenses, as indicated in the Bank of Italy note of January 19, 2016 "Contributions to Resolution Funds: treatment in the financial statements and in regulatory reporting."

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

€415 thousand

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

-€105 thousand

(Values in thousand euros)

Breakdown	Total H1 2023	Total H1 2022
Provision for risk on commitments and guarantees	105	(251)
Total	**105**	**(251)**

13.3 Net provisions for risks and charges: breakdown

€520 thousand

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

(Values in thousand euros)

Breakdown	Total H1 2023	Total H1 2022
Other provisions	(520)	394
Total	**(520)**	**394**

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

€2,332 thousand

As of 2019, following the application of IFRS 16, the item "Depreciation and net impairment losses on property, equipment and investment property" also includes the depreciation of right-of-use assets amounting to €1.2 million, the balancing entry to which is recognized under property, equipment and investment property.

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

€3,928 thousand

The item refers to amortization for the period relating to intangible assets with finite useful lives, which also include the "Customer Contracts" recorded following the acquisition of Depobank amounting to €1.2 million.

Section 16 - Other operating income, net - Item 230

€19,315 thousand

16.1 Other operating expenses: breakdown

-€1,103 thousand

(Values in thousand euros)

Breakdown	Total H1 2023	Total H1 2022
Prior year expenses	(983)	(953)
Rounding and allowances	(2)	(2)
Other charges	(9)	(386)
Deposit guarantee scheme expenses		
Registry tax expenses	(109)	(72)
Total	**(1,103)**	**(1,414)**

16.2 Other operating income: breakdown

€20,417 thousand

(Values in thousand euros)

Breakdown	Total H1 2023	Total H1 2022
Recovery of legal fees for purchases of non-recourse trade receivables	319	613
Recovery of legal fees	454	30
Other recoveries	462	820
Prior year income	995	2,350
Recovery of assignor notary expenses	929	718
Other income	17,258	8,925
Total	**20,417**	**13,457**

In the first half of 2023, under "Other operating income, net", the Group recorded an amount equal to €11.4 million relating to the change in the estimate of the lump-sum compensation for recovery costs ("40 euros") compared with €3.0 million in the first half of 2022 as a result of both a good performance in terms of collections and the accruals accounting implemented from December 2022.

Section 21 - Income taxes for the period on continuing operations - item 300

-€714 thousand

21.1 Income taxes for the period on continuing operations: breakdown

(Values in thousand euros)

Income items/Sectors	Total H1 2023	Total H1 2022
1. Current taxes (-)	17,207	23,751
2. Adjustment to current tax of prior years (+/-)	1,027	-
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 (+/-)	933	1,695
5. Change in deferred tax liabilities (+/-)	8,590	5,401
6. Taxes for the period (-) (-1+/-2+3+ 3 *bis* +/-4+/-5)	**27,757**	**30,847**

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

Breakdown	Total H1 2023	Total H1 2022
Average number of shares outstanding	186,499,956	185,519,076
Average number of potentially dilutive shares	8,544,970	9,132,557
Average number of diluted shares	195,044,926	194,651,633

25.2 Other information

(Amounts in units, unless otherwise stated)

Breakdown	Total H1 2023	Total H1 2022
Profit for the period (in euros)	76,146,328	56,649,808
Average number of shares outstanding	186,499,956	185,519,076
Average number of potentially dilutive shares	8,544,970	9,132,557
Average number of diluted shares	195,044,926	194,651,633
Basic earnings per share (in euro units)	**0.40**	**0.30**
Diluted earnings per share (in euro units)	**0.39**	**0.29**

Part D - Comprehensive Income

Statement of Comprehensive Income

(Values in euro units)

	Items	H1 2023	H1 2022
10.	**Profit for the period**	**76,146,328**	**56,649,808**
	Other components that may not be 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.	Hedge 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	(5,988)	554,482
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves connected with equity-accounted investments		
100.	Revenues or costs of a financial nature related to insurance contracts issued		
110.	Income taxes on other components not reclassified to profit or loss	1,647	(152,483)
	Other components reclassified to profit or loss		
120.	Hedging of foreign investments:		
	a) fair value changes	(3,188,283)	-
	b) reclassification through profit or loss		
	c) other changes		
130.	Foreign exchange differences:		
	a) changes in value		
	b) reclassification through profit or loss		
	c) other changes	4,161,377	(1,535,014)
140.	Cash flow hedges:		
	a) fair value changes	-	-
	b) reclassification through profit or loss		
	c) other changes		

(cont'd)

(Values in euro units)

	Items	H1 2023	H1 2022
	of which: result of net positions		
150.	Hedging instruments (undesignated elements):		
	a) changes in value		
	b) reclassification through profit or loss		
	c) other changes		
160.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:		
	a) fair value changes	388,141	1,106
	b) reclassification through profit or loss		
	1. adjustments for credit risk		
	2. profits/losses on disposals		
	c) other changes		
170.	Non-current assets held for sale and discontinued operations:		
	a) fair value changes		
	b) reclassification through profit or loss		
	c) other changes		
180.	Share of valuation reserves connected with equity-accounted investments:		
	a) fair value changes	-	-
	b) reclassification through profit or loss		
	1. adjustments due to impairment		
	2. profits/losses on disposals		
	c) other changes		
190.	Revenues or costs of a financial nature related to insurance contracts issued		
	a) fair value changes		
	b) reclassification through profit or loss		
	c) other changes		
200.	Revenues or costs of a financial nature relating to outward reinsurance		
	a) fair value changes		
	b) reclassification through profit or loss		
	c) other changes		
210.	Income taxes on other components reclassified to profit or loss	(1,092,810)	1,817,178
220.	**Total other comprehensive income**	**264,085**	**685,270**
230.	**Comprehensive income (Items 10+220)**	**76,410,413**	**57,335,077**
240.	Comprehensive income attributable to non-controlling interests		
250.	**Comprehensive income attributable to the owners of the Parent**	**76,410,413**	**57,335,077**

Part E - Information on risks and related hedging policies

Introduction

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

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

Such policies define:

- The governance of risks and the responsibilities of the Organizational Units involved in the management process;
- The mapping of the risks to which the Group is exposed, the measuring and stress testing methods, and the information flows that summarize the monitoring activities;
- The annual assessment process on the adequacy of internal capital and of the liquidity risk governance and management system;
- The activities for the assessment of prospective capital adequacy, associated with the strategic planning process.

