BFF BANKING GROUP

Draft Financial Statements

2019

2019 Draft Financial Statements

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

Share Capital € 131,364,092.09 (fully paid-in)
Milan Company Register no.,
Tax Code and VAT no. 07960110158

Draft Financial Statements

Extract of notice of the ordinary and extraordinary shareholders' meeting of Banca Farmafactoring S.p.A. of April 2, 2020

The Ordinary and Extraordinary Shareholders' Meeting of Banca Farmafactoring S.p.A. (the "Shareholders' Meeting") is hereby convened at the headquarters in Milan, Via Domenichino 5, in **a single call** on **April 2, 2020** at **11:00 am** to resolve upon the following

AGENDA

Ordinary Shareholders' Meeting

1. Financial Statements at December 31, 2019. Board of Directors', Board of Statutory Auditors' and Independent Auditors' Reports. Related and consequent resolutions. Presentation of the consolidated financial statements of the Banca Farmafactoring Banking Group at December 31, 2019.
2. Allocation of the profit for the year. Related and consequent resolutions.
3. Appointment of a Director. Related and consequent resolutions.
4. Appointment of the Audit Firm that will perform the audit for the years 2021-2029 and determination of the relevant fee. Related and consequent resolutions.
5. Remuneration and incentive policies:
   - 5.1. Annual report on remuneration policies and fees paid:
     (i) resolutions regarding the first section pursuant to Article 123-ter, paragraph 3, of Italian Legislative Decree 58/1998, as subsequently amended and supplemented; (ii) resolutions concerning the policies for the determination of remuneration in the event of early termination of office or employment, including the limits set for such remuneration; and (iii) resolutions concerning the second section pursuant to Article 123-ter, paragraph 6, of Italian Legislative Decree 58/1998, as subsequently amended and supplemented.
   - 5.2. Approval of the new Banca Farmafactoring Banking Group's Stock Option Plan 2020. Related and consequent resolutions.
6. Authorization to purchase and sell treasury shares, after revocation of the part of Shareholders' Meeting Resolution dated March 28, 2019 not yet implemented. Related and consequent resolutions.

Extraordinary Shareholders' Meeting

1. Proposal of a free capital increase, including in installments, pursuant to Article 2349 of Italian Civil Code, after revocation of the resolutions on delegated powers and capital increase with consideration and free of charge, passed by the Extraordinary Shareholders' Meeting of March 28, 2019 and the Board of Directors' Meeting of April 8, 2019, and relevant amendment to Article 5 of Company Bylaws. Related and consequent resolutions.

Information regarding:

- i) share capital;
- ii) entitlement to attend and vote at the Shareholders' Meeting (record date **March 24, 2020**);
- iii) exercise of proxy voting, also via the Shareholders' representative (Computershare S.p.A.) designated by Banca Farmafactoring S.p.A.;
- iv) additions to the agenda and new proposals for resolutions on matters already on the agenda of the Shareholders' Meeting (by **March 12, 2020**);

v) the right to submit questions on matters on the agenda prior to the Shareholders' Meeting (by **March 26, 2020**); and
vi) the availability of meeting documentation, including reports and proposed resolutions on items on the agenda;

is provided in the notice, the complete version of which – together with the meeting documentation – is published on the website of Banca Farmafactoring S.p.A. (**www.bffgroup.com**, under the section "Governance/Shareholders' Meeting Documentation"), to which reference should be made.

Milan, March 3, 2020

On behalf of the Board of Directors
THE CHAIRMAN
Salvatore Messina

This extract is published in the newspaper IL SOLE 24ORE and made available, on the same date, on the website of Banca Farmafactoring S.p.A. (www.bffgroup.com, under the section "Governance/Shareholders' Meeting Documentation"), at Borsa Italiana S.p.A. and on the authorized storage mechanism 1info, managed by Computershare S.p.A. (www.1info.it).
Persons entitled to attend and vote at the Shareholders' Meeting are kindly requested to arrive well in advance, with evidence of the notice required from the reference intermediary pursuant to Article 83-sexies of the Italian Consolidated Law on Finance, as well as valid ID, such as to facilitate admission procedures and allow the timely start of the meeting.

Contents

Board of Directors (*)

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Federico Fornari Luswergh (**)
Directors	Isabel Aguilera Michaela Aumann Ben Carlton Langworthy Carlo Paris Barbara Poggiali Giorgia Rodigari (***)

(*) *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—except for the co-opted Director.*

(**) *Appointed Vice Chairman of the Board of Directors on December 11, 2019 to replace the resigning Luigi Sbrozzi (end of term of office December 9, 2019).*

(***) *Director co-opted on December 11, 2019 to replace the resigning Luigi Sbrozzi (end of term of office December 9, 2019); her term of office ends on the date of the Meeting convened to approve the Financial Statements at December 31, 2019.*

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.*

Indipendent Auditors

PricewaterhouseCoopers S.p.A.

Financial Reporting Officer

Carlo Maurizio Zanni

Committees

Remuneration Committe [*]

Name	Office	Position
Barbara Poggiali	Independent Director	Chairperson
Isabel Aguilera	Independent Director	Committee Member
Giorgia Rodigari [**]	Non-Executive Director	Committee Member

(*) I membri del Comitato sono stati nominati dal Consiglio di Amministrazione in data 5 aprile 2018.
(**) Nominata dal Consiglio di Amministrazione l'11 dicembre 2019, in sostituzione del dimissionario Luigi Sbrozzi.

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
Giorgia Rodigari [**]	Non-Executive Director	Committee Member

(*) Committee members were appointed by the Board of Directors on April 5, 2018.
(**) Appointed by the Board of Directors on December 11, 2019 to replace the resigning Luigi Sbrozzi.

Board of Directors

Role of Board of Directors 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		✓	✓	
FEDERICO FORNARI LUSWERGH	Vice Chairman		✓	✓	✓[1]
MASSIMILIANO BELINGHERI	Chief Executive Officer	✓			
ISABEL AGUILERA	Director		✓	✓	✓
MICHAELA AUMANN	Director		✓	✓	✓
BEN CARLTON LANGWORTHY	Director		✓		
CARLO PARIS	Director		✓	✓	✓
BARBARA POGGIALI	Director		✓	✓	✓
GIORGIA RODIGARI	Director		✓		

[1] *According to the Board of Directors, exceeding the 9-year office term requirement did not result in non-compliance with the independence requirement pursuant to the Corporate Governance Code, for the purpose of participating in the Committees.*

01

Report on Operations

The International Economic Scenario[2]

For the European economy, 2019 brought subdued growth and low inflation, as well as structural shifts mainly affecting the manufacturing sector. International trade has been stagnant during 2019, as trade tensions and geopolitical conflicts escalated during the summer and the uncertainty related to trade policies and "Brexit" has continued until the end of the year (Boris Johnson secured an absolute majority at the General Election held in Great Britain in December 2019 and announced that "Brexit" would formally happen on January 31, 2020. The United Kingdom has therefore started a transition period, which is due to end on December 31, 2020, in order to officially leave the European Union.) Leading indicators suggest that the weakness in global manufacturing will continue in the near term. Hence, the EU economy, which slowed down in the second quarter of 2019, is likely to stagnate in the near term.

Labor markets in Europe, however, have remained strong and the unemployment rate has fallen to below its pre-crisis level, fueling robust wage growth, which has allowed domestic demand to expand at a relatively steady pace, in a context of historically low borrowing costs. In combination with more limited increases in the labor force than in previous years, the aggregate Euro Area unemployment rate is expected to fall slightly further from 7.6% in 2019 to 7.3% in 2021.

As some Member States have introduced growth-enhancing fiscal measures, more domestically oriented sectors are expected to remain resilient. All these measures are however unlikely to be strong enough to power growth to a higher level than in 2019.

Lingering trade policy uncertainty, including on future relations between the UK and the rest of the EU, could dampen growth and inflation in the Euro Area for a protracted period.
Euro Area (19 Member States) GDP growth is thus forecast to slow from 1.9% in 2018 to 1.1% in 2019 and to stabilize at 1.2% in the next two years, with 2020 (a leap year) flattered by a higher number of working days. Given the weakness in the second half of 2019, the projections for 2019 and 2020 are lower than in the European Commission's spring forecast and slightly below the summer interim forecast.

Over the summer of 2019, the intensification of economic tensions between the US and China and elevated policy uncertainty took their toll on global investment, manufacturing and trade. Policy stimuli in a number of major economies, including the US and China, as well as resilient labor markets and easy financing conditions in advanced economies, should limit the depth of the global slowdown. Global GDP growth (excluding the EU) is set to decrease from 3.8% in 2018 to 3.2% in 2019, markedly lower than in previous forecasts.

Over the next two years, elevated uncertainty around US trade policy and geopolitical tensions in the Middle East are all set to linger and weigh on global growth. As these will be compounded by structural factors - such as population aging and low productivity trends, the slowdown in China, protectionist tendencies, and the impact of climate change -, the global economy (excluding the EU) is set to continue expanding below trend at 3.3% in 2020 and 3.4% in 2021.

In response to concerns about slowing growth and the escalation in trade tensions, central banks across the world have recently shifted to more accommodative policies. Government bonds have rallied remarkably in recent months, leading to lower yields around the world. Stock markets have been

[2] *European Commission – European Economic Forecast, Autumn 2019.*
Institutional Paper 115 | November 2019 – Overview.

volatile, reflecting the ups and downs in the US-China economic confrontation but, overall, equity indices in advanced economies have recently hovered near record highs.

In Europe, financial markets have shown significant volatility, driven by similar factors. Equity markets recovered their substantial summer losses on expectations that the ECB would come up with a significant policy package, and recovered further after the subsequent announcement of the resumption of net asset purchases and the strengthening of the ECB's forward guidance. In the bond market, the perception of a deteriorating outlook, expectations of a prolonged period of monetary policy accommodation and a further decline in the term premium put pressure on sovereign yields over the summer. As demand outpaced the supply of safe assets, a large share of sovereign bonds is trading at negative yields.

Inflation in the Euro Area has been on a downward trend in 2019, failing to pick up during the third quarter, largely because of the fall in energy prices and the lack of pass-through from robust wage growth to core inflation. In a context of weak demand, firms have been absorbing these increases by accepting lower profit margins rather than by raising prices. In the Euro Area, inflation is projected at 1.2% in both 2019 and 2020 (0.2 percentage points lower than last spring and slightly below the summer interim forecast) and to pick up only marginally to 1.3% in 2021. Given the outlook for subdued economic growth and inflation as well as recent ECB decisions, including renewed monthly net asset purchases, upward pressure on nominal interest rates is expected to be very limited and real short- and long-term rates should remain negative.

Euro Area export growth is forecast to decrease by about one percentage point in 2019 and to edge down further in 2020, before increasing modestly in 2021. The contribution of net exports to GDP growth is forecast to be negative in 2019 and almost neutral in 2020 and 2021. The current account surplus of the Euro Area is set to decline from 3.8% of GDP in 2018 to 3.1% in 2021, largely mirroring the fall in the merchandise trade surplus.

The Euro Area's general government deficit is expected to increase gradually, rising from the historical low of 0.5% of GDP recorded in 2018 to 1.0% in 2021, based on a no-policy-change assumption.
The projected fall in the revenue-to-GDP ratio is the dominant factor behind this expected increase, as below-potential economic growth and somewhat loose discretionary fiscal policies in some Member States affect structural revenues while structural expenditures should remain broadly stable.
The Euro Area aggregate debt-to-GDP ratio is projected to continue declining steadily over the forecast period. Based on a no-policy-change assumption, it is set to fall to about 84% in 2021.

The Economy, National Debt Stock and Public Expenditure on Goods and Services in Italy in 2019

According to the estimates released by the Bank of Italy in January 2020, Italian economic activity was all but stagnant during the third quarter of 2019. It was hampered by the protracted weakness of the business cycle across the Euro Area and moderately supported by services and construction.

Italy's GDP, estimated at €1,615 billion in 2019, reportedly remained all but flat in the third quarter of the year, growing by 0.1% compared with the previous three months and by 0.3% year-on-year.

GDP growth was reportedly supported by domestic demand and above all by household spending; the change in inventories also positively contributed to growth. Investments decreased, in particular in relation to capital goods. Trade with foreign countries contributed negatively, due to a slight decrease in exports and a significant increase in imports. Added value decreased in the industry sector in the strict sense and in agriculture; it slightly increased in construction and services sectors.

Based on available information, GDP reportedly remained flat in the fourth quarter.

Bank surveys show that in the second quarter of 2019 credit institutions moderately tightened their lending criteria for businesses as a result of the slightly higher perceived risk among intermediaries. On the other hand, demand for credit by firms saw a modest increase.

The level of bad loans improved remarkably: banks continue disposing of NPLs at a steady pace and bad loans were down 23.3% in the year through July thanks to further securitization transactions.

According to official estimates, the 2020-2022 budget approved in December 2019 would cause the deficit to exceed its trendline by 0.7% as a proportion of GDP every year on average. The Government forecasts that net borrowing and debt as a proportion of GDP will stabilize in 2020 and then fall over the next two years.
Based on the estimates of the quarterly accounts released by ISTAT, in the first nine months of 2019 net borrowing decreased to 3.2% of GDP from 3.4% in the same period of 2018.

Public expenditure on goods and services for 2019, including social transfers in kind, is estimated at €142.8 billion, up by 1.4% compared to the previous year (€140.7 billion).

The borrowing requirements of Italian public administrations for the first 11 months of 2019 totaled €48.5 billion, down €3.4 billion compared to the same period in 2018. Considering the preliminary data for December and the main factors used to reconcile borrowing requirements with net borrowing (financial transactions and the differences between cash and accrual accounting), we can estimate that in 2019 net borrowing as a proportion of GDP was down slightly year-on-year and below the level estimated by the Government.
Considering public sector borrowing requirements and the change in the Italian Treasury's cash and cash equivalents for the month of December, we can estimate that in 2019 the debt-to-GDP ratio registered an increase—as already expected by the Government.

According to the 2019 Economic and Financial Document (DEF, Documento di Economia e Finanza), approved on April 9, 2019 and revised on September 30, 2019, net borrowing is set to fall considerably between 2020 and 2022 under current legislation, resulting in a nominal deficit-to-GDP ratio of 0.9% at the end of the period compared to the April DEF's target of a net borrowing-to-GDP ratio of 1.5%.
The primary surplus would rise to 1.9% of GDP in 2020, 1.9% in 2021, and 2.0% in 2022 on the back of rising tax revenues and the slower growth in primary expenditures.

Following the approval of the 2020 Budget Law, the Bank of Italy revised these percentages slightly downwards: according to the 1-2020 Economic Bulletin, the primary surplus is projected to stand at 1.1% in 2020, 1.3% in 2021, and 1.6% in 2022 as a proportion of GDP.

As part of the resolution approving the 2019 DEF, Italy's Parliament invited the Government to cancel the VAT hike planned for January 2020. The new Government confirmed it would do so. Combined with the funding for the so-called "unchanged policies", the cancellation of the VAT hike will bring the estimated net borrowing of the public administration to 2.7% of GDP in 2020.

According to the Bank of Italy, in December 2019 Italy's national debt increased to €2,409.2 billion, compared to €2,380.6 billion at the end of 2018 and €2,263 billion at the end of 2017, accounting for 135.7% of GDP.
As far as the segment breakdown is concerned, government agencies' consolidated debt increased by €32.1 billion to €2,324.8, while local public administration agencies' debt decreased by €3.4 billion to €84.4; social security agencies' debt was almost stable.
Finally, as at November 2019, the average residual maturity of Italy's public debt was estimated at 7.3 years, in line with the end of 2018; meanwhile, the average debt servicing cost edged down from 2.8% at the end of 2018 to 2.7% at the end of September 2019.

As for national health spending, the update to the DEF dated September 30, 2019 estimated it at €118.5 billion in 2019 (compared to €116.0 billion in 2018), €120 billion in 2020, €122 billion in 2021, and €123 billion in 2022.

Since April 2019, the Italian Government has passed several urgent measures which have caused additional impacts relative to the estimates in the 2019 Economic and Financial Document. The most important measures are intended to promote economic growth and boost Italy's production system by streamlining the regulatory framework that governs the contracting and design of public works as well as through tax reliefs and initiatives to revive public and private investments.

Among the public administration's sub-sectors (government agencies, local public administration agencies, and social security agencies), the net borrowing of government agencies has improved thanks to measures aimed at raising additional tax revenues and reducing certain funds on the Government's balance sheet.

The deficit of the local public administration agencies is largely attributable to the resources allocated to Municipalities to finance energy efficiency improvements, sustainable local development projects, and initiatives to ensure the safety of public buildings—as well as to the reduced contribution of Friuli-Venezia Giulia and Sicily to Italy's public finances.
To revive the investments of Local Authorities, starting from 2020 a fund will be reserved specifically for Municipalities to promote energy efficiency improvements, sustainable local development projects, and initiatives to ensure the safety of public infrastructure and buildings. In 2019 said Authorities also received additional resources from the Development and Cohesion Fund for similar purposes. In each year from 2019 through 2033, the national Government will also contribute to the payment of installments on loans entered into by the county seats of metropolitan cities in financial distress to cover investment spending.

With respect to the other measures, as far as the Bank is concerned, the following stand out:

- The applications of the SIOPE+ project—governed by the Italian Ministry of Economy and Finance (MEF)'s decree of June 14, 2017 and the MEF's decree of September 25, 2017—required all Municipal and Provincial Governments, Metropolitan Cities, and Regional Governments as well as National

Healthcare System Entities to join the project during 2018. Both decrees also govern how the SIOPE+ procedures are to be tested and the relief from the requirement to disclose information on the settlement of invoices through SIOPE+ to the "PCC – Piattaforma Crediti Commerciali" system. The MEF's decree of May 30, 2018 required also all additional entities considered to be public administrations as per Art. 1 paragraph 2 of Italian Law 196/2009 to join SIOPE+ effective January 1, 2019. Said entities include Associations of Municipalities, Park administrators, Universities, and Chambers of Commerce. The PCC system is continuing to evolve through the integration with the Purchase Orders Routing Node (NSO, Nodo di Smistamento degli Ordini di acquisto), through which all purchase orders, placed exclusively in electronic form, will be forwarded to the public administrations pursuant to Art. 1 paragraphs 411-415 of the 2018 Budget Law (Italian Law no. 205 of December 27, 2017). This integration, already planned for 2019, and the requirement for National Healthcare System entities to use the NSO node will allow to verify the information included in purchase orders directly within the PCC system and to match it with the invoices issued to public administrations—specifically with the tender identification codes (CIG, Codice Identificativo Gara) issued by the National Database of Public Contracts. Starting from 2019, to ensure the timely payment of the Italian public administration's commercial debts, under Art. 1, paragraphs 849 through 857 of Italian Law 145/2018 (2019 Budget Law), municipal and provincial governments, metropolitan cities, and regional and autonomous provincial governments, including on behalf of the respective National Healthcare System entities, may apply for cash advances from banks, financial intermediaries, Cassa depositi e prestiti Spa, and financial institutions within the European Union for the purposes of settling debts that are certain, liquid, enforceable, and payable at December 31, 2018 associated with procurement agreements, contracts, and obligations for professional services. In addition, starting from 2020, the PCC system will calculate the indicators required by the mentioned budget law (paragraphs 859 et seq.) concerning the monitoring of the debt stock as well as payment times and late payments.
Said data on past-due amounts refer to 2018 and to the first quarter of 2019, and they show the amount of cash receipts as a proportion of the invoices settled by public administrations during the period (and not the total invoices issued), without any reference to the age of unpaid and/or outstanding receivables.
Public administration agencies (including regional and autonomous provincial governments, metropolitan cities and provincial governments) recorded around €13 billion in total invoices owed, and €10 billion in invoices paid. The resulting average payment period was around 37 days (excluding unsettled and/or disputed invoices).
For municipalities of over 60,000 inhabitants, invoices owed were €11 billion and invoices paid were €9.7 billion (with an average payment period of 42 days). For municipalities of over 10,000 inhabitants, payments of €4.42 billion have been made on the €5 billion of invoices owed, maintaining the same average payment period of 42 days.
The National Healthcare System has not yet confirmed any final figures to date.

Looking at the debt stock outstanding to date, in the first quarter of 2019 there were approximately €24 billion worth of unpaid invoices, divided among the public administration, the National Healthcare System, and Municipalities (including €4 billion associated with invoices more than 12 months past due).

Looking at the stock, Municipalities have nearly €6.1 worth of unpaid invoices (26% of the stock), the National Healthcare System €4.8 billion (20%), the Ministers approximately €3 billion, and Regional Governments €1 billion.

On August 8, 2019, the Ministry of Economy and Finance signed the new "SIOPE decree" concerning the codes to be used by the Independent Administrative Authorities on the list of public administrations as per Article 1, paragraph 3 of Italian law no. 196 of December 31, 2009 as amended, excluding the Authority regulating strikes in essential public services (CGSSE) and the National Agency for the Evaluation of the University and Research System (ANVUR). The decree won the approval of the Agency for a Digital Italy and the Joint Conference as per Article 8 of Italian Legislative Decree no. 281 of August 28, 1997.
The new SIOPE codes have been prepared in accordance with the structure of the chart of accounts pursuant to Article 4, paragraph 4 of Italian Legislative Decree no. 91 of 2011.
The SIOPE monitoring of Independent Administrative Authorities is to become effective on January 1, 2020.

- 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, last June, 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. To date, no request has been filed with the European Commission for an additional extension by way of derogation from EU law and no amendments to the budget bill and the Fiscal Law Decree on this topic have been proposed. Therefore, in the absence of further developments, the split payment mechanism should expire on June 30, 2020.

- According to the 2020 Draft Budgetary Plan, the Government is to completely sterilize the safeguard clause for the year 2020 and partially reduce those for 2021 and 2022, pursue initiatives to promote public and private investments, reduce the tax wedge, increase the resources for education as well as scientific and technological research, and implement a plan to combat tax evasion. In addition, the so-called "unchanged policies" have been refinanced. Specifically, with respect to public investments, the Government has set aside approximately €9 billion in additional resources between 2020 and 2022—and more than €55 billion over a 15-year time period—for two new investment funds to be operated by the Central Government as well as Local Authorities. Concerning specifically the environment, one of the Government's priorities is implementing a Green New Deal involving first and foremost public investments that are synergistic with private ones. The measures outlined in the 2020 Budget Law are consistent with a 2.2% target for net borrowing. As for the following two years, under the updated budget plan presented in this document the government's deficit is expected to fall to 1.8% of GDP in 2021 and 1.4% in 2022. This decline in the deficit is the result of, among other things, the permanent impacts of structural measures to be implemented with the 2020 budget as well as the relevant laws.

Comments on the Economy, National Debt Stock and Public Expenditure on Goods and Services in the Other Countries in which Banca Farmafactoring Operates[3]

Poland

Poland's growth rates are among the highest in the European Union.

Real GDP is expected to grow by 4.0% to €466 billion in 2019 compared to 2018 figures—one of the highest rates in Europe. In relation to 2020, the IMF expects growth to be slightly slower at 3.1%. According to the European Commission, private consumption is set to remain the key growth driver in 2019 and 2020, supported by a solid trend in the labor market and tax incentives. Investments are set to grow at a moderate pace due to the expected softness of private-sector demand, whereas public investments should continue expanding—driven primarily by EU funds—albeit at a slower rate. The nominal budget deficit is forecast to end 2019 higher.

The country is seeing a decline in interest rates on 10-year government bonds, from an average of 3.221% in 2018 to an average of 2.410% in 2019 (Source: Refinitiv). The Polish Central Bank was in favor of this contraction as they have been supporting an expansionary monetary policy since 2014, in order to cope with weak prices (which signal a potentially deflationary situation) and revitalize the economy. The Central Bank has been encouraging private investments which are destined to partially offset the slowing but still positive pace of public investment funded by the European Union.

Gross public administration agencies' debt is set to continue falling from over 50% of GDP in 2017 to around 47.8% of GDP in 2019 and 47.3% in 2020. This movement is supported by strong nominal GDP growth and relatively low nominal deficit.

Public spending for 2018 as a whole amounted to €207 billion, of which €28.2 billion can be attributed to expenditure on public administration goods and services, and €9.1 billion can be attributed to social transfers in kind.
In regards to this topic, public spending is estimated to decrease up to €194 billion in 2019, and to €200 billion in 2020.

The governing conservative party, Law and Justice (PiS), won the European elections in May 2019 with more than 43% of votes. The conservatives won the general election in October and maintain an absolute majority. Jaroslaw Kaczynski's PiS party won 43.6% of the votes and 235 out of 460 seats in the Lower House of Parliament (48 out of 100 seats in the Senate), securing another 4-year term to implement its reform program.

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[3] *Sources:*

- *International Monetary Fund, IMF – World Economic Outlook Database (October 2019), to which reference should be made for figures on GDP at constant prices, real GDP growth, government debt-to-GDP ratio, structural balance and unemployment rate (data extraction date: January 23, 2020). The Polish zloty, Czech koruna and Croatian kuna were converted based on the exchange rate to the euro at 12/31/2019 as published by the Bank of Italy.*
- *Eurostat – Government revenue, expenditure and main aggregates, to which reference should be made for 2018 figures on public spending as a whole, expenditure on goods and services and social transfers in kind (data extraction date: January 23, 2020).*
- *Internal forecasts based on data from Eurostat – Government revenue, expenditure and main aggregates, to which reference should be made for forward-looking figures concerning public spending (data extraction date: January 23, 2020). European Commission – European Economic Forecast, Autumn 2019. Institutional Paper 115 | November 2019.*

Spain

Despite some slowdown, for the sixth year in a row real GDP in Spain is estimated to have grown by 2.2% in 2019, above the Euro Area average of 1.1%. GDP is estimated at €1,195 billion in 2019.
Overall, a slowdown is expected for real GDP growth, which is forecast at 1.8% in 2020 and 1.7% in 2021.

Employment growth has continued to exceed expectations, and job creation is expected to remain constant. The unemployment rate is set to continue falling slightly from 15.3% in 2018 to 13.2% in 2020. This would allow the country to reach its lowest rate since 2007, when the unemployment rate was 8.2%.

As for the gross national debt, the debt-to-GDP ratio is expected to gradually decrease to 95.2% in 2020, as compared to 97.1% recorded in 2018 and 96.4% expected for 2019. This decline will be driven by the growth in nominal GDP and the decrease in interest expense, while the primary surplus will probably remain unchanged at around zero.

Public spending for 2018 as a whole amounted to €501 billion, of which €61.5 billion can be attributed to expenditure on public administration goods and services, and €31.1 billion can be attributed to social transfers in kind.
Public spending as a whole is estimated to increase up to €512 billion for 2019, and to €522 billion in 2020.

After 10 months of stalemate, during which Spain went without a Government—even though in November 2019 the country held its fourth election in 5 years, just six months after the last one—on January 7, 2020, the socialist Pedro Sànchez Castejòn finally won a vote of confidence in Parliament with 167 votes in favor, 165 against, and 18 abstentions. Mr. Sànchez has formed a Government based on a thin left-wing majority consisting of the PSOE and Unidas Podemos, with the backing of certain regional parties— the first coalition government in the history of Spanish democracy.

Portugal

Portugal's real GDP growth is estimated to shrink from 2.4% in 2018 to 1.9% in 2019 and 1.6% in 2020. GDP is estimated at €202 billion in 2019.
This slowdown has been driven by the negative impact of net exports. Domestic demand should continue contributing strongly to economic growth also in 2019 thanks to the significant rebound in investments during the first quarter of the year. Consumer spending and investments are set to remain the main growth drivers in 2020 and 2021, albeit at a weaker pace. The expected decline in consumer spending is associated with the recent slowdown in job creation. Investments are suffering from a deterioration in business sentiment, especially in the industrial sector, but should benefit from EU funding over the forecast horizon.

After falling steadily by 3.8 percentage points in 2018, the gross public debt-to-GDP ratio is forecast to further decline by around 2.5%, to 117.6% in 2019 and 114.8% in 2020, thanks to persistent primary surpluses and favorable differentials between growth and interest rates.

In regards to the budget deficit, according to the European Commission’s forecasts, it is likely to decrease to -0.1% of GDP in 2019 and to 0% of GDP in 2020, as compared to -0.4% in 2018.

Public spending for 2018 as a whole amounted to €88.6 billion, of which €11.1 billion can be attributed to expenditure on public administration goods and services, and €3.6 billion can be attributed to social transfers in kind.
Public spending as a whole is estimated to increase up to €94 billion for 2019, and to €96 billion in 2020.

The European elections of May 2019 were won by the incumbent Socialist Party.
At the legislative election held on October 6, 2019, the Prime Minister Antonio Costa's Socialist.
Party once again came out on top with 38% of the votes and 108 seats (+22 seats compared to the previous election in 2015), leading a minority government without the direct involvement of other parliamentary groups.

Greece

Greece's economic recovery continues, with the IMF expecting real GDP to expand by 2.0% (to €195 billion) in 2019 compared to 2018—largely driven by rising investments and employment. The IMF expects real GDP to strengthen further to 2.2% in 2020, and to reach 1.7% in 2021.

Gross public debt peaked at 184.9% of GDP in 2018, and is expected to decline in 2019 and 2020, at a level of 176.6% and 171.4%, respectively.

According to the European Commission, Greece could achieve a budget surplus of 1.3% of GDP in 2019—making it the fourth positive year in a row. This forecast is supported by the increase in tax revenues, thanks to steadily rising disposable income, as well as the lowering of spending ceilings. The budget surplus is estimated at 3.8% of GDP in 2019. This development has led to an improvement in Greece's international credibility, with a corresponding reduction in government bond yields.

Public spending for 2018 as a whole amounted to €86.7 billion, of which €8.5 billion can be attributed to expenditure on public administration goods and services, and €3.9 billion can be attributed to social transfers in kind.
Public spending as a whole is estimated to be stable in 2019 and 2020 at around €91-92 billion.

Four years after their introduction, capital controls were lifted on September 1, 2019. In 2015, the former Prime Minister Alexīs Tsipras had limited cash withdrawals to €420 per week and the amount of cash that every Greek citizen could bring with them when traveling abroad to €2,000.
The removal of the capital controls imposed in July 2015 and gradually relaxed over time will likely be key to entrenching the recovery of Greece's economy. This has outperformed expectations in recent years under the previous Administration largely because of exports—thanks to the competitiveness boost provided by the implementation of reforms under the bailout program, including in the labor market—but is still reeling from the severe crisis of the last decade.

And finally, it should be noted that Prime Minister Alexīs Tsipras decided to call for new parliamentary elections in Greece following the defeat of his Syriza party at the European elections in May 2019. These elections took place on July 7, 2019 and they were won by the right-wing party headed by current Prime Minister Kyriakos Mītsotakīs, Nea Demokratia (ND), with 39.85% of votes.
The new ND Government won a confidence vote in Parliament on July 22, 2019 and relies on a robust 158-seat majority.

The economic policy of the Mītsotakīs Government is intended to implement reforms that can help consolidate growth by slashing taxes, attracting more foreign investments (including by relaunching abandoned privatization efforts), and making the public administration more efficient.

Croatia

Croatia's real GDP is estimated to have grown from 2.6% in 2018 to 3.0% in 2019, essentially in line with expectations, reaching €49 billion.
For 2020 and 2021, the European Commission estimates that real GDP growth will be 2.6% and 2.4%, respectively.

In relation to the expected surplus and GDP growth, Croatia's debt-to-GDP ratio is expected to decrease from 74.6% in 2018 to 71.1% in 2019, and then to 68.3% in 2020. Croatia reached an overall surplus of 0.3% of GDP in 2018, with a fall of around 0.5% when compared to the previous year. As regards 2019 and 2020, the European Commission estimates a target value of 0.1% and 0% of GDP, respectively.

The most recent parliamentary elections were held in September 2016 and saw Andrej Plenković's national conservatives come out on top.
Croatia held presidential elections on December 22, 2019 (first round) and January 5, 2020 (second round). Zoran Milanović (SDP), who served as Prime Minister from 2012 through 2015, beat the incumbent Kolinda Grabar-Kitarovic (the candidate of the center-right majority party) with 29.6% of the votes to his rival's 26.7% and subsequently won the runoff with 52.6% of the votes, becoming President with the support of a united center-left coalition.

Public spending for 2018 as a whole amounted to €24 billion, of which €4.2 billion can be attributed to expenditure on public administration goods and services, and €1.1 billion can be attributed to social transfers in kind.
Public spending as a whole is estimated to slightly increase up to €23 billion for 2019, and to €24 billion in 2020.

France

French real GDP is expected to decline from 1.7% in 2018 to 1.2% in 2019 and 1.3% in 2020. France's deficit-to-GDP ratio is estimated to fall from 3.1% in 2019 to 2.2% in 2020, 1.8% in 2021, 1.5% in 2022, and 1.1% in 2023. This decline comes as the one-off impact of the transformation of the tax reliefs for hiring minimum-wage earners from a tax credit into a structural tax cut wears off. In 2019, this decision had a two-fold impact on the country's finances, as the government granted a credit based on the taxes paid in 2018 as well as collected less revenue during 2019. The impact had accounted for 0.9% of GDP. No significant changes are expected in relation to the structural deficit, which excludes non-recurring effects and those arising from the economic cycle.

The gross public debt-to-GDP ratio is below 100%: 98.4% in 2018, and estimated at 99.3% in 2019 and 99.2% in 2020.

Public spending as a whole is the higher in Europe: €1,319 billion in 2018 (56% of GDP), of which €116 billion can be attributed to expenditure on public administration goods and services, and €142 billion can be attributed to social transfers in kind.

France's Budget Law is accommodating: it includes a commitment to limit the annual increase in public spending to an average of 0.4% through 2022; public expenditures are forecast to rise by 0.7% in 2020 (in line with 2019), 0.5% in 2021, 0.2% in 2022, and 0.4% in 2023.

Infringement Procedures in Relation to Directive 2011/7/EU

It should be recalled that the European Commission has opened infringement procedures against Italy, Greece, Portugal, Slovakia and Spain for failure to implement or improper application of Directive 2011/7/EU on combating late payment in commercial transactions by public authorities.

The Factoring Market in Italy

The Bank 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 slightly decreased. 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.

Receivables due from public administration agencies amounted to €10 billion at September 2019, representing more than 19% of total receivables transferred in relation to all the various types of factoring services. Of these receivables, 35% were past due and 21% were more than a year past due.

BFF's market share in the industry, in terms of outstanding receivables, was 28.1% at September 2019 (22.5% at September 2018), with reference to the non-recourse segment.
Within the public administration and National Healthcare System subsegments, BFF's market share accounted for 18.7% in terms of outstanding receivables due from government agencies (13% at September 2018), 35.1% in relation to local public administration agencies (30.2% at September 2018), and 37.2% with reference to the National Healthcare System (33.4% at September 2018).

At September 30, 2019, according to Assifact figures, non-performing exposures for factoring (before value adjustments) accounted for 5.42% of total gross exposures, of which 2.14% are non-performing loans, 2.07% unlikely to pay exposures, and 1.21% more than 90 days past due.
The coverage ratio for impaired past due exposures is limited and reflects a high recovery percentage in relation to this kind of exposures for factoring; specifically: about 72% for non-performing loans, 55% for unlikely to pay exposures, and 7% for impaired past due exposures.

After analyzing the preliminary figures for the factoring market at December 31, 2019 (Assifact figures), the positive trend relating to cumulative turnover has been once again confirmed with an increase of 6.44% compared to the same month in the prior year, and reaching €256 billion.
The corresponding outstanding receivables decreased by about 2.11% compared to the same month in the prior year, for an amount of around €66 billion (of which €28 billion referring to non-recourse transactions).

Results of Operations

At December 31, 2019, the Bank's net profit amounted to €65.2 million, compared to €73.4 million recognized in the prior-year period. The normalized profit of the Bank (representing the Bank's results of operations net of non-recurring income and expenses) amounted to €70.3 million, down 5.9% from €74.7 million in 2018.

Compared to the profit for the period, the normalized profit at December 31, 2019 includes:

- €0.8 million expenses for the Stock Option Plan reserved to some beneficiaries and for the Stock Grant Plan involving all the Group employees and granted in the first half of 2019. Such costs are recognized in the income statement and generate an increase, before taxes, in equity;
- €0.5 million charges arising from the exchange rate effect;
- charges related to extraordinary contributions to the National Resolution Fund for 2017 (as per the Bank of Italy's request of June 7, 2019) amounting to €0.5 million after tax, paid in June 2019;
- M&A costs of €3.2 million;
- tax realignment of IOS goodwill: the income statement took account of €1.5 million as positive effects arising from the decision to opt for tax realignment of goodwill arising from the IOS acquisition;
- €1.7 million as retention bonus to be paid to the Chief Executive Officer, after the Initial Public Offering.

In 2019, credit quality continued to be good and characterized by a high solvency of the counterparties: the following table shows the net impaired positions at December 31, 2019 compared to December 31, 2018.

Amounts in € millions

	12/31/2018	12/31/2019
NPLs (Non-performing loans)	**34.9**	**58.2**
Of which non-performing loans purchased performing	27.0	52.5
Of which non-performing loans purchased already impaired	7.9	5.7
Unlikely to pay exposures	**0.0**	**0.0**
Past due exposures	**38.7**	**30.6**
Total	**73.6**	**88.8**
Total NPL/RECEIVABLES	**1.2%**	**1.7%**
Total NPE/RECEIVABLES	**2.5%**	**2.7%**

Total impaired exposures amounted to €88.8 million compared to €73.6 million in 2018.

Past due exposures of €30.6 million mainly consist of amounts due from public administration agencies (mostly local entities) and other public sector companies, accounting for 96% of the total.

Non-performing loans totaled €58.2 million at December 31, 2019, with an NPL ratio of 1.7% of total receivables due from customers. Of this amount, €57.7 million relates to receivables concerning "municipalities in financial distress", of which €5.7 million were purchased already impaired. Without the amount concerning municipalities in financial distress, the NPL ratio would be 0.0% instead of 1.7 %, 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 Banca Farmafactoring is entitled to receive 100% of principal and late payment interest at the end of the insolvency procedure.

