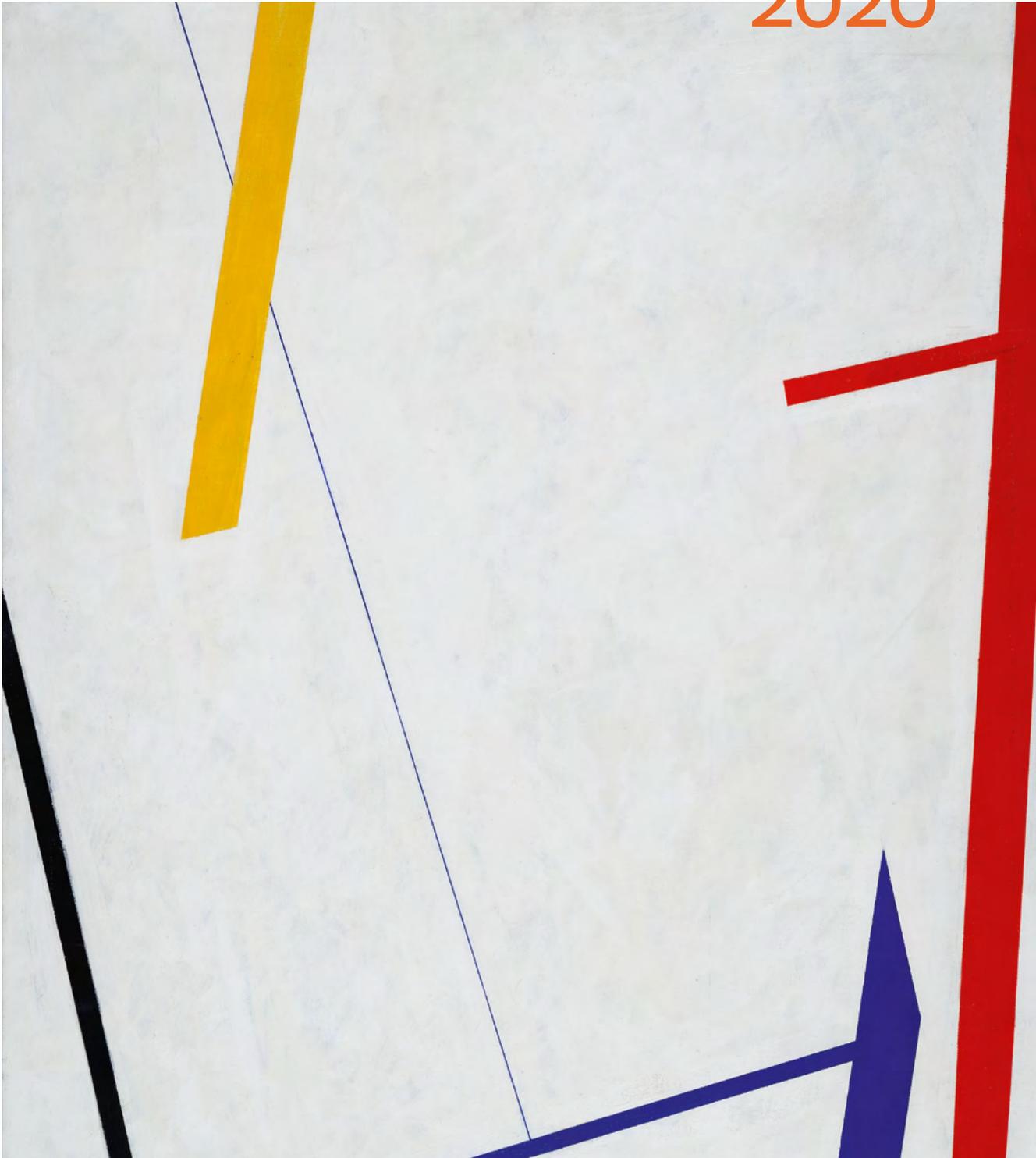


Consolidated Financial  
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2020



The artworks depicted in these pages were created by the artist Gianfranco Pardi and are part of the Farmafactoring Foundation's contemporary art collection.

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

In 2020, BFF and Skira edited the volume **"Art Factor. The Pop Legacy in Post-War Italian Art"** that narrates an Italian path to Pop Art through the works of Valerio Adami, Franco Angeli, Enrico Baj, Lucio Del Pezzo, Gianfranco Pardi, Mario Schifano and Emilio Tadini. From the mid-sixties these artists addressed a long-standing iconographic tradition, revising and transcending the avant-gardes and stylistic techniques of the past, making use of a rich variety of resources that are often put to the service of a social and cultural activism. Indeed, this catalogue and the collection itself tell the same story: the desire to be activists, not spectators of those initiatives that create value for society.

The art volume, which will be distributed from spring 2021, represents the first phase of a broader project that will promote the collection abroad in a travelling exhibition in Europe in 2021-2022.

**Banca Farmafactoring S.p.A.**

Parent Company of the "Banca Farmafactoring" Banking Group

Registered Office in Milan - Via Domenichino 5

Share Capital €131,400,994.34 (fully paid-in)

Milan Company Register no.,

Tax identification code and VAT no. 07960110158

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## Corporate bodies

### BOARD OF DIRECTORS

<b>Chairman</b>	Salvatore Messina
<b>Chief Executive Officer</b>	Massimiliano Belingheri
<b>Vice Chairman</b>	Federico Fornari Luswergh
<b>Directors</b>	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.

(\*) Appointed following co-optation by the Board of Directors on December 11, 2019 and confirmed as a member of the Committees – Remuneration, and Control and Risks – by the Board of Directors on April 18, 2020, following confirmation of the appointment as a Director by the Shareholders' Meeting on April 2, 2020.

### BOARD OF STATUTORY AUDITORS

<b>Chairperson</b>	Paola Carrara
<b>Standing Auditors</b>	Marco Lori Patrizia Paleologo Oriundi
<b>Alternate auditors</b>	Giancarlo De Marchi Fabrizio Riccardo Di Giusto

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

### INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

### FINANCIAL REPORTING OFFICER

Carlo Maurizio Zanni

## Committees

Members of the following committees were appointed by the Board of Directors on April 5, 2018.

### REMUNERATION COMMITTEE

NAME	QUALIFICATIONS	POSITION
Barbara Poggiali	Independent Director	Chairperson
Isabel Aguilera	Independent Director	Committee Member
Giorgia Rodigari	Non-Executive Director	Committee Member

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

NAME	QUALIFICATIONS	POSITION
Carlo Paris	Independent Director	Chairperson
Michaela Aumann	Independent Director	Committee Member
Barbara Poggiali	Independent Director	Committee Member

### NOMINATIONS COMMITTEE

NAME	QUALIFICATIONS	POSITION
Federico Fornari Luswergh	Independent Director	Chairperson
Isabel Aguilera	Independent Director	Committee Member
Ben Carlton Langworthy	Non-Executive Director	Committee Member

### CONTROL AND RISKS COMMITTEE

NAME	QUALIFICATIONS	POSITION
Michaela Aumann	Independent Director	Chairperson
Federico Fornari Luswergh	Independent Director	Committee Member
Giorgia Rodigari	Non-Executive Director	Committee Member

## BOARD OF DIRECTORS

### ROLE OF MEMBERS OF THE BOARD OF DIRECTORS AND INDEPENDENCE REQUIREMENTS

NAME	OFFICE IN BFF	EXECUTIVE	NON- EXECUTIVE	INDEPENDENCE	
				PURSUANT TO THE CONSOLIDATED LAW ON FINANCE	PURSUANT TO THE CORPORATE GOVERNANCE CODE
Salvatore Messina	Chairman		✘	✘	
Federico Fornari Luswergh <sup>1</sup>	Deputy Chairman		✘	✘	✘
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) Note that Mr. Fornari has held the position of Director within the Bank for more than 9 (nine) of the last 12 (twelve) years. The Regulation of the BoD (Article 3.4.3, paragraph 8, e)) provides that while for the Corporate Governance Code this would result in no longer being able to comply with the independence requirement, it is not in itself sufficient.

Furthermore, in order to assess independence, it is more important to consider the substance rather than the form, and taking into account the high level of professionalism, experience and independence of Mr. Fornari, the Bank, has determined that holding the position of Company Director for more than 9 (nine) of the last 12 (twelve) years under two different controlling shareholders and with the arrival at listing will not influence his autonomy of judgement.

## Letter from the Chairman of the Board of Directors

Dear Shareholders,

The year just ended will certainly be remembered more than others in the history books. The Covid-19 pandemic that moved west from China, arriving in our country first, has not only inexorably marked the world's economies and the lives of communities, but has also posed important new questions and required a high level of agility and adaptability of the individual, businesses and governments.

Governments in particular had to take extraordinary action to support the economy, businesses, families and a fundamental good such as the public's health by intervening on national health systems, budget constraints and by injecting liquidity into the system.

For the first time the entire public apparatus in Italy and throughout Europe has experienced remote work, accelerating the digital transition that has been repeatedly invoked over the last decade.

Like governments, companies also had to deal with a different way of understanding teleworking, including restrictions on mobility and social groupings, new family and personal equilibriums, all combining to put the physical and mental health of workers to the test.

In this context we have acted and done our part, right from the early stages of the emergency. We took all the measures necessary to protect the health of our employees, their families and the communities we operate in. Likewise – to ensure the efficiency and quality of service that our customers have come to expect – we remained fully operational throughout.

On the other hand, our business model – by its nature both solid and resilient – has allowed us to proceed along the lines already detailed in the "BFF 2023" strategic plan, as this document will illustrate.

Our Group's rapid ability to adapt to emergencies and disruptions like those experienced in 2020 was also possible thanks to the stability of the governance model, which is aligned with international best practices. For BFF - which today stands out as one of the few public companies in the Italian landscape – this was essential for its responsible and sustainable growth. In this sense, the renewal of the Board of Directors, which will be approved by the Shareholders' Meeting in March 2021, also represents a further opportunity to ensure the stability, inclusion and excellence of skills in corporate governance.

This pathway aligns with the Company's commitment to promoting the merit and diversity of gender, experiences and contributions, starting with the percentage of women on our Board of Directors and in the Group's management, as well as the 14 nationalities represented among our employees. We have long chosen to invest in meritocracy and the promotion of excellence.

The above, together with listening to our stakeholders, staying close to customers both in Italy and abroad, supporting the communities we operate in including through solidarity actions, initiatives aimed at scientific research and culture for which we provide extensive documentation in the Non-Financial Statement, have all allowed us to respond promptly to the many different impacts and facets of an emergency such as the Covid-19 pandemic.

It was an honour for the whole Group to work side-by-side with customers with whom we were able to create a useful product to guarantee the supply of medical devices to increase the intensive and sub-intensive care stations of Italian hospitals, which at the time were dealing with the first wave of Covid-19. It is our way of constantly developing responsible products and services, for the benefit of a just transition to sustainable and inclusive models, even – and especially – at the most complex times.

The resilience and solidity of our business model are also based on an additional pillar of our corporate culture: innovation. We have continued to invest in our infrastructure, in offices that are increasingly evolved and sustainable.

We have always worked safely, including digitally. We guaranteed this to our customers, and also for them we launched an online platform in Spain that combines non-recourse factoring and electronic invoicing services with a considerable simplification of times and procedures. In Poland we successfully started using digital signatures, which – especially in a year like the one we just experienced – on the one hand has facilitated the signing of commercial contracts remotely, and on the other has guaranteed something that is of primary importance for us: people's safety.

While the pandemic forced governments to close many borders, we wanted to remind ourselves of the importance of a united Europe that looks to the future. Therefore we went ahead with our project of opening a branch in Greece, making us one of the top three Italian banks for number of branches abroad.

The choice to diversify internationally, which began more than ten years ago with Spain – where the integration of IOS Finance was also completed in 2020 - proved to be a winner, as shown by the economic results of these years.

Last but not least, we announced the acquisition of DEPObank, an independent operator and leader in Italy in securities services and banking payment services. This was a system operation, negotiated during the months of the lockdown and tight restrictions, that will create BFF's leading Italian player in specialty finance, further develop DEPObank's business and improve the availability of funding and capital to serve BFF's traditional clients while maintaining its long-standing very low risk profile.

The Group's financial strength and its historic ability to constantly remunerate its shareholders with high levels of profitability will be further strengthened.

Our dividend policy has been confirmed while still complying with the recommendations issued by the Supervisory Body since – taking into account the Group's economic and financial situation, also in the context of the pandemic – the effects of the aforementioned recommendations are to be understood as a mere delay.

2021 also brings a renewed regulatory framework characterized among other things by the entry into force of the new definition of *default*, with all the operational derivations that this entails, and that we address with the preparation, planning and execution capacity demonstrated in over 30 years of experience. Here also the acquisition of DEPObank allows us, through broader funding and at an even lower cost, to guarantee a better capital position that is further strengthened by the new regulatory requirements, which also provide us with the opportunity to favourably change the weighting applied to the exposures owed to government entities.

Today we have a business model that is stable and highly specialised while also being more diversified geographically and in its scope of activities.

Confirming our ability to achieve excellent results even in crisis situations, 2020 was a year in which a slowdown in the recovery of late payment interest was inevitable, also in view of the difficulties of public administrations in the face of the health emergency and teleworking. The off-balance-sheet late payment interest reserve increased to €681 million.

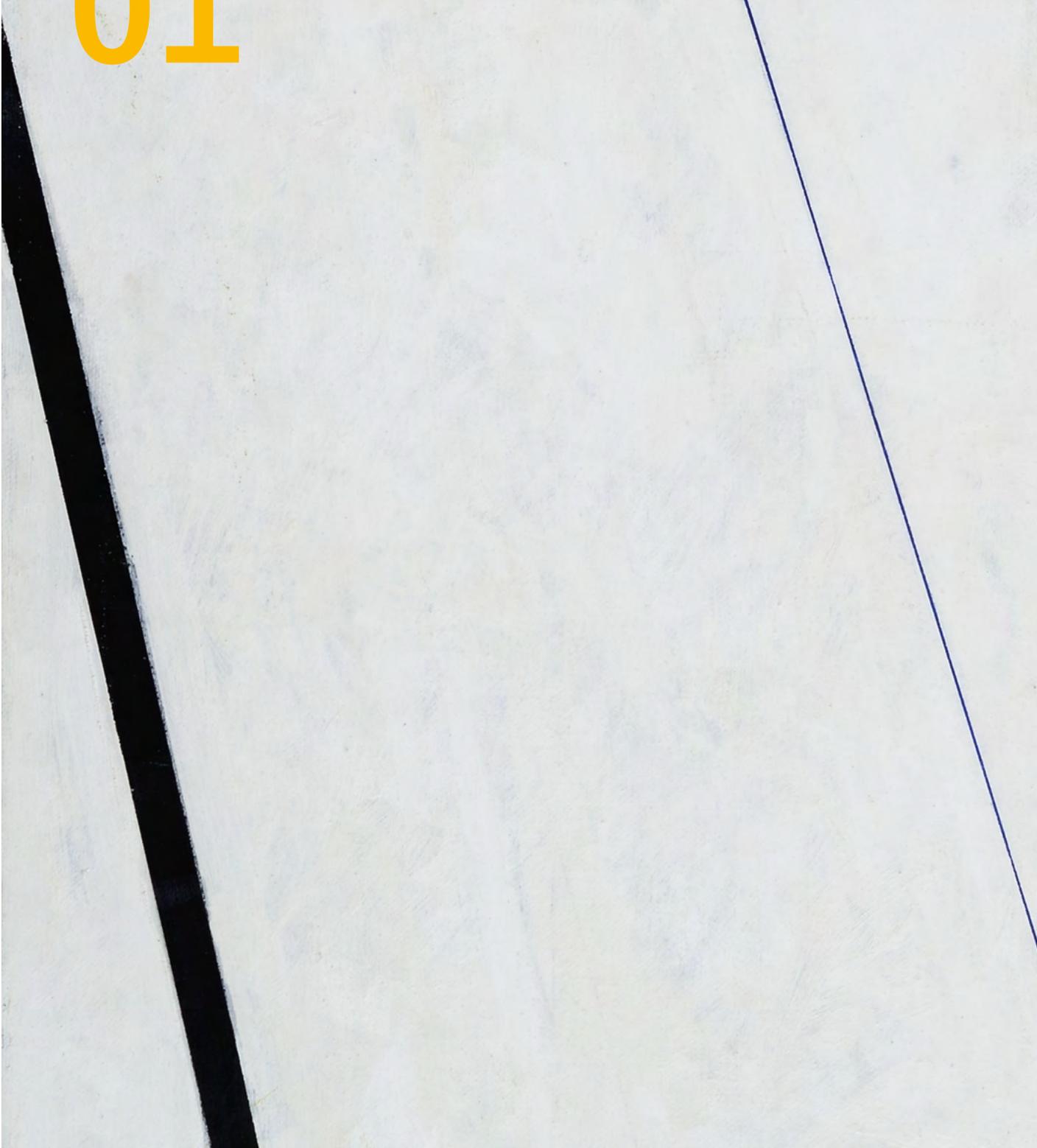
It has been a long year and many new, complex challenges lie ahead.

Therefore, this letter is an invitation to look forward to everything we can still achieve, knowing that we have already achieved so much during a complex 2020. This letter is also a thank you note to all those people – employees, customers, investors – who made it possible.

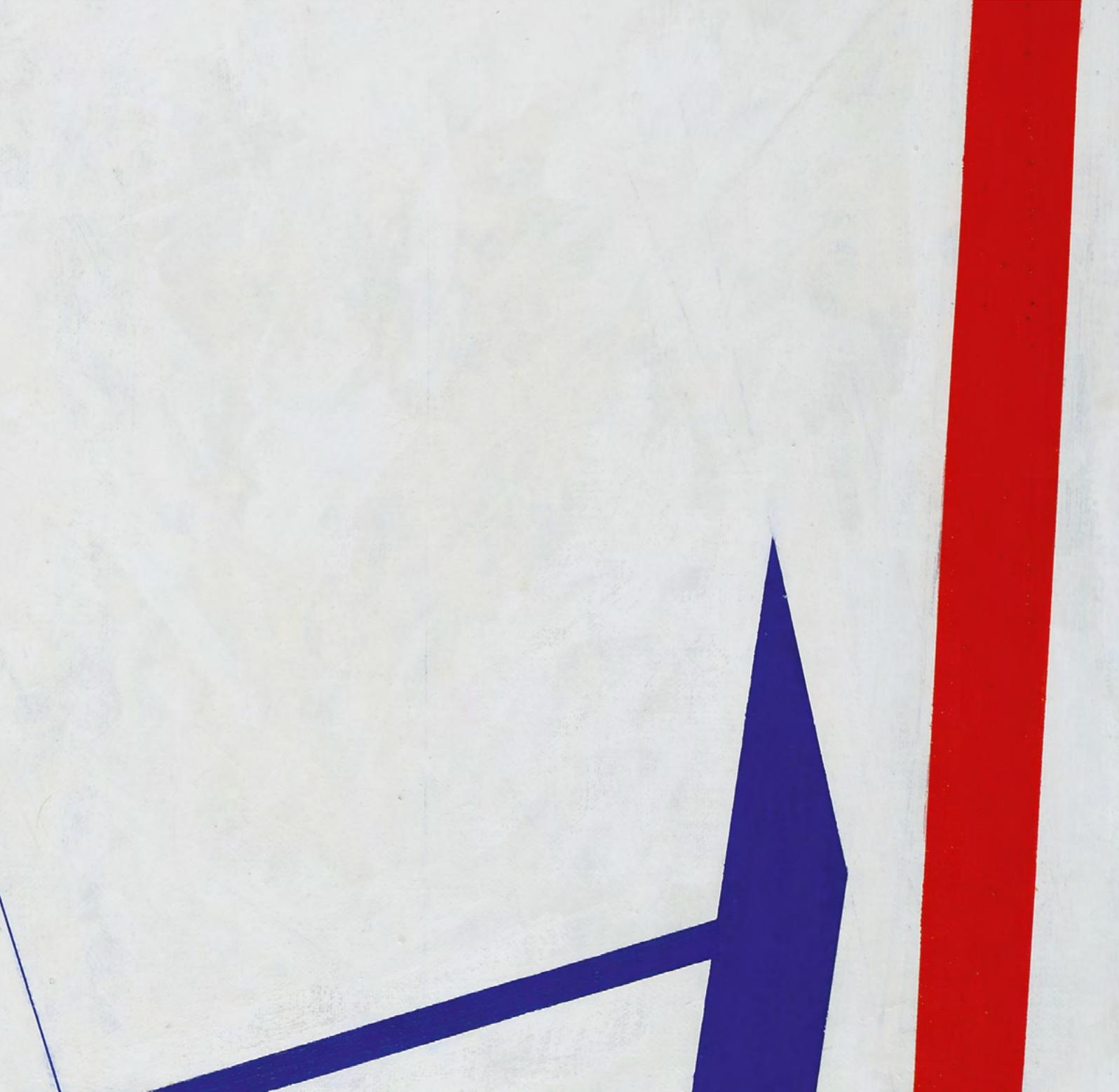
**Salvatore Messina**

Chairman of the Board of Directors of  
Banca Farmafactoring SpA

01



Report  
on Operations





## Leader in Europe

BFF is the leading European financial services provider to suppliers of the Public Administrations.

The Group operates in nine countries – Italy, Croatia, Czech Republic, France, Greece, Portugal, Poland, Slovakia and Spain - and, thanks to a consistent and disciplined strategy of international expansion, is now one of the top three Italian banks for number of foreign branches.

For over 35 years BFF has ensured improved liquidity for government suppliers through improved credit performance, DSOs and cost containment. With its non-recourse factoring and credit management services it acts as a mitigating element in the context of a public system plagued by structural payment delays at various levels and in most European countries.

The Group's core business falls within the framework of Directive 2011/7 EU, which places specific attention on the relationship between creditor companies and the Public Administration, as also reaffirmed in the Resolution of the European Parliament of January 17, 2019,<sup>2</sup> which includes the use of factoring among the corrective measures, useful to ensure compliance with the Community Directive and support liquidity throughout the value chain.

In fact, BFF offers a service that is highly tailored to the needs of its customers, aimed not only at guaranteeing liquidity to them but also greater efficiency. Indeed, on the one hand non-recourse factoring is a tool that is able to manage and finance working capital, and on the other hand it allows businesses to plan inflows and outflows over time, also and especially in periods of economic crisis that involve a rationing of credit, as happened for example in the course of 2020 due to the dramatic pandemic that has affected global healthcare, social and economic systems.

In this context, BFF has always remained fully operational, working closely with its customers in Italy and abroad to ensure the highest levels of efficiency and quality of credit purchasing and management services.

## Services

The Group offers four main types of service:

- 1) Non-recourse factoring (in Italy, Spain, Portugal, Greece, Croatia and France);
- 2) Financing to healthcare providers and local governments in Central and Eastern Europe (in Poland, the Czech Republic and Slovakia);
- 3) Credit management (in Italy, Spain and Portugal);
- 4) Online deposits in Italy, Spain, Germany, the Netherlands, Ireland and Poland,

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2) [https://www.europarl.europa.eu/doceo/document/TA-8-2019-0042\\_IT.pdf](https://www.europarl.europa.eu/doceo/document/TA-8-2019-0042_IT.pdf)

## Group History

Founded in Italy in 1985 on the initiative of a consortium of companies engaged in the pharmaceutical and biomedical industry to manage the trade receivables of the Italian National Health Service, the Group has grown to become the leading operator in the management and disposal of trade receivables due from Public Administrations in Europe.

The international expansion of the Group began in 2010 with Spain, followed by Portugal (2014) in compliance with regulations on the freedom to provide services, and then Poland, the Czech Republic and Slovakia through the acquisition of the leading operator in public sector financing (2016).

This geographical diversification has continued over the years through the opening of branches in Portugal (2018) and Greece (2020), where, as mentioned above, the Group already operated in compliance with regulations on the freedom to provide services. Over the course of two years Croatia (2018) and France (2019) were also added, expanding the scope of customers served, and the leading position in Spain was further strengthened through the 2019 acquisition of IOS Finance, among the main competitors in the country.

### 35 YEARS AT THE SERVICE OF SUPPLIERS TO THE PUBLIC ADMINISTRATION AND HEALTHCARE IN EUROPE

#### 2020 ▶ LEADER IN EUROPA

BFF is the only pan-European platform – present in 9 countries – specialised in the management and non-recourse purchase of receivables from the Public Administration and national health systems.

#### 2014-2019 ▶ TRANSFORMATION INTO A BANK, LISTING AND INTERNATIONAL GROWTH

BFF becomes a **Bank** (2013), gets listed on the **Italian Stock Exchange** (2017) and grows in **Central and Eastern Europe** through an important acquisition in Poland (2016).

It is also present in **Portugal, Greece, Croatia and France**.

The business in Spain is consolidated with the acquisition of **IOS Finance** (2019).

#### 2010-2013 ▶ RESILIENCE DURING CRISES, INTERNATIONAL EXPANSION BEGINS

The expansion into **new European countries begins** (operations in **Spain** IN 2010).

BFF products and services are offered to **all suppliers of public bodies** (National Health System and Public Administration), always in line with the needs of their customers.

#### 1985-2009 ▶ BFF IS BORN

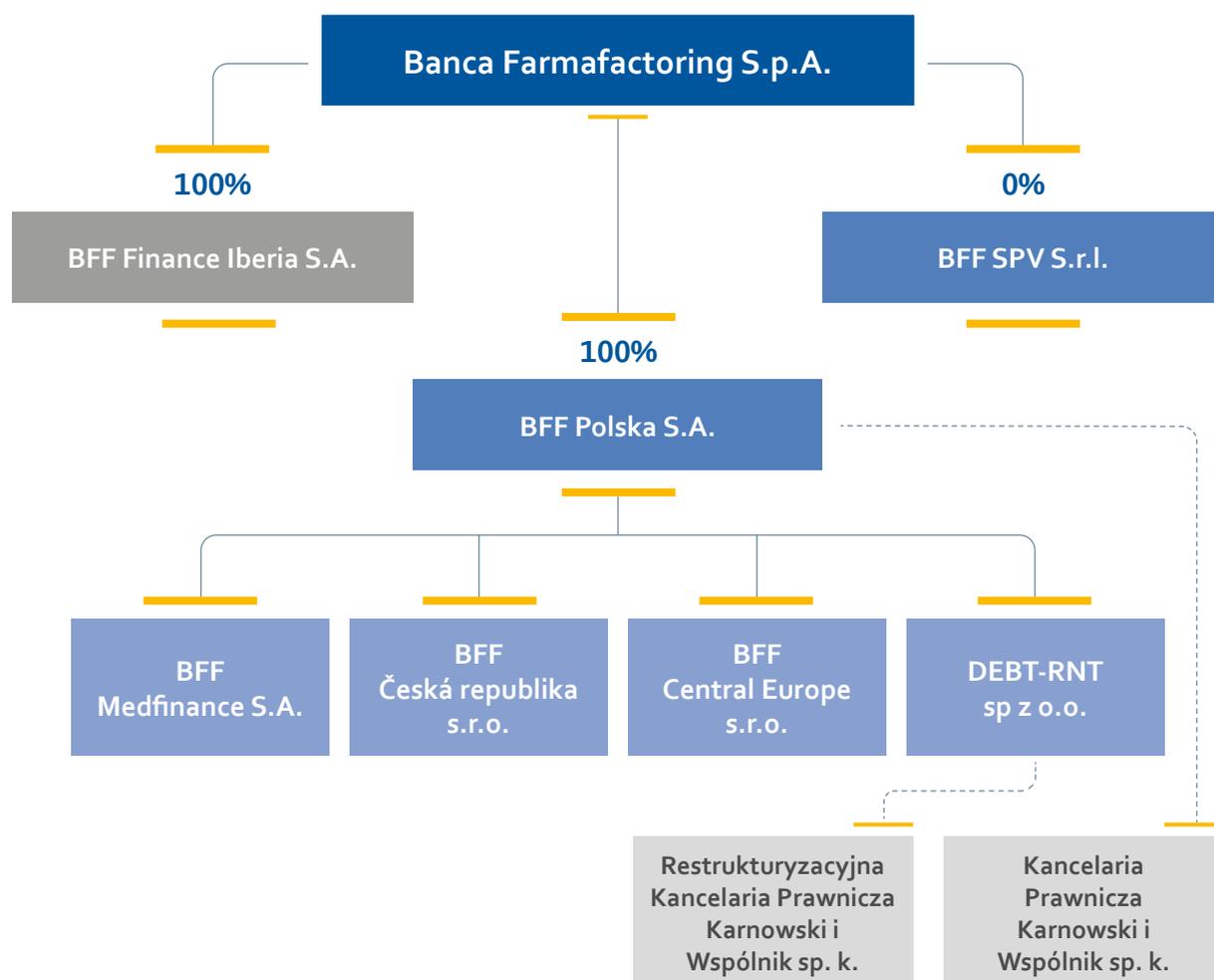
Founded by a group of **pharmaceutical companies** to respond to their needs of managing and collecting receivables from the healthcare system, BFF immediately became a **leader in the market**.

Acquisitions in line with the "BFF 2023" strategic plan continued in 2020 with DEPObank, the leading independent operator in Italy in securities services and banking payment services, serving more than 400 clients including investment funds, banks, payment and money institutions, large corporations and public administrations.

The operation, which will create the largest independent specialty finance operator in Italy, offers significant opportunities for value creation thanks to the diversification of the business model into markets with attractive growth levels, further boosting DEPObank's business and access to a broad funding and capital base that will enable the Group to serve its traditional customers even better.

The Operation is expected to be completed by the first quarter of 2021.

## GROUP STRUCTURE AT 12/31/2020



At December 31, 2020, BFF Banking Group included the Parent Banca Farmafactoring and the following companies:

Company name	Registered and operating office	Relationship type (1)	Ownership relationship		Voting rights % (2)
			Held by	Holding %	
<b>COMPANIES CONSOLIDATED LINE-BY-LINE</b>					
1. BFF Finance Iberia, S.A.U.	Madrid - Paseo de la Castellana 81	1	Banca Farmafactoring S.p.A.	100%	100%
2. BFF SPV S.r.l.	Milan - Via V. Betteloni 2	4	Banca Farmafactoring S.p.A.	0%	0%
3. BFF Polska S.A.	Łódź - Jana Kilińskiego, 66	1	Banca Farmafactoring S.p.A.	100%	100%
4. BFF Medfinance S.A.	Łódź - Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
5. BFF Česká republika s.r.o.	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o.	Bratislava - Mostova 2	1	BFF Polska S.A.	100%	100%
7. Debt-Rnt sp. Z O.O.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
8. Komunalny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
9. MEDICO Niestandardowy Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
10. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

As far as points 8 and 9 are concerned, voting rights refer to the investors' right to vote at the Meeting.

Companies in points 10 and 11 above are limited partnerships and are not consolidated since their total asset figures are not significant.

Key:

(1) Type of relationship:

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

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

## The International Economic Landscape<sup>3</sup>

The 2020 Covid-19 pandemic disrupted people's lives and slowed the European and global economies. Both consumption and investment have fallen dramatically. Many governments were forced to adopt extraordinary measures relating to public health that on the one hand have helped to protect many human lives and prevent the collapse of healthcare systems, but on the other have certainly made it impossible for normal economic life to continue, with repercussions on large parts of the economy. The launch of vaccination campaigns in December 2020 has had a positive impact on the medium-term outlook. While the timing and intensity of the recovery remain uncertain, with pandemic containment measures that are still ongoing and gradually lifting, the recovery of economic growth is considered to be moderately positive in the second quarter and stronger in the third quarter of 2021.

In July 2020 the European Council concluded an extraordinary meeting to address the effects of this unprecedented crisis, proposing a stimulus package valued at €750 billion and called Next Generation EU ("NGEU"). According to simulations by the European Commission, the NGEU should have a positive effect on EU growth, estimating a 2% increase in real GDP during the years of the stimulus package.

Quantitative Easing policies adopted by both the European Central Bank and the Federal Reserve allowed interest rates in capital markets to decline even further, which encouraged investors' expectations for a faster economic recovery. Moreover, access to capital for companies was also encouraged through bank loans on favourable terms, always guaranteeing good levels of liquidity and solvency for financial institutions.

In September 2020 the ECB confirmed that it will continue to purchase assets under the Pandemic Emergency Purchase Programme (PEPP) totalling €1,350 billion. This programme will continue until the end of June 2021 – or at least for the duration of the Covid-19 pandemic – purchasing assets worth €20 billion per month.

Target Longer-Term Refinancing Operations (TLTRO III) will also continue to provide liquidity to euro area banks, supporting the flow of credit to households and businesses.

The labour market has inevitably suffered. In Europe, measures were adopted to support national policies, such as the EU Support to mitigate Unemployment Risks in an Emergency ("SURE"), to limit job losses during the pandemic.

Eurosistema expert forecasts from December indicate that GDP would fall by 7.3% in 2020,<sup>4</sup> with output growing by 3.7% and 3.9% in 2021.<sup>5</sup> As mentioned above, these projections are subject to significant uncertainty and high risk, depending on the evolution of the pandemic and the success of the vaccination campaigns that began on December 27, 2020.

The speed of recovery will vary for each country. In fact, those whose economy is based on tourism have suffered more and their economy is expected to remain weak for a longer period.

3) Source: European Economic Forecast - Winter 2021 (interim) Institutional Paper 144, 02/2020.

4) Source: Bank of Italy Economic Bulletin no. 1, 2021.

5) Source: European Economic Forecast - Winter 2021 (interim) Institutional Paper 144, 02/2020.

Inflation in the euro area is expected to reach 0.3% in 2020, 1.4% in 2021 and 1.3% in 2022.

Based on preliminary data, the change in consumer prices in December was -0,3% over the 12-month period, weighed down by the weakness in the prices of tourism-related services. According to Eurosistema expert projections released in December, the change in consumer prices is expected to be 1.0% in 2021, rising to 1.1% and 1.4% in 2022 and 2023, respectively.

In 2020, the general government deficit is expected to increase from 0.6% of GDP in 2019 to 8% in both the euro area and the EU. This sharp increase largely reflects the work of automatic stabilisers and considerable discretionary fiscal measures. In 2021 and 2022 the nominal deficit is expected to fall respectively to 2.3% and 1.5% of GDP in both areas due to the expected rebound in economic activity and the dissolution of most of the temporary measures taken in response to the Covid-19 crisis. After registering a drop from its peak in 2014, aggregate euro area debt to GDP is estimated to reach a new high of almost 102% in 2020 before continuing to increase by about 1 percentage point in 2022.

Recent agreements between the United States and Great Britain on the terms of future cooperation and the approval of the Recovery and Resilience Facility (the main recovery tool envisaged by the European Union's Next Generation EU plan, which will provide early financial support through loans and grants for a total of €672.5 billion to help EU countries in the post-pandemic recovery) have improved economic growth expectations for the first half of 2021.

## **BREXIT**

Almost 5 years after the referendum, the agreement regulating the exit of the United Kingdom from the European Union was finally signed on December 24, 2020.

Despite the significant and unavoidable impacts on financial and commercial relations, BFF's operations have not been affected by this event.

# The Economy, National Debt Stock and Public Expenditures on Goods and Services in the Countries the Group Operates in

## A) Economic trends

The Covid-19 pandemic and the resulting uncertainty that hit Italy generated a cyclical trend strongly linked to the contagion and the consequent restrictive measures. In Italy, in fact, GDP declined by 5.3% in the first quarter of 2020, and then dropped even lower with a decline of 13% in the second quarter. In contrast, in the third quarter the country saw GDP growth of around 15.9% over the previous quarter. According to the most recent indicators, GDP declined again in the last quarter of 2020 with the resurgence of the pandemic, registering a decrease of about 3.5% from the previous quarter.<sup>6</sup>

Growth in the summer months of 2020 was higher than expected, indicating a significant resilience of our economy thanks to an increase in both exports and domestic demand and an increase in consumer and business confidence. However, at the end of 2020 the exacerbation of infections necessitated new containment measures that slowed the economic recovery. The actual impact on the economy as well as the timing and intensity of the recovery in production will depend on many factors, including the effectiveness of economic policies and the results of vaccination campaigns.

Inflation trends reflected weak demand and falling oil and commodity prices, reaching -0.1% in 2020. Inflation should still be very low in 2021, rising gradually to 1.2% in 2023.<sup>7</sup>

Overall, the Bank of Italy estimated a contraction in GDP of 9.2% in 2020, with a recovery of 3.5% in 2021, 3.8% in 2022 and 2.3% in 2023.<sup>8</sup>

During 2020 the government ordered increases in spending, reductions in tax levies, measures to support credit and mobilised significant resources at a national level. European institutions promptly activated the general safeguard clause of the Stability and Growth Pact and made state aid rules more flexible.

Significant support for economic activity came from budgetary policy and the use of European funds available under Next Generation EU (NGEU). Italy will adopt a strategy involving more than €300 billion, drawing on the €210 billion of NGEU programme resources supplemented by the funds allocated by the 2021-2026 budget. Cassa Depositi e Prestiti estimates that by 2026, the final year of the Recovery Plan, the programme will lead to an increase in Italian GDP of up to three percentage points compared to the expected GDP without NGEU resources.<sup>9</sup>

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6) Bank of Italy: Economic Bulletin no. 1-2021.

7) Bank of Italy: Economic projections for the Italian economy - Eurosystem coordinated exercise.

8) Bank of Italy: Economic Bulletin no. 1-2021.

9) MEF: Next Generation Italy, the Plan to design the country's future.

In parallel with the measures taken by the government, the ECB intervened with interest rate cuts, bank credit support measures and purchases of public and private securities.

Moreover, Italian banks continued to meet the demand for funds from companies. Supply conditions remained relaxed due to continued support from monetary policy and government guarantees. The overall increase in loans appears to have largely met the liquidity needs of companies resulting from the Covid-19 emergency. Furthermore, by stabilising the financial conditions of households and businesses, support measures have – at least temporarily – slowed new insolvencies.

## B) Needs of the national healthcare, state and public sectors

With regard to the state sector, in 2020 there was a need for approximately €158.8 billion, an increase of about €117.5 billion compared to 2019, which closed with a need of €41 billion. The largest increase occurred in the central government.