The corporate governance bodies of the Bank – as BFF Banking Group's Parent – define the risk governance and management model at the Group level, taking into account the specific types of operations and the related risk profiles characterizing all the Group's entities, with the aim of creating an integrated and consistent risk management policy.

Within this framework, the Parent's corporate governance bodies perform the functions entrusted to them not only with regard to their specific business activities, but also taking into account the Group's operations as a whole and the risks to which it is exposed, and involving, as appropriate, the governance bodies of the subsidiaries in the decisions concerning risk management procedures and policies.

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

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

- Cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Group risks (Risk Appetite Framework);
- Establishing adequate risk management processes through the adoption and maintenance of suit- able risk management systems, in order to map, measure, control or mitigate all relevant risks;

- Providing an assessment of the capital absorbed, also under stress conditions, and of the related present and prospective capital adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes; overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- Overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- Monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system;
- Submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

The Risk Management Function reports to the Chief Executive Officer, the person responsible for the Banking Group's Internal Control system. It is independent of the Internal Audit Function, and subject to its control.

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

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

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amount)

(Values in thousand euros)

Portfolios/quality	Non-performing loans	Unlikely-to-pay exposures	Impaired past due exposures	Other impaired exposures	Performing exposures	Total
1. Financial assets measured at amortized cost	89,891	13,147	199,974	2,175,954	8,349,509	10,828,475
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 06.30.2023	**89,891**	**13,147**	**199,974**	**2,175,954**	**8,349,509**	**10,828,475**
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	328,911	25,900	303,011	-	10,527,618	2,155	10,525,464	10,828,475
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 06.30.2023	**328,911**	**25,900**	**303,011**	**-**	**10,527,618**	**2,155**	**10,525,464**	**10,828,475**
Total 12.31.2022	**307,008**	**23,246**	**283,762**	**-**	**11,614,156**	**2,067**	**11,612,089**	**11,895,850**

(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			1,620
2. Hedging derivatives			
Total 06.30.2023			**1,620**
Total 12.31.2022			**211**

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 62% of all the exposures to customers of the Group excluding the securities component.

Impacts of the Ukraine-Russia crisis
Following the crisis between Russia and Ukraine, which culminated in the military intervention initiated by Russia on February 24, 2022, and the resulting countermeasures undertaken by the international community and parties in the international financial sector (e.g. sanctions against Russian natural persons or legal entities, limitations on transactions with Russian parties and/or regarding financial instruments issued by Russian parties and/or denominated in Russian currency), the BFF Group has carried out a detailed review of risk positions and transactions that could be directly or indirectly impacted by the aforementioned restrictions on operations, where necessary taking appropriate actions in order to fully comply with regulatory provisions and/or to avoid situations that could be considered risky. The parent's various corporate functions (e.g. CFO area, Risk Management, Compliance & AML) reported to the Parent's Board of Directors on the management's assessment of the potential impacts on the Group resulting from this and the actions taken. The BFF Group has no direct exposure to the Russian and Ukrainian markets, and there are no Russian client companies, client companies controlled by Russian companies, beneficial owners or legal representatives of Russian nationality in the client portfolio of either BFF or its foreign subsidiaries. With regard to positions held in RUB (Russian roubles) and the possible exposure to exchange rate risk following the sharp fluctuation in the exchange rate of the currency in question, the asset and liability positions denominated in that currency held by BFF are of a very limited overall amount, relating exclusively to bank account balances (balances of bank accounts with BFF of counterparties of the Transaction Services Business Line, transferred to accounts held by BFF with Bank of New York, BFF's treasurer in that currency, and Euroclear Bank, an international settlement bank, while spot transactions, maturity deposits and currency swaps in that currency have been suspended since the start of the crisis) and substantially balanced.

Following the onset of the crisis between Russia and Ukraine, there was also an intensification of cyber warfare globally, mainly targeting infrastructure networks. In this regard, the BFF Group has raised the level of attention of the SOC (security operation center) and strengthened the perimeter defense rules, as well as continuing to monitor the situation through reliable sources, such as CERTFin. On the business continuity and backup front, recent updates and tests of the Disaster Recovery plan have confirmed BFF Group's resilience. Awareness-raising campaigns on phishing and security events are provided internally. Finally, primary outsourcers and suppliers were contacted in order to ascertain whether they too had raised their level of attention on the cybersecurity front and to receive more logs from defense systems in order to carry out more extensive monitoring through SIEM (security information and event management). To date, no attacks or disruptions following the Ukraine crisis have been recorded by BFF or its outsourcers or suppliers.

2. Credit risk management policies

2.1 Organisational aspects

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

The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on March 8, 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) 575/2013*";
- 20% for *(i)* exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the local currency, *(ii)* exposures to public sector entities of countries with Credit Quality Step 1, *(iii)* exposures to public sector entities and supervised intermediaries with an original duration of three months or less;
- 50% for exposures to the public administration agencies of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector;
- 100% for *(i)* exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy, Portugal and Greece)-please note that on May 3, 2019 DBRS upgraded Greece from BH to BBL, thus improving the credit quality step from 5 to 4, but leaving the capital absorption percentage unchanged at 100%) and *(ii)* exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Czech Republic and Croatia);
- 50% or 100% for amounts due from supervised intermediaries, according to the credit quality step of the country in which they have their offices;
- 75% for retail exposures and exposures to SMEs;
- 100% for exposures to unrated private debtors (i.e., businesses), Funds, and asset management companies; for rated private debtors, different weights are applied on the basis of the credit ratings issued by S&P Global Ratings;
- 100% for property, equipment and investment property, equity investments, collective investment undertakings and other;
- 150% for non-performing exposures, if the specific value 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 June 30, 2023 is €172.7 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 generic adjustments ("collective impairment")

The impairment model is characterized by:

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

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the 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 specific adjustments ("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 €303,011 thousand – net of individual impairment – and are broken down as follows:

- non-performing loans of €89,891 thousand (gross exposure in the financial statements of €109,658 thousand with an adjustment of €19,767 thousand);
- unlikely-to-pay exposures amounting to €13,147 thousand (gross exposure in the financial statements equal to €17,913 thousand with adjustments equal to €4,766 thousand);
- impaired past due exposures of €199,974 thousand (gross exposure in the financial statements of €201,340 thousand with an adjustment of €1,366 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

As of June 30, 2023 the Bank updated the macroeconomic scenarios provided by the external infoprovider. These scenarios are constructed considering the evolution of the unemployment rate and the High Yield Spread in a geopolitical context characterized by the tensions of the Russia-Ukraine conflict, which has significantly changed the macroeconomic scenario since February 2022.