Specifically, below are the main activities carried out in 2019 aimed at optimizing the Bank's financial structure and making it more efficient as well as extend lines of credit coming to maturity during the period:s

- secured €68 million worth of new revolving lines denominated in Euros, including €38 million in multi-borrower lines available also in currencies other than the Euro and accessible by the Bank's subsidiaries;
- secured PLN 405 million (€95 million) worth of new lines of credit available to the Polish subsidiaries;
- agreed on a new credit limit for the refinancing of €40 million in recourse receivables with MPS Leasing&Factoring;
- in October, Banca Farmafactoring launched a new €300 million senior preferred unsecured bond issue rated "Ba1" under the EMTN Program, with a fixed-rate coupon of 1.75% and maturity on May 23, 2023 (see the "Senior Unsecured and Preferred Bond Issue Under the EMTN Program" section);
- in November, the Group voluntarily repaid the €50 million term credit line with Mediobanca earlier than the original maturity date in February 2020 to streamline its resources and the cost of money;
- in the final quarter of 2019, Banca Farmafactoring laid the groundwork for extending the €150 million Flexible Note BFF SPV S.r.l. securitization transaction (in private placement with the Bayerische Landesbank group). Said work was successfully completed on February 6, 2020, extending the program's revolving period through the Note Payment Date, i.e. February 15, 2021 (the original maturity was scheduled for February 2020);
- laid the groundwork for the renewal of the "EMTN – European Medium Term Notes Program"—which supports the strategy to diversify and expand the Group's funding—in order to ensure access to the bond market throughout 2020 as occurred in the case of the senior preferred unsecured bond issue carried out during 2019. The work that resulted in the annual extension of the Program and involved Banca IMI as Sole Arranger was completed on January 17, 2020. The issues to be carried out under the Program may 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 bonds may be issued under Italian and/or UK law (so as to be in line with the position adopted by other Italian financial issuers) in euros and zlotys or other currencies to be defined from time to time, at either a floating or fixed rate.

During 2019, the Bank has continued to work for the expansion, diversification and optimization of the deposit-taking structure to support the core business.
Specifically, BFF offers an online deposit account on the Italian market (Conto Facto), aimed at retail and corporate customers and guaranteed by the FITD.
Furthermore, BFF's Spanish branch offers a similar online deposit account in euros on the Spanish market (Cuenta Facto), also aimed at retail and corporate customers and guaranteed by the FITD. The Spanish branch also operates in Germany, and starting from September 2019, in the Netherlands and Ireland, in compliance with regulations on the freedom to provide services, using the online Weltsparen platform.

Following the authorization granted by the Polish Supervisory Authority (KNF) in the second half of 2019, BFF Polish branch started its operations by launching an online deposit account in Polish zloty (Lokata Facto), also aimed at retail and corporate customers and guaranteed by the FITD.

At December 31, 2019, the deposit-taking activity relating to Conto Facto, Cuenta Facto and Lokata Facto, including the deposits of the German platform in Germany, the Netherlands and Ireland, totaled a face value of €1,354 million, compared to €924 million at December 31, 2018, thus showing an increase.

Equity and Own Funds

The Bank's equity amounted to €302 million at December 31, 2019, compared to €320 million at December 31, 2018, which included consolidated profit for the year of €72 million, fully distributed.

The following table shows Banca Farmafactoring's own funds, amounting to €352.7 million at December 31, 2019; 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.

In € millions

	12/31/2018	12/31/2019
Own funds	298.6	352.7
CET1 Capital Ratio	8.2%	8.5%
Tier 1 Capital Ratio	8.2%	8.5%
Total Capital Ratio	12.3%	11.8%

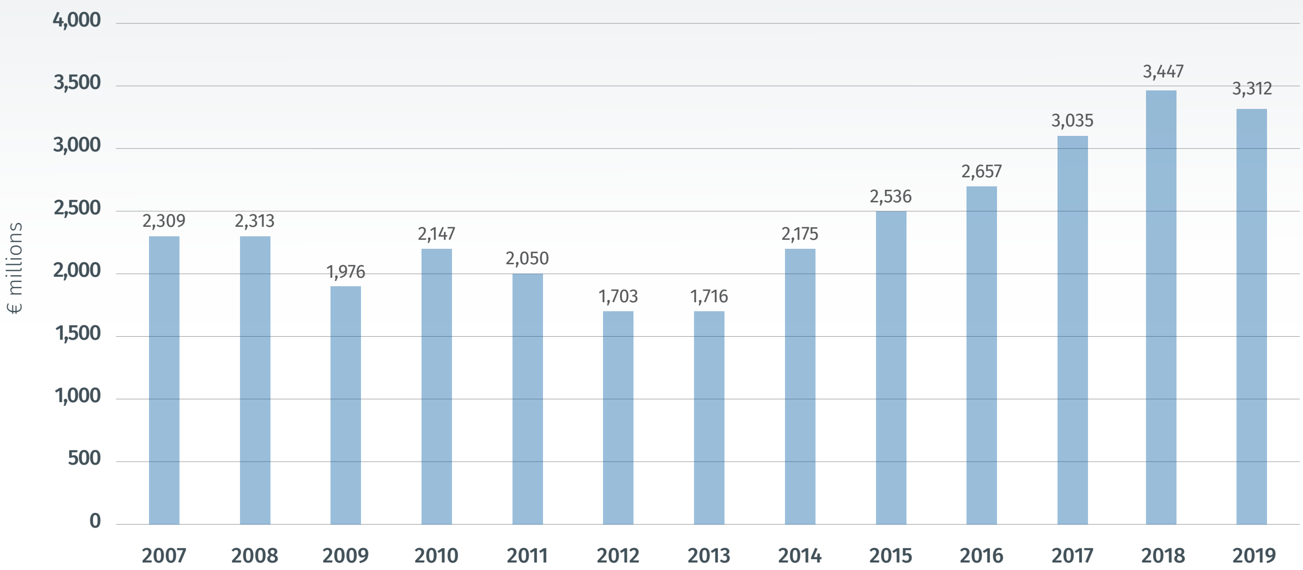
The increase in BFF's own funds, as compared to December 31, 2018, was mainly influenced by the allocation of part of profit to own funds to the tune of €52.8 million, by the HTC&S securities valuation reserves, which generated a positive impact of €4 million, after taxes (such reserve amounted to €-4.1 million at December 31, 2018 and €-3.1 million at June 30, 2019), by a €2.6 million increase in the reserves relating to the remuneration of employees and other staff in financial instruments.

Performance of Banca Farmafactoring

At December 31, 2019, net profit amounted to €65.2 million.

The following chart shows the total volumes of new purchases of the Bank, which totaled €3,312 million, compared to €3,447 million in 2018.

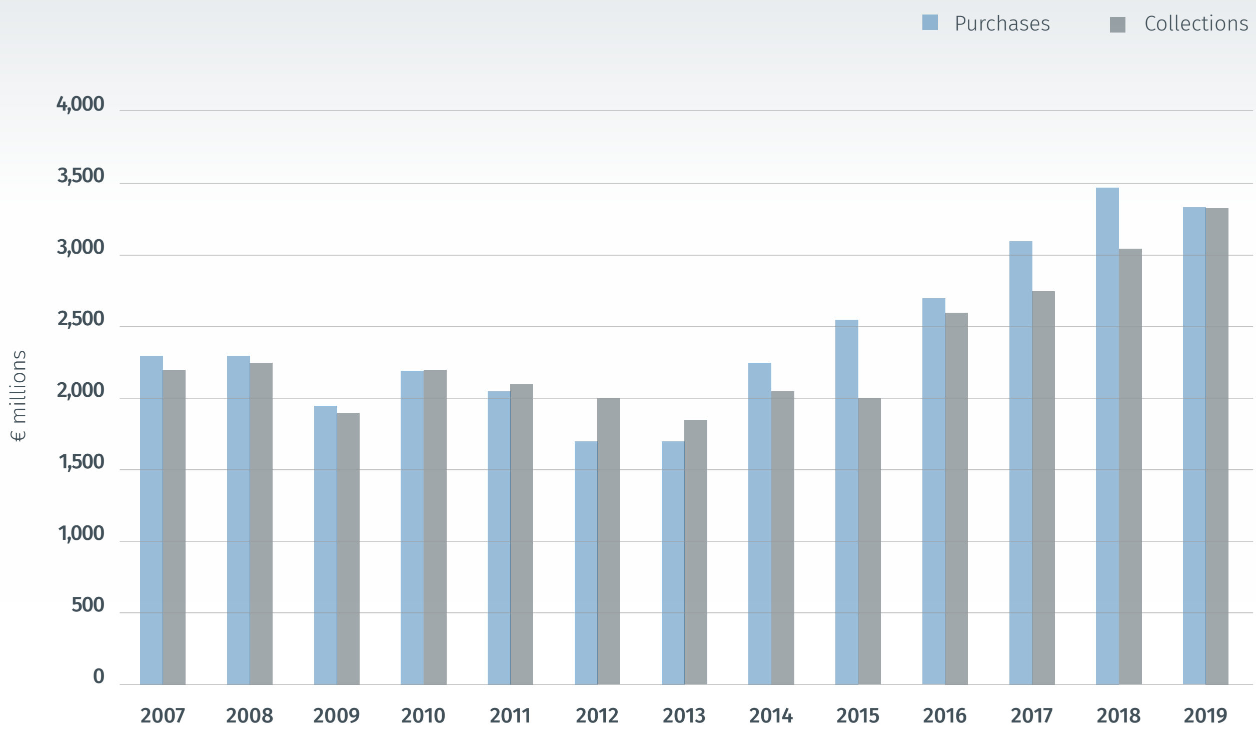
New Volumes



Total non-recourse purchases in Italy amounted to €3,082 million, down 3% from €3,162 million at December 31, 2018. Purchase of receivables due from the Portuguese public sector amounted to €174 million, decreasing by 34% compared to €266 million in 2018, due to the Government cash injection at the end of 2019.
Purchases made in Greece amounted to €54 million (+208%).

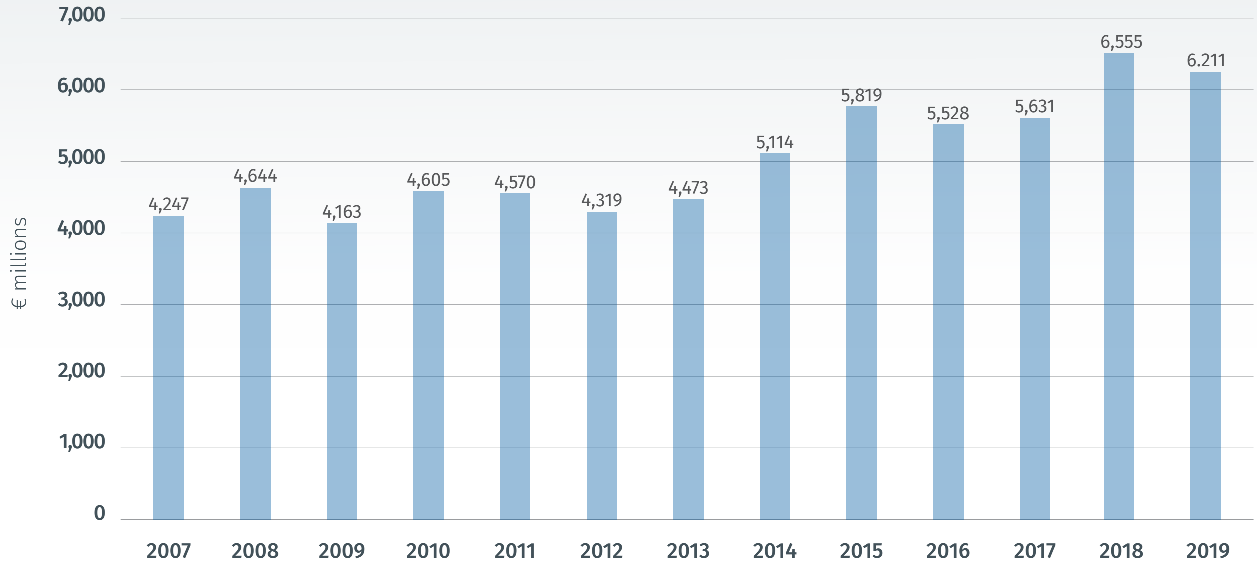
The volume of receivables due from the Croatian healthcare system purchased during the year amounted to €1 million. Finally, in the second half of 2019, the first trade receivables due from the French healthcare system were purchased; they amounted to €1 million.

Non-recourse receivables – Purchases and Collections



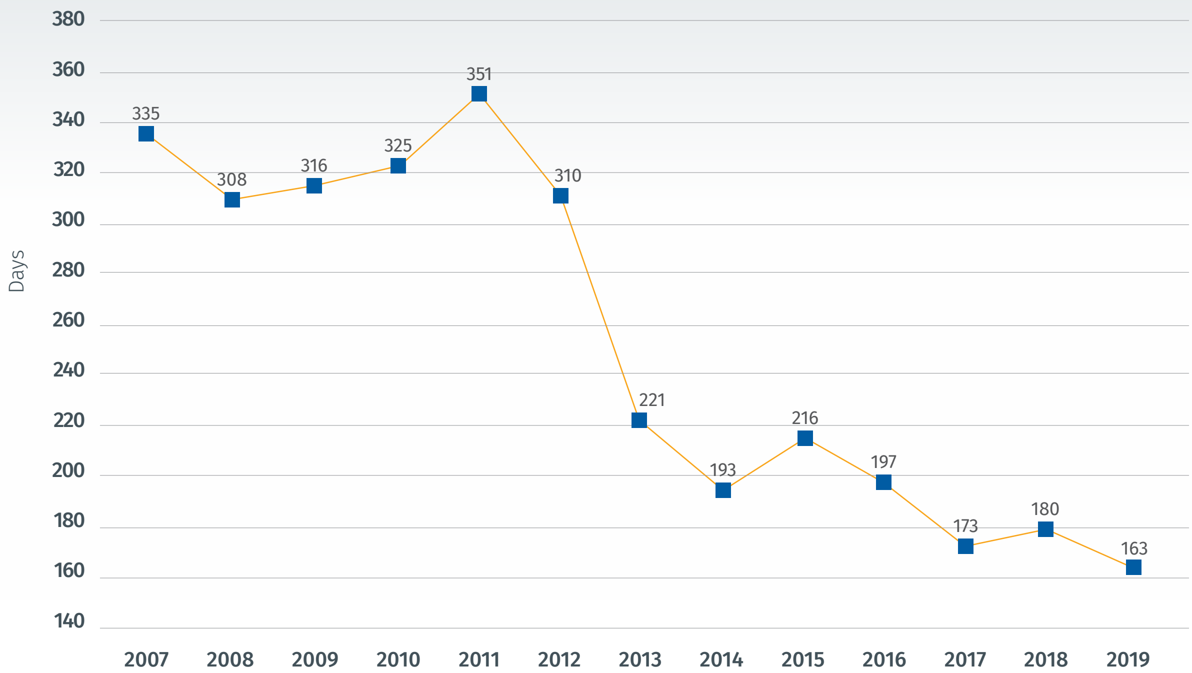
Also considering management activities, overall volumes amounted to €6,211 million, compared to €6,555 million in 2018, increasing by 5.5%.

Overall volumes



In 2019, the average days sales outstanding concerning receivables managed by Banca Farmafactoring directly and on behalf of third parties, were equal to 163 in Italy, compared to 180 in 2018, as shown in the chart below, which shows the average days sales outstanding over the last 13 years.

Average days sales outstanding, Italy - Management and Non-recourse



Significant Events during the Period

Shareholder Structure

On April 3, 2019, BFF Luxembourg S.à r.l., an entity incorporated under the laws of Luxembourg owned by Centerbridge Partners Europe L.P. (a fund that is part of the family of private equity funds comprised in the investment platform of Centerbridge Capital Partners) and ultimately operated by BFF JE GP Ltd. (Jersey), which in turn is the Bank's shareholder, informed that it completed the sale initiated on March 29, 2019 of 22,000,000 BFF shares, equivalent to 12.9% of the Bank's capital at the same date, through an accelerated book build (ABB).
Subsequent to the transaction, the stake held in BFF Group by BFF Luxembourg S.à r.l. decreased from 45.792% to 32.859%.

On January 14, 2020 another ABB took place (for further information, reference should be made to the section "Events subsequent to the end of the reporting period") and the stake held in BFF Group by BFF Luxembourg S.à r.l. reached 21.80%.

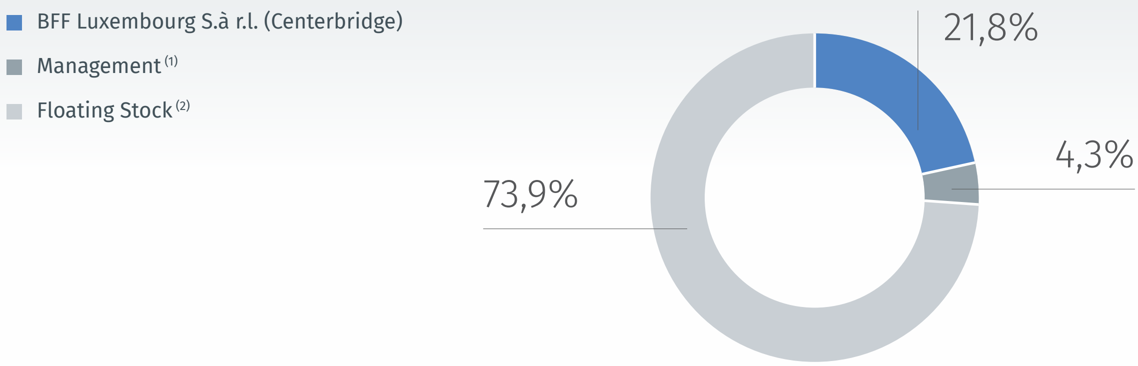
The composition of BFF shareholders at February 6, 2020 is shown in the following diagram. This reflects the status after the two transactions described above, and after the share capital increases (both free and against payment) which took place in 2019 and at the beginning of 2020 and were communicated to the market. These increases relate to:

(i) the one-off free allocation of BFF ordinary shares to the general majority of employees of the Bank and its subsidiaries (the so-called Stock Grant 2019), in execution of the resolution adopted at the Shareholders' Meeting of March 28, 2019;

(ii) the implementation of the staff incentive scheme for Group employees, for reasons connected with the variable remuneration and incentive policies of the Company (2018 MBO);

(iii) the Stock Option Plan of BFF Banking Group, originally approved by the Shareholders' Meeting on December 5, 2016, as amended at the Shareholders' Meeting on March 28, 2019.
The Stock Option Plan provided for the granting of 8,960,000 stock options by December 31, 2019, and it should be noted in particular that since the beginning of the exercise period (April 8, 2019) to February 5, 2020, 315,875 newly issued shares were granted in the face of the 1,259,874 cashless options and 182,960 ordinary options that were exercised over the same period. At February 6, 2020, the number of options allocated and not yet exercised amounted to 7,108,746, of which 1,011,068 were vested and able to be exercised.

Shareholder Structure



Source: formal notification received by BFF (Form 120A-120B) and "Banca Farmafactoring Banking Group's Annual Report on Remuneration and Incentive Policies". Percentage is calculated based on the total number of shares issued at 02/06/2020.
(1) Shares held by the CEO, close relatives, and 6 other executives with key management responsibilities at 12/31/2019.
(2) Including treasury shares.

Approval of the new strategic plan for 2023 and of 2021 financial targets

On May 29, 2019, BFF's Board of Directors approved the five-year strategic plan ("BFF 2023" or the "Plan") and the three-year financial plan ("2021 Financial Targets") for BFF Banking Group.
Strategic goals up to 2023 are detailed under the plan, including:

1. continue to develop the current core business and improve operating efficiency, so as to further strengthen the Group's leadership position in Italy, by
   - expanding the business in Southern Europe;
   - capturing the growth potential of BFF Polska's business in Central Eastern Europe;
   - strengthening the relationships with customers' headquarters and increasing cross-border deals;
   - expanding the business into other geographical areas;
   - expanding the target customer base to include smaller suppliers, leveraging off digital platforms;
   - widening the product offering to include segments and business lines adjacent to current operations;
2. continue to optimize funding and capital, including through the start of operations of the Polish branch for online deposit-taking on September 19, 2019 and the provision of services—in compliance with regulations on the freedom to provide services—also in the Netherlands and Ireland through the Raisin platform as in Germany;
3. consolidating the existing business and/or expand into other market niches via acquisitions.

The primary financial targets up to 2021, as identified by the Board of Directors, are:
- growth of volumes and receivables due from customers of more than 10% per year;
- adjusted net profit growth of around 10% on average per year;
- average Return on Tangible Equity (RoTE) of more than 30%, on a solid capital base (Total Capital Ratio target of 15% and a growing CET1 ratio), along with a low credit risk profile and high operational efficiency.

The main growth opportunities identified by the Group for the three business areas in which BFF operates are described below.

Non-recourse factoring
The addressable market can be represented by public expenditure on goods and services, which was around €270 billion in 2018. Only an estimated 10% of this amount is transferred by resorting to non-recourse factoring.

The Group expects to expand the potential market to €436 billion in 2023, at around 10 times that of 2013, thanks to:
- nominal growth in public expenditure on goods and services, at around 2% per year;
- increased potential market penetration;
- identification of new markets (France, where operations started in August 2019, Romania, Bulgaria and Hungary). These new markets represent an additional amount of around €140 billion in public expenditure on goods and services.

Further growth opportunities include expanding product coverage to:
- private hospitals and pharmacies with trade receivables due from the healthcare sector;
- suppliers with trade receivables due from pharmacies and distributors.

Credit management
The growth opportunities for credit management services consist of:
- extending the offering to other countries where the Group operates (e.g. Spain and Portugal);
- in Italy, extending the service to include trade receivables due from pharmacies and distributors;
- offering customers the ability to outsource their entire credit management and collection process for the entire public administration;
- including ancillary services in addition to the current offering.

Lending
The main growth opportunities for this business area consist of:
- further developing the offering to Polish local entities;
- acquiring niche lending platforms or operators.

The growth of the business will be supported by a broad and diversified funding base. The Group is extending the online deposit service offering also by leveraging off third-party platforms in other geographical areas (e.g., Poland, Ireland and the Netherlands), where interest rates offered are lower than those being offered in markets already covered by the Group. BFF Banking Group can also rely on the EMTN program for €1 billion to rapidly benefit from market opportunities and issue new bonds.

Within this context, the Group has confirmed its previously stated dividend policy, aiming to self-finance growth and pay shareholders any capital in excess of 15% of Total Capital ("TC").

Cost of funding has further improved thanks to:
- geographical diversification arising from the launch of online deposit services in Poland, the Netherlands and Ireland in September 2019;
- increase in drawn funding, other than Tier II funding and BFF Polksa's acquisition financing;
- assignment of a public credit rating by Moody's on October 2, 2019 (for further information, reference should be made to the "Rating" section).

Furthermore, BFF does not expect any significant impact from the new regulations on past due receivables and calendar provisioning over the financial plan horizon.

Acquisition of IOS Finance and relevant merger

On September 30, 2019, BFF finalized the acquisition of 100% of IOS Finance S.A.U. ("IOS Finance"). The acquisition price of €26.4 million (all-cash consideration) represents a pre-synergy P/E multiple of 8.3x for 2018 and a P/TBV multiple of 1.5x, for a business with a high RoTE, low risk, low capital absorption and strong potential synergies. At the closing date, BFF also redeemed IOS Finance's credit line issued by Deutsche Bank AG to the tune of €81 million.
The acquisition caused the Bank to recognize €11 million in additional assets, including €8.7 million in goodwill and €2 million[4] associated with the consolidation of IOS Finance's risk-weighted assets (RWAs) (totaling €13 million as at September 2019).

At the same date, the application for withdrawing the EFC (Establecimiento financiero de crédito) license held by IOS Finance was filed with the Bank of Spain. Following the withdrawal of the EFC status, authorized by the Bank of Spain on December 18, 2019, the deed of merger of IOS Finance into BFF Finance Iberia S.A.U. ("BFF Iberia", 100% owned by the Parent Banca Farmafactoring S.p.A.) was filed and registered with the Registro Mercantil in Madrid and became effective on December 31, 2019.

Therefore, effective January 1, 2020, BFF Iberia has taken over all the assets and liabilities of IOS Finance. The merger became effective for accounting and tax purposes on September 30, 2019, i.e. the closing date.

All one-off costs associated with the acquisition (including those actually incurred as well as the estimated costs of the business combination), totaling €1.3 million (after taxes), and the €1.5 million one-off net positive impact of the realignment of goodwill have already been recognized in the 2019 income statement.

Opening of the Polish branch and start of operations in France, Ireland and the Netherlands based on the regulations on the freedom to provide services

On October 3, 2018, BFF notified the Bank of Italy of its intention to open a branch in Poland.
The Polish Supervisory Authority KNF authorized the opening of the Polish branch on July 5, 2019. The

[4] *Calculated on the basis of the target Total Capital Ratio of 15% for dividend payout purposes.*

Polish branch started operations in September 2019 by launching the Lokata Facto deposit account.

On May 13, 2019, BFF notified the Supervisory Authority of its intention to offer non-recourse factoring to suppliers of the French public administration agencies and National Healthcare System, consisting of large international and domestic businesses in compliance with regulations on the freedom to provide services.

In light of this application, on July 5, 2019 the Italian Supervisory Authority advised that the relevant notification had been sent to the French Supervisory Authority.
On August 7, 2019, BFF acquired its first pilot non-recourse credit portfolio, consisting of trade receivables due from the French healthcare system.

In line with the Group's international expansion strategy, France became the Group's ninth market with this transaction, joining Italy, Croatia, Greece, Poland, Portugal, Czech Republic, Slovakia and Spain.

Furthermore, the Bank offers, through its Spanish branch and in compliance with regulations on the freedom to provide services, the Cuenta Facto product, using the Raisin online platform, in Germany and also in the Netherlands starting from September 12, 2019 and Ireland starting from October 1, 2019.

Rating

On October 2, 2019, Banca Farmafactoring S.p.A. received its first official public rating from the ratings agency Moody's France SAS, specifically:
- Long-term issuer rating: "Ba1", positive outlook;
- Long-term deposit rating: "Baa3", positive outlook;
- Short-term deposit rating: "P-3";
- Baseline credit assessment (BCA): "Ba3".

The issuer rating is only one notch below the Italian Republic's sovereign rating and is the highest rating of any Italian lender not directly supervised by the European Central Bank. In addition, the positive outlook implies that the agency could raise its rating should BFF manage to maintain its fundamentals (and specifically the CET1 ratio) at current levels.

Obtaining an official public rating has allowed the Bank to access debt markets more easily and seize favorable market conditions in a timely manner through the mentioned €300 million senior unsecured preferred bond issue under the EMTN Program launched in November 2018, with the goal of further reducing the cost of funding and diversifying funding sources.

Senior Unsecured and Preferred Bond Issue Under the EMTN Program

On October 23, 2019, the Bank successfully sold the first senior preferred unsecured bond issue with Italian and international institutional investors, totaling €300 million, at a fixed rate of 1.75% per year with maturity on May 23, 2023 (the "Bonds") under the €1 billion EMTN (Euro Medium Term Note) Program launched by the Issuer on November 30, 2018 and updated on October 8, 2019.
The Bonds have a minimum denomination of €100,000 and were sold at par with a reoffer yield and a

coupon rate of 1.75% (corresponding to a 209 basis point spread relative to the benchmark mid-swap rate), payable annually. The bonds are reserved for eligible institutional investors in Italy and abroad, pursuant to Regulation S of the United States Securities Act of 1933 as amended.
The ratings agency Moody's has assigned a “Ba1” rating to the Bonds.

The issue attracted bids exceeding €850 million overall (€750 million on the reoffer) from a geographically diverse group of high-quality institutional investors.
The Bonds are listed under the ISIN code XS2068241400 on the Main Securities Market (MSM) of the Irish Stock Exchange (ISE) as well as the Professional Segment of the non-regulated ExtraMOT market (ExtraMOT Pro), organized and operated by Borsa Italiana S.p.A..

Purchase of treasury shares

At December 31, 2019, the Bank owned 330,776 treasury shares, accounting for 0.19% of share capital.

At December 31, 2018, the Bank owned 41,552 treasury shares, accounting for 0.02% of share capital. Pursuant to the Shareholders’ Meeting resolution of April 5, 2018 and after the launch of the purchase program authorized by the Board of Directors on February 8, 2019, as already disclosed in compliance with Regulation (EU) 2016/1052, the Bank 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 aimed 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 BFF Banking Group” adopted by the Group.

In 2019, the Bank granted 30,528 treasury shares (of which 21,803 to the CEO as per the MBO, 7,063 in relation to non-competition agreements, and 1,662 for the exercise of stock options as per the relevant Stock Option Plan). The Bank has not sold any treasury shares during the reporting period.

Greek Branch

On January 29, 2019, Banca Farmafactoring S.p.A.'s Board of Directors approved the filing with the Bank of Italy for the purposes of opening a branch in Greece.

Consolidated Non-Financial Disclosure

In order to provide more comprehensive and transparent disclosure as well as improve its communication with stakeholders, BFF voluntarily prepares and presents its first Consolidated Non-Financial Disclosure, in accordance with Italian Decree 254/2016. BFF Banking Group's Consolidated Non-Financial Disclosure is separate from this Report on Operations, as per Art. 5, paragraph 3, letter b) of Italian Legislative Decree 254/16, and available at **www.bffgroup.com**.

Shareholders' Meeting Resolutions

On March 28, 2019, the Ordinary Shareholders' Meeting of the Bank resolved to:

- allocate the Banking Group's profit for the year ended December 31, 2018, amounting to €92,152,892, 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. Dividend payment date: April 2, 2019;
  - €399,658 to BFF S.p.A.'s retained earnings reserve;
- authorize the Board of Directors to purchase a maximum of 17,010,740 BFF shares for purposes as indicated under "Purchase of treasury shares";
- allocate a one-off stock grant for a maximum of 240,000 shares without payment for Group company employees, on a date to be set by the Board of Directors by December 31, 2019. On May 14, 2019, the Bank did allocate 150,800 shares to employees;
- approve the 2019 remuneration and incentive policies and the amendments to the Stock Option Plan—with the latter in particular being aimed at giving the Board of Directors the power to grant to beneficiaries of the plan, upon request, the right to exercise options on a cashless basis, where they will receive newly issued shares sourced from the designated free share capital increase.

On March 28, 2019, the Extraordinary Shareholders' Meeting of the Bank resolved to:

- amend Article 5 of the Company Bylaws, in order to:
  a) Empower the Board of Directors under Article 2443 of the Italian Civil Code, for a period of up to five years, to increase the share capital of the Bank without payment, in one or more installments, without requiring all shares to be subscribed, pursuant to Article 2349 of the Italian Civil Code, for a total maximum amount of €3,003,000.00. This will be achieved through the issue of up to a maximum of 3.9 million ordinary shares for the following purposes connected with the remuneration and incentive policies of the Group:
     (i) meeting balancing needs between the cash component and the financial instrument component potentially payable to the Group's Risk Takers as variable remuneration pursuant to the "Management by Objective" provisions in the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of BFF Banking Group";
     (ii) potentially granting shares to Group employees (within the scope of stock grant plans, for example); and
     (iii) exercising cashless options under the SOP.
  b) Increase paid share capital for a maximum amount of €6,899,200 through issuing up to a maximum of 8,960,000 new shares, in one or more installments, without requiring all shares to be subscribed, with the exclusion of pre-emption rights pursuant to Article 2441 paragraphs 5 and 6 of the Italian Civil Code, for the purpose of servicing the Stock Option Plan (as approved at the Shareholders' Meeting of December 5, 2016, and as subsequently amended by the Ordinary Shareholders' Meeting of March 28, 2019), before the expiry date, being within 12 years of December 5, 2016 ("Capital Increase Against Payment").
- amend Article 15 of the Company Bylaws, aimed at allowing the outgoing Board of Directors to present a list of candidates for the position of Director.

Partial execution of the mandate to increase share capital free of charge, as granted by the Extraordinary Shareholders' Meeting of March 28

On April 8, 2019, the Board of Directors resolved (among other things) to increase share capital, free of charge, without requiring all shares to be subscribed, for an amount equal to €1,015,272.72, in partial execution of the mandate granted pursuant to Article 2443 of the Italian Civil Code by the Extraordinary Shareholders' Meeting of the Bank, which was held on March 28, 2019. The increase was achieved by means of a capital reallocation of the same amount from the retained earnings reserve, using unallocated profit declared in the most recently approved financial statements. This resulted in the issue of up to a maximum of 1,318,536 new BFF ordinary shares, to be assigned to BFF Group employees in relation to variable remuneration and incentive policies ("Free Capital Increase").

This share issue and designated Free Capital Increase was to allow for:
- balancing needs between the cash component and the financial instrument component of variable remuneration payable to BFF Group's key personnel (Risk Takers);
- exercising options on a cash-less basis, by employees previously authorized by the Board of Directors or by the Chief Executive Officer according to the Stock Option Plan;
- the free one-off stock grant approved by the Ordinary Shareholders' Meeting on March 28, 2019.

In the period between April 16, 2019 and December 3, 2019, the aforesaid mandate was partially executed. A Capital Increase Against Payment took place with the issue of 446,378 new ordinary shares, without nominal value and with dividend rights, and having the same characteristics as shares already in circulation at the time of allocation.
The Stock Option Plan provided for the granting of 8,960,000 stock options by December 31, 2019, and it should be noted in particular that since the beginning of the exercise period (April 8, 2019) to December 3, 2019 (the period considered for the purposes of the most recent capital change disclosure in 2019), 266,936 new shares were granted in the face of the 921,046 cashless options and 182,960 ordinary options that were exercised over the same period. Following these transactions, the number of options allocated and not yet exercised amounted to 7,457,574, of which 1,359,896 were vested and able to be exercised.

Share capital

In 2019 share capital increased from €130,982,698.00 (at December 31, 2018) to €131,326,409.06. This increase was due to the partial execution of the following activities in the period between April 16, 2019 and December 3, 2019:
- Capital Increase Against Payment for an amount of €140,879.20, and
- Free Capital Increase for an amount of €202,831.86.

Following partial execution of the Free Capital Increase in January and February 2020 for an amount of €37,683.03, share capital amounted to €131,364,092.09 (corresponding to 170,602,717 ordinary shares) at the date this report was approved.

New Organizational Structure

To support business growth and development targets, the Bank adopted a new organizational structure in the second quarter of 2019.

In particular, to support the target of being a more integrated and responsive organization, changes adopted were as follows:

- Four departments and eight corporate functions were defined (direct reports to the Chief Executive Officer), and the roles of Chief Financial Officer and Chief of Staff were introduced for the first time.

- The logic behind a functional organizational structure was strengthened, and the different types of reporting relationships in existence were clarified (direct report, functional report, dotted line report, hierarchical report).

Among the main organizational changes, the following aspects should be highlighted:

- Creation of a Human Resources and Organizational Development function (direct report of the Group Chief Executive Officer), with functional management of Human Resources in Spain and Poland.

- The Investor Relations and M&A function shall also include activities related to defining and supporting Group strategy.

- The Operations Department shall have responsibility for managing the project portfolio and deposit-taking activities for deposit accounts in Spain and Poland.

- The Factoring Department shall continue to focus on business in Italy, along with operational support for international development. Two new specializations were created, for debtors belonging to the National Healthcare System and the public administration, respectively.

- The International Markets Department shall manage all international Group operations.

- The Finance & Credit Department and the Planning & Administration Department have been merged into a single department. Finance & Administration Department (under direction of the CFO). The Financial Reporting Officer reports to the Group Chief Executive Officer in this regard.

It should be noted that in February 2020, the organizational structure of the Credit Management Operating Unit within the Factoring Department was revised. Within this framework, the organization and activities of structures belonging to the Credit Management Operating Unit were revised aiming at both constantly improving processes and systems to make them more effective and concentrating efforts on value recovery.

Audit of the Bank of Italy as Supervisory Authority

Please note that between September 24 and December 21 2018, the Bank of Italy conducted an audit whose findings led the Supervisory Body to issue a positive opinion and were presented to the Bank's Board of Directors on April 8, 2019.

On that occasion, the Bank of Italy requested that the audit report be submitted to the consideration of the Bank's bodies with strategic supervision, management and control functions at a meeting held specifically for that purpose, inviting them to comment on the findings and observations raised within 30 days, disclosing also any resulting actions already taken or to be taken.

In a request dated April 9, 2019, BFF asked to extend the deadline originally set by the Supervisory Body by 30 days, so as to provide the above comments in due time and manner. In a subsequent communication, the Bank of Italy granted this request.

On May 29, 2019, BFF submitted its comments on the audit findings to the Supervisory Body, presenting the actions taken in the meantime and/or to be taken to address the observations raised by the Bank of Italy as necessary and appropriate.

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 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 the Interbank Deposit Protection Fund (Fondo Interbancario di Tutela dei Depositi, FITD)'s bylaws, establishes the setting up of a mandatory contribution mechanism ensuring that, by July 3, 2024, available financial resources shall 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 covered 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 indicators with the methods described in the "Regulations for Reports and Risk-based Contributions by Member Banks to FITD" available on the FITD website.

For 2018, the ordinary contribution due from BFF amounted to €653 thousand. In 2017 such contribution was €546 thousand. The contribution for 2019 amounted to €913 thousand.

As concerns extraordinary contributions, Article 23 of 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 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. BFF has decided to participate in the scheme. It then withdrew on September 17, 2017. For this reason, starting from such date 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 BFF in 2019 by the Bank of Italy with its Note of April 26, 2019 was €1,734 thousand, paid in May 2019.
The ordinary annual contribution requested in 2018 was €1,872 thousand, while in 2017 it was €1,171 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 to such Fund, with the amount to be determined by the Bank of Italy.