Specifically, the increase in disbursements was mainly caused by state interventions to support the economy, hit by the lockdown.

As regards public expenditures on goods and services, in the Economy and Finance Document (EFD) it was set at a level of around €159 billion for 2020. Expenditures are expected to decrease in the three-year period 2021-2023 to around €154 billion a year. This evolution is affected by the higher expenses in the year 2020 resulting from Italian Decree Law “Cura Italia” no. 18/2020, which will no longer be in place in the following year.

The level of national healthcare requirements was set for the three-year period 2019-2021 at €114.4 billion, with planned increases of €2 billion for 2020 and a further €1.5 billion for 2021. Following the Covid-19 health emergency, as confirmed by the 2020 EFD, the government took measures that increased the standard healthcare needs at 119.6 billion for 2020.

For 2021 the requirement was increased to €121.3 billion as a result of Italian Law no. 178/2020. Regarding the trend of state healthcare spending, the 2020 EFD forecast expenditures of around 120.8 billion, which will grow in the following three years to 121.9 billion in 2021, 122 billion in 2022 and 122.5 billion in 2023.<sup>10</sup>

For 2021, the NADEF<sup>11</sup> – EFD update note – set a target for net borrowing (deficit) equal to 7% of GDP. Compared to the current legislation, which establishes a deficit ratio of 5.7%, there is therefore room for an expansionary manoeuvre equal to 1.3% of GDP, i.e. more than €22 billion.

The forthcoming Budget Law and the Recovery and Resilience Facility grants will total approximately 2% of GDP in 2021.

It should be noted, however, that the Covid-19 emergency has placed considerable financial stress on both public and accredited private healthcare companies. More than 30,000 new staff have been hired permanently by the healthcare system. The cost of increasing the number of ICU beds for a total of €1 billion means that the additional financial resources have already been absorbed.

10) 2020 Economy and Finance Document.

11) MEF: 2020 EFD update note.

It is likely that by virtue of these important investments in factors within the healthcare system, in the coming years the system will be committed to increasing the financial flows used to cover these costs at the expense of an improvement in payment times on the purchasing processes related to external factors (goods and services). Hence the importance of an instrument such as non-recourse factoring and proper and efficient credit management, which can support healthcare providers with a view to offering a tangible support to the liquidity of the entire supply chain.

### C) Regional healthcare service: repayment plans<sup>12</sup>

In order to control the economic-financial equilibrium, in the healthcare sector the Regions can be subjected to repayment plans that, based on the regional recognition of the causes that structurally led to the emergence of significant management deficits, selectively identifies and addresses the various problems that have emerged in the region itself.

This procedure has been adopted in seven regions in Italy: Abruzzo, Apulia, Calabria, Campania, Lazio, Molise and Sicily, of which two – Calabria and Molise – have been placed under an external commissioner.

If periodic checks performed by boards monitoring the repayment plans find any non-compliance by the Regions, the Council of Ministers initiates the procedure to place an external commissioner in the Region.

For these regions, the acting commissioner makes sure that the repayment plan continues.

Currently a particularly difficult deficit situation has been addressed by Italian Decree Law 35/2019 (so-called “**Calabria Decree**”), whose first chapter is entirely dedicated to special provisions for the Calabria Region, aimed at restoring compliance with the essential levels of healthcare, as well as ensuring the achievement of the objectives of the regional health service deficit recovery plan according to the relevant operational programmes. All the actions proposed by the decree constitute extraordinary regulatory measures taken for a period limited to 18 months, all intended to help restore Calabrian healthcare to a “normal” administrative situation.

In November 2020 the Council of Ministers approved **Decree Law no. 150/2020** that introduces new urgent measures for the relaunching of the health service in Calabria. The decree provides for the strengthening of the powers of the acting commissioner, assigning the task of implementing the operational programmes for the continuation of the regional health service's deficit recovery plan and achieving the objective of restoring an economic, financial and accounting equilibrium. The objective is to structurally strengthen the hospital health service, adequately address pandemic emergencies such as the ongoing Covid-19 emergency and ensure an increase in intensive care hospitalisation and areas with a high intensity of care.

Expenditures by the region up to a maximum of €60 million were authorised for each of the years 2021, 2022 and 2023, subject to the signing of the specific Agreement between the State and the regions.

On January 24, 2020, with Italian Presidential Decree of December 5, 2019, the commissioner was ordered to leave the Campania region.

With the Resolution of March 5, 2020 and the following joint assessment of the board meetings held on July 22, 2020, the commissioner was ordered to leave the Lazio region. An interministerial board will remain active for another two years, monitoring the accounts of the region and ensuring the maintenance of acceptable ELAs (Essential Levels of Assistance).

12) <http://www.salute.gov.it/portale/pianiRientro/homePianiRientro.jsp>

With regard to distressed local authorities, the emergency regulations did not change the ordinary provisions. There remains a prohibition against initiating enforcement proceedings against defaulting debtors for debts falling within the general liabilities, as envisaged in the consolidated law on local authorities.

## D) Public Administration payment times

With regard to the data on general government trade debts, according to the latest – still partial – data published by the MEF relating to Q1 2020, made available in June 2020, invoices were recorded for approximately €42 billion, of which €24 billion were unpaid. Other information on the PA's trade debt payments for 2020 has yet to be published.

For a complete annual analysis reference should be made to the year 2019, which closed with 29.1 million invoices for an amount of approximately €163.3 billion (of which €148.2 billion actually payable). The Trade Receivables Platform (TRP) recorded payments of 24.5 million invoices, for a total of 140.4 billion (including the estimated share), which corresponds to 94.8% of the total (net of VAT and suspended and unpayable amounts). Therefore, for 2019 there were approximately 23 billion in total unpaid invoices divided between the P.A., the National Health Service and Municipalities, or about 8 billion considering the figure net of VAT and suspended/non-payable amounts.<sup>13</sup>

However, the data made available so far by the Ministry of Economy through its website only 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.

Therefore, while there has clearly been an improvement in payment times – also thanks to the liquidity advances guaranteed by the decree-laws referred to in the previous pages – further steps must be taken with respect to presentation and compliance with the payment times envisaged by the European Directive.

Late payments in commercial transactions weigh heavily on European companies, not just Italian firms, negatively impacting their financial efficiency and growth, especially in times of crisis such as now.

Community Directive 2011/7/EU was created to protect creditors' rights, especially with respect to the biggest and strongest entities in terms of contractual power, in order to avoid mechanisms of forced financing of debtors by creditors. In fact, it is precisely due to the objective position of strength enjoyed by Public Administrations that Directive 2011/7/EU provides for mandatory maximum terms for payments, as well as the payment of default interest (Late Payment Interest or LPI).

In this context and with reference to the incorrect or non-application of that Directive, the European Commission has opened infringement procedures against Italy, Greece, Portugal, Slovakia and Spain.

<sup>13</sup>) MEF: Public Administration trade payables: analysis of payment times - 2019 figures.

### EU COURT OF JUSTICE ON DIRECTIVE 2011/7 - INFRINGEMENT PROCEDURE 20142143

In January 2020 the EU Court of Justice ruled that Italy had violated Directive 2011/7 on combating late payments in commercial transactions. In the judgement of the Court, Italy was held liable for non-compliance with the payment deadlines – which must not exceed 30 or 60 calendar days, as envisaged in art. 4(3) and (4) of the Directive – by the entire Public Administration, when it owes money.

It is recalled that the European Commission sent a letter of formal notice on June 19, 2014 following complaints lodged by Italian companies and associations. At the request of the Commission, Italy submitted bi-monthly reports on the actual government payment times. However, it was found that the reports did not comply with Article 4 of Directive 2011/7 and a reasoned opinion was issued on February 16, 2017. Considering that the reply to the reasoned opinion received on April 19 of the same year by the Italian State was not sufficient, the Commission filed the lawsuit in question, which concluded in 2020 with the judgement of the EU Court of Justice.

## E) The Factoring Market in Italy

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

In this context, BFF's market share in terms of outstanding relative to the Public Administration sector was 27.7% at December 2020. The share is equal to that of September 2020 and lower than what was held at the end of 2019 (31.1%). Within Public Administration subsectors, in December BFF held a market share of 32.3% of local government outstanding, and 42% referring to the National Health Service.

The figures available for the factoring market in Italy for the month of December 2020, prepared by Assifact (Italian Association for Factoring) based on a sample of 33 companies, show a decrease in cumulative turnover (-10.83% compared to the same month in the previous year) and in outstanding (-6.08% compared to the same month in the previous year). More specifically, cumulative turnover amounted to €227.8 billion (of which €181 billion related to non-recourse), and outstanding amounted to €62.2 billion (of which €46.8 billion related to non-recourse).

Turnover followed the trend of companies' sales, normalising in the fourth quarter of the year. Non-recourse receivables accounted for 79.4% of the total. Furthermore, in Q4 2020 there was a net change in advances of approximately +€8 billion, which brought outstanding advances disbursed in December 2020 to over €50 billion in total. During 2020, purchases of trade receivables due from the public administration accelerated, amounting to over €27 billion. Outstanding receivables from public bodies at year-end amounted to €9.2 billion, of which €4 billion were overdue. Finally, gross impaired receivables stood at 4.05% and non-performing loans remained at low levels of 1.8%.

Overall, even in the year of Covid, factoring continued to fully support the working capital of companies, contributing to the stability of the production system with a view to a post-pandemic recovery.

The expectations of sector operators and Assifact members for 2021, while prudent, see a return to turnover growth of about 2.8% per year, after a negative first quarter estimated at about -3.14%.

## F) Split Payments

With regard to split payments, already commented on in previous years, it should be noted that this mechanism was introduced in 2015 with the "2015 Stability Law" and renewed in 2017 as an exception to the Community scheme. On June 22, 2020 the European Commission proposed the extension of the Split Payment to the European Council, initially scheduled for 12/31/2023 and then brought forward to June 30, 2023. This extension was authorised on July 24, 2020 by the European Council.

Remember that with split payments it is the public entities – and no longer the suppliers – that 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.

Companies that provide goods and services to entities that make split payments mainly face two types of problems: 1) a permanent VAT credit position and 2) a reduction in liquidity. The total loss of liquidity suffered by Italian companies following the introduction of the split payment is estimated for 2019 at approximately €12.3 billion (source I-Com).

## Poland

BFF started operations in the Polish market in 2016, with the acquisition of Magellan (now BFF Polska Group), which provides funding to healthcare providers and the government.

In Poland, the Group also operates with its own branch offering Deposit Accounts since 2019.

Public spending for 2019 as a whole amounted to €222.6 billion, of which €29.9 billion can be attributed to expenditures on public administration goods and services, and €9.9 billion can be attributed to social transfers in kind, up 7.5% compared to 2018 (€207 billion, of which €28.2 billion can be attributed to expenditures on public administration goods and services, and €9.1 billion can be attributed to social transfers in kind).

Real GDP projected for 2020 is estimated at around €422 billion, with one of the lowest rates of decline in Europe, -3.4% compared to 2019. The IMF expects a recovery of 2.7% in 2021.

The nominal budget deficit ended 2019 up €3.7 million, or 0.7% of GDP.

The National Bank of Poland ("NBP") has been supporting an expansionary monetary policy since 2014 in order to cope with weak prices (signalling a potentially deflationary situation) and to revitalise the economy.

On April 9, 2020, NBP reduced the interest rate of reference by 50 basis points, followed by other 40bps on May 28, 2020. The euro/zloty exchange rate also dropped during the period in question.

Based on Eurostat data, gross public debt continued to fall from over 50% of GDP in 2017 to 48.8% of GDP in 2018 and 45.7% in 2019 thanks to strong nominal GDP growth and relatively low nominal deficit.

With regard to public expenditures, the National Health Fund budget of the Ministry of Health agency will have to address the problems related to the decrease in revenues from health contributions due to rising unemployment. The latest IMF forecasts estimate that unemployment will rise from 3.3% in 2019 to 3.8% in 2020 and to 5.1% in 2021.

With regard to the Covid emergency, the Polish Government has:

- ▶ Introduced a Liquidity Package through the NBP to maintain liquidity in the banking sector, and reduced the basic interest rate and the minimum reserve rate;
- ▶ Introduced a "crisis shield" with the aim of providing assistance through support to local entities for current expenses and investments of PLN 212 billion and PLN 7.5 billion in the National Health System;
- ▶ Allocated resources to provide state guarantees and allow for moratoria on credit transactions;
- ▶ With respect to fiscal measures, supported domestic demand with direct transfers to households and suspensions of tax deadlines for employees.

On June 28, 2020, with a delay of about 1.5 months due to the Coronavirus health emergency, presidential elections were held. In the run-off the most voted candidate with 51% of the preferences was the incumbent president Andrzej Duda, first elected in 2015.

## Slovakia

As mentioned above, the BFF Group started operations in Slovakia in 2016 with the acquisition of Magellan (BFF Polska Group), mainly providing factoring or funding services to healthcare providers and local authorities.

Public spending for 2019 as a whole amounted to €40.1 billion, of which €5.2 billion can be attributed to expenditure on public administration goods and services, and €4.8 billion can be attributed to social transfers in kind, up 7.4% compared to 2018.

Slovakia's buoyant economic expansion in recent years has slowed down since 2019, with real GDP at +2.4% compared to 2018. GDP in 2020 is estimated by the European Commission to fall by 5.9%, recovering 5.9% in 2021 and 5.4% in 2022. The public deficit is growing, as is unemployment.

In 2019 the government debt-to-GDP ratio dropped to 48.5% compared to 49.9% in 2018, driven by nominal GDP growth.

Average days sales outstanding (DSOs) in the NHS currently exceed 120 days, while for P.A. bodies in general the times are shorter.

With regard to the Recovery and Resilience Facility Programme, support programmes focused on private companies in the form of state guarantees for €500 million per month, total state aid to companies impacted by Covid-19 amounted to €350 million, mainly aimed at supporting job retention.

In December 2020, a new debt relief package was announced, offering a total of €575 million for debt reduction, including €363.4 million for hospitals' payables to suppliers.

Parliamentary elections for the renewal of the National Council of the Slovak Republic were held on February 29, 2020. The winner was the candidate Igor Matovic, leader of OĽaNO, who formed a coalition government with three other right-wing and centre-right parties.

## Czech Republic

As in the case of Slovakia, BFF operations also started in the Czech Republic following the acquisition of Magellan (BFF Polska Group) mentioned above. As with the other countries of the BFF Polska Group, funding to healthcare providers and local government is also the main activity in the Czech Republic.

In 2019 GDP grew by 2.3% on an annual basis, amounting to about €186 billion. European Commission estimates predict a contraction in real GDP in 2020 of 5.6%, followed by a recovery of 5.6% in 2021.

Since September 2018, the Czech Central Bank has been pursuing a monetary policy intended to lower inflation and protect the value of the local currency.

The unemployment rate for the Czech Republic is the lowest in the European Union: in 2019 it fell further to 2% of the total labour force from 2.2% in 2018, with the IMF estimating that the rate will increase to 3.1% and 3.4%, respectively, in 2020 and 2021.

The Czech Republic's gross national debt fell to 30.2% of GDP from 32.1% in 2019.

Public spending for 2019 as a whole, up 8% compared to 2018, amounted to €92.2 billion, of which €13.2 billion can be attributed to expenditures on public administration goods and services, and €6.9 billion can be attributed to social transfers in kind.

The NHS's DSOs have been significantly reduced thanks to the debt reduction provided by the Czech government, and are now less than 60 days.

A liquidity injection was approved for state NHS providers: the country's top six hospitals received €258 million in cash to cover overdue receivables.

In view of next year's parliamentary elections, three centre-right parties – the Civic Democratic Party (ODS - ECR), the Christian Democratic Union party (KDU - PPE) and the TOP 09 party (PPE) – signed a memorandum in order to create an alliance against the ruling party headed by Prime Minister Andrej Babiš. According to recent Kantar CZ polls, only 24.5% of those interviewed say they will vote for the ruling party.

## Spain

BFF Banking Group started operating in the non-recourse factoring sector of the Spanish market in 2010 and consolidated its leadership position thanks to the acquisition of IOS Finance, one of its main competitors (now merged by incorporation into BFF Finance Iberia), at the end of 2019. Credit management is also provided by BFF to customers in Spain.

In Spain the Group also operates with a branch offering Deposit Accounts.

Despite some slowdown, for the sixth year in a row real GDP in Spain grew by 2.0% in 2019, above the Euro Area average of 1.2%. GDP was equal to about €1,200 billion in 2019.

Overall, the IMF expects a slowdown in real GDP growth, which is forecast at -11.0% in 2020, with a recovery of 5.9% in 2021.

Employment growth in 2019 had offered some hope, recording the lowest unemployment rate since 2007 (when it was 8.2%), down to 14.1% against 15.3% in 2018. However, the IMF forecasts confirm a sustained increase to 16.8% in 2020 and 17.5% in 2021.

As for the gross national debt, in 2019 the ratio to GDP decreased further to 95.5% compared to 97.4% in 2018. This decline was driven mainly by nominal GDP growth.

Public spending for 2019 as a whole amounted to €523 billion, of which €63.9 billion can be attributed to expenditures on public administration goods and services, and €32.8 billion can be attributed to social transfers in kind, up 4.4% compared to 2018.

To combat the Coronavirus, the Spanish government has introduced the following measures:

- ▶ In 2020 a total of €39,076 million was allocated to supplier payments, €9,611 million more funding than in 2019. Moreover, regional governments received additional funding of €16,000 million, €8,000 million of which were already spent in 2020.

Regions that have not applied for FLA funding include Madrid, the Basque Country and Navarre.

- ▶ A fiscal package to support domestic demand (e.g. direct transfers to households, suspensions of tax deadlines) and the introduction of state funding and guarantees for companies;
- ▶ Allocation of resources for state guarantees on loans and moratoria for credit transactions.

In this context the implications for the Group have led to a reduction in the DSO of the PA and an increase in collections.

Moreover, the government has approved further transfers to the Social Security Funds (FSS) amounting to €17.5 billion.

In order to counter the crisis caused by the pandemic, Spain has decided to reject the ESM European Stability Mechanism, also known as the rescue fund, in order not to further increase its public debt, while hoping to receive about €70 billion in grants from the Recovery Fund.

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 Sánchez Castejón finally won a vote of confidence in Parliament with a left-wing executive formed by PSOE and Unidas Podemos, with the external support of some regionalist parties. This is the first coalition government in the history of Spanish democracy.

On December 22, the Spanish senate approved the budget law proposed by Prime Minister Sánchez, generating consensus since the last approved budget dates back to 2018.

## Portugal

Since 2014 the BFF Group has expanded its non-recourse factoring operations in Portugal, and in 2018 consolidated its presence in the market by opening a new branch in Lisbon. In Portugal, BFF also operates in the field of credit management.

Portugal's 2019 real GDP growth of 2.2% remained broadly in line with 2018 levels, but is expected to shrink by 10% in 2020. GDP was equal to about €200 billion in 2019. The estimate of the European Commission for 2021 is growth of 4.1% and 4.3% in 2022.

For the unemployment rate, the IMF estimates an increase of 8.1% from 6.5% in 2019. The situation is expected to gradually return to normal in 2021 (7.7%).

Based on Eurostat data, after a significant decline of 4.6% in 2018, the Portuguese gross public debt-to-GDP ratio declined even more in 2019 to 117.2%.

With regard to the budget deficit, the data confirm a substantial improvement and a shift into positive territory, amounting to €0.2 billion (+0.1% of GDP) compared to -€0.7 billion (-0.4% of GDP) in 2018.

Public spending for 2019 as a whole amounted to €90.9 billion, an increase of 2.5% compared to 2018, of which €11.2 billion can be attributed to expenditures on public administration goods and services, and €4.0 billion can be attributed to social transfers in kind.

In order to counteract the economic impacts of the pandemic, in 2020 the Portuguese government injected a total of €306.6 million into NHS institutions for the settlement of residual debt with suppliers.

Furthermore, the government presented the European Commission with a first draft of the National Recovery and Resilience Plan (NRRP) indicating how the €13 billion of grants will be used in the Recovery Plan, with a particular focus on green initiatives and the digital transition.

In this context, the impacts for the Group have been a slight increase in collections.

The elections in the Azores region held in November 2020 represented a setback for the socialist government, losing an absolute majority due to a decline of 4% of the votes in a region where the party had ruled for 24 years. In fact, on November 7, 2020 the centre-right opposition party of the Social Democrats (PSD) and the Popular Party formed a coalition to govern the Region, also receiving the external support of the extreme right party CHEGA, which, winning 5%, joined the regional government.

Finally, in January 2021 Portugal will assume the rotating presidency of the Council of the European Union.

## Greece

The BFF Group started operations in non-recourse factoring in Greece in 2017 and consolidated its activity in 2020 by opening a branch in Athens in September.

After closing 2019 at around €194 billion (+1.9% compared to 2018), according to the IMF Greek real GDP is expected to contract by 9.5% in 2020, mainly due to the unfavourable economic performance in the tourism sector, before recovering only partially in 2021 (+4.1%).

Gross public debt peaked at 186.2% of GDP in 2018, and declined to 180.5% in 2019.

For the fourth year running the budget recorded a surplus of 1.5% of GDP in 2019. This development has led to an improvement in Greece's international credibility, with a corresponding reduction in government bond yields.

At the end of May 2020, the State budget recorded a primary deficit of €4.84 billion compared to a target of €43 million in surplus due to the impact of the State aid package, which included the deferral of tax and VAT payments. Net government revenue was below the target of €14.5%, or €2.7 billion, for a total of €16.0 billion.

Public spending for 2019 as a whole amounted to €87.0 billion, equal to the previous year, of which €8.5 billion can be attributed to expenditures on public administration goods and services, and €4.3 billion can be attributed to social transfers in kind.

Note that capital controls introduced in July 2015 were lifted on September 1, 2019.

With regard to the Covid emergency, the Greek government introduced a government loan at the reference rate of 109 bps for all companies that demonstrate a decrease in sales of at least 30% and have fewer than 500 employees as at March 30, 2020.

Greece is enjoying political stability: in July 2019 the right-wing Nea Dimokratia party led by the current Prime Minister Kyriakos Mitsotakis, who has a solid majority, took over from the government of Alexis Tsipras' Syriza party.

In December the government presented the European Commission with a draft that illustrates how the €32 billion coming from the Recovery Fund will be invested, of which about half in green and digital transformation projects.

## Croatia

Since 2018, the Group has expanded its operations in non-recourse factoring in Croatia in compliance with regulations on the freedom to provide services.

In 2019 real GDP grew broadly in line with expectations of 2.9% to around €46 billion, but is estimated to contract by 9% this year, with a presumed recovery of 6% in 2021.

The debt-to-GDP ratio decreased from 74.3% in 2018 to 72.8% in 2019. Croatia reached an overall surplus of 0.4% of GDP in 2019, with an increase of 0.2% when compared to the previous year.

Public spending for 2019 as a whole amounted to €25.5 billion, an increase of 6.5% compared to 2018, of which €4.5 billion attributable to expenditures on public administration goods and services, and €1.2 billion can be attributed to social transfers in kind.

According to statements made by the Health Minister, as at September 30 the debt of the health system rose to €1.83 billion while the capital allocated is €861 per capita, whereas the average in the EU countries is around €3,000.

In March the Croatian National Health Insurance Fund allocated an additional HRK 400 million to hospitals for the payment of some older debts.

The NHS's DSOs are worsening, as around €20 million of new debt is generated each month.\*

To counter the Coronavirus outbreak, the Croatian government approved a liquidity injection of HRK 500 million into the national health system.

Croatia held presidential elections on December 22, 2019 (first round) and January 5, 2020 (second round). Zoran Milanović (SDP, centre-left united), Prime Minister from 2012 to 2015, won 52.6% of the votes in the run-off.

The most recent Croatian parliamentary elections were held on July 5, 2020 and saw the victory of incumbent Prime Minister Andrej Plenković of HDZ.

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(\*) Source: Croatian Employers' Association - official letter to the Prime Minister

## France

Since 2019 the Group has expanded its business in France in compliance with regulations on the freedom to provide services, purchasing its first trade receivables from the National Health Service.

French real GDP is expected to decline by 9.0% in 2020, compared to +1.5% in 2019. The IMF expects an increase of 5.5% in 2021.

The deficit-to-GDP ratio of the French state increased from 2.3% in 2018 to 3.0% in 2019.

The gross public debt-to-GDP ratio is below 100%, equal to 98.1% in both 2018 and 2019.

No major impact is expected on the unemployment rate, estimated by the IMF at 8.9% in 2020 and rising in 2021 to 10.2%, compared to 8.5% recorded in 2019.

Public spending as a whole remains the highest in Europe: €1,348 billion in 2019 (55.6% of GDP), up 2.5% compared to 2018, of which €120 billion can be attributed to expenditures on public administration goods and services, and €144 billion can be attributed to social transfers in kind.

France's Budget Law is very soft with a commitment to limit the annual increase in public spending to an average of 0.4% through 2022.

To counter the Coronavirus outbreak, the French government introduced a €300 billion state guarantee that will be applied to all funding granted from March 16, 2020.

The level of Coronavirus restrictions is expected to remain high throughout the first half of 2021. The main measures relate to solidarity funds and exemption from social security contributions.

On June 28, the second round of March municipal elections was held, postponed due to the pandemic, which saw the Greens win, albeit in an election marked by 59% abstention. Supported by several centre-left coalitions, they conquered the leadership of major cities such as Lyon, Marseilles, Bordeaux and Strasbourg.

Jean Castex, from the centre-right, has been the new Prime Minister since July 3.

## COVID-19: Impacts on BFF Banking Group

With regard to the management of the pandemic that affected all the countries that the Group operates in and all the Group companies, the Bank's Board of Directors was kept constantly informed about the current emergency situation and the consequent determinations that the Group adopted from time to time at its meetings of February 25, 2020, March 25, 2020, March 30, 2020, May 28, 2020, June 24, 2020, September 24, 2020 and October 28, 2020. The main issues that engaged the Board of Directors were as follows:

### a) Business continuity of BFF Banking Group

BFF Banking Group has continuously monitored the situation and its operations have been guaranteed without any critical situations. In this context, the Group, which pays particular attention to operational risks, during its periodic Risk Self Assessment and with the aid of the Risk Management Function collected the assessments of the Managers of the various Organisational Units, noting a substantial increase in risk exposure resulting from the changes imposed by the recent pandemic. Specifically, the advisors showed a greater concern for the risks related to ICT and deriving from possible events of operational discontinuity, external IT threats and the unavailability of specific applications. However, thanks to the strategy implemented by the Group the respondents' perception was not matched by a worsening of actual risks (both in terms of expected loss and internal capital) compared to the previous assessment, and in any case not related to the emergency. In fact, the Group has taken the necessary measures to guarantee operations, and to date there have been no business continuity issues. Indeed, the ICT structure was strengthened with expenditures that were offset by savings on travel, entertainment expenses, utilities and consumables.

ICT staff monitored the services rendered by companies which important organisational functions are outsourced to and did not detect a deterioration in the quality of service in terms of the availability of IT systems to support them.

Moreover, all key suppliers were required to take measures specific to the services performed for BFF. On the cybersecurity front, the Group has periodically communicated to its employees about possible fraud and the conduct necessary to avoid exposing the companies to any risks. For this purpose, mandatory online training has been made available to all employees.

During the last few months, meetings of the Security Committee have been held on a regular basis. During these meetings it was decided to have all Group employees work from home. These choices were made before the obligations imposed by the governments of the countries the Group operates in.

To date:

- ▶ Staff are fully operational, working remotely (all personnel are equipped with the tools needed to telework);
- ▶ The services provided by suppliers and outsourcers have not suffered any deterioration in terms of quality or quantity, nor has service been disrupted. Any deterioration in the quality of the service – which in any case is not able to compromise the Group's operations – is in fact subject to tracking and evaluation/resolution in a specific internal application;

Finally, it should be noted that the Bank, as Parent Company, has adopted a "Protocol regulating measures for combating and limiting the spread of the Covid-19 virus in the Banking Group's workplace". This protocol is part of the measures envisaged by the emergency legislation issued by the government starting from the declaration of the state of emergency on January 31, 2020. The safety measures indicated in the protocol are monitored and verified by a specific internal Committee composed of the Safety Delegate, the Head of the Human Resources

Function, the Head of the Prevention and Protection Service and the Company Physician in order to ensure that they are kept up to date in light of any new regulatory or contractual actions between the social partners, and in any case in order to verify their effectiveness on site. The safety measures indicated in the protocol apply to all the Bank's offices and, where compatible with local legislation, to the offices of the Banking Group companies.

With regard to the international markets that the Group operates in:

- ▶ The Bank has implemented policies on the safety of personnel and the working environment similar to those adopted in Italy, defining a specially designed protocol disseminated at a Group level;
- ▶ With regard to commercial and credit management, in view of gradual reopenings teams are allowed to plan meetings with customers, prospects and debtors within the country, subject to authorisation by the Managers. However, international travel is not allowed.

### **b) Initiatives in support of communities and businesses**

As better specified and presented in the Non-Financial Statement, which illustrates all the initiatives carried out by the Group in the field of ESG (environmental, social, governance), it is recalled that in 2020 BFF confirmed its daily commitment to sustainable development in the communities and regions it operates in. This commitment became even stronger in March, when the Covid-19 emergency exploded.

With Italy and Spain at the top of the list in Europe for the number of infections, BFF chose to act quickly, in line with the many requests of employees who wanted to contribute personally in support of the health emergency.

These actions were both direct, through donations from the Group, and indirect, with fundraising that the Group's employees also participated in.

Beneficiaries of these donations were:

- ▶ The Lombardy Region, which had opened a bank account dedicated to supporting the efforts of healthcare personnel battling the virus on the front lines. BFF's donation was specifically used to purchase electronic equipment for new intensive and sub-intensive care units;
- ▶ The Municipality of Madrid, which had launched the "Programa Ayuda a Madrid Covid-19", allocating the funds to cover the most urgent needs of the administration in dealing with the pandemic;
- ▶ the Generalitat de Catalunya, which had launched the "Donacions per fer front a la pandèmia de la Covid-19" fundraising initiative.

### **c) The main commercial issues dealt with during the epidemic**

First of all, it should be noted that the Covid-19 pandemic affected all the countries that the Group operates in offering non-recourse factoring and/or customer financing. The contagion afflicted the Czech Republic, Portugal, Spain, Croatia, France, and Slovakia more strongly, countries where the ratio between the number of Covid-19 cases and the total population is significantly higher than others. The following table shows the percentage of the population affected by the virus ordered by number of cases.

Country	Number of Covid-19 cases	Population	Number of Covid-19 cases/ Population
Czech Republic	1,055,415	10,693,939	9.9%
Portugal	770,502	10,295,909	7.5%
Spain	3,005,487	47,329,821	6.4%
Croatia	236,333	4,058,165	5.8%
France	3,304,356	67,098,824	4.9%
Slovakia	265,807	5,457,873	4.9%
Italy	2,655,319	60,244,639	4.4%
Poland	1,563,645	37,958,138	4.1%
Greece	166,067	10,709,739	1.6%

Source: WHO for number of Covid-19 cases, data updated as at February 11, 2021. Eurostat, for demographic data.

Overall, the Group continued to operate throughout the emergency, guaranteeing complete efficiency to existing and potential customers.

The restrictive measures put in place due to the pandemic have had a significant impact on credit risk, but the Group has suffered relatively little as the main customers are large companies or multinationals.

With regard to volumes, there has been an increase in demand for factoring services due to an increase in public health expenditures to cope with the implications of the pandemic. In this context, the Bank has encountered some difficulties in developing new business relationships since visits to customers have not been possible.

The inflow of liquidity to local governments has also accelerated payments of the most recent invoices. To the contrary, there have been lower collections of late payment interest, but with higher rates of success.

With regard to legal activities, however, it should be noted that in 2020 all countries suspended procedural deadlines (e.g. limitations, caducity, nullity, unenforceability). Due to the Covid pandemic, during some periods of 2020 the courts managed the requests received in order of priority, and subsequently gradually restarted the pending proceedings. On this point, as far as Italy is concerned see the paragraph below, "The extraordinary regulatory environment which the Parent Company operated in".

With regard to individual countries, the following management issues are of note:

#### ITALY

The Bank's relations with local authorities (especially municipalities) were affected by the critical issues related to the blocking of local taxes ordered by the government. This led to a slowdown in the definition of settlement agreements.

Regarding the matter of serving debtors, the critical issues experienced during the lockdown in the first half of 2020 were eliminated during the course of the year, even if there continues to be a slowdown in late payment interest collections due to the period of remote working by the Public Administration.

## **POLAND**

The main impact was a decrease in demand for long-term financing in the first half of the year due to the availability of funding granted by the government to support hospitals, and the implementation of voluntary moratoriums in the country against the deterioration of credit quality.

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted in 2020 for a total amount of €2.9 million and are mainly represented by corporate clients (approximately 33%), public-sector entities (approximately 30%) and retail clients (approximately 37%). The main products affected are credit exposures deriving from loans accounting for approximately 62%, for 34% from financing (MEDLekarz - loans to medical practices) and 4% from factoring operations.

## **SLOVAKIA**

The impacts on the Group were related to the slowdown in the development of new volumes and the acceleration of collections on late payment interest.

In December 2020, a new debt relief package was announced, offering a total of €575 million for debt reduction, including €363.4 million for hospitals' payables to suppliers.

## **SPAIN**

The impacts detected were a reduction in the DSO of the PA and an increase in collection volumes.

In 2020, the Spanish government transferred a total of €39,076 million to the regional governments that requested it for the payment of suppliers, €9,611 million more funding than in 2019.

Moreover, regional governments received additional funding of €16,000 million, €8,000 million of which were already spent in 2020.

Regions that have not applied for FLA funding include Madrid, the Basque Country and Navarre.

## **PORTUGAL**

There was a slight increase in collections.

To counteract the economic impacts of the Coronavirus, in 2020 the Portuguese government injected a total of €306.6 million into NHS institutions for the settlement of residual debt with suppliers.

In Greece, Croatia and France the impacts on the Group were limited, mainly related to the development of new customers in light of its recent entry into the countries.

#### d) Monitoring and control of Liquidity

To deal with the current health emergency, the Group has put in place the necessary measures to monitor and control the liquidity position.

Although these circumstances could be considered stressful and capable of generating liquidity issues, the Group noted a substantial continuation of the previous situation. The implementation of measures aimed at increasing the stability of funding led to a slight increase in the relative cost.

In the face of the emergency, the Parent Company (i) performs more frequent and more detailed stress analyses as well as with increasing and variable impacts, (ii) maintains a greater share of assets freely available to meet unforeseen liquidity needs, (iii) monitors the markets through banks it has relationships with, and (iv) increased the frequency of monitoring changes in the collection trends of Public Administration debtors.

The Group had already adopted its own Contingency Funding Plan ("CFP"), approved by BFF's Board of Directors and the decision-making bodies of the Subsidiaries. This document illustrates the indicators and recovery thresholds identified with respect to the liquidity coverage ratio (LCR) and the related escalation and decision processes to be triggered in order to prevent and manage a possible liquidity crisis. The CFP indicators did not identify situations of tension, notwithstanding the Covid-19 emergency. In fact, recovery options are considered perfectly suitable to deal with the current health emergency, depending on their probability of realisation and degree of effectiveness to cope with any situations of extreme stress on the Group's capital and liquidity.

#### e) Dividend allocation of Banca Farmafactoring S.p.A.

With regard to the recommendation of the European Central Bank ("ECB") and the Bank of Italy ("BoI") not to distribute or make any irrevocable commitment for the payment of dividends for the years 2019 and 2020, on March 31, 2020 the Board of Directors of Banca Farmafactoring S.p.A. resolved to comply with the aforementioned instructions, confirming the Group's dividend policy and proposing the payment of the 2019 Expected Total Dividends equal to €70.9 million after the end of the Covid-19 emergency, and in any case not payable before October 1, 2020.

This decision was confirmed by the Board of Directors on August 6, 2020 following the recommendations issued on July 27 and 28, 2020 respectively by the ECB and the BoI, which extended the recommended restriction period until January 1, 2021.

The BFF Board of Directors then took note of the recommendation of December 15, 2020 (the "ECB Recommendation") published by the ECB for the largest banks, and the similar recommendation issued by the BoI on December 16, 2020, which also extended the effects of the ECB Recommendation (the "BoI Recommendation") to banks subject to the supervision of a national regulator. On December 17 2020, BFF submitted a request for clarification to BoI, highlighting certain arguments in support of the possibility of proceeding with the distribution of dividends, as follows:

- ▶ The FAQs published by the ECB on December 15, 2020 appear to identify the parent companies of the CRR Group as the addressees of the ECB Recommendation;
- ▶ The term "dividend" used in the BoI Recommendation refers only to "cash payments that have the effect of reducing the level and quality of Common Equity Tier 1...", while the amount of the 2019 Total Dividends has so far been excluded from the calculation of capital requirements (constituting a reserve not used for the composition of these requirements);

- ▶ In the application for the acquisition of DEPObank, BFF informed Bol of its intention to proceed with the distribution of an amount equal to at least €70.9 million starting from January 1, 2021, and the maintenance of the dividend policy adopted. Given the numerous discussions that took place on the subject of the Group's current and prospective capital, BFF also posited to the Bol that it considered the condition of "critically checking its capital soundness and its self-financing capacity" to have already been ascertained, given that the Bol and the ECB approved the acquisition in question.

In continuity with what has already been stated in the press releases of March 31, 2020 and August 6, 2020, on December 22, 2020 BFF's Board of Directors therefore:

- (i) Resolved to convene the Shareholders' Meeting in ordinary session for January 28, 2021 in order to resolve on the allocation of the 2019 individual profit (equal to €12.4 million), pending the outcome of the discussions initiated with the Bol aimed at clarifying some aspects of the Bol Recommendation on the distribution of dividends, without prejudice to the possibility of revoking the proposed resolution in the event of instructions from the Bol contrary to the proposed distribution, and
- (ii) Announced the possibility of convening the Board of Directors on the same date to resolve with respect to the interim dividend of the 2020 individual profit (up to €58.5 million), in order to proceed – subject to the aforementioned shareholders' resolution and the aforementioned discussions with the Bol – with the distribution of the 2019 Total Dividends of €70.9 million.