The Risk Management Function, as it does every quarter of the year, performed a sensitivity analysis at June 30, 2023 between the macroeconomic scenarios for the second quarter of the year under way and the macroeconomic scenarios updated as of June 30, 2022. The analysis shows that 2023 is characterized by a decline in GDP growth and a strong inflationary drive generated by the Russia/Ukraine conflict, which reduces on one hand business investments and on the other the disposable income of consumers. In fact, inflation is expected to remain sustained for at least the next three years. However, the job market does not seem to be experiencing significant tensions, thanks to the recovery in hirings post-Covid-19. The economic slowdown will not be sufficient to cause widespread dismissals and the job market will continue to benefit from considerable excess demand. Therefore, job market stability will be one of the main factors that could prevent the economy from entering a recessive cycle. The backtesting analysis, i.e., the impact of updating the new risk parameter curves, also did not show a significant impact on the estimates of Expected Credit Losses. The increase in generic provisions compared to the previous quarter was about €270 thousand. However, this increase is mostly related to the corporate/retail sector while the public sector has not seen any particular change. This shows how much the Group's business allows for a cost of risk that is less sensitive to macroeconomic scenarios.

Moreover, the Risk Management Function compared the macroeconomic estimates released by the external infoprovider and used for impairment with those of the European Central Bank (ECB), observing a substantial alignment of the main macroeconomic drivers.

2.4 Credit risk mitigation techniques

In order to make non-recourse exposures compatible with the derecognition principle, the risk mitigation clauses that could in some way invalidate the effective transfer of risks and rewards were eliminated from the respective contracts.

With regard to exposures to counterparties to which treasury and security services are offered, risk mitigation techniques also include netting (ISDA) and collateral management (CSA) agreements consistent with EMIR regulations. For repurchase agreements for which the Bank has signed specific GMRA contracts, credit risk is transferred from the counterparty to the underlying of the repurchase agreement.

3. Impaired credit exposures

In compliance with Bank of Italy Circular no. 272, BFF Banking Group's net "Impaired assets" amounted to a total of €303,011 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 June 30, 2023, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €89,891 thousand, of which €5,662 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial governments in financial distress amounted to €83,334 thousand, accounting for 92.7% of the total.
  Gross non-performing loans amounted to €109,658 thousand. The related impairment totaled €19,767 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 €110,658 thousand and relevant adjustments totaled €20,768 thousand.
  With reference to the parent, at June 30, 2023 total non-performing loans, net of any estimated impairment losses, amounted to €86,155 thousand, of which €83,334 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 €5,662 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 €22,353 thousand. After estimated impairment losses of €17,130 thousand they amounted to €5,223 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 fulfil (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
  At June 30, 2023, gross exposures classified as unlikely to pay amounted to €17,913 thousand, of which €15,125 thousand attributable to BFF Polska Group, €1,636 thousand to the bank and €1,152 thousand to BFF Finance Iberia. The total net value is €13,147 thousand, referring primarily to BFF Polska Group.
- Net past due exposures of BFF Banking Group amounted to €199,974 thousand. They refer to the parent for €184,503 thousand, to the Spanish subsidiary for €14,637 thousand and to BFF Polska Group for €834 thousand. 95.8% of these exposures relate to public counterparties.

E. Prudential consolidation - credit risk assessment models

1.2 Market risk

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

Qualitative information

A. General aspects

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 Bank also measures the exposure to interest rate risk using additional interest rate shock scenarios. Specifically:

- the parallel ± 200 bps scenarios, for the determination of the risk index, given by the "interest rate risk exposure/own funds" ratio;
- the six interest rate shock scenarios required by the EBA Guidelines, used to calculate internal capital under stress and to determine the operating limit defined by the "interest rate risk exposure/Tier 1" ratio.

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

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

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 very limited limits of maximum overall exposure, as well as for single currency and RA.

As of June 30, 2023 there are hedging liabilities put in place using derivative instruments for a value of €66 thousand relating to operations aimed at hedging the equity investment in Polish Zloty held in BFF Polska Group.

B. Currency risk hedging

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

Quantitative information

The portfolio of Group assets is expressed in currencies other than the euro; as a result a methodology for the measurement and management of this risk has been adopted. Exchange risk is monitored by the Risk Management Function, in line with the requirements of European regulations (EU Regulation No. 575/2013 - CRR).

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	**(21,242)**	**(5,907)**	**(3,687)**	**(760)**	**(3,124)**	**(905,374)**
A.1 Debt instruments						
A.2 Equity instruments	(1,540)					(207)
A.3 Loans and receivables with banks	(19,677)	(5,863)	(3,687)	(760)	(3,124)	(12,019)
A.4 Loans and receivables with customers	(25)	(44)		-		(893,148)
A.5 Other financial assets						
B. Other assets		**(4)**		**(6)**	**(2)**	**(1)**
C. Financial liabilities	**265,885**	**73,943**	**81,051**	**16,180**	**43,818**	**396,948**
C.1 Amounts due to banks	79,887	7,879	536	4,460	20,280	18,631
C.2 Deposits from customers	185,998	66,065	80,515	11,719	23,538	378,317
C.3 Debt instruments						
C.4 Other financial assets						
D. Other liabilities						
E. Financial derivatives	(240,683)	(67,287)	(77,405)	(15,123)	(40,595)	505,914
- Options						
+ long positions						
+ short positions						
- Other derivatives	(240,683)	(67,287)	(77,405)	(15,123)	(40,595)	505,914
+ long positions	(246,178)	(67,529)	(89,590)	(15,131)	(40,759)	(155,158)
+ short positions	5,495	242	12,185	8	164	661,072
Total assets	**(267,420)**	**(73,439)**	**(93,277)**	**(15,898)**	**(43,886)**	**(1,060,533)**
Total liabilities	**271,380**	**74,185**	**93,236**	**16,188**	**43,983**	**1,058,020**
Difference (+/-)	**3,960**	**746**	**(41)**	**290**	**97**	**(2,513)**

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 Group to optimize the management of liquidity deriving from funding expressed in a currency other than the euro and are functional to the activity with which the Group manages the currency risk deriving from the investment in Polish zloty held in BFF Polska Group and the Group loans expressed in a currency other than the euro, and particularly those in Polish zloty, Czech koruna and Croatian kuna. Note that BFF Bank does not hold innovative or complex financial products, so the Group makes recourse to linear instruments lacking optional components such as currency swaps and cross-currency swaps.

