

Consolidated Annual Report

2018

Banca Farmafactoring S.p.A.

Parent Company of the “Banca Farmafactoring” Banking Group
Registered Office in Milan - Via Domenichino 5

Share Capital €130,982,698 (fully paid-in)
Milan Company Register no.,
Tax Code and VAT no. 07960110158

Consolidated Financial Statements and Reports 2018



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Board of Directors (*)

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Luigi Sbrozzi
Directors	Isabel Aguilera Michaela Aumann Federico Fornari Luswergh Ben Carlton Langworthy Carlo Paris Barbara Poggiali

(*) *The Board of Directors was appointed by the Shareholders' Meeting held on April 5, 2018 and its term of office will end on the date of the Meeting convened to approve the Financial Statements at December 31, 2020.*

Board of Statutory auditors (*)

Chairperson	Paola Carrara
Acting Auditors	Marco Lori Patrizia Paleologo Oriundi
Alternate Auditors	Giancarlo De Marchi Fabrizio Riccardo Di Giusto

(*) *The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on April 5, 2018 and its term of office will end on the date of the Meeting convened to approve the Financial Statements at December 31, 2020.*

Independent auditors

PricewaterhouseCoopers S.p.A.

Financial reporting Officer

Carlo Maurizio Zanni

Committees

Remuneration Committee (*)

Name	Office	Position
Barbara Poggiali	Independent Director	Chairperson
Isabel Aguilera	Independent Director	Committee Member
Luigi Sbrozzi	Non-Executive Director	Committee Member

(*) Committee members were appointed by the Board of Directors on April 5, 2018.

Related party transactions Committee (*)

Name	Office	Position
Carlo Paris	Independent Director	Chairperson
Michaela Aumann	Independent Director	Committee Member
Barbara Poggiali	Independent Director	Committee Member

(*) Committee members were appointed by the Board of Directors on April 5, 2018.

Appointments Committee (*)

Name	Office	Position
Federico Fornari Luswergh	Independent Director	Chairperson
Isabel Aguilera	Independent Director	Committee Member
Ben Carlton Langworthy	Non-Executive Director	Committee Member

(*) Committee members were appointed by the Board of Directors on April 5, 2018.

Control and Risk Committee (*)

Name	Office	Position
Michaela Aumann	Independent Director	Chairperson
Federico Fornari Luswergh	Independent Director	Committee Member
Luigi Sbrozzi	Non-Executive Director	Committee Member

(*) Committee members were appointed by the Board of Directors on April 5, 2018.

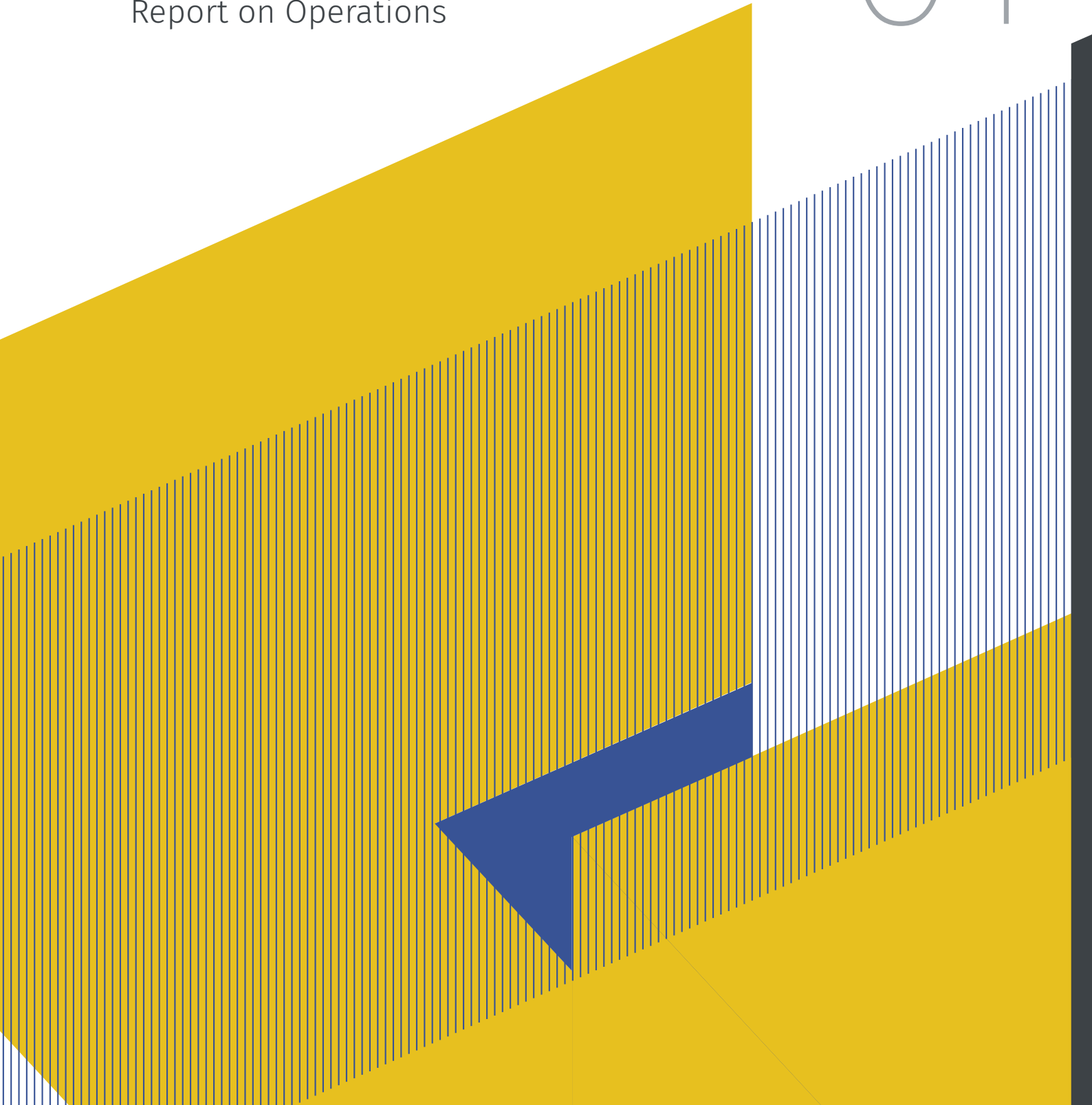
Board of Directors

Role of Board of Director's members and Independence requirements

Name	Office in BFF	Executive	Non-Executive	Independence	
				PURSUANT TO CONSOLIDATED LAW ON FINANCE	PURSUANT TO CORPORATE GOVERNANCE CODE
Salvatore Messina	Chairman		✓	✓	
Luigi Sbrozzi	Vice Chairman		✓		
Massimiliano Belingheri	Chief Executive Officer	✓			
Isabel Aguilera	Director		✓	✓	✓
Michaela Aumann	Director		✓	✓	✓
Ben Carlton Langworthy	Director		✓		
Federico Fornari Luswergh	Director		✓	✓	✓
Carlo Paris	Director		✓	✓	✓
Barbara Poggiali	Director		✓	✓	✓

Report on Operations

01



Structure of the Group

The Banca Farmafactoring Banking Group (hereinafter also referred to as “BFF Banking Group”) is mainly engaged in the management and sale of receivables due to suppliers from the public administration and, more specifically, the national healthcare systems. The Group is active in Italy, Portugal, Greece and Croatia through Banca Farmafactoring, in Spain through BFF Finance Iberia, and in Poland, the Czech Republic and Slovakia through BFF Polska and its associated companies (the so-called “BFF Polska Group”).

The BFF Banking Group also offers deposit products to its retail and corporate customers in Italy, Spain and Germany.

BFF Polska, acquired by the BFF Banking Group in 2016, is a specialized operator, leader in the provision of financial services to companies operating in the healthcare sector in Poland, Slovakia and the Czech Republic.

Thanks to the BFF Polska Group, the BFF Banking Group operates in a position of leadership in the Polish market, where it provides healthcare entities with alternative financing solutions to traditional banking services. Other specialized operators are also active in this segment, and, in a limited manner, some traditional banks, too.

With reference to Italian Legislative Decree 58/1998 (Consolidated Law on Finance) on provisions enabling the definition of “SME” issuers of listed shares and the regulations applicable to the issuers of financial instruments having wide public circulation, the Bank qualifies as “SME - Small Medium Enterprise” based on the size parameters (and the relevant thresholds) set by lawmakers. Specifically, the BFF Banking Group exceeds the “medium capitalization” threshold, set at €500 million, but remains below the €300 million threshold of the “turnover” parameter (i.e., the sum of (1) interest and similar income, (2) gains on securities, (3) commission income, (4) gains on financial transactions, and (5) other operating income).

At December 31, 2018, the BFF Banking Group included the Parent Banca Farmafactoring and the following companies:

Company name	Registered and operating office	Relationship type (1)	Investment relationship		Voting rights % (2)
			Investor	Invest. %	
COMPANIES CONSOLIDATED LINE-BY-LINE					
1. BFF Finance Iberia, S.A. (3)	Madrid - C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. BFF SPV S.r.l.	Milan - Via V. Betteloni 2	4	Banca Farmafactoring	0%	0%
3. BFF Polska S.A.(4)	Łódź - Al. Marszałka Józefa Piłsudskiego 76	1	Banca Farmafactoring	100%	100%
4. BFF Medfinance S.A. (5)	Łódź - Al. Marszałka Józefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
5. BFF Česká republika s.r.o. (6)	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o. (7)	Bratislava - Mostova 2	1	BFF Polska S.A.	100%	100%
7. Debt-Rnt sp. Z O.O.	Łódź - Al. Marszałka Józefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
8. Komunalny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
9. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
10. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Al. Marszałka Józefa Piłsudskiego 76	4	BFF Polska S.A.	99%	99%
11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Al. Marszałka Józefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

As far as point 8 and 9 are concerned, voting rights refer to the investors' right to vote at the Meeting. Companies in points 10 and 11 above are limited partnerships and are not consolidated since their total asset figures are not significant.

Key:

- (1) Relationship type:
 1 = having the majority of voting rights at ordinary shareholders' meetings
 2 = having a dominant influence at ordinary shareholders' meetings
 3 = agreements with other shareholders
 4 = other forms of control
 5 = centralized management as per Article 26, paragraph 1 of Italian Legislative Decree 87/92
 6 = centralized management as per Article 26, paragraph 2 of Italian Legislative Decree 87/92
- (2) Voting rights in ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.
- (3) The change in the company name (formerly Farmafactoring España) became effective on April 4, 2018.
 (4) The change in the company name (formerly Magellan S.A.) became effective on March 22, 2018.
 (5) The change in the company name (formerly Medfinance S.A.) became effective on April 20, 2018.
 (6) The change in the company name (formerly Magellan Česká republika s.r.o.) became effective on May 1, 2018.
 (7) The change in the company name (formerly Magellan Central Europe s.r.o.) became effective on May 1, 2018.

The International Economic Scenario

The world economy continued growing in 2018: according to the forecasts published by the OECD in November 2018, global GDP is expected to increase by 3.7% in 2018 and 3.5% in 2019.

At the same time, however, the outlook for international trade has deteriorated: in particular, 2018 was negatively affected by the repercussions of a potential negative outcome to the trade negotiations between the US and China, the financial turmoil in emerging markets, and the arrangements being made for the United Kingdom's withdrawal from the European Union (Brexit).

In the final part of the year, the United States continued expanding at a steady pace (+3.4%), while the United Kingdom grew in line (+2.5%) with the average for the first six months of 2018. As for emerging countries, the slowdown in economic activity in China (+6.5% in the third quarter) that started in early 2018 reportedly continued in recent months, despite the government's fiscal stimulus efforts. Conversely, GDP growth remained buoyant in India (+7.1%), even though the economy expanded at a more moderate pace compared to the first half of the year. In Brazil, the macroeconomic outlook is still fragile.

Inflation is subsiding in the major advanced economies: consumer price inflation fell in the United States (+1.9%), the United Kingdom (+2.1%) and, more generally, the Eurozone (+1.6%), while hovering around 1% in Japan.

There are several sources of uncertainty at a global level. The start of negotiations between the United States and China did not dispel the uncertainty associated with new potential protectionist measures that could affect international trade in the coming months—at a time when expectations about the Federal Reserve's monetary policy stance could also change abruptly; Europe has to deal with Brexit and its future relationship with the United Kingdom after the British Parliament rejected the trade deal struck by the government in November.

As expected, the Federal Reserve raised the target federal funds rate by 25 basis points to 2.25 - 2.5%, whereas the Bank of England has left its monetary policy unchanged. China's Central Bank further loosened monetary conditions by cutting the reserve requirement ratio by 100 basis points at the beginning of the year.

The Eurozone's economy slowed down in the third quarter amid deteriorating business confidence and weak foreign demand. Industrial production continued contracting at a steady pace in November across all major economies; as a result, inflation fell because of the trend in energy prices.

In the third quarter of 2018, Eurozone GDP was up 0.2% year-on-year, reflecting a sharp slowdown compared to the spring: as already mentioned, this was attributable to the stagnation in exports and the growth in domestic demand (+0.5%), largely driven by higher inventories. Industrial activity rose in France and contracted in Germany and Italy, also because of the impact, in these two countries, of new emission standards in the automotive industry.

On the basis of projections developed by the central banks of the Eurosystem, GDP is expected to grow by a total of 1.9% in 2019 and 1.7% in 2020.

In late 2018, the net purchases of financial assets under the Eurosystem's Asset Purchase Program came to an end. In order to maintain favorable liquidity conditions in the Eurozone as well as keep

interest rates at their current low levels “as long as deemed necessary”, the ECB announced it will keep reinvesting principal payments from maturing securities.

In 2018, the Euro depreciated by approximately 7.3% against the dollar as well as the yen, while rising nearly 14% against the pound.

The Economy, National Debt Stock and Public Expenditure on Goods and Services in Italy in 2018

Concerning Italy’s economy, the Bank of Italy estimates an annual GDP growth rate of 1%.

On average, in 2018 industrial activity reportedly slowed down to 1.7% from 3.1% in the previous year as business confidence deteriorated in light of the slump in domestic demand.

Investments also tumbled from 2.8% in the second quarter to 1.1% in the fall. These fluctuations could partially reflect the timing of the tax incentives still in force in 2018 and those outlined in the recently announced budget law for 2019.

Household spending, which had been gradually declining since the beginning of the year, was down 0.1% in the third quarter compared to the previous period, driven especially by the drop in non-durable goods. The uncertain income outlook for families apparently dampened household confidence: disposable income, net of inflation, was down 0.2% on the previous quarter because of less favorable employment conditions. The number of people in employment fell in the third quarter of 2018 and subsequently held steady in October and November.

As for the banking industry, demand for business lending continued growing at a moderate pace, driven primarily by low interest rates. The favorable outlook for the real estate market fueled demand for mortgages from households. The “Expanded Asset Purchase Program (APP)”, launched by the ECB to address the risks from a protracted period of low inflation, positively affected lending conditions as well as liquidity in the banking sector. The negative interest rate on deposits held with the Eurosystem continued pushing down the cost of bank lending for households and businesses.

However, in the last quarter of 2018 access to credit deteriorated for all companies and industries, even though credit quality remained high: in the third quarter, new non-performing loans still accounted for a very limited proportion of total loans (1.7%). Non-performing loans are still falling in percentage terms, both when including and excluding impairment losses. The adoption of the new IFRS 9 from January 1 (to replace IAS 39) has led to a marked increase in the coverage ratio for impaired receivables.

In the third quarter of 2018, financial market volatility rose steadily in Italy; the period between the end of September and mid-November saw growing tensions on Italian government bonds, as yields increased by nearly 60 basis points—including on ten-year maturities—amid heightened uncertainty over Italy’s 2019-2021 budget law as well as worse-than-expected economic data.

According to the update to the Economic and Financial Document (Documento di Economia e Finanza, DEF), published in September 2018, last year Gross Domestic Product (GDP) was estimated at €1.768 billion (+1.2% year-on-year), compared to €1.725 billion in 2017 (+1.6% compared to 2016). As for the next few years, Italy’s economy is projected to grow by 0.9% in 2019 and 1.1% in 2020-2021.

According to projections published by the Bank of Italy in January 2019, growth is expected to continue at moderate levels in the next three years: on an annual basis, GDP is expected to increase by 0.6% this year, 0.9% next year, and 1.0% in 2021. In spite of accommodating monetary conditions, over the next three years investments are expected to decline because of the deterioration in business confidence and the reduced tax incentives compared to the previous three-year period. Inflation is estimated at 1.0% in 2019, down slightly from 1.2% last year.

The Bank of Italy's projections were recently confirmed by the International Monetary Fund, which downgraded its GDP growth forecast for Italy in 2019 to 0.6% compared to the estimate issued in October 2018, while keeping it at 0.9% for 2020.

According to the Bank of Italy, in December 2018 Italy's national debt increased to €2,317 billion, compared to €2,263 billion at the end of 2017.

In 2018, Italy's debt to GDP ratio was estimated at 130.9%, down 0.3% from 2017: at 2.5%, nominal GDP growth outpaced the public debt growth rate, equal to 2.3%.

As nominal GDP growth is projected to accelerate, Italy's debt as a proportion of GDP is estimated at 130.0% in 2019 and expected to continue falling in 2020 (128.1%) as well as 2021 (126.7%).

According to the Bank of Italy's estimates, the public administration agencies' commercial debt for 2018 amounts to €53 billion.

The public finance forecasts set out in the 2018 DEF document estimate public expenditure on goods and services at €139.5 billion in 2018 (compared to €140.2 billion in 2017), of which €33.3 billion in relation to current expenditure on goods and services by the National Healthcare System (compared to €32.8 billion in 2017), and €106.2 billion by other Italian public administration agencies (compared to €107.4 billion in 2017).

As for national health spending, the update to the DEF dated September 27, 2018 estimated it at €116.3 billion in 2018, €117.2 billion in 2019, €119.4 billion in 2020, and €121.8 billion in 2021. Italian law no. 145 of December 30, 2018 (the so-called "2019 budget law") approved a health spending budget of €114.4 billion for 2019 (compared to €113.4 billion for 2018), €116.4 billion for 2020, and €117.9 billion for 2021. Should said amounts be confirmed over time, this would result in a structural national health budget deficit of nearly €3 billion per year.

In order to monitor economic and financial balance, Regions may be subject to Repayment Plans in relation to the healthcare sector. On the basis of the recognition of the causes that structurally determined significant management deficits on a regional level, such plans identify and selectively address the various problems that have arisen in each region.

This procedure is currently adopted in Abruzzo, Apulia and Sicily, in addition to Lazio, Molise, Campania and Calabria, regions for which an administrator (*Commissario ad acta*) is also required for the continuation of the Repayment Plan. Concerning the Lazio Region, with the Resolution dated December 1, 2017 the Italian Prime Minister's Office had tasked the administrator with bringing the temporary receivership to an end and allow normal operations to resume by December 31, 2018. However, according to the most recent update dated November 12, 2018, the Italian Health Ministry still lists Lazio among the Regions put under temporary receivership (November 2018 update).

It should be noted that on December 7, 2017, the European Commission decided to refer Italy to the Court of Justice for breach, by Italian public administration agencies, of the provisions of Directive

2011/7/EU on combating late payment in commercial transactions, implemented in Italy through Legislative Decree 192/2012, which amended Legislative Decree 231/2002.

The Commission's 2017 decision comes three years after the initiation of the infringement procedure (starting with decision no. 2014/2143), through a letter of formal notice and following the motivated opinion of February 15, 2017. In particular, it is noted that in practice the Italian public administration agencies breach Article 4 of Directive 2011/7/EU, which states that payments must be made within thirty days (extendable to sixty days for public companies required to comply with the transparency requirements set out in Italian Legislative Decree no. 333 of November 11, 2003, and for public entities providing healthcare services).

The monitoring of days payables outstanding for Italian public administrations has been improved also by strengthening the IT system named SIOPE+, which allows to automatically obtain data on the invoices paid by the public administrations.

Article 1, paragraph 533, of the 2017 Budget Law passed on December 11, 2016 called for the evolution of the SIOPE (*Sistema Informativo sulle Operazioni degli Enti Pubblici*) data collection system into SIOPE+.

SIOPE+ complements the information currently available on the "SIOPE" system (dedicated to digitally monitoring the cash receipts and payments of public administrations) with data on the payment mandates for invoices payable registered with the Accounts Receivable Platform (Piattaforma per i Crediti Commerciali, PCC).

SIOPE+ asks all public administration agencies to:

- a) order their treasurer or cashier to receive and make payments exclusively by using the electronic order forms issued in accordance with the relevant standard;
- b) transmit the computer orders to the treasurer or cashier only and exclusively through the SIOPE infrastructure, managed by the Bank of Italy.

Following a testing period which began July 2017 and involved approximately 30 public entities, in 2018 the implementation of SIOPE was extended to all public administration agencies, according to the following timeline:

- a. full operation from January 1, 2018 for all regional governments, autonomous provincial governments, metropolitan cities and provincial governments;
- b. full operation from April 1, 2018 for municipalities of over 60,000 inhabitants;
- c. full operation from July 1, 2018 for municipalities of 10,001 to 60,000 inhabitants;
- d. full operation from October 1, 2018 for municipalities of up to 10,000 inhabitants;
- e. full operation from October 1, 2018 for local healthcare entities and hospitals.

Said data, which has been published on a quarterly basis up to September 2018. The current structure of the data published does not refer to the age of unpaid and/or outstanding receivables. The largest amount of data concerns municipalities, regional governments, and metropolitan cities, which joined SIOPE+ in early 2018.

Finally, among the measures intended to speed up the payment of the commercial debts of Italian public administration, the 2019 Budget Law establishes that, if certain conditions are met, regional governments, autonomous provincial governments (including on behalf of the respective National Health Service entities), municipalities, metropolitan cities, and provincial governments may apply for cash advances from, among others, *Cassa Depositi e Prestiti* in order to settle debts that are certain, liquid, enforceable, and registered with the PCC, whose purpose is to certify and monitor all transactions on payables due from the public administration as a result of public contracts, procurement agreements, and professional services, pursuant to Italian law no. 64 of June 6, 2013.

Said law specifies that the above cash advances do not qualify as borrowing as per article 3, paragraph 17 of Italian law no. 350 of December 24, 2003.

It should also be noted that, beginning January 1, 2015, as established by the 2015 Budget Law, a split payment mechanism was introduced (Article 17-ter of Presidential Decree 633/1972), on the basis of which the public entities, and no longer the suppliers, must pay VAT to the tax authorities on certain sales of goods and on services rendered to those entities. The payment of invoices is therefore split between the tax authorities, with regard to VAT, and the supplier, for the taxable amount. Since this area is regulated by EU laws, the European Commission examined the Italian law and, in June 2018, it authorized the application of the split payment mechanism, but only until December 31, 2017.

Following a request on the part of the Italian government in May 2017, the Council of the European Union extended the deadline for the application of the split payment mechanism for VAT to June 30, 2020, and also extended the parties involved and the scope of application of the mechanism.

Nonetheless, the new Italian government has recently announced its intention to explore the elimination of the split payment mechanism, which puts pressure on company liquidity management. The path to elimination therefore started with the so-called “Dignity Decree” (converted into Law, Official Gazette no. 186 of August 11, 2018), but for the moment, the only category where split payments will be eliminated is professionals working with the public administration.

Comments on the Economy, National Debt Stock and Public Expenditure on Goods and Services in the Countries in which the BFF Banking Group Operates

Poland

As far as Poland is concerned, since it joined the EU, it has experienced a period of sustained economic growth. This trend remained positive even during the recent economic crisis, confirming Poland's growth rates among the highest in the European Union.

2018 GDP grew by 5.7% compared to 2017 figures—one of the highest rates in Europe. It is expected to grow further in 2019 by 3.6%.

In 2018, the economic and industrial production trends led to a decrease in unemployment rates to 5.8% (-0.8% compared to 2017).

In the third quarter of 2018, interest rates in Poland declined from 2% to 1.5% as part of the expansionary monetary policy that the Polish Central Bank has been pursuing since 2014 in order to revive the economy by boosting exports.

In 2017, the national debt amounted to 50.1% as a proportion of GDP. This ratio has remained relatively constant since 2010, with limited percentage changes.

The measures introduced by the government since 2011 allowed it to almost balance the budget in 2017.

In 2018, the public administration of local entities spent €156 billion on goods and services, up 9.4% year-on-year.

In 2018, health spending through the National Health Service (Narodowy Fundusz Zdrowia - NFZ) amounted to nearly €19.7 billion, up 5.5% from 2017, and the NFZ ran a €0.4 million deficit, in line with the previous year.

Slovakia

GDP is estimated at approximately €97 billion in 2018, up 4.2% year-on-year. It is expected to grow by 4.2% in 2019.

In 2017, the national debt amounted to approximately 50% as a proportion of GDP. This ratio has been fluctuating over the years: it rose between 2010 and 2014 (from 30% to 55%) and then gradually declined to 50% in 2017.

Also in the case of Slovakia, the measures introduced by the government since 2011 allowed it to almost balance the budget in 2017.

The National Health Service ran a €0.1 million surplus in the period from January to November 2018, as it raked in €3.0 billion and spent €2.9 billion. Furthermore, in 2017, Slovakia's Parliament overhauled health spending, and this is expected to generate approximately €278 million in savings in 2019.

Czech Republic

Czech Republic's GDP is estimated at approximately €208 billion in 2018, up 2.9% compared to 2017. It is expected to grow by 2.9% also in 2019.

Interest rates have risen by 0.25% from 1.5% to 1.75%: since September 2018, the Central Bank has been pursuing a monetary policy intended to lower inflation and protect the value of the local currency.

The unemployment rate for the Czech Republic is the lowest in the European Union: it reached 2.5% at the end of 2018 and it is expected to grow to 2.6% in 2019.

In 2018, the national debt amounted to approximately 35% as a proportion of GDP. This ratio has been constantly improving since 2015. The Czech Republic ran a budget surplus in 2017 as well as in 2018, when it amounted to nearly €114 million: this marked a significant improvement compared to the approximately €2 billion borrowing requirement outlined in the budget law.

The national health spending amounted to approximately €11.7 billion in 2018—more than half of this amount was allocated to hospitals. It is expected to grow to approximately €12.5 billion in 2019.

Spain

In the first half of 2018, Spain saw a dramatic change in government: the Popular Party was ousted from power after Parliament passed a no-confidence motion tabled by the Socialist Party. The new administration had decided to approve the 2018 budget proposed by the previous one, as there was no time to launch a new budgeting process. This budget, which would have raised non-financial spending by 4.4% to €125 billion, bringing the deficit target to 1.8% from the 1.5% previously agreed with the European Union, was, however, rejected. This higher spending would be financed by reducing tax exemptions for large businesses and raising the fuel tax as well as the income tax for those making more than €130 thousand a year. Budget rejection resulted in the call for new parliamentary elections, which are scheduled to take place on April 28, 2019.

Against this backdrop, another major political issue is the Catalan crisis and the turmoil in the region. GDP was up 2.5% on an annual basis in June 2018 and is still growing steadily, even though it has slowed down compared to 2017.

The government has lowered the GDP growth forecast for the next year to 2.5%.

The unemployment rate stood at 15.2% in August, continuing the gradual decline already seen in the previous two years (16.5% in 2017 and 18.5% in 2016).

With regard to the Spanish public debt, at November 2018, it increased to €1,169 billion, compared to €1,138 billion in the same period of 2017. Public debt therefore stood at 97.7% of national GDP.

As to the Spanish National Healthcare System, the latest figures available, supplied by the Ministry of Economy and Finance, indicate a contraction of €3.1 billion for healthcare debt at November 2018, compared to the figures at the end of 2017 (equal to €3.5 billion).

Days Sales Outstanding (DSO) in the sector continue to shorten, through extraordinary regional funding mechanisms such as the FLA (*Fondo de Liquidez Autonómico*) and the FFF (*Fondo de Facilidad Financiera*). However, in the fourth quarter DSO was almost stable, from 87 days in the third quarter to 86 days in the fourth quarter—this means that the DSO reduction process started in 2011 has almost ended.

Portugal

In Portugal, GDP totaled €194.6 billion in 2017 and is estimated to expand by 2.3% in 2018. As for Public Debt, according to the latest data, referring to November 2018, it reached a new record high of €251.5 billion, but it is estimated to have fallen to €246.8 billion in the final month of the year thanks to an early repayment to the International Monetary Fund (IMF).

Even though public debt grew in nominal terms, it declined as a percentage of GDP in the third quarter to 124.6%—the lowest level since the same period in 2012.

In its budget, the government estimated that public debt would amount to 121.2% of GDP in 2018 and fall to 118.5% in 2019.

As for the Budget Deficit, Portugal's Central Bank is optimistic that it will reach 0.7% of GDP by the end of 2018, while for 2019 the government estimates it at 0.2%.

Total public spending amounted to €76.6 billion at November 2018 and is projected to reach €89.89 billion for the full year (and €91.1 billion in 2019). Part of it is represented by health spending, estimated at €11 billion in 2019 (+5% compared to 2018).

Overall, at November 2018 the public administration had spent €10.7 billion on goods and services (up 8.5% from 2017). The total spending on goods and services is estimated at €12.97 billion in 2018.

At November 2018, Portugal's health budget deficit amounted to €0.528 billion, up €0.159 billion from the prior-year period.

Portugal will hold a general election for the central government in October 2019.

Greece

The International Monetary Fund expects Greece's GDP to grow by 2% in 2018.

Public debt amounted to €356.0 billion at the end of the third quarter of 2018, compared to €317.4 billion (176% of GDP) at the end of 2017 (Eurostat).

Greece reported a trade surplus equal to 0.8% of GDP in 2017 and 0.4% in 2018. The country has outperformed the targets set in the budget for two years in a row, boosting its international credibility and pushing down government bond yields as a result. In 2019, Greece is forecast to run a total surplus of 0.8% of GDP.

According to data published by Eurostat, Greek public spending on goods and services totaled €12.6 billion in 2016, down 0.7% year-on-year and 3% compared to 2013.

Local elections are due in May 2019 and a general election is scheduled for October 20.

Croatia

In Croatia, GDP totaled €49 billion in 2017; the International Monetary Fund expects it to grow by 2.8% in 2018.

Public debt amounted to €38 billion in 2017 and is projected to continue falling in 2018. As a proportion of GDP, it stood at 77.5% in 2017.

Croatia reported a total surplus of 0.8% of GDP in 2017, compared to a 0.9% deficit in 2016. The country is expected to run a deficit of 0.5% of GDP in 2018 and 0.4% in 2019.

Total public spending for 2018 is estimated at €17.8 billion, up 6.7% from €16.7 billion at the end of 2017.

In 2016, public spending on goods and services totaled €4.9 billion, rising 5.8% year-on-year.

Croatia is to hold a presidential election between December 21, 2019 and January 20, 2020, as well as general elections by December 23, 2020.

The Factoring Market in Italy

The BFF Banking Group is the leader in Italy in the factoring sector and specializes in the management and non-recourse sale of trade receivables due from the National Healthcare System and the public administration.

Factoring, in Italy, has boosted the financial support provided to the real economy and supported the economic growth of the country during a phase in which loans offered to companies by banks and financial companies have remained largely stable. While national debt and impaired loans narrow the margin of maneuver of the state and financial intermediaries, factoring distinguishes itself for the lower risk involved, as validated by a modest non-performing loan percentage.

The factoring industry saw significant growth in 2018. The cumulative preliminary summary indicators of the factoring market for December 2018, which Assifact gathered from a sample of 29 member companies, pointed to a 7.6% increase in turnover (which totaled €238.6 billion) and an 8.1% rise in outstanding (€67.4 billion).

According to Assifact figures, in 2019, turnover and the outstanding are expected to rise by 4.6% and 4.4%, respectively.

Against this backdrop, BFF's market share in the industry is 22.5% with reference to the public administration segment.

At September 2018, according to Assifact figures, impaired exposures for factoring (before value adjustments) accounted for 5.15% of total gross exposures, of which 2.60% are non-performing loans.

Results of Operations

The consolidated financial statements at December 31, 2018 include the consolidated figures from the balance sheet and income statement of Banca Farmafactoring S.p.A., BFF Finance Iberia (a wholly-owned subsidiary of Banca Farmafactoring S.p.A.), the special purpose vehicle BFF SPV S.r.l., and the companies of the BFF Polska Group, acquired in 2016.

At December 31, 2018, the Group's profit amounted to €92.2 million, compared to €95.5 million recognized in the prior-year period. The normalized profit of the Group (representing the Group's results of operations net of non-recurring income and expenses) amounted to €91.8 million, up 9.7% from €83.7 million in 2017, net of one-off effects, in particular, the change in the recovery rate of late payment interest and non-recurring expenses due to listing.

(In € millions)

	12/31/2017	12/31/2018
Profit (loss)	95.5	92.2
IPO expenses	1.7	-
Resolution Fund 2016 - non-recurring contribution	-	0.5
Change in estimate of the late payment interest collection percentage from 40% to 45% - one-off effect	(17.8)	-
Exchange differences covered by Translation reserve in Equity	3.3	(1.9)
Stock options	1.1	0.9
Normalized profit (loss)	83.7	91.8
Financial expenses - Costs for Tier 2 FY 2018 vs 2017	(0.9)	-
Provisions BFF Polska Group SME Factoring Group	1.3	1.4
"Like-for-like" normalized profit (loss)	84.2	93.1

Compared to the consolidated profit for the period, the normalized profit at December 31, 2018 includes:

- €0.9 million charges relating to stock options assigned to some employees in the first quarter of 2018;
- a positive exchange rate effect, arising from the revaluation of the loan payable in Polish zloty used for the acquisition of the BFF Polska Group (formerly Magellan) and amounting to €1.9 million. This impact was almost entirely offset by the negative effect deriving from exchange rate losses in consolidated net equity, due to the natural hedging between the loan in Polish zloty for the acquisition of the BFF Polska Group and the value of the BFF Polska Group equity;
- €0.5 million contribution to the European Single Resolution Fund (SRF).

Like-for-like normalized profit at December 31, 2018 includes:

- compared to the previous year, two months of higher financial charges in relation to Tier 2 subordinated bonds, issued in February 2017 for €0.9 million after tax;
- the effect arising from the end of the SME factoring business in Poland, which generated further allocations for adjustments to impaired receivables of €1.4 million.

Taking account of the above-mentioned effects, like-for-like normalized profit at the end of 2018 would amount to €93.1 million, up 10.5% on the previous year's €84.2 million.

Interest income totaled €231.6 million, compared to €237.9 million in 2017. Normalized interest income is the same as that recognized at December 31, 2018, compared to €212.7 million at December 31, 2017 (up 8.9%).

Interest income mainly includes:

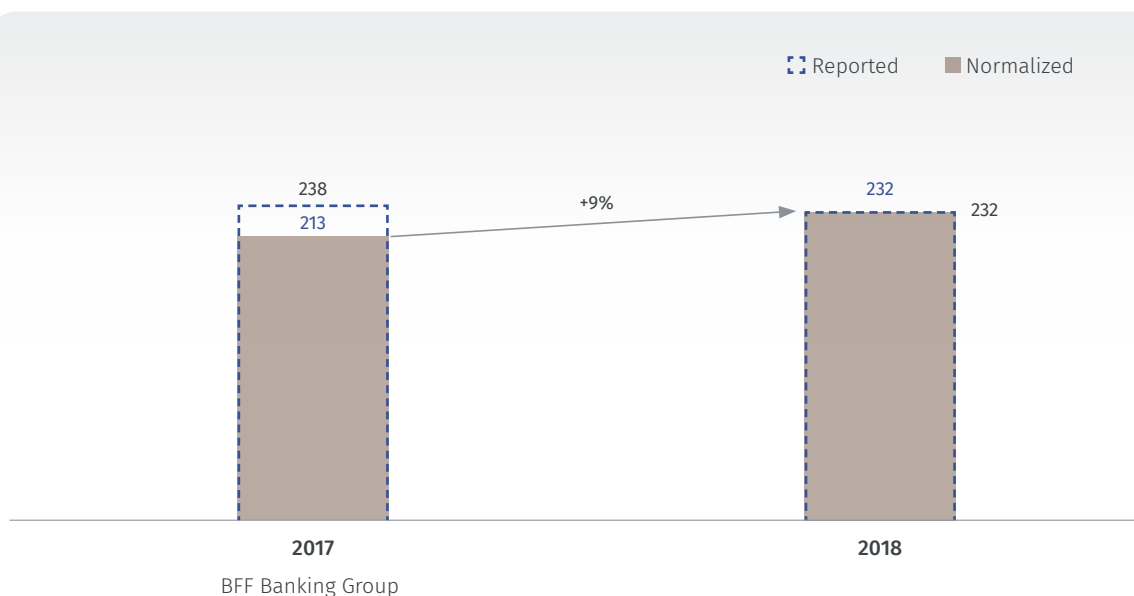
- maturity commissions charged to customers;
- accrued late payment interest;
- gains on late payment interest collected in the period compared to the percentage already included in amortized cost;
- interest on government securities in portfolio;
- interest on loans issued by BFF Polska.

The following chart shows the changes in interest income and normalized interest income in relation to the last two years.

Specifically, as far as the period ended December 31, 2017 is concerned, interest income amounted to €238 million, of which €25 million relating to the one-off positive effect, before taxes, arising from the change in the estimate for the late payment interest collection percentage to be included in amortized cost, from 40% to 45%, for Banca Farmafactoring and BFF Finance Iberia only. Therefore, the normalized figure amounted to €213 million.

At December 31, 2018, interest income recognized in the financial statements amounted to €232 million, increasing by 9% compared to the normalized figures for the same period in the previous year. This was due to the higher average stock of receivables due from customers compared to the end of 2017.

Normalized Interest Income



Collections of late payment interest amounted to €90 million at December 31, 2018, compared to the previous year's €114 million.

Specifically, €79 million were collected in Italy, €11 million in Spain, €0.36 in Portugal and €4 thousand in Greece.

The difference between gains and reschedulings recognized in 2018 by the BFF Banking Group amounted to €19.5 million, thanks to more effective collections and lower reschedulings. In 2017, such difference amounted to €16.8 million.

Late payment interest on receivables purchased without recourse by Banca Farmafactoring and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €562.7 million, of which €41.0 million related to Spanish debtors, €33.5 million to Portuguese debtors, €1.3 million to Greek debtors, and €486.9 million to Italian debtors.

Of this interest, a total of €207 million was recorded in the income statement in current and prior years.

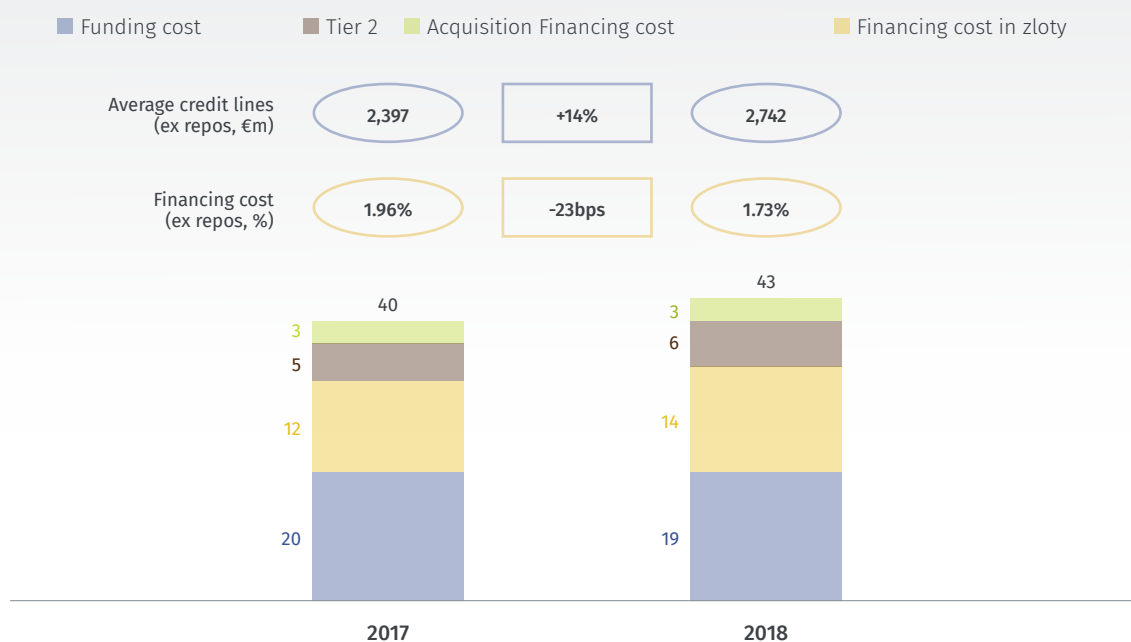
The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €534 million at December 31, 2017, of which €184 million were recognized in the income statement of the reporting period and in previous years.

The provision for late payment interest increased by 5% compared to the previous year. Of this provision at December 31, 2018, late payment interest not yet recognized in the income statement amounts to €356 million.

Interest expense increased from €40 million at December 31, 2017 to €42.9 million at December 31, 2018. This increase in absolute terms is primarily due to a higher outstanding balance, interest expense on the Tier 2 bonds of €5.9 million at December 31, 2018, compared to €4.9 million in 2017 (March to December 2017), and to the increase in loans denominated in zloty, which are granted at a higher base rate.

At December 31, 2018, the ratio of the BFF Banking Group's financial expenses to average credit lines used was 1.73 %, compared to 1.96 % at December 31, 2017, showing a reduction of 23 basis points. The average credit lines used increased by 14% from €2,397 million at December 31, 2017 to €2,742 million at December 31, 2018. This figure also includes costs to acquire the BFF Polska Group.

Interest Expense (BFF + BFF Polska)



The reporting period has partly benefited from the reduction in rates offered on the deposit account.

Under the current funding structure, some of the more expensive lines, such as the Tier 2 bond issue, the loan denominated in zloty for the acquisition of the BFF Polska Group, and the senior notes issued by the Group, refer to instruments with a fixed cost and/or set margin conditions that decline relative to borrowing costs as business volumes grow. In addition, the cost of zloty-denominated funding does not yet reflect the benefits of local funding: this is scheduled to start in the second quarter of 2019 after the opening of the Polish branch, which will be dedicated to raising funding through deposit accounts.

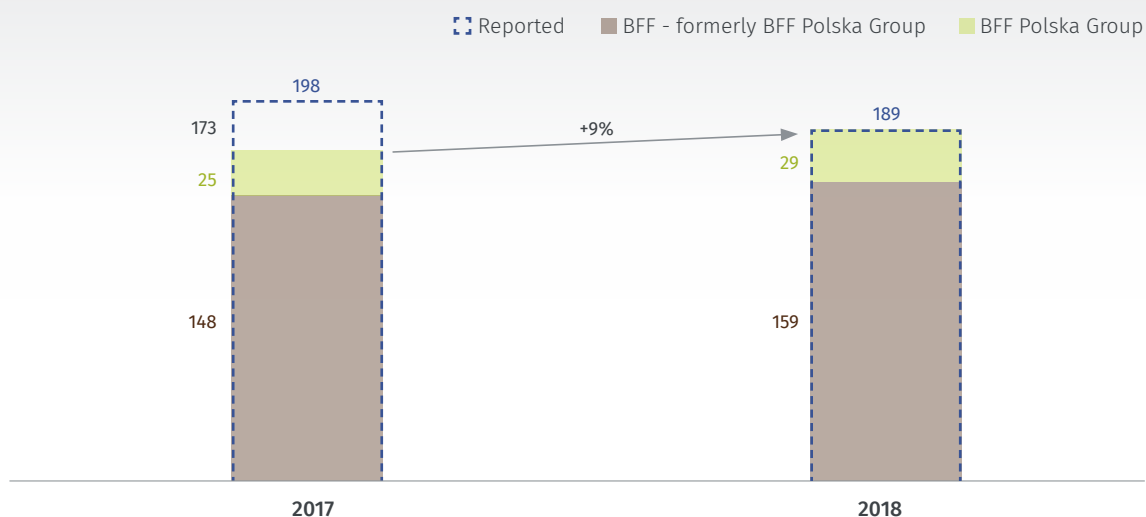
The group is not exposed to significant risks associated with the refinancing of its bonds: these carry maturities from 2020 onwards, except for €11 million worth of bonds issued by BFF Polska with maturity in 2019.

Net Interest Margin

The net interest margin totaled €189 million at December 31, 2018, compared to €198 million at December 31, 2017.

The normalized interest margin for 2018 amounted to €189 million, showing a 9% increase compared to the normalized interest margin at December 31, 2017 (which amounted to €173 million).

The normalized net interest margin for 2017 did not take into account the one-off positive impact of €25 million, before taxes, deriving from the change—from 40% to 45%—in the estimate of late payment interest collection percentage to be included in amortized cost, for Banca Farmafactoring and BFF Finance Iberia only.