Since during the month of January 2021 the Bol informed BFF that it would not be able to provide a written response to the request to proceed with the distribution of the 2019 Total Dividends before the date of the Shareholders' Meeting of January 28, 2021, the BFF Board of Directors, which met on January 28, 2021, resolved to confer a mandate on the Chair so that, during the ordinary Shareholders' Meeting convened for that same date, the Chair might hold off on voting on the proposed resolution on the distribution of 2019 profits, confirming the commitment to distribute the 2019 Total Dividend of €70.9 million as soon as possible, in compliance with the instructions of the Supervisory Authority. All this in order to ensure the adoption of a prudent approach, inspired by principles of compliance with supervisory standards – also in light of the approaches that, according to the Bank, the smallest Italian credit institutions are taking – pending the feedback from the Bol and/or the publication of explanations that provide clarity also with respect to the scope of application of the Bol Recommendation.

## f) The main accounting issues dealt with during the epidemic

With regard to the main accounting actions aimed at a correct representation of the effects of the pandemic on items in the financial statements, the following issues are worthy of note:

- ▶ **Impairment on loans:** considering the impact of the current Covid-19 emergency situation, for the purposes of calculating impairment as at June 30, 2020 the Risk Management Function updated the risk parameters underlying the calculation of Expected Credit Loss (e.g. updating the PD curves and the LGD curves). With regard to the PD curves, the 1-year transition matrices were updated for the Sovereign, Corporate and Financial Institutions segments. Subsequently, the Risk Management Function updated the macroeconomic scenarios aimed at obtaining PD Point in Time (PIT) and Forward-Looking FLI). The Baseline, High Growth and Mild Recession forecasts were updated in June 2020 and provide the forecasted default rates for the 20 quarters following the download date. The update at this date made it possible to incorporate the negative effects of the Covid-19 pandemic, which are translated into a rather recessive Baseline scenario and consequently a further adverse Mild Recession scenario. With regard to the LGD curves, the lifetime LGD values updated up to June 2020 were obtained in order to calculate values that incorporate the effects deriving from Covid-19.

Moreover, the Risk Management Function compared the macroeconomic scenarios of the external provider with those provided by the Supervisory Authority (European Central Bank) in June 2020. The results of the analysis showed that the scenarios used by the Bank are in line with those provided by the Supervisory Authority.

- ▶ **Goodwill impairment test:** in compliance with IAS 36, and with regard to the guidance expressed in ESMA Document May 20, 2020 *Half-yearly notice on Covid-19 impacts*, the Bank performed an impairment test of the goodwill recorded in the consolidated financial statements of Banca Farmafactoring both as at June 30 and as at December 31, 2020. Following the latest outcomes of the impairment test performed on the consolidated financial statements as at December 31, 2020 on the amount of goodwill recorded in the financial statements and relating to the allocation of the acquisition cost of the BFF Polska Group and IOS Finance (merged into BFF Finance Iberia as of December 31, 2019), the Group did not recognize any impairment loss on the aforementioned goodwill.

### g) The extraordinary regulatory environment which the Group operated in

To cope with the Coronavirus emergency, the Italian government took numerous extraordinary measures to prevent and stem its spread and effects on the economy. These included urgent measures issued between March and November aimed at supporting households, workers and businesses: Italian Decree-Law no. 11 of 2020, whose measures then merged into the next broader legislative intervention contained in Italian Decree-Law no. 18 of 2020 Heal Italy (Italian Law no. 27/2020), Italian Decree-Law no. 23 of 2020 Liquidity (Italian Law no. 40/2020), Italian Decree-Law no. 34 of 2020 Relaunch (Italian Law no. 77/2020), Italian Decree-Law no. 104 of 2020 August, and lastly Italian Decree-Law no. 137 of 2020 Relief, Italian Decree-Law no. 149 of 2020 Relief-bis, Italian Decree-Law no. 154 of 2020 Relief-ter and Italian Decree-Law no. 157 of 2020 Relief-quater.<sup>14</sup>

To ensure the efficient and rapid use of the support measures envisaged in the decrees, a task force was set up between the Ministry of Economy and Finance, the Bank of Italy, the Italian Banking Association, Mediocredito Centrale, the Ministry for Economic Development and SACE.

More specifically, the Decrees that have had the greatest impact on the Bank's operations in terms of legal recovery of receivables are as follows:

- a) First, Italian Decree-Law no. 11/2020 established the suspension of all hearings between March 9 and March 22, 2020.
- b) Subsequently, Italian Decree-Law no. 18/2020 provided further and more incisive measures regarding legal matters than those previously adopted.

<sup>14</sup>) [https://www.camera.it/temiap/documentazione/temi/pdf/1210883.pdf?\\_1611763514331](https://www.camera.it/temiap/documentazione/temi/pdf/1210883.pdf?_1611763514331)

- c) Italian Decree Law no. 34/2020 (so-called Relaunch Decree), to ensure that the National Health Service has the liquidity necessary to carry out activities related to the emergency, established the suspension of enforcement actions until December 31, 2020. Furthermore, articles 115, 116 and 117 of Relaunch Decree Law provide for the establishment of a Liquidity Fund for the payment of commercial debts of local authorities accrued as at December 31, 2019. The aforementioned fund, called the "Fund to ensure liquidity for payments of certain, liquid and payable debts", has a budget of €12 billion for 2020. The Fund is divided into two sections corresponding to two articles of the relevant chapter of the State budget: the first of the two sections is entitled "Section to ensure liquidity for payments of certain, liquid and payable debts of local authorities and autonomous regions and provinces unrelated to financial and healthcare matters" with an allocation of €8 billion; the second is called "Section to ensure liquidity for regions and autonomous provinces for payments of certain, liquid and payable debts of National Health Service entities" with an allocation of €4 billion.

To render the Fund immediately operative, within 10 days of the entry into force of the Relaunch Decree Law the Ministry of Economy and Finance must stipulate with Cassa Depositi e Prestiti S.p.A. an agreement that will define, among other things, criteria and methods for local authorities and autonomous regions and provinces to access the Fund's resources. The agreement will be published on the websites of the Ministry of Economy and Finance and Cassa Depositi e Prestiti S.p.A. Pursuant to the Relaunch Decree-Law, with a resolution of the Council, in the period between June 15, 2020 and July 7, 2020 local authorities, regions and autonomous provinces may contact Cassa depositi e prestiti S.p.A. to request the advance disbursement of liquidity from the Liquidity Fund. The requested advance can be returned within a maximum period of 30 years, with the first reimbursement scheduled starting from 2022. In order to maximise its collections, the Bank sent information to local authorities together with annual reminder letters, reminding institutions of the possibility of using the Fund and making itself available to draw up lists of certified invoices in order to support institutions in accessing the loan in question. In the period between the establishment of the Fund and the end of 2020, 78 Local Authorities managed by the Bank submitted a request for funds to Cassa Depositi e Prestiti. The amount of funds requested and earmarked for the payment of payables to the Bank amounted to €76.7 million.

- d) With Italian Decree-Law 104/2020 (the so-called August decree), Cassa Depositi e Prestiti and the MEF made the granting of the liquidity advance available to local authorities to accelerate the payment of commercial debts accrued as at December 31, 2019. In October, the decree was converted into Italian Law no. 126. Thanks to the new law, concrete support to public administrations for the payment of certain, liquid and payable debts has been renewed. Once the contract has been stipulated, the public body receives liquidity from Cassa Depositi e Prestiti within 7 days and pays its suppliers within 30 days. The repayment of the liquidity advance is done over the long term, up to 30 years.<sup>15</sup> The new Italian Law no. 126 updates the provisions of the "2019 Budget Law" on the liquidity advance. In that case, the institutions had to repay the amount within the year, making the effects on the Bank marginal at best. But now, considering the new 30-year deadline, the effects could be more significant. With the so-called "August" Decree, the fund for local authorities was increased by €1.67 billion for 2020 (€1.22 billion for municipalities and €450 million for provinces and metropolitan cities). The total resources of the local authority fund therefore amount to €5.17 billion (of which €4.22 billion for municipalities); the fund for the autonomous regions and provinces was increased by €2.8 billion for 2020 (€1.6 billion for autonomous regions and €1.2 billion for regular regions). The total resources for the Regions fund amount to €4.3 billion (€2.6 billion for autonomous regions and €1.7 billion for regular regions). Moreover, the August decree provides for a suspension of all creditor enforcement actions against rebalancing institutions until June 30, 2021, even if the actions had been initiated before the decree's entry into force.

15) CDP: Reopening of the liquidity advance terms for local authorities.

Overall, the aforementioned regulations influenced the Bank's operations with respect to the recovery of receivables in the follow ways:

#### **a) Postponement of Hearings**

All hearings were halted in the period from March 9, 2020 to May 11, 2020, and for the period from May 12, 2020 to June 30, 2020 more discretion was allowed, transferring organisational powers to judicial authorities.

Therefore, from March 9, 2020 to May 11, 2020 the hearings for civil and criminal proceedings pending at all judicial offices were postponed to a date after May 11, 2020.

This also applies to mediation and assisted negotiation proceedings, as well as to all out-of-court dispute resolution proceedings governed by the provisions in force.

Hearings relating to the Bank's legal actions were postponed to a date after May 11, 2020.

The court clerks communicated the mass postponements of all hearings, and the new dates were set well into the future, especially in the courts that were already overwhelmed.

- ▶ With regard to the opposition to an injunction order in progress, the postponement necessarily entailed a delay in obtaining any anticipatory sentencing measures as well as the conclusion of judgements already at an advanced stage, since the deadline for the filing of judgements was also suspended. Consequently, there was a lower propensity of debtors – especially in the health sector – to settle any disputes due to the aforementioned delay.
- ▶ With regard to ordinary judgements, the postponements have led to a delay in obtaining any anticipatory conviction measures. Again, the consequence has been a lower propensity of debtors – especially in the health sector – to settle any disputes due to the aforementioned delay.
- ▶ With regard to enforcements, however, the postponement of the hearings of enforcement proceedings made it impossible to obtain the assignment orders.

Said postponement of the hearings probably prevented the collection of the sums forecasted for 2020 based on the expected assignment orders, and the freezing of the attachments led to the halting of the various enforcement procedures at their current stages, whatever they might be, with a consequent delay in the completion of the processes that would have allowed the Bank to collect the sums.

In order to prevent this occurrence, the Bank instructed external lawyers to file requests to move up the dates of hearings where they were postponed too far into the future, or requests to solicit the actions of judges in cases involving enforcements where only the assignment order must be issued and therefore it is possible to carry out the activities electronically.

#### **b) Suspension of terms**

From March 9, 2020 to May 11, 2020 the terms for all acts of civil and criminal proceedings were suspended.

- ▶ With regard to petitions for injunction orders not yet issued, this suspension meant that they were issued at the end of this suspension period and therefore the service to the debtors waited a further 40 days for them to become enforceable (or for a challenge to be filed). This also slowed the out-of-court recovery activities of the Debtor Management Office.

- ▶ With regard to the opposition to an injunction order in progress, this suspension necessarily entailed a delay in obtaining any anticipatory sentencing measures as well as the conclusion of judgements already at an advanced stage, since the deadline for the filing of judgements was also suspended. Due to the difficulty in obtaining a means to require debtors to make payments, there has been a lower propensity of debtors – especially in the health sector – to settle any disputes due to the aforementioned delay.
- ▶ With regard to ordinary judgements, this suspension had no impacts as ordinary judgements were still in preliminary stages.
- ▶ With regard to enforcements, on the other hand, the suspension of the terms had negative effects as it generated an extension of the recovery, the entire judgement being paralysed.

With regard to Portugal, on 02/03/2021 a decree entered into force that retroactively suspended all judicial activities and deadlines considered non-urgent from January 22:

- i. The terms for following up on legal acts (such as challenges, opposition, etc.) are suspended;
- ii. This means that the initiation of legal actions can be filed as usual, but the Court has no deadline to respect;
- iii. Specifically:
  - a. Notifications may or may not be served, depending on the Court's proactivity and in any case without any time limits;
  - b. The terms for the debtor's challenge are suspended;
  - c. Therefore, the Debtor may object without any time constraints upon service of notification, but if it does, the Court is not required to follow up with the subsequent phases as per the usual terms.
- iv. This suspension remains valid until established otherwise; at the moment there is no effective end date
- v. Judicial decisions that do not require further interaction between the parties may be issued and the time limit for appeal in this case is not suspended

With regard to Greece, from November 2020 measures to contain Covid-19 have been adopted by the Greek government and subsequently extended, as of today remaining in force until March 1, 2021. Note that the adoption of these measures has led to great difficulties in accessing court registries. All enforcement procedures and hearings of civil, criminal and administrative courts were also suspended (with the exception of urgent cases).

## Operating performance

The consolidated financial statements at December 31, 2020 include the consolidated figures from the balance sheet and income statement of Banca Farmafactoring S.p.A., BFF Finance Iberia S.A.U. (a wholly-owned subsidiary of Banca Farmafactoring S.p.A., integrating IOS Finance S.A.U. acquired by the Group on September 30, 2019 and merged at December 31, 2019), the special purpose vehicle BFF SPV S.r.l., and the companies of BFF Polska Group, acquired in 2016.

At December 31, 2020, the Group's net profit amounted to €91.1 million, compared to €93.2 million recognized in the prior-year period. The normalized profit of the Group (representing the Group's results of operations net of non-recurring income and expenses) amounted to €97.6 million, down 1% from €98.8 million in 2019.

	12/31/2019	12/31/2020
<b>Financial Performance</b>	<b>93.2</b>	<b>91.1</b>
Exchange differences covered by Translation reserve in Equity	0.5	(4.1)
Stock Option and Stock Grant Plan	1.3	1.0
Resolution Fund - extraordinary contribution	0.5	0.9
M&A costs	3.2	8.1
Benefits from tax relief	(1.5)	(1.2)
Current tax charges deriving from the one-off distribution of dividends from subsidiaries		1.7
Retention bonus paid to the CEO after the IPO	1.7	
<b>Normalized profit (loss)</b>	<b>98.8</b>	<b>97.6</b>

Compared to the consolidated profit for the period, the normalized profit at December 31, 2020 includes:

- ▶ Charges for €1.0 million for the Stock Option Plan for certain beneficiaries. Such costs are recognized in the income statement and generate an increase, before taxes, in Shareholders' Equity;
- ▶ Exchange difference income covered by the Translation reserve in Shareholders' Equity, equal to €4.1 million;
- ▶ Charges related to extraordinary contributions to the National Resolution Fund amounting to €0.5 million after tax, paid in June 2020, and additional contributions required by FITD amounting to €0.4 million after tax, paid in December 2020;
- ▶ M&A costs of €8.1 million related to the integration of IOS Finance in BFF Iberia and the acquisition of DEPObank;
- ▶ Current tax charges deriving from the one-off distribution of dividends from subsidiaries, equal to €1.7 million;
- ▶ Alignment of the tax value and book value of the property located in Milan and owned by BFF, which resulted in a positive economic effect of €1.2 million.

### Interest and similar income

Interest income totalled €245.3 million, compared to €249.0 million in the previous year. Normalized interest income is the same as that recognized at December 31, 2019, in line with the previous year, down 1%.

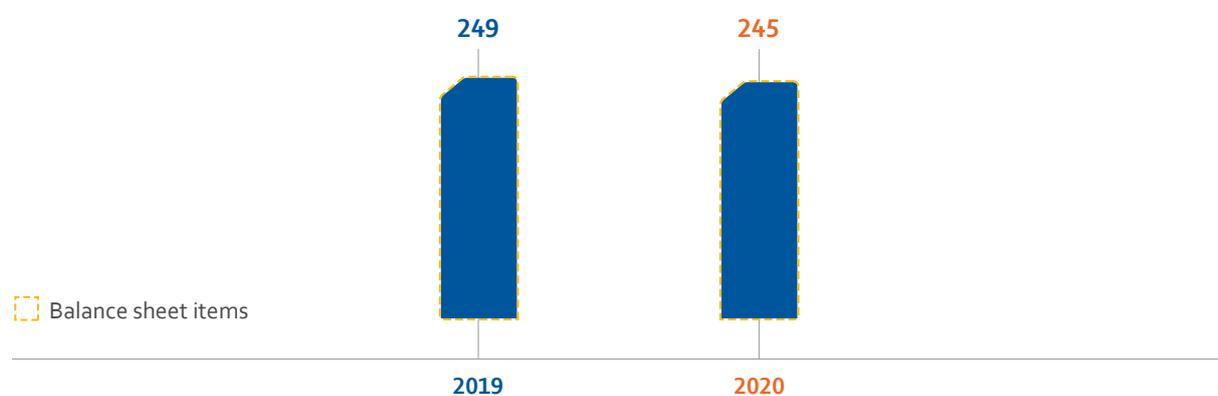
It should be noted that as a result of the reduction of the reference rate by the Polish National Bank, which fell by about 140 bps between March and May 2020, Wibur also decreased in an almost equivalent manner bringing benefits in terms of funding cost, better explained below, but also a simultaneous reduction in margins with a negative impact on interest income on the balance sheet.

Interest income mainly includes:

- ▶ maturity commissions charged to customers;
- ▶ accrued late payment interest;
- ▶ gains on late payment interest collected in the period compared to the percentage already included in amortized cost;
- ▶ interest on government securities in portfolio;
- ▶ interest on loans issued by BFF Polska;
- ▶ Interest charged to the assignors as per the relevant contract in the event that purchased receivables are transferred back.

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

#### INTEREST INCOME (€m)



Collections of late payment interest amounted to €78.1 million in 2020 compared to the €88.4 million in 2019.

Of these €78.1 million, €65.5 million were collected in Italy, €8.9 million in Spain and €3.7 million in Portugal.

The difference between gains and reschedulings recognised in 2020 by BFF Banking Group amounted to €7.3 million due to lower late payment interest received, compared to €16.8 million in the previous year.

Late payment interest accrued on receivables purchased without recourse by Banca Farmafactoring and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €681 million, of which €78 million related to Spanish debtors, €56 million to Portuguese debtors, €7 million to Greek debtors, €0.3 million to Croatian debtors, €0.1 million to French debtors and €540 million to Italian debtors.

Of this interest, a total of €276 million was recorded in the income statement in current and prior years.

The cumulative amount of late payment interest due to Banca Farmafactoring and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €634 million at December 31, 2019, of which €238 million were recognized in the income statement of the reporting period and in previous years.

The provision for late payment interest increased by 7% compared to December 31, 2019. Of this provision at December 31, 2020, late payment interest not yet recognized in the income statement amounts to €405 million.

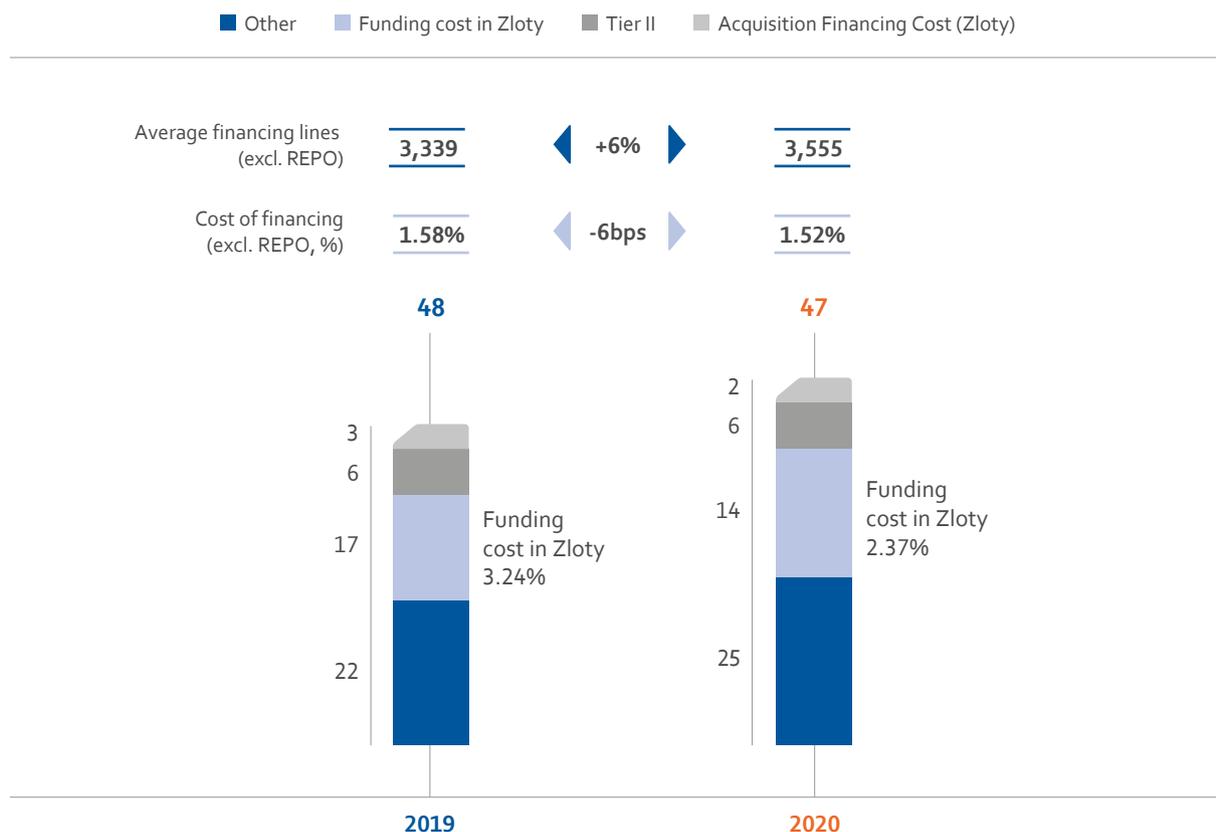
### Interest Expense (BFF + BFF Polska)

Interest expense went from €48.4 million at December 31, 2019 to €46.9 million this year.

Despite the increase in average used funding (from €3.3 billion to €3.6 billion), interest expense benefited from the expansionary monetary policies undertaken by the National Bank of Poland between March and May 2020, which resulted in a reduction in the reference rate of about 140bps (from 1.5% to 0.10% after a period of rate stability of 1.5%) reducing the cost of loans in zloty and the cost for Acquisition Financing. Further benefit was derived from the increased REPO transactions resulting also from the purchase of CCT 04/2025 in May at the signing of the transaction with DEPObank, combined with the decreasing trend of the Euribor rates during the year.

At December 31, 2020, the ratio of BFF Banking Group's financial expenses to average credit lines used was 1.52%, compared to 1.58% at December 31, 2019, showing a reduction of 6 basis points. The average credit lines used increased by 6% from €3,339 million at December 31, 2019 to €3,555 million at December 31, 2020. This figure also includes costs to acquire BFF Polska Group.

## INTEREST EXPENSE (€m)



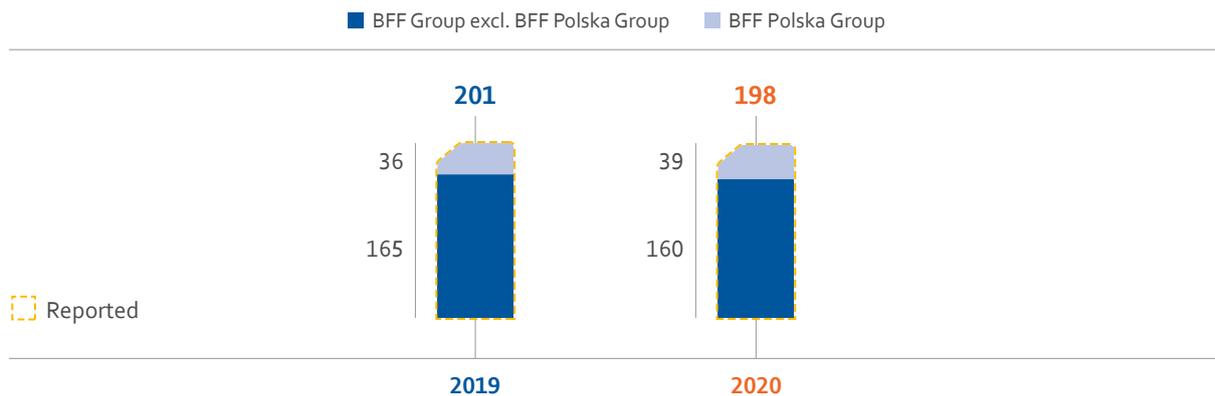
Under the current funding structure, some of the more expensive lines, such as the Tier 2 bond issue, the loan denominated in zloty for the acquisition of BFF Polska Group, and the senior notes issued by the Group, refer to instruments with a fixed cost and/or set margin conditions that decline relative to borrowing costs as business volumes grow.

### Interest Margin

The net interest margin totalled €198 million at December 31, 2020, compared to €201 million at December 31, 2019.

The normalized net interest margin at December 31, 2020 and December 31, 2019 is the same as the carrying amount. The figure showed a 1% decrease compared to the normalized net interest margin at December 31, 2019.

## INTEREST MARGIN (€m)



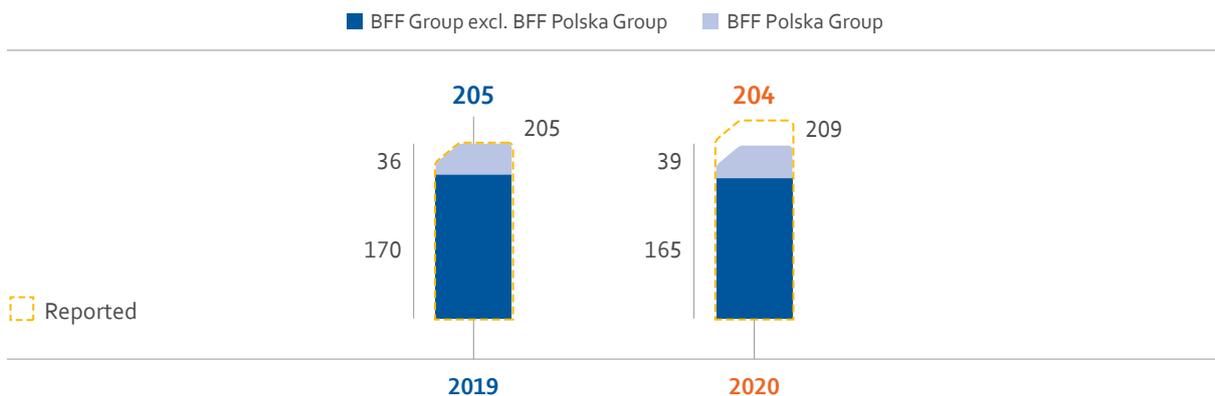
## Normalized Net Banking Income

Net banking income-which, compared to the net interest margin, also principally includes fees and commissions relating to the mandates for the management and collection of receivables and exchange gains and losses totalled €209 million at December 31, 2020 compared to €205 million at December 31, 2019.

The normalized intermediation margin, shown in the chart below, amounted to €204 million, compared to €205 million at December 31, 2019.

The latter figure does not consider the positive exchange effect arising from the write-down of the loan payable in Polish zloty for the acquisition of BFF Polska Group, amounting to €5.7 million. In 2019 this effect was negative and equal to 0.7 million.

## INTERMEDIATION MARGIN (€m)



## Operating costs

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

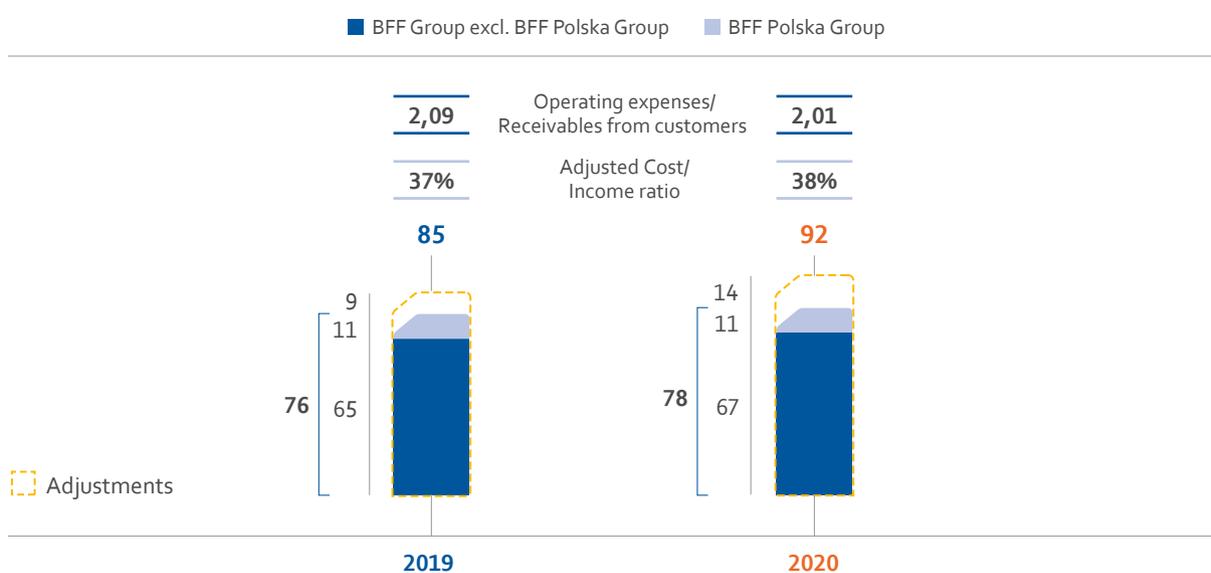
Normalized operating costs include administrative expenses, personnel costs, amortization of intangible assets and depreciation of tangible assets. At December 31, 2020, they totalled €78.2 million, increasing by €2.2 million compared to €76.0 million in the previous year. This 3% increase was due to the growth in personnel costs (+7%), partially offset by lower administrative and depreciation expenses, which recorded a decrease of -1%.

These standardised costs do not take into account charges of €1.4 million for the Stock Option Plan for certain beneficiaries, non-recurring costs for M&A operations of €11.4 million and charges related to extraordinary contributions to the National Resolution Fund of €0.7 million and additional contributions to FITD of €0.6 million.

The following chart shows normalized operating costs and the main ratios indicating the Bank's operating efficiency. The latter include the "Costs/Loans" ratio, which decreased from 2.09% to 2.01%.

Finally, these investments, also relating to projects that will start in subsequent years, will allow the Group to grow in the future.

### OPERATING COSTS (€m)



## Receivables due from customers

The following is a summary of receivables due from customers of BFF Banking Group, which amounted to €4,067 million at December 31, 2020 compared to €4,118 million at December 31, 2019, broken down by product line.

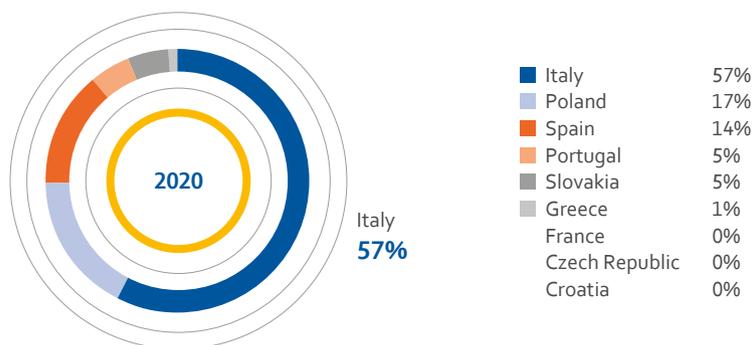
The above-mentioned figures do not include the "Held to Collect" portfolio, which was reclassified to receivables due from customers starting from January 1, 2018, following the provisions of the new Bank of Italy Circular no. 262/2005 as subsequently amended.

	<i>(In € millions)</i>	
	<b>12/31/2019</b>	<b>12/31/2020</b>
Factoring	3,355	3,229
Loans to customers	688	665
Other receivables	72	171
Financial leasing	3	2
<b>Receivables due from customers</b>	<b>4,118</b>	<b>4,067</b>

The following chart gives a geographical breakdown of receivables due from customers in 2020.

The Bank's main market is Italy, which accounts for 57% of assets under administration. The Bank's international footprint is also growing steadily: banking operations at the European level (excluding Italy) account for 43% of total assets under administration (up 41% from 2019).

### GEOGRAPHICAL BREAKDOWN OF RECEIVABLES



## Credit quality

On June 27, 2019 the Bank of Italy introduced some amendments to circular no. 272 concerning credit quality and the rules on the new definition of default. These amendments take into account the provisions of Delegated Regulation (EU) no. 171/2018 of the European Commission of October 19, 2017.

It should be noted that, in line with the indications of the EBA, for smaller banks the application of the prudential default regulation contained in the 27th update of Circular 285, and the effective date of the amendments to the supervisory statistical reports and the balance sheet of the banks contained in the Communication of June 26, 2019, was postponed to January 1, 2021.

In the provisions on the new definition of default, with an explanatory note on October 15 the Supervisory Authority made it mandatory to use the invoice due date as the starting date when calculating the days past due.

As at December 31, 2020, with a view to approximating the provisions on the new definition of default, in compliance with the aforementioned Communication the Group adopted the invoice due date (with an original expiry of less than three months) as starting date instead of the estimated internal collection date for counting the overdue amount for the non-recourse factoring product, aligning itself with what has been done by other intermediaries.

This approach leads to considering the preferential weighting of 20% envisaged by art. 116, paragraph 3, of the CRR for all exposures to public administration entities with an original expiry of less than three months. The effect of this change is a lower absorption of capital, with a consequent improvement in capital ratios. This amendment makes it possible to align the calculation of RWAs with the approach followed by the other intermediaries and to unlink the calculation of capital absorptions from the assessments made by the credit rating agencies of the countries that the Group operates in.

In 2020, credit quality continued to be good and characterized by a high solvency of the counterparties as they were mainly attributable to the public administration. The following table shows the net impaired positions compared to December 31, 2019.

(In € millions)

	12/31/2019	12/31/2020	Delta
<b>Non-performing loans (NPLs)</b>	<b>61.9</b>	<b>66.8</b>	<b>4.9</b>
<i>Of which purchased performing</i>	56.3	61.2	4.9
<i>Of which non-performing loans purchased already impaired</i>	5.7	5.6	-0.1
<b>Unlikely-to-pay positions</b>	<b>9.5</b>	<b>15.7</b>	<b>6.2</b>
<b>Past due exposures</b>	<b>34.7</b>	<b>42.1</b>	<b>7.4</b>
<b>Total impaired receivables</b>	<b>106.2</b>	<b>124.6</b>	<b>18.4</b>
<b>Total NPL (excl. Municipalities in distress)/RECEIVABLES</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.0%</b>
<b>Total NPE (excl. Municipalities in distress)/RECEIVABLES</b>	<b>1.2%</b>	<b>1.5%</b>	<b>0.3%</b>

During the year total net impaired receivables increased by €124.6 million at December 31, 2020 compared to €106.2 million at December 31, 2019.

Of the impaired receivables, €104.0 million at December 31, 2020 were related to the public sector, up compared to €88.1 million at December 31, 2019.

At December 31, 2020 non-performing loans amounted to €66.8 million, up compared to previous periods. Of this amount, €64.0 million relates to receivables concerning "Local authorities in financial distress", of which €5.6 million were purchased already impaired.

Municipalities in financial distress are classified as non-performing loans, in compliance with the Supervisory Authority's regulations, although BFF Banking Group is entitled to receive 100% of principal and late payment interest at the end of the insolvency procedure.

It should be noted that €0.4 million relates to the exposure to San Raffaele Hospital, for which the Bank awaits full recovery of the amount.

The NPL ratio net of municipalities in distress at December 31, 2020 was 0.1%, essentially in line with December 31, 2019.

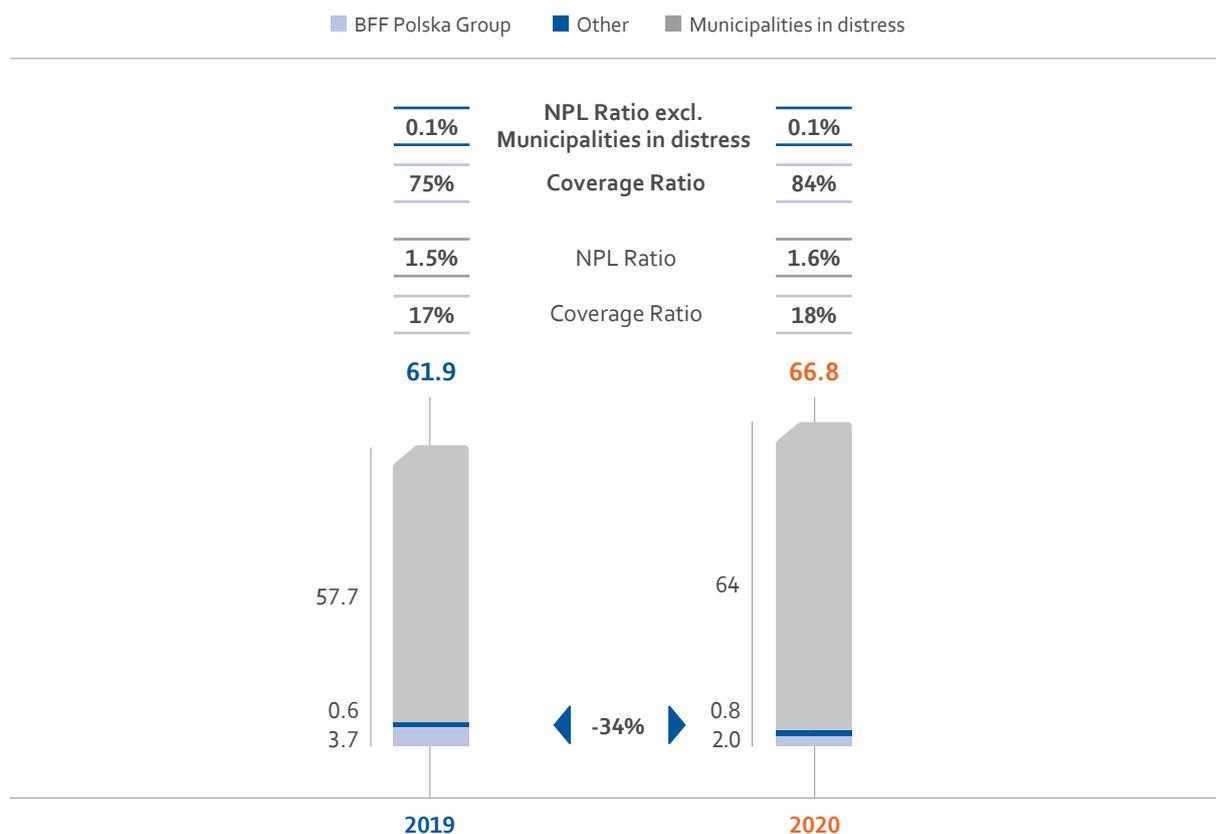
Net past due exposures amounted to €42.1 million at December 31, 2020, up €7.4 million compared to December 31, 2019.