(Values in thousand euros)

	06/30/2023				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			**12**				**12**	
a) Options			12				12	
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
3. Currency and gold			**594,318**				**389,958**	
a) Options								
b) Swaps								
c) Forwards			594,318				389,958	
d) Futures								
e) Others								
4. Commodities								
5. Others								
Total			**594,331**				**389,958**	

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

(Values in thousand euros)

	06/30/2023				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			1,615				204	
f) Futures								
g) Others								
Total			**1,615**				**204**	
2. Negative fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards			1,012				950	
f) Futures								
g) Others								
Total			**1,012**				**950**	

1.3.2 Accounting hedges

Qualitative information

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

Quantitative information

Financial derivatives held for hedging

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

(Values in thousand euros)

Underlying assets/ Derivative types	Total 06.30.2023				Total 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			**85,173**				**255,298**	
a) Options								
b) Swaps								
c) Forwards			85,173				255,298	
d) Futures								
e) Others								
4. Commodities								
5. Other underlying								
Total			**85,173**				**255,298**	

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

(Values in thousand euros)

Derivative types	Total 06.30.2023				Total 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								
1. Negative fair value								
a) Options								
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards			66				14,314	
f) Futures								
g) Others								
Total			**66**				**14,314**	

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 June 30, 2023 of 312.268% and 159.077%, respectively, well above the regulatory limits.

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'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 Bank has defined a specific model for the evaluation of IT risk that is in accordance with national and European legislation that responds to the needs for the identification of the specific risks inherent in the ICT sphere, internal or dependent on the outsourcers, and for the better qualification of operational risks through the evaluation of the specific elements involved in the automatic processing of information;
- Identification of operational risks in connection with the introduction of relevant new products, activities, processes and systems. The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems, and mitigates the consequent operational risk that may arise through the preventive involvement of the corporate Control Functions and the definition of specific policies and regulations on various subjects and topics.
- Identification of operational risks associated with Major Transactions (MT): the risk resulting from an MT is assessed by assessing the consistency of the MT’s risk profile with the risk appetite defined in the RAF.

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

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

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

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

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

Section 4 - Risks of the other companies

Qualitative information

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

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

Part F - Information on Equity

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

Section 1 - Equity

A. Qualitative information

The equity of the Banking Group includes the aggregated share capital, 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 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	143,605				143,605
2. Share premium reserve	66,277				66,277
3. Reserves	312,614				312,614
3.5 Interim dividends (-)	-				-
4. Equity instruments	150,000				150,000
5. (Treasury shares)	(4,392)				(4,392)
6. Valuation reserves:	6,615				6,615
- Equity instruments measured at fair value through other comprehensive income					
- Hedging of equity instruments measured at fair value through other comprehensive income					
- Financial assets (other than equity instruments) at fair value through other comprehensive income	1,305				1,305
- Property, equipment and investment property					
- Intangible assets					
- Hedging of foreign investments	(2,947)				(2,947)
- Cash flow hedges	-				-
- Hedging instruments [not designated elements]					
- Foreign exchange differences	(539)				(539)
- 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	331				331
- Share of valuation reserves for equity-accounted investments					
- Revenues or costs of a financial nature related to insurance contracts issued					
- Revenues or costs of a financial nature relating to outward reinsurance					
- Special revaluation laws	8,465				8,465
7. Profit (+/-) for the period attributable to the owners of the parent and non-controlling interests	76,146				76,146
Total	**750,866**				**750,866**

Section 2 - Own funds and regulatory ratios

Scope of application of the regulation

Own funds are computed – starting from January 1, 2014, in accordance with Bank of Italy Circular no. 285 "Supervisory provisions for banks" and Circular no. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries", both dated December 17, 2013 – based on Regulation (EU) no. 575/2013, relating to the new harmonized regulations for banks and investment companies, included in the EU Capital Requirements Regulation (CRR) and in the EU Capital Requirements Directive (CRD IV) of June 26, 2013.

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

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation at June 30, 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 IAS/IFRS prudential filters.

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

- Paid-in share capital;
- Reserves (legal reserve, extraordinary reserve, retained earnings, stock option reserve, and financial instruments reserve);
- Any undistributed portion of profit for the period;
- Valuation reserves (IASs/IFRS 9 transition reserve, actuarial reserve 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 H1 2023 Own funds were influenced primarily by:

- the distribution of "Retained earnings" amounting to approximately €27.5 million;
- the allocation to equity of part of the Group's profit for the period of about €21.5 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 06.30.2023	Total 12.31.2022
A. Common Equity Tier 1 (CET1) pre-application of prudential filters	**514,357**	**525,293**
of which CET1 instruments subject to transitional provisions		
B. Prudential CET1 filters (+/-)	(262)	(234)
C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)	514,095	525,059
D. Elements to be deducted from CET1	(61,030)	(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)	**453,065**	**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)	**603,065**	**611,900**

2.3 Capital adequacy

A. Qualitative information

Compliance with Group capital adequacy limits for the CET1 Capital Ratio, Tier 1 Capital Ratio, and Total Capital Ratio is constantly monitored by the relevant corporate bodies.
The CET1 Capital Ratio is the ratio of Common Equity Tier 1 capital to Risk-Weighted Assets.
The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to Risk-Weighted Assets.
The Total Capital Ratio is the ratio of Total Own Funds to Risk-Weighted Assets.
In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005 "Banks' financial statements: layout and preparation", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).

The Group's total exposure to risks at June 30, 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, the CET1 is 15.6% and the Tier 1 Capital Ratio and the Total Capital Ratio are 20.8%.

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 statement items of the last three years, in accordance with Regulation (EU) No. 575/2013.