In June 2019, the Bank of Italy requested the banking system to provide an additional extraordinary contribution of €310 million for 2017, taking into account the upcoming financial needs of the Fund.
The amount charged to BFF, paid in June 2019, totaled €635 thousand. In 2018, the extraordinary contribution for 2016 was €701 thousand, while in 2017 no extraordinary contributions were requested of the banking system.

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 BFF, this amounted to €2,179 thousand.

Internal Control System

The CEO is the Director responsible for the Banking Group's Internal Control system, as envisaged by the Corporate Governance Code.
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, the Financial Reporting Officer 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 Function:** 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; oversees the realization of the internal process for determining adequacy of capital and liquidity risk governance and management systems ("ICAAP/ILAAP"); monitors the controls over the management of risks, in order to define methods to measure those risks; assists corporate bodies in designing the Risk Appetite Framework (RAF); verifies that the limits assigned to the various operating functions are being observed; and checks that the operations of the individual areas are consistent with the assigned risk and return objectives.

- **Financial Reporting Officer:** under the provisions and terms of the law, Staff reporting to the Financial Reporting Officer evaluate the effectiveness of the oversight being provided by the Internal Control System in regards to Financial Reporting Risk. In particular, the team carries out assessment and monitoring at a Group level, as necessary for evaluating the adequacy of coverage against potential risk on an ongoing basis. They test the adequacy and effectiveness of key control processes, and identify any areas where accounting management can be improved within the Internal Control System. In this context, the Financial Reporting Officer and the Chief Executive Officer of the Parent Company together certify the following aspects through specific reports attached to the annual and consolidated financial statements, and interim reporting: the suitability of the accounting procedures used in preparing the annual, consolidated and interim financial statements; compliance of documentation with applicable international accounting standards endorsed by the European Union; whether accounting books and records are suitable for providing a true and fair view of the financial position, financial performance and cash flows of the Group on a consolidated level and of the individual subsidiaries included under the scope of the consolidation; and the reliability of content, in relation to specific aspects, of the Director's report on operations and interim reporting..

- **Compliance and Anti Money Laundering (AML) Function:** 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 internal 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 relevant corporate bodies. Furthermore, this function has the task of preventing and combating money laundering and terrorist financing, also by continuously identifying the applicable rules in this area, and of verifying the coherence of corporate 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 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 service 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. For 2019, the Internal Audit function carried out the testing activities provided for by the Group's multi-year 2019-2021 Audit Plan, prepared according to a risk-based approach and approved by the Board of Directors in March 2019, 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 a function of the Parent Company, was in charge of the management and coordination of the activities carried out by BFF Polska's Internal Audit function.
The checks envisaged for 2019 in the Group Audit Plan were carried out by the function on the internal structures of the Bank, on the subsidiary BFF Finance Iberia, on the Spanish, Portuguese and Polish branch, on BFF Polska and its subsidiaries. Moreover, such function carried out the audits provided for by banking regulations on remuneration and incentive policies, outsourcers of important operating functions, ICAAP and ILAAP processes and on the Recovery Plan. As a function of the Parent Company, it carried out a general purpose audit on the subsidiary BFF Central Europe, in addition to the audits provided for the 2019 Audit Plan.

The Head of the Internal Audit function is also responsible for the internal reporting system (so-called whistle-blowing process) in accordance with the reference banking regulations.

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.

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 of 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 that the Bank's organizational and control system—including the foreign branches in Spain, Portugal and Poland—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 Supervisory Body's members changed during the first half of 2019: at the date of this Report, the Supervisory Body consisted of two external members, one of whom acts as Chair, and one internal member (the Head of the Internal Audit function).

As far as BFF Banking Group's administrative liability is concerned, the following should be noted:
- the Spanish subsidiary BFF Finance Iberia adopted its own Organizational Model in accordance with Article 31-bis of the Spanish Penal Code, similar in its structure to the Bank's 231 Organizational Model (general section, specific section on activities at risk and information flows), with an independent, single-person Supervisory Body;
- the Polish subsidiary BFF Polska and its subsidiaries adopted specific guidelines to govern "anti-corruption" issues, with the identification of a relevant, single-person body, represented by BFF Polska's Compliance and AML function.

Systems Development

In 2019, various initiatives were implemented to develop the Group's business in new markets, to increase the market share where the Group already has a presence, and to make internal processes and IT systems more efficient.

More specifically, the following main projects were implemented in 2019:
- start of operations relating to the purchase of non-recourse receivables in France by the Bank, based on the regulations on the freedom to provide services;
- start of online deposit-taking activities by the Bank in Poland through a new branch;
- start of online deposit-taking activities by the Bank in the Netherlands and Ireland through the Bank's Spanish branch and based on the regulations on the freedom to provide services;
- development of new software systems, including aimed at making the contract preparation and approval process automatic, at Asset Liability Management, as well as at managing Group companies' compliance with relevant regulations.

Change in Staff Headcount

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

At December 31, 2019, the total number of Bank employees amounted to 289 staff members, of which: 235 in Italy, 8 at the BFF branch in Portugal, 9 at the BFF branch in Madrid, 37 in Poland.

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

Category	2018 Italy	2018 Spain	2018 Poland	2018 Portugal	2018 **Total**	2019 Italy	2019 Spain	2019 Poland	2019 Portugal	2019 **Total**
Senior Executives/Executives	15	0	0	-	**15**	18	-	-	-	**18**
Managers/Middle Managers/Coordinators	20	3	0	1	**24**	37	4	7	2	**50**
Professionals/Specialists	182	5	0	2	**189**	180	5	30	6	**221**
Total by country	**217**	**8**	**0**	**3**	**228**	**235**	**9**	**37**	**8**	**289**

Share Performance

BFF shares (ISIN code IT0005244402) have been traded on the Mercato Telematico Azionario (MTA) of Borsa Italiana in the Blue Chips segment since April 7, 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

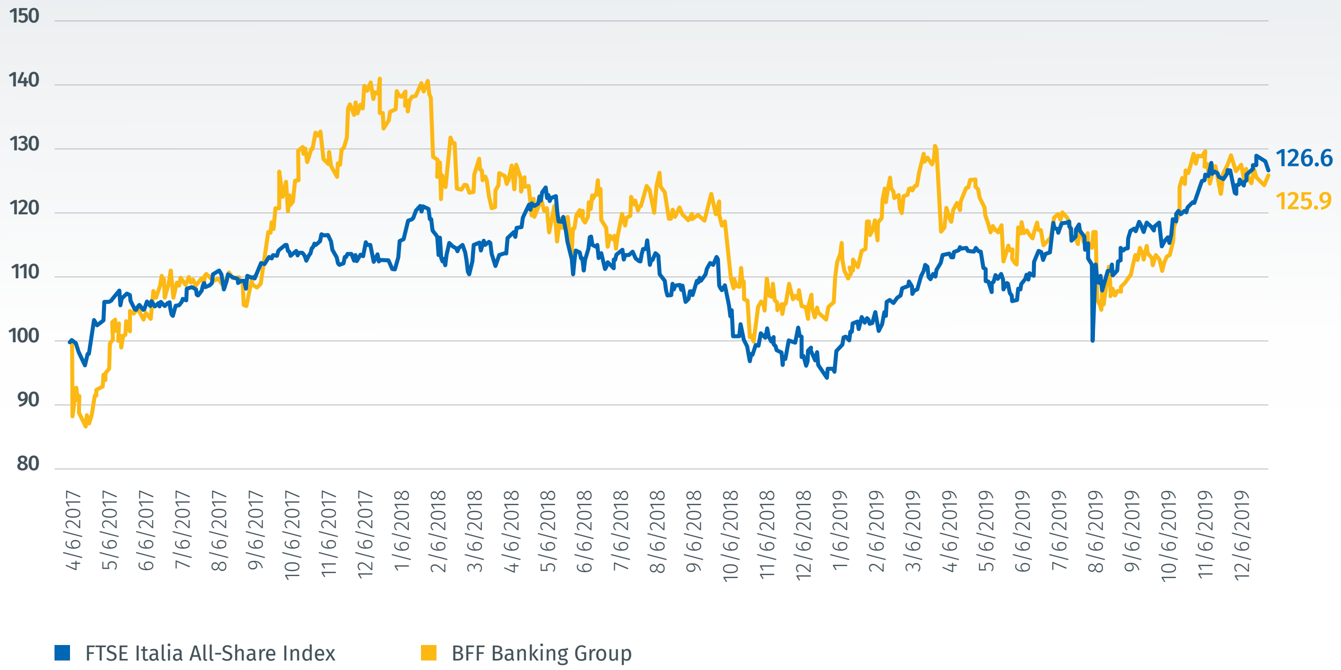
and of the following STOXX indexes:

- EURO STOXX Total Market
- EURO STOXX Total Market ESG-X
- EURO STOXX Total Market Financial Services
- EURO STOXX Total Market Financials
- EURO STOXX Total Market General Financial
- EURO STOXX Total Market Small
- EURO STOXX Total Market Value
- EURO STOXX Total Market Value Small
- STOXX All Europe Total Market
- STOXX Developed Markets Total Market
- STOXX Developed Markets Total Market ESG-X
- STOXX Developed Markets Total Market Small
- STOXX Developed and Emerging Markets Total Market
- STOXX Europe IPO (60 months)
- STOXX Europe TMI Value
- STOXX Europe TMI Value Small
- STOXX Europe Total Market
- STOXX Europe Total Market ESG-X
- STOXX Europe Total Market Financial Services
- STOXX Europe Total Market Financials
- STOXX Europe Total Market General Financial
- STOXX Europe Total Market Small
- STOXX Europe ex UK Total Market
- STOXX Europe ex UK Total Market Small
- STOXX Global Total Market
- STOXX Italy Total Market

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

The share price at December 30, 2019 (last trading day in 2019) was €5.34, increasing by 13.6% compared to the IPO share placement price of €4.7. Since listing, the Bank has distributed total gross dividends of €1.031 per share (€0.492 per share in April 2018 and €0.539 per share in April 2019). 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 30, 2019 compared to the placement price was 25.9%. The FTSE Italia All-Share Index total return was 26.6% in the same period.

Total Return (Rebased on 100)



Main Balance Sheet Items

The key items in the 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	12/31/2018	12/31/2019	Change
Government securities - (HTC&S)	160,592	82,748	(77,844)
Equity investments	17	17	0
Equity securities	147	147	0
Total	**160,756**	**82,912**	**(77,844)**

The item mainly includes government securities purchased by Banca Farmafactoring S.p.A. to hedge liquidity risk and to optimize the cost of money, for a total face value of €82 million. The average duration of such securities is 35.4 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, 2019, the negative reserves on HTC&S government securities amounted to approximately €80 thousand, net of taxes.

Financial assets measured at amortized cost

Amounts in € thousands

Items	12/31/2018	12/31/2019	Change
Government securities - (HTC)	948,206	996,022	47,816
Due from banks	47,345	102,123	54,778
Due from customers	2,938,845	3,347,185	408,340
Total	**3,934,396**	**4,445,330**	**510,934**

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 the Bank of Italy Circular no. 262, in compliance with the new IFRS 9.

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 €958 million. The average duration of such securities is 25.9 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 were 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, 2019 amounted to €1,008 million, with a positive difference, after tax, over the carrying amount at the same date, of approximately €7.7 million that has not been recognized in the financial statements.

"Due from banks" consists of current account balances of Banca Farmafactoring at the end of the year as well as receivables due from a leading credit institution for tax receivables transferred back. The item includes €2,192 thousand in the mandatory reserve deposit with DepoBank, as Banca Farmafactoring S.p.A. is an indirect participant in that system, and €6,105 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.

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 collection percentages and 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 2019, 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 2019, the Bank added more depth to its time series by including the reference basis for 2019 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 2020, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times. Late payment interest for tax receivables has been fully recognized because of its particular nature and the characteristics of the relevant counterpart as well as based on evidence of collection.

Credit quality

In order to correctly recognize its credit exposures, with the goal of—among others—identifying any potential impairment losses on financial assets in accordance with IFRS 9, the Bank classifies exposures as Performing and Non-Performing.

Non-Performing exposures, whose overall gross amount was €90.8 million at December 31, 2019, with impairment losses totaling €2.0 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, 2019, the total non-performing loans of the Bank, net of impairment, amounted to €58.2 million, of which €5.7 million purchased already impaired. Among these non-performing exposures, €57.7 million (99% of the total) concerned municipalities and provincial governments in financial distress.

Gross non-performing loans amounted to €60.2 million and were adjusted to the tune of €2.0 million. Among these gross NPLs, €0.1 million concerned municipalities and provincial governments in financial distress.

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 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, 2019, gross exposures classified as unlikely to pay totaled €0.2 thousand; adjustments were zero, thus determining a net amount of €0.2 thousand.

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, 2019, total net past due exposures amounted to €30.6 million for the whole Banking Group, of which 96.4% referring to public administration counterparties and public sector companies of the countries where the Bank operates.

The Bank's gross exposures totaled €30.6 million and relevant adjustments amounted to €40 thousand.

In 2019 credit quality remained good: total net non-performing loans amounted to €58.2 million, thus increasing compared to 2018, mainly due to the increase in purchases of non-recourse receivables due from local entities. The ratio of net NPLs to receivables due from customers was 1.7%, up from 1.4% in 2018.

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 Bank'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

	12/31/2018			12/31/2019		
Type	Gross amount	Adjustments	Net amount	Gross amount	Adjustments	Net amount
Impaired exposures purchased performing (Stage 3)	68,649	(2,919)	65,730	84,921	(1,774)	83,147
Impaired exposures purchased non-performing (Stage 3)	10,561	(2,699)	7,862	5,879	(224)	5,655
Performing exposures (Stage 1 and 2)	2,867,439	(2,186)	2,865,252	3,263,156	(4,891)	3,258,265
Total	**2,946,648**	**(7,804)**	**2,938,844**	**3,353,957**	**(6,890)**	**3,347,067**

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

Property, plant and equipment and intangible assets

Amounts in € thousands

Property, plant and equipment	12/31/2018	Increase	Decrease	12/31/2019
Land	3,685	-	-	3,685
Buildings	6,495	2,012	(978)	7,528
Furniture and fixtures	140	86	(76)	150
Electronic systems	589	491	(573)	508
Other	191	1,379	(457)	1,112
Total	**11,101**	**3,968**	**(2,084)**	**12,983**

The Bank-owned buildings used by the Bank in its business activities were measured at cost.

The increase in buildings is mainly due to the recognition of company right-of-use assets, after the new IFRS 16 has become effective.

Amounts in € thousands

Intangible Assets	Life	12/31/2018	Increase	Decrease	12/31/2019
Goodwill					
Other intangible assets:	FINITE				
internally generated	INDEFINITE				
Other intangible assets:	FINITE	3,762	1,921	(1,885)	3,798
other	INDEFINITE				
Total		**3,762**	**1,921**	**(1,885)**	**3,798**

Intangible assets amounted to €3,798 thousand; they refer to investments in new multi-year programs and software.

Tax assets and liabilities

Amounts in € thousands

Items	12/31/2018	12/31/2019	Change
Tax assets	**31,840**	**29,486**	**(2,354)**
current	*25,873*	*21,740*	(4,133)
prepaid	*5,967*	*7,745*	1,778
Tax liabilities	**85,700**	**93,293**	**7,593**
current	*20,052*	*23,317*	3,265
deferred	*65,648*	*69,976*	4,328

Current tax assets totaled €21,740 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amounted to €23,317 thousand; they include the accrual of income taxes for the year of the Bank.
Deferred tax liabilities amounted to €69,976 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 Circular no. 262 of 2005, in compliance with the new IFRS 9, the item is broken down as follows:

Amounts in € thousands

Items	12/31/2018	12/31/2019	Change
Due to banks	806,238	581,995	(224,243)
Due to customers	2,428,379	2,813,010	384,631
Of which due to financial institutions	*230,497*	*258,359*	*27,862*
Debt securities issued	653,640	995,669	342,029
Total	**3,888,257**	**4,350,675**	**462,418**

"Due to banks" refers to loans granted by the banking system to the Bank.
"Due to financial institutions" mainly refers to cooperation agreements with financial entities other than banks.
"Due to customers" includes €1,354 million for the online deposit accounts Conto Facto, Cuenta Facto, and Lokata Facto, and €996 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 €956 million at December 31, 2019, for a total face value of €1,100 million.

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;
- the new senior preferred, unsecured bond, with Ba1 rating assigned by Moody's, issued by Banca Farmafactoring for a total amount of €300 million, with a duration of over 3 years.

Provisions for risks and charges

At December 31, 2019, "Provisions for risks and charges" totaled €7,119 thousand. They mostly include allocations to "Pension and other post-employment benefits" of €4,205 thousand.

Amounts in € thousands

Items	12/31/2018	Increase	Decrease	12/31/2019
Commitments and other guarantees provided	805	731		1,536
Employee benefits	3,829	1,849	(1,473)	4,205
Other provisions	615	763		1,378
Total	**5,249**	**3,343**	**(1,473)**	**7,119**

"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 BFF may face.

Main 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, 2019, the Bank's profit amounted to €65.2 million, compared to €73.4 million recognized in the prior-year period.

Net banking income

Amounts in € thousands

Items	12/31/2018	12/31/2019	Change
Maturity commissions and late payment interest on non-recourse receivables	164,236	153,068	(11,168)
Interest income on securities	5,493	6,292	799
Other interest	6,889	20,040	13,151
Interest income	**176,618**	**179,399**	**2,781**
Interest expense	(29,996)	(31,536)	(1,540)
Net fees and commissions	**6,751**	**6,326**	**(425)**
Dividends and similar income			
Gain (losses) on trading	2,613	(689)	(3,302)
Gain (losses) on hedge accounting	110	0	(110)
Gains (losses) on disposal or repurchase of:			0
a) financial assets measured at amortized cost		371	371
b) financial assets measured at fair value through OCI	386	(1)	(387)
Net banking income	**156,482**	**153,870**	**(2,612)**

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 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 €10.7 million at December 31, 2019 compared to €13.4 million at December 31, 2018.
At the end of 2019, the provision of off-balance-sheet late payment interest not recognized in profit or loss amounted to €577 million, i.e. 11% more than the figures recognized at the end of 2018 (€522 million). Of these €577 million, €527 million concern Italian debtors, €48 million Portuguese debtors, and €3 million Greek debtors. Of this interest, a total of €214 million was recorded in the income statement in current and prior years.

Interest income on securities, amounting to €6.3 million, originates from government securities classified in the HTC&S and HTC portfolios. They are measured at amortized cost, and interest calculated using the effective rate of return is recognized in the income statement.

Interest expense increased from €30.0 million at December 31, 2018 to €31.5 million at December 31, 2019. This increase in absolute terms is primarily due to the increase in outstanding amounts, and to the interest expense relating to loans denominated in zloty which are granted at a higher base rate.

Net fees and commissions show a €0.5 million decrease compared to the prior year, as presented in the following table.

Amounts in € thousands

Items	12/31/2018	12/31/2019	Change
Fee and commission income	8,243	8,114	(129)
Fee and commission expenses	(1,492)	(1,789)	297
Net fees and commissions	**6,751**	**6,326**	**(425)**

Gains on trading were negative and amounted to €0.7 million; they include the exchange differences on foreign currency loans, notably the loan payable in Polish zloty secured for the acquisition of BFF Polska Group, equal to €83 million at December 31, 2019.

Gains on disposal of securities refer to the sale of government securities in the HTC portfolio made during the reporting period, which generated a gain of €370 thousand, before the tax effect.

Administrative expenses

Amounts in € thousands

Items	12/31/2018	12/31/2019	Change
Personnel costs	25,512	31,848	6,336
Other administrative expenses	29,932	33,809	3,877
Total administrative expenses	**55,444**	**65,657**	**10,213**

The increase in this item can mainly be traced to an increased number of employees and to higher personnel costs over the year, to higher expenses incurred for training, and to the costs relating to the retention bonus paid to the CEO after the IPO.

This amount also includes the charges relating to the stock option plan assigned to selected beneficiaries and the stock grant plan assigned to all employees.

Other administrative expenses amounted to €33.8 million at December 31, 2019, showing an increase compared to 2018. They include the €0.9 million extraordinary contribution to the Single Resolution Fund for 2017, before taxes.

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

Going concern

In accordance with IAS 1, paragraph 24, the Bank assesses its ability to continue as a going concern by taking into account the trend of its main core indicators and available information about the future, covering at least 12 months after the reporting date.
In view of the aforementioned considerations, associated with the historical and prospective review of its earnings and its ability to access financial resources, the Bank will continue its operating activities on a going concern basis. Consequently, these financial statements are drawn up based on this assumption.

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

The data can be summarized as follows:
- growing trend 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

Items	12/31/2019	12/31/2018
Net interest margin	147.9	146.6
Net banking income	153.9	156.5
EBTDA	94.2	105.6
Profit for the year	**65.2**	**73.4**
ROE (Return On Equity) (%)	**27.6%**	**29.8%**
Net banking income / Non-recourse volumes (%)	4.46%	4.25%
Net interest margin / Interest and similar income (%)	82.4%	81.5%
NPLs (net of impairment) / Due from customers (%)	1.74%	1.37%
Own funds / Due from customers (%)	16.9%	15.12%
Leverage	20.3	17.7
Equity	**301.7**	**319.7**
Own funds	**352.7**	**298.6**

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, 2019 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 has prepared the "ICAAP/ILAAP 2017 Report" on internal processes for determining adequacy of capital and of liquidity risk governance and management systems.

Pillar III – Disclosure to the public
Pursuant to Article 433 of the CRR, banks shall publish the disclosures required by EU regulations at least on an annual basis, in conjunction with the date of publication of the financial statements.
Pillar III provisions establish specific periodic disclosure obligations concerning capital adequacy, risk exposure and the general features of the related systems for the identification, measurement and management of such risks.

The Bank 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 30 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 Bank 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 Bank is present.
The information to be published is defined by Appendix A, first part, Title III, Chapter 2 of the above Circular.

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 BFF 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 BFF Group to manage conflict of interests" (referred to as "Policy to manage conflicts of interests") and the "BFF Group Regulation for the management 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 Bank with associated parties.

The Regulation is aimed at overseeing the risk that proximity, if any, of such parties to the Bank'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 Regulation for the management of transactions with parties that may be in a conflict of interest and the Group Policy to manage conflicts of interest are communicated to the public via the Bank's website under the section Governance/Procedures and Regulations/Related-Party Transactions.
Information on related party transactions is provided in Part H of 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, 2019.

On January 14, 2020, BFF Luxembourg S.à r.l. (Centerbridge) informed that it completed the sale initiated on January 9, 2020 of 18,700,000 BFF shares, equivalent to 11.0% of the Bank's capital at the same date, through an accelerated book build. Following the sale, BFF Luxembourg S.à r.l.'s equity interest in BFF has fallen from 32.773% to 21.809% and the amendments to the essential information concerning the Shareholders' Agreement dated April 11, 2018 have been disclosed pursuant to Article 131, paragraph 2, of CONSOB Regulation no 11971/1999 as amended ("Issuers' Regulation"), in the section Investors > Share Info > Shareholders' Agreements of the Bank's website.

Furthermore, after this transaction, the condition provided for by the contract entered into between the Bank and the Chief Executive Officer and involving the payment of a Retention Bonus was met. The Bank committed to pay the Retention Bonus to the Chief Executive Officer in the event of a "Change in Control", i.e. if the stake directly or indirectly held by Centerbridge in BFF would fall below 25% of the Bank's share capital.

Please note that:
- At a meeting held on February 5, 2020, BFF Finance Iberia S.A.U.'s Board of Directors proposed distributing to Banca Farmafactoring S.p.A. the profit for the year 2019, amounting to €5,794,779, as well as €37,668,600 in Reserves, resulting in a combined total of €43,463,379. Such proposal was approved by the Sole Shareholder Meeting on February 13, 2020.
- At a meeting held on February 4, 2020, BFF Polska S.A.'s Supervisory Board proposed distributing €15,000,000 in dividends to Banca Farmafactoring S.p.A. out of the profits for the year 2019. Such proposal will be submitted to Sole Shareholder Meeting due on March 18, 2020.
- The Bank's Board of Directors has directed the Chief Executive Officer to approve said proposals at the Shareholders' Meetings of the subsidiaries. The resolutions of the Shareholders' Meetings will enable Banca Farmafactoring S.p.A. to recognize €58,463,379 in dividends as revenue for the first quarter of 2020.

Audit of the Guardia di Finanza

In May 2018, the Guardia di Finanza, Italy's Tax Police, began an audit for fiscal years 2013 through 2017. After completing the audit for the years ended December 31, 2013 and December 31, 2014, in October 2018 and October 2019, respectively, the Italian Tax Police issued a formal notice of assessment stating that “the audit reported no adverse findings” for both the fiscal years concerned. Therefore, the years 2013 and 2014 are to be considered closed for tax purposes, as the time period for assessing taxes has expired. In addition, in July 2019 the Italian Tax Police notified the Bank that the audit had been expanded to include the fiscal year 2018.

On January 29, 2020, the Bank was served a Formal Notice of Assessment (PVC, Processo Verbale di Constatazione in Italian) outlining the findings of the audits conducted by the Italian Tax Police with reference to the fiscal years from 2015 through 2018.

In said PVC, the Italian Tax Police examined, among other things, whether withholding taxes were duly paid on the dividends distributed to the Luxembourg-based parent BFF Luxembourg S.à r.l. in the fiscal years from 2016 through 2018, arguing that the Group did not correctly apply the reduced withholding tax rate of 1.375% in 2016 as well as the exemption for the subsequent fiscal years. No other objection was raised for the fiscal years covered by the audit.

Please note that, should the above objection lead to a tax assessment by the Italian Revenue Agency, the Bank will be entitled to seek recourse under the law against BFF Luxembourg S.à r.l. for the amount of taxes and interest due as per the law. Therefore, without prejudice to the above, the Bank did not consider it necessary to recognize any specific provision in the 2019 financial statements.

Covid 19 (“Coronavirus”)

Significant events after the end of the reporting period must include some factors that have recently emerged and may affect stability.

In particular, among others, we note the emergence and spread of Covid19 (the “Coronavirus”): in early 2020 it broke out in China and spread to other countries, negatively affecting their economies.

If such instability factors became significant, they could remarkably affect the country’s growth prospects, with repercussions on the economy and the financial markets because of the decisions taken by government authorities to limit the spread of the infection.
2019 financial statement balances will not be amended pursuant to IAS 10, because although the Coronavirus broke out in China close to year end, it has become a global health emergency since the end of January 2020.

At the time being and based on assessments made, this health emergency and its economic consequences are not deemed to impact Banca Farmafactoring’s future results, because the Bank has adopted all the necessary measures to guarantee business continuity—also through remote working procedures—and operations have not been interrupted.

Furthermore, the continuation of such a crisis could generate an increase in the demand of the Bank’s services, because the health system is in need of extra goods and resources during this period. Therefore, BFF could better play its role in supporting firms impacted by this scenario.

Treasury shares

At December 31, 2019, BFF owned 330,776 treasury shares, accounting for 0.194% of share capital.

At December 31, 2018, the Bank owned 41,552 treasury shares. In 2019:

- pursuant to the Shareholders' Meeting resolution of April 5, 2018 and after the launch of the purchase program authorized by the Board of Directors on February 8, 2019, as already disclosed in compliance with Regulation (EU) 2016/1052, the Bank acquired 319,752 treasury shares from February 8 to February 14, 2019. The treasury share purchase plan aimed 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 BFF Banking Group" adopted by the Group;
- the Bank granted 30,528 treasury shares (of which 21,803 to the CEO as per the MBO, 7,063 in relation to non-competition agreements, and 1,662 for the exercise of stock options).

BFF has not sold any treasury shares in the reporting period.

For further information, please refer to the relevant section in the Notes to the Financial Statements.

Other offices

BFF has an office in Rome, Via di San Basilio 41 (new offices since July 2019). The Bank opened a Spanish branch in Madrid in 2015 and a Portuguese branch in Lisbon in July 2018. Furthermore, in July 2019, the Polish branch in Lodz started its operations (new offices at Brama Miasta city gate in Lodz).

Business Outlook

As per the five-year strategic plan approved by the Bank's Board of Directors on May 29, 2019 ("BFF 2023" or the "Plan"), BFF Banking Group's goals up to 2023 include:

1. continue to develop the current core business and improve operating efficiency, so as to further strengthen the Group's leadership position in Italy, by
   - expanding the business in Southern Europe;
   - capturing the growth potential of BFF Polska's business in Central Eastern Europe;
   - strengthening the relationships with customers' headquarters and increasing cross-border deals;
   - expanding the business into other geographical areas;
   - expanding the target customer base to include smaller suppliers, leveraging off digital platforms;
   - widening the product offering to include segments and business lines adjacent to current operations.
2. continuing to optimize funding and capital, including through the start of operations of the Polish branch for online deposit-taking on September 19, 2019 and the provision of services—in compliance with regulations on the freedom to provide services—also in the Netherlands and Ireland through the Raisin platform as in Germany;
3. consolidating the existing business and/or expand into other market niches via acquisitions.

Growth opportunities for 2020 include opening a new branch in Greece—the Bank of Italy was notified of the Bank's intention on February 13, 2020. Further assessments to penetrate other European markets are also underway.

Appropriation of Banca Farmafactoring's Profit

Banca Farmafactoring's profit for the year ended December 31, 2019 amounted to €65,225,749. This figure includes, as mentioned before, the negative exchange rate effect arising from the revaluation of the loan payable in Polish zloty used for the acquisition of BFF Polska Group; the charges relating to the stock option plan assigned to selected beneficiaries and the stock grant plan assigned to all employees in the first half of 2019; the contribution to the European Single Resolution Fund (SRF) for 2017; non-recurring costs attributable to M&A transactions; the positive effect arising from the tax realignment of IOS Finance's goodwill; and costs relating to the retention bonus paid to the CEO after the IPO.

Consistently with the dividend policy approved by the Bank's Board of Directors, which allows to pay out to Shareholders the portion of the Group's consolidated net profit for the year not necessary to maintain a minimum Total Capital Ratio of 15% (calculated by considering the scope of the Banking Group, pursuant to the Consolidated Law on Banking and/or the CRR), the Banking Group intends to distribute €70,874,784 in dividends to Shareholders out of €93,156,528 in consolidated net profit for 2019. This overall amount may be paid out following the meeting of the Board of Directors scheduled for May 8, 2020 to approve the financial statements for the first quarter of 2020 after verifying whether the conditions as per Art. 2433-bis of the Italian Civil Code are met.

For the purposes of distributing said amount to Shareholders, the Board of Directors:

- Proposes distributing to Shareholders €12,411,405 out of Banca Farmafactoring S.p.A.'s profit for the year 2019, resulting in a €0.0727 dividend for each of the 170,602,717 shares outstanding.
- Commits to taking all actions—some of which are already under way (as explained below)—necessary to distribute an additional €58,463,379 as an advance payment of dividends out of the Bank's profit for the first quarter of 2020, in accordance with Art. 2433-bis of the Italian Civil Code. In this regard, to date—considering also the resolutions passed by the subsidiaries mentioned below—it appears reasonable to deem such a goal feasible, as no known events and/or circumstances are likely to negatively impact it.

In this regard, please note that:

- At a meeting held on February 5, 2020, BFF Finance Iberia S.A.U.'s Board of Directors proposed distributing to Banca Farmafactoring S.p.A. the profit for the year 2019, amounting to €5,794,779, as well as €37,668,600 in Reserves, resulting in a combined total of €43,463,379. Such proposal was approved by the Sole Shareholder Meeting on February 13, 2020.
- At a meeting held on February 4, 2020, BFF Polska S.A.'s Supervisory Board proposed distributing €15,000,000 in dividends to Banca Farmafactoring S.p.A. out of the profits for the year 2019. Such proposal will be submitted to Sole Shareholder Meeting due on March 18, 2020.
- The Bank's Board of Directors has directed the Chief Executive Officer to approve said proposals at the Shareholders' Meetings of the subsidiaries. The resolutions of the Shareholders' Meetings will enable Banca Farmafactoring S.p.A. to recognize €58,463,379 in dividends as revenue for the first quarter of 2020.

Considering the proposed appropriation of part of the Bank's profit for 2019, the Group is to set aside €52,814,344 in consolidated Tier 1 Capital.

The following proposal for the appropriation of Banca Farmafactoring's profit will be submitted to the Shareholders' Meeting of the Bank on April 2, 2020.

Proposal for the Appropriation of Banca Farmafactoring's Profit

Dear Shareholders,

The financial statements of the Company at December 31, 2019 show a profit of €65,225,749, which we propose to allocate as follows:

i) €52,814,344 to the Retained earnings reserve;
ii) €12,411,405 to Shareholders.

Shareholders will therefore be entitled to a dividend of €0.0727 for each of the 170,602,717 shares held (third ex-date: May 18, 2020).

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 as referred to in Article 83-quater, paragraph 3 of the Consolidated Law on Finance, at the end of the accounting date of May 19, 2020 (record date).

The aforementioned dividend-before tax provided for by the law-will be paid on May 20, 2020 (payment date).

* * *

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

"The Shareholders' Meeting of Banca Farmafactoring S.p.A., having examined the report on operations prepared by the Board of Directors,

resolved

i. to distribute to Shareholders part of the net profit for the year of €12,411,405, equal to €0.0727—before tax provided for by the law—for each of the 170,602,717 ordinary shares outstanding at the third ex-date (May 18, 2020). Such dividend includes the portion attributable to any treasury share held by the Company at the record date. Pursuant to Article 83-terdecies of Italian Legislative Decree no. 58 of February 24, 1998 (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary as referred to in Article 83-quater, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting date of May 19, 2020 (record date);
ii. to allocate the residual amount of €52,814,344 to the "Retained earnings reserve";
iii. that such dividend be paid as of May 20, 2020 (payment date). Payment will be made through authorized intermediaries with which shares have been registered in the Monte Titoli system.

On behalf of the Board of Directors
THE CHAIRMAN
(Salvatore Messina)

02

Financial Statements at December 31, 2019

BFF BANKING GROUP

Balance Sheet

Amounts in euros

Assets		12/31/2019	12/31/2018
10.	Cash and cash equivalents	78,303,395	99,456,450
30.	Financial assets measured at fair value through OCI	82,911,963	160,755,859
40.	Financial assets measured at amortized cost	4,445,329,811	3,934,396,480
	a) due from banks	*102,123,190*	*47,345,594*
	b) due from customers	*4,343,206,621*	*3,887,050,886*
70.	Equity investments	141,927,288	115,487,012
80.	Property, plant and equipment (*)	12,983,105	11,100,569
90.	Intangible assets	3,798,378	3,762,199
	of which		
	- goodwill	*0*	*0*
100.	Tax assets	29,485,660	31,840,480
	a) current	*21,740,273*	*25,872,800*
	b) deferred	*7,745,387*	*5,967,680*
120.	Other assets	8,225,068	9,028,769
	TOTAL ASSETS	**4,802,964,668**	**4,365,827,818**

(*) The item "Property, plant and equipment" includes right-of-use assets relating to leases recognized at December 31, 2019, in compliance with the new standard IFRS16. The figure recognized at December 31, 2018 does not include the effects arising from the application of the new standard, which is effective for annual periods beginning on or after January 1, 2019.

Amounts in euros

Liabilities and Equity		12/31/2019	12/31/2018
10.	Financial liabilities measured at amortized cost	4,350,674,741	3,888,257,146
	a) due to banks	*581,995,400*	*806,238,473*
	b) due to customers (*)	*2,813,010,037*	*2,428,378,977*
	c) debt securities issued	*955,669,304*	*653,639,696*
60.	Tax liabilities	93,292,599	85,700,811
	a) current	*23,317,072*	*20,052,590*
	b) deferred	*69,975,527*	*65,648,221*
80.	Other liabilities	49,361,085	66,102,156
90.	Employee severance benefits	843,205	848,841
100.	Provisions for risks and charges:	7,119,284	5,249,087
	a) commitments and guarantees provided	*1,536,118*	*805,294*
	b) pension and other post-employment benefits	*4,205,289*	*3,828,712*
	c) other provisions for risks and charges	*1,377,877*	*615,081*
110.	Revaluation reserves	3,791,125	(278,463)
140.	Reserves	102,400,120	115,820,526
150.	Share premium	693,106	0
160.	Share capital	131,326,409	130,982,698
170.	Treasury shares	(1,762,756)	(244,721)
180.	Profit (loss) for the period	65,225,749	73,389,737
	TOTAL LIABILITIES AND EQUITY	**4,802,964,668**	**4,365,827,818**

(*) The item “Financial liabilities measured at amortized cost – due to customers” includes the financial liability relating to leases recognized at December 31, 2019 in compliance with the new standard IFRS 16. The figure recognized at December 31, 2018 does not include the effects arising from the application of the new standard, which is effective for annual periods beginning on or after January 1, 2019.