94% of this amount relates to public administration entities (mostly local authorities) and other public sector companies.

Adjustments to impaired assets in the year (risk cost) equalled 8 bps annualised, of which 2 bps related to the run-off product "SME-Factoring for business" (net residual exposure of €0.9 million).

The NPL coverage ratio was 18% at December 31, 2020; at December 31, 2019 it was 17%. The coverage ratio excluding municipalities in distress was 84% at December 31, 2020, up compared to December 31, 2019, when it was 75%.

## EVOLUTION OF NON-PERFORMING RECEIVABLES (€m)



With regard to the activities of the BFF Polska Group, voluntary moratoria were granted in 2020 for a total amount of €2.9 million and are mainly represented by corporate clients (approximately 33%), public-sector entities (approximately 30%) and retail clients (approximately 37%). The main products affected are credit exposures deriving from loans accounting for approximately 62%, for 34% from financing (MEDLekarz - loans to medical practices) and 4% from factoring operations.

The item "Receivables due from Customers" also includes securities classified in HTC (Held to Collect) portfolios comprised exclusively of Italian government securities, totalling €1,682.1 million, up €686.0 million (+69%) compared to €996.0 million at December 31, 2019. This increase also includes the amount of government securities that were held by DEPObank and classified as Held to Collect, and that were purchased (purchase completed on May 13, 2020) by BFF at current market value, equal to €742 million and with a residual maturity of approximately 5 years, following the Binding Agreement for the acquisition of DEPObank - Banca Depositaria Italiana S.p.A. For more details on this Agreement please refer to the specific section on the following pages.

The entire HTC&S (Held to Collect and Sell) portfolio was sold in 2020. At December 31, 2019 this portfolio amounted to €82.9 million.

## Funding

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

Furthermore, BFF's Spanish and Polish branches offer a similar online deposit account in their respective markets, Cuenta Facto and Lokata Facto respectively, also aimed at retail and corporate customers and guaranteed by the FITD.

The collection of deposits issued by the Spanish branch of BFF and reserved exclusively for retail savers through the online Weltsparen platform is also active in Germany, the Netherlands and Ireland, in compliance with regulations on the freedom to provide services.

At December 31, 2020, total nominal takings of Conto Facto, Cuenta Facto and Lokata Facto amounted to €1,652 million, up from €1,354 million at December 31, 2019. This represents approximately 39% of the Group's available funding sources.

At December 31, 2020, the total amount of available operational funding net of PLN Acquisition Financing amounted to €4,213 million, down €16 million compared to €4,229 million at December 31, 2019 (again net of PLN Acquisition Financing outstanding amounting to approximately PLN 378 million). The total amount of corporate funding available to the Group net of PLN Acquisition Financing, as already noted, consists mainly of deposit-taking for €1,652 million, bond issues for €750 million nominal (including a Tier II Bond Issue equal to €100 million nominal), securitisation programme bonds for €150 million as well as financial resources derived from the wholesale funding of BFF Banking Group and its subsidiaries, equal to €1,661 million. Of these approximately €295 million are represented by credit lines disbursed by local banks in euros, zloty and Czech koruna (therefore net of multiborrower lines) to the Group's subsidiaries in Poland, the Czech Republic and Slovakia.

The total use of funding sources at December 31, 2020 net of exposures for repurchase agreements dedicated to the refinancing of the portfolio of government bonds held by BFF and PLN Acquisition Financing is equal to €3,564 million.

Specifically, below are the main activities carried out in 2020 related to wholesale funding solutions aimed at optimising the Group's financial structure and making it more efficient, along with renewing those already coming to maturity during the period:

- ▶ Secured €187 million worth of new revolving lines denominated in euros, including €127 million in multi-currency/multi-borrower lines, i.e. also in currencies other than the euro and accessible to the Group's subsidiaries;
- ▶ Rationalisation of local funding in zloty available to Polish subsidiaries through the reimbursement of solutions deemed expensive and/or inflexible (such as term loans) for a total of around €129 million;
- ▶ Repayment at maturity (June 5, 2020) of the €200 million floating rate bond issued on December 5, 2017 and partially repaid for €10 million in the first quarter of the year.

## Equity and Own Funds

BFF Banking Group's shareholders' equity amounted to €463 million at December 31, 2020 compared to €377 million at December 31, 2019.

The following table shows BFF Banking Group's own funds pursuant to the Consolidate Law on Banking, amounting to €349 million at December 31, 2020; 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.

Net profit for the period is not included in the calculation of the Common Equity Tier 1 capital at December 31, 2020 of the Banking Group pursuant to the Consolidated Law on Banking. It should also be remembered that the Own Funds do not include the portion of profit for the 2019 financial year allocated to the 2019 Total Dividends, equal to €70.9 million.

The total exposure to risks of the Group pursuant to the Consolidated Law on Bank at December 31, 2020, in relation to its business, is adequate according to the level of capitalization and the risk profile identified. The capital ratios CET1, Tier 1 Capital Ratio and Total Capital Ratio are 15.5%, 15.5% and 21.5%, respectively.

The CRR Group's total exposure to risks at December 31, 2020, in relation to its business, is adequate according to the level of capitalization and the risk profile identified. The capital ratios CET1, Tier 1 Capital Ratio and Total Capital Ratio are 27.9%, 29.3% and 32.0%, respectively.

On June 27, 2019 the Bank of Italy introduced some amendments to circular no. 272 concerning credit quality and the rules on the new definition of default. These amendments take into account the provisions of Delegated Regulation (EU) no. 171/2018 of the European Commission of October 19, 2017.

It should be noted that, in line with the indications of the EBA, for smaller banks the application of the prudential default regulation contained in the 27th update of Circular 285, and the effective date of the amendments to the supervisory statistical reports and the balance sheet of the banks contained in the Communication of June 26, 2019, was postponed to January 1, 2021.

In the provisions on the new definition of default, with an explanatory note on October 15 the Supervisory Authority made it mandatory to use the invoice due date as the starting date when calculating the days past due.

As at December 31, 2020, with a view to approximating the provisions on the new definition of default, in compliance with the aforementioned Communication the Group adopted the invoice due date (with an original expiry of less than three months) as starting date instead of the estimated internal collection date for counting the overdue amount for the non-recourse factoring product, aligning itself with what has been done by other intermediaries.

This approach leads to considering the preferential weighting of 20% envisaged by art. 116, paragraph 3, of the CRR for all exposures to public administration entities with an original expiry of less than three months. The effect of this change is a lower absorption of capital, with a consequent improvement in capital ratios. This amendment makes it possible to align the calculation of RWAs with the approach followed by the other intermediaries and to unlink the calculation of capital absorptions from the assessments made by the credit rating agencies of the countries that the Group operates in.

(In € millions)

	12/31/2019	12/31/2020
Own funds	400	349
CET1 Capital Ratio	12.5%	15.5%
Tier 1 Capital Ratio	12.5%	15.5%
<b>Total Capital Ratio</b>	<b>16.6%</b>	<b>21.6%</b>

Group equity as at 12/31/2020 includes the amount of reserves distributed through dividends in 2020 by BFF Iberia, for €37 million, and by BFF Polska SA, for €15 million, to the Bank. This amount, based on the decision of the Board of Directors of February 10, 2021, was not allocated to Own Funds.

In the event that all the profit for the period and the 2019 Total Dividends were to be allocated to increase the Group's own funds, the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio would be 26.0%, 26.0% and 32.1%, respectively.

At December 31, 2020, the excess capital over the TCR ratio of 15% amounted to €107 million and was available to finance further growth in the banking group.

With regard to the CRR Group, which includes the shareholder BFF Luxembourg S.à r.l., the CET1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio are 27.9%, 29.3% and 32.0%, respectively.

It should be noted that the shareholder BFF Luxembourg has formalized its commitment to maintain a dividend payment policy such as to preserve, over time, a total capital ratio of not less than 15%, both at the level of BFF Banking Group and within the CRR Group framework.

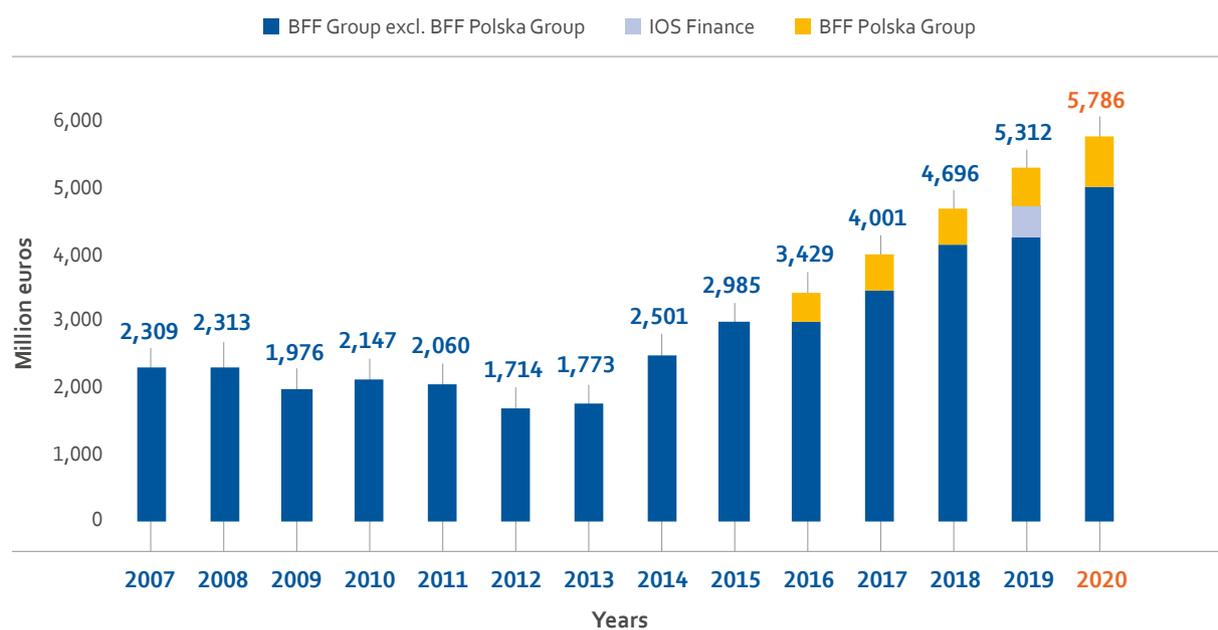
### Performance of BFF Banking Group

At December 31, 2020, consolidated net profit amounted to €91.1 million and included Banca Farmafactoring's profit of €61.0 million, the subsidiary BFF Finance Iberia's profit of €9.3 million and BFF Polska Group's profit of €20.8 million.

With reference to BFF Polska Group, consolidated profit amounted to PLN 92.3 million at December 31, 2020, equal to €20.8 million at the average exchange rate for the period (4.4430), compared to PLN 84.9 million at December 31, 2019, equal to €19.1 million at the same exchange rate, thus increasing by 9%.

The chart below shows the total volumes of new purchases – thus excluding managed volumes – made by BFF Banking Group, which amounted to €5,786 million overall (including €766 million related to BFF Polska Group), +9% on a like-for-like basis compared to 2019 (i.e. considering all non-recourse purchases of IOS Finance made in 2019); the Group achieved volumes of €5.312 million in 2019, including €587 million related to BFF Polska Group).

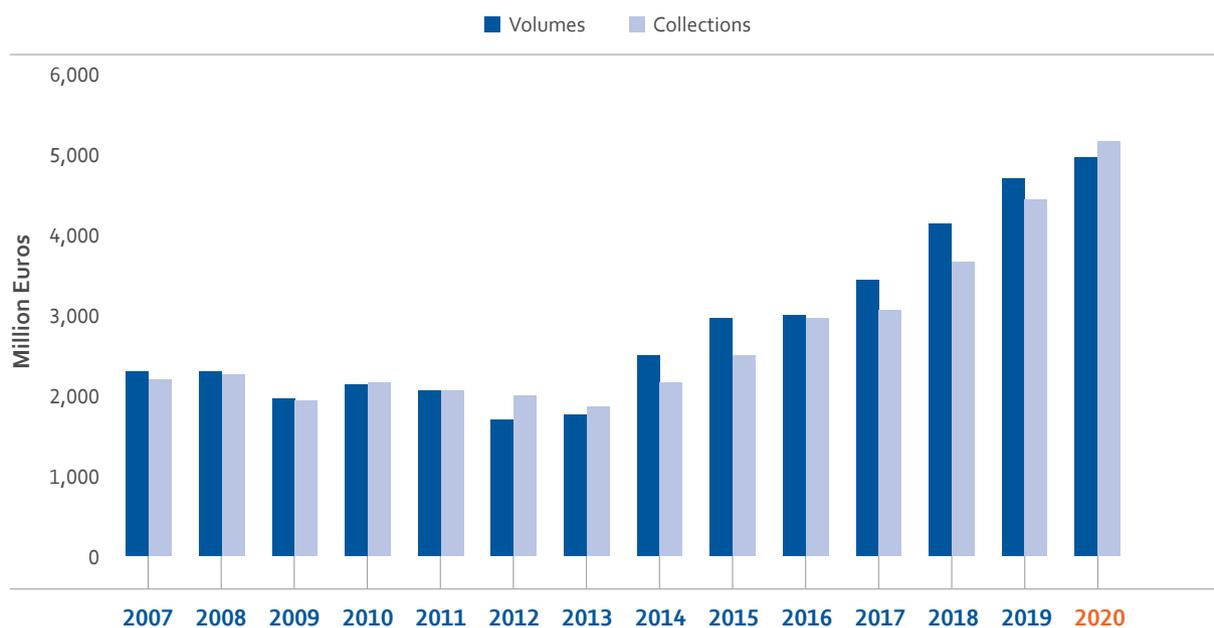
## NEW VOLUMES



Below is information on the performance achieved by the various Group Entities regarding the volumes of receivables purchased and disbursed:

- ▶ Total non-recourse purchases in Italy amounted to €3,031 million, down 2% from €3,082 million at December 31, 2019;
- ▶ BFF Polska Group realised volumes of €766 million in 2020, up 30% compared to the previous year (and volumes of €587 million). More specifically, the volumes broken down by country that BFF Polska Group operates in are as follows: €739 million in Poland (up 30% compared to 2019), €24 million in Slovakia (up 41% compared to 2019), €3 million in Czech Republic (stable compared to the previous year);
- ▶ As for Spanish receivables, purchase volumes amounted to €1,661 million, up 18% compared to €1,413 million in 2019 (always including IOS Finance);
- ▶ Purchases of receivables due from the Portuguese public sector amounted to €248 million, increasing by 42% compared to €174 million in 2019;
- ▶ Purchases in the Greek market amounted to €65 million, up 21% from €54 million at December 31, 2019;
- ▶ The volume of receivables due to the Croatian healthcare system purchased during the year amounted to €1 million, compared to €1 million during 2019;
- ▶ Finally, €15 million of purchases were made in France compared to €1 million in 2019, the first year of activity in that market.

## NON-RECOURSE VOLUMES AND COLLECTION

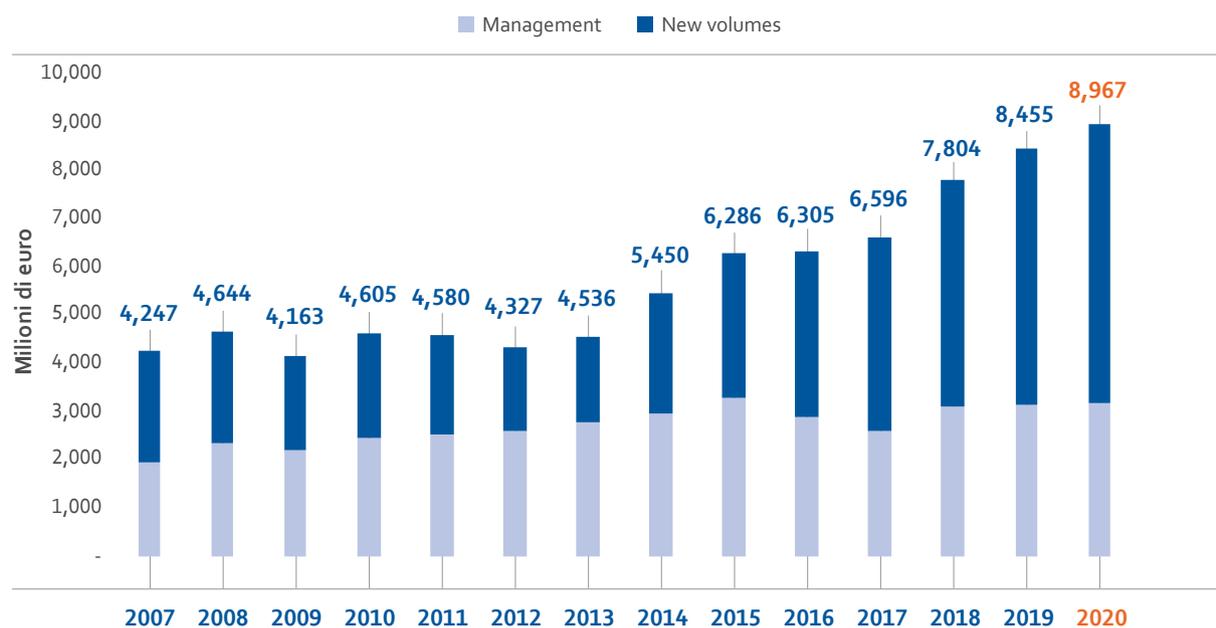


The BFF Group's purchase volumes - excluding BFF Polska Group - amounted to €5,020 million in 2020, up 6% compared to €4,725 million in 2019 (including €461 million relating to IOS Finance). The trend in receipts, up versus 2019 and higher than the new volumes realised, reflects the acceleration of payments resulting from liquidity injections by governments.

Volumes at December 31, 2020, broken down by country in which BFF Polska Group operates, are as follows: €739 million in Poland (up 30% compared to 2019), €24 million in Slovakia (up 41% compared to 2019), €3 million in Czech Republic (stable compared to the previous year).

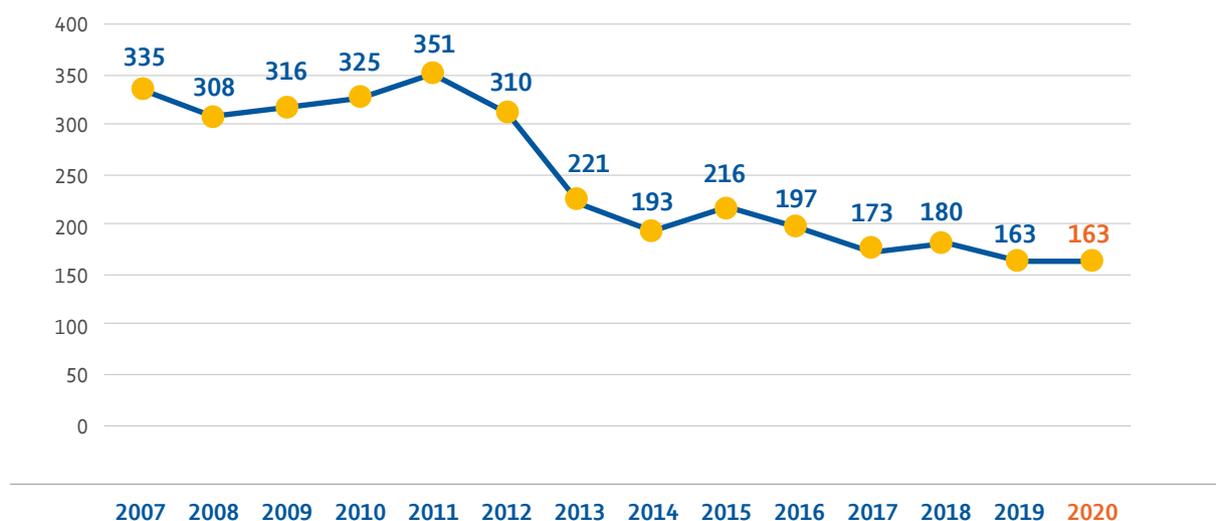
Also considering management activities, overall volumes amounted to €8,967 million compared to €8,455 million (including €243 million in receivables managed by IOS Finance in 2019), increasing by 6%.

## TOTAL VOLUMES



In 2020, the average days sales outstanding concerning receivables managed by Banca Farnafactoring directly and on behalf of third parties, were equal to 163 in Italy, stable compared to 2019, as shown in the chart below, which shows the average days sales outstanding over the last 14 years.

## AVERAGE DAYS SALES OUTSTANDING, ITALY - MANAGEMENT AND NON-RECOURSE



## Shareholder Structure

In 2020, BFF Luxembourg S.à r.l. (Centerbridge) (“**BFF Lux**”) concluded three accelerated bookbuilding (ABB) procedures on January 9, June 1 and October 6, selling 18,700,000, 17,000,000 and 6,800,000 BFF shares, respectively.

In addition, on May 11, 2020 BFF Lux announced that it had purchased a total of 167,279 BFF shares from April 1 to April 6, 2020. Following these purchases and the three ABB procedures described above, as of December 31, 2020 BFF Lux held 13,563,387 BFF shares, representing 7.948% of share capital issued and subscribed as of that same date.

On February 10, 2021, with markets closed, Scalve S.à r.l. (“Scalve”), a company controlled by Massimiliano Belingheri, CEO of BFF Banking Group, announced that it had initiated a reverse accelerated book-building (“RABB”) targeted exclusively at institutional investors and aimed at purchasing a maximum of 3.5 million BFF ordinary shares. The completion of the RABB transaction took place the following day, February 11, 2021, with the acquisition by Scalve of 1,938,670 BFF ordinary shares.

On the same date of February 11, 2021 BFF Lux initiated, and then concluded on February 12, the sale of all remaining shareholdings in BFF:

- (i) through ABB, targeting certain categories of institutional investors, for 11,806,970 shares, and
- (ii) following the exercise of the call option by Massimiliano Belingheri, CEO of BFF, with physical delivery of 1.76 million shares, envisaged pursuant to the relevant existing “Lock up and Option Agreement”.

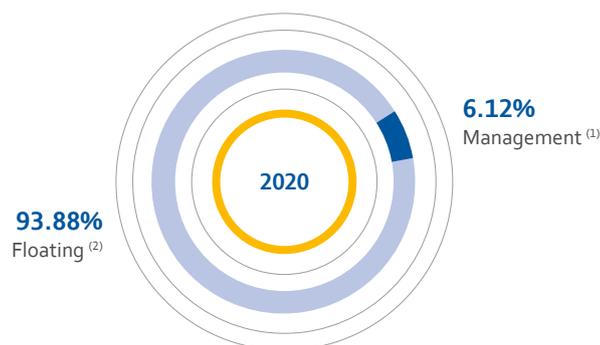
With this operation BFF Lux completed its exit from BFF's capital.

As of February 12, 2021, Massimiliano Belingheri therefore holds – both directly and indirectly through closely related persons (including Scalve and Bray Cross Ltd.) – approximately 10.04 million BFF shares, corresponding to 5.9% of the share capital at that date.

The composition of BFF shareholders at February 12, 2021 is shown in the following diagram. This reflects the results of the transactions described above and the free share capital increases, already communicated to the market and which took place during 2020 through the issuance of new BFF ordinary shares, assigned to BFF Group personnel for needs related to remuneration and incentive policies, as part of:

- (i) The 2019 Management by Objectives incentive system;
- (ii) The “Stock Option Plan of Banca Farmafactoring Banking Group”, originally approved by the Shareholders’ Meeting on December 5, 2016, as amended at the Shareholders’ Meeting on March 28, 2019.

## TOTAL NUMBER OF SHARES ISSUED 170,650,642



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 09/23/2020.

(1) Shares held by the CEO as at 02/12/21 by closely related persons (Bray Cross Ltd. and Scalve S.à.r.l.) and 5 other executives with strategic responsibility.

(2) Including treasury shares.

## Acquisition and merger of IOS Finance into BFF Finance Iberia

On September 30, 2019, BFF Banking Group finalized the acquisition of 100% of IOS Finance S.A.U. ("IOS Finance").

At the same date, the application for withdrawing the EFC (*Establecimiento financiero de crédito*) licence 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. became effective. ("BFF Iberia", wholly controlled by the parent company Banca Farmafactoring S.p.A.).

Therefore, starting from January 1, 2020, BFF 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, as better illustrated below.

The consolidated income statement and balance sheet statements for 2020 include IOS Finance for the entire period, the merger of which was finalised on December 31, 2019. The corresponding 2019 reports only include IOS Finance for the fourth quarter.

## Binding agreement for the acquisition of DEPObank - Banca Depositaria Italiana S.p.A. and approval of the Merger Plan for the merger by incorporation into BFF S.p.A.

On May 13, 2020 BFF signed a binding agreement governing the acquisition from Equinova UK Holdco Limited<sup>16</sup> ("Equinova") of control of DEPObank and the subsequent merger by incorporation of the latter into BFF (the "Operation").

The Operation will create the number-one Italian player in specialty finance, further develop DEPObank's business and improve access to funding and capital to serve BFF's traditional clients.

The operation is expected to be completed by the first quarter of 2021, following the approval of the merger by BFF's Extraordinary Shareholders' Meeting<sup>17</sup> held on January 28, 2021.

On June 24, 2020 the boards of directors of BFF and DEPObank approved the merger plan for the merger by incorporation of DEPObank into BFF, including (i) the exchange ratio of 4.2233377 BFF shares per each DEPObank share, without any cash balance payments, and, (ii) as limited to BFF, the plan to amend the Articles of Association governing the change of the name of the Bank and Banking Group, which from the effective date of the merger will be changed to "BFF Bank S.p.A." and "BFF Banking Group", respectively, as well as the change in share capital, which will be increased through the issuance of 14,043,704 new ordinary BFF shares for Equinova. In addition, following the authorisations from the authorities (Bank of Italy and European Central Bank) obtained on December 9, 2020, BFF and DEPObank approved their respective illustrative reports on the Merger Plan for the merger by incorporation of DEPObank into BFF, prepared in accordance with Art. 2501-*quinquies* of the Italian Civil Code and Art. 70 of the Issuers Regulation, in addition to convening their respective extraordinary shareholders' meetings to approve the merger and approving and making available to the public the Merger Plan and additional prescribed documentation in view of the aforementioned extraordinary shareholders' meetings.

As part of the transaction Banca Farmafactoring will change its name to BFF Bank S.p.A.

## 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. Following this resolution, on February 13, 2020 BFF notified the Bank of Italy of its intention to open a branch in Greece, initiating the related authorisation process.

This process was completed on April 15, 2020 upon receipt of the authorisation by the Greek Local Authority.

16) A holding company whose shareholders are funds managed by Advent International Corporation, Bain Private Equity Europe LLP and Clessidra SGR S.p.A. and which holds an approximately 91% equity interest in DEPObank. The remaining 9% is held by various Italian banks: Banco BPM (2.5%), Credito Valtellinese (2.0%), Banca Popolare di Sondrio (2.0%), UBI Banca (1.0%) and other Italian banks (the "Minority Shareholders").

17) The merger will not give rise to rights of withdrawal for shareholders of BFF who do not vote in favour of the relevant resolution.

The Greek branch finally became operational on September 11, 2020 following the completion of the administrative formalities at the Register of Companies and the local Tax Authority.

## Ratings

On March 26, 2020, the Moody's rating agency confirmed its ratings and Positive outlook for Banca Farmafactoring S.p.A. ("BFF"), first assigned and made public on October 2, 2019. More specifically, both the Long-term Issuer rating (Ba1) and the Long-term Deposit rating (Baa3) were confirmed. On the same day, Moody's announced negative ratings for 14 other Italian banks. The Credit Opinion on BFF was issued on April 27, 2020.

Following the proposed acquisition of DEPObank – Banca Depositaria Italiana S.p.A., announced on May 13, 2020 and expected to be completed by the end of the first quarter of 2021, on June 12, 2020 Moody's confirmed all of BFF's ratings and the Positive outlook on deposits, changing only the outlook for the Long-term Issuer rating to Developing from Positive. The Developing outlook reflects the agency's view that there may be positive or negative pressure on the rating, depending on the success of the acquisition. On January 22, 2021 Moody's then published a new Credit Opinion, with which it reconfirmed all the ratings assigned to BFF.

In summary, Moody's ratings of BFF are as follows:

- ▶ Long-term Issuer rating: "Ba1", outlook Developing;
- ▶ Long-term Deposit rating: "Baa3", outlook Positive;
- ▶ Short-term Bank Deposit rating: "P-3";
- ▶ Baseline Credit Assessment (BCA): "Ba3".

BFF's Issuer Rating is only one notch below the Italian Republic's sovereign rating.

For further information refer to the Agency's website and the Investors section of the BFF Group website: [bff.com](http://bff.com)

## Repayment of the senior unsecured and preferred bond issued on December 5, 2017

At maturity, on June 5, 2020, the repayment of the €200 million floating rate bond issued on December 5, 2017 and partially repaid for €10 million in the first quarter of the year was completed.

Following this redemption, at December 31, 2020 total Senior Unsecured Preferred bond issues amounted to €650 million.

## Purchase of treasury shares

In the period from May 29 to June 4, 2020, the Bank acquired 521,830 treasury shares for a total value – excluding fees – of €2,699,778.27, following (i) the issuance of the required authorisation by the Bank of Italy, (ii) in compliance with the resolution of the Ordinary Shareholders' Meeting of April 2, 2020, and (iii) the launch of the purchase programme approved by the Board of Directors on May 28, 2020, already disclosed to the market pursuant to Delegated Regulation 2016/1052/EU on May 29, 2020 and ended on June 4, 2020.

Purchases were made through the authorised intermediary Mediobanca S.p.A.

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 current "Remuneration and incentive policy for members of the bodies with strategic supervision, management and control, and personnel of Banca Farmafactoring Banking Group".

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

At December 31, 2020, the Bank owned 675,768 treasury shares, accounting for 0.396% of the share capital.

## Consolidated Non-Financial Disclosure

In order to provide more comprehensive and transparent disclosure as well as improve its communications with stakeholders, BFF Banking Group drafted a consolidated Non-Financial Disclosure as at 12/31/2020 in compliance with Italian Legislative Decree no. 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 the website [www.bff.com](http://www.bff.com).

## Shareholders' Meeting Resolutions

On April 2, 2020, the Ordinary Shareholders' Meeting of the Bank resolved to, among other things:

- ▶ To confirm the appointment of Ms. Giorgia Rodigari as a non-executive and non-independent Director of the Company, already appointed by co-option pursuant to Art. 2386 of the Italian Civil Code and Art. 14 of the Articles of Association on December 11, 2019;
- ▶ To grant KPMG S.p.A. the mandate for the legal auditing of the accounts for the years 2021-2029;
- ▶ To revoke the previous authorisation to purchase and dispose of treasury shares granted by the Shareholders' Meeting of March 28, 2019 for the part not executed by the date of April 2, 2020, and therefore without prejudice to the transactions carried out in the meantime, and to authorise the Board of Directors - pursuant to and for the purposes of Art. 2357 of the Italian Civil Code – to purchase a maximum of 8,323,880 ordinary shares of BFF, taking into account the shares already in stock, for the purposes indicated under "Purchase of treasury shares";
- ▶ The approval of the 2020 remuneration and incentive policies, and the 2020 Banca Farmafactoring Group Stock Option Plan (the "2020 SOP").

For the sake of completeness of information, it should be noted that at the shareholders' meeting the Chairman – following the resolution of the Board of Directors of March 30, 2020, to comply with the recommendations of the European Central Bank (ECB) and the Bank of Italy (addressed to all Italian banks) – set aside the discussion and voting on the item “Allocation of operating profit”, postponing its presentation to a subsequent Shareholders' Meeting that, in compliance with the guidance provided by the banking regulator, the Board of Directors has already committed to convene in a timely manner to ensure the distribution of the dividend following the review that ascertains the end of the Covid-19 emergency (as at April 2, based on the instructions of the ECB, tentatively scheduled for October 2020).

On April 2, 2020, the Extraordinary Shareholders' Meeting of the Bank resolved to:

- ▶ Amend Article 5 of the By-laws, in order to:
  - To revoke, for the portion not executed, (i) the paid capital increases authorized by the Extraordinary Shareholders' Meeting on March 28, 2019 in service of the implementation of the Banca Farmafactoring Banking Group Stock Option Plan in effect at the time, (ii) the authority delegated to the Board of Directors by said Extraordinary Shareholders' Meeting on March 28, 2019 for a free capital increase in one or more occasions, even separately, of a maximum of €3,003,000, with the issuance of no more than 3.9 million new ordinary shares, for needs relating to the Company's remuneration and incentive policies, as well as (iii) the capital increase approved, pursuant to the said delegation of authority, by the Board of Directors on April 8, 2019;
  - Freely increase the share capital of the Bank in one or more tranches pursuant to Art. 2349 of the Italian Civil Code, for a total maximum amount of €5,254,563.16, through the issue of up to 6,824,108 ordinary shares for the purposes connected with the Group's remuneration and incentive policies, including the “2020 Banca Farmafactoring Banking Group Stock Option Plan” (the “2020 Capital Increase”).

#### **Partial execution of the mandate to freely increase share capital as granted by the Extraordinary Shareholders' Meeting of March 28, 2019 and revoked by the Shareholders' Meeting of April 2, 2020 (from January 1, 2020 to revocation)**

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 approved 2018 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 (“Delegated Free Capital Increase 2019”).

Until the revocation date, the issues of shares based on the Delegated Free Capital Increase 2019 were carried out in service:

- ▶ 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 cashless basis, by employees previously authorized by the Board of Directors or by the Chief Executive Officer according to the current Stock Option Plan.

In the period between January 22, 2020 and February 5, 2020, the aforementioned mandate was partially implemented, with the issue of 48,939 new ordinary shares, without nominal value and with regular rights, having the same characteristics as shares already in circulation at the time of allocation.

### Partial execution of the 2020 Capital Increase approved by the Extraordinary Shareholders' Meeting of April 2, 2020 (from the resolution of April 2, 2020 to December 31, 2020)

Following the Extraordinary Shareholders' Meeting of April 2, 2020 – which resolved on the 2020 Capital Increase that can be executed in several tranches pursuant to Art. 2349 of the Italian Civil Code, for a total amount not exceeding €5,254,563.16, through the issue of a maximum of 6,824,108 ordinary shares for the purposes connected with the Group's remuneration and incentive policies, including the 2020 SOP – in the period between May 27, 2020 and August 25, 2020 the same 2020 Capital Increase was partially implemented through the issue of 47,925 new ordinary shares, without nominal value and with regular dividend rights, having the same characteristics as shares already in circulation at the time of allocation.

With regard to the 2016 Stock Option Plan, which provided for the granting of 8,960,000 stock options by December 31, 2019, it should be noted that since the beginning of the exercise period (April 8, 2019) to December 31, 2020 (the period considered for the purposes of the most recent communication on change of the share capital in 2020) 348,252 shares were granted, of which 324,752 newly issued, respectively pursuant to the "2020 Capital Increase" for 8,877 shares, and 315,875 relating to the "2019 Free - Delegate Capital Increase".

With regard to the 2020 Stock Option Plan, which provides for the award of a total number of 8,960,000 options to be granted by December 31, 2023, divided into three tranches, 6,700,000 options of the first tranche were granted on May 29, 2020.

## Share capital

In 2020 share capital increased from €131,326,409.06 (at December 31, 2019) to €131,400,994.34. This increase was due to the partial execution of the following activities in the period between January 22, 2020 and August 25, 2020:

- ▶ Delegated Free Capital Increase (revoked by the Shareholders' Meeting on April 2) for an amount of €37,683.03;
- ▶ 2020 Capital Increase for an amount of €36,902.25.

## Changes in the Organizational Structure

With regard to actions aimed at continuously improving the Bank's governance and organisational efficiency towards its Branches and its Subsidiaries, initiatives have been taken to align the working methods and processes of the Subsidiaries with those of the Bank and to harmonise the organisational structure in the various entities mentioned above.

In particular, it should be noted that during the year

- 1) The Credit Management Services OU was created in order to (i) manage part of the activities of the former Business Support OU and (ii) focus mainly on the Healthcare supply chain.
- 2) Functional reporting to the Parent Company was established for all BFF Group Pricing activities in order to (i) streamline decisions and (ii) monitor them more effectively. To ensure adequate support for local and international activities, two new organisational units were created, under the Pricing OU: (i) the *Pricing*

*Foreign Markets* OU, which will focus on all pricing related to the foreign market, and the *Pricing Domestic Market* OU, which will focus on all pricing related to the Italian market.

- 3) A new organisational unit was created within the International Markets Department called *International Credit Management* to: (i) better oversee the coordination and guidance of the management, recovery and collection of foreign receivables and the efficiency of timing; and (ii) develop synergies between the different credit management and legal organisational units in the relevant markets and companies. This action involved both updating and modifying the organisational structures involved, namely: BFF Iberia and BFF Central Europe, as well as the consequent functional reporting within the Parent Company (BFF) and the Branches (Greece and Portugal).
- 4) The foreign organisational structure was changed as a result of the following choices: (i) no longer offer corporate deposit accounts (in Spain), (ii) centralise activities and divide responsibilities within the Operations unit of BFF Polska and (iii) create a new Human Resources organisational unit in the Spanish branch, to which the organisational unit of the same name at BFF Iberia will functionally report and which is functionally accountable to the Parent Company.