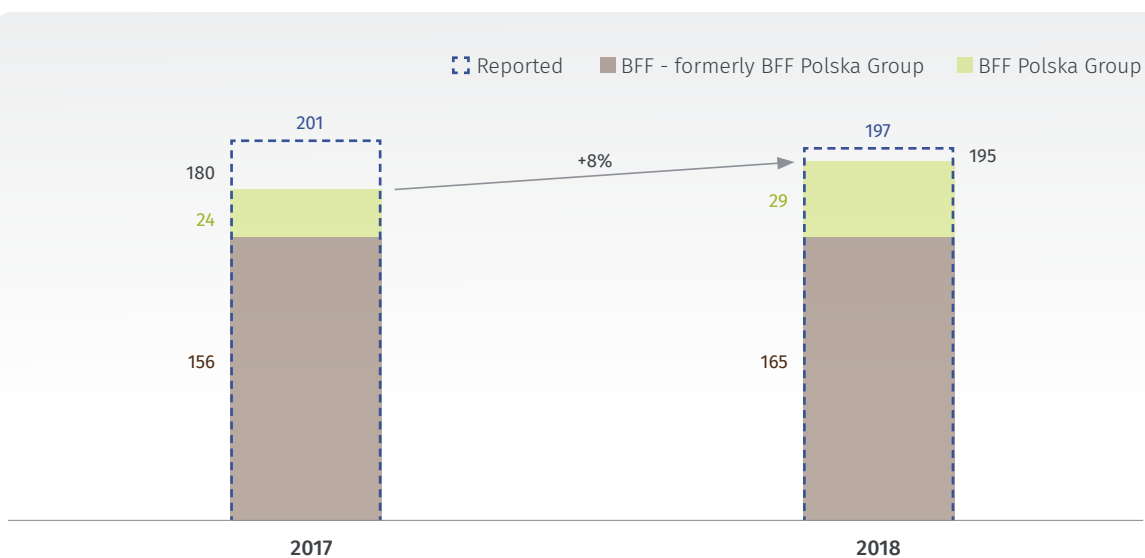
Net Banking Income

Net banking income—which, compared to the interest margin, also principally includes fees and commissions relating to the mandates for the management and collection of receivables and exchange gains and losses—totaled €197 million at December 31, 2018 compared to €201 million at December 31, 2017.

Normalized net banking income, as presented in the chart below, increased by 8% from €180 million recognized at December 31, 2017 to €195 million recognized at December 31, 2018.

The latter figure does not consider the positive exchange effect arising from the write-down of the loan payable in Polish zloty for the acquisition of the BFF Polska Group, amounting to €2.6 million.

Normalized net interest margin of the previous year (1) does not take into account the one-off positive impact of €25.2 million, before taxes, deriving from the change—from 40% to 45%—in the late payment interest collection percentage to be included in amortized cost, for Banca Farmafactoring and BFF Finance Iberia only, the positive impact of €0.3 million arising from commissions pertaining to the BFF Polska acquisition, and €3.8 million negative commissions relating to the 2016 waiver; (2) takes into account €6.5 million interest and commissions relating to Tier 2 in 2018 (€5.4 million in 2017), which were not recognized in 2016.



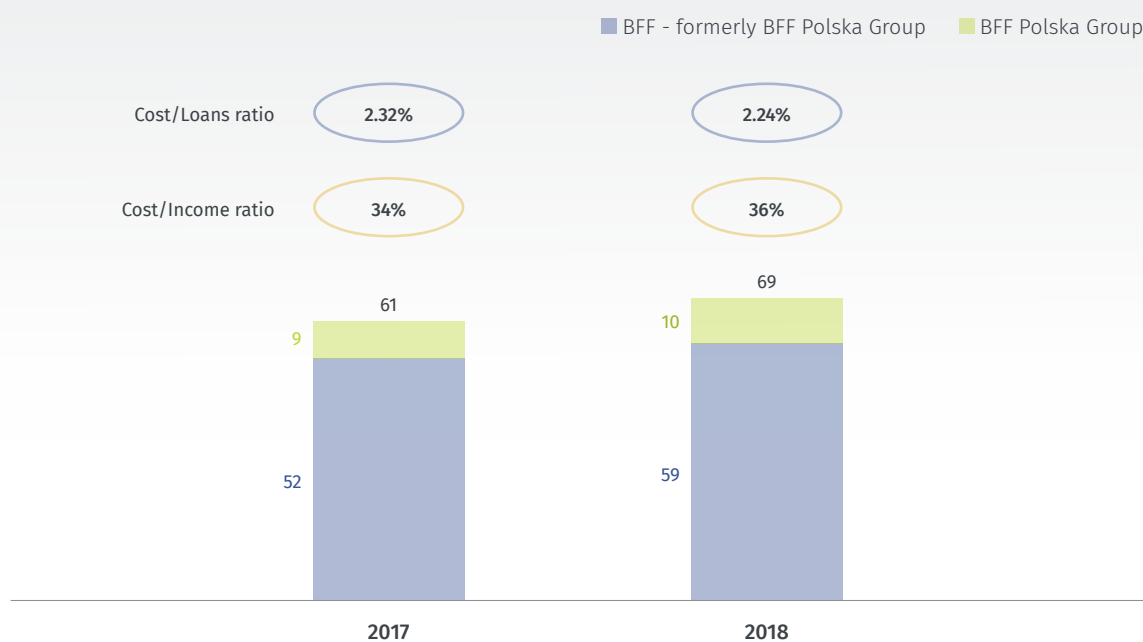
Operating Costs

Over the course of the last few years, the Group has invested significantly on structure and resources in order to support growth in size and operations.

Normalized operating costs include administrative expenses, personnel costs, amortization of intangible assets and depreciation of property, plant and equipment. At December 31, 2018, they totaled €69.3 million decreasing by €8.1 million compared to €61.2 million in the previous year. Said increase, equal to 13% is mainly due to growing personnel costs following the increase in human resources, and to higher ordinary contributions to both the Resolution Fund and the FITD. Other operating costs were unchanged compared to December 31, 2017.

These normalized costs do not take into account extraordinary costs of €2 million, broken down as follows: €1.3 million concerning the stock options granted in the year (generating an equity reserve of the same amount), and €0.7 million related to extraordinary contributions requested by the National Resolution Fund for 2016. On the contrary, the prior year did not take into account extraordinary charges concerning stock options of €1.5 million, and other charges connected to the listing process of €2.4 million.

The following chart shows normalized operating costs and the main ratios indicating the Bank's operating efficiency. The latter include the "Costs/Loans" ratio, which decreased from 2.32% to 2.24%. Finally, these investments, also relating to projects that will start in subsequent years, will allow the Group to grow in the future.



Due from customers

The following is a summary of receivables due from customers of the BFF Banking Group, which amounted to €3,583 million at December 31, 2018 showing an increase of 18.7% compared to €3,018 million at December 31, 2017, broken down by product line.

The above-mentioned figures do not include the “Held to Collect” portfolio, which was reclassified to receivables due from customers starting from January 1, 2018, following the provisions of the new Bank of Italy circular no. 262/2005 as subsequently amended.

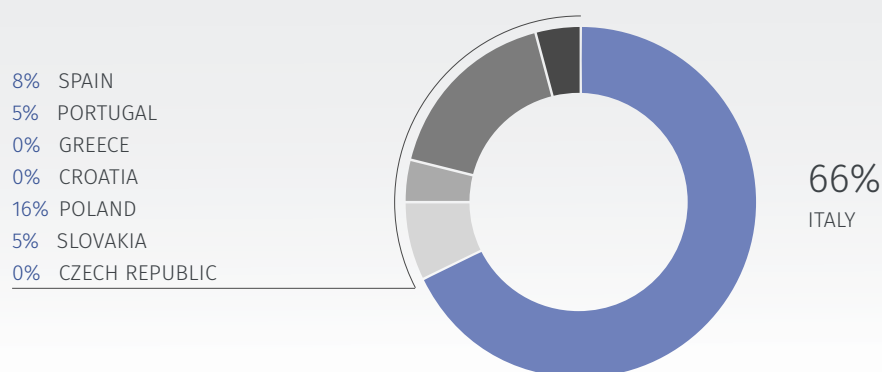
(In € millions)

	12/31/2017	12/31/2018
Factoring	2,460	2,896
Loans to customers	478	616
Other receivables	75	66
Finance leases	6	5
Due from customers	3,018	3,583

The following chart gives a geographic breakdown of receivables due from customers. The Bank’s main market is Italy, which accounts for 66% of assets under administration. The Bank’s international footprint is also growing steadily: banking operations at the European level (excluding Italy) account for 34% of total assets under administration (up 32% from 2017).

Moreover, in December 2018 the BFF Banking Group, in order to extend its leadership position in the management and non-recourse factoring of accounts receivable due from public administration agencies in Europe, finalized its first acquisition of receivables in Croatia, where it operates pursuant to the regulations on the freedom to provide services. Specifically, the BFF Banking Group purchased a portfolio of healthcare receivables due from Croatia’s main public hospitals from a multinational leader in the orthopedic industry. Croatia has thus become the eighth market served by the BFF Banking Group, joining Italy, Poland, the Czech Republic, Slovakia, Spain, Portugal, and Greece.

Geographical breakdown of receivables



During the month of June 2018—and for the first time in Italy—Banca Farmafactoring and Citelum (a subsidiary of the French Group EDF and international market leader in managing public lighting systems and related urban services) signed an agreement aimed at transferring receivables due from public administration agencies and relating to investments for technological upgrades and energy efficient improvements in infrastructures.

This new financial solution developed by the BFF Banking Group is particularly innovative as it allows the assignor to transfer receivables deriving from investments in infrastructure upgrades and, at the same time, to purchase receivables arising from multi-year contracts for infrastructure supply and maintenance.

In September 2018, the Bank finalized a new agreement with Pfizer, a global leader in the research, production, and marketing of drugs, for the servicing of receivables associated with the entire distribution system (including pharmacies, nursing homes, and wholesalers).

This service will provide the customer with a more effective enterprise resource planning and customer relationship management model, as it will be supported by a single entity.

In addition, in September the Bank launched a new “dynamic discounting” service capable of optimizing cash flows and strengthening the production chain.

Specifically, this will allow the BFF Banking Group’s customers to manage their capital even better as well as offer competitive payments terms to their suppliers based on the relevant liquidity requirements all through a web interface developed in partnership with FinDynamic, a FinTech firm specialized in dynamic discounting processes that was the first company to introduce them in Italy.

In addition, the Group entered into a new partnership with Pfizer to extend the services for the management and collection of accounts receivable to the entire Italian pharmacy industry (pharmacies, private healthcare providers and wholesalers). Thanks to this deal, BFF will cover all public and private debtors within Italy’s pharmaceutical sector. The Group may enter into similar agreements with other customers in the pharmaceutical and medical devices industry, collecting data on the recoverability of receivables in these new segments and potentially developing new non-recourse factoring products in the future. At the moment, the deal covers only debt management and collection services.

Credit quality

In 2018, credit quality continued to be good and characterized by a high solvency of the counterparties: the following table shows the net impaired positions compared to December 31, 2017.

(In € millions)

	12/31/2017	12/31/2018
Non-performing loans (NPLs)	18.2	40.3
Of which purchased performing	15.4	32.4
Of which purchased already impaired	2.8	7.9
Unlikely to pay exposures	6.7	6.7
Past due exposures	69.8	72.7
Total	94.7	119.7
Total NPL/RECEIVABLES	0.6%	1.1%
Total NPE/RECEIVABLES	3.1%	3.3%

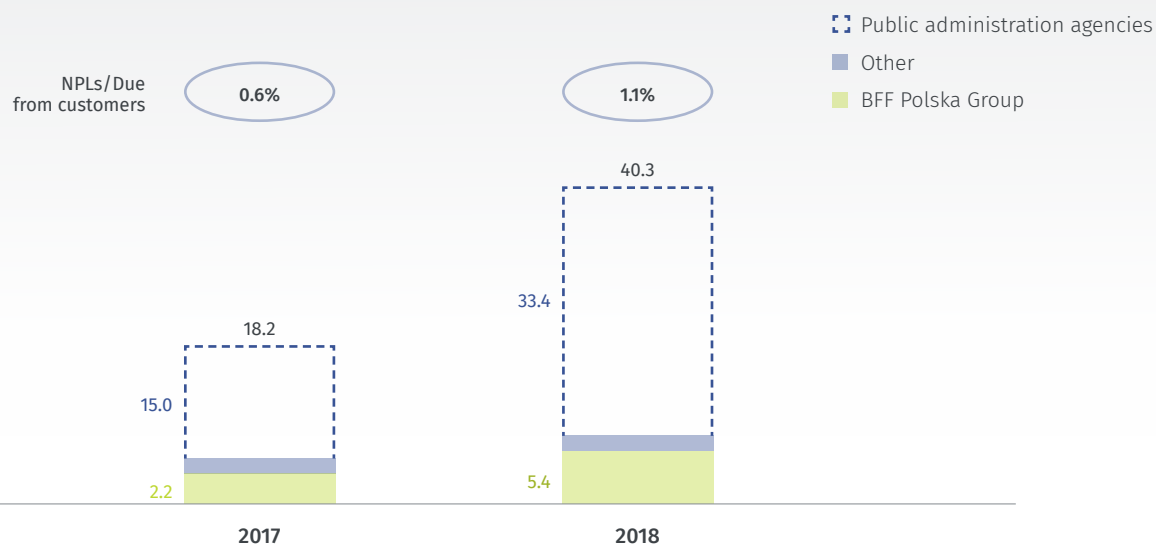
Total impaired exposures amounted to €119.6 million compared to €94.7 million in 2017.

Past due exposures of €72.7 million mainly consist of amounts due from public administration agencies (mostly local entities) and other public sector companies accounting for 64% of the total.

Non-performing loans totaled €40.3 million at December 31, 2018, with an NPL ratio accounting for 1.1% of total receivables due from customers. Of this amount, €33 million relates to receivables concerning “municipalities in financial distress”, of which €8 million were purchased already impaired. Without the amount concerning municipalities in financial distress, the NPL ratio would be 0.2% instead of 1.1%, in line with the previous year’s figures.

Municipalities in financial distress are classified as non-performing loans, in compliance with the Supervisory Authority’s regulations, although the BFF Banking Group is entitled to receive 100% of principal and late payment interest at the end of the insolvency procedure. In particular, €1.2 million is due from Ospedale San Raffaele.

The following chart shows the change in non-performing loans and the ratio of NPLs to receivables due from customers.



Adjustments to impaired assets in the year (risk cost) account for 13 bps, of which 5 bps concern the run-off “SME-Factoring for business” product (net residual exposure of €3 million and 57% hedging), and 5 bps concern municipalities in financial distress. Without these items, risk cost would be 3 bps.

Funding

During the reporting period, the Bank has continued to work for the expansion, diversification and optimization of the deposit-taking structure. The BFF Banking Group offers an online deposit account on the Italian market (Conto Facto), aimed at retail and corporate customers and guaranteed by the FITD.

Banca Farmafactoring’s Spanish branch offers a similar online deposit account on the Spanish market (Cuenta Facto), also aimed at retail and corporate customers and guaranteed by the FITD.

Moreover, in Germany the Banca Farmafactoring’s Spanish branch offers, in compliance with regulations on the freedom to provide services, deposit-taking services aimed exclusively at retail customers, using the Weltsparen online platform.

Furthermore, at the end of the third quarter of 2018, Banca Farmafactoring filed the application to open a branch in Poland by the end of the second quarter of 2019, aimed at diversifying and further reducing the costs of funding activities in Polish zloty.

At December 31, 2018, the deposit-taking activity relating to Conto Facto and Cuenta Facto, including the deposits of the German platform, totaled €924 million, in line with the previous year’s figures (€1,000 million), despite a cut in the interest rates offered to customers. This accounts for 29% of corporate funding sources.

At December 31, 2018, the total amount of available funding (net of Acquisition Financing) was €3,607 million, increasing by €149 million compared to the amount available at December 31, 2017 of €3,458 million (net of Acquisition Financing for PLN 378 million). As already pointed out, this amount consists of deposit-taking activity for €924 million, bond issues for €561 million, financial resources from the wholesale funding of the BFF Banking Group and its subsidiaries, equal to €1,871 million, and securitizations for €150.0 million. Furthermore, the issue of Tier 2 bonds of €100 million should also be taken into account.

Overall use was equal to €3,168 million net of exposures arising from repurchase agreements and Acquisition Financing.

In particular, the main activities undertaken during the year 2018 were as follows:

- the Farmafactoring SPV I S.r.l. securitization transaction came to an end at the end of the amortization phase, leading to the special purpose vehicle being liquidated and cancelled;
- as far as the Flexible Note BFF SPV S.r.l. securitization transaction is concerned, in the third quarter of 2018, all the activities relating to the renewal of the revolving period due to end in January 2019 were performed. A new agreement was established and a new revolving period was set, due to end on the Note Payment Date of February 17, 2020;
- various ALM operations were carried out, directed at optimizing and improving the financial structure. The most significant among these related to some banking facilities implemented by:
 - the early termination of stand-by and term loans entered into with a leading Italian lender (for

- €75 million and €50 million respectively, and which were originally due in 2020), and provision of two new facilities including better conditions, agreed on in April and November 2018 respectively, for an amount equal to €50 million (due in 2020);
- the partial repayment of Acquisition Financing which was due at the end of May 2019 (down from PLN 355 million to PLN 185 million, with simultaneous early termination of the IRS for hedging purposes with a positive fair value of €190 thousand) and due date postponement from May 27, 2019 to June 30, 2021;
 - the underwriting of a new term loan contract, totaling PLN 220 million and due in February 2021, aimed at refinancing the above-mentioned partial repayment as well as Treasury Shares for an amount of PLN 23 million;
 - the arrangement of new multi-currency lines (euro, Polish zloty, and Czech koruna) and multi-borrower lines with a “credit mandate” by the BFF Banking Group in favor of BFF Polska and its subsidiaries, for a total of €279 million at December 31, 2018.

In order to facilitate access to the bond market, on November 30, 2018 the Bank finalized an innovative “EMTN - European Medium Term Notes Program” with an overall cumulative issue limit of €1 billion. The 12-month Program is a flexible instrument allowing the Bank to easily access the market by seizing favorable windows of opportunity in a timely manner. The issues to be carried out under the Program will concern several categories of financial instruments (Preferred Senior Bonds, Non-Preferred Senior Bonds, or Subordinated - Tier 2 Bonds) and will be reserved for institutional investors in Italy and abroad with the exclusion of the United States of America, pursuant to Regulation S of the United Securities Act. The issues may be denominated in euro and zloty (or other currencies to be defined) and the bonds may have a floating or fixed rate.

With regard to the funding activities of BFF Polska and its subsidiaries, the following activities were carried out, aimed at improving the efficiency of their financial structure and developing the Group's expected funding synergies deriving from the acquisition of the BFF Polska Group:

- repayment of bonds issued in euros was completed in April. Therefore, at December 31, 2018, the bonds issued by the subsidiary BFF Polska currently outstanding are denominated in Polish zloty (equal to €11.4 million) at a rate of 4.8%, and they are expected to be fully repaid by the end of 2019;
- at December 31, 2018 credit lines with local banks in euro, Polish zloty and Czech koruna amount to an equivalent value of €326 million.

Equity and Own Funds

The BFF Banking Group's equity amounted to €366 million at December 31, 2018, up from €363 million at December 31, 2017, which included profit for the year of €96 million, of which €84 million were distributed.

The following table shows the BFF Banking Group's own funds pursuant to the Consolidated Law on Banking, amounting to €344.6 million at December 31, 2018; the overall exposure to risks, relating to the activities carried out, is more than adequate in relation to the level of capitalization and the identified risk profile. Such own funds do not include profit for the period because, in accordance with group dividend policy, this profit is destined to be fully distributed as dividends until the total capital ratio for the BFF Banking Group remains at 15% as per the Consolidated Law on Banking.

(In € millions)

	12/31/2017	12/31/2018
Own funds	352.2	344.6
CET1 Capital Ratio	12.6%	10.9%
Tier 1 Capital Ratio	12.6%	10.9%
Total Capital Ratio	17.5%	15.2%

The decrease in the BFF Banking Group's own funds compared to December 31, 2017 was influenced by including in the calculation (i) the reduction, equal to €4.2 million after taxes, in the HTC&S securities revaluation reserve, which was caused by the decrease in the fair value of Italian government securities evidenced in 2018; (ii) a €2.7 million decrease in the translation reserve due to the revaluation of the exchange rates; and (iii) the deduction from own funds of treasury shares of €1.7 million. After the Bank of Italy authorized the repurchase in December 2018, this amount was deducted from the calculation of Own Funds and the relevant regulatory indicators at December 31, 2018, even though the repurchase program was launched following the Board's resolution dated February 8, 2019.

Considering the Total Capital Ratio, equal to 15.2% for the Banking Group pursuant to the Consolidated Law on Banking and 15% for the CRR Group, in line with the dividend policy approved by the Board of Directors of the Bank, which envisages a target Total Capital Ratio of 15% for the CRR Banking Group, the distribution of the entire normalized consolidated profit of €91.8 million and the allocation of €0.4 million to Tier 1 Capital were proposed.

The commitment of the Banking Group and the majority Shareholder at the CRR Group level not to distribute dividends resulting in a Total Capital Ratio lower than 15% represents a guarantee of capital adequacy.

With reference to the CRR Group, which includes the majority shareholder, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio are 10.8%, 11.7% and 15.0%, respectively.

It should be noted that capital ratios at December 31, 2018 have benefited from a) DBRS upgrading Greece to B initially, and then to BH; as a result, the risk weight relating to receivables due from Greek public administration agencies decreased from 150% to 100%; b) the application of Article 115, paragraph 2, and Article 116, paragraph 4 of the CRR which, thanks to the new EBA lists, allow to apply a 0%

risk weight to Spanish local entities and other local authorities—including hospitals—treating them as exposures to the central government.

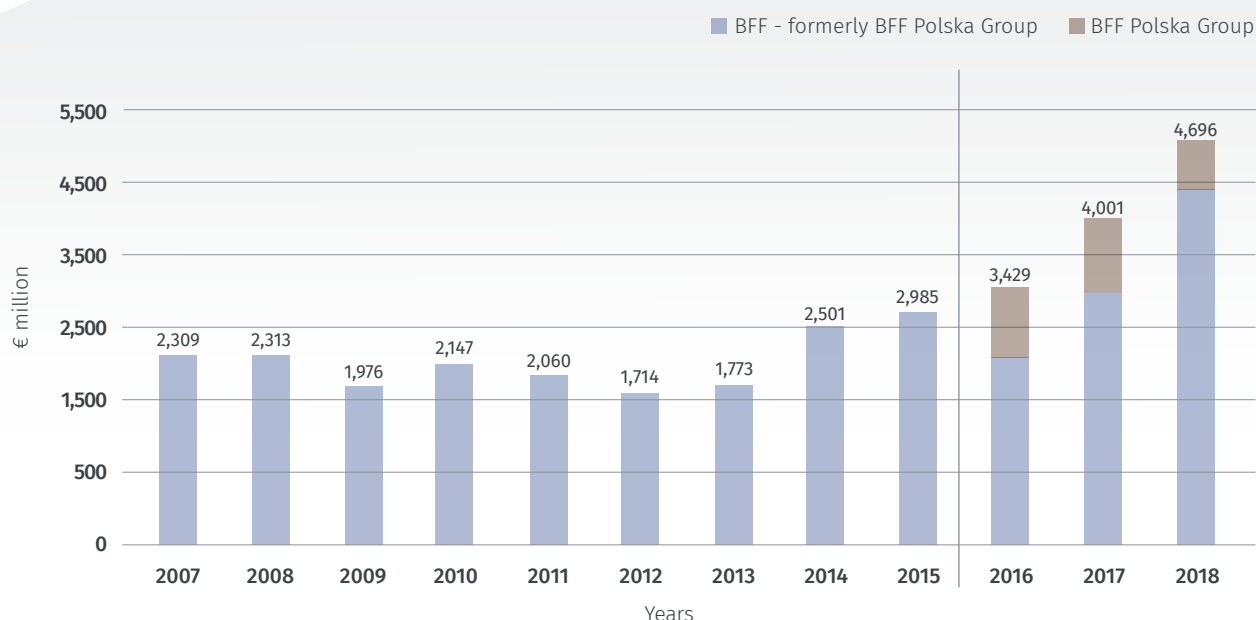
Performance of the BFF Banking Group

At December 31, 2018, the consolidated net profit amounted to €92.2 million, and included Banca Farmafactoring’s profit of €73.4 million, the subsidiary BFF Finance Iberia’s profit of €4.4 million, and the BFF Polska Group’s profit of €14.0 million.

With reference to the BFF Polska Group, consolidated profit amounted to PLN 59.5 million at December 31, 2018, equal to €14.0 million at the average exchange rate for the period (4.2615), compared to PLN 33.8 million for 2017, equal to €8 million at the same exchange rate, thus increasing by 76%.

The following chart shows the total volumes of new purchases of the BFF Banking Group, which totaled €4,697 million, up 17.4% compared to €4,001 million in 2017. These figures refer to the non-recourse purchases of Banca Farmafactoring, BFF Finance Iberia and the new volumes generated by the BFF Polska Group in 2018.

New volumes



Total non-recourse purchases in Italy amounted to €3,162 million, up 10% from €2,871 million at December 31, 2017. BFF Polska Group’s volumes amounted to €548 million in 2018, in line with previous year’s figures (€546 million).

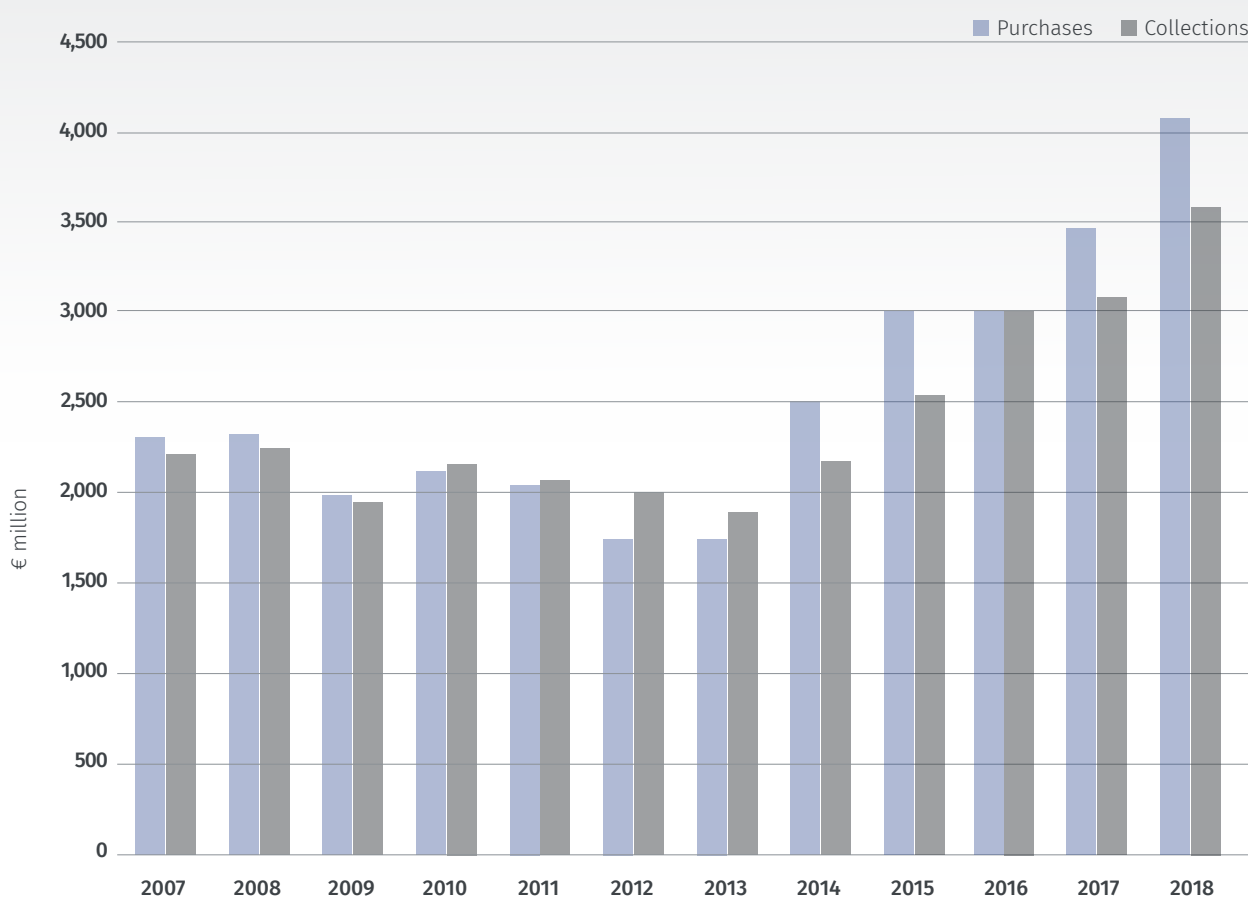
As for Spanish receivables, purchase volumes amounted to €701 million, up 67% compared to €419 million in 2017. In Spain, concerted commercial efforts have managed to compensate for the effect of reduced payment times following the liquidity injections made by the Government over the years. Purchase of receivables due from the Portuguese public sector amounted to €266 million, a considerable increase (+77%) compared to €150 million in 2017.

Purchases made in Greece amounted to €17 million (+25%).

In December, the BFF Banking Group concluded the first transaction for the purchase of receivables in Croatia: the volume of receivables from the Croatian healthcare system purchased during the year amounted to €2 million.

The positive trend of non-recourse purchases by the BFF Banking Group (BFF Polska Group excluded) is shown below (from €3,455 million in 2017 to €4,148 million at December 31, 2018) with the related collections.

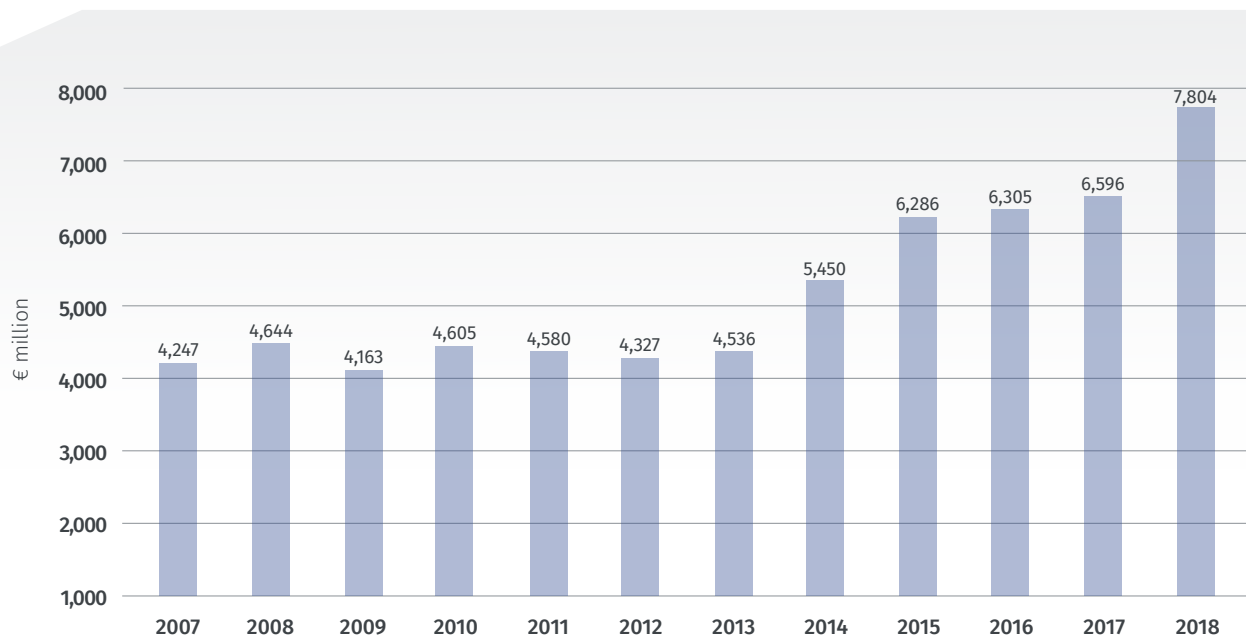
Non-recourse receivables: purchases and collections



Volumes at December 31, 2018 broken down by country in which the BFF Polska Group operates are as follows: €486 million in Poland (up 2% compared to 2017), €52 million in Slovakia (down 22% compared to 2017), €10 million in Czech Republic (up 185% compared to the previous year).

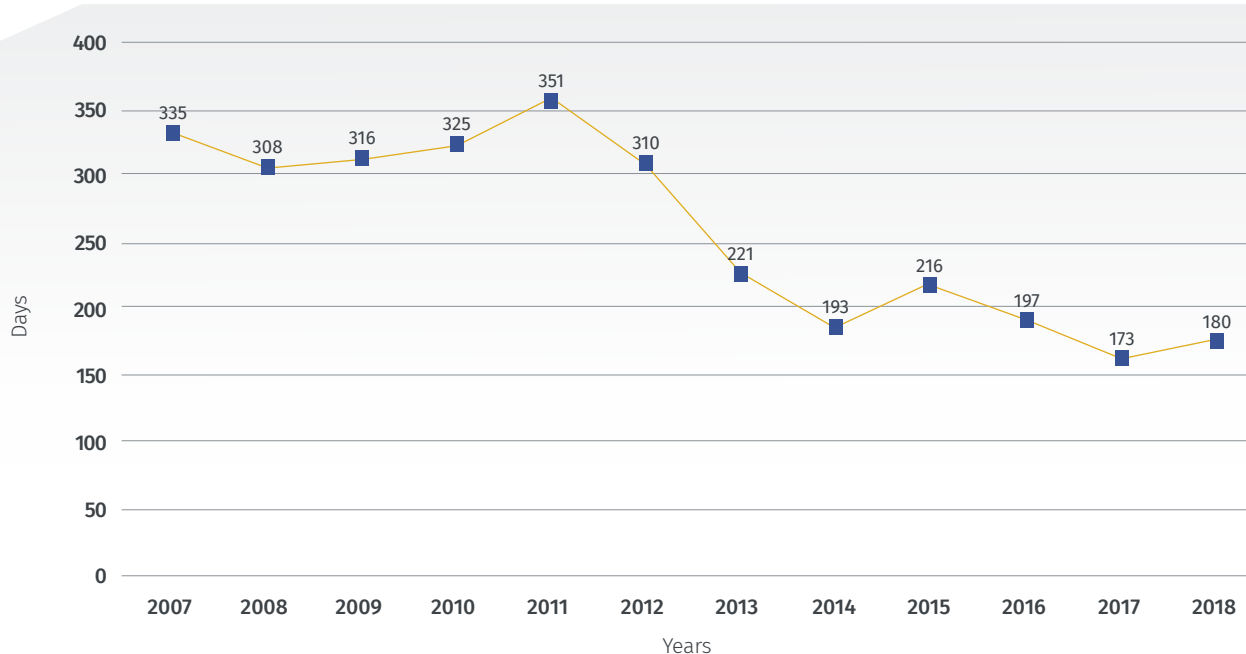
Also considering management activities, overall volumes amounted to €7,804 million, compared to €6,596 million in 2017, increasing by 18.3%.

Overall volumes



In 2018, the average days sales outstanding concerning receivables managed by Banca Farmafactoring directly and on behalf of third parties, were equal to 180 in Italy, compared to 173 in 2017, as shown in the chart below, which shows the average days sales outstanding over the last 10 years.

Average days sales outstanding in Italy: management and non-recourse receivables



Significant Events during the Period

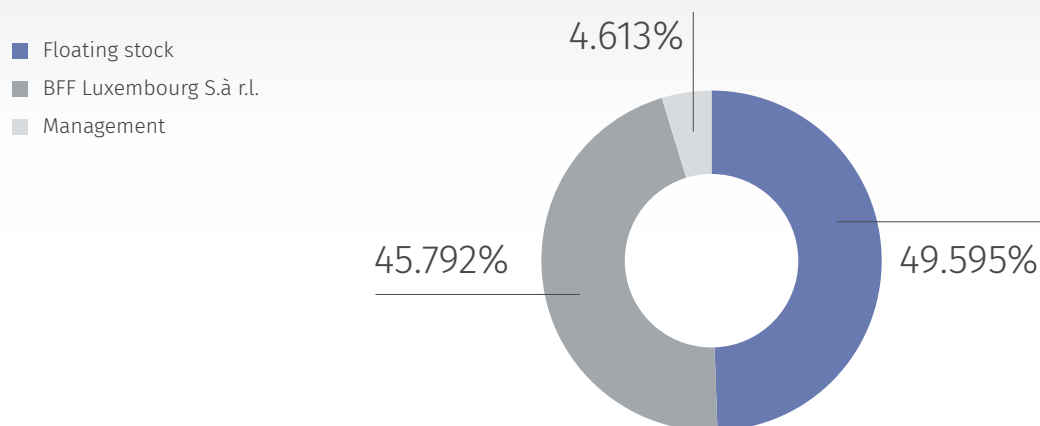
Shareholder Structure

On February 21, 2018, BFF Luxembourg S.à r.l. informed that it completed the sale of 17.25 million BFF shares, equivalent to 10.1% of the Bank's capital, through an accelerated book build.

Subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 55.8% to 45.792%. In order to carry out the transaction, the banks acting as Joint Global Coordinators in the Group IPO agreed to grant a waiver to the lock-up commitments taken on by BFF Luxembourg S.à r.l. upon listing.

The following chart shows the breakdown of Banca Farmafactoring's shareholder structure following the above-mentioned transaction.

Shareholding structure



It should be noted that, after 12 months of the listing date, the lock-up period expired for the majority shareholder, the managers, the employees and the former employees of the Banking Group.

On April 6, 2018, BFF Luxembourg S.à r.l. signed a lock-up agreement with the CEO and six other Bank managers. Under this agreement they commit not to dispose of a part of the shares held, accounting for 2.6% of the share capital, for a maximum period of three years. BFF Luxembourg S.à r.l. granted those shareholders the option to purchase an equal number of the Bank's ordinary shares, currently held by BFF Luxembourg S.à r.l..

Based on the information made available by the company, at the end of 2018 the members of administration and control bodies and key management personnel held 4.6% of the share capital.

Shareholder's Meeting Resolutions

Pursuant to Article 14 of the company's bylaws, relating to the composition of the Board of Directors, the Bank's Ordinary Shareholders' Meeting of April 5, 2018 resolved that the Board of Directors shall be composed of nine members remaining in office for three years (2018, 2019 and 2020). Their term of office will end on the date of the Meeting convened to approve the financial statements for the year 2020.

The names of the nine directors were decided by vote at the same Ordinary Shareholders' Meeting, with respect given to minority representation and gender balance as required by Law 120/2011. During the Ordinary Shareholders' Meeting, Mr. Salvatore Messina was confirmed as Chairman of the Board of Directors.

With regards to the composition of the Board of Statutory Auditors, the Shareholders' Meeting decided by vote the new members and Chair for the Board of Statutory Auditors, who will remain in office for the three-year period 2018-2020.

Finally, the Shareholders' Meeting authorized the Board of Directors to purchase up to 26,196,539 Banca Farmafactoring shares for the purposes described in the "Treasury shares" section of this report.

Group Rebranding

In light of the new market position of the Group—which has been expanding since 2010 and is currently operating in eight countries—and of the subsequent completion of the listing process in April 2017, a rebranding project was launched at Group level, with a single brand being adopted for all Group companies. This project ended in May 2018.

The rebranding project was driven by two main factors: (i) the Group's high specialization and professional competence in the fields in which it operates, thanks to its over thirty years' experience in factoring, and (ii) its knowledge of, and presence in local markets.

Therefore, from May 2, 2018, the BFF Banking Group operates through this common brand in the eight markets where it is present, namely Italy, Spain, Portugal, Poland, Czech Republic, Slovakia, Greece and Croatia. This further strengthens the Group's position as the only pan-European player able to respond to the financial needs of businesses supplying goods and services to the public sector in multiple markets.



The new names of subsidiaries (reminding of both the Group's brand and their geographical origins) are as follows:

- BFF Polska S.A. (formerly Magellan S.A.)
- BFF Finance Iberia S.A. (formerly Farmafactoring España S.A.)
- BFF Central Europe s.r.o. (formerly Magellan Central Europe s.r.o.)
- BFF Česká republika s.r.o. (formerly Magellan Česká Republika s.r.o.)
- BFF Medfinance S.A. (formerly Medfinance S.A.)

Opening of the Branch in Portugal, Start of Operations in Croatia in Compliance with Regulations on the Freedom to Provide Services, and Filing of the Application to Open a Branch in Poland

On January 5, 2018, the Bank received a communication from the Bank of Italy reporting that the Bank of Portugal had been notified of the Bank's intention to open a branch in Portugal.

On April 20, 2018, the Bank of Portugal confirmed that they had received the application from the Bank of Italy. On June 19, the Bank of Portugal advised that the Portuguese branch had been registered, and provided the associated registration number which identifies the branch.

On July 16, the branch officially began operations.

On January 15, 2018, the Bank received a communication from the Bank of Italy reporting that the Bank of Croatia had been notified of the Bank's intention to carry out non-recourse factoring activities in the country pursuant to the regulations on the freedom to provide services, in accordance with the Bank of Italy Circular no. 285, Part One, Title 1, Chapter 6, Section II.

During the month of June, set-up operations were completed for the processes, systems and contracts as required, in order to launch initial operations on the Croatian market.

Furthermore, it should be noted that on December 18, 2018, the BFF Banking Group concluded the first purchase of non-recourse receivables in Croatia, where the Bank operates pursuant to the regulations on the freedom to provide services. Specifically, the BFF Banking Group purchased a portfolio of healthcare receivables due from Croatia's main public hospitals from a multinational leader in the orthopedic industry.

On October 3, 2018, Banca Farmafactoring notified the Bank of Italy of its intention to open a branch in Poland. The Polish Authority KNF started the document verification procedures on January 2, 2019.

Audit of the Italian Tax Police and the Bank of Italy Supervisory Authority

In May 2018, the Italian Tax Police began an audit for the fiscal years between 2013 and 2017. After completing the audit of the year ended December 31, 2013, in October 2018 the Italian Tax Police issued a formal notice of assessment declaring that "the audit reported no adverse findings". Therefore, the year 2013 is to be considered closed for tax purposes, as the statute of limitations for assessing taxes has expired. In 2019, the audit will likely focus on the years from 2014 to 2017.

In addition, on September 24, 2018 the Bank of Italy, using the powers received under Italian Legislative Decree no. 385/93 (Consolidated Law on Banking), began an audit of the Banking Group at Banca Farmafactoring's Head Office.

At the date of preparation of the Separate Financial Statements for 2018, the findings of the audit had not yet been disclosed.

Deposit Guarantee Scheme

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

More specifically, Article 10 of such directive, transposed into Article 24, paragraph 1 of FITD bylaws, establishes the setting up, by July 3, 2024, of a mandatory contribution mechanism, according to which available financial resources should be set aside up to the target level of 0.8% of total covered deposits.

Paragraph 5 of the aforementioned Article states that member banks must annually pay ordinary contributions (the so-called Mandatory Scheme) commensurate with the amount of protected deposits outstanding at September 30 each year out of the total in the banking system, also taking into account risk adjustments resulting from the application of the new model of performance.

For 2018, the ordinary contribution due from Banca Farmafactoring amounted to €653 thousand, paid in December 2018, showing an increase compared to the previous year's figures (€546 thousand).

As concerns extraordinary contributions, Article 23 of the FITD bylaws provides that "whenever the available financial resources are insufficient to repay depositors, the member banks shall pay extraordinary contributions not exceeding 0.5% of the covered deposits per calendar year. In exceptional circumstances, and with the consent of the Bank of Italy, the FITD may require higher contributions".

On November 26, 2015, the meeting of FITD members also approved a Voluntary Scheme in addition to the Mandatory Scheme, to implement measures to support member banks at the point or at the risk of becoming insolvent. Banca Farmafactoring has decided to participate in the scheme. It then withdrew on September 17, 2017. For this reason, the Bank will no longer be forced to make additional payments to the aforesaid Voluntary Scheme.

Resolution Fund

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

The Regulation establishes a financial arrangement according to which, over a period of eight years, that is, by December 31, 2023, the member states shall provide the SRF with financial means reaching at least 1% of the amount of covered deposits of all the authorized entities within the respective territory.

In order to achieve this objective, therefore, the contributions must be collected, at least annually, from the authorized entities within the respective territory.

The ordinary annual contribution requested of Banca Farmafactoring in 2018 by the Bank of Italy with its Note of April 27, 2018 was €1,872 thousand, paid in May 2018.