Income Statement

Amounts in euros

Items		12/31/2019	12/31/2018
10.	Interest and similar income	179,399,428	176,617,819
	of which: interest income calculated using the effective interest rate method	149,360,456	146,610,496
20.	Interest and similar expenses	(31,535,855)	(29,995,836)
30.	**Net interest margin**	**147,863,573**	**146,621,983**
40.	Fee and commission income	8,114,233	8,243,356
50.	Fee and commission expenses	(1,788,649)	(1,492,202)
60.	**Net fees and commissions**	**6,325,584**	**6,751,154**
80.	Gains (losses) on trading	(689,409)	2,613,385
90.	Gains (losses) on hedge accounting	0	110,652
100.	Gains (losses) on disposal or repurchase of:		
	a) financial assets measured at amortized cost	371,090	(459)
	b) financial assets measured at fair value through OCI	(1,320)	385,750
120.	**Net banking income**	**153,869,518**	**156,482,465**
130.	Net adjustments/reversals of impairment for credit risk concerning:		
	a) financial assets measured at amortized cost	(2,645,993)	(1,759,147)
	b) financial assets measured at fair value through OCI	11,302	(8,318)
150.	**Net profit from financial activities**	**151,234,827**	**154,715,000**
160.	Administrative expenses:		
	a) personnel costs	(31,848,122)	(25,512,960)
	b) other administrative expenses	(33,808,714)	(29,932,022)
170.	Net allocations to provisions for risks and charges		
	a) commitments and guarantees provided	(725,642)	(335,649)
	b) other net allocations	(2,814,727)	(929,709)
180.	Net adjustments to/reversals of impairment of property, plant and equipment	(2,077,735)	(1,042,650)
190.	Net adjustments to/reversals of impairment of intangible assets	(1,884,986)	(1,703,682)
200.	Other operating income (expenses)	9,519,469	5,853,650
210.	**Operating costs**	**(63,640,457)**	**(53,603,022)**
260.	**Profit (loss) before tax from continuing operations**	**87,594,370**	**101,111,978**
270.	Income taxes on profit (loss) from continuing operations	(22,368,621)	(27,722,241)
280.	**Profit (loss) after tax from continuing operations**	**65,225,749**	**73,389,737**
300.	**Profit (loss) for the period**	**65,225,749**	**73,389,737**
	Basic earnings per share	**0,382**	**0,431**
	Diluted earnings per share	**0,366**	**0,425**

Statement of Comprehensive Income

Amounts in euros

Items		12/31/2019	12/31/2018
10.	**Profit (loss) for the period**	**65,225,749**	**73,389,737**
	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	(15,881)	17,675
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	(4,270)	
120.	Cash flow hedges	0	(194,156)
130.	Hedging instruments (not designated)		
140.	Financial assets (other than equity securities) measured at fair value through OCI	4,089,737	(4,237,866)
150.	Non-current assets and disposal groups held for sale		
160.	Portion of revaluation reserves from equity investments measured using the equity method		
170.	**Total other comprehensive income, after tax**	**4,069,587**	**(4,414,347)**
180.	**Comprehensive income (Items 10+170)**	**69,295,337**	**68,975,390**

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								Equity at 12/31/2018
							Equity transactions							
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income for the year 2018	
Share capital:														
a) ordinary shares	130,982,698		130,982,698											130,982,698
b) other shares														0
Share premium														0
Reserves														
a) from profits	115,829,083		115,829,083			(4,215,145)								111,613,938
b) other	2,668,067		2,668,067			(5,267)						1,543,788		4,206,588
Revaluation reserves	3,920,581	215,303	4,135,884										(4,414,347)	(278,463)
Equity instruments														0
Treasury shares								(244,721)						(244,721)
Profit (loss) for the year	79,477,696		79,477,696		(79,477,696)								73,389,737	73,389,737
Equity	**332,878,125**		**333,093,428**	**0**	**(79,477,696)**	**(4,220,412)**	**0**	**(244,721)**				**1,543,788**	**68,975,390**	**319,669,777**

Amounts in euros

At 12/31/2019

	Balance at 12/31/2018	Change in opening balance	Balance at 01/01/2019	Retained earnings (accumulated losses)		Change during the year								Equity at 12/31/2019
							Equity transactions							
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income for the year 2019	
Share capital:														
a) ordinary shares	130,982,698		130,982,698				343,711							131,326,409
b) other shares														0
Share premium							693,106							693,106
Reserves														
a) from profits	111,613,938		111,613,938	399,658	(18,763,155)	2,381,625								95,632,066
b) other	4,206,588		4,206,588			1,486,811	662,012					412,644		6,768,054
Revaluation reserves	(278,463)		(278,463)										4,069,587	3,791,125
Equity instruments														0
Treasury shares	(244,721)		(244,721)			163,644		(1,681,679)						(1,762,756)
Profit (loss) for the year	73,389,737		73,389,737	(399,658)	(72,990,079)								65,225,749	65,225,749
Equity	**319,669,776**		**319,669,777**	**0**	**(91,753,234)**	**4,032,080**	**1,698,829**	**(1,681,679)**				**412,644**	**69,295,337**	**301,673,754**

Statement of Cash Flows Indirect Method

Amounts in euros

	Amount	
A. OPERATING ACTIVITIES	12/31/2019	12/31/2018
1. Operations	**73,694,936**	**77,992,282**
- profit or loss for the period (+/-)	65,225,749	73,389,737
- capital gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)		
- capital gains/losses on hedge accounting (-/+)		
- net adjustments/reversals of impairment for credit risk (+/-)	2,636,268	1,759,147
- net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-)	3,962,721	2,746,332
- net allocations to provisions for risks and charges and other expenses/income (+/-)	1,870,197	97,066
- unpaid taxes and tax credits (+/-)		
- net adjustments to/reversals of impairment of discontinued operations, net of the tax effect (+/-)		
- other adjustments (+/-)		
2. Liquidity generated/absorbed by financial assets	**429,193,037**	**279,634,900**
- financial assets held for trading	0	0
- financial assets designated at fair value		
- other financial assets mandatorily measured at fair value		
- financial assets measured at fair value through OCI	(81,933,633)	63,544,457
- financial assets measured at amortized cost	466,458,619	384,033,911
- other assets	44,668,052	(167,943,468)
3. Liquidity generated/absorbed by financial liabilities	**457,656,015**	**306,405,178**
- financial liabilities measured at amortized cost	464,275,491	276,774,057
- financial liabilities held for trading	0	0
- financial liabilities designated at fair value		
- other liabilities	(6,619,476)	29,631,120
Net liquidity generated/absorbed by operating activities	**102,157,914**	**104,762,560**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	0	0
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment		
- sale of intangible assets		
- sale of business branches		
2. Liquidity absorbed by	**(31,212,874)**	**(2,296,548)**
- purchase of equity investments	(26,440,276)	0
- purchase of property, plant and equipment	(2,851,433)	(270,227)
- purchase of intangible assets	(1,921,165)	(2,026,321)
- purchase of business branches		
Net liquidity generated/absorbed by investing activities	**(31,212,874)**	**(2,296,548)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(1,381,679)	(244,721)
- issue/purchase of equity instruments	1,036,817	
- distribution of dividends and other	(91,753,234)	(83,692,841)
Net liquidity generated/absorbed by funding activities	**(92,098,095)**	**(83,937,562)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**(21,153,055)**	**18,528,450**

Reconciliation

Amounts in euros

Items	Amount	
	12/31/2019	12/31/2018
Cash and cash equivalents at the beginning of the period	99,456,450	80,928,000
Total net liquidity generated/absorbed during the period	(21,153,055)	18,528,450
Cash and cash equivalents: effect of change in exchange rate		
Cash and cash equivalents at the end of the period	**78,303,395**	**99,456,450**

Notes to the Financial Statements

Dear Shareholders,
the Notes are arranged in the following order:

Part A - Accounting Policies

A.1 – GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

The financial statements at December 31, 2019 have been prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the IASB, endorsed by the European Commission, as provided for by Regulation (EC) no. 1606 of July 19, 2002 governing the application of IASs/IFRSs and related interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period.

IFRSs have been applied based on the Framework for the preparation and presentation of consolidated 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 financial statements at December 31, 2019 were prepared in accordance with the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005 "Banks' financial statements: layout and preparation", as subsequently amended.

The financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity 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, which is the functional currency of the Group.

All amounts included in the 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 Bank, and after examining the risks to which it is exposed, Directors have not identified any issue that could raise doubts on the Bank'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 in 2019

The following standards, interpretations and amendments are effective in 2019 and beyond:

IFRS 16 – Leases

Regulatory requirements

The new standard aims to improve the accounting for leases, 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 changes the accounting substantially for lessees, as it eliminates a lessee's classification of leases as either operating leases or 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 balance sheet as if it was owned. The relevant financial liability shall also be recognized.
b) At the commencement date, a lessee shall measure the financial liability at the present value of the lease payments agreed by the parties to use the asset over the term of the contract that is reasonably certain. The initial measurement of the right-of-use shall be equal to the value of the financial liability, less some specific items—e.g., those relating to the direct costs incurred in obtaining the lease.
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 where expressly stated. Where the rate is not expressly stated, reference is made to the cost of funding for the period; in addition, the liability is reduced by the amount of lease payments made during the reporting period
d) When lease payments are made, the financial liability is reduced by that amount.

The scope of this standard does not include 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, conventionally assumed to correspond to 5,000 euros, or less). For such contracts, the lessee may elect not to apply 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).

With respect to the first-time adoption (FTA), the lessee was given one of two options for the transition:

- applying the standard retrospectively to each prior reporting period presented applying IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors – "Full Retrospective Approach". In this case, the lessee shall restate comparative information in the financial statements of the reporting period in which it first applies the standard;
- applying the standard retrospectively with the cumulative effect of applying the standard recognized at the date of initial application, without restating comparative information in the financial statements of the reporting period in which it first applies IFRS 16 – "Modified Retrospective Approach".

Banca Farmafactoring S.p.A.'s decisions

Banca Farmafactoring S.p.A. (hereinafter also referred to as the "Bank" and "BFF"), including with the help of external advisors, launched a project in 2018 to understand and measure the qualitative and quantitative impacts of the first-time adoption of the new accounting standard IFRS 16.

Specifically, the project consisted of two main stages:
- Assessment: in which the Group i) defined a masterplan and the project's governance, and ii) identified the scope of the project;
- Gap Analysis: in which the Group i) defined specific checklists with a series of information required of subsidiaries and branches, essentially based on the requirements under the new standard; ii) gathered qualitative and quantitative information from said entities; iii) examined and assessed the above information, and measured the accounting impacts of the first-time adoption of the standard for the parent as well as both subsidiaries and branches, based on the methodological choices presented below.

In adopting the new accounting standard, BFF elected to apply the new accounting model to all leases with the exception of those for which the underlying asset is of low value (less than 5,000 euros) or that have a short lease term (12 months or less).

For the purposes of the first-time adoption (FTA) of IFRS 16, among the transitional options allowed under the accounting standard, on January 29, 2019 the Board of Directors resolved that the company adopt the "Modified Retrospective Approach".
Under this approach, a) the Bank does not need to apply the standard retrospectively (therefore considering complex comparative information), and b) the measurement of the right-of-use asset is considered aligned with the lease liabilities (i.e., the remaining lease payments accruing to the lessor and discounted as appropriate).

Lease term

The lease term is the period for which the Bank has the right to use the underlying asset, considering also: (i) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (ii) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. At the date of transition and the commencement date of each lease entered into on or after January 1, 2019, the Bank defined the lease term, based on the facts and circumstances existing at such date and impacting the reasonable certainty that the options included in the lease agreements will be exercised.

Discount rate

At the date of initial application of the new accounting standard, the Bank measured the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The incremental borrowing rate used is BFF Banking Group's cost of funding for the year 2018, amounting to 1.89%.

Effects of the first-time adoption of IFRS 16

Based on the mapping of leases at the date of first-time adoption of the new accounting standard, and considering the exceptions for low-value and short-term leases, the impact on the balance sheet at January 1, 2019 was as follows:
A) Property, plant and equipment - Right-of-use: €2.0 million
B) Financial liabilities measured at amortized cost – Lease liabilities: €2.0 million.
Therefore, the first-time adoption of the standard had no impact on equity as, following the decision to adopt the "Modified Retrospective Approach" (option B), at the date of initial application assets and liabilities are matched in terms of amount.

The economic effects of applying the new standard IFRS 16 are included in the scope of the financial statements at December 31, 2019. For more details on the accounting impacts related to Property, plant and equipment and Financial liabilities measured at amortized cost, please refer to the relevant accounting policies.

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 IFRS 9.
The above amendments did not impact the Bank's accounts.

IFRIC 23 – Uncertainty over Income Tax Treatments

Adopted by Regulation (EU) 2018/1595, the interpretation IFRIC 23 specifies how to apply IAS 12 recognition and measurement requirements in the event of uncertainty in accounting for income taxes. In this case, the entity shall recognize and measure its current or deferred tax assets or liabilities by applying the requirements of IAS 12 based on taxable income and other amounts relevant for tax purposes determined by applying IFRIC 23
The above amendments did not impact the Group's accounts.

Annual Improvements to IFRS Standards 2015-2017 Cycle

Adopted by Regulation (EU) 2019/412, this document contains the following amendments to IFRSs:
- Amendments to IFRS 3 – Business Combinations: the amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, the transaction is a business combination achieved in stages.
- Amendments to IFRS 11 – Joint Arrangements: the amendments clarify that when a party that participates in, but does not have joint control of, a joint operation obtains joint control of the joint operation, it has to remeasure the previously held interest at fair value.
- Amendments to IAS 12 - Income Taxes: the amendments specify that an entity shall recognize the income tax consequences of dividends as defined in IFRS 9 when it recognizes a liability to pay a dividend.
- Amendments to IAS 23 - Borrowing Costs: according to these amendments, to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted

average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

Amendments to IAS 28 - Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures

Adopted by Regulation (EU) 2019/237, these amendments clarify that an entity shall apply IFRS 9 to financial instruments in an associate or joint venture to which the equity method is not applied without taking account of any adjustments to the carrying amount of such long-term interests.

Amendments to IAS 19 – Employee Benefits – Plan Amendment, Curtailment or Settlement

Adopted by Regulation (EU) 2019/402, these amendments clarify that, after a defined-benefit plan amendment, curtailment or settlement occurs, an entity should apply the updated assumptions from the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period.

Upcoming accounting standards and interpretations

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:

- Amendments to References to the Conceptual Framework;
- IFRS 17 – Insurance Contracts;
- Amendments to IFRS 3: Business Combinations;
- Amendments to IAS 1 and IAS 8: Definition of Material.

The potential repercussions of the upcoming application of these standards, amendments and interpretations on BFF's financial reporting are still being examined and assessed.

Section 3 – Events subsequent to the end of the reporting period

There are no events or facts subsequent to December 31, 2019 such as to require an adjustment to the results recognized at the end of the reporting period.

Audit of the Guardia di Finanza

In May 2018, the Guardia di Finanza, Italy's Tax Police, began an audit for fiscal years 2013 through 2017. After completing the audit for the years ended December 31, 2013 and December 31, 2014, in October 2018 and October 2019, respectively, the Italian Tax Police issued a formal notice of assessment stating that "the audit reported no adverse findings" for both the fiscal years concerned. Therefore, the years 2013 and 2014 are to be considered closed for tax purposes, as the time period for assessing taxes has expired. In addition, in July 2019 the Italian Tax Police notified the Bank that the audit had been expanded to include the fiscal year 2018.

On January 29, 2020, the Bank was served a Formal Notice of Assessment (PVC, *Processo Verbale di Constatazione* in Italian) outlining the findings of the audits conducted by the Italian Tax Police with reference to the fiscal years from 2015 through 2018.
In said PVC, the Italian Tax Police examined, among other things, whether withholding taxes were duly paid on the dividends distributed to the Luxembourg-based parent BFF Luxembourg S.à r.l. in the fiscal years from 2016 through 2018, arguing that the Group did not correctly apply the reduced withholding tax rate of 1.375% in 2016 as well as the exemption for the subsequent fiscal years. No other objection was raised for the fiscal years covered by the audit.

Please note that, should the above objection lead to a tax assessment by the Italian Revenue Agency, the Bank will be entitled to seek recourse under the law against BFF Luxembourg S.à r.l. for the amount of taxes and interest due as per the law. Therefore, without prejudice to the above, the Bank did not consider it necessary to recognize any specific provision in the 2019 financial statements..

On January 14, 2020, BFF Luxembourg S.à r.l. (Centerbridge) informed that it completed the sale initiated on January 9, 2020 of 18,700,000 BFF shares, equivalent to 11.0% of the Bank's capital at the same date, through an accelerated book build. Following the sale, BFF Luxembourg S.à r.l.'s equity interest in BFF has fallen from 32.773% to 21.809% and the amendments to the essential information concerning the Shareholders' Agreement dated April 11, 2018 have been disclosed pursuant to Article 131, paragraph 2, of CONSOB Regulation no 11971/1999 as amended ("Issuers' Regulation"), in the section Investors > Share Info > Shareholders' Agreements of the BFF Group's website.

Please note that:
- At a meeting held on February 5, 2020, BFF Finance Iberia S.A.U.'s Board of Directors proposed distributing to Banca Farmafactoring S.p.A. the profit for the year 2019, amounting to €5,794,779, as well as €37,668,600 in Reserves, resulting in a combined total of €43,463,379. Such proposal was approved by the Sole Shareholder Meeting on February 13, 2020.
- At a meeting held on February 4, 2020, BFF Polska S.A.'s Supervisory Board proposed distributing €15,000,000 in dividends to Banca Farmafactoring S.p.A. out of the profits for the year 2019. Such proposal will be submitted to the Sole Shareholder Meeting due on March 18, 2020.
- The Bank's Board of Directors has directed the Chief Executive Officer to approve said proposals at the Shareholders' Meetings of the subsidiaries. The resolutions of the Shareholders' Meetings will enable Banca Farmafactoring S.p.A. to recognize €58,463,379 in dividends as revenue for the first quarter of 2020.

Covid 19 ("Coronavirus")

Significant events after the end of the reporting period must include some factors that have recently emerged and may affect stability.
In particular, among others, we note the emergence and spread of Covid19 (the "Coronavirus"): in early 2020 it broke out in China and spread to other countries, negatively affecting their economies.

If such instability factors became significant, they could remarkably affect the country's growth prospects, with repercussions on the economy and the financial markets because of the decisions taken by government authorities to limit the spread of the infection.
2019 financial statement balances will not be amended pursuant to IAS 10, because although the

Coronavirus broke out in China close to year end, it has become a global health emergency since the end of January 2020.

At the time being and based on assessments made, this health emergency and its economic consequences are not deemed to impact Banca Farmafactoring's future results, because the Bank has adopted all the necessary measures to guarantee business continuity—also through remote working procedures—and operations have not been interrupted.
Furthermore, the continuation of such a crisis could generate an increase in the demand of the Bank's services, because the health system is in need of extra goods and resources during this period. Therefore, BFF could better play its role in supporting firms impacted by this scenario.

Section 4 – Other issues

Audit of the Bank of Italy as Supervisory Authority

Please note that between September 24 and December 21 2018, the Bank of Italy conducted an audit whose findings led the Supervisory Body to issue a positive opinion and were presented to the Bank's Board of Directors on April 8, 2019.
On that occasion, the Bank of Italy requested that the audit report be submitted to the consideration of the Bank's bodies with strategic supervision, management and control functions at a meeting held specifically for that purpose, inviting them to comment on the findings and observations raised within 30 days, disclosing also any resulting actions already taken or to be taken.
In a request dated April 9, 2019, BFF asked to extend the deadline originally set by the Supervisory Body by 30 days, so as to provide the above comments in due time and manner. In a subsequent communication, the Bank of Italy granted this request.
On May 29, 2019, BFF submitted its comments on the audit findings to the Supervisory Body, presenting the actions taken in the meantime and/or to be taken to address the observations raised by the Bank of Italy as necessary and appropriate.

Statutory 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.

Authorization for issue

Pursuant to IAS 10 par. 17, please note that Banca Farmafactoring S.p.A.'s Board of Directors authorized these financial statements for issue on February 25, 2020.

A.2 - MAIN ITEMS OF THE FINANCIAL STATEMENTS

Disclosure of the accounting policies adopted to prepare the financial statements at December 31, 2019, with reference to the criteria for recognizing, classifying, measuring and derecognizing the main assets and liabilities as well as for recognizing revenues and costs, is provided below along with other information.

Financial assets

With respect to financial assets, the accounting standard IFRS 9 divides them into three 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.

2 – Financial assets measured at fair value through OCI

Classification criteria

According to IFRS 9, a financial asset is included in this category if both of the following conditions are met:
a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTC&S business model); and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (meeting the SPPI test).

In 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.

Specifically, the main items in this category are:
- government securities classified in the HTC&S portfolio and that passed the SPPI test,
- the equity investment in Nomisma S.p.A. (since this company is not subject to significant influence) and the contributions required by the FITD Voluntary Scheme.

- HTC&S *Business model*

Financial assets classified within the HTC&S business model are held to collect contractual cash flows and to sell the financial assets. Sales are therefore more frequent and significant compared to a Hold to Collect business model. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it.
These assets can be held for an indefinite period of time and can fulfill the need to access liquidity or respond to fluctuations in interest rates, exchange rates or prices.
Therefore, unlike in the case of financial assets measured at amortized cost (HTC), IFRS 9 does not require defining thresholds in terms of frequency and significance of sales for the HTC&S business model.

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

As far as the reclassification of financial assets is concerned (excluding equity securities, which are not eligible for reclassification), IFRS 9 allows an entity to reclassify its financial assets to other categories of financial assets if and only if the business model for managing those assets changes.
In such cases, which are expected to be very infrequent according to the standard, financial assets can be reclassified from FVOCI to one of the other two categories provided for by IFRS 9 (amortized cost or FVPL).

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

Recognition criteria

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.

Measurement criteria

With regard to debt securities, these assets are subsequently measured at fair value, with the interest recognized at amortized cost in the income statement under item 10 "Interest and similar income". Gains and losses arising from changes in fair value are recognized in equity under item 110 "Revaluation reserves" except for impairment losses, which is 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 110 "Revaluation reserves" are also reported in the statement of comprehensive income.
Equity instruments (shares) not traded in an active market, whose fair value cannot be determined reliably due to the lack or unreliability of the information needed for fair value measurement, are measured at their last reliably measured fair value.

Equity instruments included in this category are measured at fair value and the amounts recognized through equity (statement of comprehensive income), and do not need to be transferred to the income statement, even in case of sale. The only components of the equity instruments concerned which are recognized in the income statements are the relevant dividends..

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 without significant increase in credit risk since initial recognition), 12-month expected credit losses are recognized at the initial recognition date and at each subsequent reporting date.

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

For debt instruments, any circumstances indicating that the borrower or issuer is experiencing financial difficulties such as to prejudice the collection of principal or interest constitute evidence of an impairment loss.
If there is objective evidence of impairment, the cumulative loss that was initially recognized in equity under item 110 “Revaluation reserves” is transferred to the income statement under item 130 “Net 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 loss already recognized in the income statement) and its current fair value.

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

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

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

Equity securities are not tested for impairment.

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

Classification criteria

According to IFRS 9, a financial asset is included in this category if both of the following conditions are met:
a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (HTC business model); and

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

On the basis of the accounting statements provided for by the 6th Update of Bank of Italy Circular no. 262 of December 22, 2005, this financial statement item includes:
- receivables due from banks;
- receivables due from customers, including debt securities classified in the HTC business model and that passed the SPPI test.

Receivables due from banks mainly refer to ordinary current accounts held by the Bank and those 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 the laws in force (Italian Legislative Decree 231/2002 "Implementation of Directive 2000/35/EC on combating late payments in commercial transactions").

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

Debt securities classified as HTC consist of government securities.

- HTC *Business model*

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

Not all assets shall necessarily be held to maturity. IFRS 9 provides the following examples of cases in which the sale of financial assets may be consistent with the HTC business model:
- sales are attributable to the increased credit risk of a financial asset;
- sales are infrequent (even if significant in terms of amount) or insignificant at an individual level and in aggregate form (even if frequent);
- sales take place close to the maturity of the financial asset and revenues from the sales are close to the amount of the remaining contractual cash flows.

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

Therefore, in the event of sales (consistently with the business model concerned), by virtue of common market practice, a percentage of significance for annual sales volumes has been defined, determined as the sum of the value of sales made during the year/the carrying amount of the HTC portfolio at the beginning of the year.
With respect to the frequency of sales, the Bank has defined a monthly threshold as specified in the RAF (Risk Appetite Framework), that is the framework that defines—consistently with the risk capacity, the business model, and the strategic plan—the risk appetite, risk tolerance, risk limits, risk governance policies, and the relevant processes required to define and implement them.

As far as the reclassification of financial assets is concerned, IFRS 9 allows an entity to reclassify its financial assets to other categories of financial assets if and only if the business model for managing those assets changes.
In such cases, which are expected to be very infrequent according to the standard, financial assets can be reclassified from amortized cost to one of the other two categories provided for by IFRS 9 (FVOCI or FVPL).
The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. Gains or losses arising from the difference between the amortized cost of a financial asset and its fair value are recognized in the income statement in the case of a reclassification to FVPL, or in equity, as part of the relevant revaluation reserve, in the case of a reclassification to FVOCI.

Recognition criteria

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

Specifically, non-recourse receivables:

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

As for financial assets related to loans originated by the Bank, they are initially recognized at the loan date. On initial recognition, the assets are measured at fair value of amounts issued, including transaction costs or income directly attributable to the instrument. Specifically, as far as receivables are concerned, the loan date usually coincides with the date of the relevant agreement. Should this not be the case, when entering into the agreement the Group shall recognize a loan commitment to be settled on the date the loan is originated.

HTC debt securities have fixed or determinable payments and a fixed maturity and may be used for repurchase agreements, loans or other temporary refinancing operations.
These assets are initially recognized at fair value on the settlement date. This amount usually corresponds to the consideration paid, including transaction costs and income.

Measurement criteria

After initial recognition, financial assets are measured at amortized cost, equal to the original amount, less repayment of principal and impairment losses, and increased by any reversal of impairment and amortization, calculated using the effective interest rate method, taking into account the difference between the amount disbursed and the amount repayable when due, relating to ancillary costs/income directly attributable to the individual receivable.
Specifically, non-recourse receivables purchased as part of the factoring activities carried out by the Bank are measured at amortized cost, determined based on the present value of estimated future

cash flows, with reference to both the principal and the late payment interest accruing as from the due date of the receivable and deemed recoverable.
By virtue of their nature, the new due date of such receivables is their expected collection date, determined at the time of pricing and formalized with the assignor in the assignment contract.

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 estimated reliably. In the case in question, consistently with the "Bank of Italy/Consob/Ivass Document no. 7 of November 9, 2016" on the "Treatment in the financial statements of late payment interest under Legislative Decree 231/2002 on non-recourse purchases of non-impaired receivables", BFF also included the estimate of recoverable late payment interest in the calculation of amortized cost, taking into account that:

- the business model and organizational structure envisage that the systematic recovery of late payment interest on non-impaired receivables purchased on a non-recourse basis 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 ancillary element of non-recourse purchase transactions, and has been considered for a complete analysis of the prospective profitability profiles.

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

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

The Bank carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets. IFRS 9 introduced the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. According to this concept, a loss does not necessarily have to occur before it is recognized in the financial statements; therefore, generally all financial assets will entail the recognition of a provision.
The approach adopted is represented by the general deterioration model, which envisages a three-stage classification. These stages reflect the deterioration of the credit quality of the financial instruments included within the scope of application of IFRS 9.
At each reporting date, the entity assesses whether there has been a significant change in credit risk compared to initial recognition. If so, this will result in a change of stage: the model is symmetrical, and assets can move between different stages.

For assets classified in Stage 1, the loss allowance relating to each individual financial asset is determined on the basis of 12-month expected credit losses (contractual cash flow shortfalls estimated by taking into account potential default in the following 12 months), while for assets classified in Stages 2 and 3 calculations are based on lifetime expected credit losses (contractual cash flow shortfalls estimated by taking into account the potential default over the residual life of the financial instrument).
If there is objective evidence of impairment and the asset is classified in Stage 3, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate of the financial asset.
The amount of the loss is determined on the basis of an individual assessment and then individually attributed to each position, accounting for forward-looking information and potential alternative recovery scenarios. Credit-impaired assets include financial instruments that have been assigned the status of bad loan, unlikely to pay, or past-due/overdrawn by more than 90 days in accordance with the Bank of Italy's rules, which are consistent with IAS/IFRS and European Supervisory provisions. The estimated future cash flows take into account the estimated recovery time and the estimated realizable value of any guarantees.

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

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

Derecognition criteria

Derecognition of a financial asset occurs when the contractual rights on cash flows deriving from the financial asset expire or if the entity transfers the financial asset and such transfer meets the eligibility criteria for derecognition.
Receivables sold are derecognized only if all the risks and rewards relating to such receivables were transferred.
On the other hand, if the risks and rewards are retained, the receivables sold will continue to be recognized in the financial statements, even though legal title to these assets is effectively transferred.

4 - Hedging

Recognition criteria

In compliance with IFRS 9, the Bank 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 fair value.
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 balance sheet 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 Bank, 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.

5 - Equity investments

Recognition criteria

Equity investments are initially recognized at the settlement date, if they are traded under regular way purchases or sales, otherwise they are recognized at the trade date.
Equity investments are initially recognized at cost.

Classification criteria

Equity investments are investments in other companies, generally represented by shares or quotas, classified as controlling or associate investments. Specifically:

- subsidiary: an entity over which the parent exercises dominant control, meaning the power to determine the financial and operating decisions of the entity and to obtain benefits from its activities;
- associate: an entity over which the investor has significant influence and which is not a subsidiary nor a joint venture for the investor.

Significant influence means that an investment is held of 20% or more of the voting power (directly or through subsidiaries) at the shareholders' meeting of the investee.

Measurement criteria and recognition of income components

Equity investments in non-consolidated subsidiaries are measured at cost, adjusted for impairment, if any.
If there is objective evidence that an equity investment has been impaired, the equity investment's recoverable amount is estimated by taking account of either the present value of the cash flows expected to be derived from the equity investment in the future, including upon disposal, or using the market multiple method instead of future cash flows (impairment test).
When there is insufficient information, the company's equity is considered as the value in use.
If the recoverable amount is lower than the carrying amount, the difference is recognized in the income statement under item 220 "Gains (losses) on equity investments".
If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, the relevant reversals are attributed to the same income statement item up to the cost of the equity investment recorded before the impairment.
Dividends from investee companies are recorded in the year in which they are subject to resolution under item 70 "Dividends and similar income".

Derecognition criteria

Equity investments are derecognized when the contractual rights to the cash flows arising from the equity investments expire or when the equity investments are sold, transferring substantially all of the risks and rewards of ownership.

6 - Property, plant and equipment

Classification criteria

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

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 160 b) "other administrative expenses," if they refer to assets used in the Group's business activities.

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

At the commencement date, the Bank, as lessee, shall recognize the "right-of-use (RoU) asset" at cost, which shall comprise: a) the amount of the initial measurement of the lease liability; b) any lease payments made at or before the commencement date, less any lease incentives received; c) any initial direct costs incurred by the lessee, i.e., incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for costs incurred by a manufacturer or dealer lessor in connection with a lease; and d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories".
The RoU asset referring to leases outstanding at the date of initial application of IFRS 16 was recognized under the "Modified Retrospective Approach".
The Bank does not consider VAT as a component of lease payments for the purposes of calculating IFRS 16 measures (RoU Asset and Lease Liability, for which reference should be made to the line item Financial liabilities measured at amortized cost).

Measurement criteria

Subsequent to initial recognition, property, plant and equipment is carried at cost, net of accumulated depreciation and impairment losses, if any.
With regard to the Bank, 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 180 "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.

With respect to the RoU asset, resulting from the application of IFRS 16, subsequent to the commencement date the Bank shall measure the Right of Use (RoU) asset by applying the cost model as follows: a) less any accumulated depreciation, calculated over a time horizon aligned with the lease term, considering any exercise of the options included in the lease agreements, and any accumulated impairment losses; b) adjusting for any remeasurement of the lease liability.

Derecognition criteria

An item of property, plant and equipment shall be derecognized on disposal or when permanently retired from use and no future economic benefits are expected from its disposal.

7 - Intangible assets

Classification criteria

Intangible assets are identifiable non-monetary assets without physical substance that are expected to be used for more than one year, controlled by the Bank and from which future economic benefits are likely to flow.
In the absence of one of the aforementioned characteristics, the cost to acquire or generate the asset internally is recorded as a cost in the period in which it was incurred.
Intangible assets mainly consist of software for long-term use.

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, net of accumulated amortization and impairment losses, if any.

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 190 "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.

Derecognition criteria

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

9 - Current and deferred taxes

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

The tax charge consists of the total amount of current and deferred income taxes, included in 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 tax assets and liabilities consists normally of the income statement item 270 "Income taxes on profit (loss) from continuing operations".

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

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

10 - Provisions for risks and charges

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;
- a reliable estimate can be made of the amount of the obligation.

As required by IAS 19, the provisions for risks and charges include the measurement of post-employment benefit obligations.
The measurement of such obligations in the financial statements is made, when necessary, based on actuarial calculations, by determining the charge at the measurement date based on demographic and financial assumptions.

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

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

Derecognition criteria

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

11 - Financial liabilities measured at amortized cost

Classification criteria

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

In addition, the payables incurred by the Bank as lessee under leases are also included.
Interest expense is recorded in the Income Statement under item 20 “Interest and similar expenses”.

Recognition criteria

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

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

Measurement criteria

The amounts due to banks and customers are measured at 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.

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

Derecognition criteria

Financial liabilities are derecognized when the obligation specified in the contract is extinguished or following a substantial change in the contractual terms of the liability.
The derecognition of debt securities issued also occurs in the event of repurchase of securities previously issued, even if they are intended for subsequent resale. The gains or losses on the recognition of the repurchase as an extinguishment are recognized in the income statement when the repurchase price of the bonds is higher or lower than their carrying amount. Subsequent disposals of own bonds on the market are treated as the placement of new debt.

15 - Other information

Treasury shares

The treasury shares held shall be deducted from equity. Similarly, their original cost and the gains or losses from their subsequent sale shall be recognized as changes in equity.

Employee severance benefits

As a result of the legislative framework introduced by Law no. 296 of 2006, the employee severance benefits accrued up to December 31, 2019 (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, 2019, 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 160 "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

On March 28, 2019, the Extraordinary Shareholders' Meeting of the Bank resolved to:
- amend Article 5 of the Company Bylaws, in order to:
- Empower the Board of Directors under Article 2443 of the Italian Civil Code, for a period of up to five years, to increase the share capital of the Bank without payment, in one or more installments, without requiring all shares to be subscribed, pursuant to Article 2349 of the Italian Civil Code, for a total maximum amount of €3,003,000.00. This will be achieved through the issue of up to a maximum of 3.9 million ordinary shares for the following purposes connected with the remuneration and incentive policies of BFF Banking Group:
  - (i) meeting balancing needs between the cash component and the financial instrument component potentially payable to the Group's Risk Takers as variable remuneration pursuant to the "Management by Objective" provisions in the *"Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of BFF Banking Group"*;
  - (ii) potentially granting shares to Group employees (within the scope of stock grant plans, for example); and
  - (iii) exercising cashless options under the SOP.
- Increase paid share capital for a maximum amount of €6,899,200 through issuing up to a maximum of 8,960,000 new shares, in one or more installments, without requiring all shares to be subscribed, with the exclusion of pre-emption rights pursuant to Article 2441 paragraphs 5 and 6 of the Italian Civil Code, for the purpose of servicing the Stock Option Plan (as approved at the Shareholders' Meeting of December 5, 2016, and as subsequently amended by the Ordinary Shareholders' Meeting of March 28, 2019), before the expiry date, being within 12 years of December 5, 2016 ("Capital Increase Against Payment").

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 Circular no. 285, art. 8.4 of the "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of BFF Banking Group" establishes that at least 50% of variable remuneration of so-called "Key Personnel" (or Risk Takers) must be paid in financial instruments, in particular:
(i) BFF's shares and related instruments, including the stock option plan; and
(ii) where possible, the other instruments identified in Delegated Regulation (EU) no. 527 of 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 BFF to the Risk Takers,
(i) both pursuant to the incentive system based on company and individual objectives (so-called "MBO"),
(ii) and in order to meet any payment obligations pursuant to non-competition agreements ("NCAs"), should in the future Risk Takers who have signed such agreements leave the Group.

Use of estimates and assumptions in the preparation of financial reporting

In accordance with IFRSs, the development of estimates by management is a prerequisite for the preparation of the financial statements at December 31, 2019. 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 financial statements at December 31, 2019 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 accrued on non-recourse receivables due to the Bank, based on an analysis of historical multi-year 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.

Measurement of impairment losses on financial assets

At each reporting date, in accordance with IFRS 9, financial assets other than those measured at fair value through profit or loss are tested to assess whether there is evidence that the carrying amount of the assets may not be fully recoverable. A similar analysis is conducted also for loan commitments and guarantees provided that fall within the scope subject to impairment in accordance with IFRS 9. If such evidence exists (so-called "evidence of impairment"), the financial assets concerned—consistently with any remaining assets of the same counterparty—are considered to be impaired and classified in Stage 3. The Group shall recognize adjustments equal to lifetime expected credit losses for these exposures, consisting in financial assets classified as bad loans, unlikely to pay, and exposures more than 90 days past due as per the Bank of Italy Circular no. 262/2005.

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

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

Stage Allocation Criteria:

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

Such assessment has the following consequences in terms of classification (or, more appropriately, staging) and measurement:
- if such an indication does not exist, the financial asset is classified in Stage 1. In this case, in accordance with international accounting standards and even in the absence of apparent impairment losses, the Group shall recognize 12-month expected credit losses on the specific financial instrument. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is an indication that credit risk has "increased significantly".

- if such an indication exists, the financial asset is classified in Stage 2. In this case, in accordance with international accounting standards and even in the absence of apparent impairment losses, the Group shall recognize adjustments equal to lifetime expected credit losses. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is no longer an indication that credit risk has "increased significantly".

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

To allocate exposures subject to impairment in stages, the Bank has adopted the following method, which can be summarized with two fundamental criteria:
- **Quantitative criterion**: definition of a relative threshold and an absolute threshold.
- **Qualitative criterion**: use of transfer logic triggers, i.e., identification of events triggering transfers between stages;

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, i.e., extensions of payment terms granted to the counterparty in light of the deterioration in its financial situation, shall be allocated to Stage 2. 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.

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 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. In the absence of transfer logic 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 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).

Impairment Criteria:

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

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

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

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

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

Below is a description of the Bank's methodological decisions for the purposes of measuring the above parameters and measures.

Probability of Default (PD)

The multi-period PD parameter is interpreted by the Bank by estimating a term structure of the probability of default starting from a defined stratification level (so-called risk bucket and rating). The multi-period PD also incorporates Point-In-Time conversion adjustments and forward-looking information.

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

The Group has adopted a model based mainly on external information sources (e.g., rating agencies). The 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:

- Bank'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 Bank's counterparties and products (technical forms) by type.