Continuing the Operational Risk Management framework applied, the Bank 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 2022 were significantly lower than the capital requirement for operational risk and the requirement calculated at operational level in the 2021 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	
	06.30.2023	12.31.2022	06.30.2023	12.31.2022
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized methodology	12,025,271	13,070,543	2,158,717	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			172,697	160,217
B.2 Credit valuation adjustment risk			21	25
B.3 Settlement risks				
B.4 Market risks				
1. Standard methodology				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			58,933	58,933
2. Standardized methodology				
3. Advanced method				
B.6 Other calculation factors				
B.7 Total prudential requirements			**231,652**	**219,176**
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			2,895,652	2,739,701
C.2 CET 1/Risk-weighted assets (CET1 capital ratio) (%)			**15.65%**	**16.86%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**20.83%**	**22.33%**
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) (%)			**20.83%**	**22.33%**

Part G - Business combinations of companies or business units

Section 1 - Transactions completed during H1 2023

As of June 30, 2023 there are no extraordinary operations of business combinations falling within the definition provided by the revised IFRS 3.

Section 2 - Transactions executed after the close of the condensed interim consolidated financial statements

After the end of the first half 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 as of June 30, 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 key management personnel (1)	Other related parties	Total related parties	Financial statements item	% of financial statements item	Statement of cash flows item	% of statement of cash flows item
Impact of transactions on the statement of financial position								
Equity investments								
At June 30, 2023			13,038	13,038	13,128	99.3%	528	N/A
Amounts due to customers								
At June 30, 2023		(1,298)		(1,298)	(9,624,822)	0.0%	(1,346,624)	0.1%
Provision for risks and charges: a) pensions and similar obligations								
At June 30, 2023		(1,292)		(1,292)	(6,879)	18.8%	(8,191)	15.8%
Other liabilities								
At June 30, 2023		(1,474)	(6)	(1,481)	(417,556)	0.4%	(8,191)	18.1%
Reserves								
At June 30, 2023		(5,474)		(5,474)	(312,614)	1.8%	(8,191)	66.8%
Impact of transactions on the income statement								
Interest and similar income								
H1 2023			6	6	271,311	0.0%	-	
Administrative expenses: a) personnel expenses								
H1 2023		(10,009)		(10,009)	(40,595)	24.7%	-	
Administrative expenses: a) other administrative expenses								
H1 2023			(1)	(1)	(49,245)	0.0%	-	

(1) Including members of the Board of Directors.

As of June 30, 2023, the option rights relating to the stock option plans in place amounted to 12,247,660 options assigned and not yet exercised, of which 9,120,160 could be exercised for shares of the Parent, which, if the price reached €15, the dilution would be 1.96%.

Specifically, at June 30, 2023, with regard to the 2016 stock option plan (under which a total of 8,358,640 option rights had been assigned), the number of options assigned and not exercised amounted to 198,160 (1,086,788 at December 31, 2022). The vesting period has matured for all of them.

With regard to the 2020 stock option plan (under which a total of 8,384,500 option rights exercisable from 2023 had been assigned), as of June 30, 2023, 6,301,500 options have been assigned. The vesting period has matured for 2,967,000 of these and they can therefore be exercised.

Lastly, with regard to the 2022 Stock Option Plan, 5,748,000 options had been granted at June 30, 2023, of which 2,620,500 in equity settled form (A Options) and 3,127,500 in cash settled form (B Options), exercisable starting in 2025.

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

More specifically, the balances of the intercompany positions as of June 30, 2023 are as follows:

- BFF Finance Iberia (through the Spanish branch of BFF Bank): €176.4 million.
- BFF Polska: PLN 3,052 million, of which PLN 972 million through the Polish branch of BFF Bank and equal to €12.3 million.
- BFF Central Europe: €215.5 million.
- BFF MedFinance: PLN 402.5 million through the Polish branch of BFF Bank.
- BFF Ceska Republika: CZK 61 million.
- BFF Immobiliare: €34.9 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 as of June 30, 2023 amounted to about €1,282 thousand;
- With BFF Central Europe, which allows the use, under licence, of the software, organizational methods and communication lines of BFF (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which as of June 30, 2023 amounted to about €429 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 as of June 30, 2023 amounted to about €2 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 €198 thousand as of June 30, 2023;
- BFF Polska S.A. for about €367 thousand as of June 30, 2023;
- BFF Finance Iberia S.A.U. for about €138 thousand as of June 30, 2023;

- BFF Medfinance S.A. for an amount of about €43 thousand as of June 30, 2023;
- Kancelaria Karnowski for an amount of about €46 thousand as of June 30, 2023;
- BFF Central Europe s.r.o. for an amount as of June 30, 2023 equal to €37 thousand;
- BFF Ceska Republika s.r.o. for an amount as of June 30, 2023 equal to €6 thousand.

During 2016, BFF Finance Iberia purchased Italian healthcare exposures from the Parent for about €82 million. At the end of the reporting period, these exposures were already collected for about €80.9 million with an outstanding balance of about €0.9 million.

It should be noted that BFF Banks provides the following:

- Risk management activities for the subsidiary BFF Finance Iberia, for €12,000 per year;
- Internal audit activities for the subsidiary BFF Finance Iberia, for €6,400 per year;
- Administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year;
- administration, internal audit, compliance, risk management, corporate affairs secretariat and IT services for the subsidiary BFF Immobiliare S.r.l., amounting to €44 thousand per year;
- administration, internal audit, compliance, risk management, corporate affairs secretariat and IT services for the subsidiary BFF Techlab S.r.l., amounting to €33 thousand per year.

The Group has also entered into agreements with its shareholder companies 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) 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 June 30, 2023 198,160 were assigned. Of these 198,160 have vested and are exercisable. 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 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;
- *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 Group and/or of the office held in the Board of Directors and absence of notice due to resignation or dismissal; and (ii) Levels of capital and liquidity resources necessary to cover the activities undertaken and compliance with other parameters, also of a regulatory nature.

With regard to the 2020 Stock Option Plan, as of June 30, 2023, the number of stock options granted and not exercised are 6,301,500, of which 2,967,000 have vested and are exercisable. As of December 31, 2022, the number of options reported to be granted but exercisable from 2023 was 8,384,500 options.

BFF Banking Group 2022 Long-Term Incentive Plan

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

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

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

With regard to the 2022 Stock Option Plan, as of June 30, 2023, 5,748,000 options have been granted, of which 2,620,500 are equity settled (A Options) and 3,127,500 are cash settled (B Options), exercisable starting in 2025.