The ordinary annual contribution requested in 2017 was €1,171 thousand, while in 2016 it was €1,086 thousand.

In the event that the financial resources of the National Resolution Fund are insufficient to sustain the recovery and restructuring actions carried out over time, Law 208/2015 (the so-called 2016 Budget Law) requires the banks to make additional contributions, with the amount to be determined by the Bank of Italy.

By letter dated May 25, 2018, the Bank of Italy requested the banking industry to provide an additional extraordinary contribution of €310 million for 2016, taking into account the upcoming financial needs of the Fund.

The amount charged to Banca Farmafactoring, paid in June 2018, was equal to €701 thousand. No extraordinary contributions were requested of the banking sector in 2017.

On December 28, 2016, the Bank of Italy, within the framework of the resolution scheme for the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara, requested an extraordinary contribution equal to twice the amount of the ordinary annual contribution established for 2016. For Banca Farmafactoring, this amounted to €2,179 thousand.

Internal Control

The CEO is the person responsible for the Banking Group's Internal Control system.

Pursuant to the provisions of the Supervisory Authority, the organizational framework of the Group's internal control system is based on the following three control levels.

First-level controls

First-level controls (line controls) aim to ensure that transactions are carried out correctly, and are performed by the same operating structures that execute the transactions, also with the support of IT procedures and constant monitoring by the heads of such operating structures.

Second-level controls

Second-level controls 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. They are entrusted to the Risk Management Function and the Compliance and AML Function of the Parent Company, which, consistently with the current prudential supervisory regulations, have the following main responsibilities:

- **Risk Management:** it 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; it oversees the realization of the internal process for determining adequacy of capital and liquidity risk governance and management systems ("ICAAP/ILAAP"); it monitors the controls over the management of risks, in order to define methods to measure those risks; it assists corporate bodies in designing the Risk Appetite Framework (RAF); it verifies that the limits assigned to the various operating functions are being observed; and it checks that the operations of the individual areas are consistent with the assigned risk and return objectives.
- **Compliance and Anti-Money Laundering (AML):** it supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory framework for the Bank and the Group—also through its reference persons/local functions at its subsidiaries and/or branches—, continuously verifying whether in-

ternal processes and procedures are adequate in preventing such risk and identifying the relevant risks to which the Bank and the subsidiaries are exposed; it guarantees an overall and integrated vision of the risks of non-compliance to which the Bank and the subsidiaries are exposed, ensuring adequate disclosure to the corporate bodies of the Bank and the subsidiaries. Furthermore, this function has the task of preventing and combating money laundering and terrorist financing by continuously identifying the applicable rules in this area, and of verifying the coherence of the processes with the objective of ensuring that the Bank and the Group conform to the law on anti-money laundering and counter-terrorist financing. It is also responsible for the controls required by the anti-money laundering law, so as to prevent the use of the financial system for purposes of laundering profits from criminal activities and financing terrorism.

Third-level controls

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

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

The Internal Audit function carried out, for the year 2018, the testing activities established in the Group's multi-year 2016-2018 audit plan, subject to annual updating, by carrying out follow-up activities and reporting on the results of its testing on a quarterly basis to the Bank's governance and control bodies, through its dashboard.

In particular, the Internal Audit function, as function of the Parent, was in charge of the management and coordination of the activities carried out by the BFF Polska Internal Audit function.

In addition, the checks envisaged for 2018 in the Group audit plan were carried out, according to a risk-based logic, on the internal structures of the Bank, on the subsidiary BFF Finance Iberia, on the Spanish and Portuguese branches, on BFF Polska and its subsidiaries, and on the new Croatian market where the Bank has been operating pursuant to the regulations on the freedom to provide services since the second half of 2018.

The process for audit planning and management of the BFF Banking Group and BFF Polska was certified under the new quality standard UNI ISO 9001:2015 and was deemed to be compliant.

The Head of the Internal Audit function is responsible for the internal reporting system (so-called whistle-blowing process) in accordance with the reference banking regulations, and prepared the 2018 report for the Banking Group, which states that no reports were received by the Bank or its branches or subsidiaries.

Supervisory Body pursuant to Italian Legislative Decree 231/2001

The Bank has an Organization, Management and Control Model pursuant to Italian Legislative Decree 231/2001 (hereinafter referred to as the “Model”), prepared in compliance with the provisions of the above-mentioned Legislative Decree 231/2001, as well as the guidelines issued by ASSIFACT, ABI and Confindustria in accordance with industry best practice.

During 2018, the Model was updated as per the resolutions passed by the Board of Directors following an analysis of the most recently introduced types of criminal offenses as well as to account for the Bank’s organizational changes.

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 Italian Legislative Decree 231/2001, and the structure of the Supervisory Body as well as the system of sanctions to prevent violation of the provisions contained in the Model.

In addition, the Model 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 Bank’s operations; ii) the Protocols as per Italian Legislative Decree 231/2001, which detail the operations, audits, and reporting mechanisms intended to ensure the Bank’s organizational and control system—including the foreign branches in Spain and Portugal—complies with the rules in the Decree; iii) the Information Flows to the Supervisory Body.

The Code of Ethics is part of the Model: this document defines the set of ethical values embraced by the Group and that allow, among other things, to prevent the criminal offenses as per Italian Legislative Decree 231/2001.

The Bank makes sure that all employees receive adequate training, especially in the event of updates to external and internal regulations concerning the topics set out in Italian Legislative Decree 231/2001.

The activities of the Supervisory Body carried out in 2018 aimed mainly to assess the adequacy of the Model, to monitor information flows, and to carry out independent audits also with the support of the Internal Audit function. The Supervisory Body reported to the Board of Directors on its work, specifically stating it did not receive any complaint relevant to Italian Legislative Decree 231/2001 during 2018.

The Supervisory Body was also constantly updated, to the extent of its competence, on projects that are strategically relevant for the Bank, and shared the updates of the 231 Organization Model approved by the Board of Directors in 2018.

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

- the Spanish subsidiary BFF Finance Iberia adopted its own Organizational Model in accordance with Article 31-bis of the Spanish Penal Code, similar to the Bank’s 231 Organizational Model (general section, specific section on activities at risk and information flows), with an independent, monocratic Supervisory Body;
- the Polish subsidiary BFF Polska and its subsidiaries adopted specific guidelines to govern “anti-corruption” issues, with the identification of a relevant, monocratic body, represented by the BFF Polska’s Compliance and AML Function.

Systems Development

In 2018, investments were made in the Information & Communication Technologies sector. These investments were directed to applications software, basic software and hardware, to ensure the availability, continuity, performance and security of the systems (see Bank of Italy Circular no. 285, and subsequent updates, regarding systems and operating continuity, Regulation (EU) 2016/679 and the international standards ISO/IEC 27001:2013 - ISO/IEC 27002:2013).

More specifically, the following main projects were implemented:

- update of the infrastructure and activation of new physical and logical server systems, new systems for communication and safety at the Bank's production and disaster recovery Data Centers;
- creation of new software systems, mainly aiming at:
 - Asset Liability Management (ALM);
 - Management of Electronic Loan Document (*Pratica Elettronica di Fido, PEF*) in Spain and Portugal.

Furthermore, new software functions within the factoring system were implemented to manage the new Portuguese branch, to manage the Croatian market, to manage the Greek market of public administration agencies, to monitor customers, for a judicial settlement of receivables, to manage pharmacies and nursing homes, for an increasingly automated pricing process in relation to receivables portfolios to be purchased, and for an automated management of counterparty risk monitoring.

Change in Staff Headcount

In order to support the development plans of the BFF Banking Group and seize growth opportunities, the number of staff has been steadily increased over the years.

At December 31, 2018, the total number of BFF Group employees amounted to 452 staff members, of which 217 in Italy, 3 at the Banca Farmafactoring branch in Lisbon (of which 1 seconded from the headquarters in Italy), 35 in Spain (8 at the Banca Farmafactoring branch in Madrid, and 27 at BFF Finance Iberia), 179 in Poland, 14 in Slovakia, and 4 in the Czech Republic. During 2018, the Bank added 36 people, of whom 14 in Italy, 3 in Spain, 18 in Poland, and 1 in Slovakia.

The following table shows the composition of the Group's staff broken down by the countries in which the BFF Banking Group operates through a permanent establishment.

Category	2017						2018						
	Italy	Spain	Poland	Slovakia	Czech Republic	TOT	Italy	Spain	Poland	Slovakia	Czech Republic	Portugal	TOT
Senior Executives/ Executives	15	1	5	-	-		15	1	5	0	-	-	21
Managers/ Middle Managers/ Professionals	66	12	25	2	-		80	13	26	2	-	3	124
Specialists	120	21	133	8	4		122	21	148	12	4	-	307
Total by country	201	34	163	10	4		217	35	179	14	4	3	
Group Total for the year	412						452						

Such figures do not include 19 staff working at Kancelaria Prawnicza Karnowski i Wspólnik sp.k. and Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k..

Share Performance

Banca Farmafactoring shares (ISIN code IT0005244402) have been traded on the Mercato Telematico Azionario (MTA) of Borsa Italiana in the Blue Chips segment since April 07, 2017, and are part of the following FTSE indexes:

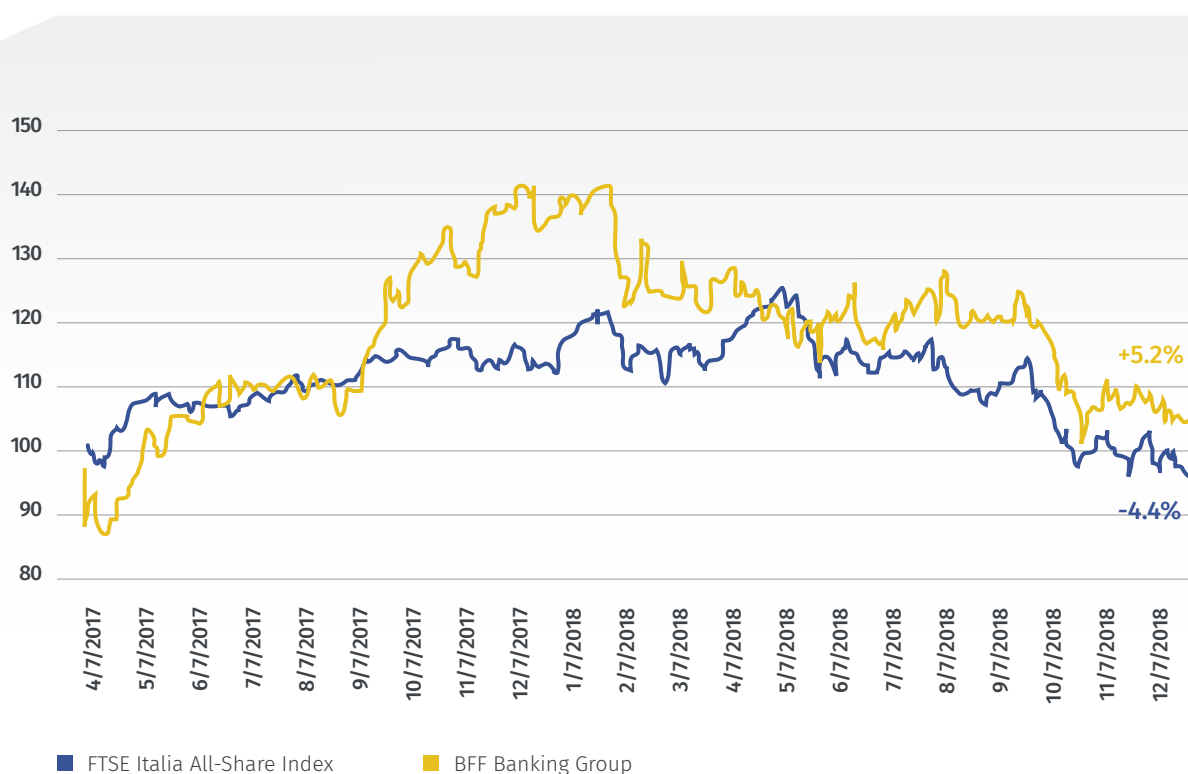
- FTSE All-Share Capped;
- FTSE Italia All-Share;
- FTSE Italia Mid Cap;
- FTSE Italia Finanza;
- FTSE Italia Servizi Finanziari;
- FTSE Italia PIR Mid Cap;
- FTSE Italia PIR Mid Small Cap;
- FTSE Italia PIR PMI All;
- FTSE Italia PIR PMI Plus;
- FTSE Italia PIR Benchmark;
- FTSE Italia PIR Large and Mid Cap.

BFF shares are also included in various S&P and MSCI indexes (including MSCI WORLD IMI/SPECIAL FINANCE)

The share price at December 31, 2018 was €4.54, decreasing by 3.4% compared to the share placement price of €4.7. Since listing, the Bank has distributed dividends of €0.492 per share. Taking into consideration the distributed dividends, and assuming them to be reinvested in the BFF share on ex-date,

total return for shareholders at December 31, 2018 compared to the placement price was 5.2%. The FTSE Italia All Share Index total return was instead negative: -4.4% in the same period.

Total Return (Rebased to 100)



Main Balance Sheet Items

The key items in the consolidated balance sheet are commented below and described in greater detail in the Notes in Part B.

Financial assets measured at fair value through OCI

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Government securities - (HTC&S)	101,285	160,592	59,307
Equity investments	17	17	0
Equity securities	147	147	0
Total	101,449	160,756	59,307

The item mainly includes government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €165 million. The average duration of such securities is 44.4 months.

These securities earn interest at variable rates (CCT) and have residual maturity dates within five years.

At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity under "Revaluation reserves".

At December 31, 2018, the negative reserves on HTC&S government securities (formerly AFS) amounted to approximately €4,170 thousand, net of taxes.

Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such securities were classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.

Financial assets measured at amortized cost

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Government securities - (HTC)	1,120,610	948,206	(172,404)
Due from banks	44,792	62,758	17,966
Due from customers	3,018,486	3,582,806	564,320
Total	4,183,888	4,593,770	409,882

Starting from January 1, 2018, the item "Financial assets measured at amortized cost - Due from customers" includes debt securities in the Held to Collect (HTC) portfolio in addition to loans to customers, pursuant to the updates of Bank of Italy's Circular no. 262, in compliance with the new IFRS 9. Such government securities were classified in the category belonging to the Held to Collect (HTC) business model.

The amount consists entirely of government securities, classified in the Held to Collect (HTC) portfolio, purchased to hedge liquidity risk and to optimize the cost of money, for a total face value of €917 million. The average duration of such securities is 29.1 months.

These securities are at a fixed rate (BOT, BTP and CTZ), with maturity dates related to the sources of committed and unsecured funding. They are classified in the HTC portfolio and, therefore, they are measured at amortized cost, and interest calculated using the effective rate of return is recognized in the income statement.

The fair value of the HTC securities at December 31, 2018 amounted to €940.9 million, with a negative difference, after tax, over the carrying amount at the same date, of approximately €5 million that has not been recognized in the financial statements.

“Due from banks” mainly consists of current account balances of the BFF Banking Group companies at the end of the year.

The item includes €4,928 thousand in the mandatory reserve deposit with DepoBank, as Banca Farmafactoring is an indirect participant in that system, and €3,076 thousand deposited with Banco de España as CRM (*Coeficiente de Reservas Mínimas*) for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto.

Details of “Due from customers” are as follows:

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Non-recourse receivables	2,437,738	2,890,309	452,571
Receivables purchased below face value	51,725	43,567	(8,158)
Other receivables	529,023	648,929	119,906
Total	3,018,486	3,582,805	564,319

Receivables purchased without recourse are measured at amortized cost based on the present value of estimated future cash flows, and include both principal and late payment interest accruing from the receivable due date for the amount considered recoverable based on the time series analysis on the percentages and recoverability times.

Since 2014, every year the Bank has been updating the analysis of the time series concerning the average collection percentage and time for late payment interest. In 2018, it once again reviewed the average collection percentage and time for late payment interest, updating the existing time series.

Concerning this review, please consider the following:

- for the year 2018, the Bank added more depth to its time series by including the reference basis for 2018 in the existing time series;
- the depth of the time series appears to be significant for all existing relationships: the database for the Italian Public Administration, which dates back to 2010, is especially deep.

The outcome of this analysis has confirmed for 2019, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian public administration. However, a prudent decision was made to consider, also for 2018, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by Banca Farmafactoring.

Other receivables mainly refer to loans of the BFF Polska Group subsidiary.

Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such receivables were classified in the category belonging to the Held to Collect (HTC) business model.

Credit quality

In order to assess its credit exposures, with the goal of—among others—identifying any potential 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 €119.7 million at December 31, 2018, with impairment losses totaling €16.3 million, are divided into the following categories.

Non-performing loans

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

At December 31, 2018, the total non-performing loans of the Banking Group, net of impairment, amounted to €40.3 million, of which €7.9 million purchased already impaired. Among these non-performing exposures, €32.3 million (80% of the total) concerned municipalities in financial distress. Gross non-performing loans amounted to €53.4 million and were adjusted to the tune of €13.1 million. Among these gross NPLs, €3.5 concerned municipalities in financial distress and €3.5 million referred to the BFF Polska's factoring-for-business product which was being amortized.

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

Unlikely to pay exposures

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

At December 31, 2018, gross exposures classified as unlikely to pay totaled €8.7 million; adjustments to the tune of €1.9 million were recognized, thus determining a net amount of €6.8 million.

Impaired past due exposures

These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days.

At December 31, 2018, total net past due exposures amounted to €72.6 million for the whole Group, of which 64% referring to the Public Administration and public sector companies of the countries where the Banking Group operates.

The Banking Group's gross exposures totaled €73.8 million and relevant adjustments amounted to €1.3 million.

In 2018 credit quality remained good: total net non-performing loans amounted to €40.3 million, thus increasing compared to 2017, mainly due to the increase in purchases of non-recourse receivables due from local entities by the Parent. The ratio of net NPLs to receivables due from customers was 1.1%, up compared to 2017 (0.6%).

With reference to measurements and calculation of impairment, in compliance with IFRS 9,

methodology is based on the new expected loss model, which prospectively considers credit losses over the life of the financial instrument and requires their immediate recognition rather than on the occurrence of a trigger event as required by the incurred loss model pursuant to IAS 39.

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—), redefined based on a multi-period perspective, is deemed feasible.

More specifically, the new expected loss impairment model requires companies to segment their portfolios into three levels (stages), in relation to the change in credit risk of the asset compared to initial recognition.

In particular, Stage 1 includes performing exposures showing no significant increase in credit risk in the period between the initial recognition date and the reporting date. In this case, expected losses are measured over a period no longer than 12 months.

Stage 2 includes exposures showing a significant deterioration in credit quality compared to initial recognition, and the entire residual life of the asset is used to calculate the expected loss (lifetime parameter).

Stage 3 includes financial instruments whose credit risk deteriorated significantly, to the point that the exposure is considered impaired (non performing). For exposures classified in this stage too, expected loss is calculated over the lifetime of the asset but, unlike the positions recorded in Stage 2, impairment is measured on a case-by-case basis. Stage 3 also includes impaired past due exposures (non performing), which are however subject to specific adjustments calculated on a collective basis (Stage 2), since—despite volatility and the Banking Group’s core business—specific measurement is not needed for impaired past due exposures.

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

(Amounts in € thousands)

Type	12/31/2017			12/31/2018		
	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount
Impaired exposures purchased performing (Stage 3)	101,806	(9,900)	91,906	125,388	(13,560)	111,828
Impaired exposures purchased non-performing (Stage 3)	4,197	(1,373)	2,824	10,561	(2,699)	7,862
Performing exposures (Stage 1 and 2)	2,928,988	(5,232)	2,923,756	3,465,716	(2,601)	3,463,115
Total	3,034,991	(16,505)	3,018,486	3,601,665	(18,860)	3,582,805

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, plant and equipment and intangible assets

(Amounts in € thousands)

	12/31/2017	Increase	Decrease	12/31/2018
Property, plant and equipment				
Land	3,685	0	0	3,685
Buildings	6,820	0	(325)	6,495
Furniture and fixtures	235	2	(56)	181
Electronic systems	1,010	254	(615)	649
Other	1,046	333	(400)	979
Total	12,795	590	(1,397)	11,988

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

The measurement at first-time adoption resulted in an approximately €4 million revaluation of the buildings, from €5 million to €9 million.

(Amounts in € thousands)

	LIFE	12/31/2017	Increase	Decrease	12/31/2018
Intangible assets					
Goodwill		22,146			22,146
Other intangible assets:	FINITE				
Internally generated	INDEFINITE				
Other intangible assets:	FINITE	3,888	2,206	(1,834)	4,259
other	INDEFINITE				
Total		26,034	2,206	(1,834)	26,406

Intangible assets amounted to €26,034 million and include goodwill of €22,146 thousand, fully arising from the acquisition of the BFF Polska Group by BFF in May 2016. Such goodwill was recognized after the completion of the PPA process carried out during 2017 in compliance with IFRS 3. The residual amount refers to investments in new multi-year programs and software.

Tax assets and liabilities

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Tax assets	30,917	34,227	3,310
<i>current</i>	25,884	26,045	161
<i>prepaid</i>	5,033	8,182	3,149
Tax liabilities	82,456	88,302	5,846
<i>current</i>	25,628	22,585	(3,043)
<i>deferred</i>	56,828	65,717	8,889

Current tax assets totaled €34,227 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.

Current tax liabilities amounted to €88,302 thousand; they include the accrual of income taxes for the year of Group companies.

Deferred tax liabilities amounted to €65,717 thousand; they mainly include the taxes calculated on Banca Farmafactoring's late payment interest accrued and to be accrued, and will be paid upon collection.

Financial liabilities measured at amortized cost

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

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Due to banks	657,993	1,237,996	580,003
Due to customers	2,495,987	2,349,856	(146,131)
<i>Of which due to financial institutions</i>	200,323	230,497	30,174
Debt securities issued	790,138	815,177	25,039
Total	3,944,118	4,403,029	458,911

"Due to banks" refers to loans granted by the banking system to the Parent Company and the subsidiary BFF Polska.

"Due to financial institutions" mainly refers to cooperation agreements with financial entities other than banks.

"Due to customers" includes €924 million for the online deposit accounts Conto Facto and Cuenta Facto, and €1,031 million for repurchase agreements with the counterparty *Cassa di Compensazione e Garanzia*, executed to refinance the Bank's securities portfolio.

“Debt securities issued” amounted to €815.2 million at December 31, 2018.

The item includes:

- the 2016-2021 bond issued by Banca Farmafactoring for a total face value of €150 million;
- the first subordinated unsecured and unrated €100 million Tier 2 bond issued by Banca Farmafactoring, with a duration of 10 years and the right to an issuer call date in the fifth year;
- the five-year senior unsecured and unrated €200 million bond issued in June 2017;
- the 30-month senior unsecured €200 million bond issued in December 2017;
- the €150 million Flexible Notes arising from the new securitization transaction;
- debt securities issued by the subsidiary BFF Polska denominated in Polish zloty and equal to €11.5 million.

During the reporting period, repayment of bonds for an overall amount of €24 million was made by BFF Polska.

Provisions for risks and charges

At December 31, 2018, “Provisions for risks and charges” totaled €4,980 thousand. They mostly include allocations to “Pension and other post-employment benefits” of €3,977 thousand and “Other provisions” of €806 thousand.

(Amounts in € thousands)

Items	12/31/2017	Increase	Decrease	12/31/2018
Commitments and guarantees provided	0	198	0	198
Employee benefits	4,366	1	(390)	3,977
Other provisions	1,079	39	(312)	806
Total	5,445	238	(702)	4,980

“Pension and other post-employment benefits” are measured pursuant to IAS 19 based on an actuarial valuation.

Allocations to other provisions refer to risks of different kinds that the BFF Banking Group’s companies may face.

Main Consolidated Income Statement Items

A brief comment on the main income statement items is provided below, while for a more in-depth description reference should be made to the section relating to the results of operations and to Part C of the Notes.

At December 31, 2018, the Group's profit amounted to €92.2 million, compared to €95.5 million recognized in the prior-year period.

Net banking income

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Maturity commissions and late payment interest on non-recourse receivables	189,852	174,567	(15,285)
Interest income on securities	4,352	5,494	1,142
Other interest	43,739	51,542	7,803
Interest income	237,943	231,603	(6,340)
Interest expense	(39,930)	(42,866)	(2,936)
Net fees and commissions	6,455	5,693	(762)
Dividends and similar income	60	2	(58)
Gain (losses) on trading	(5,482)	2,535	8,017
Gain (losses) on hedge accounting	32	111	79
Gain (losses) on disposal of financial assets measured at fair value through OCI	1,759	386	(1,373)
Net banking income	200,837	197,464	(3,373)

The recognition of maturity commissions and late payment interest on purchases of non-recourse receivables in the income statement reflects the effective return from the application of the "amortized cost" criterion for measuring non-recourse receivables purchased, in accordance with IFRS 9. This implies that the income is recognized in relation to the return deriving from the expected cash flows.

The amount of maturity commissions and late payment interest on non-recourse receivables of Banca Farmafactoring and BFF Finance Iberia totaled €174,567 thousand in 2018, compared to €189,852 thousand in 2017.

Banca Farmafactoring 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. The outcome of this analysis has confirmed for 2018, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower

than those recorded for receivables due from the Italian public administration. However, a prudent decision was made to consider, also for 2018, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by Banca Farmafactoring.

On an annual basis the net impact of “over-recovery” (i.e., late payment interest collected exceeding 45%, net of reschedulings) on late payment interest recognized in profit or loss was higher (€19.5 million at December 31, 2018 compared to €16.9 million at December 31, 2017) despite lower late payment interest collections.

Specifically, late payment interest collected at December 31, 2018 amounted to €90 million compared to €114 million at December 31, 2017. Over-recovery net impact of €2.6 million was higher than in the previous year due to the combined effect of (i) recovery rates higher than late payment interest, and (ii) fewer reschedulings in 2018 compared to 2017.

At the end of 2018, the provision of off-balance-sheet late payment interest not recognized in profit or loss amounted to €356 million, up 2% compared to the figures recognized at the end of 2017 (€350 million).

The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €563 million at December 31, 2018, of which approximately €41 million relating to Spanish debtors, €33 million to Portuguese debtors, and €1 million to Greek debtors. Of this interest, a total of €207 million was recorded in the income statement in current and prior years.

Interest income on securities, amounting to €5.5 million, originates from government securities classified in the HTC&S (formerly AFS) and HTC (formerly HTM) portfolios. They are measured at amortized cost, and interest calculated using the effective rate of return is recognized in the income statement.

The amount also includes interest income calculated at amortized cost, generated by the BFF Polska Group’s funding, for a total amount of €48.2 million.

Interest expense increased from €40 million at December 31, 2017 to €42.9 million at December 31, 2018. This increase in absolute terms is primarily due to a higher outstanding balance, interest expense on the Tier 2 bonds of €5.9 million at December 31, 2018, compared to €4.9 million in 2017.

As previously mentioned, the reporting period has not yet fully benefited from the reduction in rates offered on the new deposit accounts opened by customers.

Net fees and commissions show a €0.7 million decrease compared to the prior year, as presented in the following table.

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Fee and commission income	7,713	7,193	(520)
Fee and commission expenses	(1,258)	(1,500)	(242)
Net fees and commissions	6,455	5,693	(762)

Gains on trading amounted to €2.5 million; they include the exchange differences on foreign currency loans among Group companies and with other financial intermediaries, notably the loan payable in Polish zloty secured for the acquisition of the BFF Polska Group, equal to €88 million, before taxes, at December 31, 2018. This corresponds to a related negative effect deriving from the revaluation of the exchange rates applied to the equity of the BFF Polska Group in consolidated equity.

Fair value measurement in 2018 of the BFF Polska Group's derivatives for which hedge accounting was not applied was also included.

A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value. In this latter case, the changes in the hedging derivative's fair value are recorded in equity.

The hedge ineffectiveness is represented by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item, recognized in the income statement under item 90 "Gains (losses) on hedge accounting".

At December 31, 2018 the BFF Banking Group did not have any derivative hedging contracts.

Gains on disposal of securities refer to the sale of government securities in the HTC&S (formerly AFS) portfolio made during the reporting period, which generated a gain of €385 thousand, before the tax effect.

Administrative expenses

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Personnel costs	27,619	32,577	4,958
Other administrative expenses	34,380	35,579	1,199
Total administrative expenses	61,999	68,156	6,157

The increase in this item can mainly be traced to an increased number of employees and to higher personnel costs over the year.

The amount also includes expenses for employee stock options at listing, for €1.3 million, before taxes. Furthermore, such expenses generated an increase in equity attributable to the Bank and the Group of the same amount, before taxes.

Other administrative expenses amounted to €35.6 million at December 31, 2018, showing an increase compared to 2017. They include the €0.7 million extraordinary contribution to the Single Resolution Fund for 2016, before taxes, and the €0.7 million increase in the relevant contribution for 2018.

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

Going concern

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

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

A performance review of the last few years shows a continuing positive trend.

The data can be summarized as follows:

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

A summary of relevant quantitative information is provided below.

(Amounts in € millions, unless otherwise indicated)

Items	12/31/2017	12/31/2018
Net interest margin	198.0	188.7
Net banking income	200.8	197.5
EBTDA	141.2	132.3
Net income	95.5	92.2
R.O.E. (Return On Equity) (%)	36%	34%
Net banking income / Non-recourse volumes (%)	5.8%	4.5%
Net banking income / Interest and similar income (%)	83.2%	81.5%
Own funds / Due from customers (%) (1)	0.60%	1.13%
NPLs (net of impairment) / Due from customers (%)	22.2%	19.1%
Leverage	16.6	18.03
Equity	363.8	366.2
Own funds	352.2	344.6

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 Regulation CRR (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 2013.

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

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

The regulation applicable at December 31, 2018 is based on three pillars.

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

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

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

Pillar II - The ICAAP/ILAAP Report

In accordance with prudential supervisory provisions, and in order to allow the Supervisory Authority to carry out an accurate and comprehensive assessment of the fundamental qualitative characteristics of the equity and financial planning process, the risk exposure and the consequent calculation of total internal capital and relevant liquidity reserves, the Bank—as Parent—has prepared the “ICAAP/ILAAP 2017 Report” on internal processes for determining adequacy of capital and 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.

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

To this end, the Board of Directors of Banca Farmafactoring has approved a dedicated procedure denominated “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.bffgroup.com** at least once a year, within the deadline established for the publication of the financial statements, thus 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 Banca Farmafactoring Banking Group will publish on its website **www.bffgroup.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.

Reconciliation between Equity and Profit for the Year of the Parent Company and the Consolidated Figures of the Group

As previously mentioned in the section on the Group structure, the Group is active in Italy, Portugal, Greece and Croatia through Banca Farmafactoring, in Spain through BFF Finance Iberia, and in Poland, the Czech Republic and Slovakia through BFF Polska and its associated companies (the so-called “BFF Polska Group”).

The following table shows the reconciliation of the parent company’s balances (as far as equity and profit or loss for the year are concerned) to the corresponding balances of the BFF Banking Group.

(Amounts in € thousands)

	Equity at 12/31/2017	Of which Profit (loss) at 12/31/2017	Equity at 12/31/2018	Of which Profit (loss) at 12/31/2018
Parent Company’s balances	332,878	79,478	319,670	73,390
Effect of transactions among Group companies (including dividends)				
BFF Finance Iberia - adjustment due to derecognition of equity investment	9,052		16,844	
BFF Finance Iberia - profit	7,792	7,792	4,386	4,386
BFF Polska - adjustment due to derecognition of equity investment	2,072		9,841	
BFF Polska - profit	7,954	7,954	13,969	13,969
Exchange differences - Translation reserves	3,773		1,026	
Other consolidation adjustments	324	324	505	408
Equity attributable to non-controlling interests	10			
Group consolidated balances	363,856	95,548	366,240	92,153

Other Information Required by Article 2428 of the Italian Civil Code

Related party transactions

As for transactions with related parties and associated parties, the Board of Directors of Banca Farmafactoring S.p.A., on November 11, 2016, approved, with effect subject to the start of trading on the MTA managed by Borsa Italiana (i.e., from April 7, 2017), the “Policies on internal controls adopted by the BFF Group to manage conflict of interests” (referred to as “Policy to manage conflicts of interests”) and the “BFF Group Regulation for the identification, management and approval of transactions with parties that may be in a conflict of interest” implementing the supervisory provisions of the Bank of Italy Circular no. 263 of December 27, 2006, Title V, Chapter 5, and the Consob Regulation on transactions with related parties, adopted by resolution no. 17221 of March 12, 2010, as subsequently amended by resolution no. 17389 of June 23, 2010, following a favorable opinion expressed by the Board of Statutory Auditors and the Related Party Committee.

The Policy to manage conflicts of interests regulates the control processes aimed at ensuring the correct measurement, monitoring and management of the risks assumed by the Group with associated parties.

The 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 Bank to risks not adequately measured or supervised, and potential damage for shareholders and stakeholders.

The BFF Banking Group Regulation for the management of transactions with parties that may be in a conflict of interest and the Policy to manage conflicts of interest are communicated to the Shareholders’ Meeting and the public via the Bank’s website under the section Governance procedures and regulations “transactions with associated parties”.

Related parties include investee companies belonging to the BFF Banking Group, as described in the section “Structure of the Group”.

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

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

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

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

The Bank complied with the Corporate Governance Code for listed companies—approved in March 2006 by the Corporate Governance Committee and promoted by Borsa Italiana as amended in July 2018—as described in the Bank's Corporate Governance Report and Ownership Structure.

Unusual or atypical transactions

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

Events subsequent to the end of the reporting period

There are no other events or facts subsequent to the end of the reporting period such as to require an adjustment to the results of the financial statements for the year ended December 31, 2018.

Treasury shares

At December 31, 2018, the Bank owned 41,552 treasury shares (accounting for 0.020% of share capital), purchased as part of the buyback program launched in February 2018.

On December 14, 2018 the Bank was authorized by the Bank of Italy to purchase other treasury shares worth a maximum of €1.68 million, as per the authorization of the Shareholders' Meeting of April 5, 2018.

Since the Supervisory Authority's authorization was received during the reporting period, the entire authorized amount was used to calculate the Bank's own funds at December 31, 2018, pursuant to operating instructions included in EBA guidelines on the application of Regulation (EU) 2014/241 - RTS for Own Funds requirements for institutions.

In addition, please note that, at the date of approval of this document, pursuant to the above resolutions and authorizations, the BFF Banking Group acquired 319,752 treasury shares from February 8 to February 14, 2019, totaling a combined €1,679,999 net of fees.

The treasury share purchase plan aims to equip the Bank with sufficient financial instruments in order to meet the requirements of the remuneration and incentive systems as per the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of the BFF Banking Group".

Other offices

Banca Farmafactoring has an office in Rome, Via Bertoloni 1/E. In 2015, the Bank opened a Spanish branch in Madrid and, as previously mentioned, it opened a Portuguese branch in Lisbon on July 16, 2018.

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

Business Outlook

According to the approved planning guidelines, BFF will pursue the activities undertaken in past years, developing commercial policies geared to strengthen its relationships with existing clientele and expanding operations for the management of receivables deriving not only from the supply of drugs or diagnostic products, but also from other merchandise sectors as well as arising from services in relation to the public administration in general, in European Union countries.

In a still challenging economic and financial scenario, the Group has further strengthened its position on a local level by building up commercial relations and diversifying banking and funding relationships, in order to reduce as much as possible the risk of concentration of relationships and minimize the time required for sums to be credited by the entities of the National Health System and the public administration.

Commercial efforts will focus on the management and expansion of relationships with traditional customers, the acquisition of new customers and the development of new products in the various countries where the Group operates as well as in new markets.

Growth opportunities for 2019 include opening a new branch in Poland—the Bank of Italy was notified of the Bank's intention in October 2018. The Polish Authority KNF started the relevant document verification procedures on January 2, 2019. Further assessments to penetrate other European markets are also underway.

Appropriation of the Banking Group's Profit

The Banking Group's Profit for the year ended December 31, 2018 amounted to €92,152,892.

In line with the dividend policy approved by the Bank's Board of Directors, which envisages a target of 15% of the Total Capital Ratio for the CRR Banking Group, the Banking Group's consolidated profit is proposed to be allocated as follows:

- €91,753,234 to Shareholders, who will be entitled to a dividend of €0.539 for each of the 170,107,400 shares held;
- €399,658 as Banca Farmafactoring S.p.A.'s retained earnings reserve, which includes, as mentioned before, the positive exchange rate effect arising from the revaluation of the loan payable in Polish zloty used for the acquisition of the BFF Polska Group, the charges relating to stock options assigned to some employees in the first quarter of 2018, and the contribution to the European Single Resolution Fund (SRF) for 2016.

The following proposal for the appropriation of Banca Farmafactoring's profit will be submitted to the Shareholders' Meeting of the Bank on March 28, 2019.

Proposal for the Appropriation of Banca Farmafactoring's Profit

Dear Shareholders,

The financial statements of Banca Farmafactoring S.p.A. at December 31, 2018 show a profit of €73,389,737, which we propose to allocate as follows:

- €399,658 to the Retained earnings reserve;
- €72,990,079 to Shareholders.

We also propose to allocate €18,763,155 to Shareholders, to be withdrawn from the Retained earnings reserve, so that the total proposed dividend is equal to €91,753,234.

Furthermore, we submit the consolidated financial statements at December 31, 2018, which, although not requiring the approval of the Shareholders' Meeting, supplement the disclosure already provided through the Bank's separate financial statements. Consolidated profit at December 31, 2018 amounted to €92,152,892.

Shareholders will therefore be entitled to a dividend of €0.539 for each of the 170,107,400 shares held (first ex-date: April 1, 2019).

Pursuant to Article 83-terdecies of Italian Legislative Decree no. 58 of February 24, 1998, as subsequently amended and supplemented (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary pursuant to Article 83-quater, paragraph 3 of the Consolidated Law on Finance, at the end of the accounting date of April 2, 2019 (record date). The aforementioned dividend—before tax provided for by the law—will be paid on April 3, 2019 (payment date).

Now, therefore, we submit the following resolution proposal for your approval:

“The Shareholders' Meeting of Banca Farmafactoring S.p.A., having acknowledged the report on operations prepared by the Board of Directors, the Board of Statutory Auditors' report and the Independent Auditors' report, having examined the separate financial statements at December 31, 2018 and acknowledged the Group's consolidated financial statements,

resolved

- i. to approve the separate financial statements for the year ended December 31, 2018, and the relevant report on operations prepared by the Board of Directors, showing profit for the year of €73,389,737;*
- ii. to withdraw €18,763,155 from the “Retained earnings” reserve to be distributed to Shareholders; after such allocation, the above-mentioned reserve will decrease to €66,565,157;*
- iii. to distribute to Shareholders part of the net profit for the year of €72,990,079, in addition to €18,763,155 withdrawn from the “Retained earnings” reserve, for an overall amount of dividends to be distributed of €91,753,234, equal to €0.539—before tax provided for by the law— for each of the 170,107,400 ordinary share outstanding at the second ex-date (April 1, 2019). Such dividend includes the portion attributable to any treasury share held by the company at the record date. Pursuant to Article 83-terdecies of Italian Legislative Decree no. 58 of February 24, 1998 (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary pursuant to Article 83-quater, paragraph 3 of the Consolidated Law on Finance, at the end of the accounting date of April 2, 2019 (record date);*
- iv. to allocate the remaining amount of net profit for the year of €399,658 to the Retained earnings reserve;*
- v. that such dividend will be paid as of April 3, 2019. Payment will be made through authorized intermediaries with which shares have been registered within the Monte Titoli system.”*

The Chairman
of the Board of Directors
Salvatore Messina

Consolidated Financial Statements
at December 31, 2018

02

Consolidated Balance Sheet

(Amounts in euros)

Assets	12/31/2018	12/31/2017^(*)
10. Cash and cash equivalents	99,457,728	80,932,835
20. Financial assets measured at fair value through profit or loss	0	545,846
<i>c) other financial assets mandatorily measured at fair value</i>	0	545,846
30. Financial assets measured at fair value through OCI	160,755,859	101,449,267
40. Financial assets measured at amortized cost	4,593,770,324	4,183,888,076
<i>a) due from banks</i>	62,758,477	44,792,419
<i>b) due from customers</i>	4,531,011,848	4,139,095,657
50. Hedging derivatives	0	321,839
70. Equity investments	172,037	260,893
90. Property, plant and equipment	11,988,426	12,794,887
100. Intangible assets	26,405,901	26,034,157
of which		
- goodwill	22,146,189	22,146,189
110. Tax assets	34,226,870	30,917,074
<i>a) current</i>	26,044,837	25,883,920
<i>b) deferred</i>	8,182,033	5,033,154
130. Other assets	14,747,460	9,795,958
TOTAL ASSETS	4,941,524,605	4,446,940,832

(*) Reclassified according to the fifth update to the Bank of Italy Circular no. 262 of December 22, 2017.

(Amounts in euros)

Liabilities and Equity	12/31/2018	12/31/2017^(*)
10. Financial liabilities measured at amortized cost	4,403,029,388	3,944,117,768
<i>a) due to banks</i>	1,237,996,379	657,992,541
<i>b) due to customers</i>	2,349,855,548	2,495,986,713
<i>c) debt securities issued</i>	815,177,461	790,138,514
20. Financial liabilities held for trading	0	535,073
60. Tax liabilities	88,301,821	82,455,762
<i>a) current</i>	22,584,878	25,627,899
<i>b) deferred</i>	65,716,944	56,827,864
80. Other liabilities	78,123,708	49,683,022
90. Employee severance benefits	848,841	848,138
100. Provisions for risks and charges:	4,980,559	5,445,278
<i>a) commitments and guarantees provided</i>	197,735	0
<i>b) pension and other post-employment benefits</i>	3,977,004	4,366,009
<i>c) other provisions for risks and charges</i>	805,820	1,079,269
120. Revaluation reserves	843,738	7,693,804
150. Reserves	142,505,681	129,621,486
170. Share capital	130,982,698	130,982,698
180. Treasury shares	(244,721)	0
190. Equity attributable to non-controlling interests	0	10,000
200. Profit (loss) for the period	92,152,892	95,547,803
TOTAL LIABILITIES AND EQUITY	4,941,524,605	4,446,940,832

(*) Reclassified according to the fifth update to the Bank of Italy Circular no. 262 of December 22, 2017.

Consolidated Income Statement

(Amounts in euros)

Items	12/31/2018	12/31/2017 ^(*)
10. Interest and similar income <i>of which: interest income calculated using the effective interest rate method</i>	231,603,472 195,472,036	237,943,026 199,854,385
20. Interest and similar expenses	(42,866,119)	(39,930,476)
30. Net interest margin	188,737,353	198,012,550
40. Fee and commission income	7,193,486	7,712,965
50. Fee and commission expenses	(1,500,612)	(1,257,719)
60. Net fees and commissions	5,692,874	6,455,246
70. Dividends and similar income	2,409	59,723
80. Gains (losses) on trading	2,534,971	(5,481,911)
90. Gains (losses) on hedge accounting	110,652	32,279
100. Gains (losses) on disposal or repurchase of: <i>a) financial assets measured at amortized cost</i> <i>b) financial assets measured at fair value through OCI</i>	385,291 (459) 385,750	1,758,957 1,758,957
120. Net banking income	197,463,551	200,836,844
130. Net adjustments/reversals of impairment for credit risk relating to: <i>a) financial assets measured at amortized cost</i> <i>b) financial assets measured at fair value through OCI</i>	(4,812,599) (4,804,281) (8,318)	(6,747,983) (6,046,114) (701,869)
140. Gains/losses from contractual changes without derecognition	0	0
150. Net profit from financial activities	192,650,952	194,088,861
180. Net profit from financial and insurance activities	192,650,952	194,088,861
190. Administrative expenses: <i>a) personnel costs</i> <i>b) other administrative expenses</i>	(68,156,319) (32,577,445) (35,578,874)	(61,999,105) (27,619,336) (34,379,769)
200. Net allocations to provisions for risks and charges <i>a) commitments and guarantees provided</i> <i>b) other net allocations</i>	(960,125) (30,416) (929,709)	(830,829) (830,829)
210. Net adjustments to/reversals of impairment of property, plant and equipment	(1,486,671)	(1,443,853)
220. Net adjustments to/reversals of impairment of intangible assets	(1,728,877)	(1,689,849)
230. Other operating income (expenses)	3,945,939	3,849,450
240. Operating costs	(68,386,053)	(62,114,186)
290. Profit (loss) before tax from continuing operations	124,264,899	131,974,675
300. Income taxes on profit (loss) from continuing operations	(32,112,007)	(36,426,872)
310. Profit (loss) after tax from continuing operations	92,152,892	95,547,803
330. Profit (loss) for the period	92,152,892	95,547,803
350. Profit (loss) for the period attributable to owners of the Parent	92,152,892	95,547,803
Basic earnings per share	0.54	0.56
Diluted earnings per share	0.53	0.56

(*) Reclassified according to the fifth update to the Bank of Italy Circular no. 262 of December 22, 2017.