To calculate the PD, the Bank divides 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 is assigned according to the time series of external ratings provided by the ECAI employed and referring to sovereign and sub-sovereign counterparties. The rating is assigned based on an external assessment carried out on 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): the Bank considered the Bank of Italy's quarterly decay rate[5]
- **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 is 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 Bank 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.

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.

[5] *In accordance with the definition adopted by the Bank of Italy's Statistical Bulletin: "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)".*

Three scenarios were chosen to calculate PIT and FLI PD:

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

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

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

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

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

Loss Given Default (LGD)

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

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

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.

Exposure at Default (EAD)

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

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

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

The Bank has identified the following factors for the computation of lifetime EAD:
- type of exposure;
- due date.

From these distinguishing factors for Exposure at Default 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, lifetime EAD is defined using the repayment plan and its effective cash flows. Stochastic modelling is therefore not necessary for these transactions. If the repayment plan is not available at the reporting date (despite it being provided for by contract), the impairment is calculated by assuming a lifetime EAD for a bullet loan.

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 and total “control” on the exchanged goods or services is transferred. In the case in question, consistently with the “Bank of Italy/Consob/Ivass Document no. 7 of November 9, 2016” on the “Treatment in the financial statements of late payment interest under Legislative Decree 231/2002 on non-impaired non-recourse purchases of receivables”, BFF also included the estimate of late payment interest in the calculation of amortized cost, including those due from Tax Authorities. As a matter of fact, BFF has time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series are updated on an annual basis when the financial statements are prepared, in order to determine the 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.

With reference to the estimated total late payment interest that is expected to be collected by BFF, the time series were updated with collection amounts for the year 2019. This confirmed the suitability of the weighted average collection percentage of 45% already used for the preparation of the financial statements for the year ended December 31, 2018, with average collection times at an estimated 1,800 days. Late payment interest for tax receivables has been fully recognized because of its particular nature and the characteristics of the relevant counterpart as well as based on evidence of collection.

Interest income on debt securities in portfolio and interest expense on securities issued by BFF are recognized at amortized cost, i.e., by applying to the 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, 2019, 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.
Level 3 financial assets refer to the equity investment in Nomisma S.p.A. Società di Studi Economici, accounted for at cost, in the absence of other observable valuation inputs.

A.4.2 Measurement processes and sensitivity

At December 31, 2019, Banca Farmafactoring 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, 2019, as in 2018, 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

Amounts in € thousands

Financial assets/liabilities measured at fair value	12/31/2019			12/31/2018		
	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						
2. Financial assets measured at fair value through OCI	82,748	147	17	160,592	147	17
3. Hedging derivatives						
4. Property, plant and equipment						
5. Intangible assets						
Total	**82,748**	**147**	**17**	**160,592**	**147**	**17**
1. Financial liabilities held for trading						
2. Financial liabilities measured at fair value						
3. Hedging derivatives						
Total						

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)

Amounts in € thousands

	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	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance					17			
2. Increase								
2.1. Purchases								
2.2. Gains recognized in:								
2.2.1. Income Statement								
- 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:								
3.3.1 Profit or loss								
- of which capital losses								
3.3.2. Equity		X	X	X				
3.4. Transfers to other levels								
3.5 Other decreases								
4. Closing balance					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

Amounts in € thousands

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	12/31/2019				12/31/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	4,445,330	1,007,580		3,449,308	3,934,396	940,907		2,986,190
2. Property, plant and equipment held for investment								
3. Non-current assets and disposal groups held for sale								
Total	**4,445,330**	**1,007,580**		**3,449,308**	**3,934,396**	**940,907**		**2,986,190**
1. Financial liabilities measured at amortized cost	4,350,675	966,893		3,395,005	3,888,257	615,742		3,234,617
2. Liabilities associated with assets held for sale								
Total	**4,350,675**	**966,893**		**3,395,005**	**3,888,257**	**615,742**		**3,234,617**

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 – FAIR VALUE DISCLOSURE "DAY ONE PROFIT/LOSS"

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

Part B – Balance Sheet

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

ASSETS

Section 1 – Cash and cash equivalents – Item 10

€78,303 thousand

1.1 Cash and cash equivalents: breakdown

Amounts in € thousands

	Total 12/31/2019	Total 12/31/2018
a) Cash	1	1
b) Demand deposits with Central Banks	78,302	99,455
Total	**78,303**	**99,456**

The balance includes the cash on hand and unrestricted deposits with the Bank of Italy, amounting to €78,302 thousand.

Section 3 – Financial assets measured at fair value through OCI – Item 30

€82,912 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 €82 million.
They totaled €82.9 million, decreasing by €77.9 million compared to the previous year (€160.8 million). These securities earn interest at variable rates (CCT) and have residual maturity dates of maximum five years.
The securities are classified as HTC&S (Held to Collect and Sell) and, therefore, they are measured at fair value. Only the interest calculated using the effective rate of return is recognized in the income statement.
At the end of the reporting period, the value of securities is compared to their fair value and any difference is recognized in OCI and equity as part of the revaluation reserves, after tax.
At December 31, 2019, the negative reserves on the HTC&S government securities amounted to approximately €80 thousand, after tax.
During the reporting period, HTC&S securities were sold, realizing a negligible charge, 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 IFRS 9, any changes in value (with the exception of dividends) will directly impact 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%

Amounts in euros , at 12/31/2018

Registered office	Bologna - Strada Maggiore n. 44
Share capital	6,963,499.89 fully paid in
Equity	8,512,263
Profit (loss) for the period	667,811

3.1 Financial assets measured at fair value through OCI: breakdown by type

Amounts in € thousands

Items/Amounts	Total 12/31/2019			Total 12/31/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**82,748**			**160,592**		
1.1 Structured securities						
1.2 Other debt securities	82,748			160,592		
2. Equity securities		**147**	**17**		**147**	**17**
3. Loans						
Total	**82,748**	**147**	**17**	**160,592**	**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 12/31/2019	Total 12/31/2018
1. Debt securities	**82,748**	**160,592**
a) Central Banks	82,748	160,592
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	147	147
of which: insurance companies		
- 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	**82,912**	**160,756**

3.3 Financial assets measured at fair value through OCI: gross amount and total adjustments

Amounts in € thousands

	Gross amount				Total adjustments			
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Total partial write-offs ***
Debt securities	82,759				(11)			
Loans								
Total 12/31/2019	**82,759**				**(11)**			
Total 12/31/2018	**160,614**				**(22)**			
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

€4,445,330 thousand

This item is broken down as follows:
- receivables due from banks of €102,123 thousand;
- receivables due from customers of €4,343,207 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Held to Collect (HTC) securities portfolio of €996,022 thousand.

Due from banks

€102,123 thousand

At December 31, 2019, receivables due from banks mainly refer to transactions relating to the current accounts held by the Bank at the end of the reporting period, as well as other receivables due from a banking counterparty for tax receivables transferred back.

4.1. Financial assets measured at amortized cost: due from banks broken down by type

Amounts in € thousands

Type of transaction/ Amounts	Total 12/31/2019						Total 12/31/2018					
	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	**102,123**			**102,123**			**47,346**			**47,346**		
1. Loans												
1.1. Current accounts and demand deposits	20,806			X	X	X	5,048			X	X	X
1.2. Fixed-term deposits	9,294			X	X	X	9,004			X	X	X
1.3. Other loans:				X	X	X				X	X	X
- Reverse repos				X	X	X				X	X	X
- Lease financing activities				X	X	X				X	X	X
- Other	72,023			X	X	X	33,294			X	X	X
2. Debt securities												
2.1. Structured securities												
2.2. Other debt securities												
Total	**102,123**			**102,123**			**47,346**			**47,346**		

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

In particular, "current accounts and demand deposits" exclusively refer to current account balances at the end of the reporting period.

Restricted deposits mainly include the mandatory reserve deposit with Depobank (formerly ICBPI/ Nexi), as Banca Farmafactoring is an indirect participant in that banking system, and the amount 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.

Other loans relate to credit exposures that Banca Farmafactoring has with regards to banking counterparties for receivables transferred back.

This item does not include any impaired assets.

Due from customers

€4,343,207 thousand, including Held to Collect securities of €996,022 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 Circular no. 262, in compliance with the new IFRS 9.

This item therefore includes loans to customers of €4,343 million (mainly receivables due from debtors in relation to factoring activities) and €996 million in debt securities in the HTC portfolio.

BFF's receivables due from customers are measured at amortized cost, determined based on the present value of estimated future cash flows.
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 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.

The cumulative amount of late payment interest due to Banca Farmafactoring, but not yet collected, in relation to non-recourse receivables (the so-called Provision for late payment interest), amounted to €577 million, of which only €214 million were recognized in the income statement of the reporting period and in previous periods.

Debt securities classified in the HTC portfolio, equal to €996 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, 2019, 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 €958 million and fair value of €1,007 million, with a negative difference (before taxes) of around €7.6 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

€4,343,207

Amounts in € thousands

Type of transaction/ Amounts	Total 12/31/2019						Total 12/31/2018					
	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
1. Loans	**3,258,383**	**88,802**	**5,655**			**3,347,185**	**2,865,252**	**73,592**	**7,862**			**2,938,844**
1.1 Current accounts	2			X	X	X	1			X	X	X
1.2. Reverse repos				X	X	X				X	X	X
1.3. Mortgages				X	X	X				X	X	X
1.4. Credit cards, personal loans, salary-backed loans (cessione del quinto)				X	X	X				X	X	X
1.5. Lease financing activities				X	X	X				X	X	X
1.6. Factoring	2,328,603	87,509	5,655	X	X	X	2,294,226	69,655	7,862	X	X	X
1.7. Other loans	929,777	1,293		X	X	X	571,024	3,937		X	X	X
2. Debt securities	**996,022**			**1,007,580**			**948,206**			**940,907**		
2.1. Structured securities												
2.2. Other debt securities	996,022			1,007,580			948,206			940,907		
Total	**4,254,404**	**88,802**	**5,655**	**1,007,580**		**3,347,185**	**3,813,459**	**73,592**	**7,862**	**940,907**		**2,938,844**

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

The breakdown is as follows:

- The factoring business relating to 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 €2,328,603 thousand.
  Non-recourse receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued and accruing late payment interest is acquired upon purchase. These receivables include receivables sold, totaling €219,243 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 €29,851 thousand.
- Other performing loans due from customers amounted to €929,777 thousand; they mainly include:
  - accrued late payment interest of approximately €105,603 thousand; such amount has already been recognized in the income statement in the current and prior years and refers only to late payment interest accrued on principal already collected. Therefore, of the €214 million late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2019, €106 million refers to the item under review, while the remaining amount of €108 million was recognized under "factoring";
  - intercompany loans granted to the subsidiary BFF Finance Iberia and BFF Polska Group for an overall amount of €735.1 million;
  - amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €64,342 thousand;
- BFF's net "Impaired assets" amounted to a total of €88,802 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, 2019, the overall total of non-performing loans, net of impairment, amounted to €58,210 thousand, of which €5,655 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial governments in financial distress amounted to €57,659 thousand, accounting for 99.1% of the total; this case is classified as non-performing, in accordance with the indications given by the Supervisory Authority, despite the fact that BFF has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.
    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 €1,568 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €61,737 thousand and relevant adjustments totaled €3,526 thousand.
  - Unlikely to pay exposures: 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, 2019, gross and net exposures classified as unlikely to pay amounted to €0.2 thousand overall.
  - Net past due exposures totaled €30,591 thousand, of which €29,483 thousand, corresponding to 96.4%, attributable to public administration counterparties and public sector companies.

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

4.3 Financial assets measured at amortized cost: due from customers broken down by debtor/issuer

Amounts in € thousands

Type of transaction/ Amounts	Total 12/31/2019			Total 12/31/2018		
	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	**996,022**			**948,206**		
a) Public administration agencies	996,022			948,206		
b) Other financial companies						
of which: insurance companies						
c) Non-financial companies						
2. Loans due from:	**3,258,383**	**88,802**	**5,655**	**2,865,257**	**73,587**	**7,862**
a) Public administration agencies	2,399,364	87,308	5,655	2,382,023	55,532	7,862
b) Other financial companies	799,414			450,876		
of which: insurance companies						
c) Non-financial companies	43,683	759		30,848	7,926	
d) Households	15,922	735		1,509	10,129	
Total	**4,254,404**	**88,802**	**5,655**	**3,813,464**	**73,587**	**7,862**

Exposures to financial companies mainly include loans granted to the subsidiaries BFF Finance Iberia and BFF Polska Group (for an overall amount of €736,296 million) and Cassa di Compensazione e Garanzia (€64 million).

4.4 Financial assets measured at amortized cost: gross amount and total 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	996,148				126			
Loans	3,283,096		82,309	90,801	4,864	36	1,998	
Total 12/31/2019	**4,279,244**		**82,309**	**90,801**	**4,991**	**36**	**1,998**	
Total 12/31/2018	**3,750,635**		**112,503**	**79,205**	**2,306**	**28**	**5,617**	
of which: impaired financial assets acquired or internally generated	X	X		5,879	X		224	

** Provided for disclosure purposes*

Section 7 – Equity investments - Item 70
€141,927 thousand

Equity investment totaled €141.9 million; this item includes the investments in BFF Polska Group and BFF Finance Iberia, exclusively controlled by Banca Farmafactoring, which holds 100% of their share capital. Both equity investments are recognized at cost.

The equity investment in BFF Polska Group amounted to €109.2 million
The Polish subsidiary's profit amounted to €19.7 million, therefore contributing to the BFF Banking Group's income statement for the same amount.

The equity investment in BFF Finance Iberia amounted to €32.7 million (including the newly acquired IOS Finance, merged into BFF Finance Iberia). The Spanish subsidiary's profit amounted to €5.3 million, therefore contributing to the BFF Banking Group's income statement for the same amount.

On September 30, 2019, BFF finalized the acquisition of 100% of IOS Finance S.A.U. ("IOS Finance"). Furthermore, at the same date, 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 company formerly known as IOS Finance and recorded in BFF Banking Group's consolidated financial statements at December 31, 2019, since, following the aforementioned provisional PPA, no further assets were identified to which reasonably allocate the investment purchase price.

After the acquisition date, the application for withdrawing the EFC (Establecimiento financiero de crédito) license held by IOS Finance was filed with the Bank of Spain. Following the revocation, approved by the Bank of Spain, of IOS Finance's status as an EFC, on December 31, 2019 the deed of merger of IOS Finance S.A. into BFF Finance Iberia S.A.U. ("BFF Iberia", 100% owned by the Parent Banca Farmafactoring S.p.A.) was filed and registered with Madrid's Registro Mercantil, thereby becoming effective. Therefore, starting from January 1, 2020, BFF Finance Iberia has taken over all the assets and liabilities belonging to IOS Finance. The merger became effective for accounting and tax purposes on September 30, 2019, i.e. the closing date.

After the merger, the consideration paid to acquire IOS Finance was added to the BFF Finance Iberia equity investments, which increased from €6.3 million in 2018 to €32.7 million in 2019.

In relation to both equity investments, the impairment test was carried out pursuant to international accounting standards, and the carrying amount was not impaired.

This test, 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 the equity investment and the recoverable amount of the Cash Generating Unit (CGU).

The equity investments in BFF Polska Group and BFF Finance Iberia were considered, in accordance with international accounting standards, as two Cash Generating Units and the measurement of each equity investments as a whole thus made it possible to determine the relevant recoverable amount.

At December 31, 2019, the recoverable amount of both equity investments was estimated using the value-in-use calculation method, identified based on the Dividend Discount Model (DDM). The DDM determines the value of an entity based on a dividend flow which is expected to be generated prospectively.
The comparison between the result of the DDM analysis and the carrying amount of the equity investments confirms the identified recoverable amount reported in the financial statements.

7.1 Equity investments: information on investment relationships

Name	Registered office	Operating office	Investment %	Voting rights %
A. Exclusively controlled companies				
1. BFF Finance Iberia, S.A.	Madrid (Spain)	Madrid (Spain)	100%	100%
2. BFF Polska S.A.	Łodz (Poland)	Łodz (Poland)	100%	100%
B. Jointly controlled companies				
C. Companies over which significant influence is exercised				

7.5 Equity investments: year-over-year change

Amounts in € thousands

	Total 12/31/2019	Total 12/31/2018
A. Opening balance	**115,487**	**115,487**
B. Increase		
B.1 Purchases	26,440	
B.2 Reversals of impairment		
B.3 Revaluations		
B.4 Other changes		
C. Decrease		
C.1 Sales		
C.2 Adjustments		
C.3 Impairment		
C.4 Other changes		
D. Closing balance	**141,927**	**115,487**
E. Total revaluations		
F. Total adjustments		

Section 8 - Property, plant and equipment – Item 80

€12,983 thousand

8.1 Property, plant and equipment used for business activities: breakdown of assets measured at cost

Amounts in € thousands

Assets/Amounts	Total 12/31/2019	Total 12/31/2018
1. Owned assets		
a) land	3,685	3,685
b) buildings	6,169	6,495
c) furniture and fixtures	150	140
d) electronic systems	508	590
e) other	481	191
2. Right-of-use assets acquired under leases		
a) land		
b) buildings	1,359	
c) furniture and fixtures		
d) electronic systems		
e) other	631	
Total	**12,983**	**11,101**
of which: obtained from enforcement of guarantees received		

8.6 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**	**16,822**	**2,457**	**7,667**	**5,402**	**36,032**
A.1 Net total impairment		(10,327)	(2,316)	(7,078)	(5,211)	(24,932)
A.2 **Net opening balance**	**3,685**	**6,495**	**140**	**589**	**191**	**11,101**
B. Increase:		**2,012**	**86**	**491**	**1,379**	**3,968**
B.1 Purchases			86	373	409	868
B.2 Capitalized improvements						
B.3 Reversals of impairment						
B.4 Positive fair value changes in 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		2,012		118	969	3,100
C. Decrease:		**(978)**	**(76)**	**(573)**	**(457)**	**(2,084)**
C.1 Sales				(6)		(6)
C.2 Depreciation		(978)	(76)	(567)	(457)	(2,078)
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**	**7,528**	**150**	**508**	**1,112**	**12,983**
D.1 Net total impairment		(11,304)	(2,393)	(7,526)	(5,678)	(26,902)
D.2 **Gross closing balance**	**3,685**	**18,833**	**2,543**	**8,034**	**6,790**	**39,885**
E. Measured at cost	3,685	18,833	2,543	8,034	6,790	39,885

At December 31, 2019, the item "Property, plant and equipment" amounted to a total of €12,983 thousand. It mainly consists of:

- land of €3,685 thousand, unchanged from December 31, 2018;
- buildings (including capitalized extraordinary maintenance) of €6,169 thousand, compared to €6,495 thousand at December 31, 2018.
- right-of-use assets relating to adoption of the new IFRS 16 on leases amounted to €1,990 thousand. For further information on this topic, please refer to section M of these Notes.

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 BFF is not the owner of the entire building.

Section 9 - Intangible assets – Item 90

€3,798 thousand

9.1 Intangible assets: breakdown by type of asset

Amounts in € thousands

Assets/Amounts	Total 12/31/2019		Total 12/31/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X		X	
A.2 Other intangible assets	**3,798**		**3,762**	
A.2.1 Assets measured at cost:				
a) intangible assets generated internally				
b) other assets	3,798		3,762	
A.2.2 Assets measured at fair value:				
a) intangible assets generated internally				
b) other assets				
Total	**3,798**		**3,762**	

9.2 Intangible assets: year-over-year change

Amounts in € thousands

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance				**5,466**		**5,466**
A.1 Net total impairment				(1,704)		(1,704)
A.2 Net opening balance				**3,762**		**3,762**
B. Increase						
B.1 Purchases				1,921		1,921
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						
C.1 Sales						
C.2 Adjustments						
- Amortization	X			(1,885)		**(1,885)**
- 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				**3,798**		**3,798**
D.1 Net total adjustments				(1,885)		(1,885)
E. Gross closing balance				**5,683**		**5,683**
F. Measured at cost				5,683		5,683

Key:
FIN = finite
INDEF = indefinite

Intangible assets are recognized at cost, net of amortization, calculated based on its estimated useful life. In accordance with IAS 38, paragraph 118, letter a), the amortization rates applied are based on the estimated useful lives of the intangible assets.

Other intangible assets with a finite life refer to investments in new multi-year software, amortized on a straight-line basis over their estimated useful lives (not exceeding 4 years).

Section 10 - Tax assets and liabilities – Item 100 of assets and Item 60 of liabilities

Current tax assets totaled €21,740 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amounted to €23,317 thousand; they include the accrual of income taxes for the year.

10.1 Deferred tax assets: breakdown
€7,745 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.

10.2 Deferred tax liabilities: breakdown
€69,976 thousand

Deferred tax liabilities mainly refer to the taxes on the Bank'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.

10.3 Change in deferred tax assets (through the income statement)
€7,123 thousand

Amounts in € thousands

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**3,325**	**3,375**
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) reversals of impairment		
d) other	4,408	764
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	(609)	(814)
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	**7,123**	**3,325**

10.3bis Change in deferred tax assets under Law 214/2011
€591 thousand

Amounts in € thousands

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**686**	**686**
2. Increase		
3. Decrease		
3.1 Reversals	(95)	
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	**591**	**686**

10.4 Change in deferred tax liabilities (through the income statement)
€69,942 thousand

Amounts in € thousands

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**65,615**	**56,278**
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	6,705	10,089
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	(1,258)	(752)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases	(1,120)	
4. Closing balance	**69,942**	**65,615**

10.5 Change in deferred tax assets (through equity)

€622 thousand

Amounts in € thousands

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**2,643**	**354**
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		201
c) other	13	2,094
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	(2,034)	(7)
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	**622**	**2,643**

10.6 Change in deferred tax liabilities (through equity)

€33 thousand

Amounts in € thousands

	Total 12/31/2019	Total 12/31/2018
1. Opening balance	**33**	**129**
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
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		(226)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**33**	**33**

Section 12 - Other assets – Item 120

12.1 Other assets: breakdown
€8,225 thousand

Amounts in € thousands

Breakdown	Total 12/31/2019	Total 12/31/2018
Security deposits	38	22
Other receivables	4,204	5,666
Accrued income and prepaid expenses	3,983	3,341
Total	**8,225**	**9,029**

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.

LIABILITIES

Section 1 – Financial liabilities measured at amortized cost – Item 10
€4,350,675 thousand

Starting from January 1, 2018 (and based on guidance provided in IFRS 9) this item is broken down as follows:
- due to banks of €581,995 thousand;
- due to customers of €2,813,010 thousand;
- debt securities issued of €955,669 thousand.

Due to banks
€581,995 thousand

1.1 Financial liabilities measured at amortized cost: due to banks broken down by type

Amounts in € thousands

Type of transaction/Amounts	Total 12/31/2019				Total 12/31/2018			
		Fair Value				Fair Value		
	CA	L1	L2	L3	CA	L1	L2	L3
1. Due to central banks		X	X	X		X	X	X
2. Due to banks	**581,995**	X	X	X	**806,238**	X	X	X
2.1 Current accounts and demand deposits	59	X	X	X		X	X	X
2.2 Fixed-term deposits	581,936	X	X	X	806,238	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 Lease payables		X	X	X		X	X	X
2.6 Other payables		X	X	X		X	X	X
Total	**581,995**			**581,995**	**806,238**			**806,238**

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 Bank's core business. Specifically, the item also includes the loan agreements in zloty used to acquire 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 €40 million).

Due to customers
€2,813,010 thousand

1.2 Financial liabilities measured at amortized cost: due to customers broken down by type

Amounts in € thousands

Type of transaction/Amounts	Total 12/31/2019				Total 12/31/2018			
		Fair Value				Fair Value		
	CA	L1	L2	L3	CA	L1	L2	L3
1. Current accounts and demand deposits	78,140	X	X	X	63,104	X	X	X
2. Fixed-term deposits	1,304,551	X	X	X	871,313	X	X	X
3. Loans		X	X	X		X	X	X
3.1 repos	995,513	X	X	X	1,030,719	X	X	X
3.2 other	258,359	X	X	X	230,497	X	X	X
4. Payables following commitments to repurchase treasury shares		X	X	X		X	X	X
5. Lease payables	1,923	X	X	X		X	X	X
6. Other payables	174,524	X	X	X	232,747	X	X	X
Total	**2,813,010**				**2,428,379**			

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

"Due to customers" includes €1,354 million for online deposit accounts offered in Italy, Spain, Germany, Poland, the Netherlands and Ireland (restricted deposits and current accounts), compared to €934 million at December 31, 2018.
The counterparty in repos, amounting to €996 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

Other loans, worth a total of €258 million, mainly refer to payables due to financial institutions deriving from existing cooperation between Banca Farmafactoring and other Italian factoring companies.

Other payables include the securitization transaction (BFF SPV) for €130 million and collections of managed receivables due to assignors to the tune of €45 million.

Lease payables, totaling €1.9 million at the group level, refer to the recognition of lease liabilities arising from right-of-use assets, included under Line Item 80 "Property, plant and equipment" in the balance sheet, following the application of the new IFRS 16 effective January 1, 2019.

Debt securities issued
€955,669 thousand

1.3 Financial liabilities measured at amortized cost: debt securities issued broken down by type

Amounts in € thousands

Type of securities/Amounts	Total 12/31/2019				Total 12/31/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	955,669	966,893			653,640	615,742		
1.1 structured								
1.2 other	955,669	966,893			653,640	615,742		
2. other securities								
2.1 structured								
2.2 other								
Total	**955,669**	**966,893**			**653,640**	**615,742**		

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

Debt securities issued consist of bonds issued by the Bank. They have a total face value of €950 million and are recognized in the financial statements (to the tune of €956 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 coupon of 5.875%;
- €200 million senior unsecured and unrated bonds (ISIN XS1639097747) issued by Banca Farmafactoring in June 2017, due in June 2022. The bonds pay an annual coupon of 2%;
- €200 million senior unsecured and unrated bonds (ISIN XS1731881964) issued by Banca Farmafactoring in December 2017, due June 2020. The bonds pay a quarterly variable coupon based on 3M Euribor + 145 bp spread.
- €150 million senior unsecured and unrated bonds (ISIN XS1435298275) issued by Banca Farmafactoring in June 2016, due in June 2021. The bonds pay an annual coupon of 1.25%;

- €300 million senior unsecured bond (ISIN XS2068241400) with Ba1 rating assigned by Moody's, issued by Banca Farmafactoring in October 2019, due in May 2023. The bonds pay an annual coupon of 1.75%.

Section 6 – Tax liabilities – Item 60

€93,293 thousand

See "Section 10 - Tax assets and liabilities – Item 100" of the balance sheet assets

See "Section 10 – Tax assets and liabilities" of the balance sheet assets.

Section 8 – Other liabilities – Item 80

€49,361 thousand

8.1 Other liabilities: breakdown

Amounts in € thousands

Breakdown	Total 12/31/2019	Total 12/31/2018
Payables to suppliers	1,066	1,498
Invoices to be received	11,653	7,439
Payables to tax authorities	908	593
Payables to social security agencies	692	847
Payables to employees	5,307	4,408
Payables for receivables management	-	6,950
Collections pending allocation	24,557	23,843
Other payables	4,362	18,681
Accrued liabilities and deferred income	817	1,843
Total	**49,361**	**66,102**

"Payables to suppliers" and "invoices to be received" refer to payables for purchases of goods and services. The latter were up largely because of the greater costs recognized in 2019 with respect to the one-off transactions carried out by the Bank.
"Collections pending allocation" refer to payments received by December 31, 2019 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 interest relating to 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

€843 thousand

9.1 Employee severance benefits: year-over-year change

Amounts in € thousands

	Total 12/31/2019	Total 12/31/2018
A. Opening balance	**849**	**848**
B. Increase	**743**	**655**
B.1 Allocation for the year	552	579
B.2 Other changes	191	75
C. Decrease	**(749)**	**(654)**
C.1 Settlements	(23)	(30)
C.2 Other changes	(726)	(624)
D. Closing balance	**843**	**849**
Total	**843**	**849**

The liability recorded in the financial statements at December 31, 2019 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, 2019 are shown below.

Actuarial assumptions

Annual discount rate

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

Annual increase rate of 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 AGO requisites, as updated by Decree-Law 4/2019.

Section 10 – Provisions for risks and charges – Item 100

€7,119 thousand

10.1 Provisions for risks and charges: breakdown

Amounts in € thousands

Items/Amounts	Total 12/31/2019	Total 12/31/2018
1. Provisions for credit risk on commitments and financial guarantees provided	1,536	805
2. Provisions for other commitments and guarantees provided		
3. Pension funds	4,205	3,829
4. Other provisions for risks and charges		
4.1 legal and tax disputes		
4.2 personnel expenses		
4.3 other	1,378	615
Total	**7,119**	**5,249**

Starting from January 1, 2018, this item also includes provisions for credit risk associated with commitments/financial guarantees provided by the Bank, 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 Bank's managers and the provision relating to the deferred payment incentive scheme envisaged for specific Banca Farmafactoring employees.
The line item rose because of the higher provisions associated with the deferred portion of the incentive system (deferred MBO) for the year 2019.

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	**805**	**3,829**	**615**	**5,249**
B. Increases	**731**	**1,849**	**763**	**3,343**
B.1 Allocation for the year	731	1,849	763	3,343
B.2 Change due to passing of time				
B.3 Variation due to change in the discount rate				
B.4 Other changes				
C. Decrease		**(1,473)**		**(1,473)**
C.1 Use in the year		(1,012)		(1,012)
C.2 Variation due to change in the discount rate		(143)		(143)
C.3 Other changes		(319)		(319)
D. Closing balance	**1,536**	**4,205**	**1,378**	**7,119**

10.3 Provisions for credit risk 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				
Financial guarantees provided	1,536			1,536
Total	**1,536**			**1,536**

10.5 Defined benefit pension funds

Below are the main changes in this provision:
- €195 thousand increase as a result of the funds set aside for the non-compete agreement with the managers of the companies that are part of BFF Banking Group;
- €1,654 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;
- €142 thousand decrease related to the discounting of the non-compete agreement and the deferred MBO as calculated by an external advisor at December 31, 2019;
- €1,012 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 67-69 of IAS 19. This actuarial method entails valuation aimed at determining the average present value of the Bank's obligations. The main demographic assumptions used 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, 2019 and equal to 0.77%. 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 line with para. 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 -0.11%.

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 12 – Equity – Items 110, 130, 140, 150, 160, 170 and 180

€301,674 thousand

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

Amounts in € thousands

Type	12/31/2019	12/31/2018
1. Share capital	**131,326**	**130,983**
1.1 Ordinary shares	131,326	130,983
2. Treasury shares	**(1,763)**	**(245)**

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".

12.2 Share capital – Number of shares: year-over-year change

(number)

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 (-)	(41,552)	
A.2 Shares outstanding: opening balance	**170,065,848**	
B. Increase	**476,906**	
B.1 New issues		
- against payment:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other	182,960	
- free:		
- to employees	263,418	
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes	30,528	
C. Decrease	**(319,752)**	
C.1 Cancellation		
C.2 Purchase of treasury shares	(319,752)	
C.3 Transactions for sale of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**170,223,002**	
D.1 Treasury shares (+)	(330,776)	
D.2 Shares outstanding at the end of the year		
- fully paid	170,553,778	
- not fully paid		

12.4 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

	12/31/2019	Possibility of use (a)	Amount available	Summary of use in the last three years	
				For absorption of losses	For other reasons
Share capital	**131,326**				
Reserves	**102,400**				
- Legal reserve	26,197	*B*			
- Extraordinary reserve	89	*A,B,C*	89		
- Retained earnings reserve	69,346	*A,B,C*	69,346		25,009 (*)
- Stock option and financial instrument reserves	6,779	*A*			
- Other reserves	(11)				
Revaluation reserves	**3,791**				
- HTC&S securities	(80)				
- Other	3,871				
Treasury share reserve	**(1,763)**				
Share premium	**693**	*A,B,C*	693		
Total share capital and reserves	**236,448**		**70,129**		

(a) Possibility of use: A = for share capital increases; B = for absorption of losses; C = for distribution to shareholders.

(*) The amounts used during the last three years, totaling €25,009 thousand, include €203 thousand used in the wake of the capital increases carried out in 2019 for the stock options exercised by certain beneficiaries as well as the stock grant plan.

Changes in reserves are as follows:

Amounts in € thousands

	Legal reserve	Retained earnings	Other	Total
A. Opening balance	**26,197**	**85,328**	**4,296**	**115,821**
B. Increase		**2,877**	**2,576**	**5,453**
B.1 Appropriation of profit		2,190		2,190
B.2 Other changes		687	2,576	3,263
C. Decrease		**(18,859)**	**(15)**	**(18,874)**
C.1 Uses				
- absorption of losses				
- distribution		(18,763)		(18,763)
- transfer to share capital				
C.2 Other changes		(96)	(15)	(111)
D. Closing balance	**26,197**	**69,346**	**6,857**	**102,400**

Retained earnings reserve

The net decrease of €15,982 thousand was attributable to the distribution to shareholders of the retained earnings reserve by Banca Farmafactoring, as per the relevant shareholders' meeting resolution of March 28, 2019 in regards to the financial statements at December 31, 2018.

Other reserves

The changes largely refer to the following events occurred during the period:
- the granting of €1.1 million worth of option rights related to the stock option plan during 2019, recognized pursuant to IFRS 2 through profit or loss with a corresponding increase in equity. This was partially offset by €0.6 million in drawdowns from the stock option reserve after certain beneficiaries exercised their options;
- the allocation of €1,502 thousand related 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 Bank of Italy Circular no. 285/2013, as subsequently amended, according to which a portion must be paid in financial instruments;
- the allocation of €662 thousand for the Stock Grant plan during 2019.

The corresponding accounting treatment, in accordance with IFRS 2, resulted, during the period, in the above-mentioned positive effect on equity.

Other information

1. Commitments and financial guarantees provided (other than those designated at fair value)

Amounts in € thousands

	Notional amount of commitments and financial guarantees provided			Total 12/31/2019	Total 12/31/2018
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	**491,827**			**491,827**	**432,112**
a) Central Banks					
b) Public administration agencies					
c) Banks					
d) Other financial companies	441,827			441,827	
e) Non-financial companies	50,000			50,000	432,112
f) Households					
2. Financial guarantees provided	**404,176**			**404,176**	**250,602**
a) Central Banks					
b) Public administration agencies					
c) Banks	4,200			4,200	3,391
d) Other financial companies	399,977			399,977	247,212
e) Non-financial companies					
f) Households					

Financial guarantees provided to banks of €4.2 million relate to the amount communicated by the FITD in relation to the extraordinary contributions provided for by Article 23 of the Fund bylaws.
The commitments to disburse funds largely refer to commitments towards clients of BFF Group.

3. Assets pledged to secure own liabilities and commitments

Amounts in € thousands

Portfolios	Amount 12/31/2019	Amount 12/31/2018
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through OCI	82,748	155,746
3. Financial assets measured at amortized cost	1,392,903	1,610,040
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.

4. 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. Individual portfolio management	
3. Custody and administration of securities	**1,054,944**
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	1,054,944
4. Other transactions	

The amount mainly refers to the face value of owned securities classified in the HTC&S and HTC portfolios and deposited at Depobank.

Part C - 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

€179,399 thousand (of which interest income calculated using the effective interest rate method: €149,360 thousand)

Amounts in € thousands

Items/Types	Debt securities	Loans	Other transactions	**Total 12/31/2019**	**Total 12/31/2018**
1. Financial assets measured at fair value through profit or loss:					
1.1. Financial assets held for trading					
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	119		X	119	100
3. Financial assets measured at amortized cost					
3.1 Due from banks		13,229	X	13,229	5,664
3.2 Due from customers	6,173	159,878	X	166,052	170,854
4. Hedging derivatives	X	X			
5. Other assets	X	X			
6. Financial liabilities	X	X	X		
Total	**6,292**	**173,108**		**179,399**	**176,618**
of which: interest income on impaired financial assets					
of which: interest income on finance leases					

1.2 Interest and similar income: other information

Interest income concerning “Financial assets measured at fair value through OCI” of €119 thousand was generated by government securities purchased by Banca Farmafactoring to hedge liquidity risk and optimize the cost of money.
The securities were classified as HTC&S (Held to Collect and Sell) 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 current accounts held with the banking system.
Such interest includes interest for credit exposures that the Bank has with regards to third parties for receivables transferred back.

Interest income on receivables “Due from customers” for loans amounted to €179,279 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.
Interest income on debt securities linked to receivables due from customers and totaling approximately €6.2 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 -formerly AFS in accordance with IAS 39).

The Bank updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. 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.

1.3 Interest and similar expenses: breakdown

€31,536 thousand

Amounts in € thousands

Items/Types	Payables	Securities	Other transactions	Total 12/31/2019	Total 12/31/2018
1. Financial liabilities measured at amortized cost					
1.1 Due to central banks		X	X		
1.2 Due to banks	6,941	X	X	**6,941**	**6,923**
1.3 Due to customers	8,398	X	X	**8,398**	**7,410**
1.4 Debt securities issued	X	16,196	X	**16,196**	**15,637**
2. Financial liabilities held for trading					
3. Financial liabilities designated at fair value					
4. Other liabilities and provisions	X	X			**26**
5. Hedging derivatives	X	X			
6. Financial assets	X	X	X		
Total	**15,340**	**16,196**	**0**	**31,536**	**29,996**
of which: interest expense relating to lease payables	34			**34**	

Interest expense increased from €29.9 million at December 31, 2018 to €31.5 million at December 31, 2019.

Interest expense on payables "Due to banks" referred to the additional funding requested from third-party banks to support the business of the Bank. Specifically, the item includes the interest on loan agreements in zloty used to acquire BFF Polska Group, which were partially entered into with the Unicredit Group and partially with the Intesa Sanpaolo Group.