## Audit of the Finance Police

As disclosed in the financial statements at December 31, 2019, in the auditors' report issued on January 29, 2020 upon the conclusion of the tax audit of the company, the Finance Police charged the Bank, as withholding agent, with improperly applying the reduced withholding tax in lieu of the ordinary withholding tax on dividends distributed in 2016 by the Luxembourg company BFF Luxembourg S.à r.l. ("BFF Lux") and the recognition of the withholding tax exemption on dividends distributed to the parent company in 2017 and 2018.

The Company took prompt action following the service of the auditors' report, filing two defensive statements with the competent office of the Italian Agency of Revenue, the first on April 9, 2020 and the second on November 9, 2020.

After extensive debate with the Italian Agency of Revenue, the officials decided to maintain the charges solely with regard to a part of the dividends distributed to BFF Lux in 2016, with respect to which, according to the assessing office, BFF Lux does not qualify as the beneficial owner.

As for the penalties, on the basis of the arguments made by the Company, the Agency concluded that they should be waived in their entirety.

The assessment and settlement agreement was then signed on December 23, 2020, establishing a higher withholding tax corresponding to the disputed withholding tax, net of the amount originally paid by the Bank.

The Bank made payment of the full amount due according to the office's instructions by the established deadline of January 12, 2021.

The Bank then informed its shareholder BFF Lux of the exercise of its right to recovery under the law from the taxpayer, receiving a reimbursement for the entire amount due on January 26, 2021.

## Deposit Guarantee Scheme

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

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 by-laws, 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 (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 2020, the ordinary contribution communicated by FITD on December 11, 2020 amounted to €1,856 thousand, while in 2019 BFF paid an ordinary contribution of €913 thousand.

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

On November 26, 2015, the meeting of FITD members also approved a Voluntary Scheme in addition to the Mandatory Scheme, to implement measures to support member banks at the point or at the risk of becoming insolvent. 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 2020 by the Bank of Italy with its Note of April 28, 2020 was €2,296 thousand, paid in May 2020.

The contribution requested in 2019 was €1,734 thousand, paid in May 2019, while the contribution requested in 2018 was €1,872 thousand.

According to Italian Law 208/2015 (so-called 2016 Stability Law), if the financial resources of the National Resolution Fund (NRF) are insufficient to sustain the recovery and restructuring actions carried out over time, the banks must make additional contributions to such NRF, with the amount to be determined by the Bank of Italy.

In June 2020, the Bank of Italy requested the banking system to provide an additional extraordinary contribution of €310 million for 2018, taking into account the upcoming financial needs of the Fund.

The amount charged to BFF, paid in July 2020, totalled €726 thousand. In 2019, the extraordinary contribution for 2017 totalled €635 thousand, while in 2018 the extraordinary contribution for 2016 totalled €701 thousand. In 2017 no extraordinary contribution was 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 are aimed at ensuring the proper implementation of the risk management and compliance process, including the risk of money laundering and terrorist financing, and are entrusted to the Risk Management Function, the Financial Reporting Officer and the Compliance and AML Function of the Parent Company, which, in accordance with the provisions of the current prudential supervisory regulations, perform the following main tasks:

- ▶ **Risk Management:** this function ensures the consistency of the risk measurement and control systems with the processes and methodologies of company activities by coordinating with the relevant company structures; oversees the realization of the internal process for determining adequacy of capital and liquidity risk governance and management systems ("ICAAP/ILAAP"); monitors the controls over the management of risks, in order to define methods to measure those risks; assists corporate bodies in designing the Risk Appetite Framework (RAF); verifies that the limits assigned to the various operating functions are being observed; and checks that the operations of the individual areas are consistent with the assigned risk and return objectives.
- ▶ **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, it performs assessments and monitoring at a Group level, evaluating the adequacy of the coverage of the potential risk by performing adequacy and effectiveness tests on key controls on an ongoing basis, identifying possible points of improvement in the Internal Control System in the accounting area. In this context, the Financial Reporting Officer and the Chief Executive Officer of the Parent Company together certify the following aspects through specific reports attached to the annual 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):** this function supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory framework for the 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, also verifying the consistency 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 relevant regulations.

### *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 2020, 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, updated by the Board of Directors in March 2020, 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 audits envisaged for 2020 in the Group Audit Plan were performed by the function without any interruption, though the period of the health emergency required that such audits be performed remotely for the most part. More specifically, the audits were performed on the internal structures of the Bank, on the subsidiary BFF Finance Iberia, on the Spanish branch, on the Polish branch and 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.

### *Supervisory Body pursuant to Italian Legislative Decree 231/2001*

The Bank has an Organization, Management and Control Model (hereinafter referred to as the "Model") prepared pursuant to Italian Legislative Decree 231 of June 8, 2001 (hereinafter referred to as the "Decree") and the guidelines issued by ASSIFACT, ABI and Confindustria, in accordance with industry best practices.

The Model includes a General Part, which provides a summary description of the reference regulatory framework, the key characteristics and features of the Model identified within the operations defined as "sensitive" for the purposes of the Decree, the structure and composition of the Supervisory Body as well as 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 offence, intended to identify the criminal offences that may potentially be committed as part of the Bank's operations; ii) the Protocols as per 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, Poland and Greece - 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 offences as per the Decree.

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

The work of the Supervisory Body in 2020 focused mainly on the updating and adequacy of the Model, which was updated in September 2020, monitoring information flows and monitoring the working situation in terms of compliance with the provisions on the health and safety of workers during the Coronavirus health emergency.

In H1 2020 the Supervisory Body reported to the Board of Directors on its work, specifically stating it did not receive any complaint relevant to the Decree.

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

- ▶ the Spanish subsidiary BFF Finance Iberia adopted its own Organizational Model in accordance with Article 31-bis of the Spanish Penal Code, similar in its structure to the Bank's 231 Organizational Model (general part, special part 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.

During 2020, the Supervisory Body's composition remained unchanged compared to 2019: there are two external members, one of whom acts as Chair, and one internal member, the Head of the Internal Audit function.

## Research and development

During H2 2020, various initiatives were completed to increase the Group's market share where the Group was already present, or to make internal processes and IT systems more efficient.

More specifically, the following main projects were carried out:

- ▶ Improvement of operations relating to the purchase of non-recourse receivables in Greece by the Bank, by opening a new branch (in September 2020);
- ▶ Completion of the development of the online platform to provide the non-recourse service in the Spanish market and service launch (on July 9, 2020);
- ▶ Improvement of the efficiency of the software systems supporting the Group's core business, including the legal system and the out-of-court debt management and recovery system, as well as the development of new technological solutions aimed at managing the regulatory compliance required of all Group companies.

## Change in Staff Headcount

At December 31, 2020 the total number of BFF Banking Group employees amounted to 535 persons, broken down geographically as follows: 246 in Italy, 10 at the BFF branch in Portugal, 6 at the branch in Greece, 56 in Spain (12 at the BFF branch in Madrid, 44 at BFF Finance Iberia), 198 in Poland, 16 in Slovakia and 3 in the Czech Republic.

In 2020, there were 38 new hires, of which 15 in Italy (including FOS), 1 in Slovakia, 13 in Poland, 2 in Portugal, 4 in Greece and 3 in Spain.

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

Category	2019							2020							
	Italy	Spain	Poland	Slovakia	Czech Republic	Portugal	Total	Italy	Spain	Poland	Slovakia	Czech Republic	Greece	Portugal	Total
Senior Executives/ Executives	18	1	6	-	-	-	25	19	1	5	-	-	-	-	25
Manager/ Coordinator	37	17	36	5	-	2	97	41	17	36	3	-	3	2	102
Specialist/ Professional	180	40	153	12	4	6	395	186	38	157	13	3	3	8	408
<b>Total by country</b>	<b>235</b>	<b>58</b>	<b>195</b>	<b>17</b>	<b>4</b>	<b>8</b>	<b>517</b>	<b>246</b>	<b>56</b>	<b>198</b>	<b>16</b>	<b>3</b>	<b>6</b>	<b>10</b>	<b>535</b>

At December 31, 2020 there were 535 people: 296 (55%) women and 239 (45%) men.

Below are the details by country:

Country	Women		Men		Total
Italy	120	49%	126	51%	246
Poland	128	65%	70	35%	198
Spain	29	52%	27	48%	56
Slovakia	10	63%	6	38%	16
Portugal	4	40%	6	60%	10
Greece	2	33%	4	67%	6
Dem. Rep.	3	100%	0	0%	3
<b>Overall total</b>	<b>296</b>	<b>55%</b>	<b>239</b>	<b>45%</b>	<b>535</b>

Such figures do not include 16 staff working at Kancelaria Prawnicza Karnowski i Wspólnik sp.k. and Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.

## Share performance

The Banca Farmafactoring stock (ISIN Code: IT0005244402 – Italian stock exchange ticker: BFF) has been traded on the Mercato Telematico Azionario (MTA) of Borsa Italiana since April 7, 2017, "Finance" Industry and "Financial Services" Super Sector, and is part of the following FTSE indices:

- ▶ FTSE All-Share Capped
- ▶ FTSE Italia All-Share
- ▶ FTSE Italia Mid Cap
- ▶ FTSE Italia Finanza
- ▶ FTSE Italia Servizi Finanziari
- ▶ FTSE Italia PIR PMI All
- ▶ FTSE Italia PIR Mid Small Cap
- ▶ FTSE Italia PIR PMI
- ▶ FTSE Italia PIR Mid Cap

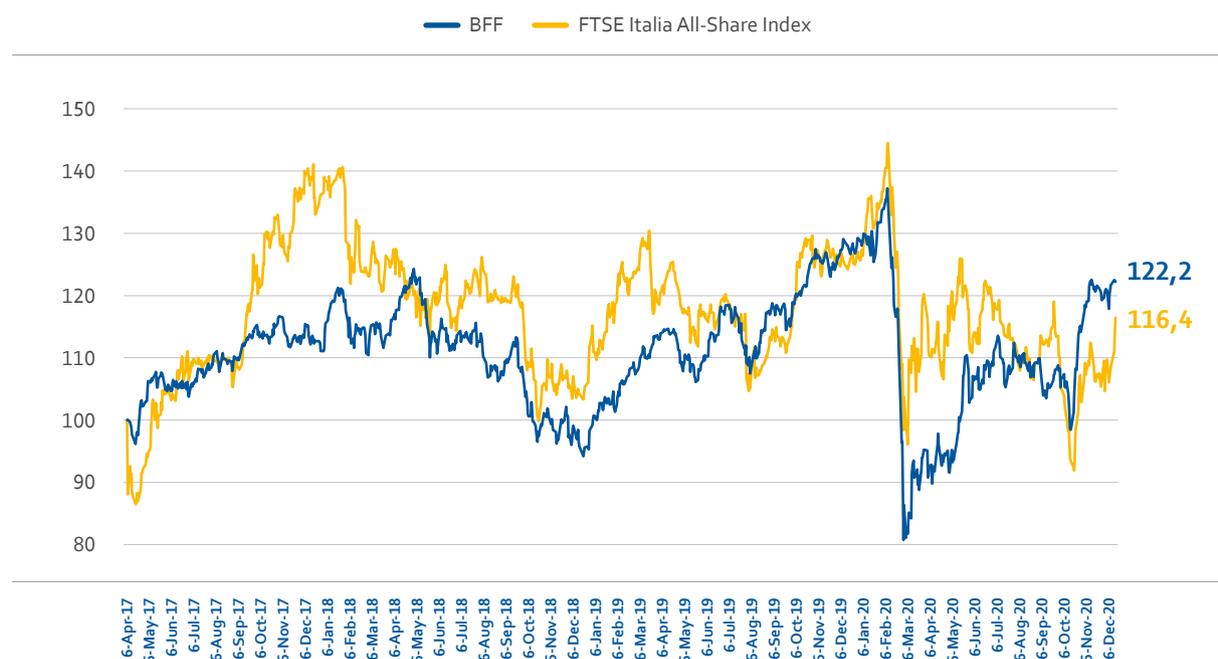
and the following STOXX indices:

- ▶ 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 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 Total Market
- ▶ STOXX Europe Total Market ESG-X
- ▶ STOXX Europe Total Market Financial Services
- ▶ STOXX Europe Total Market Financials
- ▶ 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
- ▶ iSTOXX Europe Carry Factor
- ▶ iSTOXX Europe Multi-Factor
- ▶ iSTOXX Europe Value Factor
- ▶ iSTOXX Italy Small Mid Cap

BFF shares are also included in various MSCI indices (including MSCI Europe Small Cap Index, MSCI Italy Small Cap Index, MSCI Italy Investable Market Index, and MSCI Europe IMI Financials Index).

The BFF share price at December 30, 2020 was €4.94, up by 5% over the IPO share placement price of €4.70. Since listing until the end of 2020, 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, 2020 compared to the IPO placement price was 16.5%. The FTSE Italia All-Share Index total return was 22.2% in the same period.

## TOTAL RETURN



With regard to Italian Legislative Decree no. 58/1998 (Consolidated Law on Finance) on provisions enabling the definition of “SME” issuers of listed shares and regulations applicable to issuers of financial instruments having wide public circulation, the Bank qualifies as “SME - Small Medium Enterprise” based on the size parameters (and the relevant thresholds) set by lawmakers.

Specifically, BFF Banking Group exceeds the “medium capitalization” threshold, set at €500 million, but remains below the €300 million threshold of the “turnover” parameter (i.e., the sum of (1) interest and similar income, (2) gains on securities, (3) commission income, (4) gains on financial transactions, and (5) other operating income).

## Main Balance Sheet Items

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

### Financial assets measured at fair value through other comprehensive income

(Values in thousand euros)

Items	12/31/2019	12/31/2020	Changes
Government securities - (HTC&S)	82,748	0	(82,748)
Equity investments	17	17	
Equity securities	147	147	
<b>Total</b>	<b>82,912</b>	<b>164</b>	<b>(82,748)</b>

The HTC&S (formerly AFS) government security portfolio was sold in the second half of 2020. At December 31, 2019 this portfolio included securities at variable rates (CCT), with residual maturity dates within five years, for a total amount of €82.7 million.

These securities were classified in the Held to Collect and Sell (HTC&S) business model since January 1, 2018, following the introduction of the new IFRS 9 accounting principle.

### Financial assets measured at amortised cost

(Values in thousand euros)

Items	12/31/2019	12/31/2020	Changes
Government securities - (HTC)	996,022	1,682,050	686,028
Due from banks	136,680	31,078	(105,602)
Loans to customers	4,118,015	4,067,451	(50,564)
<b>Total</b>	<b>5,250,717</b>	<b>5,780,579</b>	<b>529,862</b>

The amount consists entirely of government securities, classified in the Held to Collect (HTC) portfolio, purchased to hedge liquidity risk, for a total face value of €1,682 million. The average duration of such securities is 34.2 months.

These securities have a fixed rate (BOT, BTP and CTZ), with maturity dates related to the sources of committed and unsecured funding, with the exception of the CCT 4/2025 purchased as part of the Acquisition of DEPOBank. 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 HTC portfolio refers to the financial assets that the Bank intends to hold until the expiry date established in the contract, and that allow the collection of fixed and determinable amounts. In accordance with IFRS 9, an entity may not classify any financial asset as held-to-maturity if the entity sold or reclassified a non-material amount of investments classified in the HTC portfolio prior to maturity during the current or previous period.

The fair value of these HTC securities at December 31, 2020 amounted to €1,739 million, with a positive difference, after tax, over the carrying amount at the same date, of approximately €38 million that has not been recognized in the financial statements.

“Receivables due from banks” mainly consists of the bank account balances of the BFF Banking Group's companies at the end of H1 2020.

The item includes €3,214 thousand in the mandatory reserve deposit with DEPObank, as BFF is an indirect participant in that system, and €9,531 thousand deposited with Banco de España as CRM (*Coficiente de Reservas Mínimas*) for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto.

Details of “Receivables due from customers” are as follows:

(Values in thousand euros)

Items	12/31/2019	12/31/2020	Changes
Receivables purchased outright	3,323,948	3,204,561	(119,387)
Receivables purchased below face value	30,367	24,895	(5,472)
Other receivables	763,700	837,996	74,296
<b>Total</b>	<b>4,118,015</b>	<b>4,067,451</b>	<b>(50,564)</b>

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 2020, 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.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian public administration. However, a prudent decision was made to consider, also for 2020, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF.

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

These receivables were classified in the Held to Collect (HTC) business model since January 1, 2018, following the introduction of the new IFRS 9 accounting principle.

### **Credit quality**

With regard to credit quality, total net impaired receivables increased by €124.6 million at December 31, 2020 compared to €106.2 million at December 31, 2019.

In order to analyse its credit exposures, aimed among other things at identifying any impairment losses on financial assets in accordance with IFRS 9, the Banking Group classifies exposures as Performing and Non-Performing.

Non-Performing exposures, whose overall gross amount was €140.9 million at December 31, 2021 with impairment losses totalling €16.3 million, are divided into the following categories.

### **Bad 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, 2020, the total non-performing loans of the Banking Group, net of impairment, amounted to €66.8 million, of which €5.6 million purchased already impaired. Among these non-performing exposures, €64.0 million (96% of the total) concerned regional authorities in financial distress.

Gross non-performing loans amounted to €80.0 million and were adjusted for €13.2 million. Among these gross NPLs, €0.1 million concerned municipalities in financial distress and €5.2 million referred to BFF Polska's factoring-for-business product, which had been sold.

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

### **Unlikely-to-pay positions**

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

At December 31, 2020, gross exposures classified as unlikely to pay totalled €18.7 million and related adjustments amounted to €3.0 million, a net amount of €15.7 million.

## Non-performing past due exposures

Non-performing past due exposures are exposures to governments 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 non-performing 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, 2020, total net past due exposures amounted to €42.1 million for the whole Banking Group, of which 94.6% referring to public administration counterparties and public sector companies of the countries where the Banking Group operates.

The Banking Group's gross exposures totalled €42.2 million and relevant adjustments amounted to €0.1 million.

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

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

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

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

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

(Values in thousand euros)

Type	12/31/2019			12/31/2020		
	Gross amount	Write-downs/ write-backs	Net value	Gross amount	Write-downs/ write-backs	Net value
Impaired exposures purchased performing (Stage 3)	114,113	(13,608)	100,505	135,107	(16,091)	119,015
Impaired exposures purchased impaired (Stage 3)	5,879	(224)	5,655	5,828	(214)	5,614
Performing exposures (Stage 1 and 2)	4,015,618	(3,763)	4,011,855	3,946,325	(3,503)	3,942,822
<b>Total</b>	<b>4,135,610</b>	<b>(17,594)</b>	<b>4,118,015</b>	<b>4,087,260</b>	<b>(19,809)</b>	<b>4,067,451</b>

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

## Tangible and intangible assets

(Values in thousand euros)

Items	12/31/2019	12/31/2020	Changes
Tangible assets	17,109	18,014	905
Intangible assets	35,268	36,675	1,407
- of which goodwill	30,874	30,874	0
<b>Total</b>	<b>52,377</b>	<b>54,689</b>	<b>2,312</b>

At the date of IFRS first-time adoption (January 1, 2005), the buildings owned by the Group 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.

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

(Values in thousand euros)

Tangible assets	12/31/2019	Increases	Decreases	12/31/2020
Land	3,685			3,685
Buildings	9,859	3,660	(1,693)	11,826
Furnishings	198	85	(101)	181
Electronic system	587	139	(385)	342
Others	2,782	2,245	(3,046)	1,981
<b>Total</b>	<b>17,109</b>	<b>6,129</b>	<b>(5,225)</b>	<b>18,014</b>

Below are the details for intangible assets.

(Values in thousand euros)

Intangible assets	Duration	12/31/2019	Increases	Decreases	12/31/2020
Goodwill		30,874			30,874
Other intangible assets: generated internally	DEFINITE	0			
	INDEFINITE	0			
Other intangible assets: others	DEFINITE	4,394	1,407		5,801
	INDEFINITE	0			
<b>Total</b>		<b>35,268</b>	<b>1,407</b>		<b>36,675</b>

Intangible assets amounted to €36,675 million and include goodwill of €30,874 thousand, of which €22,146 thousand arising from the acquisition of BFF Polska Group by BFF in May 2016 and €8,728 thousand from the acquisition of IOS Finance by BFF in September 2019. Such goodwill was recognized after the completion of the PPA process carried out in compliance with IFRS 3 during 2017 as far BFF Polska Group is concerned and in September 2019 as for IOS Finance.

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

## Tax assets and liabilities

(Values in thousand euros)

	Items	12/31/2019	12/31/2020	Changes
<b>Tax assets</b>		<b>13,320</b>	<b>15,333</b>	<b>2,014</b>
	<i>current</i>	1,754	4,090	2,336
	<i>prepaid</i>	11,566	11,243	(323)
<b>Tax liabilities</b>		<b>77,259</b>	<b>83,698</b>	<b>6,439</b>
	<i>current</i>	7,143	5,824	(1,318)
	<i>deferred</i>	70,116	77,873	7,757

Tax assets totalled €15,333 thousand and mainly include advance payments for IRES and IRAP taxes made by BFF, net of current tax liabilities, which represent the appropriation of income taxes accrued for the year 2020.

Tax liabilities amounted to €83,698 thousand and mainly include the taxes calculated on BFF's late payment interest accrued and accruing, and will be paid upon collection.

## Financial liabilities measured at amortised 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:

(Values in thousand euros)

Items	12/31/2019	12/31/2020	Changes
Payables to banks	1,142,841	1,034,655	(108,186)
Amounts due to customers	2,713,663	3,571,621	857,958
– of which to financial institutions	258,359	189,656	(68,703)
Securities issued	1,105,692	808,908	(296,784)
<b>Total</b>	<b>4,962,195</b>	<b>5,415,184</b>	<b>452,989</b>

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

"Payables to financial institutions" mainly refer to relationships with financial companies other than banks.

The payables due to customers include exposures for the online "deposit accounts" Conto Facto and Cuenta Facto, amounting to €1,654 million, and repurchase agreements amounting to €1,1616 million (nominal value), with the Cassa di Compensazione e Garanzia as counterparty, entered into to refinance the Bank's securities portfolio.

Debt securities issued consist of bonds issued by the Parent BFF and the relevant SPV. They have a total face value of €800 million and are recognized in the financial statements in the amount of €808 million at amortized cost using the effective interest rate method.

The item includes:

- ▶ €100 million subordinated unsecured and unrated Tier 2 bond (ISIN XS1572408380) issued by BFF in March 2017. The 10-year bond due March 2027 has the right to an issuer call date (one-off) in the fifth year from issue (in March 2022). The bonds pay a fixed coupon of 5.875% on an annual basis;
- ▶ €200 million senior unsecured and unrated bond (ISIN XS1639097747) issued by BFF in June 2017, due in June 2022. The bonds pay a fixed coupon of 2% on an annual basis;
- ▶ €150 million bond (ISIN XS1435298275) issued by BFF in June 2016, due in June 2021. The bonds pay a fixed coupon of 1.25% on an annual basis;
- ▶ €300 million senior unsecured and unrated bond with Ba1 rating (ISIN XS2068241400) issued by BFF in October 2019. The issue has a duration of 3.5 years with a maturity date of May 2023. The bonds pay a fixed coupon of 1.75% on an annual basis;

- ▶ €50 million flexible senior notes issued by the vehicle BFF SPV S.r.l. created together with the Bayerische Landesbank Group (Bayern LB). As far as the securitisation transaction is concerned, the receivables were sold to the vehicle company and were not derecognised from the assets of BFF since the sale did not transfer the relevant risks and rewards.

## Allowances for risks and charges

At December 31, 2020, "Provisions for risks and charges" totalled €6,382 thousand. They mostly include allocations to "Pension and other post-employment benefits" of €4,777 thousand and "Other provisions" of €1,078 thousand.

*(Values in thousand euros)*

Items	12/31/2019	12/31/2020	Changes
Commitments and other guarantees provided	580	527	(53)
Employee benefits	4,313	4,777	464
Other provisions	1,519	1,078	(441)
<b>Total</b>	<b>6,412</b>	<b>6,382</b>	<b>(30)</b>

"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 Banking Group's companies may face.

## Main Consolidated Income Statement Items

A brief comment on the main consolidated 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, 2020, the Group's net profit amounted to €91.1 million, compared to €93.2 million recognized in the same period of the previous year.

### Intermediation margin

(Values in thousand euros)

Items	12/31/2019	12/31/2020	Changes
Maturity commissions and late payment interest on non-recourse receivables	169,484	164,310	(5,174)
Interest income on securities	6,292	13,459	7,167
Other interest	73,181	67,484	(5,697)
<b>Interest and similar income</b>	<b>248,957</b>	<b>245,253</b>	<b>(3,704)</b>
Interest expenses	(48,449)	(46,873)	1,576
<b>Net fee and commission income</b>	<b>4,498</b>	<b>4,610</b>	<b>112</b>
Dividends and similar income	0	0	0
Net trading result	(752)	5,932	6,684
Net hedging result	0	0	0
Profits (losses) on disposal or repurchase of	370	419	49
a) financial assets designated at amortised cost	371	0	(371)
b) financial assets designated at fair value through other comprehensive income	(1)	363	364
c) financial liabilities	0	56	56
<b>Intermediation margin</b>	<b>204,623</b>	<b>209,340</b>	<b>4,717</b>

The interest margin at December 31, 2020 was €198.4 million, down 1% compared to €200.5 million at December 31, 2019. The intermediation margin amounted to €209.3 million at December 31, 2020, up 2% from €204.6 million at December 31, 2019.

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.

BFF updates the time series 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 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.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian public administration. However, a prudent decision was made to consider, also for 2020, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF.

The difference between gains and reschedulings recognised in 2020 by BFF Banking Group amounted to €7.3 million due to lower late payment interest received, compared to €16.8 million in the previous year.

The stock of late payment interest accrued on receivables purchased outright by BFF and BFF Finance Iberia (the so-called provision for late payment interest) amounted to €681 million.

Of this interest for late payment, a total of €276 million was recorded in the income statement in current and prior years.

The cumulative amount of late payment interest due to BFF and BFF Finance Iberia, but not yet collected, in relation to non-recourse receivables, amounted to €634 million at December 31, 2019, of which €238 million were recognized in the income statement of the reporting period and in previous years.

The provision for late payment interest increased by 7% between December 31, 2019 and December 31, 2020. Of this provision at December 31, 2020, late payment interest not yet recognized in the income statement amounts to €406 million.

Interest income on securities, amounting to €13.6 million, originates from government securities classified in the HTC&S and HTC portfolios. These securities are measured at amortized cost, and interest calculated using the effective rate of return is recognized in the income statement.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's financial assets, for a total amount of €58 million.

Interest expense went from €48.4 million at December 31, 2019 to €46.9 million at December 31, 2020.

Despite the increase in average used funding (from €3.3 billion to €3.6 billion), interest expense benefited from the reduction in the reference interest rate in Poland, which was reflected in a decrease in the Wibor, reducing the cost of loans in zloty and the cost for Acquisition Financing. Further benefit was derived from the increased REPO transactions resulting also from the purchase of CCT 04/2025 in May at the signing of the transaction with DEPObank, combined with the decreasing trend of the Euribor rates during the year.

The balance of the net commissions shows an increase of €0.1 million compared to 2019.

(Values in thousand euros)

Items	12/31/2019	12/31/2020	Changes
Management commissions	6,298	6,333	35
Fee and commission expense	(1,800)	(1,723)	77
<b>Net fee and commission income</b>	<b>4,498</b>	<b>4,609</b>	<b>112</b>

Gains (losses) on trading mainly arise from the positive euro/zloty exchange effect recorded in the income statement, deriving from the revaluation of exchange rates applied to the loans payable in Polish zloty used for the acquisition of BFF Polska Group and amounting to €5.7 million before taxes at December 31, 2020, compared to the negative effect of €0.7 million recorded at the end of the previous year, offset by a negative effect from the devaluation of exchange rates applied to BFF Polska Group's equity in consolidated shareholders' equity.

Gains on disposal of securities refer to the sale of government securities in the HTC&S portfolio made during the reporting period, which generated a gain of €363 thousand, before the tax effect.

## Administrative costs

(Values in thousand euros)

Items	12/31/2019	12/31/2020	Changes
Personnel expenses	40,098	41,353	1,255
Other administrative expenses	39,426	45,061	5,635
<b>Total administrative expenses</b>	<b>79,524</b>	<b>86,414</b>	<b>6,890</b>

Administrative expenses amounted to €86.4 million at December 31, 2020, up 8.6% from €79.5 million for the same period last year.

The amount includes charges for M&A operations amounting to €11.4 million and extraordinary contributions to the National Resolution Fund and the FITD amounting to €1.3 million. It also includes charges for stock options for directors and certain employees amounting to €1.4 million before taxes. This cost also generates an increase in shareholders' equity, before taxes.

It should also be noted that under "Other operating expenses and income" BFF recorded an amount equal to €5.4 million relating to the collection of invoices for the reimbursement of costs incurred for the recovery of amounts not promptly paid by the debtor.

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

### Disclosure regarding the going concern assumption

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

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

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

The data can be summarized as follows:

- ▶ growing trend in Shareholders' Equity;
- ▶ capital adequacy in relation to the risks connected with lending activities;
- ▶ sufficient availability of financial resources;
- ▶ positive commercial prospects related to the trend in demand;
- ▶ high credit quality.

A quantitative summary of this analysis can be found below.

Items	12/31/2019	12/31/2020
Interest margin	200.5	198.4
Intermediation margin	204.6	209.3
EBITDA	129.2	132.4
<b>Profit for the year</b>	<b>93.2</b>	<b>91.1</b>
<b>R.O.E. (Return On Equity) (%)</b>	<b>25%</b>	<b>20%</b>
Intermediation margin / Non-recourse volumes (%)	4.5%	4.0%
Net interest margin / Interest and similar income (%)	80.5%	80.9%
NPLs (net of impairment) / Receivables due from customers (%)	1.5%	1.6%
Own funds / Receivables due from customers (%)	21.4%	32.8%
Leverage	19.4	20.1
<b>Shareholders' Equity</b>	<b>377.3</b>	<b>462.6</b>
<b>Own funds</b>	<b>399.8</b>	<b>349.4</b>

## Risk Management and Compliance with Prudential Supervision Regulations

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

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

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

The regulation applicable at December 31, 2020 is based on three pillars.

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

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

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

### *Pillar II – The ICAAP/ILAAP Report*

In accordance with prudential supervisory provisions, and in order to allow the Supervisory Authority to carry out an accurate and comprehensive assessment of the fundamental qualitative characteristics of the equity and financial planning process, the risk exposure and the consequent calculation of total internal capital and relevant liquidity reserves, the Bank - as Parent Company of the Banking Group - 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.

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

To this end, the Board of Directors of BFF has approved a dedicated procedure named “Disclosure to the Public (Pillar III)”.

Pursuant to this procedure, the disclosure should be:

- ▶ approved by the Board of Directors before it is made public;
- ▶ Published on the website [www.bff.com](http://www.bff.com) at least once a year by the deadline for the publication of the financial statements, and therefore within 21 days of the date of approval of the financial statements by the Shareholders' Meeting.

With regard to the provisions of the Bank of Italy Circular no. 285 of December 17, 2013, and subsequent updates, the BFF Group will publish on its website [www.bff.com](http://www.bff.com), once a year, within the deadlines established for the publication of the financial statements, a country-by-country reporting document, which contains information inherent to the business, turnover, and the number of staff in the various countries in which the Group is present.

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

### Disclosure regarding Calendar Provisioning and Past Due

With the general objective of adopting an increasingly prudent approach to the classification and coverage of NPEs, a series of regulatory interventions were added.

With regard to this context, in April 2019 the European Commission approved an update of EU Regulation 575/2013 (CRR) regarding the minimum coverage of impaired receivables. For the purposes of evaluating prudential provisions, the legislation in question provides that receivables disbursed and classified as impaired after April 26, 2019 are subject to “calendar provisioning”. Exposures disbursed earlier and subsequently classified as NPEs will not be subject to the provisions contained in the amendment to Regulation no. 575 (CRR). This update requires banks to maintain an adequate provision value, deducting from their CET 1 any positive difference between prudential provisions (identified by weighting the gross value of guaranteed and unsecured NPEs by certain percentages) and amending funds and other assets (balance sheet provisions, prudent valuation, other deductions of CET1).

This rule is based on the principle that the prudential definition of default (i.e. past due, probable defaults and non-performing) effectively defines a state of deterioration of the credit quality of the exposure, not providing for any discretion and not ensuring that certain cases not representative of a worsening of credit risk (as for most Group exposures) are treated differently.

Moreover, on June 27, 2019 the Bank of Italy introduced some amendments to Circular no. 272 concerning credit quality and the rules on the new definition of default. These amendments take into account the provisions of Delegated Regulation (EU) no. 171/2018 of the European Commission of October 19, 2017.

It should be noted that, in line with the indications of the EBA, for smaller banks the application of the prudential default regulation contained in the 27th update of Circular 285, and the effective date of the amendments to the supervisory statistical reports and the balance sheet of the banks contained in the Communication of June 26, 2019, were postponed to January 1, 2021.

In the provisions on the new definition of default, with an explanatory note on October 15 the Supervisory Authority made it mandatory to use the invoice due date as the starting date when calculating the days past due.

As at December 31, 2020, with a view to approximating the provisions on the new definition of default, in compliance with the aforementioned Communication the Group adopted the invoice due date (with an original expiry of less than three months) as starting date instead of the estimated internal collection date for counting the overdue amount for the non-recourse factoring product, aligning itself with what has been done by other intermediaries.

This approach leads to considering the preferential weighting of 20% envisaged by art. 116, paragraph 3, of the CRR for all exposures to public administration entities with an original expiry of less than three months. The effect of this change is a lower absorption of capital, with a consequent improvement in capital ratios. This amendment makes it possible to align the calculation of RWAs with the approach followed by the other intermediaries and to unlink the calculation of capital absorptions from the assessments made by the credit rating agencies of the countries that the Group operates in.

These accessions, which determine the full implementation of the new default rule, were previously discussed with the Bank of Italy, also in the context of the submission of the DEPObank Purchase Request.

Thanks to these activities, to date there have been no significant impacts on the Group's capital position as a result of the introduction of the new default definition.

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

	Shareholders' equity as at 12/31/2019	Of which Profit at 12/31/2019	Shareholders' equity as at 12/31/2020	Of which Profit at 12/31/2020
<b>Parent Company's balances</b>	<b>301,674</b>	<b>65,226</b>	<b>444,872</b>	<b>143,281</b>
Effect of transactions among Group companies (including dividends)				(78,707)
BFF Finance Iberia - adjustment due to derecognition of equity investment	21,286		(22,134)	
BFF Finance Iberia - profit	5,333	5,333	9,332	9,332
BFF Polska - adjustment due to derecognition of equity investment	23,175		12,524	
BFF Polska - profit	19,751	19,751	20,767	20,767
Exchange differences - translation reserves	2,682		(2,562)	
Other consolidation adjustments	3,352	2,847	(219)	(3,600)
Shareholders' equity attributable to non-controlling interest				
<b>Group consolidated figures</b>	<b>377,252</b>	<b>93,157</b>	<b>462,579</b>	<b>91,073</b>

## Other information

### Transactions with related parties

With regard to relations with related parties and associated parties, on November 11, 2016 the Board of Directors of BFF SpA approved, with effect subject to the commencement of negotiations on the Mercato Telematico Azionario managed by Borsa Italiana – and therefore from April 7, 2017 - the "Policies on internal controls adopted by the BFF Group for the management of conflicts of interest" (so-called "Conflict of interest management policy") and the "BFF Group Regulation for the management of transactions with parties having conflicts of interest" (the "OPC Regulation") – in implementation of the supervisory provisions of Title V, Chapter 5 of Bank of Italy Circular no. 263 of December 27, 2006 ("Circular 263") and of the Consob Regulation on transactions with related parties, adopted by resolution no. 17221 of March 12, 2010, subsequently amended by resolution no. 17389 of June 23, 2010 – subject to a favourable opinion expressed by the Board of Statutory Auditors and the OPC Committee.

On December 22, 2020 the Bank approved the update of the conflict of interest management policy and the OPC Regulation in order to update the new regulatory references resulting from the integration of Circular no. 263 in the Supervisory Provisions for banks.

The Policy on the management of conflicts of interest governs the control processes aimed at ensuring the correct measurement, monitoring and management of the risks assumed by the Group with respect to Associated Parties.

The Regulation is aimed at overseeing the risk that proximity, if any, of such parties to the Banking Group's decision-making centres 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 (the "Corporate Governance Report"). On December 22, 2020, as mentioned in the 2020 Report on Corporate Governance, the Board of Directors approved the update of its internal regulations to incorporate – in the terms that will be represented in the 2021 Report on Corporate Governance – the provisions of the Corporate Governance Code that will enter into force in January 2021.

## 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, 2020.

## Treasury shares

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

At December 30, 2020, the Bank owned 675,768 treasury shares, accounting for 0.396% of the share capital, of which 521,830 were purchased as a result of the repurchase programme communicated to the market on May 29, 2020 and ended on June 4, 2020.

In 2020 the Bank purchased 521,830 treasury shares and allocated 176,838 of them, 103,299 for half of the upfront portion of the CEO's retention bonus paid in financial instruments, 31,451 for half of the upfront portion of the CEO's 2019 MBO bonus, 23,500 following the exercise of options under the "2016 Stock Option Plan", and 18,588 for non-competition agreements and exit incentives.

It did not sell any treasury shares.

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

## Other offices

BFF has an office in Rome, at Via di San Basilio 41. The Bank opened a branch in Madrid, Spain in 2015, in Lisbon, Portugal in July 2018, in Łódź, Poland in July 2019 and in Athens, Greece in September 2020.

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

## Business Outlook

As per the five-year strategic plan approved by BFF's Board of Directors on May 29, 2019 ("BFF 2023" or the "Plan"), BFF Banking Group's goals up to 2023, confirmed by the 2021 budget, approved on January 29, 2021, are:

- 1) Continue to develop the current core business and improve operating efficiency, so as to further strengthen the Group's leadership position in Italy:
  - 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 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) Consolidate the existing business and/or expand into other market niches via acquisitions.

Growth opportunities for 2021 include the integration of DEPObank's business lines (specifically securities services and business payments) within the Group. Further assessments to penetrate other European markets are also underway.