Consolidated Comprehensive Income

(Amounts in euros)

Items	12/31/2018	12/31/2017
10. Profit (loss) for the period	92,152,892	95,547,803
Other comprehensive income, after tax, that will not be reclassified to profit or loss		
20. Equity securities designated at fair value through OCI		
30. Financial liabilities designated at fair value through profit or loss (change in credit quality rating)		
40. Hedging of equity securities designated at fair value through OCI		
50. Property, plant and equipment		
60. Intangible assets		
70. Defined benefit plans	17,675	(20,497)
80. Non-current assets and disposal groups held for sale		
90. Portion of revaluation reserves from equity investments measured using the equity method		
Other comprehensive income, after tax, that will be reclassified to profit or loss		
100. Hedges of foreign investments		
110. Exchange differences	(2,747,544)	4,330,808
120. Cash flow hedges	(194,156)	(151,404)
130. Hedging instruments (not designated)		
140. Financial assets (other than equity securities) measured at fair value through OCI	(4,237,866)	(402,377)
160. Portion of revaluation reserves from equity investments measured using the equity method		
170. Total other comprehensive income, after tax	(7,161,890)	3,756,530
180. Comprehensive income (Items 10+170)	84,991,001	99,304,333
190. Consolidated comprehensive income attributable to non-controlling interests		
200. Consolidated comprehensive income attributable to the Parent	84,991,001	99,304,333

Consolidated Statement of Changes in Equity

(Amounts in euros)

At 12/31/2018

	Balance at 12/31/2017	Change in opening balance	Balance at 01.01.2018	Retained earnings (accumulated losses)		Change during the year							Group equity at 12/31/2018	Equity attributable to non-controlling interests at 12/31/2018	
				Reserves	Dividends and other allocations	Change in reserves	Equity transactions					Consolidated comprehensive income for the year 2018			
							Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares				Stock options
Share capital:															
- ordinary shares	130,982,698		130,982,698											130,982,698	0
- other shares														0	0
Share premium														0	0
Reserves:															
- from profits	126,907,657		126,907,657	11,854,962		(463,526)								138,299,093	0
- other	2,713,829		2,713,829			(5,267)					1,498,026			4,206,588	0
Revaluation reserves	7,693,804	311,238	8,005,042			587							(7,161,890)	843,738	0
Equity instruments														0	0
Treasury shares								(244,721)						(244,721)	0
Profit (loss) for the year	95,547,803		95,547,803	(11,854,962)	(83,692,841)								92,152,892	92,152,892	0
Group equity	363,845,791	311,238	364,157,029		(83,692,841)	(468,207)	0	(244,721)	0	0	0	1,498,026	0	84,991,001	366,240,288
Equity attributable to non-controlling interests	10,000		10,000										(10,000)	0	0

(Amounts in euros)

At 12/31/2017

	Balance at 12/31/2016	Change in opening balance	Balance at 01.01.2017	Retained earnings (accumulated losses)		Change during the year								Group equity at 12/31/2017	Equity attributable to non-controlling interests at 12/31/2017
				Reserves	Dividends and other allocations	Change in reserves	Equity transactions					Consolidated comprehensive income for the year 2017			
							Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares		Stock options		
Share capital:															
- ordinary shares	130,900,000		130,900,000				82,698							130,982,698	0
- other shares	82,698		82,698				(82,698)							0	0
Share premium	0		0											0	0
Reserves:															
- from profits	126,132,168	557,585	126,689,753	10,961		206,943								126,907,657	0
- other	0		0	0		45,761					2,668,067			2,713,828	0
Revaluation reserves	4,494,859	(557,585)	3,937,274									3,756,530		7,693,804	0
Equity instruments	0		0											0	0
Treasury shares	0		0											0	0
Profit (loss) for the year	72,136,499		72,136,499	(10,961)	(72,125,538)							95,547,803		95,547,803	0
Group equity	333,746,224		333,746,224	0	(72,125,538)	252,704	0	0	0	0	2,668,067	0	99,304,333	363,845,790	
Equity attributable to non-controlling interests	0		0									10,000	0		10,000

Consolidated Statement of Cash Flows Indirect Method

(Amounts in euros)

	Amount	
	12/31/2018	12/31/2017
A. OPERATING ACTIVITIES		
1. Operations	101,141,165	107,471,768
- profit or loss for the period (+/-)	92,152,892	95,547,803
- capital gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	0	821,761
- capital gains/losses on hedge accounting (-/+)	0	(32,279)
- net adjustments/reversals of impairment for credit risk (+/-)	4,812,599	6,747,983
- net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-)	3,215,548	3,133,702
- net allocations to provisions for risks and charges and other expenses/income (+/-)	960,125	830,829
- net premiums not collected (-)		
- other income/expenses from insurance activities not collected (-/+)		
- unpaid taxes and tax credits (+/-)		
- net adjustments to/reversals of impairment of discontinued operations, net of the tax effect (-/+)		
- other adjustments (+/-)		421,970
2. Liquidity generated/absorbed by financial assets	481,395,052	(362,080,090)
- financial assets held for trading	0	(244,420)
- financial assets designated at fair value	(545,846)	(2,855,283)
- other assets mandatorily measured at fair value		
- financial assets measured at amortized cost	414,694,847	425,358,834
- other assets	67,246,051	(784,339,221)
3. Liquidity generated/absorbed by financial liabilities	497,230,679	(313,493,661)
- financial liabilities measured at amortized cost	458,911,620	(321,114,244)
- financial liabilities held for trading	(535,073)	(293,937)
- financial liabilities designated at fair value		
- other liabilities	38,854,132	7,914,520
Net liquidity generated/absorbed by operating activities	116,976,791	156,058,196
B. INVESTING ACTIVITIES		
1. Liquidity generated by	(86,447)	19,050
- sale of equity investments	(88,857)	(40,673)
- dividends collected on equity investments	2,409	59,723
- sale of property, plant and equipment		
- sale of intangible assets		
- sale of subsidiaries and business branches		
2. Liquidity absorbed by	(2,572,926)	(3,167,909)
- purchase of equity investments	(23,911)	(174,835)
- purchase of property, plant and equipment	(481,496)	(1,127,890)
- purchase of intangible assets	(2,067,519)	(1,865,183)
- purchase of subsidiaries and business branches		
Net liquidity generated/absorbed by investing activities	(2,659,374)	(3,148,859)
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(244,721)	
- issue/purchase of equity instruments	0	0
- distribution of dividends and other	(95,547,803)	(72,125,538)
- sale/purchase of ownership interests in subsidiaries		
Net liquidity generated/absorbed by funding activities	(95,792,524)	(72,125,538)
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	18,524,893	80,783,800

Reconciliation

(Amounts in euros)

Items	Amount	
	12/31/2018	12/31/2017
Cash and cash equivalents at the beginning of the year	80,932,835	149,035
Total net liquidity generated/absorbed during the year	18,524,893	80,783,800
Cash and cash equivalents: effect of change in exchange rate		
Cash and cash equivalents at the end of the year	99,457,728	80,932,835

Notes to the Consolidated Financial Statements

Dear Shareholders,

The Notes are arranged in the following order:

- Part A - Accounting Policies
- Part B - Consolidated Balance Sheet
- Part C - Consolidated Income Statement
- Part D - Consolidated Comprehensive Income
- Part E - Risks and Related Risk Management Policies
- Part F - Consolidated Equity
- Part G - Business Combinations
- Part H - Related Party Transactions
- Part I - Share-based Payment Arrangements
- Part L - Segment Reporting

Financial statements at December 31, 2017 restated pursuant to the 5th Update of Bank of Italy's Circular 262/2005

As for figures at December 31, 2017, recognized pursuant to IAS 39 requirements, the statements of reconciliation between the old set of financial statements (still in force at December 31, 2017) and the new set of financial statements complying with the 5th Update of Bank of Italy's Circular 262/2005 (effective January 1, 2018) are provided in the following pages.

(Amounts in euros)

Assets		12/31/2017	Financial statement items pursuant to new Circular 262/2005 - 5th Update		
10.	Cash and cash equivalents	80,932,835	10.	Cash and cash equivalents	80,932,835
20.	Financial assets held for trading	0	20.	Financial assets measured at fair value through profit or loss a) financial assets held for trading b) financial assets designated at fair value c) other financial assets mandatorily measured at fair value	545,846
30.	Financial assets measured at fair value	545,846			
40.	Available-for-sale financial assets	101,449,267	30.	Financial assets measured at fair value through OCI	101,449,267
50.	Held-to-maturity financial assets	1,120,609,553	40.	Financial assets measured at amortized cost a) due from banks b) due from customers (*)	4,183,888,076 44,792,419 4,139,095,657
60.	Due from banks	44,792,419			
70.	Due from customers	3,018,486,104			
80.	Hedging derivatives	321,839	50.	Hedging derivatives	321,839
100.	Equity investments	260,893	70.	Equity investments	260,893
120.	Property, plant and equipment	12,794,887	90.	Property, plant and equipment	12,794,887
130.	Intangible assets of which - goodwill	26,034,157	100.	Intangible assets of which - goodwill	26,034,157 22,146,189
		22,146,189			
140.	Tax assets a) current b) deferred under Law 214/2011	30,917,074	110.	Tax assets a) current b) deferred	30,917,074 25,883,920 5,033,154 685,606
		25,883,920			
		5,033,154			
		685,606			
160.	Other assets	9,795,958	130.	Other assets	9,795,958
TOTAL ASSETS		4,446,940,832	TOTAL ASSETS		4,446,940,832

(*) Due from customers includes both item 70 ("due from customers"), equal to €3,018,486,104, and item 50 ("Held-to-maturity financial assets"), equal to €1,120,609,553, of the old set of financial statements.

(Amounts in euros)

Liabilities and Equity		12/31/2017	Financial statement items pursuant to new Circular 262/2005 - 5th Update	
10.	Due to banks	657,992,541	10.	Financial liabilities measured at amortized cost
20.	Due to customers	2,495,986,713		3,944,117,768
30.	Debt securities issued	790,138,514		657,992,541
			a) due to banks	2,495,986,713
			b) due to customers	790,138,514
			c) debt securities issued	
40.	Financial liabilities held for trading	535,073	20.	Financial liabilities held for trading
50.	Financial liabilities measured at fair value	0	30.	Financial liabilities designated at fair value
60.	Hedging derivatives	0	40.	Hedging derivatives
70.	Adjustments to hedged financial liabilities	0	50.	Adjustments to hedged financial liabilities
80.	Tax liabilities	82,455,762	60.	Tax liabilities
	a) current	25,627,899		82,455,762
	b) deferred	56,827,864		25,627,899
				56,827,864
90.	Liabilities associated with assets held for sale	0	70.	Liabilities associated with assets held for sale
100.	Other liabilities	49,683,022	80.	Other liabilities
110.	Employee severance benefits	848,138	90.	Employee severance benefits
120.	Provisions for risks and charges:	5,445,278	100.	Provisions for risks and charges:
	a) pension and other post-employment benefits	4,366,009		5,445,278
	b) other provisions	1,079,269		4,366,009
				1,079,269
130.	Technical reserves	0	110.	Technical reserves
140.	Revaluation reserves	7,693,804	120.	Revaluation reserves
150.	Redeemable shares	0	130.	Redeemable shares
160.	Equity instruments	0	140.	Equity instruments
170.	Reserves	129,621,486	150.	Reserves
180.	Share premium	0	160.	Share premium
190.	Share capital	130,982,698	170.	Share capital
200.	Treasury shares	0	180.	Treasury shares
210.	Equity attributable to non-controlling interests	10,000	190.	Equity attributable to non-controlling interests
220.	Profit (loss) for the period	95,547,803	200.	Profit (loss) for the period
				95,547,803
	TOTAL LIABILITIES AND EQUITY	4,446,940,832		TOTAL LIABILITIES AND EQUITY
				4,446,940,832

(Amounts in euros)

Consolidated Income Statement items		12/31/2017	Financial statement items pursuant to new Circular 262/2005 - 5th Update		
10.	Interest and similar income	237,943,026	10.	Interest and similar income <i>of which: interest income calculated using the effective interest rate method</i>	237,943,026
20.	Interest and similar expenses	(39,930,476)	20.	Interest and similar expenses	199,854,385 (39,930,476)
30.	Net interest margin	198,012,550	30.	Net interest margin	198,012,550
40.	Fee and commission income	7,712,965	40.	Fee and commission income	7,712,965
50.	Fee and commission expenses	(1,257,719)	50.	Fee and commission expenses	(1,257,719)
60.	Net fees and commissions	6,455,246	60.	Net fees and commissions	6,455,246
70.	Dividends and similar income	59,723	70.	Dividends and similar income	59,723
80.	Gains (losses) on trading	(5,481,911)	80.	Gains (losses) on trading	(5,481,911)
90.	Gains (losses) on hedge accounting	32,279	90.	Gains (losses) on hedge accounting	32,279
100.	Gains (losses) on disposal or repurchase of: a) receivables b) available-for-sale financial assets c) held-to-maturity financial assets d) financial liabilities	1,758,957	100.	Gains (losses) on disposal or repurchase of: a) financial assets measured at amortized cost b) financial assets measured at fair value through OCI c) financial liabilities	1,758,957
110.	Gains (losses) on financial assets and liabilities measured at fair value	0	110.	Gains (losses) on other financial assets and liabilities measured at fair value through profit or loss a) financial assets and liabilities designated at fair value b) other financial assets mandatorily measured at fair value	0
120.	Net banking income	200,836,844	120.	Net banking income	200,836,844
130.	Net adjustments to/reversals of impairment of: a) receivables b) available-for-sale financial assets c) held-to-maturity financial assets d) other financial transactions	(6,046,114) (701,869) 0 0	130.	Net adjustments/reversals of impairment for credit risk: a) financial assets measured at amortized cost b) financial assets measured at fair value through OCI	(6,046,114) (701,869)
			140.	Gains/losses from contractual changes	
140.	Net profit from financial activities	194,088,861	150.	Net profit from financial activities	194,088,861

Follows on the next page >>

(Amounts in euros)

150.	Net premiums	0	160.	Net premiums	0
160.	Balance of other income (expenses) from insurance activities	0	170.	Balance of other income (expenses) from insurance activities	0
170.	Net profit from financial and insurance activities	194,088,861	180.	Net profit from financial and insurance activities	194,088,861
180.	Administrative expenses: a) personnel costs b) other administrative expenses	(27,619,336) (34,379,769)	190.	Administrative expenses: a) personnel costs b) other administrative expenses	(27,619,336) (34,379,769)
190.	Net allocations to provisions for risks and charges	(830,829)	200.	Net allocations to provisions for risks and charges a) commitments and guarantees provided b) other net allocations	(830,829)
200.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,443,853)	210.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,443,853)
210.	Net adjustments to/reversals of impairment of intangible assets	(1,689,849)	220.	Net adjustments to/reversals of impairment of intangible assets	(1,689,849)
220.	Other operating income (expenses)	3,849,450	230.	Other operating income (expenses)	3,849,450
230.	Operating costs	(62,114,186)	240.	Operating costs	(62,114,186)
240.	Gains (losses) on equity investments	0	250.	Gains (losses) on equity investments	0
250.	Gains (losses) on fair value measurement of property, plant and equipment and intangible assets	0	260.	Gains (losses) on fair value measurement of property, plant and equipment and intangible assets	0
260.	Adjustments to goodwill	0	270.	Adjustments to goodwill	0
270.	Gains (losses) on disposal of investments	0	280.	Gains (losses) on disposal of investments	0
280.	Profit (loss) before tax from continuing operations	131,974,675	290.	Profit (loss) before tax from continuing operations	131,974,675
290.	Income taxes on profit (loss) from continuing operations	(36,426,872)	300.	Income taxes on profit (loss) from continuing operations	(36,426,872)
300.	Profit (loss) after tax from continuing operations	95,547,803	310.	Profit (loss) after tax from continuing operations	95,547,803
310.	Profit (loss) after tax from disposal groups held for sale	0	320.	Profit (loss) after tax from discontinued operations	0
320.	Profit (loss) for the period	95,547,803	330.	Profit (loss) for the period	95,547,803
330.	Profit (loss) for the period attributable to non-controlling interests	0	340.	Profit (loss) for the period attributable to non-controlling interests	0
340.	Profit (loss) for the period attributable to owners of the Parent	95,547,803	350.	Profit (loss) for the period attributable to owners of the Parent	95,547,803

IFRS 9 - Financial Instruments - Group's transition process

The new IFRS 9, endorsed by the European Commission through Commission Regulation (EU) 2016/2067 and effective for periods beginning on or after January 1, 2018, has replaced IAS 39 - Financial Instruments: Recognition and Measurement. The new standard aims to improve disclosure on financial instruments, by taking account of the difficulties which arose during the financial crisis. It also introduces an accounting model which can promptly reflect the expected losses on financial assets.

Qualitative impacts for the Group

The main changes introduced by IFRS 9 can be summarized in the following three areas:

i) Classification and measurement of financial assets, based on both the business model, in order to define the management of financial assets and relevant purposes, and on the characteristics of the expected contractual cash flows of the financial instrument (Solely Payments of Principal and Interest –SPPI–criterion).

In compliance with IFRS 9, the Bank has, on the one hand, defined the contractual cash flow characteristics of the financial instruments and, on the other, identified the management intentions with which they are held (the so-called business model). In this context, the procedures used to test the contractual cash flow characteristics were established (the so-called SPPI test) and the business models adopted were formalized.

As far as the SPPI test is concerned, the composition of the securities and receivables portfolios at December 31, 2017 was analyzed based on the methodology defined, in order to determine the proper classification upon First Time Adoption (FTA) of the new standard.

The securities portfolio of the Bank and the receivables portfolios of Group companies at December 31, 2017 were subject to all the analysis phases required by the new IFRS 9. The analysis confirmed the assessment and measurement criteria used for the Group's financial instruments. This confirmation essentially derives from having passed the SPPI tests. Upon first time adoption, marginal circumstances emerged from the analysis of certain financial instruments in the receivables portfolio, requiring, by virtue of specific contractual clauses, the performance of a benchmark test. Prior measurements were confirmed in these cases, too.

With regards to the Bank's securities portfolio, the SPPI test was performed upon first time adoption of the new accounting standard, and measurement criteria were confirmed. This test is performed with regard to continuing operations in compliance with current policies.

The Securities Portfolio is managed using two different business models: Held to Collect (“HTC”) or Held to Collect & Sell (“HTC&S”). Although no sales occurred for the HTM securities held in the portfolio, the Bank identified significant sales volumes and frequency levels requiring to analyze whether the HTC business model has been maintained.

Therefore, if sales were considered necessary/appropriate (based on the relevant business model), by virtue of common market practice, a value percentage threshold determined as the sum of the value of sales made in the period/the carrying amount of the HTC portfolio at the beginning of the period was defined.

Within the scope of the HTC&S business model, IFRS 9 does not require that frequency and value thresholds be defined. Nevertheless, based on a prudent approach, the Group defined a turnover threshold for the securities portfolio, allowing this Business Model to be distinguished from the Other model (i.e., assets held for trading).

According to the analysis of the historical data from the AFS securities portfolio over a period of time from 2014 to 2017, a turnover ratio was determined as the ratio of the total value of sales to the average inventory amount of the period $((\text{initial inventory amount} + \text{final inventory amount})/2)$.

Once this threshold is exceeded, the Bank will have to reassess the business model of the Securities Portfolio. This will not require the reclassification of the already existing assets, but it will involve a different classification of the assets acquired subsequently.

As far as receivables are concerned, following the adoption of the new IFRS 9, non-recourse receivables measured at amortized cost have been classified in the category belonging to the Held to Collect (HTC) business model.

The Group has decided not to define thresholds of value, frequency or timing prior to the maturity of the financial instrument, as no sales transactions are expected.

Therefore, if sales were considered necessary/appropriate (based on the relevant business model), by virtue of common market practice, a value percentage threshold determined as the sum of the value of sales made in the period/the carrying amount of the HTC portfolio at the beginning of the period should be considered sustainable.

With regard to the sales frequency threshold, the Bank sets the frequency threshold based on market practice.

Lastly, in more general terms, as concerns the management intentions with which financial assets are held, relevant documents were prepared to provide specific rules for the measurement and classification of financial instruments—approved by the competent levels of governance—with the aim of establishing and defining the basic elements of the business model, specifying its role with reference to the classification model provided for by IFRS 9.

As a result of IFRS 9 coming into effect, the BFF Banking Group reclassified its financial assets and liabilities existing at the date of first-time adoption (January 1, 2018) to the new categories provided for by the 5th Update of Bank of Italy's Circular no. 262 of December 22, 2017, described in detail in the section "Main items of the condensed consolidated interim financial statements".

Furthermore, as provided for by the new accounting standard, the Group decided not to recalculate the comparative data relating to previous years.

ii) Impairment, based on the new expected loss model, which prospectively considers credit losses over the life of the financial instrument and requires their immediate recognition rather than on the occurrence of a trigger event as required by the incurred loss model pursuant to IAS 39.

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—), redefined based on a multi-period perspective, is deemed feasible.

More specifically, the new expected loss impairment model requires companies to segment their portfolios into three levels (Stages), in relation to the change in credit risk of the asset compared to initial recognition.

In particular, Stage 1 includes exposures showing no significant increase in credit risk in the period between the initial recognition date and the reporting date. In this case, expected losses are measured over a period no longer than 12 months.

Stage 2 includes exposures showing a significant deterioration in credit quality compared to initial recognition, and the entire residual life of the asset is used to calculate the expected loss.

Stage 3 includes financial instruments whose credit risk deteriorated significantly, to the point that the exposure is considered impaired. For exposures classified in this stage too, expected loss is calculated over the lifetime of the asset but, unlike the positions recorded in Stage 2, impairment is measured based on specific assessments of the impaired past due portfolio or on a case-by-case basis for unlikely to pay or non-performing exposures.

Among the fundamental concepts introduced by IFRS 9, there is the transfer of financial assets from Stage 1 (allowance for 12-month expected credit losses) to Stage 2 (allowance for lifetime expected credit losses) if the credit risk increases significantly since initial recognition. Under IFRS 9, credit-impaired financial assets, i.e., those considered non-performing based on the definition of default adopted by the Group, shall be allocated to Stage 3 (allowance for lifetime expected credit losses).

With regard to the transfer of performing financial assets (recognized in Stage 1 and Stage 2), IFRS 9 does not explicitly define the concept of “significant” increase, but it specifies that the information used to measure changes in credit risk may fall into one or both of the following categories:

- qualitative/non-statistical quantitative information, not involving statistical models or the credit ratings process;
- quantitative information, captured through the internal ratings process.

Based on the provisions on stage allocation, an entity shall consider the following when assessing whether the credit risk on a financial instrument has increased significantly (see IASB, 2014, B5.5.12):

- the change in the risk of a default occurring since initial recognition;
- the expected life of the financial instrument;
- the forward-looking information that may affect credit risk.

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

In order to implement the stage allocation process proposed by IFRS 9, the Group adopted the following two criteria:

- The first (Low Credit Risk Exemption) concerns the possibility of avoiding the transition to Stage 2 if, at the reporting date, the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. An external rating of investment grade—according to the ECAIs’ master scale—is an example of a financial instrument that may be considered as having “low credit risk”.
- The second concerns the transition from Stage 1 to Stage 2 for contractual payments that are more than 30 days past due or in the case of other qualitative information (e.g., forbearance). The standard specifies that a significant deterioration in credit risk can occur even before this deadline, which is therefore intended to serve as a backstop beyond which the transition to Stage 2 shall be made and lifetime expected credit losses shall be recognized. This presumption is defined as “rebuttable”

by the standard. An entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not actually increased since initial recognition even though the contractual payments are more than 30 days past due.

In compliance with the standard, for performing exposures the aim of impairment is to recognize an Expected Credit Loss with the use of lifetime parameters for all financial instruments that have experienced a significant increase in credit risk since initial recognition, considering all of the information available without any additional costs or efforts, including forward-looking information. Inclusion of this information is reflected in the multi-period PD parameter (IFRS 9 compliant) adopted, calculated by incorporating “current” information (point-in-time concept) and “forward-looking” information through the use of macroeconomic scenarios differentiated by type of exposure, provided by a qualified external information provider.

At the end of each reporting period, the Group shall recognize a loss allowance for expected credit losses on all performing financial assets that are measured at (see IFRS 9, 5.5.1):

- Amortized cost (AC);
- Fair value through other comprehensive income (FVOCI).

The Group shall also test the following items for impairment:

- commitments and guarantees provided not measured at FVPL;
- Lease receivables governed by IAS 17;
- Trade receivables governed by IAS 15.

The consolidated methodology for the purposes of IFRS 9 mainly applies to the Group’s performing exposures, under the assumption that the calculation of Stage 3 impairment will not substantially change within this framework, multi-scenario analyses will be run.

Expected credit losses are a probability-weighted estimate of the present value of all cash shortfalls (i.e., the difference between the cash flows due under the contract and those that the bank expects to receive) which are expected in the future (or in the event of lifetime estimates, over the expected life of the financial instrument).

Therefore, 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.

The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous accounting standards are as follows:

- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the instrument, thus replacing the “incurred loss” criterion. According to the latter, impairment losses were recognized only when there was evidence that they existed (based on the identification of a trigger event). According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;
- ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;

- use of forward-looking information and macroeconomic factors to determine ECL;
- introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

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

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

Therefore, the risk parameters that should be modeled to comply with the rationale of considering the full lifetime of the financial instrument are as follows:

- multi-period PD;
- multi-period LGD;
- multi-period EAD.

The standard also specifies that expected losses should be discounted, at the reporting date, using the effective interest rate (“EIR”) method determined at the initial recognition date.

The qualitative impacts of impairment for the Group are summarized in the following paragraphs.

Probability of Default (PD)

The multi-period PD parameter is interpreted by the Group by estimating a term structure of the probability of default starting from a defined stratification level (e.g., risk bucket and rating). The multi-period PD also includes adjustments for PIT conversion and forward-looking information.

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

In the absence of an internal rating system to define the PD, the Group has adopted a model based mainly on external information sources (e.g., rating agencies). The methodological orientation was directed towards the identification of discriminating risk drivers so that a credit quality rating, and therefore a probability of default, could be assigned. This choice was guided by the following factors:

- Group’s adoption of a standard model for determining the capital requirement for credit risk;
- coherence with the methodology used to assign ratings for the calculation of collective impairment losses according to IAS 39;
- analysis of the Group’s counterparties and products (technical forms) by type.

To calculate the PD, the Group has divided its exposures into uniform clusters to distinguish the risk profiles of financial instruments requiring the calculation of value adjustments, as shown below.

- **Public counterparties:** the credit rating was assigned according to the time series of external ratings provided by the ECAI employed and referring to sovereign and sub-sovereign counterparties. The rating was assigned based on an external assessment assigned to the counterparties associated with the exposure subject to impairment, at the various observation times (reporting date and transaction origin date).

Non-public counterparties (excluding Financial Institutions): with reference to the Banca Farmafactoring S.p.A. and BFF Finance Iberia S.A. exposures, the Group considered the quarterly decay rate¹ (*“The decay rate in a given quarter is given by the ratio of two quantities. The denominator consists of the number of subjects registered in the Central Credit Register and not considered as “adjusted impairment” at the end of the previous quarter. The numerator is the number of persons who entered into adjusted impairment during the quarter of recognition. The denominator is net of any receivables assigned in the quarter to intermediaries not participating in the Central Credit Register. The denominator of the ratio, although referring to the end of the previous quarter, is conventionally reported with an accounting date in the quarter in which it is recognized (the same as the numerator and the decay rate).”*) from 1996 to the present.

As concerns BFF Polska S.A. and its subsidiaries, to calculate and define a historical default rate, the Group has adopted an approach based on the use of internal time series. Subsequently, the values identified for each year were compared with the external corporate matrix values corresponding to the probability of migration of the performing classes into the default class.

- **Financial Institution counterparties:** Financial Institution counterparties receive a credit rating assessment defined by the applicable ECAI, based on the evaluation time (reporting/origination date).

After the determination of the rating for each counterparty, the association with the one-year PD was performed using external migration matrices.

After the assignment of the one-year PD, the lifetime PD is determined using the Homogeneous Discrete-time Markov Chain Method (HDTMC), which considers the following assumptions:

- estimation of cumulative PD curves using homogeneous migration matrices;
- estimation of the probability of the migration matrix’s cumulative migration using the “cohort method” over discrete time horizons.

In line with IFRS 9, which establishes that PD estimates must incorporate not only the effects of current conditions (Point-in-Time conversions) but also macroeconomic and forecast information (supplementing forward-looking information), the Group incorporated forward-looking (FLI) and Point-in-Time (PIT) components into PD estimates, considering both current conditions and forecasts on future economic conditions, weighted by the relative probability of occurrence, provided by external information providers.

(1) In accordance with the definition adopted by the Bank of Italy’s Statistical Bulletin

The calculation methodology underlying the creation of these scenarios takes into account:

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

In particular, the following statistical techniques were used:

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

Three scenarios were chosen to calculate PIT and FLI PD:

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

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

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

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

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

Loss Given Default (LGD)

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

Since the Group has no internal models for calculating the LGD parameter, it has acquired a dedicated calculation tool. LGD values are estimated using a calculation engine from an external provider, based on a historical sample of default events and an econometric model using the characteristics of the transactions to which the exposure subject to impairment refers.

The Group assigns an LGD value to each transaction on the basis of appropriate portfolio “clustering”, taking into account the following risk factors: the probability of default associated with the counter-

party, the reference economic sector, and factors specific to the transaction (e.g., type of financing and positioning of the financing within the capital structure).

The prospective approach that characterizes the IFRS 9 impairment model requires the recognition of expected losses over the entire life of a loan. These losses should be estimated using historical, current and forward-looking data. For a correct evaluation of the expected losses, all reasonable and supportable information that is available without undue cost or effort at the date of the report subject to evaluation should be considered. The expected loss described in IFRS 9 can be approximated in its closed form to the functional form, which can be defined as the expected loss of AIRB (Advanced Internal Rating-Based) like models used to determine capital requirements, as well as the IAS 39 collective impairments, albeit with a different (multi-period) perspective.

In this context, an approach based on the use of credit risk parameters (including Exposure at Default - EAD) to define and set parameters based on a multi-period perspective, is deemed feasible. Similarly to what has already been defined in Basel models, to calculate ECL with credit risk parameters, EAD under IFRS 9 allows the definition of the exposure that a creditor will have at the time of default at a specific time over the life of the financial instrument.

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

Exposure at Default (EAD)

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

- type of exposure;
- due date.

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

- exposures with a deterministic repayment plan (known cash flows and due dates);
- stochastic exposures (unknown cash flows and/or due dates).

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

Stage Allocation

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

- Qualitative criterion: use of transfer logic triggers;
- Quantitative criterion: definition of a relative threshold and an absolute threshold.

The **qualitative criterion** takes precedence over the quantitative criterion and establishes that positions with information about non-payment days exceeding 30, or in the presence of forbearance measures, will be allocated to Stage 2.

As far as the quantitative criterion is concerned:

- the **absolute threshold** (use of the so-called Low Credit Risk Exemption consistently with the standard's provisions and in line with the Italian Association for Factoring - Assifact guidelines) exempts those transactions referring to counterparties with investment grade ratings at the date of analysis from verification of significant deterioration using a relative threshold. Positions defined as low credit risk, which at the reporting date are exempt from IFRS 9, are not subject to the control of a rating downgrade between the date of analysis and the date of origin of the transaction. Lacking qualitative triggers, these positions are allocated directly to Stage 1. This exception is applied to counterparties in the public administration and local entities, while it is excluded for private counterparties;
- instead, the definition of a **relative threshold** has the purpose of measuring the rating downgrade (at the reporting date with respect to the date of origin) for each transaction. If the number of downgrades is higher than what has been established by the threshold, differentiated according to the rating master scale used, the transaction is allocated to Stage 2. The relative threshold depends on the number of rating classes considered for each segment and is equal to 1 for those segments to which the Sovereign and Financial Institutions external matrices apply (which have 7 rating classes), while it is equal to 2 for the counterparties pertaining to the segments for which the Corporate matrix is used (which has 21 rating classes).

iii) General hedge accounting, partially modified compared to the provisions of IAS 39. Among the main changes introduced, the following are of particular importance: extension of cases in which hedge accounting can be applied; verification of hedge effectiveness, only prospectively; introduction of the option to change the hedge ratio without interrupting the pre-existing hedging relationship (so-called rebalancing). The Group opted not to apply this section of the standard starting from January 1, 2018, as specifically allowed by IFRS 9.

Activities and quantitative impacts on the Banking Group

In relation to the application of IFRS 9 as from January 1, 2018, in the first quarter of 2017 the BFF Banking Group launched a project to adopt the new requirements introduced by the new standard. This project, which involves every legal entity of the Group, has been divided into two macro areas—Classification and Measurement and Loss Loan Provision (LLP)—and into three phases: Assessment, Design and Implementation.

On launching the project, an Assessment phase was undertaken in which an estimate was made, at both individual and aggregate level, of the effects arising from the adoption of the new standard, so as to be able to assess its impact and identify the actions to be taken in order to best manage the changes introduced by IFRS 9.

As part of Classification and Measurement (C&M), the so-called SPPI test was carried out: the various types of contracts included in the scope of consolidation were identified and analyzed for the various portfolios, securities and receivables, in relation to all the Group companies.

The SPPI test did not identify any financial assets or liabilities to be measured at fair value, therefore confirming substantial continuity of the criteria already adopted in compliance with IAS 39.

Having taken account of the characteristics of the financial assets which make up the Group's portfolio, no significant divergences emerged in terms of economic impact between the new model based on expected losses and the model used currently, based on incurred losses, since most of the Group's receivables are due from public administration agencies or are short-term.

In particular, calculations carried out on the portfolio at January 1, 2018 show that, at the Banking Group level, the impact of the First Time Adoption of IFRS 9 generated collective impairment in line with that calculated according to IAS 39.

The positive impact for the Banking Group is equal to €41 thousand, as detailed in the statement showing transition to IFRS 9, and derives from the net effect recorded at the level of individual entities as summarized below:

- positive impact for Banca Farmafactoring and BFF Finance Iberia (equal to €2,024 thousand), mainly arising from the characteristics of the portfolio, mostly including public administration counterparties and with duration of less than 1 year, in relation to which calculation parameters have been redetermined even more precisely during the transition to IFRS 9;
- negative impact for the BFF Polska Group (equal to €1,983 thousand), considering the different type and characteristics of the portfolio, which also includes, unlike the Parent Company, private/corporate counterparties and with duration of more than one year.

The Design phase, which was completed within the timeframes envisaged in planning the activities, focused on defining the criteria necessary to implement processes and procedures relating to the business model, the SPPI test, the Benchmark test and the Stage allocation.

The Implementation phase was undertaken as planned, and IT work (e.g., development and adoption of the impairment engine and of the SPPI tool) and organizational work (Regulations, Policies and Processes) were carried out.

The following statements show the effects of transition to IFRS 9 on the BFF Banking Group's Balance Sheet at December 31, 2017.

(Amounts in euros)

	12/31/2017 (IAS 39)	IFRS 9 impacts			01.01.2018 (IFRS 9)
		Effects on classification and measu- rement	Effects on credit risk	Equity	
Assets					
10. Cash and cash equivalents	80,932,835				80,932,835
20. Financial assets measured at fair value through profit or loss	545,846				545,846
<i>a) financial assets held for trading</i>	0				
<i>b) financial assets designated at fair value</i>	0				
<i>c) other financial assets mandatorily measured at fair value</i>	545,846				545,846
30. Financial assets measured at fair value through OCI	101,449,267		(14,020)		101,435,247
40. Financial assets measured at amortized cost	4,183,888,076				4,184,106,074
<i>a) due from banks</i>	44,792,419		(14,039)		44,778,380
<i>b) due from customers</i>	4,139,095,657		232,037		4,139,327,694
50. Hedging derivatives	321,839				321,839
70. Equity investments	260,893				260,893
90. Property, plant and equipment	12,794,887				12,794,887
100. Intangible assets of which - goodwill	26,034,157 22,146,189				26,034,157 22,146,189
110. Tax assets	30,917,074				31,495,316
<i>a) current</i>	25,883,920				25,883,920
<i>b) deferred</i>	5,033,154			578,242	5,611,396
130. Other assets	9,795,958				9,795,958
TOTAL ASSETS	4,446,940,832		203,978		4,447,723,053

(Amounts in euros)

	12/31/2017 (IAS 39)	IFRS 9 impacts			01.01.2018 (IFRS 9)
		Effects on classification and measu- rement	Effects on credit risk	Equity	
Liabilities and Equity					
10. Financial liabilities measured at amortized cost	3,944,117,768				3,944,117,768
<i>a) due to banks</i>	657,992,541				657,992,541
<i>b) due to customers</i>	2,495,986,713				2,495,986,713
<i>c) debt securities issued</i>	790,138,514				790,138,514
20. Financial liabilities held for trading	535,073				535,073
30. Financial liabilities designated at fair value	0				
40. Hedging derivatives	0				
50. Adjustments to hedged financial liabilities	0				
60. Tax liabilities	82,455,762				82,763,276
<i>a) current</i>	25,627,899			307,513	25,935,412
<i>b) deferred</i>	56,827,864				56,827,864
70. Liabilities associated with assets held for sale	0				
80. Other liabilities	49,683,022				49,683,022
90. Employee severance benefits	848,138				848,138
100. Provisions for risks and charges:	5,445,278				5,608,746
<i>a) commitments and guarantees provided</i>	0		163,468		163,468
<i>b) pension and other post-employment benefits</i>	4,366,009				4,366,009
<i>c) other provisions for risks and charges</i>	1,079,269				1,079,269
110. Technical reserves	0				
120. Revaluation reserves	7,693,804			311,238	8,005,042
130. Redeemable shares	0				
140. Equity instruments	0				
150. Reserves	129,621,486				129,621,486
160. Share premium	0				
170. Share capital	130,982,698				130,982,698
180. Treasury shares	0				
190. Equity attributable to non-controlling interests	10,000				10,000
200. Profit (loss) for the period	95,547,803				95,547,803
TOTAL LIABILITIES AND EQUITY	4,446,940,832		163,468	311,238	4,447,723,053
TOTAL			40,510	(311,238)	270,729

Part A - Accounting Policies

A.1 - GENERAL INFORMATION

Section 1 - Statement of compliance with international accounting standards

The consolidated financial statements at December 31, 2018 were prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the IASB, endorsed by the European Commission, as provided for by Regulation (EC) no. 1606 of July 19, 2002 governing the application of IASs/IFRSs, and related interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period.

IFRSs have been applied based on the Framework for the preparation and presentation of financial statements, with particular reference to the fundamental principle of substance over legal form and the concept of relevance or significance of information.

Section 2 - General preparation principles

The consolidated financial statements at December 31, 2018 were prepared in accordance with the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005 “Banks’ financial statements: layout and preparation”, as subsequently amended.

The consolidated financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements, and are accompanied by the Directors’ report on operations. In accordance with the provisions of Article 5, paragraph 2, of Italian Legislative Decree no. 38 of February 28, 2005, the financial statements are denominated in euros, as the euro is BFF’s functional currency.

All amounts included in notes are in thousands of euros, unless otherwise stated; prior-year figures are provided for the purposes of comparison.

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

Main measurement criteria

Pursuant to IAS 1 and the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005, as subsequently amended, the main measurement criteria for the most significant items of the financial statements are presented below.

Accounting standards and interpretations effective as of January 1, 2018

IFRS 15 – Revenue from Contracts with Customers, adopted by Regulation (EU) 2016/1905

IFRS 15 “Revenue from Contracts with Customers” introduces a single model to recognize all revenue deriving from contracts signed with customers. It replaces the previous standards/interpretations on revenue (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). This model requires an entity to recog-

nize revenue on the basis of the payments expected to be received for goods and services provided as part of ordinary operations. This is a new model for recognizing revenues which no longer refers to the characteristics of the item being transferred to the customer (goods, services, interest, royalties, etc.), but which is based on the distinction between a performance obligation satisfied at a point in time and an obligation satisfied over time.

In particular, to recognize revenue under IFRS 15, an entity shall apply the following five steps:

- identify the contract, where the contract is defined as an agreement having commercial substance between two or more parties that creates enforceable rights and obligations;
- identify the performance obligations in the contract;
- determine the transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer;
- allocate the transaction price to each performance obligation, on the basis of the relative stand-alone selling prices of each distinct good or service;
- recognize revenue when a performance obligation is satisfied, which is when the customer obtains control of the relevant good or service. This recognition method takes account of the fact that a performance obligation may be satisfied at a point in time or over time. In this regard, not only the significant exposure to risks and rewards related to the good or service, but also other issues, such as its physical possession, acceptance by the customer and the existence of related legal rights, are taken into account. If a performance obligation is satisfied over time, the relevant revenue shall be measured and recognized virtually on the basis of the progress towards complete satisfaction of the performance obligation. In practice, the entity's accounting method is based on the level of progress in production or costs incurred. The standard provides specific guidance so that entities can choose the most appropriate accounting method. Owing to this approach, the measurement and timing of recognition of sales revenues could diverge from those identified in compliance with the provisions of IAS 18. Based on the analysis carried out, the application of this standard will not have any particular impact on the Group.

In particular, the Bank's individual revenue types are shown under the section "Revenue recognition criterion" and are broken down by type of service provided. Further qualitative and quantitative information regarding revenue recognized in the income statement in the reporting period are provided in Part C – Income Statement in relation to interest income and fee and commission income.

- IFRS 9 - Financial Instruments, adopted by Regulation (EU) 2016/2067. The new accounting standard largely replaced IAS 39 - Financial Instruments: Recognition and Measurement in order to improve disclosure on financial instruments to better take into account the difficulties which arose during the financial crisis. It has also introduced an accounting model that can promptly reflect the expected losses on financial assets. The new standard requirements on financial instruments were complied with in the above-mentioned criteria.
- Clarifications to IFRS 15 - Revenue from Contracts with Customers, adopted by Regulation (EU) 2017/1987. These amendments aim to clarify the new revenue recognition requirements and provide additional transitional relief for companies that are retrospectively implementing the standard.
- Annual Improvements to IFRS Standards 2014-2016 Cycle, adopted by Regulation (EU) 2018/182, as part of the annual improvements to and general revision of international accounting standards.

The amendments provided for by such Regulation impact the following standards: IAS 28 - Investments in Associates and Joint Ventures and IFRS 1 - First-time Adoption of International Financial Reporting Standards.

- Amendments to IFRS 2 - Share-based Payment, adopted by Regulation (EU) 2018/289. Such Regulation introduces some formal amendments and examples to clarify the cases specified in the standard. Furthermore, the amendments clarify the accounting treatment of vesting and non-vesting conditions for cash-settled share-based payment transactions. Finally, the Regulation also provides the new requirements on the accounting for “Share-based payment transactions with a net settlement feature for withholding tax obligations”.
- Amendments to IAS 40 - Investment Property - Transfers of Investment Property, adopted by Regulation (EU) 2018/400. These amendments clarify when an entity is allowed to reclassify a property to (or from) the ‘investment property’ category.
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration, adopted by Regulation (EU) 2018/519. This Interpretation aims at clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

Upcoming accounting standards and interpretations

The following standards, interpretations and amendments are effective for annual periods beginning on or after January 1, 2019:

- IFRS 16 - Leases, adopted by Regulation (EU) 2017/1986. The new standard aims to improve financial reporting on lease contracts, by giving a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of a lessee.

IFRS 16 significantly modifies current provisions on the lease accounting treatment, by introducing a single lessee accounting model for both operating and finance leases.

Lessees are required to comply with the following main provisions:

- a. For contracts within the standard’s scope, the identified asset is classified as a right-of-use asset and presented in the statement of financial position as investment property. The relevant financial liability shall also be recognized.
- b. At the commencement date, a lessee shall measure the asset at the present value of the lease payments agreed by contract to use the asset.
- c. For subsequent measurement of the asset and over the lease term, the asset is depreciated on a systematic basis, while interest expense on the financial liability is calculated based on the interest rate implicit in the lease.
- d. When lease payments are made, the financial liability is reduced by that amount. The scope of this standard does not include the so-called “short-term leases” (with a lease term of 12 months or less) and “leases for which the underlying asset is of low value” (with assets worth 5,000 dollars or less). As far as these leases are concerned, a lessor may elect not to apply IFRS 16 and continue to use the current accounting treatment. For such contracts, the lessee may exercise the option of not applying IFRS 16, thus continuing to comply with the current accounting treatment provisions. Although they qualify as leases, a lessee may elect not to apply this standard to

leases of intangible assets other than those expressly excluded (such as rights on motion picture films, video recordings, plays, manuscripts, patents and copyrights). In 2018, the Bank started its analysis of the categories of contracts involved (albeit negligible in number) and the related impacts that the application of said standard will have on the annual financial statements. The initial results do not reveal any significant quantitative impacts worthy of note as at today's date.