The interest expense on payables "Due to customers" mainly refers to interest expense relating to the online deposit accounts of Banca Farmafactoring: specifically, €1,931 thousand for Conto Facto, offered in Italy, €8,468 thousand for Cuenta Facto, offered in Spain by the Spanish branch of Banca Farmafactoring, about €100 thousand for the deposit account offered in Poland through the opening of the new branch in the second half of 2019.
This item also includes interest expense of €765 thousand on loans granted by other factoring companies, in addition to interest (income) on repurchase agreements to the tune of €4,342 thousand.

Section 2 – Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

€8,114 thousand

Amounts in € thousands

Type of service/Amounts	Total 12/31/2019	Total 12/31/2018
a) guarantees provided	1,750	1,075
b) credit derivatives		
c) management, brokerage and consulting services:		
1. financial instruments trading		
2. currency trading		
3. individual portfolio management		
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	6,364	7,168
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	**8,114**	**8,243**

The balance mainly refers to fees and commissions relating to the mandates for the management and collection of receivables.
Fees and commissions on "guarantees provided" mainly refer to the revenue arising from guarantees provided by the Bank to other BFF Banking Group companies at arm's length.

2.3 Fee and commission expenses: breakdown
€1,789 thousand

Amounts in € thousands

Services/Amounts	Total 12/31/2019	Total 12/31/2018
a) guarantees received	267	179
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	1,521	1,314
Total	**1,789**	**1,492**

The item mainly refers to expenses on existing banking relationships.

Section 4 – Gains (losses) on trading – Item 80

4.1 Gains (losses) on trading: breakdown
€689 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**	**(689)**
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	
- other					
4.2 Credit derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total					**(689)**

Gains (losses) on trading mainly arise from the negative exchange effect recognized in the income statement, arising from the write down of exchange rates applied to the loans payable in Polish zloty used for the acquisition of BFF Polska Group and amounting, at December 31, 2019, to €689 thousand, before taxes, compared to €2.6 million, before taxes, recognized at the end of the previous reporting period.

Section 5 – Gains (losses) on hedge accounting – Item 90

Equal to zero

5.1 Gains (losses) on hedge accounting: breakdown

Amounts in € thousands

Income components/Amounts	Total 12/31/2019	Total 12/31/2018
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
A.5 Assets and liabilities denominated in currency		
Total income from hedging activities (A)		**116**
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)
B.5 Assets and liabilities denominated in currency		
Total charges from hedging activities (B)		**(5)**
C. Net result of hedging activities (A - B)		**111**
of which: result of hedging of net positions		

Section 6 – Gains (losses) on disposal or repurchase – Item 100

€370 thousand

6.1 Gains (losses) on disposal or repurchase: breakdown

Amounts in € thousands

Items/Income components	Total 12/31/2019			Total 12/31/2018		
	Gains	Losses	Net result	Gains	Losses	Net result
A. Financial assets						
1. Financial assets measured at amortized cost						
1.1 Due from banks						
1.2 Due from customers	371		371			
2. Financial assets measured at fair value through OCI						
2.1 Debt securities	2,958	(2,959)	(1)	386		386
2.2 Loans						
Total assets (A)	**3,329**	**(2,959)**	**370**	**386**		**386**
B. Financial liabilities measured at amortized cost						
1. Due to banks						
2. Due to customers						
3. Debt securities issued						
Total liabilities (B)						

The amount refers to the sale of government securities in the Held to Collect and Sell (HTC&S) and Held to Collect (HTC) portfolio during the year, resulting in a net gain of €370 thousand, before the tax effect.

Section 8 – Net adjustments/reversals of impairment for credit risk – Item 130

€2,635 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 12/31/2019	Total 12/31/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Due from banks	**(4)**			**2**		**(3)**	**(4)**
- Loans	(4)			2		(3)	(4)
- Debt securities							
of which: impaired loans acquired or internally generated							
B. Due from customers:	**(2,771)**	**(26)**	**(92)**	**51**	**196**	**(2,643)**	**(1,755)**
- Loans	(2,764)	(26)	(92)	51	196	(2,636)	(1,759)
- Debt securities	(7)					(7)	5
of which: impaired loans acquired or internally generated					178	178	(1,408)
Total	**(2,776)**	**(26)**	**(92)**	**52**	**196**	**(2,646)**	**(1,759)**

The increase in adjustments to Stage 1 and Stage 2 positions was mainly due to an increase in loans to subsidiaries subject to impairment under IFRS 9.

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 12/31/2019	Total 12/31/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities				11		11	8
B. Loans							
- customers							
- banks							
of which: impaired financial assets acquired or internally generated							
Total				**11**		**11**	**8**

Section 10 – Administrative expenses – Item 160
€65,657 thousand

10.1 Personnel costs: breakdown
€31,848 thousand

Amounts in € thousands

Type of expense/Amounts	Total 12/31/2019	Total 12/31/2018
1) Employees		
a) wages and salaries	18,329	15,402
b) social security contributions	4,821	4,034
c) employee severance benefits		
d) pension		
e) allocation to employee severance benefits	552	579
f) provision for pension and other post-employment benefits:		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds:	185	185
- defined contribution		
- defined benefit	185	185
h) costs of share-based payment arrangements	454	
i) other employee benefits	3,276	2,718
2) Other staff in service	525	598
3) Directors and Statutory Auditors	3,706	1,997
4) Early retirement costs		
5) Recovery of expenses for employees on secondment to other companies		
6) Recovery of expenses for third-party employees on secondment to the company		
Total	**31,848**	**25,513**

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 €663 thousand for the current year, before taxes, and for the stock grant plan of €454 thousand. Both costs also caused an increase, before taxes, in equity.

10.2 Average number of employees by category

Employees

number

FTE	2019	2018
Senior Executives/Executives	17	
Managers/Coordinators	42	
Professionals/Specialists	194	
Total	**253**	**202**

The number of staff shown in the previous table refers to FTE staff and it arises from a calculation based on the instructions of the Bank of Italy Circular no. 262.

Identification criteria applying to staff categories were revised in 2019 to make them uniform for the entire group. Therefore, 2019 staff numbers are not comparable with 2018 figures.

The Average number of employees increased from 202 in 2018 to 253 in 2019 (+51 staff members, +25%).

10.4 Other employee benefits

The amount of €3,276 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.

10.5 Other administrative expenses: breakdown
€33,809 thousand

Amounts in € thousands

Breakdown	Total 12/31/2019	Total 12/31/2018
Legal fees	2,449	2,047
Data processing services	2,045	2,711
External credit management services	1,075	1,008
Supervisory Body fees	42	42
Legal fees for receivables under management	229	275
Notary fees	718	646
Notary fees to be recovered	1,579	1,324
Entertainment expenses and donations	903	841
Maintenance expenses	1,810	1,602
Non-deductible VAT	3,896	3,141
Other taxes	354	1,002
Advisory fees	8,068	4,802
Head office operating expenses	1,263	1,569
Resolution Fund and FITD	3,299	3,236
Other expenses	6,079	5,688
Total	**33,809**	**29,932**

Other administrative expenses at December 31, 2019 amounted to €33.8 million, up on the previous year's figures.

Furthermore, with regards to contributions to the Deposit Guarantee Scheme, a cost of €3.3 million before taxes was recorded at December 31, 2019. This cost was made up of:
- €1.7 million as ordinary annual contribution to the Resolution Fund, and €0.6 million as extraordinary contribution for 2017 (both paid in the first half of 2019);
- about €1 million as contribution to the FITD, paid in June and December 2019.

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 €229 thousand and notary fees of €1,579 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 2019, which are listed below.

Amounts in € thousands

Breakdown	Total 12/31/2019
Fees paid to external companies for support to Internal Audit	89
Fees paid to external companies for Data Processing	2,090
Fees paid to external companies for Credit Checks	1,075

Section 11 – Net allocations to provisions for risks and charges – Item 170

€3,540 thousand

11.1 Net allocations for credit risk concerning commitments to disburse funds and financial guarantees provided: breakdown

€726 thousand

Amounts in € thousands

Breakdown	Total 12/31/2019	Total 12/31/2018
Provision for risk on commitments and guarantees	726	336
Total	**726**	**336**

11.3 Net allocations to other provisions for risks and charges: breakdown

€2,815 thousand

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

Amounts in € thousands

Breakdown	Total 12/31/2019	Total 12/31/2018
Pension and other post-employment benefits	2,052	930
Other provisions	763	0
Total	**2,815**	**930**

The allocation to "Pension and other post-employment benefits" refers to deferred employee benefits. "Other provisions" include the expenses recognized in 2019 with respect to the restructuring costs arising from the acquisition of the former IOS Finance (now merged into BFF Finance Iberia).

Section 12 – Net adjustments to/reversals of impairment of property, plant and equipment – Item 180

€2,078 thousand

12.1 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				
1. Used in the business	2,078			2,078
- Owned	1,103			1,103
- Right-of-use assets acquired under leases	974			974
2. Held for investment	X			
- Owned				
- Right-of-use assets acquired under leases				
3. Inventories	X			
Total	**2,078**			**2,078**

The steady increase in impairment losses on property, plant and equipment relative to the prior-year period was largely attributable to the impact through profit or loss of the €974 thousand depreciation of right-of-use assets recognized under property, plant and equipment pursuant to the new IFRS 16.

Section 13 – Net adjustments to/reversals of impairment of intangible assets – Item 190

€1,885 thousand

13.1 Net adjustments to/reversals of impairment of intangible assets: breakdown

Amounts in € thousands

Asset/Income component	Amortization (a)	Impairment losses (b)	Reversals of impairment (c)	**Net adjustments (a + b - c)**
A. Intangible assets				
A.1 Owned assets	1,885			1,885
- Internally generated				
- Other	1,885			1,885
A.2 Right-of-use assets acquired under leases				
Total	**1,885**			**1,885**

Section 14 – Other operating income (expenses) – Item 200
€9,519 thousand

14.1 Other operating expenses: breakdown
€-923 thousand

Amounts in € thousands

Breakdown	Total 12/31/2019	Total 12/31/2018
Contingent expenses	(488)	(490)
Rounding off and allowance expenses	(18)	(74)
Tax expenses	(417)	(688)
Total	**(923)**	**(1,252)**

Other expenses mainly refer to taxes concerning legal cases filed by the Bank

14.2 Other operating income: breakdown
€10,443 thousand

Amounts in € thousands

Breakdown	Total 12/31/2019	Total 12/31/2018
Recovery of legal fees for purchases of non-recourse receivables	1,395	1,768
Recovery of operational legal fees	194	275
Contingent assets	1,085	853
Recovery of assignor notary expenses	1,577	1,324
Royalties, BFF Finance Iberia	814	951
Other income	5,377	1,936
Total	**10,443**	**7,106**

"Other income" includes the tax contribution relative to systems development, for approximately €230 thousand. The disclosure is given in accordance with the requirements of Italian Law 124/2017, which, starting 2018, requires a compulsory publication of said contribution in the Notes.

Section 19 – Income taxes on profit (loss) from continuing operations – Item 270
€22,369 thousand

19.1 Income taxes on profit (loss) from continuing operations: breakdown

Amounts in € thousands

Income components/Amounts	Total 12/31/2019	Total 12/31/2018
1. Current taxes (-)	20,720	19,455
2. Change in current taxes of prior years (+/-)		
3. Reduction in current taxes for the year (+)		
3. bis Reduction in current taxes for the year due to tax credit under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	(3,798)	50
5. Change in deferred tax liabilities (+/-)	5,447	8,217
6. Taxes for the year (-) (-1+/-2+3+3.bis+/-4+/-5)	**22,369**	**27,722**

19.2 Reconciliation of theoretical and effective tax expense

Amounts in € thousands

Breakdown	IRES	IRAP
Taxable profit used for purposes of tax calculations	87,594	7,981
Theoretical tax: 27.5% IRES – 5.57% IRAP	**24,088**	**445**
Permanent non-deductible differences	(1,979)	0
Deductible IRAP	(474)	0
Temporary differences taxable in future years	(24,355)	0
Temporary differences deductible in future years	5,395	675
Reversal of temporary differences in future years	1,852	2,372
Taxable profit	**68,034**	**11,028**
Current taxes for the year: 27.5% IRES – 5.57% IRAP	**18,709**	**614**

Section 22 – Earnings per share

22.1 Average number of diluted ordinary shares

Number

Breakdown	Total 12/31/2019	Total 12/31/2018
Average number of shares outstanding	170,553,778	170,107,400
Average number of potentially dilutive shares	7,457,574	2,458,721
Weighted average number of potentially dilutive shares	178,011,352	172,566,121

22.2 Other information

Integer numbers, unless otherwise stated

Breakdown	Total 12/31/2019	Total 12/31/2018
Net profit for the period (in euros)	65,225,749	73,389,737
Average number of shares outstanding	170,553,778	170,107,400
Average number of potentially dilutive shares	7,457,574	2,458,721
Weighted average number of potentially dilutive shares	178,011,352	172,566,121
Basic earnings per share (in euros)	**0.382**	**0.431**
Diluted earnings per share (in euros)	**0.366**	**0.425**

Part D - Comprehensive Income

Statement of Comprehensive Income

Amounts in euros

	Items	Total 12/31/2019	Total 12/31/2018
10.	**Profit for the year**	**65,225,749**	**73,389,737**
	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	(21,904)	24,380
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	6,024	(6,704)
	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	(6,379)	0
	b) reclassification to profit or loss		
	c) other changes		
130.	Cash flow hedges:		
	a) fair value changes	0	(290,088)
	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	6,110,470	(6,331,788)
	b) reclassification to profit or loss		
	- adjustments for credit risk		
	- capital gains (losses)		
	c) other changes		
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	(2,018,623)	2,189,855
190.	**Total other comprehensive income**	**4,069,587**	**(4,414,347)**
200.	**Comprehensive income (Items 10+190)**	**69,295,337**	**68,975,390**

Part E - Risks and Related Risk Management Policies

Introduction

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

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

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

The corporate governance bodies of the Bank define the risk governance and management model, taking into account the specific types of operations and the related risk profiles characterizing all the entities belonging to it, with the aim of creating an integrated and consistent risk management policy. Within this framework, the Bank's corporate governance bodies perform the functions entrusted to them not only with regard to the specific business activities of the Bank 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 made regarding risk management procedures and policies.

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

In addition to other tasks, the Risk Management Function is responsible for:
- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Bank risks (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;

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

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

Section 1 - Credit risks

Qualitative information

1. General information

Factoring is governed, in Italy, by the Italian Civil Code (Book IV – Title I, Chapter V, Articles 1260–1267) and Law no. 52 of February 21, 1991 and subsequent amendments, and consists of a plurality of financial services that can be structured in various ways, mainly through the sale of trade receivables. The Bank mainly offers non-recourse factoring services with debtors belonging to public administration agencies.

2. Credit risk management policies

2.1 Organizational issues

The assessment of a transaction, for the different products offered by the Bank, is conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial relationship underlying the credit quality and the customer/debtor's ability to repay. The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation" approved by the Board of Directors on June 24, 2019. 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 "Credit Regulation".
Credit risk is therefore monitored at various levels within the framework of the multiple operating processes.

2.2 Management, measurement and control systems

The management, measurement and control system relating to credit risk has been created to ensure control over the main types of risks belonging to the credit risk category.
For this purpose, it must be noted that the core business carried out by the Bank 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 may generate a corresponding decrease in the value of the credit position. It can be broken down as follows:

- **credit risk in the strict sense**: the risk of default of counterparties to which the Bank is exposed, which is fairly limited considering the nature of the Bank's counterparties, the majority of which are not subject to bankruptcy proceedings or other procedures that could undermine their substantial solvency;
- **dilution risk**: the risk that the amounts owed by the assigned debtor are reduced due to allowances or offsets arising from returns and/or disputes concerning the quality of the product or service or any other issue;
- **factorability risk**: the risk related to the nature and characteristics of the commercial relationship subject to factoring/sale, affecting the ability of the receivable sold to self-liquidate (e.g., risk of direct payments from the debtor to the potentially insolvent assignor);
- **risk of late payment**: the risk of a delay in the collection times of the receivables sold compared to those expected by the Bank.

In light of the risks detailed above, the Bank has internal regulations that describe the phases that industry regulations identify as components of the credit process:
- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

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

The Bank also marginally offers the following two types of services: "receivables management only" and "recourse factoring".

In the "receivables management only" service, the credit risk is considerably reduced because it is limited to the Bank's exposure with 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 Banca Farmafactoring.

As a general rule, the Bank'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 Bank uses the “standardized” approach, as governed by Regulation (EU) 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.

In particular, the Bank applies the following weighting factors, envisaged by the CRR:
- 0% for exposures to government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions;
- 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;
- 100% for (i) exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy, Portugal and Greece—please note that on May 3, 2019 DBRS upgraded Greece from BH to BBL, thus improving the credit quality step from 5 to 4, but leaving the capital absorption percentage unchanged at 100%) and (ii) exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including 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.

The Bank adopted the Dominion Bond Rating Service (DBRS) as reference ECAI in order to assign the risk weights subject to ratings relating to the counterparties (e.g., Article 116 of the CRR concerning the exposures to public sector entities).
For this purpose, it should be noted that the unsolicited rating attributed to the Republic of Italy by DBRS on January 13, 2017 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% as of that date.

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

Based on the method described above, the capital requirement for credit risk at December 31, 2019 is €214.8 million for the Bank.

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 risk 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 and banks, each risk position must not be greater than 25% of the eligible capital.

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

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 Bank 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 Bank.

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 Bank is based on a prospective model that may require the recognition of expected losses over the lifetime of the receivable on the basis of supportable information that is available without undue cost or effort and includes historical, current and forward-looking data. In this context, an approach based on the use of credit risk parameters (Probability of Default – PD, Loss Given Default – LGD, Exposure at Default – EAD) has been adopted, redefined based on a multi-period perspective.

More specifically, 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 impairment")

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

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modeling approach. Therefore, by analyzing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Bank's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.
The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous 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 impairment")

As required by IFRS 9 and in line with current supervisory provisions, the Bank 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 Bank'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 Bank's impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €88.8 million—net of individual impairment—and are broken down as follows:
- €58.2 million NPLs;
- €0.2 thousand unlikely to pay exposures;
- €30.6 million impaired past due exposures.

2.4 Credit risk mitigation techniques

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

3. Non-performing exposures

In compliance with Bank of Italy's Circular no. 272, the Bank's net "Impaired assets" amounted to a total of €88,802 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, 2019, the overall total of non-performing loans, net of impairment, amounted to €58,210 thousand, of which €5,655 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial governments in financial distress amounted to €57,659 thousand, accounting for 99.1% of the total; this case is classified as non-performing, in accordance with the indications given by the Supervisory Authority, despite the fact that BFF has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.

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 €1,568 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €61,737 thousand and relevant adjustments totaled €3,526 thousand.

- Unlikely to pay exposures: 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, 2019, gross and net exposures classified as unlikely to pay amounted to €0.2 thousand overall.

- Net past due exposures totaled €30,591 thousand, of which €29,483 thousand, corresponding to 96.4%, attributable to public administration counterparties and 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 Breakdown of financial assets by portfolio and credit quality (carrying amounts)

Amounts in € thousands

Portfolios/Quality	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures	Past due but not impaired exposures	Other not impaired exposures	**Total**
1. Financial assets measured at amortized cost	58,210		30,592	629,706	3,726,821	4,445,330
2. Financial assets measured at fair value through OCI					82,748	82,748
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets held for sale						
Total 12/31/2019	**58,210**	**0**	**30,592**	**629,706**	**3,809,569**	**4,528,078**
Total 12/31/2018	**34,884**	**3**	**38,706**	**548,371**	**3,473,025**	**4,094,988**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Amounts in € thousands

Portfolios/Quality	Impaired				Not impaired			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortized cost	90,801	1,998	88,802		4,361,554	5,026	4,356,527	**4,445,330**
2. Financial assets measured at fair value through OCI					82,759	11	82,748	**82,748**
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 12/31/2019	**90,801**	**1,998**	**88,802**		**4,444,313**	**5,038**	**4,439,275**	**4,528,078**
Total 12/31/2018	**79,210**	**5,617**	**73,592**		**4,023,730**	**2,334**	**4,021,396**	**4,094,988**

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A.1.3 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	26,654	42,050	478,728	847	1,538	79,889	1,859	294	77,195
2. Financial assets measured at fair value through OCI									
3. Financial assets held for sale									
Total 12/31/2019	**26,654**	**42,050**	**478,728**	**847**	**1,538**	**79,889**	**1,859**	**294**	**77,195**
Total 12/31/2018	**16,784**	**49,099**	**370,014**	**10**	**8,831**	**103,634**	**409**	**583**	**48,076**

A.1.4 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 allocations for commitments to disburse funds and financial guarantees provided			Total
	Stage 1 assets					Stage 2 assets					Stage 3 assets					of which: impaired financial assets acquired or internally generated				
	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	Financial assets held for sale	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance	**2,306**				**2,306**	**28**				**28**	**5,617**			**5,617**		**2,699**	**810**			**8,762**
Increase of financial assets acquired or internally generated																				
Derecognition other than write-off																				
Net adjustments/re-versals of impairment for credit risk (+/-)	2,685	11			2,696	8				8	(104)			(104)			726			3,326
Contractual changes without derecognition																				
Change in estimate methods																				
Write-off																				
Other changes											(3,516)			(3,516)		2,475				(3,516)
Closing balance	**4,990**	**11**			**5,002**	**36**				**36**	**1,998**			**1,998**		**224**	**1,536**			**8,572**
Collections of financial assets subject to write-off																				
Write-off directly recognized in profit or loss																				

A.1.5 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

Portfolios/Risk Stages	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
1. Financial assets measured at amortized cost		4,121	8,479	3,177	17,156	8,719
2. Financial assets measured at fair value through OCI						
3. Financial assets held for sale						
4. Commitments to disburse funds and financial guarantees provided						
Total 12/31/2019	**0**	**4,121**	**8,479**	**3,177**	**17,156**	**8,719**
Total 12/31/2018	**210,206**	**0**	**0**	**0**	**40,978**	**51,323**

A.1.6 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	102,132	9	102,123	
- of which: forborne exposures					
TOTAL (A)		**102,132**	**9**	**102,123**	
B. Off-balance sheet credit exposures					
a) Impaired		X			
b) Not impaired	X	4,200	3	4,197	
TOTAL (B)	**0**	**4,200**	**3**	**4,197**	
TOTAL (A+B)	**0**	**106,331**	**12**	**106,320**	

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A.1.7 On-balance sheet credit exposures with customers: 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	60,168	X	1,958	58,210	
- of which: forborne exposures		X			
b) Unlikely to pay exposures		X			
- of which: forborne exposures		X			
c) Impaired past due exposures	30,632	X	40	30,592	
- of which: forborne exposures		X			
d) Past due but not impaired exposures	X	629,806	100	629,706	
- of which: forborne exposures	X				
e) Other not impaired exposures	X	3,712,375	4,929	3,707,446	
- of which: forborne exposures	X				
TOTAL (A)	**90,801**	**4,342,181**	**7,027**	**4,425,955**	
B. Off-balance sheet credit exposures					
a) Impaired		X			
b) Not impaired	X	891,803	1,533	890,270	
TOTAL (B)		**891,803**	**1,533**	**890,270**	
TOTAL (A+B)	**90,801**	**5,233,985**	**8,560**	**5,316,225**	

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A.1.9 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			
- of which: exposures sold but not derecognized	14,113		5,485
B. Increase	**28,669**		**25,492**
B.1 transfer from not impaired exposures	27,048		25,048
B.2 transfer from impaired financial assets acquired or internally generated			
B.3 transfers from other categories of impaired exposures	1,618		
B.4 contractual changes without derecognition			
B.5 other increases	3		443
C. Decrease	**8,818**	**2**	**33,749**
C.1 transfer to not impaired exposures	608		30,801
C.2 write-off		2	
C.3 collections	8,210		
C.4 proceeds on disposal			
C.5 losses on disposal			
C.6 transfers to other categories of impaired exposures			1,618
C.7 contractual changes without derecognition			
C.8 other decreases			1,330
D. Closing gross exposures	**19,851**	**2**	**8,257**
- of which: exposures sold but not derecognized	273		2,420

A.1.11 On-balance sheet impaired credit exposures with customers: changes in total adjustments

Amounts in € thousands

Sources/Categories	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
A. Opening total adjustments	**5,434**				**183**	
- of which: exposures sold but not derecognized	1,757				14	
B. Increase	**174**				**29**	
B.1 adjustments from impaired financial assets acquired or internally generated		X		X		X
B.2 other adjustments	71					
B.3 losses on disposal						
B.4 transfers from other categories of impaired exposures	2				27	
B.5 contractual changes without derecognition		X		X		X
B.6 other increases	101				2	
C. Decrease	**3,650**				**172**	
C.1 reversals of impairment from revaluations						
C.2 reversals of impairment from collections					10	
C.3 gains on disposal						
C.4 write-off						
C.5 transfers to other of impaired exposures	134				2	
C.6 contractual changes without derecognition		X		X		X
C.7 other decreases	3,516				161	
D. Closing total adjustments	**1,958**				**40**	
- of which: exposures sold but not derecognized	1				4	

A.2 Financial assets, commitments to disburse funds and financial guarantees provided broken down by external and internal rating classes

A.2.1 Financial assets, 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	**815**	**24,231**	**3,528,661**		**30,015**		**868,633**	**4,452,354**
- Stage 1	815	24,231	3,362,321		29,931		861,829	4,279,126
- Stage 2			78,485		68		3,875	82,427
- Stage 3			87,855		16		2,929	90,801
B. Financal assets measured at fair value through OCI			**82,759**					**82,759**
- Stage 1			82,759					82,759
- Stage 2								
- Stage 3								
C. Financial assets held for sale								
- Stage 1								
- Stage 2								
- Stage 3								
Total (A + B + C)	**815**	**24,231**	**3,611,420**		**30,015**		**868,633**	**4,535,114**
of which: impaired financial assets acquired or internally generated			5,879					5,879
D. Commitments to disburse funds and financial guarantees provided							**896,003**	**896,003**
- Stage 1							896,003	896,003
- Stage 2								
- Stage 3								
Total (D)							**896,003**	**896,003**
Total (A + B + C + D)	**815**	**24,231**	**3,611,420**		**30,015**		**1,764,635**	**5,431,116**

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

Credit Quality 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 On- and off-balance sheet guaranteed credit exposures with customers

Amounts in € thousands

			Collaterals (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Mortgaged property	Property - Lease financing activities	Securities	Other collaterals	CLN	Clearing house	Banks	Other financial companies	Other	Public administration agencies	Banks	Other financial companies	Other	**Total (1)+(2)**
1. Guaranteed on-balance sheet credit exposures:	**46**	**46**													**46**	**46**
1.1 totally guaranteed	46	46													46	46
- of which impaired																
1.2 partially guaranteed																
- of which impaired																
2. Guaranteed off-balance sheet credit exposures:																
2.1 totally guaranteed																
- of which impaired																
2.2 partially guaranteed																
- of which impaired																

B. Breakdown and concentration of credit exposures

B.1 Breakdown by segment of on- and off-balance sheet credit exposures with customers

Amounts in € thousands

	Public administration agencies		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
Exposures/Counterparties	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	57,825	532						284	385	1,142
- of which: forborne exposures										
A.2 Unlikely to pay exposures										
- of which: forborne exposures										
A.3 Impaired past due exposures	29,483	31					759	4	350	5
- of which: forborne exposures										
A.4 Not impaired exposures	3,478,134	446	799,414	4,217			43,683	249	15,922	118
- of which: forborne exposures										
Total A	**3,565,442**	**1,009**	**799,414**	**4,217**			**44,442**	**537**	**16,657**	**1,265**
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures			840,667	1,136			49,603	397		
Total B			**840,667**	**1,136**			**49,603**	**397**		
Total (A+B) 12/31/2019	**3,565,442**	**1,009**	**1,640,081**	**5,353**			**94,045**	**934**	**16,657**	**1,265**
Total (A+B) 12/31/2018	**3,546,354**	**4,469**	**1,129,395**	**2,521**			**38,775**	**531**	**11,638**	**1,230**

B.2 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	58,210	1,958								
A.2 Unlikely to pay exposures										
A.3 Impaired past due exposures	30,575	40	16							
A.4 Not impaired exposures	3,426,790	716	910,362	4,313						
Total A	**3,515,576**	**2,714**	**910,378**	**4,313**						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures			890,270	1,533						
Total B			**890,270**	**1,533**						
Total (A+B) 12/31/2019	**3,515,576**	**2,714**	**1,800,648**	**5,846**						
Total (A+B) 12/31/2018	**3,452,244**	**6,186**	**1,273,917**	**2,564**						

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	393	324	161	60	1,692	1,214	55,964	361
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures	3,704	13	1,351	1	5,486	5	20,035	21
A.4 Not impaired exposures	212,363	192	110,629	8	2,063,888	354	1,039,911	162
Total A	**216,460**	**528**	**112,141**	**68**	**2,071,066**	**1,572**	**1,115,909**	**545**
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures								
Total B								
Total (A+B) 12/31/2019	**216,460**	**528**	**112,141**	**68**	**2,071,066**	**1,572**	**1,115,909**	**545**
Total (A+B) 12/31/2018	**229,389**	**565**	**115,324**	**48**	**2,095,466**	**1,605**	**1,012,064**	**3,969**

B.3 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	77,349	4	24,774	5						
Total A	**77,349**	**4**	**24,774**	**5**						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures	4,197	3								
Total B	**4,197**	**3**								
Total (A+B) 12/31/2019	**81,546**	**7**	**24,774**	**5**						
Total (A+B) 12/31/2018	**43,252**	**17**	**7,474**							

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	4,646	3			72,697		6	
Total A	**4,646**	**3**			**72,697**		**6**	
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures					4,197	3		
Total B					**4,197**	**3**		
Total (A+B) 12/31/2019	**4,646**	**3**			**76,894**	**3**	**6**	
Total (A+B) 12/31/2018	**5,488**	**4**	**190**		**37,470**	**13**	**105**	

B.4 Large exposures

At December 31, 2019, the CRR Group had 14 “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 €4,655,863 thousand, while the weighted amount was €195,394 thousand.
However, none of these positions exceed the individual concentration limit of 25% of eligible capital of the CRR Group.

C. Securitization transactions

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. It was renewed in December 2018.

Transaction details

The receivables, due from Local Healthcare Entities and Hospitals, 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, 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. On February 6, 2020, the revolving phase was once again renewed and it is to end on February 15, 2021.

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 minimum credit enhancement mechanism (the minimum overcollateralization ratio at December 31, 2019 is 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, handles receivable recovery and collection activities 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 net amount of the outstanding receivables totaled €219 million at December 31, 2019.

C.1 Exposures arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

Amounts in € thousands

	On-balance sheet exposures						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Types of securitized assets/ Exposures	Carrying amount	Adj./Re-ver. Revers. of impair.	Carrying amount	Adj./Re-ver.Re-vers. of impair.	Carrying amount	Adj./Re-ver.Re-vers. of impair.	Net exp.	Adj./Re-ver.Re-vers. of impair.	Net exp.	Adj./Re-ver.Re-vers. of impair.	Net exp.	Adj./Re-ver.Re-vers. of impair.	Net exp.	Adj./Re-ver.Re-vers. of impair.	Net exp.	Adj./Re-ver.Re-vers. of impair.	Net exp.	Adj./Re-ver.Re-vers. of impair.
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**89,468**	**(7)**																
C.1 BFF SPV																		
- *Factoring*	89,468	(7)																

C.3 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	262,078		5	150,023		

E. 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 Bank is exposed, is provided below.
With reference to the above-mentioned securitization transaction, the value of the receivables sold and not derecognized amounts to €219 million.

The other amounts in “Due from customers” refer for a total of €260 million to the receivables pledged as collateral for loans with financial intermediaries.
The counterparty in repurchase agreements, amounting to €996 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank’s securities portfolio.

Quantitative information

E.1. 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
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	**82,748**		**82,748**		**82,245**		**82,245**
1. Debt securities	82,748		82,748		82,245		82,245
2. Equity securities				X			
3. Loans							
E. Financial assets measured at amortized cost	**1,392,903**	**219,243**	**913,274**		**1,301,390**	**129,775**	**913,268**
1. Debt securities	913,274		913,274		913,268		913,268
2. Loans	479,630	219,243		2,688	388,122	129,775	
Total (12/31/2019)	**1,475,651**	**219,243**	**996,022**	**2,688**	**1,383,635**	**129,775**	**995,513**
Total (12/31/2018)	**1,765,786**	**187,044**	**1,103,952**		**1,401,822**	**140,678**	**1,030,719**

F. Credit risk assessment models

Section 2 - Market risks

2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

A. General information

At December 31, 2019 no financial assets held for trading were recognized.

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

For assessing interest rate risk, potentially linked to fluctuations in interest rates, the Bank adopted the method used to determine internal capital set forth in Annex C of Bank of Italy's Circular 285/2013 (Part I, Title III, Chapter I) and provided for by recent guidelines issued by the European Banking Authority (EBA). This method is applied monthly, in order to detect on a timely and ongoing basis any loss resulting from a market shock determined based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase) and ensuring that rates are not negative.

The sensitivity analysis of the interest rate requires the construction of a framework that makes it possible to highlight the exposure through the use of a specific method. This method is based on:

- Classification of the assets and liabilities into different periods: the allocation to different periods is made, for fixed-rate assets and liabilities, based on their residual lives, while for variable-rate assets and liabilities, based on the interest rate renegotiation date.
- Weighting of net exposures within each period: assets and liabilities are offset, thus obtaining a net position. Each net position, for each period, is multiplied by the weighs, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period.
- Sum of weighted exposures of different periods: weighted exposures of different periods are summed to yield a total weighted exposure.

The total weighted exposure represents the change in the present value of cash flows, generated by the hypothetical interest rate scenario.

The assumption of interest rate risk in connection with the Bank's funding activity can only occur in compliance with the policies and limits set by the Board of Directors. It is governed by specific powers delegated in this area, which set autonomy limitations for the parties authorized to operate within the Finance Department and Deposit account areas.

The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance and Administration Department, the Risk Management Function, and Top Management, which annually submits to the Board of Directors proposals for lending and funding policies and interest rate risk management and recommends, if necessary, any suitable actions to ensure that business is carried out consistently with the risk management policies approved by the Bank.

The interest rate risk position is reported on a quarterly basis to Banca Farmafactoring's Top Management and Board of Directors, within the framework of periodic reporting of the Risk Management Function.
Furthermore, at the operational level, on a monthly basis the Finance and Administration Department monitors the interest rate risk, as well its management, through specific reporting.

BFF BANKING GROUP

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	**1,643,602**	**313,259**	**892,097**	**383,667**	**1,034,091**	**216,837**	**14,017**	
1.1 Debt securities		56,346	82,748	141,841	797,835			
- with early repayment option								
- other		56,346	82,748	141,841	797,835			
1.2 Loans to banks	100,985	663						
1.3 Loans to customers	1,542,616	256,251	809,349	241,826	236,256	216,837	14,017	
- current account	3							
- other loans	1,542,614	256,251	809,349	241,826	236,256	216,837	14,017	
- with early repayment option								
- other	1,542,614	256,251	783,305	241,826	236,256	242,881	14,017	
2. On-balance sheet liabilities	**285,959**	**2,075,424**	**478,707**	**384,421**	**903,487**	**103,484**		
2.1 Due to customers	284,047	1,554,383	368,707	384,421	201,396			
- current account	81,350	328,116	368,707	356,053	201,396			
- other payables	202,697	1,226,267		28,368				
- with early repayment option								
- other	202,697	1,226,267		28,368				
2.2 Due to banks	1,912	320,946	110,000		50,000			
- current account	958							
- other payables	954	320,946	110,000		50,000			
2.3 Debt securities		200,095			652,091	103,484		
- with early repayment option		200,095			201,188	103,484		
- other					450,903			
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 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	**8,503**	**21,023**		**983**				
1.1 Debt securities								
- with early repayment option								
- other								
1.2 Loans to banks	475							
1.3 Loans to customers	8,028	21,023		983				
- current account								
- other loans	8,028	21,023		983				
- with early repayment option								
- other	8,028	21,023		983				
2. On-balance sheet liabilities	**206**	**98,634**	**951**	**9,709**	**9,693**			
2.1 Due to customers	144	850	951	8,417	9,693			
- current account	144	850	951	8,417	9,693			
- other payables								
- with early repayment option								
- other								
2.2 Due to banks	62	97,784		1,292				
- current account								
- other payables	62	97,784		1,292				
2.3 Debt securities								
- with early repayment option								
- other								
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 transactions								
+ long positions								
+ short positions								

2.3 Exchange rate risk

Qualitative information

A. General information, operational processes and methods for measuring exchange rate risk

The Bank's asset portfolio at December 31, 2019 is denominated as follows:
- Euro;
- Polish zloty;
- Czech koruna;
- Croatian kuna.

Therefore, Banca Farmafactoring manages and monitors the risk associated with the volatility of such currencies. The Bank has a specific internal regulation for the management of exchange risk referring to exposures 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 Bank operates under a natural hedging approach and has entered into hedging instruments to hedge exchange rate risk where the natural hedging strategy cannot be pursued and/or is not effective.
With regard to the acquisition of BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty was hedged by loan agreements secured with the Unicredit Group and the IntesaSanPaolo Group, so that the asset and liability positions offset each other and, consequently, there is an open position in currency within the limits set by the Risk Appetite Framework approved by the Bank's BoD.
The currency effect, recognized in the income statement, arising from the revaluation of the zloty loans 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 BFF Polska Group's equity.

B. Hedging of exchange rate risk

No hedging transactions using derivative instruments were recognized at December 31, 2019.

Qualitative information

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						**95,460**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						1,147
A.4 Loans to customers						94,313
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities						**(99,048)**
C.1 Due to banks						(78,993)
C.2 Due to customers						(20,055)
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ long positions						
+ short positions						
- Other derivatives						
+ long positions						
+ short positions						
Total assets						**95,460**
Total liabilities						**(99,048)**
Difference (+/-)						**(3,589)**

Section 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 Bank 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 Bank 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 Bank adopted a Risk Management Policy and a 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 Bank adopted a governance model based on the following principles:

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

Liquidity risk stress tests were performed for assessing the potential impact of stress scenarios on the Bank's solvency conditions.