The Bank believes that the continuation of the current market situation and the resulting climate of uncertainty will not materially impact the economic outlook for 2021, despite the effects described in the paragraph "The scenario created by the Covid-19 epidemic", as the income components are substantially recurring in nature and therefore highly predictable. More specifically, with regard to the intermediation margin, no significant contribution changes are expected in relation to the Strategic Plan mentioned above in view of the expected stability of the loans in the financial assets, without also considering further increases in the income components deriving from the current crisis and the aforementioned role of supporting companies that the Bank could further provide.

With regard to the credit risk, the nature of the Bank's loans makes the risk of losses on Financial Assets extremely low, with regard to the existing business model.

With regard to any non-recurring income, some can be expected from the special projects that the company is evaluating and that have been mentioned in part above, but which are carefully monitored.

## Appropriation of the Banking Group's Profit

The Banking Group's Profit for the year ended December 31, 2020 amounted to €91.1 million. As described above, this result includes charges related to the Stock Option Plan allocated to certain beneficiaries, income from exchange rate differences, charges related to extraordinary contributions to the National Resolution Fund, M&A costs, charges for current taxation deriving from the one-off distribution of dividends from subsidiaries and the positive effect from alignment of the tax value and book value of the property located in Milan and owned by BFF. Net of these effects, the normalised profit at December 31, 2020 amounted to €97.5 million.

It should also be noted that at year-end 2019 the Banking Group had realised a total profit of €93.2 million, of which €70.9 million for the distribution of dividends to shareholders in line with the dividend policy approved by the Bank's Board of Directors, which allows paying 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)("2019 Total Dividends").

Consistent with the aforementioned dividend policy, this year the Bank therefore intends to allocate a total dividend of €168.5 million to Shareholders. This amount corresponds to the sum of: (i) the 2019 individual profit of €12.4 million (corresponding to the first portion of the 2019 Total Dividends); (ii) the 2020 individual profit of €143.3 million (including the second and residual portion of €58.5 million of the 2019 Total Dividends); and (iii) an additional amount of €12.8 million corresponding to distributable reserves already present in the financial statements at December 31, 2020.

In light of the restrictions on the distribution of dividends for the 2019 and 2020 financial years as per the Bank of Italy and ECB Recommendations (so-called "**Recommendations**") issued following the economic emergency related to the Covid-19 pandemic, the Bank has repeatedly confirmed its commitment to distribute the 2019 Total Dividends and the 2020 normalised profit as soon as possible, in compliance with the regulator's instructions.

Lastly, following the Bank of Italy Recommendation of December 16, 2020 ("BoI Recommendation"), with a press release dated January 28, 2021 the Bank informed the market that it was awaiting written feedback from the Bank of Italy or interpretative criteria that provide clarification also with respect to the scope of application of the BoI Recommendation to BFF in light of what the Bank proposed to the regulator and summarised in the communication.

In February 2021 discussions took place with the Bank of Italy in which, also following the exit from the Bank's share capital of BFF Luxembourg s.à r.l. (in this regard please see the announcement regarding the successful completion of the accelerated book building operation of February 12, 2021) which will result in the loss of the CRR Banking Group headed by BFF Luxembourg s.à r.l., the Supervisory Authority indicated that the maximum amount of the dividend distributable in compliance with the Recommendation issued by the Bank of Italy on December 16, 2020 is the lower of 15% of the cumulative profits of 2019-20 and 20 basis points of the CET1 coefficient.

## Proposal for the Appropriation of Banca Farmafactoring's Profit

Shareholders,

The Bank has verified the possibility of proposing the distribution of dividends amounting to 20 basis points of the CET1 coefficient, calculated with reference to the Banking Group, excluding BFF Luxembourg S.à r.l. as of December 31, 2020, the parent company of the prudential scope. This measure is considerably lower than 15% of the cumulative profits of 2019-2020 (equal to approximately €27.6 million). Consequently, the distribution proposal amounts to approximately €3.2 million.

The Bank also intends to confirm its intention to allocate to its Shareholders, as soon as possible, in compliance with the restrictions on the distribution of dividends following the economic emergency resulting from the Covid-19 pandemic, a **total dividend amount of €168.5 million** ("2019-2020 Total Dividends") corresponding to the sum of: *i*) the 2019 individual profit of €12.4 million (corresponding to the first portion of the 2019 Total Dividends); *ii*) the 2020 individual profit of €143.3 million (including the second and residual portion of €58.5 million of the 2019 Total Dividends); and *iii*) an additional amount of €12.8 million, corresponding to distributable reserves already present in the financial statements at December 31, 2020), therefore committing to convene, as soon as possible, in compliance with the recommendations of the Authority, and therefore predictably after September 30, 2021, an ordinary shareholders' meeting to resolve on the distribution of the residual amount of €165.3 million.

Recalling therefore the resolution of the Board of Directors of February 10, which among other things included the approval of the 2020 Financial Statements, which showed an individual net profit of €143,281,246 million, a consolidated net profit of €91,072,581 million and allocated the entire amount of €143,281,246 million to the Retained Earnings Reserve, based on the financial statements the Board of Directors is called upon to resolve on the proposal to:

- (i) Based on a profit equal to €3,231,388 distribute a dividend of €0.018935 for each of the 170,650,642 shares outstanding;
- (ii) Allocate €140,049,858 to the Bank's retained earnings reserve.

Considering the limited amount of the distributable dividend, the technical costs related to the distribution, a function of the number of intermediaries the shares are deposited with, are estimated at approximately €90,000.

With regard to the proposed date for the payment of the dividend, it is recalled that pursuant to art. 2.6.2 of the Regulation of Markets organised and managed by Borsa Italiana S.p.A. as well as art. IA.2.1.2 of the relevant Instructions, the Company is required to communicate to the public the proposed dividend ex date, the date of entitlement to payment pursuant to art. 83- terdecies of Italian Legislative Decree no. 58/1998 – which is established as the day following the ex date – (record date), and the date proposed for the payment of the dividend (payment date). More specifically, it should be noted that at least one open market day must elapse between the date of the meeting of the body that decides on the distribution of the dividend and the ex date.

In compliance with the calendar of the Borsa Italiana stock markets (which sees the ex date as coinciding with the first open market day of each week), the Shareholders' Meeting having been scheduled on the financial calendar for Thursday, March 25, 2021, it is proposed to schedule the ex date for coupon no. 3 for Monday, March 29, 2021, the record date for Tuesday, March 30, 2021 and the payment date for March 31, 2021.

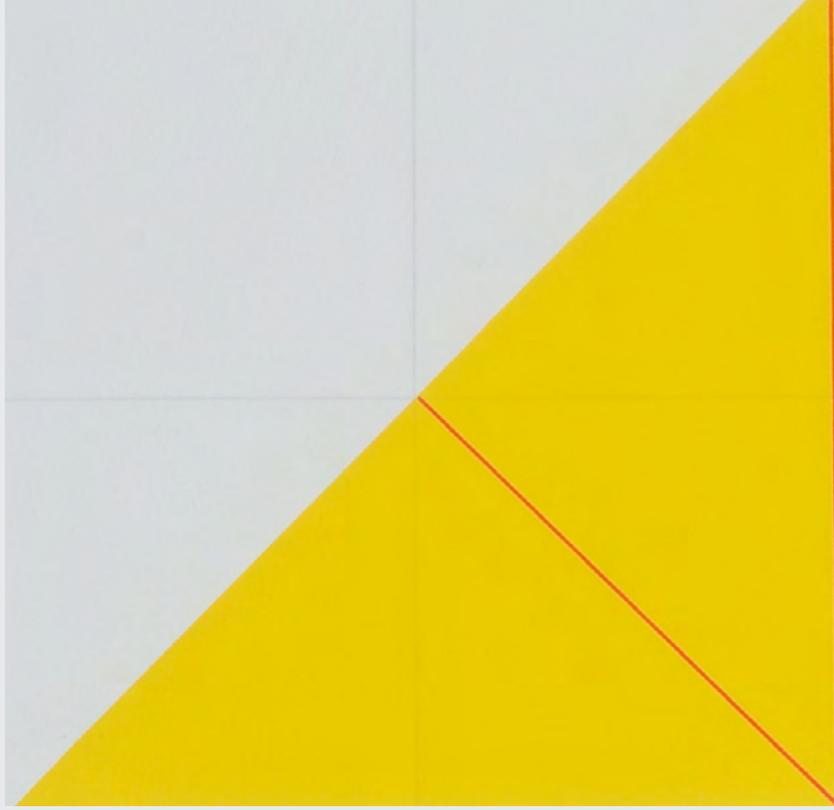
It is therefore proposed to submit the following resolution proposal to the Shareholders' Meeting:

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

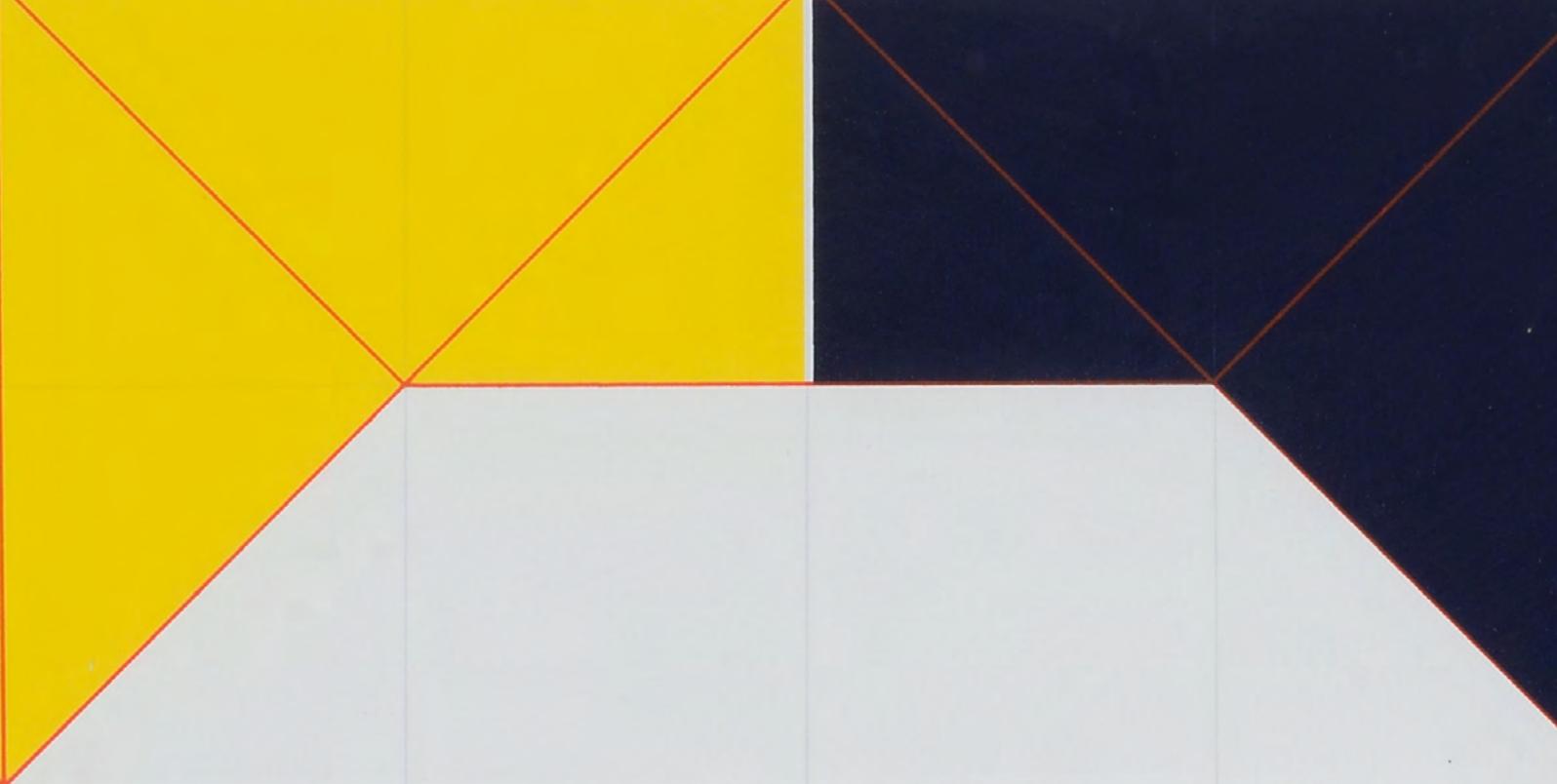
***resolves***

- i. *in compliance with the limitations set by the Bank of Italy, to distribute to Shareholders part of the net profit for the year of €3,231,388, equal to €0.018935 before tax for each of the 170,650,642 ordinary shares outstanding at the third ex date, March 29, 2021. In the event of the execution of the capital increase serving the Merger, the unit dividend will be equal to €0.017495 for each of the 184,694,346 BFF ordinary shares. 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 March 30, 2021 (record date);*
- ii. *to allocate the remaining portion of €140,049,858 to the "Retained earnings reserve", without prejudice to the commitment of the Bank's Board of Directors to convene as soon as possible – in compliance with the recommendations of the Regulator issued following the economic emergency related to the Covid-19 pandemic, and therefore predictably after September 30, 2021 – an ordinary shareholders' meeting to resolve on the distribution of the remaining 2019--2020 Total Dividends of €165,275,418;*
- iii. *that such dividend be paid as of March 31, 2021 (payment date). Payment will be made through authorized intermediaries with which shares have been registered in the Monte Titoli system.*

For the Board of Directors  
**THE CHAIRMAN**  
**(Salvatore Messina)**



02



Consolidated  
Financial  
Statements

## Consolidated Balance Sheet

(Values in euro units)

Assets	12/31/2020	12/31/2019
10. Cash and cash equivalents	173,280,377	78,305,302
30. Financial assets measured at fair value through other comprehensive income	163,924	82,911,963
40. Financial assets measured at amortised cost	5,780,579,449	5,250,716,578
<i>a) due from banks</i>	31,078,082	136,679,774
<i>b) loans to customers</i>	5,749,501,367	5,114,036,805
70. Equity investments	87,944	94,437
90. Tangible assets	18,014,021	17,109,160
100. Intangible assets	36,675,140	35,268,054
of which		
– <i>goodwill</i>	30,874,236	30,874,236
110. Tax assets	15,333,003	13,319,318
<i>a) current</i>	4,090,128	1,753,665
<i>b) deferred</i>	11,242,874	11,565,653
130. Other assets	27,179,709	11,561,531
<b>TOTAL ASSETS</b>	<b>6,051,313,567</b>	<b>5,489,286,343</b>

(Values in euro units)

<b>Liabilities and shareholders' equity</b>	<b>12/31/2020</b>	<b>12/31/2019</b>
<b>10.</b> Financial liabilities measured at amortised cost	5,415,184,174	4,962,195,474
<i>a) due to banks</i>	1,034,654,607	1,142,840,644
<i>b) due to customers</i>	3,571,621,161	2,713,662,678
<i>c) debt securities issued</i>	808,908,406	1,105,692,152
<b>60.</b> Tax liabilities	83,697,710	77,258,861
<i>a) current</i>	5,824,367	7,142,711
<i>b) deferred</i>	77,873,344	70,116,150
<b>80.</b> Other liabilities	82,804,576	65,324,506
<b>90.</b> Employee severance pay	666,641	843,205
<b>100.</b> Provision for risks and charges:	6,381,691	6,412,030
<i>a) commitments and guarantees given</i>	527,436	580,428
<i>b) post-employment benefits and similar obligations</i>	4,776,556	4,313,009
<i>c) other allowances for risks and charges</i>	1,077,699	1,518,593
<b>120.</b> Valuation reserves	1,456,095	6,569,790
<b>150.</b> Reserves	241,473,311	147,269,189
<b>160.</b> Share premium reserve	693,106	693,106
<b>170.</b> Share capital	131,400,994	131,326,409
<b>180.</b> Treasury shares	(3,517,312)	(1,762,756)
<b>200.</b> Profit (loss) for the period	91,072,581	93,156,528
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>6,051,313,567</b>	<b>5,489,286,343</b>

# Consolidated Income Statement

(Values in euro units)

Items	12/31/2020	12/31/2019
<b>10. Interest income and similar income</b>	245,252,959	248,956,841
<i>of which: interest income calculated according to the effective interest method</i>	214,515,905	211,252,427
<b>20. Interest expenses and similar charges</b>	(46,873,268)	(48,448,932)
<b>30. Interest margin</b>	<b>198,379,691</b>	<b>200,507,909</b>
<b>40. Fee and commission income</b>	6,332,699	6,297,736
<b>50. Fee and commission expense</b>	(1,723,137)	(1,799,928)
<b>60. Net fee and commission income</b>	<b>4,609,562</b>	<b>4,497,808</b>
<b>80. Profits (losses) on trading</b>	5,931,970	(752,359)
<b>100. Profits (losses) on disposal or repurchase of</b>	418,573	369,770
<i>a) financial assets valued at amortised cost</i>	0	371,090
<i>b) financial assets measured at fair value through other comprehensive income</i>	362,572	(1,320)
<i>c) financial liabilities</i>	56,001	0
<b>120. Net interest and other banking income</b>	<b>209,339,796</b>	<b>204,623,128</b>
<b>130. Net losses/recoveries for credit risks associated with:</b>	(3,138,955)	(2,371,538)
<i>a) financial assets valued at amortised cost</i>	(3,150,236)	(2,382,840)
<i>b) financial assets measured at fair value through other comprehensive income</i>	11,281	11,302
<b>150. Net result from banking activities</b>	<b>206,200,842</b>	<b>202,251,590</b>
<b>180. Profits (losses) of banking and insurance management</b>	<b>206,200,842</b>	<b>202,251,590</b>
<b>190. Administrative expenses:</b>	(86,413,528)	(79,524,661)
<i>a) personnel expenses</i>	(41,352,616)	(40,098,036)
<i>b) other administrative expenses</i>	(45,060,913)	(39,426,625)
<b>200. Net provisions for risks and charges</b>	(989,294)	(3,190,458)
<i>a) commitments and guarantees given</i>	41,956	(375,731)
<i>b) other net provisions</i>	(1,031,250)	(2,814,727)
<b>210. Net write-downs/write-backs on tangible assets</b>	(3,429,853)	(3,173,576)
<b>220. Net write-downs /write-backs on intangible assets</b>	(2,090,399)	(1,887,121)
<b>230. Other operating income/expenses</b>	10,435,530	7,233,967
<b>240. Operating expenses</b>	<b>(82,487,544)</b>	<b>(80,541,849)</b>
<b>290. Profit (loss) before tax from continuing operations</b>	<b>123,713,298</b>	<b>121,709,741</b>
<b>300. Income taxes for the financial year on current operations</b>	(32,640,717)	(28,553,213)
<b>310. Profit (loss) from current operations after tax</b>	<b>91,072,581</b>	<b>93,156,528</b>
<b>330. Profit (loss) for the period</b>	<b>91,072,581</b>	<b>93,156,528</b>
<b>350. Profit (Loss) for the financial year attributable to the Parent Company</b>	<b>91,072,581</b>	<b>93,156,528</b>
Basic earnings per share	0.53	0.55
Diluted earnings per share	0.51	0.52

## Statement of Consolidated Comprehensive Income

(Values in euro units)

Items	12/31/2020	12/31/2019
10. Profit (loss) for the period	91,072,581	93,156,528
<b>Other comprehensive income, net of taxes, that may not be reclassified to the income statement</b>		
20. Equity instruments carried at fair value through other comprehensive income		
30. Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)		
40. Hedging of equity instruments carried at fair value through other comprehensive income		
50. Tangible assets		
60. Intangible assets		
70. Defined-benefit plans	7,312	(15,881)
80. Non-current assets held for sale and discontinued operations		
90. Share of valuation reserves connected with investments carried at equity		
<b>Other comprehensive income, net of taxes, that may be reclassified to the income statement</b>		
100. Hedging of foreign investments		
110. Foreign exchange differences	(5,200,914)	1,652,193
120. Cash flow hedges	0	0
130. Hedging instruments (undesignated elements)		
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	79,908	4,089,737
150. Non-current assets held for sale and discontinued operations		
160. Share of valuation reserves connected with investments carried at equity		
<b>170. Total other comprehensive income (net of tax)</b>	<b>(5,113,694)</b>	<b>5,726,050</b>
<b>180. Other comprehensive income (Item 10+170)</b>	<b>85,958,886</b>	<b>98,882,578</b>
190. Consolidated comprehensive income attributable to minority interests		
<b>200. Consolidated comprehensive income attributable to the parent company</b>	<b>85,958,886</b>	<b>98,882,578</b>

## Statement of Changes in Consolidated Equity

At 12/31/2019	Balances as at 12/31/2018	Change to opening balances	Balances as at 01/01/2019	Allocation of result for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
- ordinary shares	130,982,698		130,982,698		
- other shares					
Share premium reserve					
Reserves:					
- earnings	138,299,093		138,299,093	399,658	
- others	4,206,588		4,206,588		
Valuation reserves	843,738	0	843,738		
Equity instruments					
Treasury shares	(244,721)		(244,721)		
Profit (Loss) for the year	92,152,892		92,152,892	(399,658)	(91,753,234)
Group shareholders' equity	366,240,288	0	366,240,288		(91,753,234)
Minority interests	0		0		

At 12/31/2020	Balances as at 12/31/2019	Change to opening balances	Balances as at 01/01/2020	Allocation of profit/loss for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
- ordinary shares	131,326,409		131,326,409		
- other shares					
Share premium reserve					
Reserves:					
- earnings	140,501,134		140,501,134	93,156,528	
- others	6,768,055		6,768,055		
Valuation reserves	6,569,790		6,569,790		
Equity instruments					
Treasury shares	(1,762,756)		(1,762,756)		
Profit (Loss) for the year	93,156,528		93,156,528	(93,156,528)	0
Group shareholders' equity	377,252,266	0	377,252,266		0
Minority interests	0		0		

(Values in euro units)

Change in reserves	Changes in the year							Consolidated comprehensive income 2019	Shareholders' equity attributable to the group as at 12/31/2019	Shareholders' equity attributable to minorities as at 12/31/2019
	Shareholders' equity transactions									
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests			
	343,711								131,326,409	
	693,106								693,106	
	1,802,383								140,501,134	
	1,486,811	662,012				412,644			6,768,055	
	0							5,726,050	6,569,790	
	163,644	(1,681,679)							(1,762,756)	
								93,156,528	93,156,528	
	3,452,838	1,698,829	(1,681,679)			412,644		98,882,578	377,252,266	
							0			

(Values in euro units)

Change in reserves	Changes in the year							Consolidated comprehensive income 2020	Shareholders' equity attributable to the group as at 12/31/2020	Shareholders' equity attributable to minorities as at 12/31/2020
	Shareholders' equity transactions									
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests			
	74,585								131,400,994	0
									0	0
									693,106	0
	401,268								234,058,930	0
	(631,437)					1,277,764			7,414,381	0
								(5,113,694)	1,456,095	0
									0	0
	947,913	(2,702,469)							(3,517,312)	0
								91,072,581	91,072,580	0
	717,744	74,585	(2,702,469)	0	0	0	1,277,764	0	85,958,886	462,578,775
								0		0

# Consolidated Statement of Cash Flows

## Indirect method

(Values in euro units)

	Amount	
	12/31/2020	12/31/2019
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Cash flow from operations</b>	<b>100,721,082</b>	<b>103,769,495</b>
- net profit/loss for the year (+/-)	91,072,581	93,156,528
- gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	0	0
- gains/losses on hedging operations (-/+)	0	0
- net value adjustments/write-backs for credit risk (+/-)	3,138,955	2,361,813
- net adjustments/recoveries on tangible and intangible assets (+/-)	5,520,252	5,060,697
- net allocations to provisions for risks and charges and other costs/income (+/-)	989,294	3,190,458
- net premiums not collected (-)		
- other income/expenses from insurance activities not collected (-/+)		
- taxes, duties and unpaid tax credits (+/-)		
- net value adjustments/write-backs on discontinued operations, net of the tax effect (-/+)		
- other adjustments (+/-)		
<b>2. Cash flow generated/absorbed by financial assets</b>	<b>465,434,189</b>	<b>579,089,336</b>
- financial assets held for trading	0	0
- financial assets carried at fair value	0	0
- other financial assets subject to mandatory fair value measurement	0	0
- financial assets measured at fair value through other comprehensive income	(82,748,039)	(77,843,896)
- financial assets measured at amortised cost	533,001,828	659,308,066
- other assets	15,180,401	(2,374,834)
<b>3. Cash flow generated/absorbed by financial liabilities</b>	<b>469,380,426</b>	<b>567,588,535</b>
- financial liabilities measured at amortised cost	453,453,960	560,965,487
- financial liabilities held for trading	0	0
- financial liabilities carried at fair value		
- other liabilities	15,926,466	6,623,048
<b>Net cash generated/absorbed by funding activities</b>	<b>104,667,319</b>	<b>92,268,695</b>

CONTINUED

(Values in euro units)

	Amount	
	12/31/2020	12/31/2019
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows from</b>	<b>(6,493)</b>	<b>(77,600)</b>
- sales of equity investments	(6,493)	(77,600)
- dividends collected on equity investments	0	0
- sales of tangible assets		
- sales of intangible assets		
- sales of subsidiaries and business units		
<b>2. Cash flows used in</b>	<b>(7,057,868)</b>	<b>(20,845,768)</b>
- purchases of equity investments	(79,183)	160,771
- purchases of tangible assets	(3,037,949)	(10,233,289)
- purchases of intangible assets	(3,940,736)	(10,773,250)
- purchases of subsidiaries and business units		
<b>Net cash generated/absorbed by investing activities</b>	<b>(7,064,360)</b>	<b>(20,923,368)</b>
<b>C. FUNDING ACTIVITIES</b>		
- issue/purchase of treasury shares	(2,702,469)	(1,381,679)
- issue/purchase of equity instruments	74,585	1,036,817
- distribution of dividends and other purposes	0	(92,152,892)
- sale/purchase of ownership interests in subsidiaries		
<b>Net cash generated/absorbed by financing activities</b>	<b>(2,627,884)</b>	<b>(92,497,753)</b>
<b>NET CASH GENERATED/ABSORBED DURING THE FINANCIAL YEAR</b>	<b>94,975,074</b>	<b>(21,152,426)</b>

## Reconciliation

(Values in euro units)

Financial statement items	12/31/2020	12/31/2019
Cash and cash equivalents at start of financial year	78,305,302	99,457,728
Total net cash generated/absorbed during the financial year	94,975,074	(21,152,426)
Cash and cash equivalents: effect of changes in exchange rates		
<b>Cash and cash equivalents at end of financial year</b>	<b>173,280,377</b>	<b>78,305,302</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- Part A - Accounting policies
- Part B - Notes to the Consolidated Balance Sheet
- Part C - Notes to the Consolidated Income Statement
- Part D - Consolidated Comprehensive Income
- Part E - Information on risks and related hedging policies
- Part F - Consolidated Equity
- Part G - Business Combinations of companies or business units
- Part H - Transactions with related parties
- PART I - Payment agreements based on equity instruments
- Part L - Segment Reporting
- Part M - Lease Reporting

## Part A - Accounting policies

### A.1 GENERAL

#### Section 1 - Statement of compliance with international accounting standards

The consolidated financial statements at December 31, 2020 have been prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the IASB, endorsed by the European Commission, as provided for by Regulation (EC) No 1606 of July 19, 2002 governing the application of IASs/IFRSs and related interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period.

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

#### Section 2 - General preparation principles

The consolidated financial statements at December 31, 2020 were prepared in accordance with the instructions provided by the Bank of Italy with Circular no. 262 of December 22, 2005 “Banks’ financial statements: layout and preparation”, as subsequently amended.

The consolidated financial statements include the statement of financial position, 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 Group, and after examining the risks to which it is exposed, the Directors have not identified any issue that could raise doubts on the Group’s ability to meet its obligations in the foreseeable future.

Moreover, in the light of the supplementary provisions issued by the Bank of Italy in its communication of December 15, 2020, the Consolidated Financial Statements at December 31, 2020 have been prepared, where applicable, in accordance with the recommendations set out in the following communications from the EBA (European Banking Authority), ECB (European Central Bank) and ESMA (European Securities and Market Authorities):

- ▶ EBA communication of March 25, 2020 “Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of Covid-19 measures”;

- ▶ ESMA communication of March 25, 2020 - "Public Statement. Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9";
- ▶ The document of the IFRS Foundation dated March 27, 2020 "IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic";
- ▶ The ECB letter dated April 1, 2020 "IFRS 9 in the context of the Coronavirus (Covid-19) pandemic" addressed to all significant institutions;
- ▶ The EBA guidelines of April 2, 2020 "Guidelines on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis";
- ▶ The ESMA communication of May 20, 2020 "Implications of the Covid-19 outbreak on the half-yearly financial reports";
- ▶ The EBA guidelines of June 2, 2020 "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis";
- ▶ The ESMA communication of October 28, 2020 "European common enforcement priorities for 2020 annual financial reports";
- ▶ The EBA guidelines of December 2, 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis";
- ▶ ECB letter of December 4, 2020 "Identification and measurement of credit risk in the context of the Coronavirus (Covid-19) pandemic" addressed to all significant institutions.

The above communications define a series of guidelines in order to support the Group in the application of accounting standards in light of the impacts of Covid-19.

For considerations regarding the main impacts, risks and uncertainties of the health emergency, please refer to the detailed discussion in Section 5 - Other Aspects - Risks, uncertainties and impacts of the Covid-19 epidemic.

## Accounting standards, amendments and interpretations effective from 2020

The following standards, interpretations and amendments are applicable from 2020:

- ▶ Amendments to the references to the Conceptual Framework in the IFRS corpus. The amendments update several references and citations in the IFRS standards and interpretations to refer to the revised Conceptual Framework or to specify the version of the Conceptual Framework to which they refer. The document helps to ensure that the standards are conceptually coherent and that similar transactions are dealt with in the same way, in order to provide useful information to investors, lenders and other creditors.
- ▶ Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, aimed at clarifying the definition of "material" in order to make it easier for companies to make materiality judgements and improve the relevance of information in the notes to the financial statements.
- ▶ Amendments to IFRS 9 – Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures, introducing temporary exceptions and limits to the application of provisions on the accounting treatment of hedging operations so that entities may continue to comply with the provisions by presuming that the relevant indices for determining the existing interest rates are not modified by the interbank rate reform (Interest Rate Benchmark Reform). The amendment also requires companies to report additional information about their hedging relations that are directly affected by the uncertainties of the reform, to which these derogations apply.
- ▶ Amendments to IFRS 3: Business Combinations, providing clarification regarding the definition of a business in order to facilitate practical implementation.

No particular material impacts on the Group's accounts have been identified as a result of the above amendments.

## Accounting standards and interpretations not mandatory from 2020

- ▶ Amendments to IFRS 16 – Leases to make it easier for lessors to account for rental incentives (e.g. suspension of rent or temporary reduction of rent) resulting from the Covid-19 pandemic. The amendment exempts lessees from having to consider individual lease agreements to determine whether the incentives granted as a result of the Covid-19 pandemic are changes to the contract and allows same parties to account for these incentives as if they were not changes, therefore immediately to the income statement. The practical expedient applies to Covid-19 incentives that reduce payments of rents due by June 30, 2021 and does not affect lessors.
- ▶ Document "Interest Rate Benchmark Reform - Phase 2" published by the IASB in light of the Interbank Interest Rate Reform (IBOR) which contains amendments to the following standards:
  - IFRS 9 - Financial instruments;
  - IAS 39 - Financial instruments: recognition and measurement;
  - IFRS 7 - Financial instruments: supplementary information;
  - IFRS 4 and IFRS 17 - Insurance contracts;
  - IFRS 16 - Leases.

Phase 2 amendments address issues that arose during the reform of the reference interest rates, including the replacement of a reference rate with an alternative rate. The amendments came into force from January 1, 2021, but early application is permitted.

No particular material impacts on the Group's accounts have been identified as a result of the above amendments.

## Upcoming accounting standards, amendments and interpretations

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

- ▶ Amendments to IFRS 3 - Business combinations;
- ▶ Amendments to IAS 16 - Property, plant and equipment;
- ▶ Amendments to IAS 37 - Provisions, liabilities and contingent assets;
- ▶ Annual Improvements to IFRS Standards 2018-2020 Cycle;
- ▶ Amendments to IAS 1 - Presentation of the financial statements;
- ▶ Amendments to IAS 8 - Accounting policies, changes in accounting estimates and errors.

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

## Section 3 – Scope and basis of consolidation

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

### Subsidiary companies

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

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

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

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

The basis for line-by-line consolidation is as follows:

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

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

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

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

## 1 - Shares in fully-owned subsidiaries

At December 31, 2020, BFF Banking Group included the Parent BFF S.p.A. and the following companies:

Company name	Registered and operating office	Relationship type <sup>(1)</sup>	Ownership relationship		Voting rights % <sup>(2)</sup>
			Held by	Holding %	
<b>COMPANIES CONSOLIDATED LINE-BY-LINE</b>					
1. BFF Finance Iberia, S.A.U.	Madrid - Paseo de la Castellana 81	1	Banca Farmafactoring S.p.A.	100%	100%
2. BFF SPV S.r.l.	Milan - Via V. Betteloni 2	4	Banca Farmafactoring S.p.A.	0%	0%
3. BFF Polska S.A.	Łódź - Jana Kilińskiego, 66	1	Banca Farmafactoring S.p.A.	100%	100%
4. BFF Medfinance S.A.	Łódź - Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
5. BFF Česká republika s.r.o.	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o.	Bratislava - Mostova 2	1	BFF Polska S.A.	100%	100%
7. Debt-Rnt sp. Z O.O.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
8. Komunalny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
9. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
10. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

As far as points 8 and 9 are concerned, voting rights refer to the investors' right to vote at the Meeting.

Companies in points 10 and 11 above are limited partnerships and are not consolidated since their total asset figures are not significant.

**Key:**

(1) Type of relationship:

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

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

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

With regard to the recommendation of the European Central Bank (“ECB”) and the Bank of Italy not to distribute or make any irrevocable commitment for the payment of dividends for the years 2019 and 2020, on March 31, 2020 the Board of Directors of Banca Farmafactoring S.p.A. resolved to comply with the aforementioned instructions, confirming the Bank’s dividend policy and proposing the payment of the 2019 Expected Total Dividends equal to €70.9 million after the end of the Covid-19 emergency, and in any case not payable before October 1, 2020.

This decision was confirmed by the Board of Directors on August 6, 2020.

In February 2021 discussions took place with the Bank of Italy in which, also following the exit from the Bank’s share capital of BFF Luxembourg s.à r.l. (in this regard please see the announcement regarding the successful completion of the accelerated book building operation of February 12, 2021) which will result in the loss of the CRR Banking Group headed by BFF Luxembourg s.à r.l., the Supervisory Authority indicated that the maximum amount of the dividend distributable in compliance with the Recommendation issued by the Bank of Italy on December 16, 2020 is the lower of 15% of the cumulative profits of 2019-2020 or 20 basis points of the CET1 coefficient.

The DEPObank merger operation is expected to be completed in the first quarter of 2021. For more information please refer to the following paragraph.

## Section 5 – Other issues

### Binding agreement for the acquisition of DEPObank – Banca Depositaria Italiana S.p.A. and approval of the Merger Plan for the merger by incorporation into BFF S.p.A.

On May 13, 2020 BFF signed a binding agreement governing the acquisition from Equinova UK Holdco Limited<sup>18</sup> (“Equinova”) of control of DEPObank and the subsequent merger by incorporation of the latter into BFF (the “Operation”).

The Operation will create the number-one Italian player in specialty finance, further develop DEPObank’s business and improve access to funding and capital to serve BFF’s traditional clients.

The operation is expected to be completed by the first quarter of 2021, following the approval of the merger by BFF’s Extraordinary Shareholders’ Meeting<sup>19</sup> held on January 28, 2021.

On June 24, 2020 the boards of directors of BFF and DEPObank approved the merger plan for the merger by incorporation of DEPObank into BFF, including (i) the exchange ratio of 4.2233377 BFF shares per each DEPObank share, without any cash balance payments, and, (ii) as limited to BFF, the plan to amend the Articles of Association governing the change of the name of the Bank and banking group, which from the effective date of the merger will be changed to “BFF Bank S.p.A.” and “BFF Banking Group”, respectively, as well as the change in share capital, which will be increased through the issuance of 14,043,704 new ordinary BFF shares for Equinova.

18) A holding company whose shareholders are funds managed by Advent International Corporation, Bain Private Equity Europe LLP and Clessidra SGR S.p.A. and which holds an approximately 91% equity interest in DEPObank. The remaining 9% is held by various Italian banks: Banco BPM (2.5%), Credito Valtellinese (2.0%), Banca Popolare di Sondrio (2.0%), UBI Banca (1.0%) and other Italian banks (the “Minority Shareholders”).

19) The merger will not give rise to rights of withdrawal for shareholders of BFF who do not vote in favour of the relevant resolution.

In addition, following the authorisations from the authorities (Bank of Italy and European Central Bank) obtained on December 9, 2020, BFF and DEPObank approved their respective illustrative reports on the Merger Plan for the merger by incorporation of DEPObank into BFF, prepared in accordance with Art. 2501-*quinquies* of the Italian Civil Code and Art. 70 of the Issuers Regulation, in addition to convening their respective extraordinary shareholders' meetings to approve the merger and approving and making available to the public the Merger Plan and additional prescribed documentation in view of the aforementioned extraordinary shareholders' meetings.

As part of the transaction Banca Farmafactoring will change its name to BFF Bank S.p.A.

## Inspection by the Finance Police

As disclosed in the financial statements at December 31, 2019, in the auditors' report issued on January 29, 2020 upon the conclusion of the tax audit of the company, the Finance Police charged the Bank, as withholding agent, with improperly applying the reduced withholding tax in lieu of the ordinary withholding tax on dividends distributed in 2016 by the Luxembourg company BFF Luxembourg S.à r.l. ("BFF Lux") and the recognition of the withholding tax exemption on dividends distributed to the parent company in 2017 and 2018.

The Company took prompt action following the service of the auditors' report, filing two defensive statements with the competent office of the Italian Agency of Revenue, the first on April 9, 2020 and the second on November 9, 2020.