Part L - Segment reporting

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

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

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

Factoring & Lending BU

Turnover acquired / Loans disbursed during the year and Loans and receivables with customers	H1 2022	H1 2023
Acquired turnover/Loans disbursed during the year	**3,395**	**3,644**
Italy	2,084	2,180
Spain	779	770
Poland	299	296
Slovakia	10	11
Portugal	111	247
Greece	86	107
France	24	32
Croatia	1.4	-
Czech Republic	1.1	1.3
Loans and receivables with customers	**4,529**	**5,252**
Italy	2,930	3,375
Spain	261	306
Poland	786	891
Slovakia	233	239
Portugal	186	250
Greece	117	174
France	12	15
Croatia	0.6	0.5
Czech Republic	1.6	2

Income Statement (€ million, normalized values)	H1 2022	H1 2023
Interest and similar income	101.6	171.9
of which "rescheduling/capital gains" spread	(1.1)	4.7
Other income (including other operating income and expenses)	7.0	14.2
Total net revenue	**108.7**	**186.1**

Securities Services BU

Amounts managed and deposits	H1 2022	H1 2023
Custodian Bank (AuD, €m)	78,679	52,395
Global Custody (AuC, €m)	163,524	169,859
Deposits - Final Balance (€m)	5,830	2,626

Income Statement *(€ million, normalized values)*	H1 2022	H1 2023
Net fee and commission income	23.5	12.3
Other income (including other operating income and expenses)	(0.0)	0.0
Total net revenue	**23.5**	**12.4**

Payments BU

Transactions executed and deposits	H1 2022	H1 2023
Transactions (no. oper. m)	321	359
Deposits - Final Balance (€m)	2,008	2,976

Income Statement *(€ million, normalized values)*	H1 2022	H1 2023
Net fee and commission income	20.8	23.4
Other income (including other operating income and expenses)	5.7	5.8
Total net revenue	**26.5**	**29.2**

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 expenses, is recognized in the income statement.

The application of IFRS 16 changed the accounting substantially for lessees, as it eliminates a lessee's classification of leases as either operating leases or finance leases.

In particular, lessees are required to comply with the following main provisions:

- The identified asset is classified as a right-of-use asset and presented in the statement of financial position as if it was owned. The relevant financial liability shall also be recognized;
- At the commencement date, a lessee shall measure the financial liability at the present value of the lease payments agreed by the parties to use the asset over the term of the contract that is reasonably certain. The initial measurement of the right-of-use 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 periodical lease payments.

Section 1 - Lessee

Qualitative information

During 2018, BFF Banking Group launched a project aimed at understanding and defining the qualitative and quantitative impact of first-time adoption of the new IFRS 16. Following on from this project, a new accounting model has been defined for use in relation to all leases with the exception of those for which the underlying asset is of low value (less than 5,000 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, equipment and investment property" at first- time adoption and at June 30, 2023 are shown below.

(Values in thousand euros)

	Right-of-use assets 06.30.2023	Right-of-use assets 12.31.2022
BFF	10,655	10,675
BFF Finance Iberia	713	772
BFF Polska Group	1,081	1,058
Total BFF Banking Group	**12,449**	**12,505**

For more details on the accounting impacts related to Property, equipment and investment property and Financial liabilities measured at amortized cost, please refer to the specific section of Part B of the Notes to the Condensed Interim Consolidated Financial Statements.

Section 2 - Lessor

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

Quantitative information

(Values in thousand euros)

	Total 30.06.2023	Total 12.31.2022
Time periods	Lease payments to be received	Lease payments to be received
Up to 1 year	348	313
More than 1 year to 2 years	290	280
More than 2 years to 3 years	258	241
More than 3 years to 4 years	101	185
More than 4 years to 5 years	27	25
Over 5 years	14	12
Total lease payments to be received	**1,038**	**1,057**
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)		
Unguaranteed residual value (-)		
Loans for leases	**868**	**1,619**

03

Separate Financial Statements

as of June 30, 2023
of BFF Bank S.p.A.

Statement of Financial Position

(Values in euro units)

Assets		06.30.2023	12.31.2022
10.	Cash and cash equivalents	189,536,013	623,975,086
20.	Financial assets measured at fair value through profit or loss	130,583,877	90,540,554
	a) financial assets held for trading	*1,621,974*	*210,963*
	c) other financial assets subject to mandatory fair value measurement	*128,961,903*	*90,329,591*
30.	Financial assets measured at fair value through other comprehensive income	130,671,729	128,097,995
40.	Financial assets measured at amortized cost	10,620,685,454	11,726,530,357
	a) loans and receivables with banks	*525,442,054*	*478,203,260*
	b) loans and receivables with customers	*10,095,243,400*	*11,248,327,097*
70.	Equity investments	154,875,554	151,875,554
80.	Property, equipment and investment property	26,951,038	27,763,301
90.	Intangible assets	35,250,018	36,142,352
	of which		
	- goodwill	-	-
100.	Tax assets	54,278,418	55,243,454
	a) current	-	-
	b) deferred	*54,278,418*	*55,243,454*
120.	Other assets	508,121,089	389,016,146
TOTAL ASSETS		**11,850,953,190**	**13,229,184,799**

(Values in euro units)

Liabilities and equity	06.30.2023	12.31.2022
10. Financial liabilities measured at amortized cost	10,559,087,277	11,933,207,079
a) due to banks	*1,014,278,704*	*1,165,556,841*
b) due to customers	*9,544,808,573*	*10,728,674,172*
c) securities issued	-	*38,976,066*
20. Financial liabilities held for trading	1,078,157	949,790
40. Hedging derivatives	-	14,313,592
60. Tax liabilities	148,475,042	128,840,015
a) current	*32,483,004*	*22,548,040*
b) deferred	*115,992,038*	*106,291,975*
80. Other liabilities	403,928,368	382,204,555
90. Post-employment benefits	2,943,434	3,117,800
100. Provision for risks and charges	30,936,264	32,351,133
a) commitments and guarantees given	*375,761*	*225,466*
b) pensions and similar obligations	*6,672,963*	*7,712,116*
c) other provisions	*23,887,540*	*24,413,551*
110. Valuation reserves	5,214,083	5,421,320
130. Equity instruments	150,000,000	150,000,000
140. Reserves	289,185,442	180,627,582
145. Interim dividend	-	(68,549,894)
150. Share premium reserve	66,277,204	66,277,204
160. Share capital	143,604,966	142,870,383
170. Treasury shares	(4,392,046)	(3,883,976)
180. Profit for the period/year	54,614,999	261,438,216
TOTAL LIABILITIES AND EQUITY	**11,850,953,190**	**13,229,184,799**