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
A. Balance sheet assets	**1,485,309**	**55,518**	**6,532**	**47,293**	**203,953**	**233,448**	**588,502**	**1,399,832**	**426,608**	
A.1 Government securities	9		40		60,699	5,104	149,588	844,000		
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	1,485,301	55,518	6,492	47,293	143,254	228,344	438,913	555,832	426,608	
- Banks	100,993	663	-	-	-	-	-	-	-	
- Customers	1,384,307	54,855	6,492	47,293	143,254	228,344	438,913	555,832	426,608	
B. Balance sheet liabilities	**283,848**	**314,098**	**254,877**	**481,109**	**481,082**	**644,005**	**569,498**	**951,396**	**271,585**	
B.1 Deposits and current accounts	81,152	9,738	7,801	91,521	419,490	432,364	482,736	301,396		
- Banks	1,909	3,333	0	75,000	121,167	60,000	121,446	100,000	-	
- Customers	79,243	6,405	7,801	16,521	298,323	372,364	361,290	201,396		
B.2 Debt securities					6,328	211,641		650,000	100,000	
B.3 Other liabilities	202,697	304,360	247,076	389,588	55,264		86,762		171,585	
C. Off-balance sheet transactions	**4,197**									
C.1 Financial derivatives with exchange of capital										
- Long positions										
- Short position										
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short position										
C.3 Deposits and loans to be received										
- Long positions										
- Short position										
C.4 Commitments to disburse funds										
- Long positions										
- Short position										
C.5 Financial guarantees provided	4,197									
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short position										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short position										

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
A. Balance sheet assets	**8,535**						**996**	**21,143**		
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	8,535						996	21,143		
- Banks	476									
- Customers	8,060						996	21,143		
B. Balance sheet liabilities	**163**	**5**	**176**	**189**	**2,169**	**961**	**10,883**	**104,851**		
B.1 Deposits and current accounts	163	5	176	189	2,169	961	10,883	104,851		
- Banks	62				1,687		2,232	95,157		
- Customers	101	5	176	189	482	961	8,652	9,693		
B.2 Debt securities										
B.3 Other liabilities										
C. Off-balance sheet transactions	**16,441**				**127,838**	**125,393**	**153,220**			
C.1 Financial derivatives with exchange of capital										
- Long positions										
- Short position										
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short position										
C.3 Deposits and loans to be received										
- Long positions										
- Short position										
C.4 Commitments to disburse funds										
- Long positions										
- Short position										
C.5 Financial guarantees provided	16,441				127,838	125,393	153,220			
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short position										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short position										

Section 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 failures 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.

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

The operational risk assessment model adopted by the Bank 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 assessment.

Within the framework of the measures adopted regarding the exposure to operational risk, the following specific risks are also monitored by the Bank:

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

For computing capital requirements for operational risk, the Bank 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 Bank 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 Bank adopts specific organizational models for the management of the risks regarding money laundering, occupational health and safety, and information security.

Part F - Equity

Section 1 – The Bank's equity

A. Qualitative information

The Bank's equity includes the aggregated share capital, share premium, reserves, treasury shares, revaluation reserves, and profit for the year. For regulatory purposes, the relevant aggregated equity is calculated on the basis of the current Bank of Italy's provisions and constitutes the basis of reference in relation to prudential supervisory regulations.

B. Quantitative information

B.1 The Bank's equity: breakdown

Amounts in € thousands

Items/Amounts	Amount at 12/31/2019	Amount at 12/31/2018
1. Share capital	131,326	130,983
2. Share premium	693	
3. Reserves	102,400	115,821
- from profits	102,400	115,821
a) legal	26,197	26,197
b) statutory		
c) treasury shares		
d) other	76,204	89,624
- other		
4. Equity instruments		
5. (Treasury shares)	(1,763)	(245)
6. Revaluation reserves:	3,791	(278)
- 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	(80)	(4,170)
- Property, plant and equipment		
- Intangible assets		
- Hedges of foreign investments		
- Cash flow hedges		
- Hedging instruments (not designated)		
- Exchange differences	(4)	-
- Non-current assets and disposal groups held for sale		
- Financial assets measured at fair value through profit or loss (change in credit quality rating)		
- Actuarial gains (losses) relating to defined benefit plans	(163)	(147)
- Portion of revaluation reserves from equity investments measured using the equity method		
- Special revaluation laws	4,038	4,038
7. Profit (loss) for the period	65,226	73,390
Total	**301,674**	**319,670**

B.2 Revaluation reserves relating to financial assets measured at fair value through OCI: breakdown

Amounts in € thousands

Assets/Amounts	Total 12/31/2019		Total 12/31/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		(80)		(4,170)
2. Equity securities				
3. Loans				
Total		**(80)**		**(4,170)**

Financial assets measured at fair value through OCI (HTC&S—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, 2019 of a negative reserve of €80 thousand relating to government securities recorded in the Bank's HTC&S portfolio.

B.3 Revaluation reserves relating to financial assets measured at fair value through OCI: year-over-year change

Amounts in € thousands

	Debt securities	Equity securities	Loans
1. Opening balance	**(4,170)**		
2. Positive change			
2.1 Increase in fair value	4,090		
2.2 Adjustments for credit risk		X	
2.3 Reclassification of negative reserves to income statement: following disposal		X	
2.4 Transfers to other equity components (equity securities)			
2.5 Other changes			
3. Negative change			
3.1 Decrease in fair value			
3.2 Reversals of impairment for credit risk			
3.3 Reclassification of positive reserves to income statement: following disposal		X	
3.4 Transfers to other equity components (equity securities)			
3.5 Other changes			
4. Closing balance	**(80)**		

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, 2019, this revaluation reserve is negative to the tune of €163 thousand.

Section 2: Own funds and regulatory ratios

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) 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 for banking regulations (Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways with which the powers attributed by EU regulations to national authorities were exercised.

2.1 Own funds

A. Qualitative information

Own funds represent the first line of defense against risks associated with the complexity of financial activities and constitute the main reference parameter for the assessment of the 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);
- any undistributed portion of profit for the period, 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.

Tier 2 (T2) capital includes Tier 2 instruments issued by subsidiaries.

The Bank's Own funds amounted to €352.7 million, including profit for the period of €58.2 million, compared to €298.5 million at December 31, 2018.

B. Quantitative information

Amounts in € thousands

Items/Amounts	Total 12/31/2019	Total 12/31/2018
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	289,262	226,237
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)	289,262	226,237
D. Items to be deducted from CET1	(34,756)	(25,908)
E. Transitional period - Impact on CET1 (+/-)		
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	254,507	200,328
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 (+/-)		
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 (+/-)		
P. Total Tier 2 (T2) capital (M - N +/- O)	98,224	98,224
Q. Total own funds (F + L + P)	352,731	298,552

2.2 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, 2019, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

With regard to the Bank, the CET1 Capital Ratio is 8.5%, the Tier 1 Capital Ratio is 8.5% and the Total Capital Ratio is 11.8%.

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

From the standpoint of operations, the absorption of risks is calculated using various methods:
- "Standardized approach" for credit risk;
- "Standardized approach" for counterparty risk;
- "Basic approach" for operational risk;
- "Standardized approach" for market risk.

Credit risk

This risk is thoroughly described in Part E of this document.

Counterparty risk

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.
For Banca Farmafactoring, counterparty risk can be generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the standardized approach.

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 Bank 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) 575/2013.

Continuing the developmental path of the Group's Operational Risk Management framework that was launched in recent years, in 2018 the Bank focused attention on strengthening the identification and forward-looking assessment components, along with introducing an internal statistical management model for quantifying exposure to operational risk. This was done for the purpose of verifying that the method used for regulatory purposes did value capital adequately against assumed and assumable risk. Actions carried out 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 regulatory trading portfolio. 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 Bank annually submits the "ICAAP/ILAAP Report" to the Bank of Italy, thus providing an update on the internal processes for determining adequacy of capital and liquidity risk governance and management systems of the Group.

In accordance with prudential supervisory provisions, the Bank has prepared the “ICAAP/ILAAP Report” approved by the BFF Board of Directors on April 19, 2019. The Group’s Report has been prepared in compliance with the relevant requirements introduced in 2018 by Circular no. 285. In particular, the new updates propose, among other, 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 include BFF Banking Group.

On June 24, 2019, the Bank approved a new “Recovery plan” in line with the update timeframe pursuant to the reference provisions and the commitments assumed with the Bank of Italy.

B. Quantitative information

Amounts in € thousands

Categories/amounts	Unweighted assets		Weighted assets/Requirements	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	5,194,775	4,598,010	2,684,970	2,126,264
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			214,798	170,101
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risks				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			24,731	24,312
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			**239,529**	**194,413**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,994,107	2,430,162
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio) (%)			**8.5%**	**8.2%**
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			**8.5%**	**8.2%**
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)			**11.8%**	**12.3%**

Part G - Business Combinations

Section 1 – Transactions performed during the year

On September 30, 2019, Banca Farmafactoring (hereinafter referred to as "BFF" or "the Bank") finalized the acquisition of 100% of IOS Finance EFC S.A. (hereinafter referred to as "IOS" or the "Company") for €26.4 million.
IOS was a leader in the market for non-recourse factoring services for receivables due from public administrations in Spain, offering its clients a diverse range of not only financial services, but also the servicing and collection of receivables due to the suppliers of the healthcare industry and local public administrations. IOS operated across all of Spain's regions, covering over 710 hospitals (both public and private) and 70 Public Administration entities. In 2018, it serviced approximately €273 million worth of loans and factored nearly €366 million in receivables without recourse. At September 30, 2019, purchases of receivables without recourse amounted to €290 million, while the loans serviced totaled €216 million.
The following table shows IOS's operating and financial highlights for the years ended December 31, 2018 and 2017 as well as for the first nine months of 2019 prior to the acquisition process.

In € millions

	9/30/2019	12/31/2018	12/31/2017
Total assets	107.0	98.4	124.5
Equity	17.7	43.4	44.6
Profit for the year	1.3	2.8	3.9

Pursuant to the revised IFRS 3 ("Business Combination"), following the acquisition of IOS the Bank performed the Purchase Price Allocation (PPA) with respect to IOS in light of the in-depth analyses conducted as part of the due diligence prior to the acquisition as well as based on the additional audits carried out after acquiring the Company.
The recognition of business combinations is governed by the international accounting standards IAS/IFRS issued by the IASB and endorsed by the European Commission—and, specifically, by the IFRS 3 Business Combination.

In accordance with IFRS 3, each business combination requires the identification of an acquirer, i.e., the entity that obtains control over another business or group of assets.

The acquisition, and therefore the first-time consolidation of the acquiree, is accounted for on the date in which the acquirer obtains effective control of the business or the assets acquired.
When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.

The consideration transferred in a business combination is measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed, and the equity instruments issued by the acquirer in exchange for control.

Business combinations are accounted for using the "acquisition method", which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and identifiable liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.
The accounting for a business combination can be made on a provisional basis by the end of the year in which the combination is effected, but must be perfected within 12 months of the acquisition date.

As defined above, as a general rule IFRS 3 requires business combinations to be accounted for using the acquisition method.

To apply said method, BFF worked through the following stages:
- identifying the acquirer;
- determining the acquisition date;
- recognizing and measuring, at fair value, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- determining the consideration for the business combination;
- recognizing and measuring goodwill or a gain from a bargain purchase.

In this specific case:
- as a result of acquiring 100% of IOS, BFF has obtained exclusive control over its assets and liabilities. Therefore, the business combination has been accounted for by identifying BFF as the acquirer pursuant to IFRS 3.
- the Purchase Agreement for IOS was signed on September 30, 2019. Based on the transaction documents, no agreements or other deeds were entered into that would have caused the date on which BFF obtained control to be different from the date of the agreement. Therefore, as part of the PPA process, the date considered for the purposes of the business combination was September 30, 2019. As a result, only the balance sheet of IOS at that date and the income statement starting from said date have been consolidated into BFF.
- the comparison between the consideration for the business combination of €26.4 million and the value of net assets of €17.7 million, as recognized in IOS's balance sheet at fair value at September 30, 2019, generated a difference of €8.7 million to be allocated to goodwill (PPA).
- the allocation process did not generate any significant differences between fair value and carrying amount of assets and liabilities at September 30 and no other intangible assets that could be subject to price allocation were identified. The difference was therefore recognized as goodwill, considering the benefit arising from the increased size and, therefore, visibility with current and prospective clients.

It should also be noted that on November 18, 2019, withdrawal of the EFC *(Establecimiento financiero de crédito)* license held by IOS Finance was confirmed by the Bank of Spain.
After such withdrawal, the Bank decided to merge the newly-acquired IOS Finance into BFF Finance Iberia.
The merger was finalized on December 31, 2019, with accounting and fiscal effects starting from September 30, 2019, for the purposes of BFF Finance Iberia's separate financial statements.

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, 2019, broken down by type of related party pursuant to IAS 24, and the percentage to 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 balance sheet							
Other assets							
At December 31, 2019	11		11	8,225	0.1%	44,668	0.0%
Due to customers							
At December 31, 2019		(391)	(391)	(4,350,675)	0.0%	464,275	0.1%
Provisions for risks and charges: a) pension and other post-employment benefits							
At December 31, 2019		(1,238)	(1,238)	(7,119)	17.4%	(6,619)	18.7%
Other liabilities							
At December 31, 2019		(1,180)	(1,180)	(49,361)	2.4%	(6,619)	17.8%
Reserves							
At December 31, 2019		(1,488)	(1,488)	(102,400)	1.5%	(6,619)	22.5%
Impact of transactions on the consolidated income statement							
Interest and similar expenses							
At December 31, 2019		(1)	(1)	(31,536)	0.0%	0	
Administrative expenses a) personnel costs							
At December 31, 2019		(4,255)	(4,255)	(31,848)	13.4%	0	
Net allocations to provisions for risks and charges							
At December 31, 2019		(678)	(678)	(3,540)	19.1%	1,870	36.2%
Other operating income (costs)							
At December 31, 2019	11		11	9,519	0.1%	0	

Notes: (1) Including members of the Board of Directors.

At December 31, 2019, the awarded option rights relating to the aforementioned stock option plan accounted for 4.37% of fully diluted capital, equal to 7,457,574 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, 2019 are as follows:

- BFF Finance Iberia (through Banca Farmafactoring Sucursal en España): €586 million;
- BFF Polska: PLN 117 million;
- BFF Central Europe: €122.9 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, 2019 amounted to about €814 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 BFF Polska Group at December 31, 2019 amounted to approximately €695 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;
- internal 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

Qualitative information

Stock Option Plan

On December 5, 2016, the Bank's Ordinary Shareholders' Meeting approved the adoption of a stock option plan for employees and members of the corporate boards. The plan has the following features:
- *purpose*: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe for newly issued ordinary shares of the Bank or shares that have already been issued and are included in the company portfolio when the option is exercised;
- *beneficiaries*: the identification of beneficiaries and the granting of options are decided by:
  a) the Board of Directors, after consulting with the Remuneration Committee, with reference to directors, senior executives and executives directly reporting to the Chief Executive Officer;
  b) the Chief Executive Officer, within the limits of his/her powers, with reference to other beneficiaries whose remuneration falls within his/her duties;
- *type of exercise*: ordinary or cashless exercise. On March 28, 2019 the Ordinary Shareholders' Meeting approved the introduction of an alternative method for exercising options under the plan, in addition to the ordinary option (so-called cashless). According to the new exercise option, authorized beneficiaries who requested it can be allocated a number of shares determined based on the market value of the shares at the exercise date, with no obligation for them to pay the exercise price.

In line with current regulations, the options granted under the stock option plan contribute to the determination of the variable remuneration paid through the use of financial instruments; therefore, the plan is subject to all the restrictions established under the remuneration and incentive policy for members of the 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, which is subject to a series of conditions detailed in the plan, and assuming:
  a) continuation of employment relationship with the Group and/or of the office held in the Board of Directors; and
  b) levels of capital and liquidity resources suitable to cover the activities undertaken and compliance with other parameters, also of a regulatory nature;
- 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, 2019, option rights to the stock option plan awarded were equal to 7,457,574 options awarded.

Stock Grant Plan

On March 28, 2019 the Ordinary Shareholders' Meeting approved a one-off stock grant without payment for Group employees, involving a maximum of 240,000 Parent Company shares. This corresponds to a maximum amount of €2,065 for each beneficiary, to be fully allocated on a single date to be set by the Board of Directors by December 31, 2019 (the "Stock Grant").

The one-off grant is intended for all natural persons (employees, middle managers or executives) who on that date are linked to BFF or one of its subsidiaries based on a permanent employment relationship, and who meet the additional subjective requirements provided for by the stock grant regulations.

On May 14, 2019, a partial execution of the aforesaid Shareholders' Meeting resolution took place. In particular, 150,800 BFF shares were granted to each beneficiary, with the price being determined on the basis of an arithmetical average of prices recorded in the month before that date (pursuant to the "Stock Grant" regulations).

Part M – Lease Reporting

On January 1, 2019, the new accounting standard IFRS 16 with the new definition and accounting model for "leases" came into effect. This standard is based on transferring the right-of-use for a leased asset, and applies to all leases—with the exception of leases with a lease term of 12 months or less or those for which the underlying asset is of low value (<5,000).

Based on this accounting model, the "right of use" is recognized in the balance sheet as an asset, and future payments relating to the same leased asset shall be entered as a liability. Any depreciation relating to the right-of-use asset, and any relevant interest expenses shall be recognized in the income statement.
The application of IFRS 16 changed the accounting substantially for lessees, as it eliminates a lessee's classification of leases as either operating leases or finance leases.

In particular, lessees are required to comply with the following main provisions:
- the identified asset is classified as a right-of-use asset and presented in the in the statement of financial positionbalance sheet as if it was ownedinvestment propert. The relevant financial liability shall also be recognized.
- at the commencement date, a lessee shall measure the financial liability at the present value of the lease payments agreed by the parties to use the asset over the term of the contract that is reasonably certain. The initial measurement of the right-of-use shall be equal to the value of the financial liability, less some specific items—e.g., those relating to the direct costs incurred in obtaining the lease;
- for subsequent measurement of the asset and over the lease term, the asset is depreciated on a systematic basis, while the financial liability includes any interest expense, calculated based on the interest rate implicit in the lease where expressly stated or on the cost of funding for the period, and any periodical lease payments.

Section 1 - Lessee

Qualitative information

During 2018, the Bank launched a project initiative aimed at understanding and defining the qualitative and quantitative impact of first-time adoption of the new IFRS 16. Following on from this project, a new accounting model has been defined for use in relation to all leases with the exception of those for which the underlying asset is of low value (less than 5,000 euros) or that have a short lease term (12 months or less).

For the purpose of first-time adoption (FTA), on January 29, 2019 the Board of Directors resolved that BFF and all companies belonging to BFF Banking Group shall adopt the "Modified Retrospective Approach". As a result, the Group does not need to apply the standard retrospectively (therefore considering complex comparative information, and the amount relating to right-of-use assets under "Property, plant and equipment" is equal to the financial liability amount.

Quantitative information

The Bank's right-of-use assets accounted for as "Property, plant and equipment" at first-time adoption and at December 31, 2019 are shown below.

Amounts in € millions

	Right of use 01/01/2019 (FTA)	Right of use 12/31/2019
Banca Farmafactoring	2,018	1,990
Total	**2,018**	**1,990**

For more details on the accounting impacts related to Property, plant and equipment and Financial liabilities measured at amortized cost, please refer to the "Accounting Policies" section.

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 2019 for audit and non-audit services provided by the audit firm and other companies in its network. Such fees represent the costs incurred and recorded in the separate financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

Amounts in € thousands

	Banca Farmafactoring SpA			
	PwC SpA		PwC Network	
Type of services	Italy	Outside Italy	Italia	Outside Italy
Audit	227			37
Certification services (*)	81			
Tax advice services				
Other services (**)	60		466	
Total	**368**		**466**	**37**

(*) Amounts referring to the comfort letters for bond issues, to the opinion issued in compliance with Article 2441, paragraphs 5 and 6 of the Italian Civil Code and Article 158 of the Consolidated Law on Finance, and to the audit of the statement of costs incurred by the Bank for research and development.

(**) Amounts referring to agreed verification procedures, due diligence activities and methodological support.

03

Certification by the Financial Reporting Officer

Certification of the Annual 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 2019 Annual report.

2) The suitability and effective application of the administrative and accounting process employed to draw up the 2019 Annual report 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 Annual report as of 31 December 2019

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.

3.2 The report on operations includes a reliable analysis of the important events and their impact on the Annual report, together with a description of the main risks and uncertainties to which they are exposed. The report on operations includes, moreover, a reliable analysis of the information concerning major transactions with related parties.

Milan, 25 February 2020

Massimiliano Belingheri	Carlo Zanni
Chief Executive Officer	Financial reporting officer

04

Board of Statutory Auditors’ Report

BANCA FARMAFACTORING S.P.A.

BOARD OF STATUTORY AUDITORS' REPORT

TO THE SHAREHOLDERS' MEETING OF

BANCA FARMAFACTORING S.P.A. PURSUANT TO ARTICLE 153 OF ITALIAN

LEGISLATIVE DECREE 58/1998

AND ARTICLE 2429, PARAGRAPH 2, OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of Banca Farmafactoring S.p.A.

Dear Shareholders,

The Board of Statutory Auditors ["**the Board**"] has been asked to report to the Shareholders' Meeting of Banca Farmafactoring S.p.A., Parent Company of the Banca Farmafactoring Banking Group [hereinafter also referred to as "**BFF**", "**the Bank**" or "**the Company**"], convened to approve the Financial Statements for the year ended December 31, 2019, on the supervisory activities carried out during the year and on the other activities provided for by the regulations, also in its capacity as Internal Control and Audit Committee, pursuant to Article 153 of Italian Legislative Decree 58/1998 [the "**Consolidated Law on Finance**"], Article 2429 et seq. of the Italian Civil Code, Articles 17 and 19 of Italian Legislative Decree 39/2010, and Articles 4, 5, 6, 11, 16 and 17 of Regulation (EU) no. 537/2014.

The draft financial statements for the year ended December 31, 2019, which are submitted for your approval, are accompanied by the Directors' Report on Operations.

The supervisory activities have been carried out by the Board of Statutory Auditors pursuant to the provisions of Article 2403 of the Italian Civil Code, Italian Legislative Decree 58/1998 (Consolidated Law on Finance), and the relevant provisions issued by the Supervisory Authorities, in accordance with the recommendations issued by Consob and the Code of Conduct of the Board of Statutory Auditors of Listed Companies as drawn up by the Italian National Board of Chartered Accountants and Accounting Experts (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*).

The Ordinary Shareholders' Meeting held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. ["**PwC**"] to audit the financial statements for the

years 2012-2020, as proposed by the Board of Statutory Auditors.
This Report describes the work carried out by the Board in the performance of its duties, which, during the year—and with specific reference to supervisory activities—were conducted in accordance with the law.

a) *Appointment, self-assessment and activities of the Board of Statutory Auditors*

The Board of Statutory Auditors in office at the date of this Report was appointed by the Ordinary Shareholders' Meeting held on April 5, 2018, on the basis of lists submitted by Shareholders (see Article 22 et seq. of the Company's bylaws). Its term of office will end on the date of the Meeting approving the financial statements for the year ended December 31, 2020.
In compliance with the above-mentioned appointment procedures, the current Board of Statutory Auditors is composed of the following 3 (three) members:

- Ms Paola Carrara, Standing Auditor, first candidate on the minority list and now Chair of the Board;
- Mr Marco Lori, former Chair of the Board, now Standing Auditor;
- Ms Patrizia Paleologo Oriundi, former Standing Auditor, whose position has been confirmed.

The Board of Statutory Auditors, also for 2019, has assessed the qualifications of its members and the proper composition of the body—with reference to the requirements of professionalism, competence, integrity and independence required by law—as well as the availability of sufficient time and resources given the complexity of the engagement and the effective functioning, taking into account the size, complexity and activities carried out by the intermediary. The Board of Directors' members complied with the limits on the accumulation of offices provided for by Article 144-terdecies of the Issuers' Regulation.
The Board of Statutory Auditors' self-assessment took place in accordance with the Regulations adopted by the Board and updated on October 8, 2019, within the meaning and for the purposes of Article 26, paragraph 5 of the Consolidated Law on Banking and Section VI of the Provisions on Corporate Governance, which—in recalling the purpose of the self-assessment process contemplated with reference to

the strategic supervisory body—envisage that "*also the control body shall perform a self-assessment on its composition and functioning, inspired by the above-listed purposes and on the basis of criteria and procedures that are coherent with its characteristics*".

The self-assessment, which was carried out also taking into account the provisions of the Regulations of the Board of Statutory Auditors and the Company's bylaws, as well as the best practices in place over time, provided a positive overview of the composition and functioning of the Board of Statutory Auditors.

The Board of Statutory Auditors took part, individually, in training sessions organized by the trade associations and/or professional orders of reference, concerning issues relevant to the role and responsibilities of the Board of Statutory Auditors as well as subjects relating to corporate governance, internal control and risk management systems as well as remuneration regulations. The Board of Statutory Auditors also attended induction sessions organized internally within the Bank regarding Corporate Social Responsibility and the relevant regulatory framework, as well as Digital Transformation and Cyber Security issues.

In order to govern the composition, functioning and powers of the supervisory body, in line with the principles established by applicable laws and regulations as well as the Corporate Governance Code the Company adheres to, the Board of Statutory Auditors has adopted its own Regulations, updated from time to time to reflect changes in legislation.

The Board of Statutory Auditors, in accordance with its Regulations and as far as its responsibilities are concerned, monitored the observance of the law, bylaws, and the principles of proper administration; the adequacy of the organizational structure, the internal control system, and the administrative and accounting structure; and the reliability of the latter to correctly represent operating events.

During the year, the Board of Statutory Auditors, which also has the role of Internal Control and Audit Committee as envisaged by Italian Legislative Decree no. 39 of January 27, 2010, carried out the verification activities entrusted to it by Article 19 of such Decree, and pursuant to Article 16 of Regulation (EU) no. 537/2014.

During the year, the Board of Statutory Auditors has held, as far as its responsibilities are concerned, 32 meetings, on the basis of an Annual Audit Plan agreed with the second and third level control functions.

The Board of Statutory Auditors, with limited excused absences by some of its members, also took part in all 19 meetings of the Board of Directors and all 16 meetings of the Control and Risk Committee, and in the Shareholders' Meeting of March 28, 2019.

The Board of Statutory Auditors, and mainly its Chair, also participated in all the meetings of the Related Party Transactions Committee, the Remuneration Committee (except for 1 meeting), and the Appointments Committee.

In conducting the supervisory and control activities, the Board had numerous meetings with senior management, the internal control functions (Compliance, Anti-Money Laundering, Risk Management, Internal Audit), the Audit Firm, the Supervisory Body appointed pursuant to Italian Legislative Decree 231/2001, and the Heads of the various Departments and Operating Units.

The participation in the meetings of the Board of Directors and in meetings with the control functions and the Heads of the various Departments and Operating Units, as well as the examination of the information flows prepared by the individual operating functions, enabled the Board to acquire, in the various sectors, necessary and useful information regarding the general trend in operations, the business outlook, the organization, the internal control and risk management system, and the administrative and accounting system, in order to assess their adequacy in meeting the Company's needs and their operating reliability.

The meetings with the internal control functions specifically made it possible to obtain adequate information on the internal control and risk management systems at the Banking Group level.

Contacts with the Head of the Planning, Administration and Control Department allowed to adequately check the observance of the control policies and procedures relating to the administrative and accounting system, which can be confirmed as adequate.

With regard to the manner in which it has carried out its duties, the Board of Statutory Auditors informs and states that it:

– acquired the elements of information necessary to conduct control activities, as far as its responsibilities are concerned, on the degree of adequacy of the organizational structure adopted by the Company, also as regards the liaison with subsidiaries and foreign branches, through direct inquiry, gathering of information from the Heads of the interested functions, exchange of data and information with the Audit Firm;

- monitored the observance of the requirements of the Bank of Italy;
- oversaw the application of the anti-money laundering laws;
- oversaw the completeness, adequacy, functionality and reliability of the internal control system and the RAF, and the functioning of the administrative and accounting systems, in order to assess their adequacy in relation to operational needs and their reliability to give a true and fair view of operating events, through direct observance of company documents, gathering of information from the Heads of the respective Functions, and analyses of the results of the work carried out by the Audit Firm;
- oversaw the strategic and operational control activities carried out by the Bank in its capacity as Parent Company.

Worthy of note is the involvement of the Bank's Internal Audit Function and Supervisory Body pursuant to Italian Legislative Decree 231/2001—with regard to their respective competences—in the activities of the Board of Statutory Auditors; it should be noted that the function of Supervisory Body pursuant to Italian Legislative Decree 231/2001 has not been transferred to the Board of Statutory Auditors, but it is carried out by a separate collective body.

b) <u>*Significant transactions and events during the year*</u>

The financial statements of Banca Farmafactoring S.p.A. for the year ended December 31, 2019 show a profit of €65,225,749, which is formed as described in detail in the Director's Report on Operations, to which reference should be made.
With regard to significant transactions, also described in the Report on Operations, the Board of Statutory Auditors has deemed it useful to point out as follows:

i) On September 30, 2019, the Bank acquired 100% of the Spanish company IOS Finance S.A.U. and filed the application for withdrawing the EFC (*Establecimiento financiero de crédito*) license with the Bank of Spain. Following the withdrawal of the EFC status, authorized by the Bank of Spain on December 18, 2019, the deed of merger of IOS Finance S.A.U. into BFF

Finance Iberia S.A.U. (100% owned by Banca Farmafactoring S.p.A.) was filed and registered with the *Registro Mercantil* in Madrid and became effective on December 31, 2019.

ii) In 2019, the authorization process to open a branch in Poland (the "**Polish Branch**") was completed, and the Polish Supervisory Authority KNF granted it on July 5, 2019. The Polish branch started its operations in September 2019 by launching the Lokata Facto deposit account.

iii) Pursuant to the Shareholders' Meeting resolution of April 5, 2018, the Bank acquired 319,752 treasury shares from February 8 to February 14, 2019.

iv) In 2019, the Bank also assigned 30,528 treasury shares, as part of its remuneration and incentive policy.

v) On April 8, 2019, the Board of Directors resolved to increase share capital, free of charge, for an amount equal to €1,015,272.72, in partial execution of the mandate granted pursuant to Article 2443 of the Italian Civil Code by the Extraordinary Shareholders' Meeting of the Bank, which was held on March 28, 2019, as part of the Bank's remuneration and incentive policy.

vi) In the period between April 16, 2019 and December 3, 2019, the aforesaid mandate was partially executed, and 446,378 shares were issued increasing share capital with consideration.

vii) On October 2, 2019, the Bank received its first official public rating from the ratings agency Moody's France SAS, which is only one notch below the Italian Republic's sovereign rating; and specifically: Long-term issuer rating: "Ba1", positive outlook; Long-term deposit rating: "Baa3", positive outlook; Short-term deposit rating: "P-3"; Baseline credit assessment (BCA): "Ba3".

viii) In 2019, the Bank carried out the following financing transactions:

   a. it secured €68 million worth of new revolving lines denominated in Euros, including €38 million in multi-borrower lines available also in currencies other than the Euro and accessible by the Bank's subsidiaries;

   b. it secured PLN 405 million (equal to about €95 million) worth of new lines of credit available to the Polish subsidiaries;

c. it agreed on a new credit limit for the refinancing of €40 million in recourse receivables with MPS Leasing&Factoring;

d. in October, it launched a new €300 million senior preferred unsecured bond issue under the EMTN (European Medium Term Notes) Program, with a fixed-rate coupon of 1.75% and maturity on May 23, 2023;

e. in November, it voluntarily repaid the €50 million term loan earlier than the original maturity date in February 2020 to streamline its resources and the cost of money;

f. it laid the groundwork for extending the EMTN in order to ensure access to the bond market throughout 2020. Such activities ended on January 17, 2020; the issues are 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.

ix) As part of the securitization transactions, during the fourth quarter of 2019, the Bank took the necessary action to renew the BFF S.p.A. S.r.l. flexible note securitization worth €150 million— private placement with the Bayerische Landesbank (BayernLB) Group—successfully completed on February 6, 2020, determining the extension of the program's revolving phase through to the note payment date of February 15, 2021 (the original deadline was in February 2020).

x) On May 29, 2019, the Bank's Board of Directors approved the Group's five-year Strategic Plan and three-year Financial Plan, setting objectives that relate to the organic growth of the core business, the optimization of funding and capital and the potential expansion into other market niches through acquisitions.

xi) On May 13, 2019, the Bank notified the Supervisory Authority of its intention to offer non-recourse factoring to suppliers of the French public administration agencies and National Healthcare System. On July 5, 2019 the Bank of Italy advised that the relevant notification had been sent to the French Supervisory Authority. The first non-recourse purchase of trade receivables due from the French National Healthcare System, took place on August 7, 2019.

xii) Furthermore, the Bank started to offer, through its Spanish branch and in compliance with regulations on the freedom to provide services, the Cuenta Facto product, using the Raisin online platform, in the Netherlands and Ireland, too, as of September 12, 2019 and October 1, 2019, respectively.

xiii) On January 29, 2020, Banca Farmafactoring S.p.A.'s Board of Directors approved the filing with the Italian Supervisory Authority of the requests to open a branch in Greece.

The Board of Statutory Auditors also points out that starting from September 24, 2018 and until December 21, 2018, the Bank of Italy, in exercise of the powers conferred by Italian Legislative Decree 385/93 (Consolidated Law on Banking), began an audit of the Banking Group. The results of the audit, which led to a "partially favorable" assessment by the Supervisory Authority, were presented to the Board of Directors and Board of Statutory Auditors on April 8, 2019, complete with a request to submit the inspection report to the examination of the Bank's control, management, strategic and supervisory bodies, during a specific meeting, asking them to please offer their thoughts as to the findings and observations included, notifying the consequent measures taken or to be taken. The Bank submitted its comments on the audit findings to the Supervisory Authority, presenting the actions taken in the meantime and/or to be taken to address the observations raised by the Bank of Italy as necessary and appropriate.

Furthermore, in 2019 the Bank continued to contribute to the Deposit Guarantee Scheme (*Fondo Interbancario di Tutela dei Depositi*, introduced by Directive 2014/49/EU on Deposit Guarantee Schemes, DGS) through a mandatory contribution of €913 thousand, and to the European Single Resolution Fund (SRF) established by Regulation (EU) no. 806/2014, effective from January 1, 2016, through a contribution of €1.734 million. It should also be noted that, by letter dated May 25, 2018, the Bank of Italy requested the banking industry to provide an additional extraordinary contribution for 2017, taking into account the upcoming financial needs of the National Resolution Fund: the amount charged to the Bank was €635 thousand.

Directors have also reported on the Group's capital adequacy, computed by considering the inclusion of BFF Luxembourg S.à r.l. (the so-called CRR Group).

and the motivations underlying its changes compared to 2018.

More specifically, at December 31, 2019, the Bank's equity amounted to €301.7 million, showing a decrease compared to €319.7 million recognized in the previous year.

Own funds recognized in the separate financial statements amounted to €352.7 million at December 31, 2019 (compared to €298.6 million at December 31, 2018); the overall exposure to risks, with reference to the activities carried out, is adequate in relation to the level of capitalization and the identified risk profile.

The CET 1 Capital Ratio was 8.5% compared to 8.2% in 2018; the Tier 1 Capital Ratio amounted to 8.5% compared to 8.2% in 2018; and the Total Capital Ratio was equal to 11.8% compared to 12.3% in 2018.

With reference to the consolidated financial statements, own funds amounted to €399.8 million (compared to €344.6 million at December 31, 2018); the CET1 Capital Ratio amounted to 12.5% compared to 10.9% in 2018; the Tier 1 Capital Ratio amounted to 12.5% compared to 10.9% in 2018; and the Total Capital Ratio was equal to 16.6% compared to 15.2% in 2018.

The Report on Operations provides a detailed description of the reasons behind changes in the Bank's own funds compared to the prior year, which can be summarized as follows:

- increase in own funds as a result of the allocation of a portion of the period profit, to the tune of €52.8 million, and as a result of the valuation reserve for HTC&S securities, which led to a positive impact of €4 million, net of tax (this impact was negative to the tune of €4.1 million at December 31, 2018);
- €2.6 million increase in the reserves relating to the remuneration of employees and other staff in financial instruments;
- €8.7 million decrease due to more significant deductions for the recognition of IOS Finance's goodwill of the same amount;
- for consolidation purposes only, €1.7 million increase in the translation reserve, due to the change of the exchange rates applied to BFF Polska Group's equity in consolidated equity.

The Board of Statutory Auditors also found that, for the year 2019, the late

payment interest collection percentage to be included in amortized cost remained at 45%, with average collection times confirmed at an estimated 1,800 days.
The updating of the time series, which was undertaken also considering the collections for 2019, confirmed the suitability of the existing percentage and of the estimated collection times for the overall portfolio.
Based on the information acquired and the controls carried out, the Board of Statutory Auditors has no observations or issues to report in relation to the conformity of the transactions performed by the Company with the law, the bylaws and proper administration practices. These transactions are not clearly risky, in potential conflict of interests, in conflict with resolutions passed by the Shareholders' Meeting or such as to put the integrity of corporate assets at risk.

c) *Atypical and/or unusual transactions*

The Report on Operations, the information acquired during the meetings with the Board of Directors and from the Chairman, the Chief Executive Officer, the management, the control functions and the auditors, did not indicate the existence of atypical and/or unusual transactions, including intragroup or involving related parties.

d) *Intragroup or related party transactions*

The Board of Statutory Auditors has monitored the compliance and observance of the policies, regulations and procedures followed by the Bank, without finding any critical issues.
The main reference documents are the "Banca Farmafactoring Banking Group Regulation for the management of transactions with parties that may be in a conflict of interest" and the "Policies on internal controls adopted by the BFF Group to manage conflict of interests" approved by the Board of Directors on November 11, 2016 (effective subject to listing and, therefore, from April 7, 2017), in relation to which the Board of Statutory Auditors has monitored compliance with the reference rules and regulations.