After extensive debate with the Italian Agency of Revenue, the officials decided to maintain the charges solely with regard to a part of the dividends distributed to BFF Lux in 2016, with respect to which, according to the assessing office, BFF Lux does not qualify as the beneficial owner.

As for the penalties, on the basis of the arguments made by the Company, the Agency concluded that they should be waived in their entirety.

The assessment and settlement agreement was then signed on December 23, 2020, establishing a higher withholding tax corresponding to the disputed withholding tax, net of the amount originally paid by the Bank.

The Bank made payment of the full amount due according to the office's instructions by the established deadline of January 12, 2021.

The Bank then informed its shareholder BFF Lux of the exercise of its right to recovery under the law from the taxpayer, receiving a reimbursement for the entire amount due on January 26, 2021.

## Centerbridge

In 2020, BFF Luxembourg S.à r.l. (Centerbridge) ("BFF Lux") concluded three accelerated bookbuilding (ABB) procedures on January 9, June 1 and October 6, selling 18,700,000, 17,000,000 and 6,800,000 BFF shares, respectively.

In addition, on May 11, 2020 BFF Lux announced that it had purchased a total of 167,279 BFF shares from April 1 to April 6, 2020. Following these purchases and the three ABB procedures described above, as of December 31, 2020 BFF Lux held 13,563,387 BFF shares, representing 7.948% of share capital issued and subscribed as of that same date.

It should be noted that despite the reduction in BFF Lux's shareholding percentage, BFF Lux is still qualified by the Bank of Italy as the Parent Company of the CRR group.

Subsequently, on February 11, 2021 BFF Lux initiated and then concluded on February 12 the sale of all its remaining shareholdings in BFF, through ABB, addressed to certain categories of institutional investors, for 11,806,970 shares, and following the exercise of a call option with physical delivery of 1.76 million shares by Massimiliano Belingheri, CEO of BFF, pursuant to the relevant existing "Lock up and Option Agreement".

With this ABB, BFF Lux completed its exit from BFF's capital.

## Risks, uncertainties and impacts of the Covid-19 epidemic

Material events in 2020 include the emergence and spread of Covid-19 (hereinafter the "Coronavirus"), which in the first weeks of the previous year initially affected China, to then spread to other countries, with repercussions for their economic activity.

These factors of instability, which manifest to a significant degree, had a considerable impact on Italy's future growth prospects, with repercussions for the economy at large and financial markets, as a result of decisions taken by government authorities to contain the spread of the epidemic.

The current state of global emergency precipitated by Covid-19 represents a factor of instability that generally has a considerable impact on the macroeconomic scenarios of the countries in which the BFF Group operates and their GDP growth prospects.

Beginning in February and extending throughout 2020, the national and international scenario has been characterized by the spread of the virus and the consequent restrictive measures to contain it, implemented by the government authorities. At the same time, the various European governments have implemented a series of measures in support of the economy, including injections of liquidity into the system.

However, in relation to the Bank's business, the impacts are believed to have been contained and may be summarised as follows:

- ▶ A decline in the late payment interest collected, since it proved more difficult to reach settlement agreements with the public administration through remote channels;
- ▶ A slowdown in the process of developing new business relationships, which, given the characteristics of the service offered, requires intense, extended communications efforts; this process was thus adversely impacted, once again, by remote working conditions;
- ▶ An acceleration in collections of more recent invoices, driven by the considerable liquidity in the system, which was channelled to payment of those debt positions that presented lesser complexity (i.e., generally, more recent invoices).

In light of the BFF Group's business model and the nature of its risk counterparties, the Covid-19 epidemic did not entail changes to the model for determining expected losses. However, actions were taken, resulting in an update by the Bank, as the Parent Company, of its macroeconomic scenarios to include the effects of the pandemic within ECL estimates (for further details, please see the paragraph "IFRS 9 - Update to reflect the Covid-19 financial crisis"). For information on the moratoria granted, please see the paragraph "Contractual amendments due to Covid-19".

Information is given on the following topics and measures:

- ▶ **Business continuity:** the Group has continuously monitored the situation and its operations have been guaranteed without any critical issues. In this context, particular attention has been paid to operational risks, taking appropriate measures to guarantee operations. To date there have not been any business continuity issues. Indeed, the IT structure was strengthened and the related expenditures were offset by savings from lower travel, entertainment expenses, utilities and consumables.

On the cybersecurity front, the Group has periodically communicated to its employees about possible fraud and the conduct necessary to avoid exposing the companies to any risks. For this purpose, mandatory online training has been made available to all employees. During the last few months, meetings of the Security Committee have been held on a regular basis. During these meetings it was decided to have all Group employees work from home. These choices were made before the obligations imposed by the governments of the countries the Group operates in.

Staff are now fully operational, working remotely, equipped with the tools needed to telework. The services provided by suppliers and outsourcers have not suffered any deterioration in terms of quality or quantity, nor has service been disrupted. Any deterioration in the quality of the service – which in any case is not able to compromise the Group's operations – is in fact subject to tracking and evaluation/resolution in a specific internal application.

- ▶ **Commercial aspects:** first of all, it should be noted that the Covid-19 pandemic affected all the countries that the Group operates in offering non-recourse factoring and/or customer financing. The contagion afflicted the Czech Republic, Portugal, Spain, Croatia, France, and Slovakia more strongly, countries where the ratio between the number of Covid-19 cases and the total population is significantly higher than others. Overall, the Group continued to operate throughout the emergency, guaranteeing complete efficiency to existing and potential customers.

The restrictive measures put in place due to the pandemic have had a significant impact on credit risk, but the Group has suffered relatively little as the main customers are large companies or multinationals.

With regard to volumes, there has been an increase in demand for factoring services due to an increase in public health expenditures to cope with the implications of the pandemic. In this context, the Bank has also encountered some difficulties in developing new business relationships since visits to customers have not been possible.

The inflow of liquidity to local governments has also accelerated payments of the most recent invoices. To the contrary, there have been lower collections of late payment interest, but with higher rates of success.

With regard to legal activities, however, it should be noted that in 2020 all countries suspended procedural deadlines (e.g. limitations, caducity, nullity, unenforceability). Due to the pandemic, during some periods of 2020 the courts managed the requests received in order of priority, and subsequently gradually restarted the pending proceedings. On this point, as far as Italy is concerned see the paragraph below, "The extraordinary regulatory environment which the Parent Company operated in".

- ▶ **Liquidity:** to deal with the current health emergency, the Group has put in place the necessary measures to monitor and control the liquidity position. The Parent Company (i) performs more frequent and more detailed stress analyses as well as with increasing and variable impacts, (ii) maintains a greater share of assets freely available to meet unforeseen liquidity needs, (iii) monitors the markets through banks it has relationships with, and (iv) increased the frequency of monitoring changes in the collection trends of Public Administration debtors. Moreover, the Group had already adopted its own Contingency Funding Plan (“CFP”), approved by BFF's Board of Directors and the decision-making bodies of the Subsidiaries. This document illustrates the indicators and recovery thresholds identified with respect to the liquidity coverage ratio (LCR) and the related escalation and decision processes to be triggered in order to prevent and manage a possible liquidity crisis. The CFP indicators did not identify situations of tension, notwithstanding the Covid-19 emergency. In fact, recovery options are considered perfectly suitable to deal with the current health emergency, depending on their probability of realisation and degree of effectiveness to cope with any situations of extreme stress on the Group's capital and liquidity.

- ▶ **Capital requirements:** There are no particular impacts on Own Funds and regulatory requirements following the Covid-19 health emergency. Capital ratios are above the minimum required by the Regulator.

Moreover, on June 27, 2019 the Bank of Italy introduced some amendments to circular no. 272 concerning credit quality and the rules on the new definition of default. These amendments take into account the provisions of Delegated Regulation (EU) no. 171/2018 of the European Commission of October 19, 2017.

It should be noted that, in line with the indications of the EBA, for smaller banks the application of the prudential default regulation contained in the 27th update of Circular 285, and the effective date of the amendments to the supervisory statistical reports and the balance sheet of the banks contained in the Communication of June 26, 2019, was postponed to January 1, 2021.

In the provisions on the new definition of default, with an explanatory note on October 15 the Supervisory Authority made it mandatory to use the invoice due date as the starting date when calculating the days past due.

As at December 31, 2020, with a view to approximating the provisions on the new definition of default, in compliance with the aforementioned Communication the Group adopted the invoice due date (with an original expiry of less than three months) as starting date instead of the estimated internal collection date for counting the overdue amount for the non-recourse factoring product, aligning itself with what has been done by other intermediaries.

This approach leads to considering the preferential weighting of 20% envisaged by art. 116, paragraph 3, of the CRR for all exposures to public administration entities with an original expiry of less than three months. The effect of this change is a lower absorption of capital, with a consequent improvement in capital ratios. This amendment makes it possible to align the calculation of RWAs with the approach followed by the other intermediaries and to unlink the calculation of capital absorptions from the assessments made by the credit rating agencies of the countries that the Group operates in.

For more details and further information:

- ▶ With regard to the impacts of Covid -19 on credit risk, refer to Part E of the Explanatory Note;
- ▶ With regard to the impairment test referred to in IAS 36, see the specific section in Part B of the Explanatory Notes.

The health emergency has not affected lease contracts (IFRS 16), actuarial gains/losses related to the severance indemnity fund (IAS 19) and the conditions of accrual of share-based payments (IFRS 2).

## Contractual amendments due to Covid-19

### 1) Contractual amendments and derecognition (IFRS 9)

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

All the counterparties, for a total amount of €2.9 million that benefited from moratoria are based in Poland and are primarily represented by corporate clients (approximately 33%), public-sector entities (approximately 30%) and retail clients (approximately 37%).

The main products affected are credit exposures deriving from loans accounting for approximately 62%, for 34% from financing (MEDLekarz - loans to medical practices) and 4% from factoring operations.

### 2) Amendment of the accounting standard IFRS 16

In 2020 the Group did not apply any of the practical expedients provided for in Regulation (EU) No 1434/2020 as a result of modifications to the terms of loans.

## 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.

## Authorisation for issue

Pursuant to IAS 10, paragraph 17, please note that Banca Farmafactoring S.p.A.'s Board of Directors authorized these consolidated financial statements for issue on February 17, 2021.

## A.2 MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The following describes the accounting policies adopted to prepare the consolidated financial statements at December 31, 2020, in accordance with IAS 1 and the instructions contained in Bank of Italy Circular no. 262 of December 22, 2005, as amended. These accounting policies include the main criteria for recognising, classifying, measuring and derecognising the main assets and liabilities as well as for recognising revenues and costs, is provided below along with other information.

### 1 - Financial assets

The accounting standard IFRS 9 divides financial assets into three categories:

- ▶ Financial assets measured at fair value through profit or loss;
- ▶ Financial assets measured at fair value through other comprehensive income;
- ▶ Financial assets measured at amortized cost.

### 2 - Financial assets measured at fair value through other comprehensive income

#### Classification criteria

According to IFRS 9, a financial asset is included in this category if both of the following conditions are met:

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

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

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

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 in the HTC&S business model are held to collect contractual cash flows and to sell the financial assets. Sales are therefore more frequent and significant compared to a hold to collect business model. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it.

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

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

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

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.

## Accounting policies

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

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

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

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

Equity instruments that were classified in this category are valued at fair value and the amounts recognised as a contra-entry of net equity (Statement of comprehensive income) must not then be transferred to the income statement, not even in the case of disposal. The only component referring to the equity instruments in question subject to recognition in the income statement is the relative dividends.

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

More specifically, for Stage 1 instruments (financial assets that are not credit-impaired on initial recognition and instruments without significant increase in credit risk since initial recognition), 12-month expected credit losses are recognized at the initial recognition date and at each subsequent reporting date.

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

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

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

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

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

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

Equity instruments are not subjected to the impairment process.

## Derecognition criteria

Financial Assets measured at fair value through profit or loss are derecognized when the contractual rights expire and when, following disposal, substantially all of the risks and rewards relating to the financial asset sold are transferred. On the other hand, if a significant portion of the risks and rewards relating to the disposed financial assets has been retained, they continue to be recognised in the financial statements, even if legally their ownership has been effectively transferred.

## 3 - Financial assets measured at amortized cost

### Classification criteria

According to IFRS 9, a financial asset is included in this category if both of the following conditions are met:

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

On the basis of the accounting statements provided for by the 6th Update of Bank of Italy's 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 Group's companies 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 due 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 Banking Group'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 Group identified thresholds of significance for frequency and volumes of sales, required to analyze whether the HTC business model has been maintained.

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

With respect to the frequency of sales, the BFF Banking Group has defined a monthly threshold, as set out in the (RAF) Risk Appetite Framework, which, in line with the maximum acceptable risk, defines the business model and the strategic plan - risk appetite, tolerance thresholds, risk limits, risk governance policies and the processes of reference for designing and implementing them, including at the Group level.

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

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

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

## Recognition criteria

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

Specifically, non-recourse receivables:

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

As for financial assets related to loans originated by the Group, they are initially recognized at the loan date. These assets are initially recognised at fair value inclusive of the sums disbursed, including of transaction costs or income directly attributable to the instrument. With reference to loans in particular, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down.

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

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

## Accounting policies

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

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

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

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

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

Furthermore, BFF and BFF Finance Iberia have time series of data concerning collection percentages and times – acquired through suitable analysis tools – enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series are updated on an annual basis when the financial statements are prepared, in order to determine the collection percentages and times to be used to calculate late payment interest. The change in collections is then analyzed on a quarterly basis to confirm such percentages in periodic reporting.

As far as the receivables of the Parent BFF and the subsidiary BFF Finance Iberia are concerned, the updating of the time series, which was undertaken considering the collections for 2019, confirmed the suitability of the existing collection percentage (45%).

As regards BFF Polska Group, acquired in 2016, as part of the activities to complete the integration of Group processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the Group, late payment interest accrued on past-due trade receivables is primarily recognised when it is reasonably certain that it will be collected, on the basis of the agreements reached with the debtor counterparties or what has been agreed to in legal proceedings.

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

The Group carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets. IFRS 9 introduced the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. According to this concept, a loss does not necessarily have to occur before it is recognized in the financial statements; therefore, generally all financial assets will entail the recognition of a provision.

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

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

For assets classified in Stage 1, the loss allowance relating to each individual financial asset is determined on the basis of 12-month expected credit losses (contractual cash flow shortfalls estimated by taking into account potential default in the following 12 months), while for assets classified in Stages 2 and 3 calculations are based on lifetime expected credit losses (contractual cash flow shortfalls estimated by taking into account the potential default over the residual life of the financial instrument).

If there is objective evidence of impairment and the asset is classified in Stage 3, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate of the financial asset.

The amount of the loss is determined on the basis of an individual assessment and then individually attributed to each position, accounting for forward-looking information and potential alternative recovery scenarios. Impaired assets include financial instruments that have been given non-performing status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulations. The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

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

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

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

## Derecognition criteria

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

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

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

## 4 - Hedging operations

### Recognition criteria

The Group has exercised the option under IFRS 9 to continue to apply the IAS 39 rules to hedging operations even after the introduction of IFRS 9.

“Hedging operations” involve designating a financial instrument capable of offsetting part or all of the gain or loss resulting from a change in the fair value or cash flows of the hedged instrument. The intent to hedge must be formally stated, must not be retroactive and must be consistent with the risk hedging strategy espoused by the BFF Banking Group’s management. Pursuant to IAS 39, derivatives may only be accounted for as hedging instruments under certain conditions, i.e. when the hedging relationship is:

- ▶ clearly defined and documented;
- ▶ measurable;
- ▶ currently effective.

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

Hedging operations are intended to offset the potential losses associated with certain types of risks.

The possible types of hedges are:

- ▶ Fair value hedges: these are designed to cover the exposure to the change in the fair value of a balance sheet item;
- ▶ Cash flow hedges: these are designed to cover the exposure to changes in the future cash flows associated with certain balance sheet items;
- ▶ Hedges of a net investment in a foreign operation.

Hedges may be undertaken using derivative contracts (including the purchase of options) and non-derivative financial instruments (to hedge foreign exchange risk only). In the balance sheet, hedging derivative instruments are classified to item 50 “Hedging derivatives” on the assets side and 40 “Hedging derivatives” on the liabilities side according to whether they have a positive or negative fair value on the reporting date.

### Accounting policies

Hedging derivative financial instruments are measured at their fair value.

When a financial instrument is classified as a hedge, the Group, as set out above, formally documents the relationship between the hedging instrument and the hedged item, verifying both at the inception of the relationship and throughout its duration, that the hedging by the derivative is effective in offsetting changes in the fair value or cash flows of the hedged item. A hedge is considered effective if, both at inception and over its life, changes in the fair value or cash flows of the hedged item are offset by changes in the fair value of the hedging derivative.

Accordingly, effectiveness is assessed by comparing the aforementioned changes, taking account of the intent pursued by the entity when entering into the hedge. A hedge is effective (within the limits established by the interval of 80-125%) when the expected, effective changes in the fair value or cash flows of the hedging financial instrument offset changes in the hedged item almost entirely.

Effectiveness is assessed at each year-end or interim reporting date using:

- ▶ prospective tests that justify the application of hedge accounting by proving the expectation of hedge effectiveness;
- ▶ retrospective tests that determine the degree of effectiveness of the hedge achieved during the period to which they refer, thus measuring the extent to which the actual results diverged from the perfect hedge.

The accounting treatment for gains and losses on fair value changes varies according to the type of hedge:

- ▶ Fair value hedges: the change in the fair value of the hedged item attributable solely to the hedged risk is taken to the income statement, as is the change in the fair value of the hedging derivative instrument; the difference, if any, which represents the partial ineffectiveness of the hedge, thus determines the net effect on the income statement;
- ▶ Cash flow hedges: changes in the fair value of the derivative are taken to equity, for the effective portion of the hedge, and are only taken to the income statement when, in reference to the hedged item, the change in the cash flows to be offset manifests, or for the portion of the hedge found to be ineffective;
- ▶ Hedges of a net investment in a foreign operation: such hedges are accounted for according to the same method used for cash flow hedges.

The income components are allocated to the relevant items of the income statement as follows:

- ▶ Differentials accrued on derivative instruments hedging interest-rate risk (in addition to the interest on the hedged positions) are allocated to item 10, "Interest and similar income" or item 20, "Interest payable and similar costs", depending on the sign of the differential, i.e. whether it is positive or negative;
- ▶ Negative or positive changes in fair value resulting from the measurement of the fair value hedging derivative instruments or hedged positions are allocated to item 90, "Fair value adjustments in hedge accounting";
- ▶ Positive or negative changes in fair value arising from the measurement of cash flow hedging derivative instruments are allocated, with regard to the effective portion, to a specific valuation reserve in equity, the "Cash flow hedge reserve", net of the deferred tax effect. With regard to the ineffective portion, such changes are taken to item 90 of the income statement, "Net hedging result".

## Derecognition criteria

The accounting treatment of hedging operations is discontinued in the following cases: a) a hedge undertaken through a derivative ceases or is no longer highly effective; b) the hedged item has been sold or redeemed; c) the hedging operation is revoked in advance; or d) the derivative expires, is sold, terminated or exercised.

If hedge effectiveness is not confirmed, the portion of the derivative contract no longer designated a hedge ("over-hedging") is reclassified as held for trading. If discontinuation of the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be such and is once again measured according to the criteria that apply to the relevant portfolio.

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

## 6 - Tangible assets

### Classification criteria

Tangible assets include movable property and industrial buildings, plant and other machinery and equipment held for use by the Banking Group’s companies for more than one period.

### Recognition criteria

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

Costs incurred subsequently are added to the asset’s carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be measured reliably (e.g., extraordinary maintenance costs). Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized, in the period incurred, in the income statement under item 190 b) “other administrative expenses,” if they refer to assets used in the Group’s business activities.

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

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

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

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

## Accounting policies

Subsequent to initial recognition, tangible assets are carried at cost, net of accumulated depreciation and impairment losses, if any.

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

- ▶ buildings: 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 tangible assets 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 Group and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date.

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

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 Group shall measure the Right of Use (RoU) asset by applying a 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 tangible assets 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 Group, and from which future economic benefits are likely to flow.

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

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

### 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.

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

The goodwill recognized derives from the acquisition of BFF Polska in 2016 and IOS Finance in 2019, merged into BFF Iberia on December 31, 2019.

### Accounting policies

Intangible assets with a finite useful life are systematically amortized on a straight-line basis according to their estimated useful lives. Useful lives are normally estimated as follows for the entire Banking Group:

- ▶ software: maximum 4 years;
- ▶ other intangible assets: maximum 6 years.

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

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

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

Assets with an indefinite useful life, such as goodwill, are not systematically amortised but undergo a periodic impairment test.

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

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

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

On the basis of the outcomes of the annual impairment test performed to prepare the consolidated financial statements at December 31, 2020, the Group did not recognize any impairment loss on the amount of goodwill recorded in the financial statements relating to the allocation of the acquisition cost of the BFF Polska Group and BFF Iberia.

### **Derecognition criteria**

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

## 9 - Current and deferred taxes

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

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

Current tax assets and liabilities include the net balance of the Group's tax positions in respect of the tax authorities. In particular, these items include the net balance of current tax liabilities for the year, calculated according to a prudential estimate of the tax charge due for the year, determined on the basis of the current tax code, and current tax assets represented by prepayments made in the course of the year. Current taxes correspond to the amount of income taxes due for the 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 300 "Income taxes on profit (loss) from continuing operations".

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

### Registration/classification criteria

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

## Accounting policies

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

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

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.

## 16 – 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.

### Authorization to purchase and dispose of treasury shares and revocation, for the part not yet executed, of the authorization granted by the Shareholders' Meeting on March 28, 2019

The Bank's Ordinary Shareholders' Meeting of April 2, 2020, after examining the relevant illustrative Report by the Board of Directors, decided to revoke the previous authorization, granted by the Shareholders' Meeting of March 28, 2019, for the part not yet executed, and to authorize the Board of Directors to proceed with the purchase of BFF ordinary shares, on one or more occasions and for a period of 18 months from the date of the Shareholders' Meeting, in pursuit of the purposes set out in the aforementioned illustrative Report; the maximum number of shares to be purchased is 8,323,880, representative of 5% of the Bank's capital (taking accounting of the treasury shares already in portfolio).

### Employee severance pay

As a result of the legislative framework introduced by Law no. 296 of 2006, the employee severance benefits accrued up to December 31, 2020 (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, 2020, based on financial assumptions.

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

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

## Revenue recognition criterion

The general criterion for the recognition of revenue components is the accrual basis, also taking into account the correlation between costs and revenues. More specifically:

- ▶ Fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenues and are therefore part of the effective return on the receivable recognized at amortized cost.
- ▶ According to IFRS 15, revenue shall be recognized only when its amount can be reliably estimated when total “control” on the exchanged goods or services is transferred. 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 and BFF Finance Iberia also included the estimate of recoverable late payment interest, including that claimed from tax authorities. As a matter of fact, BFF and BFF Finance Iberia have time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time series are updated on an annual basis when the 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 analysed 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 and BFF Finance Iberia, the time series were updated with collection amounts for the year 2019. This confirmed the fairness of the weighted average collection percentage of 45% already used for the preparation of the financial statements for the year ended December 31, 2019, with average collection times at an estimated 1,800 days. With regard to late payment interest on tax receivables, given the particular nature of such interest and the counterparty, as well as of the empirical evidence obtained, it is believed that the conditions exist to recognize such interest in full.

As regards BFF Polska Group, acquired in 2016, despite the small importance of the component of late payment interest on total receivables, as part of the activities to complete the integration of Group processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the Group, late payment interest accrued on past-due trade receivables is primarily recognised when it is reasonably certain that it will be collected, on the basis of the agreements reached with the debtor counterparties or what has been agreed to in legal proceedings.

Interest income on debt securities in portfolio and interest expense on securities issued by BFF Banking Group are recognized at amortized cost, i.e., by applying to the face value of the securities the effective interest rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount.

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

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

- ▶ when the receivables are entrusted for management (fees and commissions on acceptance, and handling expenses);
- ▶ when the receivables are collected (collection fees and commissions).

## Share-based payment arrangements

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

Any reduction in the number of financial instruments allocated shall be accounted for as cancellation of part of them.

### 2016 Stock-Option Plan of the Banca Farmafactoring Banking Group

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, authorised 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.

At December 31, 2020 the number of stock options assigned and not exercised amounted to 6,830,198, of which 3,626,068 exercisable.

### 2020 Stock-Option Plan of the Banca Farmafactoring Banking Group

On April 2, 2020, the Ordinary Shareholders' Meeting approved a new Stock Option Plan ("2020 Plan") for employees and directors holding executive positions in the Company and/or its subsidiaries, having the following characteristics:

- ▶ *Purpose*: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe 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;
- ▶ *Recipients*: the beneficiaries are identified by the Board of Directors and/or the CEO at their sole discretion – within the limits envisaged by the applicable legislation and the plan – among the employees and/or Directors with executive positions in the Company and/or its subsidiaries;

- ▶ *Type of exercise*: ordinary or cashless exercise.

For more information on the 2020 Plan, refer to Part I of the Explanatory Notes. At December 31, 2020 the number of stock options assigned amounted to 6,620,000, of which none yet exercisable.

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

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

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

- (i) BFF's shares and related instruments, including the stock option plan; and
- (ii) where possible, the other instruments identified in Delegated Regulation (EU) No 527 of 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.

### **Proposal for a divisible free capital increase, pursuant to Art. 2349 of the Italian Civil Code, following revocation of the resolutions authorizing delegation and the paid capital increase approved by the Extraordinary Shareholders' Meeting on March 28, 2019 and by the Board of Directors on April 8, 2019, and the consequent amendment to Art. 5 of the Articles of Association**

The Extraordinary Shareholders' Meeting of April 2, 2020, having examined the relevant illustrative Report by the Board of Directors, resolved:

- ▶ To revoke, for the portion not executed, (i) the paid capital increases authorized by BFF's Extraordinary Shareholders' Meeting on March 28, 2019 in service of the implementation of the "Banca Farmafactoring Banking Group Stock Option Plan" in effect at the time, (ii) the authority delegated to the Board of Directors by the Extraordinary Shareholders' Meeting on March 28, 2019 for a free capital increase of a maximum of €3,003,000, with the issuance of a maximum of 3,900,000 new ordinary shares, for needs relating to the Company's remuneration and incentive policies, as well as (iii) the capital increase approved, pursuant to the said delegation of authority, by the Board of Directors on April 8, 2019;

- ▶ To increase share capital free of charge, on a divisible basis, to be executed in multiple tranches by December 31, 2028, by issuing a maximum of 6,824,108 ordinary shares, in the maximum total amount of €5,254,563.16, to be allocated solely to capital, through a corresponding amount drawn on the reserve for retained earnings, for needs associated with the Company's remuneration and incentive policies, including the "Banca Farmafactoring Banking Group Stock Option Plan - 2020 SOP";
- ▶ To amend Article 5 of the Articles of Association as a consequence of the foregoing;
- ▶ To grant the Board of Directors, and on its behalf its Deputy Chairman and Chief Executive Officer, all powers to execute the foregoing resolutions, and to amend Article 5 of the Articles of Association from time to time as a consequence of the resolutions, execution and completion of the capital increases.

In the context of the acquisition of DEPOBank, a capital increase is envisaged in favour of the selling shareholder Equinova through issues of 14,043,704 shares, with no expressed nominal value and a total theoretical nominal value of €10,813,652, which will make Equinova the lead shareholder of BFF with an estimated shareholding based on the structure of the shareholders at the date of this document equal to approximately 7.6% of the share capital.

## Use of estimates and assumptions in the preparation of financial reporting

In accordance with IFRS, the elaboration of estimates by management is a prerequisite for the preparation of the consolidated financial statements at December 31, 2020. This process involves the use of available information and subjective assessments, also based on historical experience, in order to formulate reasonable assumptions for the analysis of operations. These estimates and assumptions may vary from one period to the next, and therefore it cannot be ruled out that in subsequent periods, including in light of the current Covid-19 ("Coronavirus") emergency situation, the current values recognized in the Consolidated Financial Statements at December 31, 2020 may differ – even significantly – owing to a change in the subjective assessments.

Estimates and assumptions are reviewed on a regular basis. Any changes resulting from such reviews are recognized in the period in which the review is made, provided that the review involves only that period. Should the review involve both current and future periods, the change is recognized in the period in which the review is made, and in the related future periods.

The risk of uncertainty in estimates is essentially related to:

- ▶ The degree of recoverability and estimated collection times for late payment interest accrued on non-recourse receivables due to BFF, 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;
- ▶ Employee benefit provisions based on actuarial assumptions, and provisions for risks and charges;
- ▶ The recoverability of deferred tax assets;
- ▶ Any impairment of equity investments and recognized goodwill;
- ▶ In light of the results at December 31, 2020, there are no trigger events that could impact the valuation of equity investments and goodwill recorded in the financial statements.

## 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's Circular no. 262/2005.

The impairment model is characterized by:

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

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

### 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 Group has adopted the following method, which can be summarized in 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 macroeconomic factors;
- ▶ introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

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

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

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

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

### Probability of Default (PD)

The multi-period PD parameter is interpreted by the Group by estimating a term structure of the probability of default starting from a 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:

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

To calculate the PD, the Group 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): with reference to BFF S.p.A. and BFF Finance Iberia S.A. exposures, the Group considers the Bank of Italy's quarterly decay rate.<sup>20</sup>

20) 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)".

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

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

After the determination of the rating for each counterparty, the association with the one-year PD 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 Group incorporates 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.

Three scenarios were chosen to calculate PIT and FLI PD:

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

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

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

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

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

### Loss Given Default (LGD)

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

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

The Group assigns an LGD value to each transaction on the basis of appropriate portfolio segmentation, taking into account the following risk factors: the probability of default associated with the counterparty, the reference economic sector, and factors specific to the transaction (e.g., type of financing and positioning of the financing within the capital structure).

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

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

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

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

- ▶ type of exposure;
- ▶ due date.

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

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

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

### IFRS 9 - Update to reflect the Covid-19 financial crisis

At December 31, 2020, in the light of greater awareness of the effects of the Covid-19 pandemic, the Bank entered into discussions with the rating agency Moody's to assess the effects of the actual duration of the pandemic, the return to conditions of normality (i.e., return to a pre-Covid-19 situation) and, finally, the time needed to reach a state of "new normality".

With regard to the actual duration of the pandemic, the external agency's studies confirm that the impact of the pandemic will extend until 2022. In particular, it is estimated that the economy will enter into a gradual recovery from mid-2021 to 2022.

On the other hand, the return to normality is estimated to occur in 2023 and 2024, with values essentially in line with those recorded before Covid-19. As for reaching a state of "new normality" and thus a scenario other than that characterized by the effects of the pandemic, the agency estimates that a "long-term growth" scenario will begin in 2025.

On the basis of the most recent publications obtained and available for use from the rating agency, in December 2020 the Bank conducted a qualitative analysis of the scenarios for December, comparing them with those currently in use for June 2020. In this inquiry, it was concluded that the December macroeconomic scenarios are essentially in line with those from June 2020, which point to a decline in the economy of around -7% in the fourth quarter of 2020, a gradual recovery and an improvement in 2021 and 2022, due in part to the positive effects of the vaccine on the global population and, finally, a return to a pre-Covid situation, estimated to occur in the years 2023-2024.

However, the impacts of Covid-19 have not entailed, and are not expected to entail, changes to the model underlying the estimation of the IFRS 9 ECL.

As it did as at March 31 and June 30, 2020, in light of the Covid-19 macroeconomic scenario the Bank has updated the PD and LGD curves to be applied to exposures towards counterparties on the basis of qualitative and quantitative assessments from external service providers.

## A.4 INFORMATION ON FAIR VALUE

### *Qualitative information*

#### **A.4.1 Fair value levels 2 and 3: valuation techniques and input used**

The valuation techniques used are adapted to the specific characteristics of the assets and liabilities being valued. The choice of inputs is aimed at maximising the use of those that can be observed directly on the market, minimising the use of internal estimates.

Financial assets measured at fair value through OCI (government securities and investment in the FITD Voluntary Scheme), recognized at December 31, 2020, are mostly classified as Level 1, since they refer to government securities, so a market approach is used for quoted prices and other relevant information observable on the market 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 Processes and sensitivity of valuations**

At December 31, 2020, BFF Banking Group did not have any financial instruments held for trading, whose fair value changes could impact the income statement at the end of the reporting period.

#### **A.4.3 Fair value hierarchy**

At December 31, 2020, as in 2019, 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 levels of fair value

(Values in thousand euros)

Financial assets / liabilities measured at fair value	12/31/2020			12/31/2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss						
a) financial assets held for trading						
b) financial assets carried at fair value						
c) other financial assets subject to mandatory fair-value valuation						
2. Financial assets measured at fair value through other comprehensive income		147	17	82,748	147	17
3. Hedging derivatives						
4. Tangible assets						
5. Intangible assets						
<b>Total</b>	<b>0</b>	<b>147</b>	<b>17</b>	<b>82,748</b>	<b>147</b>	<b>17</b>
1. Financial liabilities held for trading						
2. Financial Liabilities at fair value						
3. Hedging derivatives						
<b>Total</b>						

**Key:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

#### A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(Values in thousand euros)

	Financial assets measured at fair value through profit or loss;			Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value				
<b>1. Opening balances</b>				<b>17</b>			
<b>2. Increases</b>							
2.1. Purchases							
2.2. Earnings charged to:							
2.2.1. Income statement							
– of which gains							
2.2.2. Shareholders' equity		X	X	X			
2.3. Transfers to other levels							
2.4. Other increases							
<b>3. Decreases</b>							
3.1. Sales							
3.2. Repayments							
3.3. Losses attributed to:							
3.3.1. Income statement							
– of which losses							
3.3.2. Shareholders' equity		X	X	X			
3.4. Transfers from other levels							
3.5. Other decreases							
<b>4. Closing balances</b>				<b>17</b>			

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

(Values in thousand euros)

Assets and liabilities not valued at fair value or valued at fair value on a non-recurring basis	12/31/2020				12/31/2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	5,780,579	1,739,407	0	4,098,529	5,250,717	1,007,580		4,254,695
2. Tangible assets held for investment								
3. Non-current assets and groups of assets held for disposal								
<b>Total</b>	<b>5,780,579</b>	<b>1,739,407</b>	<b>0</b>	<b>4,098,529</b>	<b>5,250,717</b>	<b>1,007,580</b>	<b>0</b>	<b>4,254,695</b>
1. Financial liabilities measured at amortised cost	5,415,184	771,810	0	4,606,276	4,962,195	966,893		4,006,526
2. Liabilities linked to assets held for sale								
<b>Total</b>	<b>5,415,184</b>	<b>771,810</b>	<b>0</b>	<b>4,606,276</b>	<b>4,962,195</b>	<b>966,893</b>	<b>0</b>	<b>4,006,526</b>

**Key:**

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

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

## Part B - Notes to the Consolidated Balance Sheet

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

### ASSETS

#### Section 1 - Cash and cash equivalents - Item 10

€173,280 thousand

##### 1.1 Cash and cash equivalents: breakdown

(Values in thousand euros)

	Total 12/31/2020	Total 12/31/2019
a) Cash	4	3
b) Demand deposits with central banks	173,276	78,302
<b>Total</b>	<b>173,280</b>	<b>78,305</b>

The balance includes the cash on hand at the different Group companies and unrestricted deposits with the Bank of Italy, amounting to €173,280 thousand.

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

€164 thousand

At December 31, 2020 this item included:

- ▶ 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.

This item usually classifies the securities belonging to the HTC&S (Held to Collect and Sell) portfolio whose measurement is carried out at fair value. Only the interest calculated according to 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 in equity as part of the revaluation reserves, after tax.

At December 31, 2020 the Group did not own Italian government bonds classifiable in the HTC&S portfolio. During the reporting period, in fact, they were all sold, realising revenues of €363,000, before the tax effect, in the income statement classified under item 100 "Gains (losses) on disposal or repurchase of: financial assets measured at fair value through OCI".

As regards the valuation of equity securities, it is specified that, as envisaged by 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 € units, unless otherwise stated)*

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cent)	Percentage of equity investment
Nomisma S.p.A.	17,335.18	72,667	0.239	0.250%
Registered office	Bologna - Strada Maggiore 44			
Share capital	6,963,499.89 fully paid			

*(Amounts in euro units, at 12/31/2019)*

Shareholders' equity	8,916,584
Profit/(loss) for the period	716,484

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

*(Values in thousand euros)*

Items/values	Total 12/31/2020			Total 12/31/2019		
	L1	L2	L3	L1	L2	L3
<b>1. Debt securities</b>				<b>82,748</b>		
1.1 Structured securities						
1.2 Other debt securities				82,748		
<b>2. Equity securities</b>		<b>147</b>	<b>17</b>		<b>147</b>	<b>17</b>
<b>3. Loans</b>						
<b>Total</b>	<b>0</b>	<b>147</b>	<b>17</b>	<b>82,748</b>	<b>147</b>	<b>17</b>

**Key**

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

### 3.2 Financial assets measured at fair value with impact on comprehensive income: breakdown by borrower/issuer

*(Values in thousand euros)*

Items/values	Total 12/31/2020	Total 12/31/2019
<b>1. Debt securities</b>	<b>0</b>	<b>82,748</b>
a) Central Banks	0	82,748
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
<b>2. Equity securities</b>	<b>164</b>	<b>164</b>
a) Banks		
b) Other issuers:		
- other financial companies	147	147
of which: insurance companies		
- non-financial companies	17	17
- others		
<b>3. Loans</b>	<b>0</b>	<b>0</b>
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
<b>Total</b>	<b>164</b>	<b>82,912</b>

### 3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments

(Values in thousand euros)

	Gross value			Total value adjustments			Total partial write-offs (*)
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	
Debt securities	-				-		0
Loans							0
<b>Total 12/31/2020</b>	-	-			-		
<b>Total 12/31/2019</b>	<b>82,759</b>				<b>(11)</b>		
of which: purchased or originated credit-impaired financial assets	X	X			X		

(\*) Value provided for disclosure purposes.

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

€5,780,579 thousand

This item is broken down as follows:

- ▶ Receivables due from banks of €31,078 thousand;
- ▶ Receivables due from customers of €5,749,501 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 €1,682,050 thousand.