- Amendments to IFRS 9 - Financial Instruments - Prepayment Features with Negative Compensation, adopted by Regulation (EU) 2018/498. These amendments are intended to clarify the classification of particular prepayable financial assets when applying the new accounting standard on financial instruments.
- IFRIC 23 - Uncertainty over Income Tax Treatments, adopted by Regulation (EU) 2018/1595. This interpretation aims to specify how to reflect uncertainty in accounting for income taxes.

At the approval date of these financial statements, the following accounting standards, amendments and interpretations were issued by the IASB, although not yet endorsed by the European Commission:

- IFRS 17 - Insurance Contracts;
- IFRIC 23 - Uncertainty over Income Tax Treatments;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement;
- Amendments to References to the Conceptual Framework in IFRS Standards.

The potential repercussions of the upcoming application of these standards, amendments and interpretations on the Banca Farmafactoring Group financial reporting are still being examined and assessed.

Section 3 - Scope and basis of consolidation

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

Subsidiaries

The subsidiaries are companies controlled by the BFF Banking Group. The 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.

The BFF Banking Group's subsidiaries also include special purpose entities for which Banca Farmafactoring is exposed to substantially all the risks and rewards deriving from their activities or over which it exercises control. The existence of an equity investment in these special purpose entities is not relevant for this purpose.

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

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

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

- assets and liabilities, revenues and costs of the entities that are fully consolidated are recognized on a line-by-line basis, attributing to non-controlling interests, if applicable, their share of net equity and profit (loss) for the period, which are disclosed separately in equity and in the consolidated income statement;
- gains and losses, including the related tax effects, arising from transactions between companies consolidated on a line-by-line basis and not yet realized with reference to third parties, are eliminated, except for losses, which are not eliminated when the transaction provides evidence that the transferred asset is impaired. Reciprocal receivables and payables, revenues and expenses, as well as financial income and costs, are also eliminated;
- financial statements of subsidiaries expressed in 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;
- translation differences on the conversion of the financial statements of these subsidiaries, arising from the application of the period-end rate for assets and liabilities and the average rate for the period for income statement items, are recognized in the revaluation reserves in equity, as for the translation differences on the subsidiaries' equities. All translation differences are recognized in profit or loss in the period in which the investment is disposed of.

1. Investments in subsidiaries under exclusive control

At December 31, 2018, the BFF Banking Group included the Parent Banca Farmafactoring S.p.A. and the following companies:

Company name	Registered and operating office	Relation-ship type (1)	Investment relationship		Voting rights % (2)
			Investor	Invest. %	
COMPANIES CONSOLIDATED LINE-BY-LINE					
1. BFF Finance Iberia, S.A. (3)	Madrid - C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. BFF SPV S.r.l.	Milano - Via V. Betteloni 2	4	Banca Farmafactoring	0%	0%
3. BFF Polska S.A.(4)	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	1	Banca Farmafactoring	100%	100%
4. BFF Medfinance S.A. (5)	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
5. BFF Česká republika s.r.o. (6)	Prague - Rožtylská 1860/1	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o. (7)	Bratislava - Mostova 2	1	BFF Polska S.A.	100%	100%
7. Debt-Rnt sp. Z O.O.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
8. Komunalny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
9. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
10. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	4	BFF Polska S.A.	99%	99%
11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

As far as point 8 and 9 are concerned, voting rights refer to the investors' right to vote at the Meeting. Companies in points 10 and 11 above are limited partnerships and are not consolidated since their total asset figures are not significant.

Key:

(2) Relationship type:

1 = having the majority of voting rights at ordinary shareholders' meetings

2 = having a dominant influence at ordinary shareholders' meetings

3 = agreements with other shareholders

4 = other forms of control

5 = centralized management as per Article 26, paragraph 1 of Italian Legislative Decree 87/92

6 = centralized management as per Article 26, paragraph 2 of Italian Legislative Decree 87/92

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

(3) The change in the company name (formerly Farmafactoring España) became effective on April 4, 2018.

(4) The change in the company name (formerly Magellan S.A.) became effective on March 22, 2018.

(5) The change in the company name (formerly Medfinance S.A.) became effective on April 20, 2018.

(6) The change in the company name (formerly Magellan Česká republika s.r.o.) became effective on May 1, 2018.

(7) The change in the company name (formerly Magellan Central Europe s.r.o.) became effective on May 1, 2018.

Section 4 - Events subsequent to the end of the reporting period

There are no events or facts subsequent to December 31, 2018 such as to require an adjustment to the results recognized at the end of the reporting period.

Section 5 - Other issues

Use of estimates and assumptions in the preparation of the consolidated financial statements

In accordance with IFRSs, the development of estimates by management is a prerequisite for the preparation of the consolidated financial statements at December 31, 2018. This process involves the use of available information and subjective assessments, also based on historical experience, in order to formulate reasonable assumptions for the recognition of operating events. These estimates and assumptions may vary from one period to the next and, therefore, it cannot be ruled out that, in subsequent periods, the current values recognized in the consolidated financial statements 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 inherent in the measurement of:

- the degree of recoverability and estimated collection times for late payment interest on non-recourse receivables due to the Group, based on an analysis of historical company data;
- impairment losses on receivables and other financial assets in general;
- the fair value of financial instruments used for financial disclosure purposes;
- the fair value of financial instruments not traded in active markets determined with measurement models;
- expenses recorded on the basis of provisional values that are not definitive at the date of the report;
- any impairment of equity investments and recognized goodwill;
- employee benefit provisions based on actuarial assumptions and provisions for risks and charges;
- the recoverability of deferred tax assets.

With reference to the estimated total late payment interest that is expected to be collected by Banca Farmafactoring and BFF Finance Iberia, the time series were updated with collection amounts for the year 2018. This confirmed the weighted average collection percentage of 45% already used for the preparation of the financial statements for the year ended December 31, 2017, with average collection times at an estimated 1,800 days.

The description of the accounting policies adopted for the main aggregates of the consolidated financial statements at December 31, 2018 provides the information needed to identify the main assumptions and subjective assessments used to prepare these financial statements.

Independent audit

The Shareholders' Meeting of Farmafactoring S.p.A. held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. to audit the financial statements from 2012 to 2020, pursuant to the provisions of Article 2409-bis of the Italian Civil Code and Legislative Decree 39/2010.

A.2 MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Disclosure of the accounting policies adopted to prepare the consolidated financial statements at December 31, 2018, especially with reference to the criteria for recognizing, classifying, measuring and derecognizing the various assets and liabilities as well as for recognizing revenues and costs, is provided below.

Financial assets

The following three paragraphs include the guidelines for recognizing, accounting for and measuring financial assets pursuant to new IFRS 9 requirements, as described in the previous section and in compliance with the 5th Update of Bank of Italy's Circular no. 262 of December 22, 2005, which incorporates the changes introduced about the recognition requirements and distinguishes these categories:

- Financial assets measured at fair value through profit or loss;
- Financial assets measured at fair value through OCI;
- Financial assets measured at amortized cost.

1 - Financial assets measured at fair value through profit or loss

Recognition criteria

According to IFRS 9, financial assets that are not measured at amortized cost or at fair value through OCI or that fail the SPPI test are measured at fair value through profit or loss.

Such assets are initially recognized at their fair value on the settlement or trade date. This amount usually corresponds to the consideration paid, excluding transaction costs and income, which are immediately recognized in profit or loss even if they are directly attributable to the financial assets.

Classification criteria

For the BFF Banking Group, financial assets measured at fair value through profit or loss include financial instruments held in order to hedge exchange rate risk, which are not eligible for hedge accounting.

Specifically, the financial instruments recorded in this category are derivative contracts executed to hedge against exchange rate fluctuations through a forward sale of foreign currency at a spot rate.

In particular, they consist of FX-swaps entered into by the BFF Polska Group with the aim of hedging the capital and interest of bonds issued (to be repaid in Euro) against changes in fair value arising from a change in currency exchange rates. It should be noted that there are no derivative contracts entered into by the Group at December 31, 2018.

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

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

The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date. Such date shall be considered the date of initial recognition for the stage allocation process for the purposes of impairment testing.

Measurement criteria

Financial assets measured at fair value through profit or loss are recognized at fair value. Any changes are recognized in the income statement item 80 “Gains (losses) on trading”.

Quoted market prices are used to determine the fair value of financial instruments quoted in an active market.

Active market means a market where the prices, which reflect normal market transactions, are promptly and regularly available through stock markets, brokers, intermediaries, sector companies, listing services or authorized bodies, and represent the price of actual and regular market transactions taking place in a normal reference period.

For instruments for which the price on an active market is not available, the fair value is determined using estimating methods and measurement models which take account of all the risk factors related to the instruments and which are based on observable market data, where available. Considering, therefore, that the inputs used to measure such assets are different from quoted prices, but can be observed directly or indirectly on the market, in accordance with Bank of Italy’s Circular no. 262, the fair value measurement hierarchy is “Level 2”.

Derecognition criteria

Financial assets measured at fair value through profit or loss are derecognized when the contractual rights expire and when, following disposal, all of the risks and rewards relating to the financial asset sold are substantially transferred.

2 - Financial assets measured at fair value through OCI (FVOCI)

Recognition criteria

According to IFRS 9, a financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTC&S business model); and
- b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (meeting the SPPI test).

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

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

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

Classification criteria

The main items in this category are government securities classified in the HTC&S portfolio, the equity investment in Nomisma S.p.A. (since this company is not subject to significant influence), and the operations required by the FITD Voluntary Scheme.

The financial assets classified within the HTC&S business model are held in order to collect contractual cash flows and for the sale of the assets as well. According to the provisions of IFRS 9, a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets has a higher frequency and amount of sales compared to a Held to Collect business model. This is because the sale of financial assets is essential in order to achieve the objective of the business model, rather than incidental to it.

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

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

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

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

Measurement criteria

With regard to debt securities, these assets are subsequently measured at fair value, with the interest recognized at amortized cost in the income statement under item 10 "Interest and similar income". Gains and losses arising from changes in fair value are recognized in equity under item 120 "Revaluation reserves" except for impairment and impairment losses pursuant to IFRS 9, which are recognized under item 130 "Net adjustments to/reversals of impairment of: b) financial assets measured at fair value through OCI".

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

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

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

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

More specifically, for Stage 1 instruments (financial assets that are not credit-impaired on initial recognition and instruments that have not been subject to significant increases in credit risk since initial recognition), 12-month expected credit losses are recognized at the initial recognition date and at each subsequent reporting date.

For Stage 2 instruments (performing exposures showing significant increases in credit risk since initial recognition) and Stage 3 instruments (credit-impaired exposures), full lifetime expected credit losses are recognized instead.

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

If there is objective evidence of impairment, the cumulative loss that was initially recognized in equity under item 120 “Revaluation reserves” is then transferred to the income statement under item 130 “Net adjustments to/reversals of impairment of: b) financial assets measured at fair value through OCI”. The amount transferred to the income statement is equal to the difference between the asset’s carrying amount (value at initial recognition net of any previous impairment losses already recognized in the income statement) and its current fair value.

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

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

Derecognition criteria

Available-for-sale financial assets are derecognized when the contractual rights expire and when, following disposal, substantially all of the risks and rewards relating to the financial asset sold are transferred. On the other hand, if the risks and rewards arising from the financial assets sold are substantially retained, the financial assets sold will continue to be recognized in the financial statements, even though legal title to these assets is effectively transferred.

3 - Financial assets measured at amortized cost

Recognition criteria

According to IFRS 9 (paragraph 4.1.4), a financial asset is measured at amortized cost if both of the following conditions are met:

- a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (HTC business model); and
- b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (meeting the SPPI test).

On the basis of the accounting statements introduced by the 5th Update of Bank of Italy's Circular no. 262 of December 22, 2005, this financial statement item shall separately show:

- receivables due from banks;
- receivables due from customers, including debt securities classified in the HTC business model.

Such assets are initially recognized at fair value, which usually corresponds to the consideration paid, including transaction costs and income which are directly attributable to the acquisition or provision of the financial asset, although not yet settled.

Non-recourse receivables:

- a. purchased on a non-recourse basis, with substantial transfer of all risks and rewards as well as cash flows, are initially recognized at fair value, represented by the face value of the receivable net of fees and commissions charged to the assignor;
- b. if purchased for amounts below the face value, they are recognized for the amount actually paid at the time of purchase.

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

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

This item also includes finance lease transactions, meaning contracts that transfer all the risks and rewards of ownership of the asset to the lessee. At the end of the contract, the title to the asset is not necessarily transferred to the lessee.

Classification criteria

Receivables due from banks mainly refer to current account transactions generated by liquidity collected in the closing days of the period, pending clearance, relating to both receivables management contracts and management of non-recourse receivables.

Receivables due from customers are primarily comprised of receivables from debtors relating to factoring activities and late payment interest, computed based on receivables purchased on a non-recourse basis in accordance with existing laws (Italian Legislative Decree 231/2002 "Implementation of Directive 2000/35/EC on combating late payments in commercial transactions").

All purchases of non-recourse receivables made in Italy refer to factoring transactions pursuant to Law 52/91.

Debt securities classified as HTC are held within a business model whose objective is to obtain contractual cash flows by collecting payments over the lifetime of the instrument.

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

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

This item also includes the amount of the loan granted, that is, the assets used under finance lease contracts, even though the legal title remains with the lessor, net of the principal portion of the lease installments due and paid by the lessee.

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

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

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

Measurement criteria

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

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

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

Pursuant to IFRS 15, interest income (including late payment interest) are recognized in the income statement only if it is probable that positive cash flows will be generated for the entity and their amount can be measured reliably. In the case in question, consistently with the “Bank of Italy/Consob/Ivass Document no. 7 of November 9, 2016” on the “Treatment in the financial statements of late payment interest under Legislative Decree 231/2002 on non-recourse purchases of non-impaired receivables”, Banca Farmafactoring and BFF Finance Iberia also included the estimate of late payment interest in the calculation of amortized cost, taking into account that:

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

Furthermore Banca Farmafactoring and BFF Finance Iberia have time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series of data are updated on an annual basis when the financial statements are prepared, in order to determine the collection percentages and times to be used to calculate late payment interest. The change in collections is then analyzed on a quarterly basis to confirm such percentages in periodic reporting. As far as the receivables of the Parent Banca Farmafactoring and the subsidiary BFF Finance Iberia are concerned, the updating of the time series, which was undertaken considering the collections for 2018, confirmed the suitability of the existing collection percentage (45%).

With reference to the BFF Polska Group, acquired in 2016, notwithstanding the minor significance of late payment interest to the total of receivables, as part of the activities to complete the integration of the Group's processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the Group adopted the estimation criteria decided locally by management when BFF Polska was listed. These confirm a substantially integral recovery of late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

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

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

The Group carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets.

As already illustrated in the section on its first time adoption, IFRS 9 introduces the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are an estimate of the weighted probability of credit losses over the expected lifetime of the financial instrument. Since a loss may not necessarily occur before it is recognized in the financial statements, generally all financial assets will entail the recognition of a provision.

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

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

For assets classified in Stage 1, the loss allowance relating to each individual financial asset is deter-

mined on the basis of 12-month expected credit losses (contractual cash flow shortfalls estimated by taking into account potential default in the following 12 months), while for assets classified in Stages 2 and 3 calculations are based on lifetime expected credit losses (contractual cash flow shortfalls estimated by taking into account the potential default over the residual life of the financial instrument). If there is objective evidence of impairment and the asset is classified in Stage 3, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognized in the income statement under item 130 "Net adjustments to/reversals of impairment of: a) financial assets measured at amortized cost".

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be objectively attributable to an event relating to the improvement in the debtor's creditworthiness occurring after recognition of impairment, the previously recognized impairment loss is reversed. After the reinstatement, the carrying amount cannot in any case exceed measurement at amortized cost, had the impairment loss not been recognized. The amount of the reinstatement is recognized in the same item of the income statement. For a more extensive, detailed description of the methodological choices made by the Bank, in regard to the staging allocation and models used to determine the essential parameters for calculating value adjustments (PD, LGD, EAD), reference is made to the specific section dedicated to the description of the effects of the first-time adoption of IFRS 9.

Derecognition criteria

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

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

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

4 - Hedging

Recognition criteria

As noted above, in compliance with IFRS 9, the Group has opted to continue to apply IAS 39 hedge accounting even after IFRS 9 came into force.

A hedging transaction is the designation of a financial instrument having as its purpose to offset, in whole or in part, the profit or loss arising from the changes in the fair value or cash flows of the hedged item. The intent of hedging must be formally designated, not retroactive and consistent with the risk hedging strategy set out by the Bank's management. Hedge accounting is permitted by IAS 39 only under certain circumstances provided that the hedging relationship is:

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

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

Classification criteria

Hedging transactions are designed to offset potential losses attributable to specific types of risks. The possible types of hedges are the following:

- fair value hedge, which is a hedge of the exposure to changes in fair value of financial statement items;
- cash flow hedge, which is a hedge of the exposure to variability in future cash flows attributable to particular financial statement items;
- hedge of a net investment in a foreign operation.

Derivative contracts (including purchased options) may be designated as hedging instruments, while non-derivative financial instruments may not be designated as hedging instruments except as a hedge of foreign currency risk. Hedging derivatives are classified in the statement of financial position under item 50 "Hedging derivatives" among assets or item 40 "Hedging derivatives" among liabilities, respectively, according to whether their fair value is positive or negative on the reporting date.

Measurement criteria

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

When a financial instrument is designated as a hedge, the Group, as noted above, formally documents the relationship between the hedging instrument and the hedged item, and assesses the hedging instrument's effectiveness, both at inception and during its life, in achieving offsetting changes in the fair value or cash flows of the hedged item. A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value.

Consequently, the hedge's effectiveness is assessed by comparison of the above changes, taking into account the objective pursued by the entity when the hedge was put into place. It is effective (within a range of 80-125%) when the estimated and effective changes in the fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item.

The hedge's effectiveness is assessed at the end of each reporting period (at the closing of annual financial statements or interim financial reports), by using:

- prospective tests, which justify the application of hedge accounting, since they confirm the hedge's expected effectiveness;
- retrospective tests, which indicate the degree of effectiveness of the hedge achieved in the period to which they refer, measuring the extent to which the actual results diverged from those of a perfect hedge.

Gains and losses arising from changes in fair value are accounted for differently depending on the type of hedge:

- fair value hedge: changes in the fair value of the hedged item attributable exclusively to the hedged risk are recognized in profit or loss, the same as the fair value change of the hedging derivative; any difference, which represents the partial ineffectiveness of the hedge, consequently corresponds to the net gain or loss;

- cash flow hedge: changes in the fair value of the derivative are recognized in equity, for the effective portion of the hedge, and are recognized in profit or loss only when, with regard to the hedged item, there is variability in cash flows that needs to be offset, or for the ineffective portion of the hedge;
- hedge of a net investment in a foreign operation: cash flow hedge accounting is applied.

The allocation of gains or losses to the pertinent items of the income statement is made in accordance with the following guidelines:

- differences accrued on derivative instruments hedging interest rate risk (in addition to the interest of the hedged positions) are allocated to item 10 “Interest and similar income” or item 20 “Interest and similar expenses” based on whether the difference is positive or negative;
- gains and losses in fair value arising from the measurement of hedging derivatives designated as a fair value hedge and the hedged positions are allocated to item 90 “Gains (losses) on hedge accounting”;
- gains and losses in fair value originating from the measurement of hedging derivatives designated as a cash flow hedge, for the effective portion, are allocated to a special equity revaluation reserve called “Cash flow hedge reserve”, net of the deferred tax effect. For the ineffective portion, the gains and losses are recorded in the income statement under item 90 “Gains (losses) on hedge accounting”.

Derecognition criteria

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or repaid; c) early revocation of the designation; d) the hedging instrument expires or is sold, terminated or exercised.

If the hedge is not effective, the portion of the derivative contract no longer hedging (over hedging) is reclassified to trading instruments. If the interruption in the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be hedged and is again measured in the portfolio to which it belongs.

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

6 - Property, plant and equipment

Recognition criteria

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

Costs incurred subsequently are added to the asset’s carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be measured reliably (e.g., extraordinary maintenance costs).

Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized in the period incurred in the income statement under item 190 b) "other administrative expenses," if they refer to assets used in the Group's business activities.

This item also includes assets used by the entity as the lessee in finance lease agreements, or those granted as the lessor in operating lease agreements.

Classification criteria

Property, plant and equipment includes movable property and industrial buildings, plant and other machinery and equipment held for use by the Banking Group for more than one period.

Measurement criteria

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

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

- buildings: maximum 40 years;
- furniture: maximum 9 years;
- plant: maximum 14 years;
- office machines: maximum 3 years;
- other: maximum 11 years.

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

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

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

If there is objective evidence that an asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 210 "Net adjustments to/reversals of impairment of property, plant and equipment".

If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

Derecognition criteria

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

7 - Intangible assets

Recognition criteria

Intangible assets are recognized at acquisition cost, including direct costs incurred to bring the asset into use and increased with any costs incurred subsequently to increase initial economic functions, less any accumulated amortization and impairment losses.

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

Classification criteria

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

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

Intangible assets mainly consist of software for long-term use and goodwill.

Measurement criteria

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives, which are usually as follow (for the entire Banking Group):

software: → maximum 4 years;
other intangible assets: → maximum 6 years.

If there is objective evidence that an asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 220 "Net adjustments to/reversals of impairment of intangible assets."

If the value of a previously impaired intangible asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

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

Assets with an indefinite useful life such as goodwill are not amortized but are tested for impairment annually or more frequently whenever there are indications that they might be impaired. To this end, the cash-generating unit is identified to which goodwill has been allocated.

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

Following the outcomes of the annual impairment test performed at the end of 2018 on the amount of goodwill recorded in the financial statements and relating to the allocation of the acquisition cost of the BFF Polska Group, the Group did not recognize an impairment loss on the aforementioned goodwill.

Derecognition criteria

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

9 - Current and deferred taxes

Recognition and measurement criteria

Income taxes are computed in accordance with the tax legislation in force.

The tax charge consists of the total amount of current and deferred income taxes, included in determining the result for the period.

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

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

Deferred tax assets are recorded under item 110 b) of assets. Deferred tax liabilities are recorded under item 60 b) of liabilities. Deferred tax assets and liabilities are constantly monitored and are recorded by applying the tax rates that it is expected will be applicable in the period in which the tax asset will be realized, or the tax liability will be extinguished, on the basis of the tax rates and the tax law established by provisions in force. The accounting contra entry for both current and deferred assets and liabilities consists normally of the income statement item 300 “Income taxes on profit (loss) from continuing operations”. The size of the provision for taxes is adjusted to meet charges that might arise from any assessments already communicated or in any case from outstanding disputes with tax authorities.

10 - Provisions for risks and charges

Recognition and measurement criteria

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

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

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

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

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

Under IFRS 9, expected credit losses on commitments and guarantees provided shall be determined based on the initial credit risk of the commitment, starting from the date on which such commitment was made.

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

Derecognition criteria

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

11 - Financial liabilities measured at amortized cost**Recognition criteria**

This item includes payables due to banks and customers as well as debt securities issued, accounted for on the settlement date. They are initially recognized at fair value, which normally corresponds to the consideration received less transaction costs directly attributable to the financial liability. Structured securities are broken down into their basic elements, which are recorded separately, when the derivative components implicit in them are of an economic nature and present risks different from those of the underlying securities and can be configured as autonomous derivatives.

Classification criteria

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

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

Measurement criteria

The amounts due to banks and customers are measured at their face value, since they are generally liabilities due within 18 months and in consideration of the fact that the effect of applying the amortized cost method would be negligible.

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

Derecognition criteria

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

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

12 - Financial liabilities held for trading**Recognition criteria**

Financial liabilities held for trading are initially recognized at their fair value on the settlement date. This amount usually corresponds to the consideration paid, excluding transaction costs and income which are immediately recognized in profit or loss even if they are directly attributable to the financial liabilities. Trading derivatives are recognized as of the trade date.

Classification criteria

Financial liabilities held for trading include financial instruments intended to hedge interest rate risk and having a negative fair value, which are not eligible for hedge accounting. For further comments, see the notes on “Financial assets held for trading”.

Measurement criteria

Financial liabilities held for trading are measured at fair value. Any changes are recognized in the income statement under item 80 “Gains (losses) on trading”.

For further comments, see the notes on “Financial assets held for trading”.

Derecognition criteria

Financial liabilities held for trading are derecognized upon the expiration of the contractual rights and when, following disposal, substantially all of the risks and rewards relating to the financial liability are transferred.

16 - Other information

Employee severance benefits

Recognition and measurement criteria

As a result of the legislative framework introduced by Law no. 296 of 2006, the employee severance benefits accrued up to December 31, 2018 (which remain with the Company) under item 90 of liabilities, are computed by estimating the remaining length of the employment relationship, for individual persons or homogeneous groups, based on demographic assumptions:

- by projecting the accrued employee severance benefits, using demographic assumptions, to estimate the time of termination of employment;
- by discounting to present value, at the measurement date, the amount of the accrued benefits at December 31, 2018, based on financial assumptions.

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

The costs for servicing the plan are recorded under personnel costs, item 190 “Administrative expenses - a) personnel costs” as the net total of contributions paid, contributions accrued in previous periods and not yet recorded, interest accrued, and expected revenues from assets servicing the plan. Actuarial gains and losses, as envisaged by IAS 19, are recorded in a revaluation reserve.

Share-based payment arrangements with BFF employees

In 2016, the Bank granted, through a free share capital increase, an award—one-time and not linked to performance targets—of special shares to each of the employees of the Group to motivate them, reward their loyalty and strengthen their sense of belonging to the Group, as well as to align their interests with those of the shareholders (the so-called “Stock Grant Plan”). The bonus award of the special shares was made by converting reserves to equity, with the same accounting value as the ordinary shares of the Bank. The special shares have been converted into ordinary shares at a ratio of 1:100 as from April 7, 2017, the start date of trading of the Bank’s shares on the Mercato Telematico Azionario (the “listing”).

On December 5, 2016, the BFF Extraordinary Shareholders’ Meeting approved the stock option plan for employees and members of the corporate boards, already submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular no. 285.

During the first half of 2017, following the listing, the option rights relating to the aforementioned stock option plan were assigned for the first tranche only. Option rights relating to second tranche were assigned during the first quarter of 2018.

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

Any reduction in the number of financial instruments assigned is recorded as the cancellation of part of them.

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

- (i) the Bank’s shares and related instruments, including the stock option plan; and
- (ii) where possible, the other instruments identified in Delegated Regulation (EU) no. 527 of March 12, 2014.

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

- i) both pursuant to the incentive system based on company and individual objectives (so-called “MBO”),
- ii) and in order to meet any payment obligations pursuant to non-competition agreements (“NCAs”), should in the future Risk Takers who have signed such agreements leave the Group.

Revenue recognition criterion

The general criterion for the recognition of revenue components is the accrual basis. More specifically:

- Fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenues and are therefore part of the effective return on the receivable recognized at amortized cost.
- According to IFRS 15, revenue shall be recognized only when its amount can be reliably estimated when total “control” on the exchanged goods or services is transferred. As far as the accounting for late payment interest is concerned, the Bank began recognizing late payment interest on an accrual, rather than cash, basis only as of January 1, 2014—the date it adopted analytical tools allowing to gather time-series data to estimate the collection percentage and time for late payment interest. The Bank’s approach to accounting for late payment interest is consistent with the “Bank of Italy/ Consob/Ivass Document no. 7 of November 9, 2016” (also known as “Joint Document”) on the “Treatment in the financial statements of late payment interest under Legislative Decree 231/2002. As for the mentioned “Joint Document”, notably the above Supervisory Authorities made it possible to recognize interest through profit or loss on an accrual basis provided all the following conditions are met:
 - A) *business model and organizational structure are available that allow to consider the collection of late payment interest as a structural element of the ordinary business activities for the management of such receivables.*
 - B) *Late payment interest is not ancillary to the Bank’s profitability, considering its magnitude.*
 - C) *Robust time series exist that allow to reliably estimate the probability of collection as well as collection time for late payment interest.*

Concerning the first two points, one may argue that the collection of late payment interest on receivables acquired without recourse represents a structural element of the ordinary business activities for the management of such receivables and is not ancillary to profitability.

As for the third point, every year since 2014, the Bank has been updating the analysis of the time series concerning the average collection percentage and time for late payment interest. Also in 2018, it reviewed the average collection percentage and time for late payment interest, and updated the existing time series.

As a matter of fact, Banca Farmafactoring and BFF Finance Iberia have time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15.

The updating of the time series, which was undertaken considering the collections for 2018, confirmed the suitability of the existing collection percentage (45%).

With reference to the BFF Polska Group, acquired in 2016, notwithstanding the minor significance of late payment interest to the total of receivables, as part of the activities to complete the integration of the Group’s processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the Group adopted the estimation criteria decided locally by management when BFF Polska was listed. These confirm a substantially integral recovery of late payment interest recognized in the income statement, net of discounts and/or rounding offs of a maximum of 3% granted to the debtors.

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

- Interest income on debt securities in portfolio and interest expense on securities issued by the Bank are recognized at amortized cost, i.e., by applying to the face value of the securities the effective interest rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount. The interest thus computed is recognized in the income statement pro-rated over the duration of the financial asset or liability.
- Fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:
 - when the receivables are entrusted for management (fees and commissions on acceptance and handling expenses);
 - when the receivables are collected (collection fees and commissions)

A.4 - FAIR VALUE DISCLOSURE

Qualitative information

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

Financial assets measured at fair value through OCI (government securities and investment in the FITD Voluntary Scheme), recognized at December 31, 2018, are mostly classified as Level 1, since they refer to government securities, and to a lesser extent as Level 2, as the measurements were made using inputs other than the quoted prices used in Level 1 and observable directly or indirectly for the assets and liabilities.

Financial assets classified as Level 3, shown for comparison with 2017, mainly represent the value of the certificates purchased by the BFF Polska Group in a fund investing in receivables due from Polish public hospitals and, without observable measurement, the value approximated cost. Such units were sold during the second half of 2018.

A.4.2 Measurement processes and sensitivity

At December 31, 2018, the BFF Banking Group did not have any financial instruments held for trading, whose fair value changes could impact the income statement at the end of the reporting period.

A.4.3 Fair value hierarchy

At December 31, 2018, as in 2017, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information

(All amounts are stated in thousands of euros)

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	12/31/2018			12/31/2017		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss						
a) financial assets held for trading						
b) financial assets designated at fair value						
c) other assets mandatorily measured at fair value			0			546
2. Financial assets measured at fair value through OCI	160,592	147	17	101,285	147	17
3. Hedging derivatives		0			322	
4. Property, plant and equipment						
5. Intangible assets						
Total	160,592	147	17	101,285	468	563
1. Financial liabilities held for trading		0			535	
2. Financial liabilities measured at fair value						
3. Hedging derivatives						
Total		0			535	

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.4.5.2 Year-over-year changes in assets measured at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through profit or loss			Financial assets measured at fair value through OCI	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value				
1. Opening balance				546	17		
2. Increase							
2.1. Purchases							
2.2. Gains recognized in:							
2.2.1. profit or loss							
- of which capital gains							
2.2.2. Equity		x	x	x			
2.3. Transfers from other levels							
2.4. Other increases							
3. Decrease							
3.1. Sales							
3.2. Redemptions							
3.3. Losses recognized in:							
3.3.2. Equity		x	x	x			
3.4. Transfers to other levels							
3.5 Other decreases				(546)			
4. Closing balance				0	17		

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

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	12/31/2018				12/31/2017			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	4,593,770	940,907		3,645,564	4,183,888	1,127,929		3,063,279
2. Property, plant and equipment held for investment								
3. Non-current assets and disposal groups held for sale								
Total	4,593,770	940,907	0	3,645,564	4,183,888	1,127,929		3,063,279
1. Financial liabilities measured at amortized cost	4,403,029	615,472	11,507	3,737,883	3,944,118	654,873	121,316	3,153,979
2. Liabilities associated with assets held for sale								
Total	4,403,029	615,472	11,507	3,737,883	3,944,118	654,873	121,316	3,153,979

Key:

CA = Carrying Amount

L1 = Level 1: quoted prices (without adjustments) recognized in active markets according to the definition of IFRS 13.

L2 = Level 2: inputs other than quoted market prices included within Level 1 that are observable directly (prices) or indirectly (derived from the prices) in the market.

L3 = Level 3: inputs that are not based on observable market data.

A.5 - DISCLOSURE ON "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 - Consolidated Balance Sheet

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

ASSETS

Section 1 - Cash and cash equivalents - Item 10

€99,458 thousand

1.1 Cash and cash equivalents: breakdown

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
a) Cash	3	6
b) Demand deposits with Central Banks	99,455	80,927
Total	99,458	80,933

The balance includes the cash on hand at the different Group companies and unrestricted deposits with the Bank of Italy, amounting to €99,455 thousand.

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

€0

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018			Total 12/31/2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units in CIUs			0			546
4. Loans						
4.1 Repos						
4.2 Other						
Total			0			546

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

At December 31, 2018, the Group did not hold any of these financial instruments. The amount at December 31, 2017 refers to the value of the certificates purchased by the BFF Polska Group in an investment fund investing in receivables due from Polish public hospitals. Such units were sold during the second half of 2018.

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018	Total 12/31/2017
1. Equity securities		
of which: banks		
of which: other financial companies		
of which: non-financial companies		
2. Debt securities Total		
a) Central Banks		
b) Public administration agencies		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
3. Units in CIUs	0	546
4. Loans		
a) Central Banks		
b) Public administration agencies		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	0	546

Section 3 - Financial assets measured at fair value through OCI - Item 30

€160,756 thousand

The item mainly includes government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €165 million.

They totaled €160.8 million, increasing by €59.3 million compared to the previous year (€101.4 million). These securities earn interest at variable rates (CCT) and have residual maturity dates of maximum five years.

Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, the securities are classified as HTC&S (Held to Collect and Sell—previously AFS under IAS 39) and, therefore,

they are measured at fair value. The interest earned is recognized in the income statement according to the effective rate of return.

At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity as part of the revaluation reserves, after tax.

At December 31, 2018, the negative reserves on the HTC&S government securities amounted to approximately €4,170 thousand, after tax.

During the reporting period, HTC&S securities were sold, realizing a gain of €386 thousand, before the tax effect, recorded in the income statement under item 100 "Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through OCI".

The item also includes:

- the amount charged to Banca Farmafactoring as part of its contributions to the Voluntary Scheme established by FITD in relation to the actions taken to support Cassa di Risparmio di Cesena for a total of €147 thousand, equal to the fair value communicated directly by FITD in January 2018. As already mentioned, the Bank has already announced its intention to withdraw from the Voluntary Scheme on September 17, 2017. For this reason, the Bank will no longer be forced to make any additional payments to the aforesaid Voluntary Scheme;
- the amount held by Banca Farmafactoring in Nomisma S.p.A. - Società di Studi Economici, equal to €17 thousand, accounted for at cost, in the absence of other measurement inputs.

As regards the valuation of equity securities, it is specified that, as envisaged by the new IFRS 9, any changes in value (with the exception of dividends) will directly impact shareholders' equity, without being carried on the Income Statement, with an indication on the Statement of Comprehensive Income.

Nomisma S.p.A.'s highlights are as follows:

(Amounts in euros, unless otherwise stated)

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cent)	Percentage of equity investment
Nomisma S.p.A.	17,335.18	72,667	0.239	0.250%

Registered office	Bologna - Strada Maggiore no. 44
Share capital	Euro 6,963,499.89 fully paid in

(In Euro, at 12/31/2017)

Equity	7,844,455
Profit (loss) for the year	400,568

3.1 Financial assets measured at fair value through OCI: breakdown by type

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018			Total 12/31/2017		
	L1	L2	L3	L1	L2	L3
1. Debt securities	160,592			101,285		
1.1 Structured securities						
1.2 Other debt securities	160,592			101,285		
2. Equity securities		147	17		147	17
3. Loans						
Total	160,592	147	17	101,285	147	17

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

3.2 Financial assets measured at fair value through OCI: breakdown by debtor/issuer

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018	Total 12/31/2017
1. Debt securities	160,592	101,285
a) Central Banks	160,592	101,285
b) Public administration agencies		
c) Banks		
d) Other financial companies of which: insurance companies		
e) Non-financial companies		
2. Equity securities	164	164
a) Banks		
b) Other issuers:		
- other financial companies of which: insurance companies	147	147
- non-financial companies	17	17
- other		
3. Loans		
a) Central Banks		
b) Public administration agencies		
c) Banks		
d) Other financial companies of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	160,756	101,449

3.3 Financial assets measured at fair value through OCI: gross amount and total adjustments

(Amounts in € thousands)

	Gross amount				Total adjustments			Total partial write-offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	160,614				(22)			
Loans								
Total								
12/31/2018	160,614				(22)			
Total								
12/31/2017								
of which: impaired financial assets acquired or internally generated	X	X			X			

* Provided for disclosure purposes

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

€4,593,770 thousand

This item is broken down as follows:

- receivables due from banks of €62,758 thousand;
- receivables due from customers of €4,531,012 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Held to Collect (HTC) securities portfolio (formerly HTM) of €948,206 thousand.

Due from banks

€62,758 thousand

At December 31, 2018, receivables due from banks mainly refer to transactions relating to the current accounts held by the BFF Banking Group's companies at the end of the reporting period.

4.1. Financial assets measured at amortized cost: due from banks broken down by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2018						Total 12/31/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3
A. Due from Central Banks												
1. Fixed-term deposits				X	X	X				X	X	X
2. Mandatory reserve				X	X	X				X	X	X
3. Repos				X	X	X				X	X	X
4. Other				X	X	X				X	X	X
B. Due from banks	62,759						44,793					
1. Loans												
1.1. Current accounts and demand deposits	20,461			X	X	X	35,508			X	X	X
1.2. Fixed-term deposits	9,004			X	X	X	9,284			X	X	X
1.3. Other loans:				X	X	X				X	X	X
- Reverse repos				X	X	X				X	X	X
- Finance leases				X	X	X				X	X	X
- Other	33,294			X	X	X				X	X	X
2. Debt securities												
2.1. Structured securities												
2.2. Other debt securities												
Total	62,759						44,792					

In particular, “Current accounts and demand deposits” refer for €5,048 thousand to Banca Farmafactoring, for €5,839 thousand to BFF Polska Group, and for €9,389 thousand to securitization vehicles.

Restricted deposits mainly include €4,928 thousand in the mandatory reserve deposit with Depobank (formerly ICBPI/Nexi), as Banca Farmafactoring is an indirect participant in that system, and €3,076 thousand deposited with Banco de España as CRM (*Coefficiente de Reservas Mínimas*) for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto. Other loans relate to credit exposures that Banca Farmafactoring has with regards to banking counterparties.

This item does not include any impaired assets.

Due from customers

€4,531,012 thousand, including Held to Collect securities of €948,206 thousand

Starting from January 1, 2018, the item “Financial assets measured at amortized cost - Due from customers” includes debt securities in the Held to Collect (HTC) portfolio in addition to loans to customers, pursuant to the updates of Bank of Italy’s Circular no. 262, in compliance with the new IFRS 9. This item therefore includes loans to customers of €4,531 million (mainly receivables due from debtors in relation to factoring activities) and €948 million in debt securities in the HTC portfolio.

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

Banca Farmafactoring and BFF Finance Iberia’s non-recourse receivables include both principal and late payment interest accruing as from the due date of the receivable. In order to compute amortized cost, including late payment interest recognized on an accrual basis, Banca Farmafactoring 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. The outcome of this analysis has confirmed for 2018, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian National Healthcare System. However, a prudent decision was made to consider, also for 2018, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by Banca Farmafactoring.

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

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

The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €563 million, of which only €207 million were recognized in the income statement of the reporting period and in previous periods.

The total net amount of impaired receivables for the BFF Banking Group is €119.7 million. Of this amount, €40.3 million relates to non-performing loans (including €32.3 million concerning municipalities in financial distress, of which €7.6 million were purchased already impaired) and €6.8 million to unlikely-to-pay exposures. Past due exposures amounted to €72.6 million, of which 64% referring to Italian public administration counterparties and public sector companies. Measurement of such exposures is carried out at the portfolio level since there are no objective indications of individual impairment.

Debt securities classified in the HTC portfolio, equal to €948 million, are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement.

At December 31, 2018, this portfolio consists exclusively of government securities purchased to hedge liquidity risk and to optimize the cost of money. It has a total face value of €917 million and fair value of €941 million, with a negative difference (before taxes) of around €5 million compared to the carrying amount on the same date. This difference has not been recognized in the financial statements. These securities are at a fixed rate (BOT, BTP and CTZ), with maturity dates related to the sources of committed and unsecured funding.

The HTC portfolio consists of government securities purchased to hedge liquidity risk and to optimize the cost of money.

4.2 Financial assets measured at amortized cost: due from customers broken down by type

€4,531,012

(Amounts in € thousands)

Type of transaction/ Amounts	Total 12/31/2018						Total 12/31/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: im-paired assets acquired or internally generated	L1	L2	L3	Stages 1 and 2	Stage 3	of which: im-paired assets acquired or internally generated	L1	L2	L3
1. Loans	3,463,115	119,690	7,862			3,582,805	2,923,756	94,731	2,824			
1. Current accounts	1			X	X	X	0			X	X	X
2. Reverse repos				X	X	X				X	X	X
3. Mortgages				X	X	X				X	X	X
4. Credit cards, personal loans, salary-backed loans				X	X	X				X	X	X
5. Finance leases	5,176	152		X	X	X	5,733	31		X	X	X
6. Factoring	2,690,253	89,923	7,862	X	X	X	2,278,165	81,121	2,824	X	X	X
7. Other loans	767,685	29,615		X	X	X	639,858	13,579	0	X	X	X
2. Debt securities	948,206					940,907						
2.1 Structured securities												
2.2 Other debt securities	948,206					940,907						
Total	4,411,322	119,690	7,862	940,907		3,582,805	2,923,756	94,731	2,824	0	0	0

The breakdown is as follows:

- Performing factoring amounted to a total of €2,690,253 thousand for the BFF Banking Group. This included non-recourse receivables purchased as “performing”, registered under the name of the assigned debtor, with the conditions for “derecognition”, and measured at “amortized cost”, worth a total of €2,290,971 thousand for Banca Farmafactoring and €253,911 thousand for the subsidiary BFF Finance Iberia. Non-recourse receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued or accruing late payment interest is acquired upon purchase. These receivables include receivables sold, totaling €187,044 thousand, but not derecognized as the sale transaction did not meet the derecognition requirements for the transfer of the risks and rewards associated with such receivables. The amount refers to securitization transactions involving healthcare receivables. Receivables purchased below face value totaled €43,567 thousand. Performing recourse and non-recourse factoring of the BFF Polska Group totaled €142,116 thousand.
- Other performing loans due from customers amounted to €767,685 thousand; they mainly include:
 - accrued late payment interest of about €112,929 thousand, including €100,184 thousand relating to Banca Farmafactoring and €12,745 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 inter-

est accrued on principal already collected. Therefore, of the €207 million late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2018, €112.9 million refers to the item under review, while the remaining amount of €94.1 million was recognized under “factoring”;

- amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €64,722 thousand;
 - financing activities of the BFF Polska Group of €569,345 thousand.
- Performing finance leases of the BFF Polska Group totaled €5,176 thousand.
 - The BFF Banking Group’s net “Impaired assets” amounted to a total of €119,690 thousand. They include:
 - Non-performing loans: these are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the company.
At December 31, 2018, the overall total of the Banking Group’s non-performing loans, net of impairment, amounted to €40,344 thousand, of which €7,862 thousand purchased already impaired. Net non-performing loans concerning municipalities in financial distress amounted to €32,278 thousand, accounting for 80.0% of the total.

Gross non-performing loans amounted to €53,424 thousand. Relevant impairment totaled €13,080 thousand. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €11,682 thousand entirely impaired, and refers mainly to exposures with Fondazione Centro San Raffaele del Monte Tabor (ongoing liquidation and composition agreement with creditors). Taking account of this amount, too, gross non-performing loans amounted to €65,106 thousand and relevant adjustments totaled €24,762 thousand.

With reference to the Bank, at December 31, 2018 total non-performing loans, net of any estimated impairment losses, amounted to €40,318 thousand, of which €32,278 thousand concerned Italian municipalities in financial distress.

Specifically, the amount of €7,862 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.