Income Statement

(Values in euro units)

Items		H1 2023	H1 2022
10.	Interest and similar income	240,264,338	107,482,576
	of which: interest income calculated according to the effective interest method	230,927,955	101,454,787
20.	Interest and similar expense	(143,709,636)	(27,751,345)
30.	**Net interest income**	**96,554,702**	**79,731,231**
40.	Fee and commission income	55,020,806	64,243,477
50.	Fee and commission expense	(18,812,213)	(18,511,983)
60.	**Net fee and commission income**	**36,208,593**	**45,731,494**
70.	Dividends and similar income	6,669,630	74,904,245
80.	Profits (losses) on trading	(12,198,726)	5,853,505
100.	Profits (losses) on disposal or repurchase of:	19,696,166	-
	a) financial assets measured at amortized cost	*19,841,699*	-
	b) financial assets measured at fair value through other comprehensive income	(145,533)	-
110.	Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss	(404,932)	4,007,101
	b) other financial assets subject to mandatory fair value measurement	*(404,932)*	*4,007,101*
120.	**Total income**	**146,525,433**	**210,227,576**
130.	Net impairment losses for credit risk associated with:	(655,834)	(807,347)
	a) financial assets measured at amortized cost	*(655,834)*	*(807,347)*
150.	**Net income from banking activities**	**145,869,599**	**209,420,229**
160.	Administrative expenses:	(80,933,809)	(80,670,447)
	a) personnel expenses	*(35,471,588)*	*(34,166,332)*
	b) other administrative expenses	*(45,462,221)*	*(46,504,115)*
170.	Net provisions for risks and charges	370,085	(356,379)
	a) commitments and guarantees given	*(150,295)*	*38,506*
	b) other net provisions	*520,380*	*(394,885)*
180.	Depreciation and net impairment losses on property, equipment and investment property	(1,908,597)	(2,149,812)
190.	Amortization and net impairment losses on intangible assets	(3,691,664)	(2,825,245)
200.	Other operating income, net	18,238,193	13,553,067
210.	**Operating costs**	**(67,925,792)**	**(72,448,816)**
260.	**Profit before tax from continuing operations**	**77,943,807**	**136,971,413**
270.	Income taxes for the period on continuing operations	(23,328,808)	(24,876,613)
280.	**Profit after tax from continuing operations**	**54,614,999**	**112,094,800**
300.	**Profit for the period**	**54,614,999**	**112,094,800**

(*) Note that:
- *with respect to the period ended June 30, 2022, for comparative purposes, the financial charges pertaining to the period incurred for transactions in hedging derivatives were reclassified from item 90 "Profits (losses) on hedging" to item 20 "Interest and similar expense";*
- *with respect to the period ended June 30, 2022, for comparative purposes, provisions relating to costs for pensions and similar obligations to employees were reclassified from item 170 b) "Net provisions for risks and charges - other net provisions" to item 160 a) "Personnel expenses," in line with what is set forth in Bank of Italy Circular 262 of 2005 as updated.*

Statement of Comprehensive Income

(Values in euro units)

Items		H1 2023	H1 2022
10.	**Profit for the period**	**54,614,999**	**112,094,800**
	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	(4,341)	401,999
80.	Non-current assets held for sale and discontinued operations		
90.	Share of valuation reserves connected with equity-accounted investments		
	Other components, net of taxes, reclassified to profit or loss		
100.	Hedging of foreign investments		
110.	Foreign exchange differences	39,281	(10,533)
120.	Cash flow hedges		
130.	Hedging instruments (undesignated elements)		
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	259,783	740
150.	Non-current assets held for sale and discontinued operations		
160.	Share of valuation reserves connected with equity-accounted investments		
170.	**Total other comprehensive income net of tax**	**294,723**	**392,207**
180.	**Comprehensive income (Items 10+170)**	**54,909,721**	**112,487,007**

Statement of Changes in Equity

H1 2023	Balances as at 31.12.2022	Change to opening balances	Balances as at 01.01.2023	Allocation of profit for the previous period	
				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	170,208,698		170,208,698	115,408,486	
b) other	10,418,884		10,418,884		
Valuation reserves	5,421,320		5,421,320		
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 for the period	261,438,216		261,438,216	(183,958,380)	(77,479,836)
Equity	**734,200,834**		**734,200,834**	**-**	**(77,479,836)**

H1 2022	Balances as at 31.12.2021	Change to opening balances	Balances as at 01.01.2022	Allocation of profit for the previous period	
				Reserves	Dividends and other allocations
Share capital:					
a) ordinary shares	142,690,771		142,690,771		
b) other shares					
Share premium reserve	66,492,997		66,492,997		
Reserves					
a) retained earnings	137,607,343		137,607,343	39,008,950	
b) other	8,643,589		8,643,589		
Valuation reserves	4,060,028		4,060,028		
Equity instruments					
Treasury shares	(7,132,434)		(7,132,434)		
Profit for the year	164,289,349		164,289,349	(39,008,950)	(125,280,399)
Equity	**516,651,644**		**516,651,644**	**-**	**(125,280,399)**

(Values in euro units)

	Changes in the period									Equity at 06/30/2023
	Change in reserves	Equity transactions							2023 comprehensive income	
		Issue of new shares	Repurchase of treasury shares	Interim dividend	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options		
		734,583								**143,604,966**
										-
										66,277,204
	(6,412,843)									**279,204,341**
	989,399							(1,427,181)		**9,981,102**
	(501,959)								294,723	**5,214,083**
										150,000,000
										-
	2,286,315		(2,794,384)							**(4,392,046)**
									54,614,999	**54,614,999**
	(3,639,089)	**734,583**	**(2,794,384)**	**-**	**-**	**-**	**-**	**(1,427,181)**	**54,909,721**	**704,504,648**

(Values in euro units)

	Changes in the period								Equity at 06/30/2022
	Changes in reserves	Equity transactions						2022 comprehensive income	
		Issue of new shares	Repurchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options		
		158,917							**142,849,688**
									-
									66,492,997
	(1,207,710)								**175,408,584**
	(641,760)						1,224,533		**9,226,362**
								392,207	**4,452,234**
					150,000,000				**150,000,000**
	2,105,215								**(5,027,219)**
								112,094,800	**112,094,800**
	255,745	**158,917**	**-**	**-**	**150,000,000**	**-**	**1,224,533**	**112,487,007**	**655,497,446**

04

Certification by the Financial Reporting Officer

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

1. The undersigned
   - Massimiliano Belingheri, in his capacity as Chief Executive Officer,
   - 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 e 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 Condensed Consolidated half-year Financial Report, during the first half of 2023.