During 2019, the Board of Directors identified no atypical or unusual transactions with related parties, intragroup, or with other parties, nor did it receive any indications in that sense from the Board of Directors or the auditors.
The transactions between the Bank and certain shareholder companies and between the Bank, its subsidiaries and its parent company are based on ordinary operating activities and are in the interests of the Company, as stated by the Directors in the Report on Operations.
Such transactions are carried out at arm's length and take into account the characteristics of the transactions performed.
Detailed information on related party transactions is provided in the relevant section of the separate financial statements.

e) *Monitoring and control activities carried out by the Board of Statutory Auditors in relation to the duties attributed to it as the "Internal Control and Audit Committee"*

Pursuant to Article 19, paragraph 1, of Italian Legislative Decree 39/2010, as amended by Italian Legislative Decree 135/2016, and to Regulation (EU) no. 537, the Board, in its capacity as Internal Control and Audit Committee (*Comitato per il controllo interno e per la revisione contabile*, hereinafter also referred to as "**CCIRC**"), carried out independent assessments of the organizational measures aimed at fully implementing the new regulatory provisions, intended, in particular, to improve the quality of the audit and the independence of the auditors and audit firms, in order to improve market and investor confidence in financial information.
During the year, the CCIRC constantly interacted with auditors, placing particular emphasis on maintaining the independence requirement, also through the constant monitoring of the activities performed by the auditor with reference to both audit and non-audit services, previously subject to the assessment and opinion of the CCIRC in order to rule out the presence of services that are prohibited under Article 5 of said Regulation.
In 2017, the Bank, together with the Board of Statutory Auditors, with a view to better governing the new context, issued its own "Group Regulations for the approval of non-audit services to be assigned to the company entrusted with the

statutory audit", which set out the general principles and operating procedures related to the assignment of non-audit services entrusted to the Primary Auditor and its Network, as well as to the Secondary Auditor.

In 2019, the Board of Statutory Auditors, with particular regard to the adequacy of non-audit services provided to the audited entity, in accordance with Article 5 of the EU Regulation, constantly verified and monitored the independence of the auditor, issuing specific opinions for all tasks assigned and classified as non-audit services.

As regards the audit activities, during the many meetings held with the auditor PWC, the Board of Statutory Auditors:

(i) acquired information on the tests carried out on the proper keeping of the Company's accounting records and on the proper recognition of operating events in the accounts;

(ii) received from the audit firm, pursuant to Article 11 of Regulation (EU) no. 537/2014, the additional Report for the Internal Control and Audit Committee, which showed: i) no significant weaknesses in the internal control system as regards the financial reporting process considered important enough to be brought to the attention of the CCIRC; ii) no cases of fraud or suspected fraud; iii) no significant issues concerning cases of non-compliance to laws, regulations or the bylaws; iv) no significant difficulties concerning the availability of the information required for audit activities; v) no significant errors; vi) no significant aspects concerning the related parties of the Company such as to require reporting to those responsible for governance activities;

(iii) received from the same audit firm, pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) no. 537/2014, and pursuant to paragraph 17 of ISA Italia 260, confirmation of its independence, referring to the statement presented in the financial statements of Banca Farmafactoring S.p.A. for disclosure of the total fees charged to the Bank.

The Board of Statutory Auditors also examined the reports issued by the auditors, PricewaterhouseCoopers S.p.A., on March 12, 2020. Auditors' activities integrate the overall framework of the control functions established by law with reference to the financial reporting process.

The text of the Audit Report also includes the so-called Key Aspects of the audit, i.e., the aspects considered most significant within the framework of the audit of the separate and consolidated financial statements.

With regard to the opinions and certifications, the Auditor, in the Report on the audit of the financial statements:

- issued an opinion stating that the separate and consolidated financial statements of Banca Farmafactoring S.p.A. give a true and fair view of the financial position of the Bank and the Group at December 31, 2019 and of the result of 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 Italian Legislative Decree 38/05 and Article 43 of Italian Legislative Decree 136/15;
- issued an opinion on consistency stating that the Reports on Operations accompanying the separate and consolidated financial statements at December 31, 2019, and the specific disclosures contained in the "Report on Corporate Governance and Ownership Structure" pursuant to Article 123-bis, paragraph 4, of the Consolidated Law on Finance, for which the Bank's Directors are responsible, were drawn up in compliance with the law;
- declared there was nothing to report in relation to any material errors in the Reports on Operations, on the basis of the knowledge and understanding of the Company and its operating context acquired during the audit;
- declared, in the Report on the audit of the consolidated financial statements, that they verified the approval by the Bank's Directors, of the 2019 Consolidated Non-Financial Disclosure, prepared and published on a voluntary basis.

The Audit Firm has also issued the "Auditors' Report on the Consolidated Non-Financial Disclosure", in accordance with Article 3, paragraph 10 of Italian Legislative Decree 254/2016 and Article 5 of Consob Regulation Resolution no. 20267/2018. In this Report, the Audit Firm declared that, on the basis of the work carried out, there were no elements suggesting that the Consolidated Non-Financial

Disclosure for the year ended December 31, 2019 had not been prepared, as far as all significant aspects are concerned, in compliance with the requirements of Articles 3 and 4 of Italian Legislative Decree 254/2016 and the GRI standards indicated in the paragraph "Methodological Note" of the Consolidated Non-Financial Disclosure.

As regards the identification of the Key Aspects, the Board of Statutory Auditors has ascertained that these only concern the recognition of late payment interest on performing receivables purchased on a non-recourse basis.

In this regard, the Board of Statutory Auditors acknowledged the audit procedures identified by the audit firm in response to the Key Aspects, agreeing on the measures implemented to mitigate any relevant risks.

The approval of the financial statements at December 31, 2020 will mark the end of PricewaterhouseCoopers S.p.A.'s appointment for the nine-year period 2012-2020.

According to current legislation, as most recently amended by Regulation (EU) no. 537 of 16 April 2014 (the "European Regulation") and Italian Legislative Decree 135/2016, said appointment, by virtue of the cooling-off provided for by Article 17, paragraph 1 of Italian Legislative Decree 39/2010, cannot be once again conferred on the same company and the new auditors will need to be appointed by means of a specific selection procedure to be implemented in accordance with the terms and criteria laid down by Article 16 of the European Regulation.

In this regard, in its role as CCIRC, the Board of Statutory Auditors agreed with the proposal made by the Bank's relevant corporate structures to carry out the selection procedure to appoint the auditors for the nine-year period 2021-2029 earlier, in order to guarantee transition from the current and future auditor and to give the Shareholders' Meeting enough time to resolve on the relevant appointment. This early implementation, permitted by reference legislation, is also consistent with applicable regulations on incompatibility and independence, which describe, in order to prevent any potential grounds for incompatibility, the prohibited services, as defined in Article 5, paragraph 1 of the Regulation, some of which, defined by letter e) of said Article 5, need to be assessed by the CCIRC starting from the year prior to the first year of audit.

In view of this event, since September 2019, the Bank has begun its preliminary activities to select the new audit firm, in compliance with current legislation, sharing all the steps with the CCIRC. The selection procedure took place in accordance with Article 16, paragraph 3 of Regulation (EU) no. 537/2014. Upon completion of this procedure, in accordance with Article 16, paragraph 2 of said Regulation, the CCIRC therefore prepared a justified Recommendation containing two choices, of which one as a preference, which was then submitted to the Board of Directors' meeting held on February 25, 2020. The Recommendation was put on record by the Board of Directors; a specific disclosure will be prepared and submitted to the Shareholders' Meeting.

f) Monitoring activities on the independence of the auditors

As anticipated, the Board of Statutory Auditors has taken note of the Report on the independence of the auditors issued on March 12, 2020 pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) no. 537/2014 and paragraph 17 of ISA Italia 260, which does not report any situations that would compromise the independence or reasons for incompatibility, pursuant to Articles 10 and 17 of Italian Legislative Decree 39/2010 and Articles 4 and 5 of Regulation (EU) no. 537/2014.

The following table, prepared in accordance with Article 149-duodecies of the Consob Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 2019 for audit and non-audit services provided by the audit firm and other companies in its network.

(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	227			37				120
Certification services (*)	81							
Tax advice services								
Other services (**)	60		466					

Total	368		366	37				120

(*) The amounts refer to the comfort letters for bond issues, to the opinion on the adequacy of the criterion adopted to determine the issue price of new shares for the share capital increase with the exclusion of option rights in accordance with Article 2441, paragraphs 5 and 6 of the Italian Civil Code and Article 158 of the Consolidated Law on Finance, as well as the audit of the statement of costs incurred by the Bank for research and development.
(**) Amounts referring to agreed verification procedures, due diligence activities and methodological support.

As mentioned, it should also be noted that the Bank appointed PricewaterhouseCoopers S.p.A. to perform a limited audit of the Consolidated Non-Financial Disclosure, in accordance with Italian Legislative Decree 254/2016, prepared on a voluntary basis with reference to 2019. The CCIRC verified the compatibility of this appointment, which is classified as an audit service, with current provisions and the provisions of the Decree.

As mentioned, in relation to the assignment of non-audit services, the Board of Statutory Auditors constantly carried out independent assessments of the potential independence risks of the auditor and the safeguards applied pursuant to Article 22-ter of Directive 2006/43/EC, mainly ascertaining:

- that the non-audit service was not prohibited by Article 5, paragraph 1, of the EU Regulation, unless otherwise determined by the Member States;
- the reasons for assignment to the auditor PWC by the management of the PIE (the Bank);
- that the fees requested were determined such as to guarantee the quality and reliability of the engagement and were such as not to lead to the emergence of possible risks to the auditors' independence.

As regards the statement above, it should be noted that most of the non-audit services assigned to the Auditor and to companies belonging to its network, besides the audit of the separate and consolidated financial statements, the limited audit of separate interim financial statements prepared to determine the half-year profit to be included in Common Equity Tier 1 capital and of condensed interim financial statements, the limited audit of consolidated and separate financial statements prepared to determine period-end profit for the purposes of calculating Common

Equity Tier 1 at March 31, 2019 and September 30, 2019, and besides the verification of the proper keeping of accounting records and proper recognition of operating events in the accounting entries—for the entire Group, including foreign companies—, refer to due diligence, methodological support and certification services provided for the purposes of the renewal of the "EMTN – European Medium Term Notes Program".

As for the above, regarding the engagements assigned to PWC and its network by Banca Farmafactoring S.p.A. and the companies of the Group, the Board of Statutory Auditors does not believe there are any critical issues regarding the independence of the auditor.

g) *Monitoring activities on the administrative accounting and financial reporting process*

In compliance with Article 19 of Italian Legislative Decree 39/2010, the CCIRC is responsible for monitoring financial disclosure and submit recommendations or proposals aimed at ensuring its integrity as well as monitoring the effectiveness of the internal control and risk management systems in relation to financial disclosure. The Board of Statutory Auditors acknowledged that the Board of Directors of Banca Farmafactoring S.p.A., in accordance with the provisions of Law no. 262 of December 28, 2005 and Article 154-bis of the Consolidated Law on Finance, had already reviewed its governance structure, with resolutions dated April 28 and July 28, 2016, also with specific reference to the internal control and risk management systems with regard to financial reporting. In particular, on such occasions the Financial Reporting Officer was appointed, and the project for structuring the control model of the Financial Reporting Officer was approved, consisting mainly of the Regulations for the Financial Reporting Officer Function and the Methodological Framework of the Financial Reporting Officer.
During the year, the Board of Statutory Auditors, for the duties assigned thereto, also in its capacity as the Internal Control and Audit Committee, monitored the activities of the Financial Reporting Officer Function, with which it held regular meetings, examining the reference model, structured according to best market

practices (COSO Report) and able to provide reasonable assurance on the reliability of the financial reporting, the effectiveness and efficiency of operations, and compliance with the law and internal regulations.

In particular, the Board of Statutory Auditors noted that the Bank selected a so-called mixed control model, deemed suitable to guarantee the monitoring of the Internal Control System for periodic financial reporting based on the characteristics of the Group, defining the characteristics for subsidiaries, which, for the purposes of carrying out the planned activities, envisage:

- direct controls for the Parent BFF, with the preliminary definition of activities ("scoping"), the identification of procedures considered significant and the consequent identification of risks concerning "incorrect accounting representation due to errors and/or omissions relating to the balance of an account or class of transactions, resulting from calculation errors, classification errors and/or the manipulation of information, such as to generate, individually or jointly, material errors in the financial statements and/or financial reporting", i.e., accounting risks;
- a centralized control for the subsidiary BFF Finance Iberia S.A.U., which provides for the adoption of the model by the area of the Financial Reporting Officer of the Parent Company carrying out the checks required by the control model on both the Parent Company and BFF Finance Iberia S.A.U., also through on-the-spot checks;
- a decentralized control for the subsidiary BFF Polska S.A., which provides for the identification of a local resource reporting hierarchically to the Chief Financial Officer of the subsidiary and functionally to the area of the Financial Reporting Officer of the Parent Company, which is responsible for carrying out checks on the administrative and accounting procedures, for the purpose of generating adequate information flows to ensure the proper monitoring of financial reporting risks.

As regards the activities carried out by the Financial Reporting Officer Function in order to attest in its report the adequate and effective application of the administrative and accounting procedures, essential for ascertaining correspondence between the corporate accounting documents and the results of the accounting books and their suitability to give a true and fair view of the financial position, financial performance and cash flows, the Board of Statutory Auditors has verified the results of the checks carried out, which showed a situation that is monitored across the various areas, without the recognition of any critical issues or deficiencies such as to invalidate the opinion on the adequate and effective application of the administrative and accounting procedures, although some areas can be improved and the Bank has already taken the necessary measures in this regard.

As regards the structure and content of the periodic Reports prepared by the Financial Reporting Officer for the interim, separate and consolidated financial statements, the Board of Statutory Auditors believes that the activities carried out to assess the adequate and effective application of the processes and procedures necessary for the financial reporting of the Banca Farmafactoring Group were sufficient to support the certification required from the CEO and Financial Reporting Officer of the Banca Farmafactoring Group pursuant to Article 154-bis of Italian Legislative Decree 58/1998 (Consolidated Law on Finance).

The Board of Statutory Auditors has also obtained adequate information from the Directors on the general performance of operations and the business outlook as well as on the most significant transactions, in terms of size or features, carried out by the Bank and its subsidiaries, and, in this regard, there are no significant issues to report.

The Board of Statutory Auditors has also monitored observance of the provisions of Italian Legislative Decree 254/2016 and examined the 2019 Consolidated Non-Financial Disclosure, prepared on a voluntary basis, assessing its conformity with the provisions governing its preparation, in accordance with said Decree.

h) Monitoring activities on the adequacy of the internal control system

The Board of Statutory Auditors has monitored the adequacy of the internal control system also through regular meetings with the Bank's senior management and control functions: Internal Audit, Compliance and AML, Risk Management, and with the Financial Reporting Officer Function, as well as through constant participation in the work of the Control and Risk Committee.

In particular, the Board of Statutory Auditors has verified that each company of the BFF Group is equipped with an internal control system in line with the Group strategy and policy, especially with regard to foreign subsidiaries, in relation to which initiatives were implemented aimed at ensuring adequate standards and organizational controls, in compliance with local regulations.

In this regard, after recalling that the Bank, in its capacity as Parent Company of the BFF Group, in addition to the banking business, carries out management, coordination and control activities over BFF Finance Iberia S.A.U. and BFF Polska S.A., the Board of Statutory Auditors acknowledged the approval by the Board of Directors of the "Intercompany Regulations", which define the organizational structure, objectives and content of management, coordination and control activities, and the Group Regulations, aimed at better governing adoption of relevant provisions.

Furthermore, BFF, as Parent Company and representative before the Supervisory Authority, has issued to its subsidiaries the various measures necessary to implement the general and specific instructions given by the Bank of Italy in the interest of Group stability, pursuant to Article 61, paragraph 4 of the Consolidated Law on Banking and Circular no. 285.

As regards any profiles emerged after contact with the corresponding bodies of subsidiaries, the Board of Statutory Auditors notes that, under the Group's foreign scope, there are no equivalent control bodies. The Board of Statutory Auditors, in any case, properly investigated the audits performed, the conclusions drawn and the degree of incorporation of the actions suggested, during its regular meetings held with the Bank's corporate control functions. In this regard, it should be noted that control functions are directly responsible for the respective equivalent structures in BFF Iberia S.A.U., whilst they are the parties to which the corresponding equivalent functions of the BFF Polska Group report functionally.

The Board of Statutory Auditors also acknowledged that in 2019 the regulatory framework of BFF was further adapted both in terms of Governance Regulations and Operating Regulations, also implementing the observations of the control functions and the requests from senior management and the operational structures.

During the audit of the Bank and Group's regulatory framework, particular importance was assigned to: i) the update of the Bank's AML (Anti-Money Laundering) system, in line with the update applied to the relevant regulatory provisions; ii) the update of the AML (Anti-Money Laundering) system at the Spanish and Portuguese branches, in line with reference legislation; iii) the anti-money laundering system of the newly-established Polish branch; iv) the approval of the Credit Regulation of BFF Polska and its subsidiaries; v) the approval of a specific governance control policy applicable to the banking and financial products offered, in line with the updates applied to the reference regulations; vi) the update of the Group's organizational model; vii) the update of the Group's internal regulations, following the evolution of the reference regulations and the update of the Group's organizational model; viii) the approval of the Group's usury prevention policy; and ix) the approval of the exit strategies, in accordance with EBA Guidelines (EBA/GL/2019/02) regarding outsourcing, for all outsourced key operational functions.

With particular reference to the BFF Polska Group acquired in 2016, during the year under review Banca Farmafactoring S.p.A., in its capacity as Parent Company of the Banking Group, and taking into account its level of importance, continued in the strategic control over the evolution of the areas in which BFF Polska operates and in monitoring the various risks referring to the activities conducted, as well as in the technical and operational control directed to the measurement of the various risk profiles brought to the Group, also through the evolution subsequent to the BFF Polska integration process, currently in its final stages.

As reported in detail in the previous paragraph, another significant aspect in the process of strengthening the Group's internal control system is the further strengthening of the Financial Reporting Officer Function, starting from 2019 controls on the Portuguese branch and on services provided in compliance with regulations on the freedom to provide services.

The Board of Statutory Auditors, as far as its responsibilities are concerned, followed the different activities carried out and was informed about the implementation of the activity plans and the results achieved, also in terms of the effectiveness of the coordination of the activities and the information flows among the various subjects involved.

The Board of Statutory Auditors also took note of the activities conducted by the

Supervisory Body, appointed to ensure the adequacy, observance and updating of the organizational and management model set forth in Italian Legislative Decree 231/2001, and monitored the relevant requisites of efficiency and independence, through periodical meetings.

The Board of Statutory Auditors has also checked the Bank's compliance with the correspondence and submission obligations towards the Supervisory Bodies.

Based on the activities performed and the information acquired, the Board of Statutory Auditors therefore believes that overall, there are no critical issues such as to undermine the structure of the internal control system.

i) Monitoring activities on the adequacy of the risk management system

The Board of Statutory Auditors has monitored the adequacy of the risk management systems, also through the examination of the periodic Reports of the control functions and their periodic disclosures, the results of the monitoring activities and the implementation of the corrective measures identified, as well as through participation in the work of the Control and Risk Committee.

In particular, the Board took note that the Bank's internal control and risk management system involves each of the following according to their specific responsibilities: a) the Board of Directors, which has the role of guidance and assessment of the system's adequacy; b) the Control and Risk Committee, which is tasked with lending support, by appropriate oversight activities, to the assessments and the decisions made by the Board of Directors regarding the system of internal control and risk management; c) the Risk Management Function and the Compliance and AML Function, which bear specific responsibilities on the subject of internal control and risk management, according to the dimensions, complexity and risk profile of the company; d) the Internal Audit Function, charged with the duty to verify that the system of internal control and risk management is functioning and adequate; e) the Board of Statutory Auditors, which monitors the effectiveness of the system of internal control and risk management.

More specifically, also at the Group level, a fundamental aspect is considered to be the optimization of the governance of risks, in observing the following risk statements:

- ensure that regulatory requirements are met, guaranteeing that the levels of capital and liquidity of the Group remain strong, both under normal operating conditions and under stress scenarios;
- maintain a low risk profile;
- guarantee an adequate leverage level, through a policy of capitalization consistent with the level of the assets;
- ensure the availability of high-quality liquidity assets (Liquidity Coverage Ratio) and stable funding sources (Net Stable Funding Ratio), such that the Group continuously maintains a level of liquidity sufficient to absorb potential shocks in the short and medium/long term;
- implement an adequate Internal Control System (ICS).

The Group, therefore, has adopted a structured reference framework by implementing a disciplined process based on a specific internal risk appetite framework ["RAF"] regulation. This is evaluated by the Board of Directors in relation to the business model and the strategic plan and includes the approval of risk objectives and tolerance thresholds.

In this regard, the Board of Statutory Auditors has supervised, to the extent of its responsibilities, the completeness, adequacy, functionality and reliability of the RAF, also evaluating the changes to the framework during the year, in relation to developments in terms of metrics and the calibration of risk limits, in order to incorporate such developments in the Bank's business models, or in consideration of the regulatory guidelines.

The Board of Directors has set out the guidelines for the internal control system, ensuring that the main corporate risks are identified, managed and monitored in an adequate manner. Specifically, it has assessed all types of risk at the consolidated level and has approved the assumption of risk in a broad manner for all the Group companies and for all the countries in which it operates.

The system of internal control and risk management therefore appears to be consistent with the rules and regulatory framework, with the organizational structure of the Group, and in line with the standards as well as national and international best practices.

Again in 2019, the Board of Statutory Auditors constantly monitored the activities carried out by the control functions, reporting on the most relevant aspects and the outcome of checks carried out, with the following observations.

During the year, the Compliance Function carried out a mapping of the compliance risks for the Bank and at a Group level, and identified the measures adopted to mitigate them. The Board of Statutory Auditors agreed on the methodological approach used, including: i) the mapping of the areas and regulatory requirements applicable to the Bank, and the identification of the activities at risk associated with the same; ii) the determination of Inherent Risk; iii) the assessment of the Vulnerability of the Organization and Control System; and iv) the determination of the Residual Risk. No critical issues emerged from such mapping. At the date of this Report, such mapping is being updated in relation to the year 2019.

The Board of Statutory Auditors considered the representation of the overall compliance risks to which the Bank is exposed adequate, and that the initiatives taken and measures carried out, or being completed, can be considered effective with respect to the proper implementation of the risk management process.

On April 19, 2019, the Board of Directors of Banca Farmafactoring S.p.A. approved the 2018 ICAAP/ILAAP Report, acknowledging the various observations made by the relevant control functions and by the Control and Risk Committee.

The Board of Statutory Auditors, in this regard, also taking into account the ICAAP/ILAAP Audit Report, has verified that the ICAAP/ILAAP adopted by the Bank is structured in accordance with the applicable regulatory provisions, agreeing on the observations expressed by the control functions on the initiatives proposed to improve the internal capital adequacy assessment process.

On June 24, 2019, the Company's Board of Directors approved the Recovery Plan of the Banca Farmafactoring S.p.A. Banking Group [the "Recovery Plan"], after obtaining from the Supervisory Authority the postponement of the deadline set to prepare the document, in order to integrate the strategic guidelines approved by the Board of Directors on May 29, 2019.

In this regard, the Board of Statutory Auditors proceeded to examine the Recovery Plan, together with the Risk Management Function, investigating certain aspects with the Control and Risk Committee in order to properly understand the logics and criteria applied in the amendments/supplements made with reference to the last Recovery Plan approved and to assess the relevant consistency, both with respect to the points of attention highlighted in the communication specified and the reference provisions of law and regulations.

During the course of its investigations, the Board of Statutory Auditors was able to confirm its consistency with respect to the Farmafactoring Banking Group business model, the RAF, the ICAAP process, the Contingency Funding Plan, and the general structure of the Bank.

As part of the activities carried out by the AML Function, the Board of Statutory Auditors constantly monitored, with reference to legislation combating money laundering and terrorist financing, the activities carried out and the outcome of the ex post checks, with no critical situations to report.

The Board of Statutory Auditors also examined the self-assessment of money laundering and terrorist financing risks carried out in 2019, during which the Bank's AML Function identified and processed the data and information subject to assessment within the Group and prepared the results of the process, with the identification of any adaptations required.

In this regard, the Board of Statutory Auditors noted that, in the opinion of the Head of the Function, the overall evaluation of the Group's residual money laundering risk should be considered "low", in consideration of the assessment of the design and the effectiveness of controls of each legal entity belonging to the Group. At the date of this Report, such self-assessment is being updated in relation to the year 2019.

The Board of Statutory Auditors also verified the completeness, adequacy, functioning and reliability of the Business Continuity Plan prepared by the Board of Directors, also analyzing any additional measures and action taken in view of the recent Covid-19 emergency, in order to guarantee business continuity for the Bank and Group. As at the date of this report, the impact on the business and exposure to operational risk for the Bank and Group, are being analyzed.

j) <u>Monitoring activities on the adequacy of the internal auditing system</u>

During the performance of its control activities, the Board of Statutory Auditors continued its constant dialogue with the Internal Audit Function in the year under review, sharing the results of its verifications both in relation to the Parent

Company and the individual investee companies.

The Board of Statutory Auditors, in this regard, ascertained that the activities planned by the Internal Audit Function for the year 2019 fell within the scope of activities that the Function undertook to perform. No critical issues emerged from this activity.

According to the Audit Plan, prepared on a three-year basis for the 2019-2021 period, the planning of activities is carried out at a process-oriented level and according to an approach based on risk assessment. The Audit Plan is reviewed and/or supplemented annually and submitted for approval by the Board of Directors after examination by the Control and Risk Committee, and subject to a preliminary review by the Chairman of the Board of Directors, the CEO, the Board of Statutory Auditors and the 231/2001 Supervisory Body.

The Board of Statutory Auditors examined the guidelines for updating and revising the Group's Audit Plan for the year 2020, which will be submitted to the next Board of Directors for examination and approval, and noted, with particular regard to foreign subsidiaries: i) for the BFF Polska Group, that the audit reports included in the Dashboards of the Parent Company's Internal Audit Function are shared by the local Internal Audit Function with BFF Polska S.A.'s corporate bodies and transmitted to the Parent Company's Internal Audit Function, which involves, if necessary, the relevant corporate functions for audits in the areas they are responsible for; ii) for BFF Finance Iberia S.A.U., that the results of checks carried out by the Parent Company's function, based on a specific service contract, are first submitted to the Board of Directors of the subsidiary and included in the Dashboard of the Parent Company's Internal Audit Function

It should be noted that the Internal Audit Function is also responsible for the internal whistleblowing system. In this regard, 2 reports were received in 2019, of which one relates to BFF Polska S.A. and one to BFF Central Europe s.r.o.; both reports were classified as irrelevant or unfounded after due investigation.

The Board of Statutory Auditors also noted that the Bank's Internal Audit Function, with the objective of continuously improving the quality of its services in accordance with the highest international standards, completed the assessment process with a view to maintain the UNI EN ISO 9001 standard and the quality management system of the Parent Company and BFF Polska S.A were deemed compliant with regulatory standards.

k) Monitoring activities on compliance with principles of proper administration and adequacy of the organizational structure

The Board of Statutory Auditors has acquired information and monitored the adequacy of the organizational structure adopted by the Bank and its functioning, the observance of the principles of proper administration, and the adequacy of the instructions given to subsidiaries by the Company pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, through meetings and direct observations and by gathering information from the Heads of the relevant functions and Departments, in addition to acquiring additional necessary information from the firm appointed to audit the financial statements, PricewaterhouseCoopers S.p.A.

In particular, the Board of Statutory Auditors noted that in 2019 the process aimed at integrating the BFF Polska Group into the Banking Group continued, notably in relation to IT systems and financial disclosure.

No critical issued emerged from the examination of the periodic reports of subsidiaries submitted to the attention of the Board of Directors and the Board of Statutory Auditors.

The Board of Statutory Auditors also examined how budget and the Business Plan are prepared and found the process consistent with the Bank's business model, the RAF, and operating conditions.

The Board of Statutory Auditors, considering also the previous points discussed in this Report, believes that the Bank's organizational structure is adequate in relation to the needs of its current operations and size.

The Board of Statutory Auditors also believes that, in general, the instructions given to the subsidiaries by the Company in order to provide all information necessary to meet the disclosure obligations required by law, pursuant to Article 114, paragraph 2, of Italian Legislative Decree 58/98, are adequate.

l) Remuneration policy

Banca Farmafactoring Group's remuneration policies are governed by the Remuneration and Incentive Policy for members of the key supervision, management and control bodies, and personnel [the "Policy"], drawn up in accordance with the provisions of Title IV, Chapter 2, of the Supervisory Provisions for Banks as per Circular no. 285 of December 17, 2013, EBA Guidelines GL/2014/7 2014/7 and GL/2014/8 of July 16, 2014, and implementing the provisions of the Commission Delegated Regulation (EU) no. 604/2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to appropriate qualitative and quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, which came into force on June 26, 2014.

The Policy currently in effect, approved by the Shareholders' Meeting held on March 28, 2019, considers the Company's status as an intermediate-size bank, in conformity with the relevant Supervisory Provisions, and precisely defines:

- the scope of the roles whose remuneration is approved directly by the Board of Directors based on the proposal from the Remuneration Committee, including, the Chief Executive Officer, directors vested with specific powers, Senior Executives, Executives directly reporting to the CEO, and the Heads of the Group's control functions;
- 50% of the variable remuneration to which Risk Takers are entitled (both for the upfront and deferred portion), paid in financial instruments, which represents a more conservative approach than the 25% threshold provided for by regulations for intermediate-size banks;
- the two-year deferral of 30% of the variable remuneration due to Risk Takers, a more conservative approach taken with respect to the minimum deferral period of 18 months prescribed for intermediate-size banks;
- the adoption of a maximum ratio between variable and fixed remuneration, of 2:1, as resolved by the Shareholders' Meeting on December 5, 2016 and confirmed by the Shareholders' Meeting on April 5, 2018.

The Board of Statutory Auditors also took note of the procedure to prepare the Report on the remuneration and fees for members of the key supervision, management and control bodies, and personnel of the Banca Farmafactoring Banking Group, in relation to the disclosure required pursuant to Article 123-ter of Italian Legislative Decree 58/1998 and Article 84-quarter of Consob Regulation 11971/1999, which is divided into two sections:

- the first section, which contains the remuneration policy of the Banca Farmafactoring banking group for the year 2020, which will be submitted to the Shareholders' Meeting for approval;
- the second section, which describes how the remuneration policy for 2019 was implemented during the year, providing an overview of the remuneration effectively disbursed.

Lastly, the Board of Statutory Auditors took note of the changes made to the procedure for identifying the performance parameters, which limit access to variable remuneration in order to take into account the Group's operations and risks.

m) Complaints, reports, omissions or reprehensible actions, opinions issued and measures undertaken

During 2019, and up to the date of preparation of this Report, the Board did not receive any complaints pursuant to Article 2408 of the Italian Civil Code, or reports or claims or notices of reprehensible actions.

During the year and up to the date of preparation of this Report, the Board of Statutory Auditors has issued the opinions and expressed the observations which the existing law and supervisory provisions for banks assign to the Board, including, besides the opinions on non-audit services:

- considerations on the 2018 report on external key operational functions;
- considerations on the Banking Group Recovery Plan;
- consent to the allocation to goodwill of the difference between the purchase price and equity of the subsidiary IOS Finance S.A.U.;
- opinions issued on Remuneration;
- the opinion on the ICAAP/ILAAP Report and RAF;
- the approval of the Board of Directors' resolution on co-opting a director;

- the justified Recommendation for the appointment of auditors for the period 2021-2029;
- assessments of the outcomes of the checks carried out by the Internal Audit Function in relation to the adequacy of the organizational and control measures implemented by the Polish branch.

During the activities performed and on the basis of the information obtained, no omissions, reprehensible actions, irregularities or otherwise significant circumstances were found such as to require reporting to the Supervisory Authority or mention in this Report.

n) Governance

The Board of Directors of Banca Farmafactoring S.p.A., which has adopted a traditional administration and control system, is currently composed of 9 members, 6 of whom are independent pursuant to the Consolidated Law on Finance (5 of whom are independent also pursuant to the Corporate Governance Code). The only executive director is the Chief Executive Officer, who is in charge of management.
On December 9, 2019, Luigi Sbrozzi tendered his resignation as Director and Vice Chairman of the Bank; on December 11, 2019, in accordance with Article 2386 of the Italian Civil Code, the Board of Directors co-opted Giorgia Rodigari and conferred upon Federico Fornari Luswergh (Director) the office of Vice Chairman.
Corporate governance also provides for the creation of a Supervisory Body pursuant to Italian Legislative Decree 231/2001 and of specific committees with analytical, consulting and proactive responsibilities serving the corporate governing bodies with strategic and management supervision functions, meaning:

- the Remuneration Committee;
- the Related Party Transactions Committee;
- the Appointments Committee;
- The Control and Risk Committee.

The Board of Statutory Auditors, which regularly takes part in all the meetings of the Board of Directors, took note that in 2019 all the regulations of the Bank's corporate bodies were updated.
As mentioned above, in 2019 the Board of Statutory Auditors conducted a process

of self-assessment of its members, after updating its own Regulations on self-assessment, and took note that the Board of Directors and relevant committees also performed their self-assessment and the annual review of the succession plan for the CEO.

The Board of Statutory Auditors also approved its own Diversity Policy, in accordance with Article 123-bis of the Consolidated Law on Finance, acknowledging that the Board of Directors had also approved its own Diversity Policy.

The Board of Statutory Auditors assessed the implementation of the Corporate Governance Code promoted by Borsa Italiana and adopted by the Bank as illustrated in the "Report on Corporate Governance and Ownership Structure".

During the year 2019, the Board of Statutory Auditors also verified the proper application of the criteria and procedures for ascertaining the independence requirements of the members of the Board of Directors, pursuant to application criterion 3.C.5 of the Corporate Governance Code. In this regard, the Board of Statutory Auditors found that both the Appointments Committee and the Board of Directors, based on the documentation provided and the statements made by each Director, verified the independence of Directors. The Board of Statutory Auditors thus examined the documentation made available by the Company, verifying, in accordance with Article 3.C.5 of the Corporate Governance Code and to the extent of the duties assigned by law, the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of its Directors.

The meeting held on March 28, 2019 resolved, as part of its extraordinary agenda, to approve the amendment to the Company's bylaws, in order to grant the outgoing Board of Directors the power to submit a list of candidates to appoint Board members.

Conclusions

In conclusion of the monitoring activities carried out by the Board of Statutory Auditors as described above, we can reasonably affirm that the Bank's activities have been carried out in accordance with the law and the bylaws and that the organizational, administrative and accounting structures as well as actual functioning, are adequate.

The Board of Statutory Auditors took note of the reports issued on March 12, 2020 by the Audit Firm pursuant to Articles 14 and 16 of Italian Legislative Decree 39/2010, including an unqualified opinion on the financial statements of the Bank and the consolidated financial statements of the Banking Group. According to the same reports, the information included in the Report on Operations is compliant with relevant regulations and consistent with the financial statements as set out in Article 14, paragraph 2, letter e) of Italian Legislative Decree 39/2010.

Taking into account the above, the Board of Statutory Auditors, having considered the content of the reports issued by the Independent Auditors, has no reason, as far as its responsibilities are concerned, to oppose the approval of the separate financial statements for the year ended December 31, 2019 and the payment of dividends as proposed by the Board of Directors.

To this end, the Board of Statutory Auditors takes note that the Board of Directors has assessed the proposal for the distribution of dividends based on prerequisites aimed at constantly complying with prudent capital requirements over time.

Milan, March 12, 2020

Signed by

The Statutory Auditors

Paola Carrara

Paola Carrara

Marco Lori

Patrizia Paleologo Oriundi

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Independent Auditor's 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

Banca Farmafactoring SpA

Report on the Audit of the Financial Statements as of 31 December 2019

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 Financial Statements

Opinion

We have audited the financial statements of Banca Farmafactoring SpA (the Company), which comprise the balance sheet as of 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, 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 Financial Statements* section of this report. We are independent of 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 financial statements: *Part A – Accounting policies, "3 - Financial assets measured at amortized cost" and "Revenue recognition criterion" sections;* *Part B – Notes to the balance sheet, Asset, section 4;* *Part C – Notes to the income statement, section 1.* Within the calculation of the amortized cost of receivables from customers purchased without recourse, the Company also considered the estimate of late-payment interest accrued and deemed recoverable in accordance with what set out in the "Document of the Bank of Italy/Consob/Ivass no. 7 of 9 November 2016" regarding the "Treatment in 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 flows and times observable at the measurement date, and an elevated professional judgement is requested and includes judgemental elements of the management. Specifically, in order to select the key parameters for recognising the late-payment interest considered recoverable, the Company made use of internal databases consisting of historical series about the recovery percentages and actual	In conducting the audit, we took into account the internal control relevant to the preparation of the financial statements, in order to design the appropriate audit procedures in the circumstances, considering also the 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;

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
collection times in the last ten years for the National Healthcare System and in the last six years for the Public Administration sector.	• critical analysis of the model used by the Company to determine the parameters resulting from the historical series and verification of statistical value of this model; • 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; • verification of the correct allocation of the parameters in the management system and of the algorithm for calculating the amortized cost.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company 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 Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 institution of the banking group, on 20 February 2015, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the statutory audit of the Company'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 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 Banca Farmafactoring SpA as of 31 December 2019, including their consistency with the relevant 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 financial statements of Banca Farmafactoring SpA as of 31 December 2019 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 financial statements of Banca Farmafactoring SpA as of 31 December 2019 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 Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 12 March 2020

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

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