The remaining positions referring to Banca Farmafactoring were impaired based on subjective assessments arising from legal opinions or on the time value, as they consist of exposures relating to local entities in financial distress for which no provisions were recognized as the distressed condition is expected to be remedied, resulting in the collection of 100% of receivables. Gross non-performing loans relating to the BFF Polska Group amounted to €12,989 thousand; after estimated impairment losses of €7,556 thousand, the net amount totaled €5,433 thousand.

The BFF Banking Group’s unlikely to pay exposures mainly refer to BFF Polska Group positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that—absent such actions as the enforcement of guarantees—the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).

At December 31, 2018, gross exposures classified as unlikely to pay amounted to €8,680 thousand, of which €8,523 thousand attributable to the BFF Polska Group, €3 thousand to Banca Farmafactoring, and €155 thousand to BFF Finance Iberia. The total net amount was €6,774 thousand,

relating mainly to the BFF Polska Group, since the gross exposures of Banca Farmafactoring and BFF Finance Iberia were almost entirely impaired.

Net past due exposures of the BFF Banking Group totaled €72,573 thousand, of which €46,475 thousand (64.0%) attributable to public administration counterparties and public sector companies in the various countries where the BFF Banking Group operates. These consist of exposures which, at the end of the reporting period, were overdue by more than 90 days.

More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Banca Farmafactoring's overall amount of net past due exposures at December 31, 2018 was equal to €38,706 thousand. Among these past due exposures, €28,186 thousand (72.8%) concerned public administration agencies and Italian public sector companies. As far as the BFF Polska Group is concerned, net past due exposures amounted to €31,639 thousand. Of this amount, €16,476 thousand (51.1%) concerned public administration counterparties and public sector companies. The remaining past due exposures, for a net amount of €2,227 thousand, refer to BFF Finance Iberia and almost entirely concerned public administration counterparties.

Fair value

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

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

4.3 Finance leases

(Amounts in € thousands)

Residual life	Min. future lease payments	Present value of min. future lease payments
Up to 12 months	1,611	1,611
1 to 5 years	4,559	4,559
Over 5 years	0	0
Total	6,171	6,171

4.4 Financial assets measured at amortized cost: due from customers broken down by debtor/issuer

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2018			Total 12/31/2017		
	Stages 1 and 2	Stage 3	of which impaired assets acquired or internally generated	Stages 1 and 2	Stage 3	of which impaired assets acquired or internally generated
1. Debt securities	948,206					
a) Public administration agencies	948,206					
b) Other financial companies of which: insurance companies						
c) Non-financial companies						
2. Loans due from:	3,463,115	119,690	7,862	2,923,756	94,730	2,824
a) Public administration agencies	3,216,347	73,825	7,862	2,623,613	73,177	2,824
b) Other financial companies of which: insurance companies	64,725			63,913		
c) Non-financial companies	180,534	35,736		223,073	20,698	
d) Households	1,509	10,129		13,157	855	
Total	4,411,322	119,690	7,862	2,923,756	94,730	2,824

4.5 Financial assets measured at amortized cost: gross amount and adjustments

(Amounts in € thousands)

	Gross amount				Total adjustments			Total partial write-offs
	Stage 1	of which: Instru- ments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	948,348	-	-	-	142	-	-	-
Loans	3,318,272	-	210,211	135,949	1,803	804	16,258	-
Total 12/31/2018	4,266,620	-	210,211	135,949	1,945	804	16,258	-
Total 12/31/2017	2,928,988	-	-	106,003	5,232	-	11,273	-
of which: impaired financial assets acquired or internally generated	X	X	-	10,561	X	-	2,698	-

Section 5 - Hedging derivatives - Item 50**5.1 Hedging derivatives: breakdown by type of hedge and by level**

(Amounts in € thousands)

	Fair Value 12/31/2018			NA 12/31/2018	Fair Value 12/31/2017			NA 12/31/2017
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives						322		84,928
1) Fair value								
2) Cash flows						322		84,928
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total						322		84,928

Key:

NA = notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

As the BFF Banking Group has not entered into any derivative contracts, this item was zero at December 31, 2018.

Section 7 - Equity investments - Item 70

€172 thousand

The amount refers to the equity investment in two law firms, in which BFF Polska is limited partner.

7.1 Equity investments: information on investment relationships

Name	Registered office	Operating office	Relationship type	Investment relationship		Voting rights %
				Investor	Invest. %	
A. Jointly controlled companies						
B. Companies over which significant influence is exercised						
C. Exclusively controlled companies						
1. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź (Poland)	Łódź (Poland)	Other forms of control	BFF Polska SA	99%	99%
2. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź (Poland)	Łódź (Poland)	Other forms of control	Debt-Rnt sp. Z O.O	99%	99%

7.4 Minor equity investments: accounting information

(Amounts in € thousands)

Name	Carrying amount of equity investments	Total assets	Total liabilities	Total revenue	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Profit (loss) for the period (1)	Other comprehensive income, after tax (2)	Comprehensive income (3) = (1) + (2)
A. Jointly controlled companies									
B. Companies over which significant influence is exercised									
C. Exclusively controlled companies									
1. Kancelaria Prawnicza Karnowski I Wspolnik sp.k.	5	296	126	714	166		166		166
2. Restrukturyzacyjna Prawnicza Karnowski I Wspolnik sp.k.	88	96	6		2		2		2

7.5 Equity investments: year-over-year change

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
A. Opening balance	261	318
B. Increase		
B.1 Purchases		
B.2 Reversals of impairment		
B.3 Revaluations		
B.4 Other changes		
C. Decrease	(89)	(57)
C.1 Sales		
C.2 Adjustments		
C.3 Impairment		
C.4 Other changes	(89)	(57)
D. Closing balance	172	261
E. Total revaluations		
F. Total adjustments		

Section 9 - Property, plant and equipment - Item 90

€11,988 thousand

9.1 Property, plant and equipment used for business activities: breakdown of assets measured at cost

(Amounts in € thousands)

Assets/Amounts	Total 12/31/2018	Total 12/31/2017
1. Owned assets	11,694	12,795
a) land	3,685	3,685
b) buildings	6,494	6,820
c) furniture and fixtures	180	235
d) electronic systems	650	1,010
e) other	685	1,046
2. Assets purchased under finance leases	295	0
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other	295	0
Total	11,988	12,795
of which: obtained from enforcement of guarantees received		

9.6 Property, plant and equipment used for business activities: year-over-year change

(Amounts in € thousands)

	Land	Buildings	Furniture and fixtures	Electronic systems	Other	Total
A. Gross opening balance	3,685	16,823	2,472	7,427	7,275	37,681
A.1 Net total impairment		(10,003)	(2,237)	(6,417)	(6,229)	(24,887)
A.2 Net opening balance	3,685	6,820	235	1,010	1,046	12,795
B. Increase:			2	254	331	590
B.1 Purchases			2	254	331	590
B.2 Capitalized improvements						
B.3 Reversals of impairment						
B.4 Positive fair value changes recognized in:						
a) equity						
b) income statement						
B.5 Positive exchange differences						
B.6 Transfers from properties held for investment			X	X	X	
B.7 Other changes						
C. Decrease:		(325)	(56)	(612)	(398)	(1,394)
C.1 Sales						
C.2 Depreciation		(325)	(56)	(615)	(398)	(1,394)
C.3 Adjustments from impairment recognized in:						
a) equity						
b) income statement						
C.4 Negative fair value changes recognized in:						
a) equity						
b) income statement						
C.5 Negative exchange differences						
C.6 Transfers to:						
a) property, plant and equipment held for investment			X	X	X	
b) non-current assets and disposal groups held for sale						
C.7 Other changes						
D. Net closing balance	3,685	6,495	181	649	979	11,988
D.1 Net total impairment		(10,327)	(2,316)	(7,078)	(5,211)	(24,932)
D.2 Gross closing balance	3,685	16,822	2,498	7,727	6,189	36,921
E. Measured at cost	3,685	16,822	2,498	7,727	6,189	36,921

At December 31, 2018, the item "Property, plant and equipment" amounted to a total of €11,988 thousand. Of this amount, €11,101 thousand related to the Bank, €683 thousand to the BFF Polska Group, and €205 thousand to BFF Finance Iberia. At December 31, 2018 the item relating to Banca Farmafactoring was mainly composed of:

- land of €3,685 thousand, unchanged from December 31, 2017;
- buildings (including capitalized extraordinary maintenance) of €6,495 thousand, compared to €6,820 thousand at December 31, 2017.

Upon IFRS first-time adoption (January 1, 2005), the buildings owned by Banca Farmafactoring and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date. Such amount is depreciated at the end of each reporting period based on the assets' estimated useful life.

The measurement at first-time adoption resulted in a revaluation of the buildings for about €4 million, from about €5 million to about €9 million.

In the financial statements, the land and building owned in Milan (Via Domenichino 5) were recognized separately based on an appraisal conducted by the same company that determined their value. The land on which the Rome building sits was not separated because Banca Farmafactoring is not the owner of the entire building.

Section 10 - Intangible assets - Item 100

€26,406 thousand

10.1 Intangible assets: breakdown by type of asset

(Amounts in € thousands)

Assets/Amounts	Total 12/31/2018		Total 12/31/2017	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	22,146	X	22,146
A.1.1 attributable to the group	X	22,146	X	22,146
A.1.2 attributable to non-controlling interests	X		X	
A.2 Other intangible assets	4,260		3,888	
A.2.1 Assets measured at cost:				
a) Intangible assets generated internally				
b) Other assets	4,260		3,888	
A.2.2 Assets measured at fair value:				
a) intangible assets generated internally				
b) Other assets				
Total	4,260	22,146	3,888	22,146

This item mainly consists of goodwill of €22,146 thousand, which was generated following BFF Banking Group's acquisition of the BFF Polska Group.

In May 2017, in accordance with the provisions of IFRS 3, the Purchase Price Allocation (PPA) process was completed, at the end of which the allocation of the purchase price entirely to goodwill was confirmed, as applied during the initial recognition of the acquisition of the BFF Polska Group and recorded in BFF Banking Group's consolidated financial statements at December 31, 2016, since, following the aforementioned provisional PPA, no further assets were identified to which reasonably allocate the investment purchase price.

In line with what was described in the section on accounting policies and with IAS 36, an impairment test was carried out on goodwill in order to determine its recoverable amount.

This verification, which must be carried out on an annual basis or when there is evidence of an impairment loss, is performed by comparing the carrying amount of goodwill and the recoverable amount of the Cash Generating Unit (CGU) to which goodwill refers.

Therefore, the equity investment in the BFF Polska Group was considered, in accordance with international accounting standards, as a Cash Generating Unit and the measurement of the equity investment as a whole thus made it possible to determine the recoverable amount of goodwill.

At December 31, 2018, the recoverable amount of the equity investment held by Banca Farmafactoring in the BFF Polska Group was estimated using the value-in-use calculation method, identified based on the Dividend Discount Model (DDM). The DDM method calculates the value of a company or business unit based on the flow of dividends, assuming it is able to generate them for the foreseeable future. Cash flows have been forecast over a time frame referring to 2019 and are also impacted by recent market scenarios.

To estimate the cost of capital, the following parameters were used:

- the risk-free rate (3.22%), identified as the 12-month average of the ten-year BTP Poland, so as to also include the contribution of the risk applicable to the country in which the CGU operates;
- the average market return (5.96%) determined on the basis of the difference between the long-term return of shares and bonds;
- the growth rate (g, 2.20%) on the basis of the inflation rate forecast for Poland and Slovakia, used to calculate the terminal value with the "Perpetuity" method, determined considering the expected long-term inflation rate;
- the beta coefficient, which indicates the risk level of a specific share with respect to the stock market as a whole. This was estimated on the basis of the historic average weekly betas for 2 years, recorded as at 31 December 2018, for a sample comprising 5 listed comparables.

The comparison between the result of the DDM analysis and the carrying amount of the investment confirms that the identified recoverable amount. A sensitivity analysis was also performed to verify the outcome of the test where scenarios vary, in the event of a cost of equity +/- 0.50% and stressed growth rates (+/- 0.25%) with positive outcome.

Therefore at December 31, 2018, there were no indications that goodwill cannot be fully recovered.

In accordance with IAS 38, paragraph 118, letter a), the amortization rates applied are based on the estimated useful lives of the intangible assets.

10.2 Intangible assets: year-over-year change

(Amounts in € thousands)

Items/Amounts	Goodwill	Other intangible assets: Internally generated		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	22,146			4,490		26,636
A.1 Net total impairment				(602)		(602)
A.2 Net opening balance	22,146			3,888		26,034
B. Increase				2,206		2,206
B.1 Purchases				2,206		2,206
B.2 Increase in intangible assets generated internally	x					
B.3 Reversals of impairment	x					
B.4 Positive fair value changes in - equity	x					
- income statement	x					
B.5 Positive exchange differences						
B.6 Other changes						
C. Decrease				(1,834)		(1,834)
C.1 Sales						
C.2 Adjustments						
- Amortization	x			(1,834)		(1,834)
- Impairment						
+ equity	x					
+ income statement						
C.3 Negative fair value changes						
- equity	x					
- income statement	x					
C.4 Transfers to non-current assets held for sale						
C.5 Negative exchange differences						
C.6 Other changes						
D. Net closing balance	22,146			4,259		26,406
D.1 Net total adjustments				(2,405)		(2,405)
E. Gross closing balance	22,146			6,664		28,811
F. Measured at cost	22,146			6,664		28,811

Key:**FIN** = finite**INDEF** = indefinite

Intangible assets are recognized at cost, net of amortization, calculated based on its estimated useful life.

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

Current tax assets totaled €26,044 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.

Current tax liabilities amounted to €22,585 thousand; they include the accrual of income taxes for the year of Group companies.

11.1 Deferred tax assets: breakdown

€8,182 thousand

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

11.2 Deferred tax liabilities: breakdown

€65,717 thousand

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

11.3 Change in deferred tax assets (through the income statement)

€5,540 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	4,679	4,073
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies	229	0
c) reversals of impairment	875	614
d) other	775	557
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax assets derecognized in the year		
a) reversals	(1,018)	(564)
b) impairment of unrecoverable tax assets		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
a) conversion into tax credit under Law 214/2011		
b) other		
4. Closing balance	5,540	4,679

11.4 Change in deferred tax assets under Law 214/2011

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	686	749
2. Increase		
3. Decrease		
3.1 Reversals	0	(63)
3.2 Conversion into tax credit		
a) due to losses in the year		
b) due to tax losses		
3.3 Other decreases		
4. Closing balance	686	686

11.5 Change in deferred tax liabilities (through the income statement)

€65,616 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	56,699	49,126
2. Increase		
2.1 Deferred tax liabilities recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	11,773	8,399
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	(827)	(623)
b) due to changes in accounting policies		
c) other	0	(203)
3.2 Tax rate reductions		
3.3 Other decreases	(2,030)	0
4. Closing balance	65,616	56,699

11.6 Change in deferred tax assets (through equity)

€2,642 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	354	346
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies	201	0
c) other	2,094	8
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax assets derecognized in the year		
a) reversals	(7)	0
b) impairment of unrecoverable tax assets		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	2,642	354

11.7 Change in deferred tax liabilities (through equity)

€101 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	129	403
2. Increase		
2.1 Deferred tax liabilities recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	130	19
2.2 New taxes or tax rate increases		
2.3 Other increases	69	0
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	(226)	(293)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	101	129

Section 13 - Other assets - Item 130**13.1 Other assets: breakdown**

€14,747 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Security deposits	54	44
Inventories	848	624
Other receivables	10,464	6,828
Accrued income and prepaid expenses	3,381	2,299
Total	14,747	9,796

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

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

Inventories, as defined by IAS 2, refer to the purchase of medical vehicles and equipment by the Polish company BFF Medfinance S.A., intended for sale or lease in the short term.

LIABILITIES

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

€4,403,029 thousand

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

- due to banks of €1,237,996 thousand;
- due to customers of €2,349,327,856 thousand;
- outstanding securities of €815,177.

Due to banks

€1,237,996

1.1 Financial liabilities measured at amortized cost: due from banks broken down by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2018				Total 12/31/2017			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks		X	X	X		X	X	X
2. Due to banks	1,237,996	X	X	X	657,993	X	X	X
2.1 Current accounts and demand deposits	83,243	X	X	X	22,413	X	X	X
2.2 Fixed-term deposits	1,154,754	X	X	X	635,580	X	X	X
2.3 Loans		X	X	X		X	X	X
2.3.1 Repos		X	X	X		X	X	X
2.3.2 Other		X	X	X		X	X	X
2.4 Payables following commitments to repurchase treasury shares		X	X	X		X	X	X
2.5 Other payables		X	X	X		X	X	X
Total	1,237,996				657,993			

Key:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

“Due to banks” primarily refers to loans provided by the banking system at current market rates.

“Fixed-term deposits” represent the funding requested from third-party banks to support the BFF Banking Group’s core business. Specifically, the item also includes the loan agreements in zloty used to acquire the BFF Polska Group, which were partially entered into with the Unicredit Group (for PLN 185 million, equivalent to €43 million) and partially with the Intesa Sanpaolo Group (PLN 170 million, equivalent to €39 million). Payables due to banks rose steadily compared to the end of the previous year in order to support the growth of the business in Italy and abroad.

Due to customers

€2,349,856 thousand

1.2 Financial liabilities measured at amortized cost: due from customers broken down by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2018				Total 12/31/2017			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	55,468	x	x	x	46,526	x	x	x
2. Fixed-term deposits	871,313	x	x	x	953,059	x	x	x
3. Loans		x	x	x		x	x	x
3.1 repos	1,030,719	x	x	x	1,162,912	x	x	x
3.2 other	291,784	x	x	x	264,435	x	x	x
4. Payables following commitments to repurchase treasury shares	0	x	x	x	0	x	x	x
5. Other payables	100,572	x	x	x	69,055	x	x	x
Total	2,349,856				2,495,987			

Key:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

“Due to customers” includes €924 million for online deposit accounts offered in Italy, Spain and Germany (restricted deposits and current accounts), compared to €999 million at December 31, 2017. The counterparty in repos amounting to €1,031 million is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank’s securities portfolio.

Other loans, worth a total of €292 million, mainly refer to payables due to financial institutions deriving from existing cooperation between Banca Farmafactoring and other Italian factoring companies.

Other payables principally refer to collections of managed receivables due to clients.

Debt securities issued

€815,177 thousand

1.3 Financial liabilities measured at amortized cost: debt securities issued broken down by type

(Amounts in € thousands)

Type of securities/Amounts	Total 12/31/2018				Total 12/31/2017			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds								
1.1 structured								
1.2 other	815,177	615,472	11,507	150,031	790,139	654,873	121,316	
2. other securities								
2.1 structured								
2.2 other								
Total	815,177	615,472	11,507	150,031	790,139	654,873	121,316	0

Key:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Debt securities issued consist of bonds issued by the Parent Banca Farmafactoring, the subsidiary BFF Polska Group, and the relevant SPV. They have a total face value of €811 million and are recognized in the financial statements (to the tune of €815 million) at amortized cost using the effective interest rate method.

The item includes:

- €100 million subordinated unsecured and unrated Tier 2 bonds (ISIN XS1572408380) issued by Banca Farmafactoring in March 2017. The 10-year bonds due March 2027 have the right to an issuer call date (one-off) in the fifth year (in March 2022). The bonds pay an annual fixed coupon of 5.875%;
- €200 million senior unsecured and unrated bonds (ISIN XS1639097747) issued by Banca Farmafactoring in June 2017, due in 2022. The bonds pay an annual fixed coupon of 2%;
- €200 million senior unsecured and unrated bonds (ISIN XS1731881964) issued by Banca Farmafactoring, due June 5, 2020. The bonds pay a quarterly variable coupon based on 3M Euribor + 145 bp spread;
- €150 million bonds (ISIN XS1435298275) issued by Banca Farmafactoring in June 2016, due in 2021;
- PLN 49 million (€11 million) bonds issued by the subsidiary BFF Polska Group;
- €150 million flexible senior notes issued by the vehicle BFF SPV S.r.l. created together with the Bayerische Landesbank Group (Bayern LB). As far as the securitization transaction is concerned, the receivables were sold to the vehicle company and were not derecognized from the assets of Banca Farmafactoring since the sale did not transfer the relevant risks and rewards.

Section 2 - Financial liabilities held for trading - Item 20

€0

2.1 Financial liabilities held for trading: breakdown by type

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2018					Total 12/31/2017				
	NA	Fair Value			Fair Value*	NA	Fair Value			Fair Value*
		L1	L2	L3			L1	L2	L3	
A. Balance sheet liabilities										
1. Due to banks										
2. 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 Other					X					X
Total (A)										
B. Derivative instruments										
1. Financial derivatives										
1.1 Held for trading	X		0		X	X	535			X
1.2 Related to fair value option	X				X	X				X
1.3 Other	X				X	X				X
2. Credit derivatives										
2.1 Held for trading	X				X	X				X
2.2 Related to fair value option	X				X	X				X
2.3 Other	X				X	X				X
Total (B)	X		0		X	X	535			X
Total (A+B)	X		0		X	X	535			X

Key:

NA = nominal or notional amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

FV* = Fair value

As Banca Farmafactoring has not entered into any derivative contracts, this item was zero at December 31, 2018. At December 31, 2017, the amount referred to foreign exchange swap derivative contracts entered into by the BFF Polska Group to hedge the principal and interest on bonds issued (to be repaid in euros) against the fair value changes arising from fluctuations in the euro-zloty exchange rate.

Section 6 - Tax liabilities - Item 60

€88,302

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

See “Section 11 - Tax assets and liabilities” of the consolidated balance sheet assets.

Section 8 - Other liabilities - Item 80

€78,124 thousand

8.1 Other liabilities: breakdown

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Payables to suppliers	1,891	3,992
Invoices to be received	8,341	5,234
Payables to tax authorities	864	2,177
Payables to social security agencies	876	610
Payables to employees	5,200	3,138
Payables for receivables management	6,950	3,647
Collections pending allocation	28,933	14,434
Other payables	23,227	15,644
Accrued liabilities and deferred income	1,843	807
Total	78,124	49,683

“Payables to suppliers” and “Invoices to be received” refer to purchases of goods and the performance of services.

“Collections pending allocation” refer to payments received by December 31, 2018 but still outstanding since they had not been cleared and recorded by that date.

“Payables to tax authorities” relate largely to unpaid withholding taxes on the online deposit accounts and on employee earnings from employment.

“Other payables” include portions of collections to be transferred, stamp duties to be paid, payables to directors and other pending items.

Section 9 - Employee severance benefits - Item 90

€849 thousand

9.1 Employee severance benefits: year-over-year change

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
A. Opening balance	848	867
B. Increase	655	611
B.1 Allocation for the year	579	422
B.2 Other changes	75	189
C. Decrease	(654)	(630)
C.1 Settlements	(30)	(173)
C.2 Other changes	(624)	(457)
D. Closing balance	849	848
Total	849	848

The liability recorded in the financial statements at December 31, 2018 in relation to employee severance benefits is equal to the current value of the obligation, estimated by an independent actuary on the basis of demographic and economic assumptions.

Other decreases include outflows from the provision for employee severance benefits to pension funds and the differences resulting from actuarial valuation recognized directly in equity.

Actuarial assumptions used to determine the liability at December 31, 2018 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 Index (in line with the duration of the plan).

Annual increase rate of employee severance benefits

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

The demographic assumptions used are as follows:

- Death: mortality tables RG48 published by the Italian State General Accounting Office (Ragioneria Generale dello Stato);
- Disability: tables INPS 2000 broken down by age and sex;
- Retirement: 100% upon reaching AG requisites

Section 10 - Provisions for risks and charges - Item 100

€4,981 thousand

10.1 Provisions for risks and charges: breakdown

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018	Total 12/31/2017
1. Provisions for credit risk on commitments and financial guarantees provided	198	
2. Provisions for other commitments and guarantees provided		
3. Pension funds	3,977	4,366
4. Other provisions for risks and charges		
4.1 legal and tax disputes	0	
4.2 personnel expenses	0	
4.3 other	806	1,079
Total	4,981	5,445

Starting from January 1, 2018, this item also includes provisions for credit risk associated with commitments/financial guarantees issued by BFF Polska to its customers, based on impairment requirements provided for by the new IFRS 9.

The pension fund refers mainly to the non-compete agreement entered into with the BFF Banking Group's managers and the provision relating to the deferred payment incentive scheme envisaged for specific Banca Farmafactoring employees.

The decrease in this item was attributable to payments made during the reporting period, and to the reversals which became necessary after staff benefitting from deferred MBO left the service.

10.2 Provisions for risks and charges: year-over-year change

(Amounts in € thousands)

	Provisions for other commitments and guarantees provided	Pension funds	Other provisions for risks and charges	Total
A. Opening balance	0	4,366	1,079	5,445
B. Increase	198	1,884		2,121
B.1 Allocation for the year	30	1,441		1,471
B.2 Change due to passing of time				
B.3 Variation due to change in the discount rate				
B.4 Other changes	168	443	39	650
C. Decrease		(2,273)	(312)	(2,585)
C.1 Use in the year			(312)	(312)
C.2 Variation due to change in the discount rate		(512)		(512)
C.3 Other changes		(1,761)		(1,761)
D. Closing balance	198	3,977	806	4,981

10.3 Provisions for credit risks on commitments and financial guarantees provided

(Amounts in € thousands)

	Provisions for credit risk on commitments and financial guarantees provided			
	Stage 1	Stage 2	Stage 3	Total
Commitments to disburse funds				0
Financial guarantees provided	198			198
Total	198	0	0	198

10.5 Defined benefit pension funds

Below are the main changes in this provision:

- €399 thousand increase as a result of the funds set aside for the non-competition agreement with the managers of the companies that are part of the BFF Banking Group;
- €856 thousand increase as a result of the funds set aside for the deferred payment of a portion of the annual bonuses for first- and second-level staff;

- €512 thousand decrease related to the discounting of the non-competition agreement and the deferred MBO as calculated by an external advisor at December 31, 2018;
- €1,761 thousand decrease resulting from the use of the provision for payments.

The system involving deferral of a portion of the annual bonuses envisages, for risk takers, medium-term restrictions, according to which 30% of the annual bonus will be paid after three years, provided that the Bank achieves specific targets relating to its profitability, regulatory capital requirements established by existing regulations, and the employee's continued employment at the company. In accordance with the provisions of IAS 19, accruals were quantified based on an actuarial calculation performed externally by a specialized firm. The Bank's obligations were computed using the "Projected Unit Credit Method", which treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to compute the final obligation, in accordance with paragraphs 67 and 69 of IAS 19. This actuarial method entails valuation aimed at determining the average present value of the Bank's obligations. The main economic and demographic assumptions used for actuarial valuation purposes are the following:

Non-compete agreement

The annual discount rate used to calculate the present value of the obligation was deduced, in compliance with paragraph 83 of IAS 19, from the iBoxx Corporate AA Index with 10+ duration, reported at December 31, 2018 and equal to 1.57%. In determining the rate, the yield with a duration comparable to that of the items measured was used.

Death	Mortality tables RG48 published by the Italian State General Accounting Office (Ragioneria Generale dello Stato)
Retirement	100% upon reaching AGO requisites
Frequency of voluntary resignation	3.00%
Clawback frequency	3.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual remuneration for Executives	3.40%
Increase in annual remuneration for Supervisors	2.40%
Contribution rate	27.40%

Deferred bonus**Discount rate**

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA Index (in line with the duration of the plan). Discount rate used was equal to -0.10%.

Mortality and disability

To estimate the phenomenon of mortality, the RG48 survival table used by the Italian State General Accounting Office to estimate the retirement expenses of the Italian population was used. For the probability of total and permanent disability, the tables adopted in the INPS model for the 2010 forecasts were used.

Frequency of resignations and dismissals

Equal to 3%.

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

€363,856 thousand

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

(Amounts in € thousands)

Type	Total 12/31/2018	Total 12/31/2017
1. Share capital	130,983	130,983
1.1 Ordinary shares	130,983	130,983
2. Treasury shares	(245)	0

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

13.2 Share capital - Number of shares of the Parent: year-over-year change

Items/Types	Ordinary	Other
A. Shares at the beginning of the year	170,107,400	
- fully paid	170,107,400	
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares outstanding: opening balance	170,107,400	
B. Increase		
B.1 New issues		
- against payment:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- free:		
- to employees		0
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decrease	(41,552)	
C.1 Cancellation		
C.2 Purchase of treasury shares	(41,552)	
C.3 Transactions for sale of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	170,065,848	0
D.1 Treasury shares (+)	41,552	
D.2 Shares outstanding at the end of the year		
- fully paid	170,107,400	0
- not fully paid		

13.4 Retained earnings reserves: other information

In accordance with the provisions of Article 2427, paragraph 7-bis of the Italian Civil Code, the following tables provide a breakdown of the individual components of equity according to their possibility of use, the amount available for distribution, and past use in the previous years (the three-year period before the date of preparation of these financial statements).

(Amounts in € thousands)

	12/31/2018	Possibility of use (a)	Amount available	Summary of use in the last three years	
				For absorption of losses	For other reasons
Share capital	130,983				
Reserves	142,506				
- Legal reserve	27,417	B			
- Extraordinary reserve	89	A,B,C	89		
- Retained earnings reserve	110,793	A,B,C	100,953		15,231 ^(*)
- Stock option and financial instrument reserves	4,212	A			
- Other reserves	(5)				
Revaluation reserves	844				
- HTC&S securities	(4,170)				
- Other	5,013				
Treasury share reserve	(245)				
Total share capital and reserves	274,087		101,042		15,231

(a) Possibility of use: A=for share capital increases; B=for absorption of losses; C=for distribution to shareholders.

(*) The uses made in the last three years, equal to €15,231 thousand, also include €83 thousand relative to share capital increases made in 2016.

Changes in reserves are as follows:

(Amounts in € thousands)

	Legal reserve	Retained earnings	Other	Total
A. Opening balance	27,417	99,448	2,757	129,621
B. Increase	0	17,957	1,539	19,495
B.1 Appropriation of profit	0	17,633	0	17,633
B.2 Other changes	0	324	1,539	1,863
C. Decrease	0	(4,215)	0	(4,215)
C.1 Uses				0
- absorption of losses	0	0	0	0
- distribution	0	(4,215)	0	(4,215)
- transfer to share capital	0	0	0	0
C.2 Other changes	0	0	0	0
D. Closing balance	27,417	110,793	4,296	142,506

Retained earnings reserve

The net increase of €13,742 thousand was attributable to retained earnings of subsidiaries and to the distribution to shareholders from the retained earnings reserve by Banca Farmafactoring, as per the relevant shareholders' meeting resolution of April 5, 2018 in regards to the financial statements at December 31, 2017.

Other reserves

Changes refer mainly to the granting, during the first half of 2018, of option rights related to the stock option plan, for a total of €1.3 million, recorded in accordance with the provisions of IFRS 2 through recognition in the income statement, with a corresponding increase in equity. The remaining €217 thousand refer to the variable remuneration of so-called Risk Takers, in accordance with the provisions set forth in Part I, Title IV, Chapter 2, Section III, paragraphs 2.1, 3 of Circular no. 285/2013, as subsequently amended, issued by the Bank of Italy, according to which a portion must be paid in financial instruments.

The corresponding accounting treatment, in accordance with IFRS 2, resulted, during the period, in the above-mentioned positive effect on consolidated equity.

*Other information***1. Commitments and financial guarantees provided***(Amounts in € thousands)*

	Notional amount of commitments and financial guarantees provided			Total 12/31/2018	Total 12/31/2017
	Stage 1	Stage 2	Stage 3		
Commitments to disburse funds	79,941		9,381	89,321	127,976
a) Central Banks					
b) Public administration agencies	31,676			31,676	127,976
c) Banks					
d) Other financial companies					
e) Non-financial companies	48,265		9,381	57,645	-
f) Households					
Financial guarantees provided	3			3	3,391
a) Central Banks					
b) Public administration agencies					
c) Banks	3			3	3,391
d) Other financial companies					
e) Non-financial companies					
f) Households					

Financial guarantees provided to banks of €3 thousand relate to the amount communicated by the FITD in relation to the extraordinary contributions provided for by Article 23 of the Fund bylaws. Commitments for uncertain use to customers of €89,321 thousand are mainly attributable to the BFF Banking Group.

3. Assets pledged to secure own liabilities and commitments

(Amounts in € thousands)

Portfolios	Amount at 12/31/2018	Amount at 12/31/2017
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through OCI	155,746	35,336
3. Financial assets measured at amortized cost	1,932,021	1,761,397
4. Property, plant and equipment - of which: inventories		

“Financial assets measured at amortized cost through OCI” and “Financial assets measured at amortized cost” consist of government securities used as collateral in operations with the ECB and repos. The item “Due from customers” includes receivables sold but not derecognized as part of the current securitization transaction and receivables pledged to secure financing transactions with other financial intermediaries.

6. Asset management and trading on behalf of others

(Amounts in € thousands)

Type of services	Amount
1. Execution of orders on behalf of customers	
a) purchases	
1. settled	
2. unsettled	
b) sales	
1. settled	
2. unsettled	
2. Portfolio management	
a) individual	
b) collective	
3. Custody and administration of securities	1,082,172
a) third-party securities on deposit: connected to bank operations as custodian (excluding portfolio management)	
1. securities issued by the bank that prepares the financial statements	
2. other securities	
b) third-party securities on deposit (excluding portfolio management): other	
1. securities issued by the bank that prepares the financial statements	
2. other securities	
c) third-party securities deposited with third parties	
d) owned securities deposited with third parties	1,082,172
4. Other transactions	

The amount refers to the face value of owned securities classified in the HTC&S and HTC portfolios.

Part C - Consolidated Income Statement

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

Section 1 - Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

€231,603 thousand (of which interest income calculated using the effective interest rate method: €195,472 thousand)

(Amounts in € thousands)

Items/Types	Debt securities	Loans	Other transactions	Total 12/31/2018	Total 12/31/2017
1. Financial assets measured at fair value through profit or loss:					
1.1. Financial assets held for trading				0	91
1.2. Financial assets designated at fair value					
1.3. Other financial assets mandatorily measured at fair value					
2. Financial assets measured at fair value through OCI	100		x	100	160
3. Financial assets measured at amortized cost:					
3.1 Due from banks		454	x	454	488
3.2 Due from customers	5,399	225,647	x	231,046	237,204
4. Hedging derivatives	x	x			
5. Other assets	x	x	3	3	0
6. Financial liabilities	x	x	x		
Total	5,499	226,101	3	231,603	237,943
of which: interest income on impaired financial assets					

1.2 Interest and similar income: other information

Interest income concerning “Financial assets measured at fair value through OCI” of €100 thousand was generated by government securities purchased by Banca Farmafactoring to hedge liquidity risk and optimize the cost of money.

The securities are classified as HTC&S (Held to Collect and Sell—previously AFS under IAS 39) and, therefore, they are measured at fair value. The interest earned is recognized in the income statement according to the effective rate of return.

Interest income concerning receivables “Due from banks” refers to credit balances on BFF Banking Group current accounts held with the banking system.

Interest income on receivables “Due from customers” for loans amounted to €225,647 thousand and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse receivables and late payment interest for the year, relating to Banca Farmafactoring and BFF Finance Iberia. Interest income on debt securities linked to receivables due from customers and totaling approximately €5.3 million derive from government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, relating to the HTC (Held to Collect) portfolio - ex AFM in accordance with IAS 39. As already mentioned, government securities classified according to the HTC business model have been reclassified as receivables due from customers starting January 1, 2018.

Banca Farmafactoring and BFF Finance Iberia update the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. The outcome of this analysis has confirmed for 2018, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

The amount also includes interest income calculated at amortized cost, generated by the BFF Polska Group’s portfolio, for a total amount of €48 million.

1.3 Interest and similar expenses: breakdown

€42,866 thousand

(Amounts in € thousands)

Items/Types	Payables	Securities	Other transactions	Total 12/31/2018	Total 12/31/2017
1. Financial liabilities measured at amortized cost					
1.1 Due to central banks		X	X		
1.2 Due to banks	15,755	X	X	15,755	11,068
1.3 Due to customers	9,874	X	X	9,874	10,442
1.4 Debt securities issued	X	17,210	X	17,210	17,610
2. Financial liabilities held for trading					
3. Financial liabilities designated at fair value					
4. Other liabilities and provisions	X	X	27	27	14
5. Hedging derivatives	X	X			796
6. Financial assets	X	X	X		
Total	25,628	17,210	27	42,866	39,930

Interest expense increased from €39.9 million at December 31, 2017 to €42.8 million at December 31, 2018.

Interest expense on “Payables due to banks” referred to the additional funding requested from third-party banks to support the business of both the Parent and its subsidiaries. Specifically, the item includes the loan agreement in zloty used to acquire the BFF Polska Group, which was partially entered into with the Unicredit Group and partially with the Intesa Sanpaolo Group. Payables due to banks rose steadily compared to the end of the previous year in order to support the growth of the business in Italy and abroad.

The interest expense on “Due to customers” mainly refers to interest expense relating to the online deposit accounts of Banca Farmafactoring: specifically, €3,643 thousand for Conto Facto, offered in Italy, and €6,626 thousand for Cuenta Facto, offered in Spain by the Spanish branch of Banca Farmafactoring.

This item also includes interest expense of €314 thousand on loans granted by other factoring companies, in addition to interest (income) on repurchase agreements to the tune of €4,487 thousand.

1.5 Interest and similar expenses: differences relating to hedging transactions

€0

(Amounts in € thousands)

Items	Total 12/31/2018	Total 12/31/2017
A. Positive differences relating to hedging transactions	0	(7)
B. Negative differences relating to hedging transactions	0	803
C. Balance (A-B)	0	796

Section 2 - Fees and commissions - Items 40 and 50**2.1 Fee and commission income: breakdown**

€7,193 thousand

(Amounts in € thousands)

Type of service/Amounts	Total 12/31/2018	Total 12/31/2017
a) guarantees provided	6	3
b) credit derivatives		
c) management, brokerage and consulting services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management		
3.1 individual		
3.2 collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. receipt and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third-party services		
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other products		
d) collection and payment services	7,187	7,710
e) securitization servicing		
f) factoring services		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services		
Total	7,193	7,713

The balance mainly refers to fees and commissions relating to the mandates for the management and collection of receivables.

2.2 Fee and commission expenses: breakdown

€1,501 thousand

Services/Amounts	Total 12/31/2018	Total 12/31/2017
a) guarantees received	179	0
b) credit derivatives		
c) management and brokerage services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities		
5. placement of financial instruments		
6. off-site distribution of financial instruments, products and services		
d) collection and payment services		
e) other services	1,322	1,258
Total	1,501	1,258

The item mainly refers to expenses on existing banking relationships.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

€2 thousand

(Amounts in € thousands)

Items/Income	Total 12/31/2018		Total 12/31/2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading				
B. Other financial assets mandatorily measured at fair value	2		60	
C. Financial assets measured at fair value through OCI				
D. Equity investments				
Total	2		60	

The amount refers to the income arising from BFF Polska's equity investment in two law firms, as described in Section 7 - Item 70 of Balance Sheet Assets.

Section 4 - Gains (losses) on trading - Item 80**4.1 Gains (losses) on trading: breakdown**

€2,535 thousand

(Amounts in € thousands)

Transactions/Income components	Capital gains (A)	Gains on trading (B)	Capital losses (C)	Losses on trading (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in CIUs					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	x	x	x	x	2,613
4. Derivative instruments					
4.1 Financial derivatives:					
- on debt securities and interest rates					
- on equity securities and equity indices					
- on currency and gold	x	x	x	x	(78)
- other					
4.2 Credit derivatives					
of which: natural hedging related to the fair value option	x	x	x	x	0
Total	0	0	0	0	2,535

Gains (losses) on trading mainly arise from the positive exchange effect recognized in the income statement, arising from the revaluation of exchange rates applied to the loans payable in Polish zloty used for the acquisition of the BFF Polska Group and amounting, at December 31, 2018, to €2.6 million, before taxes, compared to €4.7 million at the end of the previous reporting period, offset by a negative effect from the revaluation of the exchange rates applied to the BFF Polska Group's equity in consolidated equity.

Section 5 - Gains (losses) on hedge accounting - Item 90

€111 thousand

5.1 Gains (losses) on hedge accounting: breakdown

(Amounts in € thousands)

Income components/Amounts	Total 12/31/2018	Total 12/31/2017
A. Income from:		
A.1 Fair value hedging derivatives	-	-
A.2 Hedged financial assets (fair value)	-	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedging derivatives	116	139
A.5 Assets and liabilities denominated in currency	-	-
Total income from hedging activities (A)	116	139
B. Charges related to:		
B.1 Fair value hedging derivatives	-	-
B.2 Hedged financial assets (fair value)	-	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedging derivatives	(5)	(107)
B.5 Assets and liabilities denominated in currency	-	-
Total charges from hedging activities (B)	(5)	(107)
C. Net result of hedging activities (A - B)	111	32

of which: result of hedging of net positions

Section 6 - Gains (losses) on disposal or repurchase - Item 100

€385 thousand

6.1 Gains (losses) on disposal or repurchase: breakdown

(Amounts in € thousands)

Items/Income components	Total 12/31/2018			Total 12/31/2017		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortized cost						
1.1 Due from banks						
1.2 Due from customers		(1)	(1)			
2. Financial assets measured at fair value through OCI						
2.1 Debt securities	386		386	1,759		1,759
2.2 Loans						
Total assets (A)	386	(1)	385	1,759	0	1,759
Financial liabilities measured at amortized cost						
1. Due to banks						
2. Due to customers						
3. Debt securities issued						
Total liabilities (B)	0	0	0	0	0	0

The amount refers to the sale of government securities in the Held to Collect and Sell (HTC&S) portfolio during the year, resulting in a net gain of €385 thousand, before the tax effect.

Section 8 - Net adjustments/reversals of impairment - Item 130

€4,812 thousand

8.1 Net adjustments for credit risk on financial assets measured at amortized cost: breakdown

(Amounts in € thousands)

Transactions/Income components	Adjustments (1)			Reversals of impairment (2)		Total 12/31/2018	Total 12/31/2017
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Due from banks	(4)					(4)	
- Loans	(4)					(4)	
- Debt securities	0						
of which: impaired loans acquired or internally generated	0						
B. Due from customers	(49)	(194)	(6,117)	345	1,216	(4,800)	(6,046)
- Loans	(49)	(194)	(6,117)	340	1,216	(4,804)	(6,046)
- Debt securities				5		5	
of which: impaired loans acquired or internally generated			(1,408)			(1,408)	
Total	(53)	(194)	(6,117)	345	1,216	(4,804)	(6,046)

Adjustments at December 31, 2018 mainly consist of write-downs in relation to municipalities in financial distress of approximately €2 million and specific positions of the BFF Polska Group for a particular operational segment that is being discontinued.

8.2 Net adjustments for credit risk on financial assets measured at fair value through OCI: breakdown

(Amounts in € thousands)

Transactions/Income components	Adjustments (1)			Reversals of impairment (2)		Total 12/31/2018	Total 12/31/2017
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	8					(8)	(702)
B. Loans of approximately €2 million							
- customers							
- banks							
of which: financial assets impaired or internally generated							
Total	8					(8)	(702)

Section 12 - Administrative expenses - Item 190

€68,156 thousand

12.1 Personnel costs: breakdown

€32,577 thousand

(Amounts in € thousands)

Type of expense/Sectors	Total 12/31/2018	Total 12/31/2017
1. Employees		
a) wages and salaries	20,697	17,478
b) social security contributions	5,314	4,458
c) employee severance benefits	0	0
d) pension	0	0
e) allocation to employee severance benefits	579	422
f) provision for pension and other post-employment benefits:		
- defined contribution	0	0
- defined benefit	0	0
g) payments to external supplementary pension funds:		
- defined contribution		
- defined benefit	185	189
h) costs of share-based payment arrangements		
i) other employee benefits	3,144	2,858
2. Other staff in service	652	577
3. Directors and Statutory Auditors	2,038	1,637
4. Early retirement costs		
Total	32,577	27,619

The increase in this item can mainly be traced to an increased number of employees over the year. The amount also includes expenses for employee stock options, equal to €1.3 million for the current year, before taxes. Such cost also generates an increase, before taxes, in equity

12.2 Average number of employees by category**Employees**

(number)

Category	Average number at 12/31/2018	Average number at 12/31/2017
Senior Executives/Executives	21	20
Managers/Middle Managers/Professionals	111	102
Specialists	281	279
Total	413	401

The number of staff shown in the previous table refers to FTE staff and it arises from a calculation based on the instructions of the Bank of Italy's Circular no. 262.

Such figures do not include 19 staff working at Kancelaria Prawnicza Karnowski i Wspólnik sp.k. and Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.

Other staff

Internship: 9.