2. The suitability and effective application of the administrative and accounting process employed to draw up the Consolidated Condensed Interim Financial Statements as of 30 June 2023 was verified based on internally defined method adopted by BFF Bank S.p.A., in accordance with the *Internal Control – Integrated Framework model* issued by *Committee of Sponsoring Organizations of Tradeway Commission (COSO)* of the reference standards for the internal audit system generally accepted on an international level.

3. Moreover, the undersigned hereby certify that:

   3.1 the Consolidated Condensed Interim Financial Statements as of 30 June 2023:

   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 half-year Report on Operations includes a reliable analysis of the important events which occurred during the first half of the year and their impact on the Consolidated Condensed Interim Financial Statements, together with a description of the main risks and uncertainties for the remaining six months of the year to which they are exposed. The half-year Report on Operations includes, moreover, a reliable analysis of the information concerning major transactions with related parties.

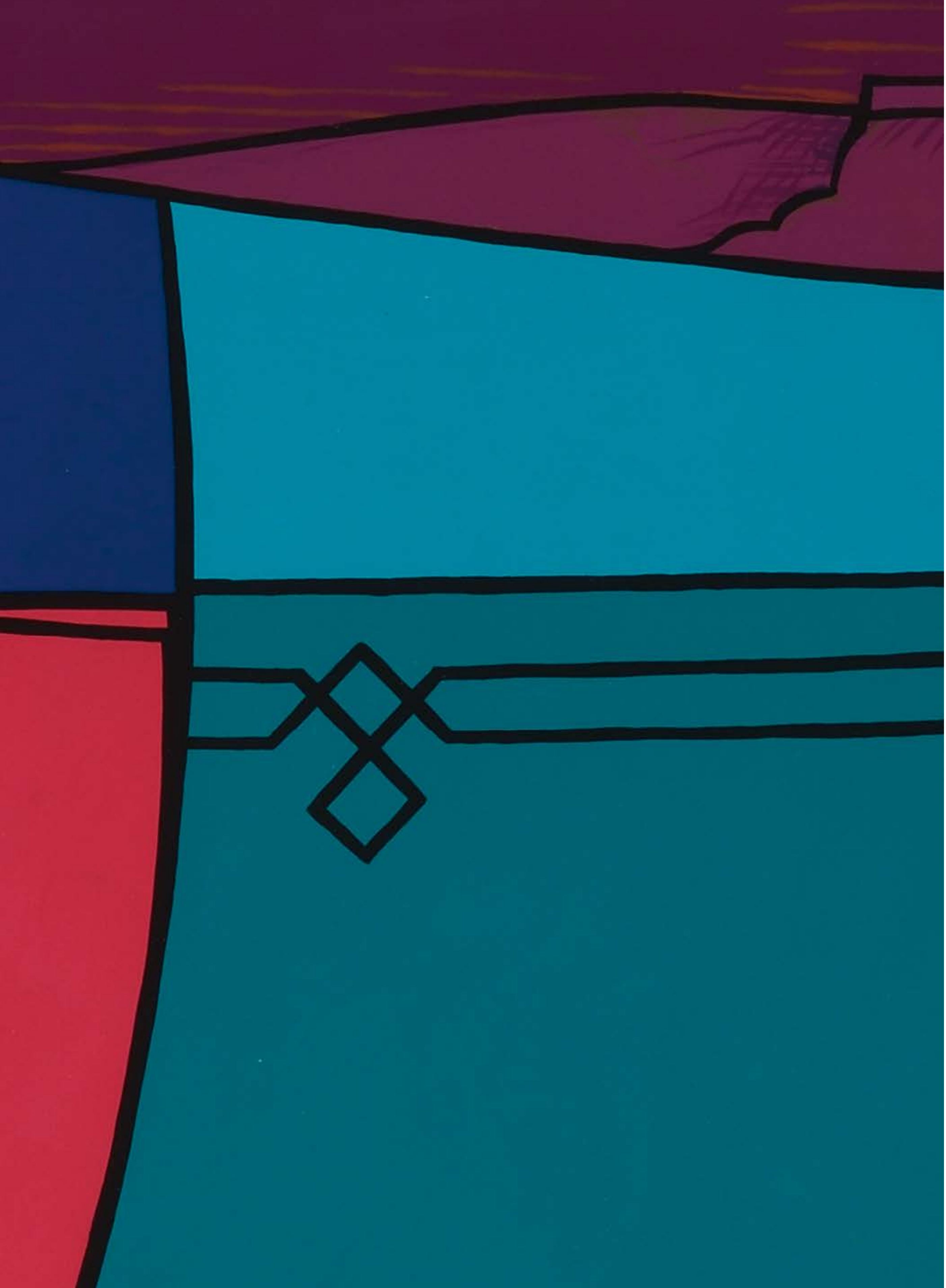
Milan, 03 August 2023

Massimiliano Belingheri
Chief Executive Officer

Giuseppe Manno
Financial Reporting Officer

05

Report of the Independent Auditors



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(This report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Report on review of condensed interim consolidated financial statements

To the shareholders of
BFF Bank S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the BFF Banking Group, comprising the statement of financial position as at 30 June 2023, the income statement and the statements of comprehensive income, changes in equity and cash flows for the six months then ended and notes thereto. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of the review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

__BFF Banking Group__
Report on review of condensed interim consolidated financial statements
30 June 2023

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the BFF Banking Group as at and for the six months ended 30 June 2023 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 4 August 2023

KPMG S.p.A.

(signed on the original)

Roberto Spiller
Director of Audit

BFF

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