12.4 Other employee benefits

The amount of €3,144 thousand mainly refers to costs of stock options granted to some employees, to expenses incurred for training, to insurance on behalf of staff, to meal tickets and donations to employees.

12.5 Other administrative expenses: breakdown

€35,578 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Legal fees	2,434	2,178
Data processing services	2,711	2,342
External credit management services	1,043	1,014
Supervisory Body fees	42	42
Legal fees for receivables under management	275	723
Notary fees	1,192	499
Notary fees to be recovered	1,323	711
Entertainment expenses and donations	932	950
Maintenance expenses	1,605	1,241
Non-deductible VAT	3,141	3,142
Other taxes	1,742	2,028
Advisory fees	7,415	10,756
Head office operating expenses	1,827	1,691
Resolution Fund and FITD	3,235	1,727
Other expenses	6,661	5,334
Total	35,578	34,380

Other administrative expenses at December 31, 2018 amounted to €35.5 million, basically in line with the same period in the previous year.

Furthermore, with regards to contributions to the Deposit Guarantee Scheme, a cost of €3.2 million before taxes was recorded at December 31, 2018. This cost was made up of:

- €1.8 million as ordinary annual contribution to the Resolution Fund, and €0.7 million as extraordinary contribution for 2016 (both paid in the first half of 2018);
- €0.7 million as contribution to the FITD, paid in December 2018.

These amounts are recognized under other administrative expenses, as indicated in the Bank of Italy note of January 19, 2016 “Contributions to Resolution Funds: treatment in the financial statements and in regulatory reporting”.

This item also includes legal fees of €275 thousand and notary fees of €1,323 thousand, incurred on behalf of corporate customers, which were fully recovered and included in other operating income.

“Other administrative expenses” mainly include services outsourced in 2018, which are listed below.

Breakdown	Total 12/31/2018
Fees paid to external companies for support to Internal Audit	48
Fees paid to external companies for Data Processing	2,711
Fees paid to external companies for Credit Checks	1,043

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

€960 thousand

13.1 Net allocations for credit risk concerning commitments to disburse funds and financial guarantees provided: breakdown

€30 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Provision for risk on commitments and guarantees	30	0
Total	30	0

13.3 Net allocations to provisions for risks and charges: breakdown

€930 thousand

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

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Pension and other post-employment benefits	930	267
Other provisions	0	564
Total	930	831

The allocation to “Pension and other post-employment benefits” refers to deferred employee benefits.

Section 14 - Net adjustments to/reversals of impairment of property, plant and equipment - Item 210
€1,487 thousand

14.1 Net adjustments to/reversals of impairment of property, plant and equipment: breakdown

(Amounts in € thousands)

Assets/Income components	Depreciation (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a+b-c)
A. Property, plant and equipment				
A.1 Owned assets	1,394			1,394
- Used in the business	1,394			1,394
- Held for investment				
- Inventory	X			
A.2 Purchased under finance leases	93			93
- Used in the business	93			93
- Held for investment				
Total	1,487			1,487

Section 15 - Net adjustments to/reversals of impairment of intangible assets - Item 220
€1,729 thousand

15.1 Net adjustments to/reversals of impairment of intangible assets: breakdown

(Amounts in € thousands)

Assets/Income components	Amortization (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a+b-c)
A. Intangible assets				
A.1 Owned assets				
- Internally generated	0	0	0	0
- Other	1,729	0	0	1,729
A.2 Purchased under finance leases	0	0	0	0
Total	1,729	0	0	1,729

Section 16 - Other operating income (expenses) - Item 230

€3,945 thousand

16.1 Other operating expenses: breakdown

€-1,923 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Contingent expenses	(492)	0
Rounding off and allowance expenses	(74)	(90)
Other expenses	(668)	(604)
Deposit guarantee scheme expenses		
Tax expenses	(688)	0
Total	(1,923)	(694)

Other expenses mainly refer to taxes concerning legal cases filed by the Bank.

16.2 Other operating income: breakdown

€5,868 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Recovery of legal fees for purchases of non-recourse receivables	1,768	1,139
Recovery of operational legal fees	275	723
Receivables realized at other than face value	0	8
Contingent assets	854	1,454
Recovery of assignor notary expenses	1,324	652
Other income	1,648	566
Total	5,868	4,543

“Other income” includes the tax contribution relative to systems development, for approximately €700 thousand. The disclosure is given in accordance with the requirements of Italian Law no. 124/2017, which, starting 2018, requires a compulsory publication of said contribution in the Notes.

Section 21 - Income taxes on profit (loss) from continuing operations - Item 300

€32,113 thousand

21.1 Income taxes on profit (loss) from continuing operations: breakdown

(Amounts in € thousands)

Income components/Sectors	Total 12/31/2018	Total 12/31/2017
1. Current taxes (-)	22,908	28,634
2. Change in current taxes of prior years (+/-)	0	
3. Reduction in current taxes for the year (+)	0	
3.bis Reduction in current taxes for the year due to tax credit under Law 214/2011 (+)	0	
4. Change in deferred tax assets (+/-)	(628)	7,605
5. Change in deferred tax liabilities (+/-)	9,831	188
6. Taxes for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	32,113	36,427

21.2 Reconciliation of theoretical tax and effective tax expense

The reconciliation between the theoretical and effective tax expenses for the Parent Banca Farmafactoring S.p.A. only is provided below.

(Amounts in € thousands)

Breakdown	IRES	IRAP
Taxable profit used for purposes of tax calculations	101,112	18,459
Theoretical tax: 27.5% IRES - 5.57% IRAP	27,806	1,028
Permanent non-deductible differences	(3,532)	0
Deductible IRAP	(372)	0
Temporary differences taxable in future years	(32,590)	0
Temporary differences deductible in future years	2,583	968
Reversal of temporary differences from previous years	(470)	1,413
Taxable profit	66,731	20,840
Current taxes for the year: 27.5% IRES - 5.57% IRAP	18,351	1,161

Section 25 - Earnings per share**25.1 Average number of diluted ordinary shares**

Breakdown	Total 12/31/2018	Total 12/31/2017
Average number of shares outstanding	170,107,400	170,107,400
Average number of potentially dilutive shares	2,458,721	0
Average number of diluted shares	172,566,121	170,107,400

25.2 - Other information

Breakdown	Total 12/31/2018	Total 12/31/2017
Consolidated net profit for the period (in euros)	92,152,892	95,547,803
Average number of shares outstanding	170,107,400	170,107,400
Average number of potentially dilutive shares	2,458,721	0
Average number of diluted shares	172,566,121	170,107,400
Basic earnings per share (in euros)	0.54	0.56
Diluted earnings per share (in euros)	0.53	0.56

Part D - Consolidated Comprehensive Income

Consolidated Statement of Comprehensive Income

(Amounts in €)

Items	12/31/2018	12/31/2017
10. Profit for the year	92,152,892	95,547,803
Other comprehensive income that will not be reclassified to profit or loss		
20. Equity securities designated at fair value through OCI:		
a) fair value changes		
b) transfers to other equity components		
30. Financial liabilities designated at fair value through profit or loss (change in credit quality rating):		
a) fair value changes		
b) transfers to other equity components		
40. Hedging of equity securities designated at fair value through OCI:		
a) fair value changes (hedged instrument)		
b) fair value changes (hedging instrument)		
50. Property, plant and equipment		
60. Intangible assets		
70. Defined benefit plans	24,380	(28,272)
80. Non-current assets and disposal groups held for sale		
90. Portion of revaluation reserves from equity investments measured using the equity method		
100. Income taxes on OCI that will not be reclassified to profit or loss	(6,704)	7,775
Other comprehensive income that will be reclassified to profit or loss		
110. Hedges of foreign investments:		
a) fair value changes		
b) reclassification to profit or loss		
c) other changes		
120. Exchange differences:		
a) fair value changes		
b) reclassification to profit or loss		
c) other changes	(2,866,803)	4,518,789
130. Cash flow hedges:		
a) fair value changes	(290,088)	(226,212)
b) reclassification to profit or loss		
c) other changes		
of which: result of net positions		
140. Hedging instruments (not designated):		
a) fair value changes		
b) reclassification to profit or loss		
c) other changes		
150. Financial assets (other than equity securities) measured at fair value through OCI:		
a) fair value changes	(6,331,788)	(601,191)
b) reclassification to profit or loss		
- adjustments for credit risk		
- capital gains (losses)		
c) other changes		

Follows on the next page >>

(Amounts in €)

Items	12/31/2018	12/31/2017
160. Non-current assets and disposal groups held for sale:		
a) fair value changes		
b) reclassification to profit or loss		
c) other changes		
170. Portion of revaluation reserves relating to equity investments measured using the equity method:		
a) fair value changes		
b) reclassification to profit or loss		
- impairment losses		
- capital gains (losses)		
c) other changes		
180. Income taxes on OCI that will be reclassified to profit or loss	2,309,113	85,641
190. Total other comprehensive income	(7,161,890)	3,756,530
200. Comprehensive income (Items 10+190)	84,991,001	99,304,333
210. Consolidated comprehensive income attributable to non-controlling interests		
220. Consolidated comprehensive income attributable to the Parent	84,991,001	99,304,333

Part E - Risks and Related Risk Management Policies

Introduction

The BFF Banking Group 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 for determining adequacy of capital and liquidity risk governance and management systems;
- the activities for the assessment of the prospective liquidity and capital adequacy, associated with the strategic planning process.

The corporate governance bodies of Banca Farmafactoring—as BFF Banking Group’s Parent Company—define the risk governance and management model at the Group level, taking into account the specific types of operations and the related risk profiles characterizing all the Group’s entities, with the aim of creating an integrated and consistent risk management policy. Within this framework, the Parent Company’s corporate governance bodies perform the functions entrusted to them not only with regard to their specific business activities but also taking into account the Group’s operations as a whole and the risks to which it is exposed and involving, as appropriate, the governance bodies of the subsidiaries in the decisions concerning risk management procedures and policies.

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

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

- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Group risks (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;
- providing an assessment of current and future adequacy of capital and liquidity risk governance and management systems, under normal and stress conditions, 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;
- 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.

It should be noted that the CRR Group, including the BFF Banking Group and BFF Luxembourg S.à r.l. (the latter as the parent company for the scope of consolidation for prudential supervisory purposes only) has marginal exposures with BFF Luxembourg S.à r.l. which do not change the risk profile of the BFF Banking Group. As a consequence, the reference made to one of the two scopes of consolidation, for prudential supervisory purposes only, does not alter the overall risk profile.

Section 1 - Risks of consolidated accounts**Quantitative information****A. Credit quality****A.1 Impaired and not impaired credit exposures: amounts, adjustments, changes, breakdown by business activity****A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amounts)**

(Amounts in € thousands)

	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures	Other impaired exposures	Not impaired exposures	Total
Portfolios/Quality						
1. Financial assets measured at amortized cost	40,344	6,774	72,572	596,718	3,877,362	4,593,770
2. Financial assets measured at fair value through OCI	-	-	-	-	160,592	160,592
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total 12/31/2018	40,344	6,774	72,572	596,718	4,037,954	4,754,362
Total 12/31/2017	18,175	6,760	69,794	0	4,190,990	4,285,719

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

(Amounts in € thousands)

	Impaired			Not impaired			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	
Portfolios/Quality							
1. Financial assets measured at amortized cost	135,949	16,258	119,690	4,476,832	2,749	4,474,082	4,593,770
2. Financial assets measured at fair value through OCI				160,592		160,592	160,592
3. Financial assets designated at fair value				X	X		
4. Other financial assets mandatorily measured at fair value				X	X		
5. Financial assets held for sale							
Total 12/31/2018	135,949	16,258	119,690	4,637,423	2,749	4,634,674	4,754,362
Total 12/31/2017	106,003	11,273	94,730	4,195,675	5,232	4,190,989	4,285,719

Portfolio/quality	Subprime assets		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading			
2. Hedging derivatives			
Totale 12/31/2018			0
Totale 12/31/2017			322

SECTION 2 - RISKS OF CONSOLIDATED ACCOUNTS FOR PRUDENTIAL SUPERVISION**1.1 - Credit risk****Qualitative information****1. General information**

The main activity of the BFF Banking Group is factoring, which is governed, in Italy, by the Italian Civil Code (Book IV, 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.

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

2. Credit risk management policies**2.1 Organizational issues**

The assessment of a transaction, for the different products offered by the BFF Banking Group, must be 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'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 February 20, 2018, 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 adequately monitored at various levels within the framework of the multiple operating processes.

2.2 Management, measurement and control systems

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

For this purpose, it must be noted that the core business carried out by the Group consists, as mentioned above, in the purchase of receivables on a non-recourse basis due from debtors belonging to public administration agencies.

Based on the above, in particular, credit risk is linked to the possibility that an unexpected change in the creditworthiness of a counterparty, to which the Company is exposed, generates 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 receivable sold to self-liquidate (e.g., risk of direct payments from the debtor to the potentially insolvent assignor);
- risk of late payment: the risk of a delay in the collection times of the receivables sold compared to those expected by the Group.

The BFF Banking Group has an internal regulation that describes the phases that in industry regulations are identified 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.

The BFF Banking Group also marginally offers these two types of services: "receivables management only" and "recourse factoring".

In the "receivables management only" service, credit risk is considerably reduced because it is limited to the Group's exposure to the customer for payment of the agreed fees and commissions, that is, the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process, although the credit line can be approved by a single-person body.

"Recourse factoring" is a marginal activity for the BFF Banking Group.

The 2016 acquisition of the BFF Polska Group significantly contributed to the growth of the Group, which extended its business to Poland, Slovakia and the Czech Republic, while at the same time diversifying its range of financial services offered.

The BFF Polska Group mainly operates in three sectors:

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

Also with regards to the specific types of investment by the BFF Polska Group and its subsidiaries, credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin

and receivables portfolio value. As a general rule, the BFF 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.

Exposure to customer 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.

As for the assessment and measurement of credit risk from the regulatory point of view, in terms of capital requirements for capital adequacy purposes, the Group uses the "standardized" approach, 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 risk weights to each portfolio, as shown in detail in Section 4 of this document.

The 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 (RWA - Risk Weighted Assets).

In particular, the BFF Banking Group applies the following weighting factors, for RWA calculation purposes:

- 0% for receivables due from 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 local 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) and (ii) exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Czech Republic and Croatia);
- 50% or 100% for receivables due from supervised intermediaries, according to the credit quality step of the country in which they have their offices;
- 75% for retail exposures and exposures to SMEs;
- 100% for exposures to private debtors (i.e., businesses);
- 100% for property, plant and equipment, 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 value adjustments are 20% or more than the non-collateralized portion, before any adjustments.

Banca Farmafactoring adopted the Dominion Bond Rating Service (DBRS) as reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS on July 13, 2018 was “BBB high”. Exposures to the Italian public administration agencies, which include those to entities belonging to the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%.

The exposures of the BFF Banking Group are principally represented by exposures to counterparties of the public administration or healthcare entities of the countries in which the Group operates.

Based on the method described above, the capital requirement for credit risk at December 31, 2018 is €151.3 million for the 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.

In particular:

- “large exposure” means any position equal to or greater than 10% of the eligible capital, as defined in the CRR (sum of Tier 1 Capital and Tier 2 Capital equal to or lower than one-third of Tier 1 Capital);
- for banking groups, each risk position must not be greater than 25% of the eligible capital.

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

Finally, the Bank files a monthly report with the Central Credit Register (in compliance with Bank of Italy’s Circular no. 139 of February 11, 1991, and subsequent amendments, “*Central Credit Register. Instructions for Credit Intermediaries*”), providing information on the financial debt trend of the debtor over the course of time and on the available/used ratio (which shows the financial obligations of the company and its debt margins to the system). For the purposes of improving the monitoring of credit performance, complying with this requirement also allows to have visibility of the financial position of the entities reported by the Bank.

Credit quality assessment

The Group performs an impairment test on the receivables portfolio, aimed at identifying any impairment of its assets, in line with the provisions of the applicable accounting standards and the prudential criteria required by supervisory regulations and the internal policies adopted by the BFF Banking Group.

This assessment is based on the distinction between these two categories of exposures:

- *Receivables subject to generic adjustments (“collective assessment”)*
- *Receivables subject to specific adjustments.*

It should be noted that IFRS 9 came into force on January 1, 2018. This standard replaces the concept of incurred losses, envisaged by IAS 39, with that of expected losses.

The approach adopted by the Group is based on a prospective model that may require the recognition of expected losses over the lifetime of the receivable on the basis of supportable information that is available without undue cost or effort and includes historical, current and forward-looking data. In this context, an approach based on the use of credit risk parameters (Probability of Default - PD, Loss Given Default - LGD, Exposure at Default - EAD) has been adopted, redefined based on a multi-period perspective.

More specifically, according to IFRS 9, impairment of receivables is recognized in three stages, each with different methods for calculating the losses to be recorded.

As for Stage 1, expected losses are measured over a 12-month period. As for Stage 2 (including financial assets whose credit risk increased significantly since initial recognition), expected losses are measured over the full lifetime of the instrument (lifetime expected losses). Stage 3 includes all financial assets that show objective impairment at the reporting date (non-performing exposures).

2.3 Expected credit loss measurement methods***Receivables subject to generic adjustments (“collective assessment”)***

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 accounting standards are as follows:

- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the receivable, thus replacing the “incurred loss” criterion. According to the latter, impairment losses were recognized only when there was evidence that they existed (based on the identification of a trigger event). According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;
- ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;
- use of forward-looking information and macroeconomic factors to determine ECL;
- introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

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

- probability of default (PD) models and assumptions about the forward distribution of default events, for the calculation of multi-period PDs used to determine the lifetime expected credit loss;
- LGD model;
- a deterministic and stochastic EAD model, for which it is possible 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 lifetime of the financial instrument are as follows:

- Multi-period PD;
- Multi-period LGD;
- Multi-period EAD.

Furthermore, in compliance with IFRS 9, the ECL calculation shall include Point-in-Time (PIT) adjustments and Forward-Looking Information (FLI).

Receivables subject to specific adjustments (“individual assessment”)

As required by IFRS 9 and in line with current supervisory provisions, the Group carried out a review of the assets classified as non-performing in order to identify any objective impairment of individual positions.

It should be noted that, with reference to past due receivables, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures referred to in this section were carried out. This decision is supported by the fact that, in consideration of the Group’s core business, positions past due by over 90 days, identified according to objective criteria, do not necessarily represent a deterioration of the risk position with individual objective impairment elements. The results arising from impairment are then individually attributed to each single counterparty classified in such risk position.

The BFF Banking Group’s impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €119.7 million—net of individual impairment—and are broken down as follows:

- €40.3 million NPLs;
- €6.8 million unlikely to pay exposures;
- €72.6 million impaired past due exposures.

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

2.4 Credit risk mitigation techniques

The BFF Banking Group has adequate credit risk mitigation mechanisms in place that ensure a sound and prudent management of the risk positions assumed.

Concerning specifically credit risk mitigation techniques, the BFF Banking Group has adopted specific Regulations (“Group Regulations for the management of credit risk mitigation techniques”) that govern the Credit Risk Mitigation (CRM) process. Among other things, the Regulations describe how to manage all instruments considered eligible by the Group in accordance with applicable prudential provisions (“Regulation EU/2013/575” and “Bank of Italy Circular 285/2013”) to mitigate credit risk for regulatory purposes.

3. Non-performing exposures

On July 24, 2014, the EBA published the “Final draft implementing technical standards on supervisory reporting on forbearance and non-performing exposures” (EBA/ITS/2013/03/rev 1 7/24/2014); this document introduces new definitions for non-performing exposures and forbearance measures. According to these definitions, adopted by the Bank of Italy with the seventh update to Circular no. 272 of January 20, 2015, impaired assets shall be classified as follows:

- Non-performing loans
- Unlikely to pay exposures
- Impaired past due exposures

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 company.

At December 31, 2018, the total non-performing loans of the BFF Banking Group, net of impairment, amounted to €40.3 million, of which €7.9 million purchased already impaired. Non-performing loans relating to Italian municipalities in financial distress amounted to €32.3 million, accounting for 80.1% of the total.

Gross non-performing loans amounted to €53.4 million; relevant impairment amounted to €13.1 million. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €11.7 million entirely impaired, and refers mainly to exposures to Fondazione Centro San Raffaele del Monte Tabor (ongoing liquidation and composition agreement with creditors). Taking account of this amount, too, gross non-per-

forming loans amounted to €65.1 million and relevant adjustments totaled €24.7 million. As far as this exposure is concerned, it should be noted that in June 2017, €1.6 million were received for the fourth distribution in the composition agreement with creditors of Fondazione Monte Tabor, in relation to which a net residual amount of €1.2 million was still due, relating to principal only.

Specifically, the amount of €33 million refers to receivables due from local entities (municipalities, provinces) in financial distress and are impaired based on time value.

Gross non-performing loans relating to the BFF Polska Group amounted to €13 million; after impairment of €7.6 million, the net amount totaled €5.4 million. As far as BFF Finance Iberia S.A. is concerned, gross non-performing loans amounted to €117 thousand; after impairment of €89.9 thousand, the net amount totaled €27 thousand.

Unlikely to pay exposures

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

At December 31, 2018, net exposures classified as unlikely to pay amounted to a total of €6.8 million, mainly attributable to the BFF Polska S.A. Group portfolio.

Impaired past due exposures

These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. They are classified as impaired based on the Bank of Italy's Circular no. 272 of January 20, 2015.

More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to a Group company for more than 90 days. Measurement of such past due exposures is carried out at the portfolio level, since there are no objective indications of individual impairment.

At December 31, 2018, total net past due exposures amounted to €72.6 million for the BFF Banking Group, of which 64.0% referring to public administration and public sector companies. Banca Farmafactoring's exposures totaled €38.7 million. Of such amount, €28.2 million (72.8%) concerned Italian, Portuguese and Greek public administration agencies (largely local entities) and Italian public sector companies. For the BFF Polska Group, net past due exposures amounted to €31.6 million, of which €16.5 million (52.1%) refer to public administration entities and public sector companies. For BFF Finance Iberia, net past due exposures amounted to €2.2 million, of which €1.8 million (81.4%) refer to public administration entities and/or public sector companies.

Quantitative information**A. Credit quality****A.1 Impaired and not impaired credit exposures: amounts, adjustments, changes, breakdown by business activity****A.1.1 Consolidated accounts for prudential supervision - Financial assets broken down by past due amounts (carrying amounts)**

(Amounts in € thousands)

Portfolios/Risk Stages	Stage 1			Stage 2			Stage 3		
	1 to 30 days	30 to 90 days	over 90 days	1 to 30 days	30 to 90 days	over 90 days	1 to 30 days	30 to 90 days	over 90 days
1. Financial assets measured at amortized cost	19,070	49,099	370,514	10	17,137	140,893	816	2,600	69,402
2. Financial assets measured at fair value through OCI									
Total 12/31/2018	19,070	49,099	370,514	10	17,137	140,893	816	2,600	69,402

A.1.2 Consolidated accounts for prudential supervision - Financial assets, commitments to disburse funds and financial guarantees provided: change in total adjustments and allocations

(Amounts in € thousands)

Sources/Risk Stages	Total adjustments											Total		
	Stage 1 assets			Stage 2 assets			Stage 3 assets			Of which: impaired financial assets acquired or internally generated	Total allocations for commitments to disburse funds and financial guarantees provided			
	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment of which: collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment of which: collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment of which: collective impairment		Stage 1		Stage 2	Stage 3
Opening balance	5,232		5,232				11,273		11,273	1,373				16,505
Increase of financial assets acquired or internally generated							1,326		1,326	1,326				1,326
Derecognition other than write-off														
Net adjustments/reversals of impairment for credit risk (+/-)	(3,287)		(3,287)	804		804	3,660		3,660		177	21		1,375
Contractual changes without derecognition														
Change in estimate methods														
Write-off														
Other changes														
Closing balance	1,945		1,945	804		804	16,258		16,258	2,699	177	21		19,206
Collections of financial assets subject to write-off														
Write-off directly recognized in profit or loss														

A.1.3 Consolidated accounts for prudential supervision - Financial assets, commitments to disburse funds and financial guarantees provided: transfers among the various credit risk stages (gross amounts and face values)

(Amounts in € thousands)

	Gross amount/Face value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Portfolios/Risk Stages						
1. Financial assets measured at amortized cost	210,078			128	82,789	56,594
2. Financial assets measured at fair value through OCI						
3. Commitments to disburse funds and financial guarantees provided					3,449	358
Total 12/31/2018	210,078			128	86,238	56,952

A.1.4 Consolidated accounts for prudential supervision - On- and off-balance sheet credit exposures with banks: gross and net amounts

(Amounts in € thousands)

Type of exposure/Amounts	Gross exposure		Total adjustments and allocations	Net exposure	Total partial write-offs*
	Impaired	Not impaired			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing loans		X			
- of which: forborne exposures		X			
b) Unlikely to pay exposures		X			
- of which: forborne exposures		X			
c) Impaired past due exposures		X			
- of which: forborne exposures	X	X			
d) Past due but not impaired exposures	X				
- of which: forborne exposures	X				
e) Other not impaired exposures	X	53,379	7	53,372	
- of which: forborne exposures					
TOTAL A	0	53,379	7	53,372	
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Impaired		X			
b) Not impaired	X	3,391	11	3,380	
TOTAL B	0	3,391	11	3,380	
TOTAL A+B	0	56,770	18	56,752	

* Provided for disclosure purposes.

A.1.5 Consolidated accounts for prudential supervision - On- and off-balance sheet credit exposures with customers: gross and net amounts

(Amounts in € thousands)

Type of exposure/Amounts	Gross exposure		Total adjustments and allocations for credit risk	Net exposure	Total partial write-offs*
	Impaired	Not impaired			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing loans	53,424	X	13,080	40,344	
- of which: forborne exposures		X			
b) Unlikely to pay exposures	8,680	X	1,906	6,774	
- of which: forborne exposures	3,579	X	1,475	2,104	
c) Impaired past due exposures	73,845	X	1,273	72,572	
- of which: forborne exposures		X			
d) Past due but not impaired exposures	X	596,814	95	596,718	
- of which: forborne exposures	X				
e) Other not impaired exposures	X	3,977,843	2,647	3,975,196	
- of which: forborne exposures	X	43,657	730	42,927	
TOTAL A	135,949	4,574,656	19,001	4,691,604	
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Impaired	9,381	X	21	9,360	
b) Not impaired	X	79,941	166	79,774	
TOTAL B	9,381	79,941	187	89,135	
TOTAL A+B	145,329	4,654,597	19,188	4,780,739	

* Provided for disclosure purposes.

A.1.7 Consolidated accounts for prudential supervision - On-balance sheet credit exposures with customers: changes in gross impaired exposures

(Amounts in € thousands)

Sources/Categories	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures
A. Opening gross exposures	25,698	10,370	69,935
- of which: exposures sold but not derecognized	4,995	-	15,197
B. Increase	28,466	4,957	62,899
B.1 transfer from performing exposures	16,757	4,944	61,088
B.2 transfer from impaired financial assets acquired or internally generated	5,869	-	-
B.3 transfers from other categories of impaired exposures	4,499	-	-
B.4 contractual changes without derecognition	-	-	-
B.5 other increases	1,341	14	1,811
C. Decrease	740	6,648	58,988
C.1 transfer to performing exposures	133	-	56,589
C.2 write-off	-	-	-
C.3 collections	607	3,543	1,006
C.4 proceeds on sale	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	3,105	1,394
C.7 contractual changes without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposures	53,424	8,680	73,845
- of which: exposures sold but not derecognized	14,113	-	5,485

A.1.7 bis Consolidated accounts for prudential supervision - On-balance sheet exposures with customers: changes in gross forborne exposures broken down by credit quality

(Amounts in € thousands)

Sources/Quality	Forborne exposures: impaired	Forborne exposures: not impaired
A. Opening gross exposures		31,833
- of which: exposures sold but not derecognized		
B. Increase	3,579	11,824
B.1 transfer from performing exposures non included in the forborne exposures category		11,824
B.2 transfer from performing forborne exposures	3,579	X
B.3 transfer from impaired forborne exposures	X	
B.4 other increases		
C. Decrease		
C.1 transfer to performing exposures non included in the forborne exposures category	X	
C.2 transfer to performing forborne exposures		X
C.3 transfer to impaired forborne exposures	X	
C.4 write-off		
C.5 collections		
C.6 proceeds on sale		
C.7 losses on sale		
C.8 other decreases		
D. Closing gross exposures	3,579	43,657
- of which: exposures sold but not derecognized		

A.1.9 Consolidated accounts for prudential supervision - On-balance sheet impaired credit exposures with customers: changes in total adjustments

(Amounts in € thousands)

	Non-performing loans		Unlikely to pay exposures		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
Sources/Categories						
A. Opening total adjustments	7,523		3,610		140	
- of which: exposures sold but not derecognized	103				21	
B. Increase	6,558		562	1,475	1,262	
B.1 adjustments from impaired financial assets acquired or internally generated	1,408					
B.2 other adjustments	4,721					
B.3 losses on disposal						
B.4 transfers from other categories of impaired exposures	79		323	1,475	1,210	
B.5 contractual changes without derecognition						
B.6 other increases	350		239		52	
C. Decrease	1,002		2,266		130	
C.1 reversals of impairment from revaluations						
C.2 reversals of impairment from collections	918		440		4	
C.3 gains on disposal						
C.4 write-off						
C.5 transfers to other categories of impaired exposures	84		1,796		126	
C.6 contractual changes without derecognition						
C.7 other decreases			30			
D. Closing total adjustments	13,080		1,906	1,475	1,273	
- of which: exposures sold but not derecognized	1,757				14	

A.2 Classification of exposures according to external and internal ratings**A.2.1 Consolidated accounts for prudential supervision - Credit exposures, commitments to disburse funds and financial guarantees provided broken down by external rating classes (gross amounts)**

(Amounts in € thousands)

Exposures	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost		857,397	3,405,121		15,843		325,031	4,603,392
- Stage 1		765,702	3,232,883		15,349		243,303	4,257,237
- Stage 2		73,408	112,968		175		23,655	210,206
- Stage 3		18,288	59,269		319		58,073	135,949
B. Financial assets measured at fair value through OCI			160,592					160,592
- Stage 1			160,592					160,592
- Stage 2								
- Stage 3								
Total (A+B)		857,397	3,565,712		15,843		325,031	4,763,984
of which: impaired financial assets acquired or internally generated			10,363				198	10,561
C. Commitments to disburse funds and financial guarantees provided			35,067				57,645	92,712
- Stage 1			35,067				48,265	83,331
- Stage 2								
- Stage 3							9,381	9,381
Total C			35,067				57,645	92,712
Total (A+B+C)		857,397	3,600,779		15,843		382,677	4,856,696

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

(In € millions)

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

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.2 Consolidated accounts for prudential supervision - On- and off-balance sheet guaranteed credit exposures with customers

(Amounts in € thousands)

	Gross exposure	Net exposure	Collaterals (1)					Personal guarantees (2)								Total (1)+(2)	
			Mortgaged property	Property under finance leases	Securities	Other collaterals	CLN	Credit derivatives				Endorsement credits					
								Other derivatives				Public administration agencies	Banks	Other financial companies	Other		
								Clearing house	Banks	Other financial companies	Other						
1. Guaranteed on-balance sheet credit exposures:	8,971	8,914	3,256			5,328										330	8,914
1.1 totally guaranteed	8,971	8,914	3,256			5,328										330	8,914
- of which impaired	157	152				152											152
1.2 partially guaranteed																	
- of which impaired																	
2. Guaranteed off-balance sheet credit exposures:																	
2.1 totalmente garantite																	
- of which impaired																	
2.2 partially guaranteed																	
- of which impaired																	

B. Breakdown and concentration of credit exposures**B.1 Consolidated accounts for prudential supervision - Breakdown by segment of on- and off-balance sheet credit exposures with customers**

(Amounts in € thousands)

Exposures/Counterparties	Public administration agencies		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	33,628	4,005					5,463	7,930	1,253	1,145
- of which:										
forborne exposures										
A.2 Unlikely to pay exposures							6,774	1,906		
- of which:										
forborne exposures							2,104	1,475		
A.3 Impaired past due exposures	40,197	48					23,499	1,157	8,876	67
- of which:										
forborne exposures										
A.4 Not impaired exposures	4,325,146	765	64,725	47			180,534	1,913	1,509	18
- of which:										
forborne exposures	26,494	35					16,433	695		
Total A	4,398,971	4,818	64,725	47	0	0	216,269	12,906	11,638	1,230
B. Off-balance sheet credit exposures										
B.1 Impaired exposures							9,360	21		
B.2 Not impaired exposures	31,675	1					48,100	165		
Total B	31,675	1	0	0	0	0	57,460	185	0	0
Total (A+B) 12/31/2018	4,430,646	4,819	64,725	47	0	0	273,730	13,092	11,638	1,230
Total (A+B) 12/31/2017	3,976,084	6,630	64,459	0	0	0	314,348	8,748	14,012	1,126

B.2 Consolidated accounts for prudential supervision - Breakdown by geographical area of on- and off-balance sheet credit exposures with customers

(Amounts in € thousands)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	34,884	5,434	5,460	7,646						
A.2 Unlikely to pay exposures	3		6,771	1,906						
A.3 Impaired past due exposures	38,389	182	34,184	1,091						
A.4 Not impaired exposures	3,380,460	571	1,191,454	2,172						
Total A	3,453,735	6,187	1,237,869	12,815						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures			9,360	21						
B.2 Not impaired exposures			79,774	166						
Total B			89,135	187						
Total (A+B) 12/31/2018	3,453,735	6,187	1,327,004	13,001						
Total (A+B) 12/31/2017	3,277,301	6,855	1,091,602	9,650						

(Amounts in € thousands)

Exposures/Geographical areas	Italy - Northwest		Italy - Northeast		Italy - Central part		Italy - South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures								
A.1 Non-performing loans	1,272	330	181	41	1,452	1,273	31,979	3,790
A.2 Unlikely to pay exposures					3			
A.3 Impaired past due exposures	3,006	25	580	1	11,843	72	22,960	84
A.4 Not impaired exposures	225,112	209	114,564	7	2,083,659	259	957,124	95
Total A	229,389	565	115,324	48	2,096,957	1,605	1,012,064	3,969
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures								
Total B								
Total (A+B) 12/31/2018	229,389	565	115,324	48	2,096,957	1,605	1,012,064	3,969
Total (A+B) 12/31/2017	194,223	576	96,720	188	2,088,691	2,701	897,667	3,391

B.3 Consolidated accounts for prudential supervision - Breakdown by geographical area of on- and off-balance sheet credit exposures with banks

(Amounts in € thousands)

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay exposures										
A.3 Impaired past due exposures										
A.4 Not impaired exposures	39,874	6	13,498	1						
Total A	39,874	6	13,498	1						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures	3,380	11								
Total B	3,380	11								
Total (A+B) 12/31/2018	43,254	17	13,498	1						
Total (A+B) 12/31/2017	10,031	0	16,826	0						

(Amounts in € thousands)

Exposures/Geographical areas	Italy - Northwest		Italy - Northeast		Italy- Central part		Italy - South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures								
A.4 Not impaired exposures	5,490	4	190	0	34,090	2	105	
Total A	5,490	4	190	0	34,090	2	105	
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures					3,380	11		
Total B					3,380	11		
Total (A+B) 12/31/2018	5,490	4	190	0	37,470	13	105	
Total (A+B) 12/31/2017	5,645	-	68	-	4,308	-	11	

B.4 Large exposures

At December 31, 2018, the CRR Group had 11 “large exposures”, meaning—as specified in the Bank of Italy Circular no. 263 of December 27, 2006 “New prudential supervision regulations for banks” and subsequent amendments—risk positions equal to or higher than 10% of eligible capital.

The nominal unweighted amount of these positions was €3,095,415 thousand, while the weighted amount was €353,471 thousand.

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

C. Securitization transactions

This section presents “qualitative” and “quantitative” information about transactions concerning the securitization and asset sale activities of the Bank and the BFF Banking Group.

Information on the transaction with “Deutsche Bank AG - Farmactoring SPV I S.r.l.”

On January 25, 2018, the Senior Note of the €150 million securitization program FF SPV I S.r.l. (Deutsche Bank) was repaid in full.

Following the repayment of the Senior Note, the Group signed the agreements and documents required to close the securitization program with the SPV (Issuer), the Deutsche Bank Group (Noteholder), and the other parties to the transaction, under which:

- all contracts related to the transaction were terminated;
- Banca Farmactoring repurchased the outstanding portfolio of receivables held by the SPV as well as the debit memos issued and not yet collected.

In the first half of the year, the special purpose vehicle was liquidated and dissolved (June 2018).

Information on the transaction with “Bayerische Landesbank - BFF SPV S.r.l.”

Qualitative information

Strategies, processes and objectives

In July 2017, the private placement of a securitization transaction was concluded with the Bayerische Landesbank (BayernLB) Group for €150 million—the maximum amount of the flexible senior note—with the aim of diversifying funding activities.

Transaction details

The receivables, due from Local Healthcare Entities (ASL) and Hospitals (AO), are sold without recourse to a special purpose vehicle pursuant to Law 130/99, BFF SPV, which finances the purchase of the receivables by issuing securities up to a total of €150 million, underwritten by Corelux, a special purpose vehicle in the BayernLB Group, using liquidity made available by BayernLB AG.

The securitization structure provides for a revolving period during which sales of revolving receivables will be made against collections of the receivables in order to maintain the collateralization ratio provided for by the contract.

The revolving phase that started in September 2017 and originally valid through January 15, 2019 was renewed in December 2018: as a result, the revolving phase outstanding at December 31, 2018 is to end on February 17, 2020.

Description of the risk profile

Banca Farmafactoring, as the originator, maintains a role in the securitization transaction, even though it sells receivables on a non-recourse basis.

This transaction includes a credit enhancement mechanism through an overcollateralization ratio (at December 31, 2018, equal to 138.05% of the amount of the securities issued) and a subordinated loan by Banca Farmafactoring.

At the end of the revolving period, there will be an amortization period of up to one year related to the receivables collection performance, until full repayment of securities.

Through the exercise of a put option, the vehicle may also transfer back to Banca Farmafactoring S.p.A. any receivables outstanding after the 12 months set as the maximum limit for the amortization period.

Based on the above, all of the risks and rewards of the transaction were not transferred to the assignee but remain with Banca Farmafactoring. Consequently, the securitization risk is included in the credit risk.

Banca Farmafactoring does not hold any financial instruments issued by the vehicle as part of the transaction and, as collection agent, takes care of the recovery and collection of receivables on behalf of the servicer Zenith Service S.p.A.

Quantitative information

Type of financial instruments held

Banca Farmafactoring does not hold any financial instruments connected with the above-mentioned transaction.

Sub-servicer activity

Banca Farmafactoring, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A.

Following the sales of receivables during the revolving phase of the transaction, the face amount of total outstanding receivables totaled €211 million at December 31, 2018.

C.1 Consolidated accounts for prudential supervision - Exposures arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

(Amounts in € thousands)

Types of securitized assets / Exposures	On-balance sheet exposures						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Adj./ Re-ver.	Carrying amount	Adj./ Re-ver.	Carrying amount	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	46	0																
C.1 Farmafactoring SPV I																		
- Factoring	-	0																
C.2 BFF SPV																		
- Factoring	46	0																

C.3 Consolidated accounts for prudential supervision - Interests in securitization SPVs

(Amounts in € thousands)

Securitization name/ SPV name	Registered office	Scope of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzan.	Junior
BFF SPV S.r.l.	Milan - Via V. Betteloni, 2	Full	237,416		7	150,031		

D. Sales transactions

A. Financial assets sold and not fully derecognized

Qualitative information

The disclosure required by IFRS 7, paragraph 42D, letters a), b) and c), regarding the nature of the transferred assets, the relationship between them and the associated liabilities, and corresponding risks to which the Group is exposed, is provided below.

With reference to the above-mentioned securitization transaction, the value of the receivables sold and not derecognized amounts to €207 million.

The other amounts in “Due from customers” refer for a total of €224 million to the receivables pledged as collateral for loans with financial intermediaries and for a total of €322 million for the loans granted as collateral by BFF Polska and its subsidiaries.

The counterparty in repurchase agreements, amounting to €1,031 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank’s securities portfolio.

Quantitative information**D.1. Consolidated accounts for prudential supervision - Financial assets sold and fully recognized and relevant financial liabilities: carrying amounts**

(Amounts in € thousands)

	Financial assets sold and fully recognized				Relevant financial liabilities		
	Carrying amount	of which: subject to securitization	of which: subject to sale and repurchase agreements	of which impaired	Carrying amount	of which: subject to securitization	of which: subject to sale and repurchase agreements
Exposures/Geographical areas							
A. Financial assets held for trading							
1. Debt securities				X			
2. Equity securities				X			
3. Loans				X			
4. Derivatives				X			
B. Other financial assets mandatorily measured at fair value							
1. Debt securities				-			
2. Equity securities				X			
3. Loans							
C. Financial assets designated at fair value							
1. Debt securities							
2. Loans							
D. Financial assets measured at fair value through OCI	155,746		155,746		101,311		101,311
1. Debt securities	155,746		155,746		101,311		101,311
2. Equity securities				X			
3. Loans							
E. Financial assets measured at amortized cost	1,932,021	187,044	948,206	17,826	1,547,020	140,678	929,407
1. Debt securities	948,206		948,206		929,407		929,407
2. Loans	983,814	187,044		17,826	617,612	140,678	
Total (12/31/2018)	2,087,767	187,044	1,103,952	17,826	1,648,331	140,678	1,030,719
Total (12/31/2017)	1,796,734			20,068	1,608,667		

E. Consolidated accounts for prudential supervision - credit risk assessment models

1.2 Market risks

1.2.1 Interest rate risk and price risk - Regulatory trading portfolio

Qualitative information

A. General information

The interest rate risk is represented by the risk that fluctuations in the level of market interest rates may generate adverse effects on the company's income statement. Lending activities deriving from the factoring activities of the Bank, represented by non-recourse receivables, are in part at fixed rates and, for the late payment interest component, for Banca Farmafactoring and BFF Finance Iberia only, a 45% collection estimate at variable rates is included in amortized cost. Funding activities are mainly carried out at variable rates.

The exposure is given by the amount of financing subject to this risk.

The amount of derivative instruments executed to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be changed to fixed rates, correlating the amount of the hedging to the portion of funding used to finance the lending made at fixed rates. Therefore, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the fees and commissions and the correlated exposure flows, so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contractual rate on all derivative transactions.

1.2.2 Interest rate risk and price risk - Banking portfolio

Qualitative information

A. General information, operational procedures and methods for measuring interest rate risk and price risk

In accordance with the Bank of Italy's guidelines in the 20th update to circular no. 285/2013 as well as the guidance recently issued by the European Banking Authority (EBA), the Bank has defined its guidelines for the creation of a system to measure the Group's internal capital in light of the interest rate risk in its banking book under normal and stressed market conditions.

The method adopted to measure this type of risk was developed with the goal of assessing the potential impact of changes in interest rates on both the financial position, i.e. considering the so-called "investment risk", and profit or loss, i.e. accounting for the impact in terms of "earnings risk".

"Investment risk" is the risk that the economic value of assets, liabilities, and off-balance-sheet instruments owned by the Group will decline as a result of changes in interest rates, affecting the financial position. The Group's approach to measuring this risk is based on the techniques known as "Duration Gap" and "Sensitivity Analysis", which estimate the financial impact of potential fluctuations

in the value of assets and liabilities sensitive to interest rate movements as a result of changes in their structure.

“Earnings risk” is the risk that an unexpected change in interest rates will cause the Group's net interest margin to decline. This risk, starting with the maturity mismatch between loans and funding, exposes the Group to a refinancing risk as well as a reinvestment risk.

The Group's approach to measuring the overall impact, in line with market practices, is the so-called Repricing Gap Approach”, applied over a short-term time horizon.

To better evaluate the risk exposure and the relevant mitigation and control systems, the Group assesses the current and future adequacy of internal capital in light of the risk concerned under both normal and stressed market conditions.

In addition, the Group reviews the impact of applying differentiated analyses to exposures denominated in foreign currency if this is found to be material.

In assessing both the current situation and the outlook for internal capital under normal market conditions, the Group accounts for the annual changes in interest rates observed over a period of 6 years, considering either the 1st percentile (downside) or the 99th percentile (upside), based on its expectations concerning the outlook for interest rates and the reference macroeconomic scenario at the measurement date.

To determine internal capital using the Economic Value approach under stressed market conditions, in accordance with the regulatory provisions and guidelines of the European Banking Authority, the Group conducts differentiated scenario analyses on parallel and non-parallel interest rate shocks. Internal capital under stressed market conditions is calculated as the worst outcome across the different scenarios considered.

As for the measurement of internal capital under the Net Interest Margin approach, the Group conducts scenario analyses by accounting for parallel interest rate shocks applied in a consistent manner over time. In line with the best practices adopted by the Group, the scenarios are differentiated in terms of severity (e.g. +/- 25 bps, +/- 100 bps, +/- 200 bps, etc.).

Finally, besides the measurements based on the regulatory approach, only for the purposes of calculating internal capital in terms of economic value and measuring interest rate risk in terms of earnings, the Group uses a method specifically developed to account for the peculiarities of its operations. This method is based on the assumption that the regulatory approach does not allow to fully represent the actual breakdown of the assets and liabilities that form part of the banking book. To this end, the Group has developed a classification that is more consistent with the actual breakdown of its assets and liabilities in terms of fixed and floating rates. These are implicit in the Group's core business, which is characterized by interest on both payments and late payments.

Specifically, under the classification resulting from the above method:

- 45% of the assets related to “Loans to Customers - Other Loans”, which are performing and denominated in Euros, with maturity or interest rate renegotiation date greater than six months, are classified as assets with maturity between 3 and 6 months, while the remaining 55% are included in the respective time band;
- the assets and liabilities other than the above are classified in accordance with the rules of the Duration Gap Model as per regulatory provisions.

Fair value hedging activities

At December 31, 2018, the BFF Banking Group did not hold any forex swap aimed at hedging intragroup loans (between the Parent Banca Farmafactoring and its subsidiaries belonging to the BFF Polska Group).

Cash flow hedging activities

Previously, the Bank had used interest rate swaps (IRS) as tools to hedge the interest rate applied to its funding.

At December 31, 2018, the BFF Banking Group did not hold any derivative contract aimed at offsetting potential losses attributable to specific types of risks.

In February 2018, early repayment of the IRS of PLN355 million was made, after the purchase of the equity investment of BFF Banking Group in 2016. Early repayment generated a positive effect on the income statement totaling €110 thousand.

Quantitative information**1. Banking portfolio: breakdown by residual maturity (by repricing date) of financial assets and liabilities**

Currency: EURO

(Amounts in € thousands)

Type/ Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspecified maturity
1. On-balance sheet assets	875,342	280,105	612,535	505,854	1,385,683	454,253	27,302	
1.1 Debt securities		16,345	260,626	40,448	694,380	96,999		
- with early repayment option								
- other		16,345	260,626	40,448	694,380	96,999		
1.2 Loans to banks	44,771	3,397						
1.3 Loans to customers	830,571	260,363	351,909	465,406	691,303	357,254	27,302	
- current account	1							
- other loans	830,569	260,363	351,909	465,406	691,303	357,254	27,302	
- with early repayment option	-	-	-	-	-	-	-	
- other	830,569	260,363	351,909	465,406	691,303	357,254	27,302	
2. On-balance sheet liabilities	216,461	2,136,599	376,334	152,628	818,170	102,705		
2.1 Due to customers	174,528	1,567,331	331,334	122,632	236,613			
- current account	58,126	218,051	331,334	122,632	196,624			
- other payables	116,402	1,349,280			39,989			
- with early repayment option								
- other	116,402	1,349,280			39,989			
2.2 Due to banks	41,932	369,891	45,000	29,996	230,000			
- current account								
- other payables	41,932	369,891	45,000	29,996	230,000			
2.3 Debt securities		199,377			351,558	102,705		
- with early repayment option		199,377			200,774	102,705		
- other					150,783			
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
4. Other off-balance sheet transactions								
+ long positions								
+ short positions								

Currency: OTHER

(Amounts in € thousands)

Type/ Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspecified maturity
1. On-balance sheet assets	224,807	153,082	73,603	52,443	40,894	42,243	6,422	
1.1 Debt securities								
- with early repayment option								
- other								
1.2 Loans to banks	(5,202)							
1.3 Loans to customers	230,010	153,082	73,603	52,443	40,894	42,243	6,422	
- current account								
- other loans	230,010	153,082	73,603	52,443	40,894	42,243	6,422	
- with early repayment option								
- other	230,010	153,082	73,603	52,443	40,894	42,243	6,422	
2. On-balance sheet liabilities	57,868	469,179	63,732					
2.1 Due to customers			58,096					
- current account			-					
- other payables			58,096					
- with early repayment option								
- other			58,096					
2.2 Due to banks	57,868	463,308						
- current account								
- other payables	57,868	463,308						
2.3 Debt securities		5,871	5,636					
- with early repayment option								
- other		5,871	5,636					
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
4. Other off-balance sheet transactions								
+ long positions								
+ short positions								

1.2.3 Exchange rate risk

Qualitative information

A. General information, operational processes and methods for measuring exchange rate risk

Exchange rate risk is represented by the BFF Banking Group's exposure to fluctuations in exchange rates, considering both positions in foreign currency and those including indexation clauses linked to changes in the exchange rate of a specific currency.

The Group's asset portfolio at December 31, 2018 is denominated as follows:

- Euro;
- Polish zloty;
- Czech koruna;
- Croatian kuna.

Therefore, the BFF Banking Group manages and monitors the risk associated with currency volatility. The Group has a specific internal regulation for the management of exchange risk referring to exposures arising from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency, and any other type of transaction in a currency other than the reference currency. Specifically, the Group uses specific hedging instruments in order to mitigate exchange rate risk.

With regard to the acquisition of the BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty is hedged by a loan agreement, so that the asset and liability positions offset each other and, consequently, there is an open position in currency that is practically nil (natural hedging).

The currency effect, recognized in the income statement, arising from the revaluation of the zloty loan payable, corresponds to a related effect with the opposite sign in consolidated equity (the so-called "Translation reserve"), which comes from the revaluation of the exchange rates applied to the equity of the BFF Polska Group.

B. Hedging of exchange rate risk

At December 31, 2018, the BFF Banking Group did not hold any forex swap derivative instruments.

Quantitative information

The Group's asset portfolio is denominated in currencies other than the euro. Consequently, a method has been adopted to measure and manage this risk. The exchange rate risk is monitored by the Risk Management Function in accordance with European regulation guidelines (EU Regulation no. 575/2013, CRR).

1. Breakdown by currency of derivative assets and liabilities

(Amounts in € thousands)

Items	Currencies					
	US dollar	British pound	Japanese yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets						615,059
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						5,187
A.4 Loans to customers						609,872
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities						(617,958)
C.1 Due to banks						(548,104)
C.2 Due to customers						(58,347)
C.3 Debt securities						(11,507)
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions						
+ short positions						
Total assets						615,059
Total liabilities						(617,958)
Difference (+/-)						(2,899)

1.3 Derivative instruments and hedging policies

1.3.1 Trading derivative instruments

A. Financial derivatives

A.1 Trading financial derivatives: year-end notional amounts

(Amounts in € thousands)

Underlying assets/ Types of derivatives	Total 12/31/2018				Total 12/31/2017			
	Over the counter			Regulated markets	Over the counter			Regulated markets
	Clearing house	Without clearing house			Clearing house	Without clearing house		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Other								
2. Equity securities and equity indices								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Other								
3. Currencies and gold			0			6,500		
a) Options								
b) Swaps			0			6,500		
c) Forwards								
d) Futures								
e) Other								
4. Commodities								
5. Other underlying assets								
Total			0			6,500		

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

(Amounts in € thousands)

Types of derivatives	Positive and negative fair value							Change in value used to measure hedge ineffectiveness	
	Total 12/31/2018				Total 12/31/2017				
	Over the counter		Regulated markets	Over the counter		Regulated markets			
	Clearing house	Without clearing house		Clearing house	Without clearing house				
		With clearing agreements	Without clearing agreements		With clearing agreements	Without clearing agreements	Total 12/31/2018	Total 12/31/2017	
1. Positive fair value									
a) Options									
b) Interest rate swaps									
c) Cross currency swaps									
d) Equity swaps									
e) Forwards									
f) Futures									
g) Other									
Total									
1. Negative fair value			0			535			
a) Options									
b) Interest rate swaps									
c) Cross currency swaps									
d) Equity swaps									
e) Forwards									
f) Futures									
g) Other			0			535			
Total			0			535			

1.3.2 Hedge accounting

Quantitative information**A. Financial derivatives for hedging purposes****A.1 Financial derivatives for hedging purposes: year-end notional amounts**

(Amounts in € thousands)

	Total 12/31/2018				Total 12/31/2017			
	Over the counter			Regulated markets	Over the counter			Regulated markets
	Clearing house	Without clearing house			Clearing house	Without clearing house		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
Underlying assets/ Types of derivatives								
1. Debt securities and interest rates			0			84,928		
a) Options								
b) Swaps			0			84,928		
c) Forwards								
d) Futures								
e) Other								
2. Equity securities and equity indices								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Other								
3. Currencies and gold								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Other								
4. Commodities								
5. Other underlying assets								
Total			0			84,928		

A.2 Financial derivatives for hedging purposes: gross positive and negative fair value - breakdown by product

(Amounts in € thousands)

Types of derivatives	Positive and negative fair value							Change in value used to measure hedge ineffectiveness	
	Total 12/31/2018				Total 12/31/2017				
	Over the counter		Regulated markets	Over the counter		Regulated markets			
	Clearing house	Without clearing house		Clearing house	Without clearing house				
		With clearing agreements	Without clearing agreements		With clearing agreements	Without clearing agreements	Total 12/31/2018	Total 12/31/2017	
1. Positive fair value			0				322		
a) Options									
b) Interest rate swaps			0				322		
c) Cross currency swaps									
d) Equity swaps									
e) Forwards									
f) Futures									
g) Other									
Total			0				322		
1. Negative fair value									
a) Options									
b) Interest rate swaps									
c) Cross currency swaps									
d) Equity swaps									
e) Forwards									
f) Futures									
g) Other									
Total									

1.4 Liquidity risk

Qualitative information

A. General information, operational processes and methods for measuring liquidity risk

Liquidity risk is represented by the possibility that the Group may not be able to fulfill its payment obligations due to the inability to access funding in the financial markets, or because of restrictions on the disposal of assets. This risk is also represented by the inability to raise new financial resources adequate, in terms of amount and cost, to meet operating needs, which would force the Group to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profitability of its operations.

As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the Group adopted a Group Risk Management Policy and a Group Treasury and Finance Regulation, aimed at maintaining a high degree of diversification in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.

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

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

Liquidity risk stress tests were performed for assessing the potential impact of stress scenarios on the Group's solvency conditions.

The LCR and NSFR of the BFF Banking Group, at December 31, 2018, were equal to 234.6% and 108.5%, respectively.

Quantitative information

1. Time breakdown by residual contractual maturity of financial assets and liabilities

Currency: EURO

(Amounts in € thousands)

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
On-balance sheet assets	846,135	21,072	13,451	43,503	205,023	454,587	509,742	1,541,720	487,157	
A.1 Government securities					20,830	103,207	47,481	843,000	84,000	
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	846,135	21,072	13,451	43,503	184,193	351,380	462,621	698,720	403,157	
- banks	44,796	3,399								
- customers	801,339	17,673	13,451	43,503	184,193	351,380	462,621	698,720	403,157	
On-balance sheet liabilities	342,404	250,657	424,628	468,547	492,707	465,377	210,566	1,062,181	100,000	
B.1 Deposits and current accounts	98,135	36,108	48,235	68,501	301,494	458,953	209,433	426,624		
- banks	41,885	19,916	29,997	30,000	155,030	125,000	84,996	230,000		
- customers	56,251	16,192	18,238	38,501	146,464	333,953	124,436	196,624		
B.2 Debt securities					6,356	6,424	1,133	550,000	100,000	
B.3 Other liabilities	244,269	214,549	376,393	400,046	184,857			85,557		
Off-balance sheet transactions	3,380									
C.1 Financial derivatives with exchange of capital										
- long positions										
- short positions										
C.2 Financial derivatives without exchange of capital										
- long positions										
- short positions										
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees provided	3,380									
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

Currency: OTHER

(Amounts in € thousands)

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
On-balance sheet assets	98,079	490	773	3,236	9,018	19,769	32,297	143,857	314,439	
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units in CIUs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	98,079	490	773	3,236	9,018	19,769	32,297	143,857	314,439	-
- banks	5,203	-	-	-	-	-	-	-	-	-
- customers	92,875	490	773	3,236	9,018	19,769	32,297	143,857	314,439	-
On-balance sheet liabilities	57,868		44,718	68,052	31,533	95,960	72,076	220,571		
B.1 Deposits and current accounts	57,868	-	44,718	68,052	28,010	84,514	63,918	174,095	-	-
- banks	57,868	-	44,718	68,052	28,010	84,514	63,918	174,095	-	-
- customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	3,523	5,636	2,348	-	-	-
B.3 Other liabilities	-	-	-	-	-	5,810	5,810	46,476	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees provided	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1.5 Operational risks

Qualitative information

A. General information, operational processes and methods for measuring 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, among other, 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.

With regard to the BFF 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 is of the “mixed” type, meaning a model based both on qualitative assessments—linked to process mapping, at-risk activities and the corresponding controls adopted—and on quantitative assessments, using the methodologies specified by the Bank of Italy and the industry best practices.

For computing capital requirements for operational risk, the BFF Banking Group uses 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).

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.

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 security.

Starting from the year 2016, some new measures aimed at further enhancing the identification, measurement and management of the Group’s operational risk were introduced; specifically:

- the implementation of Risk Self-Assessment, an annual forward-looking assessment of exposure to operational risk. This risk assessment is carried out by so-called “Business Experts”. The identification of operational risks is based on corporate processes, taking account of the event type classification defined by Supervisory provisions;
- quarterly loss data collection. This allowed to carry out further assessment, measurement, monitoring and reporting activities.

Based on the method described above, the capital requirement for operational risk was equal to €29.6 million at December 31, 2018.

Section 4 - Risks of the other Companies

The consolidated financial statements include the aggregated balance sheet items of Banca Farmafactoring S.p.A., BFF Finance Iberia S.A., the special purpose vehicle BFF SPV I S.r.l., and the BFF Polska Group.

The SPV, established for the securitization transactions structured by the Bank, was included in the scope of consolidation, pursuant to the requirements of IASs/IFRSs providing for the obligation to consolidate a special purpose entity when—absent an investment relationship—the company that prepares the financial statements substantially controls the special purpose entity.

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

Part F - Consolidated Equity

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation used solely for prudential supervisory reporting includes the BFF Banking Group companies and envisages that BFF Luxembourg S.à r.l. is the parent.

For the purpose of preparing the other parts of the consolidated financial statements and for the submission of “non-harmonized” reporting, the Banking Group will continue to act as the reference party pursuant to the Consolidated Law on Banking.

As for this Part F, therefore, Section 1 reports the data of the Banking Group pursuant to the Consolidated Law on Banking, while Section 2 refers to the scope of consolidation envisaged by the CRR for prudential supervisory purposes, unless otherwise indicated.

SECTION 1 - CONSOLIDATED EQUITY

A. Qualitative information

The equity of the Banking Group pursuant to the Consolidated Law on Banking includes the aggregated share capital, reserves, revaluation reserves and profit for the period of the companies in the Group.

B. Quantitative information

B.1 Consolidated equity recognized: breakdown by type of company

(Amounts in € thousands)

Equity items	Consolidated for prudential supervision	Insurance companies	Other companies	Consolidation derecognition and adjustments	Total
1. Share capital	130,983				130,983
2. Share premium					
3. Reserves	142,506				142,506
4. Equity instruments					
5. (Treasury shares)	(245)				(245)
6. Revaluation reserves:					
- Equity securities designated at fair value through OCI					
- Hedging of equity securities designated at fair value through OCI					
- Financial assets (other than equity securities) measured at fair value through OCI	(4,170)				(4,170)
- Property, plant and equipment					
- Intangible assets					
- Hedges of foreign investments					
- Cash flow hedges	-				-
- Hedging instruments [not designated]					
- Exchange differences	1,026				1,026
- Non-current assets and disposal groups held for sale					
- Financial liabilities designated at fair value through profit or loss (change in credit quality rating)					
- Actuarial gains (losses) relating to defined benefit plans	(147)				(147)
- Portion of revaluation reserves relating to equity investments measured using the equity method					
- Special revaluation laws	4,135				4,135
Profit (Loss) for the year (+/-) attributable to the group and non-controlling interests	92,153				92,153
Equity	366,240				366,240

B.2 Revaluation reserves relating to financial assets measured at fair value through OCI: breakdown

(Amounts in € thousands)

Assets/Amounts	Banking group		Insurance companies		Other companies		Consolidation derecognition and adjustments		Total 12/31/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		(4,170)								(4,170)
2. Equity securities										
3. Loans										
Total		(4,170)								(4,170)
Total 12/31/2017	68								68	0

Financial assets measured at fair value through OCI (HTC&C—formerly AFS) are recognized at fair value. At the end of the reporting period, the carrying amount of securities must be compared with the previous period's fair value changes, and any difference is recognized in the revaluation reserves of the balance sheet. This measurement led to the recognition at December 31, 2018 of a negative reserve of €4,170 thousand relating to government securities recorded in the Parent's HTC&C portfolio.

B.3 Revaluation reserves relating to financial assets measured at fair value through OCI: year-over-year change

(Amounts in € thousands)

	Titoli di debito	Titoli di capitale	Finanziamenti
1. Opening balance	68		
2. Positive change			
2.1 Increase in fair value			
2.2 Adjustment for credit risk			
2.3 Reclassification of negative reserves to income statement		X	
2.4 Transfers to other equity components (equity securities)			
2.5 Other changes			
3. Negative change			
3.1 Decrease in fair value	(4,170)		
3.2 Impairment losses			
3.3 Reclassification of positive reserves to income statement	(68)	X	
3.4 Transfers to other equity components (equity securities)			
3.5 Other changes			
4. Closing balance	4,170		

B.4 Revaluation reserves related to defined benefit plans: year-over-year change

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

The results of the actuarial valuation reflect the impact of the provisions of Law 296/2006 and the computation, for IAS 19 purposes, refers solely to accrued employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.

At December 31, 2018, this revaluation reserve is negative to the tune of €147 thousand.

Section 2: Own funds and banking regulatory ratios

2.1 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 used solely for prudential supervision purposes envisages that BFF Luxembourg S.à r.l. is the parent.

2.2 Own funds

A. Qualitative information

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

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

The Group constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and Risk Committee created within the Board of Directors.

Own funds are the sum of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) capital, net of items to be deducted and IAS/IFRS prudential filters.

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

- paid-in share capital;
- reserves (legal reserve, extraordinary reserve, retained earnings reserve, stock option reserve, and financial instruments reserve);
- undistributed portion of profit for the year, if any;
- revaluation reserves (IASs/IFRS 9 transition reserve, reserve for actuarial gains/losses relating to defined benefit plans, and revaluation reserve for HTC&S securities);
- any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets, including goodwill, if any, are deducted from the above.

January 1, 2018 (the date on which the IFRS 9 accounting standard was adopted) marked the end of the Bank of Italy's transitional period which allowed intermediaries to "not include unrealized profit or loss under any component of own funds, where that profit or loss was in relation to exposures to government agencies classified as available-for-sale financial assets under IAS 39 and as approved by the EU".

Therefore, as provided by the CRR, these revaluation reserves (referring to HTC&S securities) are to be included in the calculation of own funds from that date.

Additional Tier 1 (AT1) and Tier 2 (T2) capital include exclusively the non-controlling interests which can be recognized in consolidated own funds, in accordance with the CRR, Part 2, Title II "Minority interests and additional Tier 1 and Tier 2 instruments issued by subsidiaries".

In relation to the determination of non-controlling interests in additional Tier 1 and in Tier 2 capital, account is no longer taken of the transitional factor applicable pursuant to Article 480, paragraphs 2 and 3 of CRR, equal to 0.8 for 2017.

The decrease in the BFF Banking Group's own funds compared to December 31, 2017 was influenced by including in the calculation (i) the HTC&S securities revaluation reserve with effect from January 1, 2018, which following the decrease in the fair value of Italian government securities evidenced in 2018, led to a negative impact of €4.2 million after taxes, (ii) a €2.7 million decrease in the translation reserve due to the revaluation of the exchange rates applied to the BFF Polska Group's equity in consolidated equity, and (iii) the deduction from own funds of treasury shares of €1.7 million. As a matter of fact, after the Bank of Italy authorized the repurchase in December 2018, this amount was deducted from the calculation of Own Funds and the relevant regulatory indicators at December 31, 2018, even though the repurchase program was launched following the Board's resolution dated February 8, 2019.

B. Quantitative information

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

ITEMS/AMOUNTS	Total 12/31/2018	Total 12/31/2017
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	272,795	280,003
of which CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	272,795	280,003
D. Items to be deducted from CET1	(26,405)	(26,034)
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	246,390	253,969
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects		
of which AT1 instruments subject to transitional provisions		
H. Items 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) capital (G - H +/- I)		
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects		
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-)(+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions	98,224	98,224
P. Total Tier 2 (T2) capital (M - N +/- O)	98,224	98,224
Q. Total own funds (F + L + P)	344,614	352,193

Own funds of the CRR Group are presented below.

ITEMS/AMOUNTS	Total 12/31/2018	Total 12/31/2017
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	377,176	354,539
of which CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	377,176	354,539
D. Items to be deducted from CET1	(131,386)	(153,979)
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		10,765
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	245,790	211,325
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects	22,054	16,051
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions	0	(3,210)
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	22,054	12,841
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects	74,422	21,402
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions		59,219
P. Total Tier 2 (T2) capital (M - N +/- O)	74,422	80,620
Q. Total own funds (F + L + P)	342,266	304,786

In addition to that which has already been reported for the Group pursuant to the Consolidated Law on Banking, the change in the CRR Group's own funds was also affected by the sale of 17.25 million Banca Farmafactoring shares by BFF Luxembourg S.à r.l. This took place on February 21, 2018, and was equivalent to 10.1% of shareholdings. Subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 55.8% to 45.8%.

At CRR Group level, minority equity interests cannot be recognized in entirety under own funds, and should only be shown proportional to the risk borne.

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 December 31, 2018, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

With regard to the BFF Banking Group, the CET1 Capital Ratio is 10.9%, the Tier 1 Capital Ratio is 10.9% and the Total Capital Ratio is 15.2%.

With regard to the CRR Group, the CET1 Capital Ratio is 10.8%, the Tier 1 Capital Ratio is 11.7%, and the Total Capital Ratio is 15.0%.

Current year profits are not included in own funds, and as a result they are not taken into account for the above ratios.

It should be noted that the majority shareholder, BFF Luxembourg, has formalized its commitment to maintain a dividend payment policy such as to preserve, over time, a total capital ratio of not less than 15% both at the level of the BFF Banking Group and within the CRR Group framework.

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 Banca Farmafactoring, the counterparty risk can be generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the standardized 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, among other, 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 developmental path of the Group’s Operational Risk Management framework that was launched in recent years, in 2018 the BFF Banking Group focused attention on strengthening the identification and forward-looking assessment components, along with introducing an internal statistical management model for quantifying exposure to operational risk. This was done for the purpose of verifying that the method used for regulatory purposes did value capital adequately against assumed and assumable risk. Actions carried out in regards to the scope of Banca Farmafactoring, BFF Finance Iberia, and the BFF Polska Group (and of its subsidiaries) focused on the methodological evolution of the Risk Self Assessment process, in order to use the output from this process to quantify the exposure to operational risk in economic and capital terms. The operational risk results obtained from the forward-looking assessment process have also been used for quantifying the adequacy of internal capital against operational risk for ICAAP purposes. This value, from a forward-looking perspective, was found to be below capital requirements, confirming that there are suitable levels of capital available to cover this type of risk.

Market risk

Market risk is the risk relating to positions held for trading, that is, positions intentionally held for sale in the short term, acquired in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.

The regulation identifies and regulates the treatment of the various types of market risk in reference to the trading portfolio for supervisory purposes. The Group measures market risk using the “Standardized” method.

Pillar II - The ICAAP 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.

The BFF Banking Group annually submits the “ICAAP Report” to the Bank of Italy, thus updating the risk management system aimed at determining the adequacy of capital.

In accordance with prudential supervisory provisions, the Group has prepared a “Report on internal processes for determining adequacy of capital and liquidity risk governance and management systems”. This report was approved by the Banca Farmafactoring Board of Directors on June 28, 2018. It is specifically noted that the Bank of Italy opened consultation for a new update on prudential supervisory provisions on April 6, 2018 while also postponing the date for approving and sending the Report to June 30, 2018. The consultation ended on May 7, 2018, and a legislative update was issued by

the Bank of Italy and specifically published to their website on June 19, 2018. The Group's Report has therefore been prepared in compliance with the new requirements introduced by Circular no. 285. In particular, the new updates propose—inter alia—regulatory changes in regards to "Prudential supervision" (Part I, Title III, Chapter 1) which are mainly linked to the introduction of (i) an internal process for determining the adequacy of the liquidity risk governance and management systems ("ILAAP" - Internal Liquidity Adequacy Assessment Process), (ii) new content in the area of internal processes for determining capital adequacy ("ICAAP" - Internal Capital Adequacy Assessment Process) and (iii) different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy. These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) 468/2014, which includes the BFF Banking Group.

On April 24, 2018, on the basis of guidance received from the Bank of Italy, the BFF Banking Group approved an updated "Recovery plan" as compared to the version in place, and this was approved by the Board of Directors on May 31, 2017.

In relation to the "Supervisory Review and Evaluation Process" (SREP), on April 5, 2018 the Bank of Italy informed the Group that it decided not to adopt new capital decisions for 2018, and apply only the increase in the Capital Conservation Buffer (1.875% for 2018, as compared to the 1.250% which was forecast for 2017). Therefore, the Overall Capital Ratios with which the BFF Banking Group must comply are the CET1 Ratio of 7.175%, the Tier1 Ratio of 8.975%, and the Total Capital Ratio of 11.375%.

B. 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.

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	4,947,451	4,453,457	1,891,820	1,667,828
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			151,346	133,426
B.2 Credit valuation adjustment risk				24
B.3 Settlement risk				
B.4 Market risks				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			29,644	27,983
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			180,990	161,433
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,262,371	2,017,910
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) (%)			10.9%	12.6%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			10.9%	12.6%
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			15.2%	17.5%

The following table presents the capital adequacy relating to the scope of consolidation, used for prudential supervisory purposes only, which calls for BFF Luxembourg S.à r.l. as the parent.

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	5,039,498	4,521,157	1,910,233	1,681,377
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			152,819	134,510
B.2 Credit valuation adjustment risk				24
B.3 Settlement risk				
B.4 Market risk				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			29,644	27,983
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			182,463	162,517
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,280,784	2,031,459
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) (%)			10.8%	10.4%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			11.7%	11.0%
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			15.0%	15.0%

Parte G - Business Combinations

Section 1 - Transactions performed during the year

During the year, there were no transactions in relation to business combinations.

In May 2017, in accordance with the provisions of IFRS 3, the Purchase Price Allocation (PPA) process was completed, at the end of which the allocation of the purchase price entirely to goodwill was confirmed, as applied during the initial recognition of the acquisition of the BFF Polska Group and recorded in BFF Banking Group's consolidated financial statements at December 31, 2016, since, following the aforementioned provisional PPA, no further assets were identified to which reasonably allocate the investment purchase price.

Pursuant to the provisions of IAS 36, at December 31, 2018 recognized goodwill was tested for impairment to identify any impairment loss in the Cash Generating Unit (CGU). As a result of such test, the carrying amount of the BFF Polska Group's goodwill was not impaired.

Part H - Related Party Transactions

Related parties, as defined by IAS 24, include:

- the parent company;
- subsidiaries;
- directors and executives with key management responsibilities and their close family.

The following table provides the income and balance sheet amounts arising from related party transactions performed by the Group at December 31, 2018, broken down by type of related party pursuant to IAS 24, and the percentage of their respective financial statement item.

(Amounts in € thousands)

	Parent Company	Directors and Executives with key management responsibilities (1)	Total related parties	Financial statement item	% of financial statement item	Cash flow Statement item	% of cash flow statement item
Impact of transactions on the consolidated income statement							
Other assets							
At December 31, 2018	11		11	14,747	0.1%	67,246	0.0%
Due to customers							
At December 31, 2018		(76)	(76)	(4,403,029)	0.0%	458,912	0.0%
Provisions for risks and charges:							
a) pension and other post-employment benefits							
At December 31, 2018		(2,258)	(2,258)	(4,981)	45.3%	38,854	5.8%
Other liabilities							
At December 31, 2018		(350)	(350)	(78,124)	0.4%	38,854	0.9%
Reserves							
At December 31, 2018		(1,575)	(1,575)	(142,506)	1.1%	38,854	4.1%
Impact of transactions on the consolidated income statement							
Interest and similar expenses							
At December 31, 2018		(1)	(1)	(42,866)	0.0%	0	
Administrative expenses							
a) personnel costs							
At December 31, 2018		(4,504)	(4,504)	(32,577)	13.8%	0	
Net allocations to provisions for risks and charges							
At December 31, 2018		(692)	(692)	(960)	72.0%	960	72%
Other operating income (costs)							
At December 31, 2018	11		11	3,946	0.3%	0	

Notes: (1) Including members of the Board of Directors.

At December 31, 2018, the awarded option rights relating to the aforementioned stock option plan accounted for 4.36% of fully diluted capital, equal to 7,756,802 options awarded.

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

More specifically, the balances of the intercompany positions at December 31, 2018 are as follows:

- BFF Finance Iberia (through Banca Farmafactoring Sucursal en España): €239.5 million;
- BFF Polska: PLN 107 million (equal to €500 thousand);
- BFF Central Europe: €120.9 million.

Banca Farmafactoring and BFF Finance Iberia have entered into a license agreement. Such agreement allows the use, under license, of the software, organizational methods and communication lines of Banca Farmafactoring (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at December 31, 2018 amounted to about €951 thousand.

During 2016, BFF Finance Iberia purchased Italian healthcare receivables from the Parent for about €82 million. At the end of the reporting period, these receivables were already collected for about €80.9 million (of which €67 million in 2016, €12.2 million in 2017 and €1.7 million in 2018), with an outstanding balance of about €1.1 million.

Banca Farmafactoring and BFF Polska Group have entered into an intra-group service and cost-sharing agreement. Such agreement focuses on service provision and optimal cost sharing between the participating companies. The costs charged back to the BFF Polska Group at December 31, 2018 amounted to approximately €842 thousand.

It should be noted that Banca Farmafactoring provides the following:

- administrative support services to the Parent BFF Luxembourg S.à. r.l. for the preparation of CRR Group consolidated reporting. The consideration under the service agreement is €10,500 per year;
- audit activities for the subsidiary BFF Finance Iberia, for €6,400 per year;
- risk activities for the subsidiary BFF Finance Iberia, for €12,000 per year;
- administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year.

The Group has also entered into agreements with its shareholder companies in relation to factoring services and the management and collection of receivables at arm's length.

Lastly, it should be noted that the conditions of deposit accounts relating to Group directors and other related parties correspond to those recorded in the relevant prospectus at the time the deposit accounts were opened.

Part I - Share-based Payment Arrangements

A. Qualitative information

1. Description of the share-based payment arrangements

Stock Option Plan

On December 5, 2016, the Bank's Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, already submitted to the Supervisory Authority pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular no. 285 of 17 December 2013. 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 one newly issued ordinary share of the Bank, or to purchase one ordinary share (cum dividend, without par value) included in the company portfolio when the option is exercised (taking into account the share split);
- *beneficiaries*: the identification of beneficiaries and the granting of options are decided by:
 - a. the Board of Directors, after consulting with the Remuneration Committee, with reference to executives and directors;
 - b. the Chief Executive Officer in the other cases;
- *plan management*: the Board of Directors fixed, as proposed by the Remuneration Committee, the operating criteria (including establishing the exercise price of the options on the basis of the formula indicated in the stock option plan) under the remuneration and incentive policy for members of the key supervision, management and control bodies, and personnel of the Banking Group, and in accordance with the law.

In line with current regulations, the options granted under the stock option plan contribute to the determination of the variable remuneration paid through the use of financial instruments, and are subject to all the restrictions established under the remuneration and incentive policy for members of the key supervision, management and control bodies, and personnel of the Banking Group, and in accordance with the law.

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

- the options awarded in each tranche will vest starting from the twelfth month following the award, subject to a series of conditions detailed in the plan:
 - 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;
 - c. after a 12 month deferral period starting from the relevant vesting date.
- The plan is subject to malus and clawback conditions: options are subject to *ex post* correction mechanisms (malus and/or clawback) which, when the pre-set circumstances arise, result in the loss and/or the restitution of the rights attributed by the plan.

At December 31, 2018, option rights to the stock option plan awarded were equal to 7,756,802 options awarded, accounting for 4.36% of fully diluted capital.

Part L - Segment Reporting

At December 31, 2018, the BFF Banking Group is composed of Banca Farmafactoring S.p.A., the parent company, and the subsidiaries BFF Finance Iberia and BFF Polska Group.

Banca Farmafactoring and its subsidiary BFF Finance Iberia are engaged in the management and sale of receivables due from the National Healthcare System and the public administration in Italy and in Spain.

At December 31, 2018 Banca Farmafactoring also operates in Portugal, Greece and Croatia pursuant to the regulations on the freedom to provide services.

The two companies provide financial and management support to leading Italian and international companies operating in various sectors (primarily drugs and biomedical) through non-recourse factoring.

Customers are mainly multinational companies in the pharmaceutical and biomedical sectors which generate receivables from the provision of goods and services to the National Healthcare System or the public administration. Banca Farmafactoring is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table shows the composition, at December 31, 2018 and December 31, 2017, of managed turnover and amounts outstanding, relating to Banca Farmafactoring and the subsidiary BFF Iberia, broken down by debtor and geographical area.

(Amounts in € thousands)

	12/31/2018			12/31/2017		
	Turnover	Outstanding	Receivables purchased	Turnover	Outstanding	Receivables purchased
Italy	6,268,920	2,359,264	3,161,770	5,466,822	2,043,381	2,871,315
National Healthcare System	4,698,343	997,278	1,932,908	4,438,902	874,040	1,929,759
Public administration agencies	1,248,780	1,330,672	1,172,440	910,008	1,136,466	887,483
Other	321,796	31,314	56,422	117,912	32,875	54,073
Spain	701,235	255,276	701,235	419,431	197,791	419,431
National Healthcare System	321,848	169,107	321,848	191,973	129,363	191,973
Public administration agencies	379,386	86,170	379,386	227,458	68,427	227,458
Other						
Portugal	266,024	207,892	266,024	149,878	119,961	149,878
National Healthcare System	263,940	206,605	263,940	149,676	119,759	149,676
Public administration agencies	2,084	1,287	2,084	202	202	202
Other						
Greece	17,363	17,137	17,363	13,920	9,462	13,920
National Healthcare System	14,708	13,915	14,708	11,560	7,347	11,560
Public administration agencies	2,655	3,222	2,655	2,361	2,115	2,361
Other						
Croatia	2,092	2,092	2,092			
National Healthcare System	2,092	2,092	2,092			
Public administration agencies						
Other						
Total	7,255,634	2,841,661	4,184,484	6,050,051	2,370,594	3,454,544

The BFF Polska Group is an independent specialized operator, leader in the provision of financial services to companies operating in the healthcare sector in Poland.

In the European Union, the BFF Polska Group also has a significant presence in Slovakia and the Czech Republic.

The BFF Polska Group mainly operates in three areas:

- financing the working capital of suppliers to the public administration;
- financing current and future receivables;
- financing investments in the public and healthcare sectors.

The breakdown of receivables due from customers and the BFF Polska's new business volumes by geographical region is presented below:

(Amounts in € millions)

	12/31/2018		12/31/2017	
	Due from customers	New Business	Due from customers	New Business
Poland	589	486	494	476
Slovakia	164	52	131	66
Czech Republic	7	10	2	4
Total	760	548	627	546

Other information

Audit fees to the independent auditors and other companies in their network.

The table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 2018 for auditing services and other services provided by the audit firm and other companies in its network. Such fees represent the costs incurred and recorded in the consolidated financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

(Amounts in € thousands)

Type of services	Banca Farmafactoring SpA				Group companies			
	PwC SpA		PwC Network		PwC SpA		PwC Network	
	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy
Audit fees	229			33				102
Certification services (*)	40							
Tax advice services								
Other services (**)	60		56	135				
Total	329		56	168				102

(*) Amounts referring to the comfort letters issued for the purposes of bond loan issues.

(**) Amounts referring to agreed verification procedures, due diligence activities and methodological support.

Certification by the financial
reporting officer

Certification of the Consolidated Financial Report in accordance with article 81-ter of CONSOB regulation n. 11971 of 14 May 1999 as amended and supplemented

1) The undersigned

- Massimiliano Belingheri, in his capacity as Chief Executive Officer;
- Carlo Zanni, as Financial reporting officer of Banca Farmafactoring S.p.A.,

hereby certify, having taken into account the provisions of art. 154-bis, paragraphs 3 e 4, of legislative decree no. 58 of 24 February 1998:

- the suitability as regards the characteristics of the company, and
- the effective implementation of the administrative and accounting procedures employed to draw up the 2018 Consolidated Financial Statement.

2) The suitability and effective application of the administrative and accounting process employed to draw up the 2018 Consolidated Financial Statements was verified based on internally defined method adopted by Banca Farmafactoring 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 Financial Statement

- a. was drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b. corresponds to the results of the accounting books and records;
- c. is suitable for providing a true and fair view of the financial position of the issuer and all the companies included in the scope of consolidation.

3.2 The report on operations includes a reliable analysis of the important events and their impact on the Consolidated Financial Statement, together with a description of the main risks and uncertainties to which they are exposed. The report on operations, moreover, a reliable analysis of the information concerning major transactions with related parties.

Milan, 19 February 2019

Massimiliano Belingheri
Chief Executive Officer



Carlo Zanni
Financial reporting officer



Independent auditors' report





Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banca Farmafactoring SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of BFF Banking Group (the Group), which comprise the consolidated balance sheet as of 31 December 2018, the consolidated income statement, the consolidated comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banca Farmafactoring SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key Audit Matters

Auditing procedures performed in response to key audit matters

Recognition of late-payment interest on non-impaired non-recourse purchases of receivables

Notes to the consolidated financial statements:
Part A – Accounting policies, “3 - Financial assets measured at amortized cost” and “Revenue recognition criterion” sections;
Part B – Notes to the consolidated balance sheet, Asset, section 4;
Part C – Notes to the consolidated income statement, section 1.

In order to calculate the amortized cost of non-recourse receivables from customers of the parent company Banca Farmafactoring and its subsidiary BFF Finance Iberia, the Group also considered the estimate of late-payment interest accrued and deemed recoverable in accordance with the provisions of the Bank of Italy/Consob/Ivass Document no. 7 of 9 November 2016” regarding the “Treatment in the financial statements of late-payment interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables”.

We focused our attention on this matter since, on the one hand, the amount of late-payment interest recognised but not yet collected is significant and, on the other hand, the parameters selected to estimate this revenue component implies the availability of statistically reliable historical series, built on the basis of collection’s flows and times observable at the measurement date and includes judgemental elements of the management.

Specifically, in order to select the key parameters for recognising the late-payment interest considered recoverable, Banca Farmafactoring made use of internal databases consisting of historical series about the recovery percentages and actual collection times in the last nine years for the Italian National Healthcare System and in the last five years for the Italian and Spanish Public Administration sector.

In conducting the audit, we took into account the internal control relevant to the preparation of the financial statements, to design the appropriate audit procedures in the circumstances, considering also the first-time adoption of the new international accounting standards IFRS 9 “Financial instruments” and IFRS 15 “Revenue from Contracts with Customers”. In particular, as part of our analysis of this key audit matter, also supported by the PwC network experts, we carried out the following main activities:

- analysis of internal documentation regarding the management of late-payment interest’s recovery, including limits set for the transactions with debtors;
- understanding, evaluating and validating of the process including the controls about the historical series elaboration and the determination of the parameters for the estimate of this revenues stream;
- analysis of the IT/management systems from which the historical data relating to the collection flows and times of the late-payment interest were extracted and check of the adequacy of the extracted data bases used in determining the parameters;
- examination and reperforming of the processing of the extracted data bases, as well as controls performed, to verify that the adjustments to the extracted data are not arbitrary and are supported by evidence;
- critical analysis of the findings of the historical series used to determine the recovery percentages and collection times to be considered in the calculation of the amortized cost;

Key Audit Matters

Auditing procedures performed in response to key audit matters

- verification of the algorithm for calculating the parameters used and of the calculation of the amortized cost.
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First-time adoption of international accounting standard IFRS 9 “Financial instruments”

Notes to the consolidated financial statements: IFRS 9 – Financial Instruments – Group's transition process

Starting from 1 January 2018 BFF Banking Group adopted the international financial reporting standard IFRS 9 “Financial instruments”, governing the classification and measurement of financial instruments, as well the determination of any related impairment loss.

IFRS 9 introduced new rules for the classification and measurement of financial assets which are based on the way an entity manages such financial assets (“Business Model”) and their contractual cash flow characteristics. With reference to the measurement of financial assets other than those measured at fair value through profit and loss and off-balance sheet items (guarantees and commitments), the new standard replaced the measurement model for impairment losses under IAS 39, which was based on the “Incurred loss”, with a measurement model based on the “Expected Credit Loss” (ECL).

The result is that IFRS 9, besides introducing significant changes in the classification and measurement criteria, entailed significant operating impacts requiring the use of new models and additional information, parameters and assumptions, which, accordingly, increased the degree of subjectivity and uncertainty of the estimates.

Due to the reasons reported above, although the first-time adoption’s accounting impacts were

In conducting our audit we focused on understanding and evaluating the activities planned and performed by the Group, also with the support of external consultants, in order to implement the new accounting standard (including changes to the IT systems), as well as the related governance and the set of control activities put in place by the management and the control functions.

Considering that IFRS 9 was adopted from 1 January 2018, our procedures covered the opening balances in order to verify the transition from IAS 39; these procedures were aimed, *inter alia*, to assess the compliance with the new standard of the accounting choices made, to verify the accounting adjustments versus IAS 39 and the disclosures provided.

With specific reference to classification and measurement, our audit procedures, which were carried out also with the support of PwC network experts, included, among other things:

- understanding and critical analysis of the policies, procedures and solutions adopted by the Group in respect of key aspects (definition of the Business Model, analysis of the contractual cash flows and valuation methodologies) to assess their compliance with the new standard;
 - examination of the completeness and accuracy of the new accounting categories on the basis of the Business
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Key Audit Matters

quite low according to the specific features of BFF Banking Group's business, we considered the first adoption of IFRS 9 as a key matter in the audit of the consolidated financial statements of BFF Banking Group at 31 December 2018.

Auditing procedures performed in response to key audit matters

Model established and the results of the analysis of the contractual cash flows (i.e. the *SPPI test – Solely Payments of Principal and Interest*);

- reperforming of the SPPI test in relation to a sample of financial assets selected taking into account the different financial instruments held in portfolio and, in particular, the various types of contracts with customers in respect of receivables arising from factoring business.

With reference to the new impairment criteria, our procedures, which were carried out also with the support of PwC network experts, included among other things:

- understanding and critical analysis of the new policies and significant methodologies and assumptions, as well as the models implemented, in order to verify their reasonableness, appropriateness and compliance with the new standard. This activity was addressed to the methodologies and models adopted to measure significant increases in credit risk (SICR), to allocate assets to the various risk stages, as well as to determine the Expected Credit Loss (ECL);
 - checks on the SICR, stage allocation and the ECL models defined and on the methods used to set the relevant underlying estimate parameters, in order to verify whether they were adequately implemented and determined;
 - analyses aimed to verify the correctness of the data feeding the models, the computation formulae and the correct determination of the key parameters and estimate elements (Probability of Default, Loss Given Default and Exposure at Default);
 - verification of the correct implementation of the estimation parameters established within the IT systems, together with the verification of
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Key Audit Matters

Auditing procedures performed in response to key audit matters

the completeness and accuracy of the data bases used to calculate the expected loss;

- critical analysis of the results of the review activities carried out by the relevant internal functions and remediation actions that might have been put in place.

Finally, we verified the completeness and adequacy of the disclosures to the financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Banca Farmafactoring SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.



As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.



Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 3 May 2012, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the statutory audit of the Company's separate financial statements for the years ending 31 December 2012 to 31 December 2020; after the registration of the banking group, on 20 February 2015, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the audit of the Group's consolidated financial statements for the years ending 31 December 2014 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Banca Farmafactoring SpA is responsible for preparing a report on operations and a corporate governance and share ownership report of the BFF Banking Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the corporate governance and share ownership report referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the BFF Banking Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the corporate governance and share ownership report mentioned above are consistent with the consolidated financial statements of BFF Banking Group as of 31 December 2018 and are prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have nothing to report.

Milan, 7 March 2019

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

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