### Due from banks

€31,078 thousand

#### 4.1 Financial assets measured at amortised cost: commodity breakdown of amounts due from banks

(Values in thousand euros)

Type of operations/ Values	Total 12/31/2020						Total 12/31/2019					
	Book value			Fair Value			Book value			Fair Value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
<b>A. Receivables due from Central Banks</b>												
1. Time deposits	0	0	0	X	X	X	0	0	0	X	X	X
2. Reserve requirements	0	0	0	X	X	X	0	0	0	X	X	X
3. Repurchase agreements	0	0	0	X	X	X	0	0	0	X	X	X
4. Others	0	0	0	X	X	X	0	0	0	X	X	X
<b>B. Receivables due from banks</b>	<b>31,078</b>			<b>31,078</b>			<b>136,680</b>			<b>136,680</b>		
1. Loans												
1.1. Current accounts and on-demand deposits	16,323	0	0	X	X	X	55,363	0	0	X	X	X
1.2. Time deposits	14,755	0	0	X	X	X	9,294	0	0	X	X	X
1.3. Other loans:				X	X	X				X	X	X
– Reverse Repurchase Agreements	0	0	0	X	X	X	0	0	0	X	X	X
– Finance leases	0	0	0	X	X	X	0	0	0	X	X	X
– Others	0	0	0	X	X	X	72,023	0	0	X	X	X
2. Debt securities												
2.1. Structured securities	0	0	0	0	0	0	0	0	0	0	0	0
2.2. Other debt securities	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>31,078</b>	<b>0</b>	<b>0</b>	<b>31,078</b>	<b>0</b>	<b>0</b>	<b>136,680</b>	<b>0</b>	<b>0</b>	<b>136,680</b>	<b>0</b>	<b>0</b>

At December 31, 2020, receivables due from banks mainly refer to the Bank's current accounts at year-end and deposits with the national central banks in Italy, Spain and Poland.

In particular, "Current accounts and demand deposits" mainly refer for €6,246 thousand to Banca Farmafactoring, for €6,487 thousand to BFF Polska Group, for €1,103 thousand to the securitisation of receivables and €2,486 thousand to BFF Finance Iberia.

Restricted deposits mainly consist of €4,210 thousand in mandatory reserve deposits with Depobank (formerly ICBPI/Nexi), as Banca Farmafactoring is an indirect participant in the system; €9,455 thousand deposited with Banco de España as CRM (*Coefficiente de Reservas Mínimas*) for deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto; and €95 thousand deposited with the National Bank of Poland (Narodowy Bank Polski) for deposit-taking activities conducted by the Polish branch through Lokata Facto.

Credit exposures for receivables that the Group had with respect to banking counterparties at December 31, 2019 were fully collected during 2020.

This item does not include any impaired assets.

## Loans to customers

€5,749,501, including Held to Collect securities of €1,682,050 thousand

Starting from January 1, 2018, the item "Financial assets measured at amortized cost – Receivables 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 €4,067 million (mainly receivables due from debtors in relation to factoring activities) and €1,682 million in debt securities in the HTC portfolio.

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

Banca Farmafactoring and BFF Finance Iberia's non-recourse receivables include both principal and late payment interest accruing as from the due date of the receivable. In order to compute amortized cost, including late payment interest recognized on an accrual basis, Banca Farmafactoring updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. However, a prudent decision was made to consider, also for 2020, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by Banca Farmafactoring.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian National Healthcare System. However, a prudent decision was made to consider, also for 2020, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by Banca Farmafactoring.

BFF Polska Group-a group acquired in 2016-recognizes late payment interest accrued on past due trade receivables when there is reasonable certainty that the interest will be collected, on the basis of agreements reached with the debtor counterparties or when decided by a court of law.

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

The cumulative amount of late payment interest due to Banca Farmafactoring (including branches and countries managed in compliance with regulations on the freedom to provide services) and BFF Finance Iberia but not yet collected for non-recourse receivables (so-called Provision for late payment interest) amounted to €681 million, of which only €276 million were recognised in the income statement of the period and in previous periods.

The total net amount of impaired receivables for BFF Banking Group is €124.6 million. Of this amount, €66.8 million relates to non-performing loans (including €64.0 million relating to municipalities and provincial governments in financial distress, of which €5.6 million were purchased already impaired) and €15.7 million to unlikely-to-pay exposures. Past due exposures amounted to €42.1 million, of which 95% referring to public administration counterparties and public sector companies. Measurement of such exposures is carried out at the portfolio level since there are no objective indications of individual impairment.

Debt securities classified in the HTC portfolio, equal to €1,682 million, are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement.

Debt securities classified in the HTC portfolio are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement.

At December 31, 2020, 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 €1,681 million and fair value of €1,739 million, with a negative difference (before taxes) of around €38 million compared to the carrying amount on the same date, not 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, with the exception of the CCT 4/2025, recorded in the financial statements at December 31, 2020 at an amortised cost of €746.2 million and with a nominal value of €770.5 million and a market value of €786.7 million at December 31, 2020, purchased as part of the Acquisition of DEPOBank.

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 amortised cost: commodity breakdown of loans to customers

€5,749,501 thousand

(Values in thousand euros)

Type of operations/ values	Total 12/31/2020						Total 12/31/2019							
	Book value			Fair value			Book value			Fair value				
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3		
<b>1. Loans</b>	<b>3,942,822</b>	<b>124,629</b>	<b>5,614</b>			<b>4,067,451</b>	<b>4,011,855</b>	<b>106,160</b>	<b>5,655</b>			<b>4,118,015</b>		
1.1. Current accounts	3	1		X	X	X	2	0			X	X	X	
1.2. Reverse Repurchase agreements	0	0		X	X	X	0	0			X	X	X	
1.3. Mortgages	0	0		X	X	X	0	0			X	X	X	
1.4. Credit cards and personal loans, including wage assignment loans	0	0		X	X	X	0	0			X	X	X	
1.5. Loans for leases	1,937	0		X	X	X	3,092	0			X	X	X	
1.6. Factoring	2,896,863	104,248	5,614	X	X	X	3,074,535	89,984	5,655			X	X	X
1.7. Other loans	1,044,019	20,380		X	X	X	934,226	16,175			X	X	X	
<b>2. Debt securities</b>	<b>1,682,050</b>					<b>1,739,407</b>	<b>996,022</b>					<b>1,007,580</b>		
2.1. Structured securities														
2.2. Other debt securities	1,682,050					1,739,407	996,022					1,007,580		
<b>Total</b>	<b>5,624,872</b>	<b>124,629</b>	<b>5,614</b>	<b>1,739,407</b>		<b>4,067,451</b>	<b>5,007,877</b>	<b>106,160</b>	<b>5,655</b>			<b>1,007,580</b>	<b>4,118,015</b>	

This item breaks down as follows:

- ▶ Performing factoring amounted to a total of €2,896,863 thousand for BFF Banking Group.

This included non-recourse receivables purchased as performing, registered under the name of the assigned debtor, with the conditions for derecognition, and measured at amortized cost, worth a total of €2,262,104 thousand for Banca Farmafactoring and €484,121 thousand for the subsidiary BFF Finance Iberia.

Non-recourse receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued and accruing late payment interest is acquired upon purchase.

These receivables include receivables sold, totalling €91,473 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 securitisation transactions involving healthcare receivables.

Receivables purchased below face value totalled €24,895 thousand.

Performing recourse and non-recourse factoring of BFF Polska Group totalled €150,478 thousand.

- ▶ Other performing loans due from customers amounted to €1,044,019 thousand. They mainly include:
  - Receivables for accrued late payment interest of about €165,046 thousand, including €138,124 thousand relating to Banca Farmafactoring and €26,922 thousand relating to the Spanish subsidiary. This amount has already been recognized in the income statement in the current and prior years and refers only to late payment interest accrued on principal already collected. Therefore, of the €275.5 million late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2020, €166.2 million refers to the item under review, while the remaining amount of €109.3 million was recognized under "factoring";

amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €139,489 thousand;

financing activities of BFF Polska Group of €728,402 thousand.

- ▶ Performing finance leases of BFF Polska Group totalled €1,937 thousand.
- ▶ BFF Banking Group's net impaired assets amounted to a total of €124,629 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, 2020, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €66,821 thousand, of which €5,614 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €63,999 thousand, accounting for 95.8% of the total.

Gross non-performing loans amounted to €79,960 thousand. Relevant impairment totalled €13,139 thousand. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €1,374 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €81,334 thousand and relevant adjustments totalled €14,513 thousand.

With reference to the Bank, at December 31, 2020 total non-performing loans, net of any estimated impairment losses, amounted to €64,753 thousand, of which €63,999 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.

Specifically, the amount of €5,614 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.

The remaining positions referring to Banca Farmafactoring are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €13,182 thousand; after estimated impairment losses of €11,142 thousand, the net amount totalled €2,041 thousand.

- BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgement made by the intermediary about the unlikelihood that-absent such actions as the enforcement of guarantees-the debtor will fully fulfil (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or instalments).

At December 31, 2020, gross exposures classified as unlikely to pay amounted to €18,743 thousand, of which €18,279 thousand attributable to BFF Polska Group and €450 thousand to BFF Finance Iberia. The total net amount was €15,703 thousand, relating mainly to BFF Polska Group, since the gross exposures of Banca Farmafactoring and BFF Finance Iberia were almost entirely impaired.

- Net past due exposures of BFF Banking Group totalled €42,105 thousand, of which €30,226 thousand (94.6%) attributable to public administration counterparties and public sector companies in the various countries where BFF Banking Group operates. These consist of exposures which, at the end of the reporting period, were overdue by more than 90 days.

More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Banca Farmafactoring's overall amount of net past due exposures at December 31, 2020 was equal to €39,587 thousand. Of this amount, €29,483 thousand (equal to 99.6%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €2,113 thousand. The remaining past due exposures, for a net amount of €405 thousand, refer to BFF Finance Iberia and entirely concerned public administration counterparties.

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted in 2020 for a total amount of €2.9 million and are mainly represented by corporate clients (approximately 33%), public-sector entities (approximately 30%) and retail clients (approximately 37%). The main products affected are credit exposures deriving from loans accounting for approximately 62%, for 34% from financing (MEDLekarz - loans to medical practices) and 4% from factoring operations.

### ***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.



#### 4.4a Loans at amortised cost subject to Covid-19 support measures: gross amount and total adjustments

(Values in thousand euros)

	Gross value			Total value adjustments			Total partial write-offs (*)
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	
1. Loans granted in accordance with GL	2,425	-	457	41	19	67	10
2. Loans subject to other forbearance measures	-	-	-	-	-	-	-
3. New funding	-	-	-	-	-	-	-
<b>Total 12/31/2020</b>	<b>2,425</b>	<b>-</b>	<b>457</b>	<b>41</b>	<b>19</b>	<b>67</b>	<b>10</b>
<b>Total 12/31/2019</b>							

\* Value provided for disclosure purposes

## Section 7 - Equity investments - Item 70

€88 thousand

The amount refers to the equity investment in two law firms, in which BFF Polska is limited partner.

### 7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Type of relationship	Ownership relationship		Voting rights %
				Held by	Holding %	
A. Jointly controlled companies						
B. Companies over which significant influence is exercised						
C. Exclusively controlled companies						
1. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódz (Poland)	Łódz (Poland)	Other forms of control	BFF Polska SA	99%	99%
2. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódz (Poland)	Łódz (Poland)	Other forms of control	Debt-Rnt sp. Z O.O	99%	99%

## 7.4 Non-significant shareholdings: accounting information

(Values in thousand euros)

Name	Book value of equity investments	Total assets	Total liabilities	Total revenue	Profit (loss) from current operations after tax	Profit (loss) for operations after tax	Profit (loss) for the period (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1) + (2)
A. Jointly controlled companies									
B. Companies over which significant influence is exercised									
C. Exclusively controlled companies									
1. Kancelaria Prawnicza Karnowski I Wspolnik sp.k.	4	399	159	777	211	-	211	-	211
2. Restrukturyzacyjna Prawnicza Karnowski I Wspolnik sp.k.	83	81	15	-	(18)	-	(18)	-	(18)

## 7.5 Equity investments: annual changes

(Values in thousand euros)

	Total 12/31/2020	Total 12/31/2019
A. Opening balance	94	172
B. Increases		
B.1 Purchases		
B.2 Write-backs		
B.3 Revaluations		
B.4 Other changes		
C. Decreases	(6)	(78)
C.1 Sales		
C.2 Value adjustments		
C.3 Depreciation		
C.4 Other changes	(6)	(78)
D. Closing balances	88	94
E. Total revaluations		
F. Total adjustments		

## Section 9 - Tangible assets - Item 90

€18,014 thousand

### 9.1 Tangible assets with functional use: breakdown of assets measured at cost

(Values in thousand euros)

Assets/Values	Total 12/31/2020	Total 12/31/2019
<b>1. Proprietary assets</b>	<b>11,231</b>	<b>12,373</b>
a) lands	3,685	3,685
b) buildings	5,844	6,169
c) furniture and fittings	181	196
d) electronic systems	342	588
e) other	1,179	1,735
<b>2. Lease rights of use</b>	<b>6,783</b>	<b>4,736</b>
a) lands	0	0
b) buildings	5,982	3,843
c) furniture and fittings	0	0
d) electronic systems	0	0
e) other	801	893
<b>Total</b>	<b>18,014</b>	<b>17,109</b>
of which: obtained by enforcement of guarantees received		

## 9.6 Tangible assets with functional use: yearly changes

(Values in thousand euros)

	Land	Buildings	Furnishings	Electronic system	Others	Total
<b>A. Gross opening balances</b>	<b>3,685</b>	<b>21,444</b>	<b>2,692</b>	<b>8,272</b>	<b>9,933</b>	<b>46,026</b>
A.1 Total net reductions in value	0	(11,585)	(2,495)	(7,685)	(7,152)	(28,916)
<b>A.2 Opening net balances</b>	<b>3,685</b>	<b>9,859</b>	<b>198</b>	<b>587</b>	<b>2,782</b>	<b>17,109</b>
<b>B. Increases:</b>	<b>0</b>	<b>3,660</b>	<b>85</b>	<b>139</b>	<b>2,245</b>	<b>6,129</b>
B.1 Purchases	0	0	46	139	925	1,110
B.2 Capitalised expenditures on improvements	0	0	0	0	0	0
B.3 Write-backs	0	0	0	0	0	0
B.4 Increases in fair value through:						
a) net equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0
B.5 Positive exchange differences	0	0	0	0	0	0
B.6 Transfers from properties held for investment	0	0	X	X	X	0
B.7 Other changes	0	3,660	39	0	1,320	5,019
<b>C. Decreases:</b>	<b>0</b>	<b>(1,693)</b>	<b>(101)</b>	<b>(385)</b>	<b>(3,046)</b>	<b>(5,225)</b>
C.1 Sales	0	0	0	(2)	(1,360)	(1,363)
C.2 Depreciation	0	(1,433)	(95)	(369)	(1,533)	(3,430)
C.3 Impairment losses charged to:						
a) net equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0
C.4 Decreases in fair value charged to:						
a) net equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0
C.5 Negative exchange differences	0	0	0	0	0	0
C.6 Transfers to:						
a) tangible assets held for investment	0	0	X	X	X	0
b) non-current assets and groups of assets held for disposal	0	0	0	0	0	0
C.7 Other changes	0	(261)	(6)	(13)	(152)	(432)

CONTINUED

(Values in thousand euros)

	Land	Buildings	Furnishings	Electronic system	Others	Total
<b>D. Closing net balances</b>	<b>3,685</b>	<b>11,826</b>	<b>181</b>	<b>342</b>	<b>1,981</b>	<b>18,014</b>
D.1 Total net reductions in value	0	(13,013)	(2,559)	(8,051)	(3,893)	(27,515)
<b>D.2 Closing Gross Amount</b>	<b>3,685</b>	<b>24,838</b>	<b>2,740</b>	<b>8,393</b>	<b>5,873</b>	<b>45,529</b>
E. Measurement at cost	3,685	24,838	2,740	8,393	5,873	45,529

At December 31, 2020, the item “Tangible assets” amounted to a total of €18,014 thousand. Of this amount, €14,389 thousand related to BFF, €2,107 thousand to BFF Polska Group, and €1,518 thousand to BFF Finance Iberia. At December 31, 2020 the item relating to BFF was mainly composed of:

- ▶ Land of €3,685 thousand, unchanged from December 31, 2020;
- ▶ Buildings (including capitalized extraordinary maintenance) of €5,844 thousand, compared to €6,169 thousand at December 31, 2019;
- ▶ Right-of-use assets relating to the application of the new IFRS 16 on leases of €6,783 thousand. For further information on this topic, please refer to section M.

Upon IFRS first-time adoption (January 1, 2005), the buildings owned by BFF 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 10 - Intangible assets - Item 100

€36,675 thousand

### 10.1 Intangible assets: breakdown by type of asset

(Values in thousand euros)

Assets/Values	Total 12/31/2020		Total 12/31/2019	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
<b>A.1 Goodwill</b>	X	30,874	X	30,874
A.1.1 attributable to the group	X	30,874	X	30,874
A.1.2 attributable to minorities	X	0	X	0
<b>A.2 Other intangible assets</b>	<b>5,801</b>	<b>0</b>	<b>4,394</b>	<b>0</b>
A.2.1 Assets measured at cost:				
a) Intangible assets created internally	0	0	0	0
b) Other assets	5,801	0	4,394	0
A.2.2 Assets measured at fair value:				
a) Intangible assets created internally	0	0	0	0
b) Other assets	0	0	0	0
<b>Total</b>	<b>5,801</b>	<b>30,874</b>	<b>4,394</b>	<b>30,874</b>

The line item largely consists of the goodwill arising from BFF's acquisition of BFF Polska Group in 2016 and the former IOS Finance (now merged into BFF Finance Iberia) in 2019, totalling respectively €22,146 thousand and €8,728 thousand.

In line with what was described in the section on accounting policies and with IAS 36 two impairment tests were performed in 2020 on goodwill concerning BFF Polska Group and BFF Iberia (formerly IOS Finance) in order to determine the relevant recoverable amount.

The first audit was conducted in June 2020, in compliance with IAS 36, and with regard to the guidance expressed in ESMA Document May 20, 2020: "half-yearly disclosure on Covid-19 impacts", relating to the preparation of the consolidated financial statements of the Company as at June 30, 2020. Following the outcomes of the annual impairment test performed at the date of the consolidated financial statements as at June 30, 2020 on the amount of goodwill recorded in the financial statements and relating to the allocation of the acquisition cost of the BFF Polska Group and IOS Finance (merged into BFF Iberia as of December 31, 2019), the Group did not recognize any impairment loss on the aforementioned goodwill.

On October 28, 2020, ESMA published a further communication, "European common enforcement priorities for 2020 annual financial reports". In this communication, pursuant to paragraph 9 of IAS 36, ESMA observed that, when an impairment test is performed, it cannot be replaced by that already performed for the most recent interim reporting period. In particular, ESMA reminded issuers that paragraph 96 of IAS 36 requires the annual impairment test for a cash-generating unit to which goodwill has been allocated to be performed at the same time every year and that generally all hypotheses and assumptions should be re-assessed and, where necessary, updated for the annual test.

In particular, ESMA recommended, from the measurement perspective, in order to reflect the increased level of uncertainty, that issuers consider modelling multiple possible future scenarios when estimating the future cash flows of a cash-generating unit and, while the outlook on the future economic conditions remains uncertain, that issuers update assumptions used in previous interim periods to reflect the latest available information and evidence.

Essentially, ESMA believed that issuers should also provide transparency as to how uncertainty was factored into the impairment testing, underlining that, as required by paragraph 33 of IAS 36 for the determination of value in use, when determining cash flow projections based on reasonable and supportable assumptions, greater weight shall be given to external evidence. Such projections should reflect the asset in its current condition and should not reflect cash inflows and outflows expected to arise from a future restructuring to which the entity is not yet committed or from improving or enhancing the asset's performance, as required by paragraph 44 of IAS 36.

In the light of ESMA's guidance, the Group therefore also conducted an impairment test for its subsidiaries at December 31, 2020.

As required by the Standard and the Group's Impairment Test Policy, this test is carried out by comparing the carrying amount of the goodwill with the recoverable amount of the Cash-Generating Unit (CGU) which the goodwill refers to.

Accordingly, each equity investment was considered as a single CGU - cash generating unit, and the related overall valuations thus made it possible to determine the recoverable amount of goodwill. The latter was calculated in terms of value in use, i.e. as the present value of the future cash flows expected to be generated by the CGUs in the future.

The recoverable amount of the two CGUs at December 31, 2020 was calculated according to the Dividend Discount Model (DDM), as identified in the company policy. The DDM method determines the value of a company or a business unit as a function of the dividend flow that is estimated it is capable of generating on a prospective basis.

In particular, the economic value of a company or a business unit is estimated as the sum of the following elements:

- ▶ The present value of the cash flows generated over a given explicit forecast period and distributed to the shareholders while taking account of a minimum capitalization level, consistent with the relevant instructions issued by the supervisory authority and compatible with the nature and expected evolution of the business;
- ▶ The residual or terminal value determined as the current value of a perpetual annuity defined on the basis of a sustainable dividend for the years following the explicit forecast period.

In the present case:

- ▶ The explicit planning period for both CGUs (BFF Polska Group and BFF Iberia) covers the years 2021-2023. Specifically, the values used for 2021 are expressed in the 2021 budget approved by the BoD in January 2021, and the figures for 2022--2023 are expressed in the Application relating to the Depobank S.p.A. Acquisition project submitted to the Supervisory Authority (so-called "Application"), approved by the Bank's BoD on August 18, 2020. For the purpose of updating the estimates for the period 2021-2023, the Group also took into account the current macroeconomic environment (including the health emergency), although the final data as of December 31, 2020 were in line with the estimates forecasted during the first half of 2020.
- ▶ The dividend was estimated as the profit for the period net of the incremental capital requirement of BFF Banking Group, the latter calculated as the CET1 target ratio (assumed equal to the figure of BFF Banking Group as of 06/30/2020, 11.5%) multiplied by the change in RWAs.
- ▶ Both BFF Polska Group and BFF Iberia contribute to the calculation the RWAs of the BFF Banking Group, which is subject to prudential supervision with the resulting impact on its capital requirements.

With regard to the valuation process, it should be noted that in the valuation analysis conducted at December 31, 2020, an alpha coefficient was used as directed by the Italian Valuation Authority (OIV) in its Discussion paper Exposure Draft ED1/2020 - "Guidelines for impairment testing after the effects of the Covid-19 pandemic". It was therefore deemed appropriate to apply an additional risk factor in the cost of capital (the so-called "Alpha Factor"). The Alpha Factor was considered limited to 2023 and in the Terminal Value in determining the Value in Use of the equity investment.

Specifically, the Alpha Factor was not included in the 2021 and 2022 plan years, as the estimates cover a time period closer than the reference date (<24 months as per ESMA Guidelines).

Moreover, this factor:

- ▶ Reflects an update of the Business Plan estimates by management that took into account the baseline scenario due to the Covid-19 impact;
- ▶ Considers the revision of the estimates made by the analysts of the S&P Capital IQ provider in December 2020 for the period 2019-2022 (-13.1%) for the Bank and comparable companies.

It should be noted that for both CGUs, a sensitivity analysis was also performed to measure the reliability of the impairment assessment.

More specifically, with regard to the BFF Polska Group, goodwill amounting to €22.1 million was recorded in BFF Banking Group's consolidated financial statements at December 31, 2020, resulting from a purchase price of €109.2 million.

For the purposes of verifying the Impairment Test, the Cash Generating Unit which this goodwill is allocated to coincides with BFF Polska and its subsidiaries ("BFF Polska Group").

The consolidated book value of this CGU at December 31, 2020 was €138.3 million.

In order to determine the residual or Terminal Value, a sustainable dividend was defined for the years following the planning period. The value in this case was defined starting from the expected result for the year 2023, increased with a long-term growth rate, which for the BFF Polska Group was estimated at 2.3%, deducting an incremental capital absorption resulting from a growth of the RWAs also at 2.3%, and a CET1 Ratio of 11.5%. The cost of equity (Ke) considered was calculated on the basis of the Capital Asset Pricing Model, considering

the current structure of market interest rates and the specific sector of reference, and for this CGU it is equal to 9.52% for the period 2021--2022 and equal to 10.58% from 2023.

In line with what was carried out in the last impairment test at June 30, 2020, it was deemed appropriate to apply an additional risk factor in the cost of capital (the so-called "Alpha Factor").

The Alpha Factor (equal to 1.06% for BFF Polska Group) was used only for 2023 and for the Terminal Value. This factor:

- ▶ Was not included in the 2021 and 2022 plan years, as the estimates cover a time period closer than the reference date (<24 months - ESMA Guidelines).
- ▶ Reflects an update of the Business Plan estimates by BFF management that took into account the baseline scenario due to the Covid-19 impact;
- ▶ Also considers the revision of the estimates made by the analysts of the S&P Capital IQ provider in December 2020 for the period 2019-2022 (-13.1%) for BFF and comparable companies.

The growth rate was estimated based on the inflation rate forecast for Poland, equal to 2.3%.

Based on the valuation methodology adopted, BFF Polska Group's Value in Use was determined to be €199.7 million.

Moreover, a sensitivity analysis was carried out that shows the value in use of the CGU as the cost of capital (Ke) and growth rate change.

With regard to BFF Iberia, goodwill amounting to €8.7 million was recorded in BFF Banking Group's consolidated financial statements at December 31, 2020, resulting from a purchase price of €26.4 million.

To check the Impairment Test, the CGU this goodwill is allocated to coincides with BFF Iberia.

The consolidated book value of this CGU at December 31, 2020 was €19.6 million.

The Recoverable Value is calculated considering the same assumptions used for BFF Polska Group with reference to CET 1 and prospective profits, while for the incremental capital requirement of BFF Banking Group no capital requirements are foreseen (for the exposures of BFF Iberia, since almost all of them refer to national public debtors, the EBA applies a treatment similar to that of central governments (0%)). The Recoverable Value (Value in Use) is €160.2 million.

In order to determine the residual or Terminal Value, a long-term growth rate of 1.0% was used for BFF Iberia.

The growth rate was estimated based on the inflation rate forecast for Spain, equal to 1.0%.

The cost of equity (Ke) considered for this CGU is equal to 9.05% for the period 2021-2022 and equal to 10.07% from 2023. The Alpha Factor used for this CGU is equal to 1.02%, also used only for 2023 and for the Terminal Value.

Moreover, a sensitivity analysis was carried out that shows the value in use of the CGU as the cost of capital (ke) and growth rate change.

Therefore, based on the Impairment Tests and the sensitivity analyses carried out, it should be noted that the Recoverable Values identified show the resilience of the CGUs' Book Values.

Consequently there is no impairment problem with the item Goodwill in the consolidated financial statements at December 31, 2020.

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).

**10.2 Intangible assets: annual changes***(Values in thousand euros)*

	Goodwill	Other intangible assets: generated internally		Other intangible assets: others		Total
		FIN	INDEF	FIN	INDEF	
<b>A. Opening balance</b>	<b>30,874</b>	<b>0</b>	<b>0</b>	<b>7,366</b>	<b>0</b>	<b>(2,973)</b>
A.1 Total net reductions in value	0	0	0	(2,973)	0	(2,973)
<b>A.2 Opening net balances</b>	<b>30,874</b>	<b>0</b>	<b>0</b>	<b>4,394</b>	<b>0</b>	<b>35,268</b>
<b>B. Increases</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,929</b>	<b>0</b>	<b>3,929</b>
B.1 Purchases	0	0	0	3,966	0	3,966
B.2 Increases in internal intangible assets	X	0	0	0	0	0
B.3 Write-backs	X	0	0	0	0	0
B.4 Increases in fair value						
– to net equity	X	0	0	0	0	0
– to income statement	X	0	0	0	0	0
B.5 Positive exchange differences	0	0	0	0	0	0
B.6 Other changes	0	0	0	(36)	0	(36)
<b>C. Decreases</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,522)</b>	<b>0</b>	<b>(2,522)</b>
C.1 Sales	0	0	0	(432)	0	(432)
C.2 Value adjustments						
- Amortisation	X	0	0	(2,090)	0	(2,090)
- Impairments						
+ shareholders' equity	X	0	0	0	0	0
+ income statement	0	0	0	0	0	0
C.3 Decreases in fair value						
– to net equity	X	0	0	0	0	0
– to income statement	X	0	0	0	0	0
C.4 Transfers to non-current assets held for sale	0	0	0	0	0	0
C.5 Negative exchange differences	0	0	0	0	0	0
C.6 Other changes	0	0	0	0	0	0
<b>D. Closing net balances</b>	<b>30,874</b>	<b>0</b>	<b>0</b>	<b>5,801</b>	<b>0</b>	<b>36,675</b>
D.1 Total net value adjustments	0	0	0	(2,972)	0	(2,972)
<b>E. Closing gross balances</b>	<b>30,874</b>	<b>0</b>	<b>0</b>	<b>8,773</b>	<b>0</b>	<b>39,647</b>
F. Valuation at cost	30,874	0	0	8,773	0	39,647

**Key:**

FIN = finite useful life

INDEF = indefinite useful life

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.

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

As at December 31, 2020, current tax assets and liabilities amount to €4,090,000 and €5,824,000, respectively, and include the net balance of the Group's tax positions with respect to tax authorities, in accordance with the provisions of IAS 12. In particular, these items include the net balance of current tax liabilities for the year, calculated according to a prudential estimate of the tax charge due for the year, determined on the basis of the current tax code, and current tax assets represented by prepayments made in the course of the year. Current taxes correspond to the amount of income taxes due for the period.

During 2020 the tax value and book value of the property located in Milan and owned by Banca Farmafactoring were aligned, following the payment of substitute tax equal to €130 thousand, resulting in a net positive effect of €1.2 million on current taxes.

### 11.1 Advance tax assets: breakdown

€11,243 thousand

The main components of deferred tax assets include the portion of amounts deductible in future years of adjustments to receivables, the accrual on deferred employee benefit obligations, and depreciation and amortization the recognition of which is deferred for tax purposes.

### 11.2 Deferred tax liabilities: composition

€77,873 thousand

Deferred tax liabilities mainly refer to the taxes on Banca Farmafactoring's late payment interest, recognized in the financial statements on an accrual basis but which will form part of the taxable income in future years subsequent to collection, in accordance with Article 109, paragraph 7, of Presidential Decree no. 917 of 1986, as well as prior years' bad debt provisions.

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

€10,657 thousand

*(Values in thousand euros)*

	<b>Total 12/31/2020</b>	<b>Total 12/31/2019</b>
<b>1. Initial amount</b>	<b>10,944</b>	<b>5,540</b>
<b>2. Increases</b>		
2.1 Advance taxes recognised during the year		
a) relating to previous years	0	0
b) due to changes in accounting criteria	0	0
c) value write-backs	0	2,708
d) others	1,614	4,851
2.2 New taxes or increases in tax rates	0	0
2.3 Other Increases	0	0
<b>3. Decreases</b>		
3.1 Advance taxes cancelled during the year		
a) reversals	(1,217)	(615)
b) impairments of non-recoverable items	(629)	0
c) due to changes in accounting criteria	0	0
d) others	(53)	(1,540)
3.2 Reductions in tax rates	0	0
3.3 Other reductions		
a) transformation into tax credits, Italian Law 214/2011	0	0
b) others	0	0
<b>4. Final amount</b>	<b>10,657</b>	<b>10,944</b>

#### 11.4 Changes in deferred tax assets pursuant to Law n. 214/2011

(Values in thousand euros)

	Total 12/31/2020	Total 12/31/2019
<b>1. Initial amount</b>	591	686
<b>2. Increases</b>	0	0
<b>3. Decreases</b>		
3.1 Reversals	(95)	(95)
3.2 Transformation into tax credits		
a) deriving from losses for the year	0	0
b) deriving from tax losses	0	0
3.3 Other reductions	0	0
<b>4. Final amount</b>	<b>497</b>	<b>591</b>

#### 11.5 Changes in deferred tax liabilities (through profit or loss)

€78,341 thousand

(Values in thousand euros)

	Total 12/31/2020	Total 12/31/2019
<b>1. Initial amount</b>	69,943	65,616
<b>2. Increases</b>		
2.1 Deferred taxes recognised during the year		
a) relating to previous years	0	0
b) due to changes in accounting criteria	0	0
c) others	9,871	11,313
2.2 New taxes or increases in tax rates	0	0
2.3 Other Increases	0	0
<b>3. Decreases</b>		
3.1 Deferred taxes cancelled during the year		
a) reversals	(1,473)	(1,527)
b) due to changes in accounting criteria	0	0
c) others	0	0
3.2 Reductions in tax rates	0	0
3.3 Other reductions	0	(5,459)
<b>4. Final amount</b>	<b>78,341</b>	<b>69,943</b>

**11.6 Changes in deferred tax assets (recorded in equity)**

€586 thousand

*(Values in thousand euros)*

	<b>Total 12/31/2020</b>	<b>Total 12/31/2019</b>
<b>1. Initial amount</b>	<b>622</b>	<b>2,643</b>
<b>2. Increases</b>		
2.1 Prepaid taxes recognised during the year		
a) relating to previous years	0	
b) due to changes in accounting criteria	0	0
c) others	0	13
2.2 New taxes or increases in tax rates	0	
2.3 Other Increases	0	
<b>3. Decreases</b>		
3.1 Prepaid taxes cancelled during the year		
a) reversals	(36)	(2,034)
b) impairments of non-recoverable items	0	
c) due to changes in accounting criteria	0	
d) others	0	
3.2 Reductions in tax rates	0	
3.3 Other reductions	0	
<b>4. Final amount</b>	<b>586</b>	<b>622</b>

### 11.7 Changes in deferred tax liabilities (recorded in equity)

-€468 thousand

(Values in thousand euros)

	Total 12/31/2020	Total 12/31/2019
<b>1. Initial amount</b>	173	101
<b>2. Increases</b>		
2.1 Deferred taxes recognised during the year		
a) relating to previous years	0	
b) due to changes in accounting criteria	0	
c) others	0	0
2.2 New taxes or increases in tax rates	0	
2.3 Other Increases	0	72
<b>3. Decreases</b>		
3.1 Deferred taxes cancelled during the year		
a) reversals	0	0
b) due to changes in accounting criteria	0	
c) others	0	
3.2 Reductions in tax rates	0	
3.3 Other reductions	(641)	
<b>4. Final amount</b>	<b>(468)</b>	<b>172</b>

## Section 13 - Other assets - Item 130

### 13.1 Other assets: breakdown

€27,180 thousand

(Values in thousand euros)

Breakdown	12/31/2020	12/31/2019
Security deposits	110	132
Inventories	0	333
Other receivables	23,475	7,081
Accrued income and prepaid expenses	3,595	4,016
<b>Total</b>	<b>27,180</b>	<b>11,562</b>

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. At December 31, 2020 the item also includes receivables from the parent company BFF Lux following the closure of the tax assessment report with the Revenue Agency amounting to approximately €9 million, subsequently collected in January 2021. For more information refer to Section 5 "Other aspects" of the Accounting Policies.

Inventories, as defined by IAS 2, refer to the purchase of medical vehicles and equipment by the Polish company BFF Medfinance S.A., intended for sale or lease in the short term. .

## LIABILITIES

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

€5,415,184 thousand

Starting from January 1, 2018 (and based on guidance provided in IFRS 9), this item is broken down as follows:

- ▶ payables due to banks of €1,034,655 thousand;
- ▶ payables due to customers of €3,571,621 thousand;
- ▶ debt securities issued of €808,908 thousand.

#### Payables due to banks

€1,034,655 thousand

#### 1.1 Financial liabilities measured at amortised cost: commodity breakdown of payables due to banks

(Values in thousand euros)

Type of operations/Values	Total 12/31/2020				Total 12/31/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	0	X	X	X	0	X	X	X
2. Payables due to banks	1,034,655	X	X	X	1,142,841	X	X	X
2.1 Current accounts and sight deposits	44,007	X	X	X	109,200	X	X	X
2.2 Time deposits	990,648	X	X	X	1,033,640	X	X	X
2.3 Loans		X	X	X		X	X	X
2.3.1 Repurchase agreements - payable	0	X	X	X		X	X	X
2.3.2 Others	0	X	X	X		X	X	X
2.4 Debts for commitments to repurchase equity instruments	0	X	X	X		X	X	X
2.5 Payables for leases	0	X	X	X		X	X	X
2.6 Other Payables	0	X	X	X		X	X	X
<b>Total</b>	<b>1,034,655</b>				<b>1,142,841</b>			

#### Key

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

“Payables due to banks” primarily refers to loans provided by the banking system at current market rates.

Specifically, "Time deposits" represent the funding requested from third-party banks to support BFF Banking Group's core business. 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 €40.6 million) and partially with the Intesa Sanpaolo Group (PLN 170 million, equivalent to €40 million).

## Amounts due to customers

€3,571,621 thousand

### 1.2 Financial liabilities measured at amortised cost: composition of amounts due to customers

(Values in thousand euros)

Type of operations/Values	Total 12/31/2020			Total 12/31/2019				
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	97,882	X	X	X	53,760	X	X	X
2. Time deposits	1,555,281	X	X	X	1,304,551	X	X	X
3. Loans		X	X	X		X	X	X
3.1 Repurchase agreements - payable	1,674,754	X	X	X	995,513	X	X	X
3.2 others	193,024	X	X	X	306,792	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	0	X	X	X	0	X	X	X
5. Payables for leasing	7,444	X	X	X	5,060	X	X	X
6. Other payables	43,236	X	X	X	47,986	X	X	X
<b>Total</b>	<b>3,571,621</b>				<b>2,713,663</b>			

#### Key

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Payables due to customers includes €1,654 million for online deposit accounts offered in Italy, Spain and Germany, the Netherlands, Ireland and Poland (restricted deposits and current accounts), compared to €1,383 million at December 31, 2019.

The counterparty in repos, amounting to €1,675 million, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

Other loans, worth a total of €129 million, mainly refer to payables due to financial institutions deriving from existing cooperation between the Parent Company Banca Farmafactoring and other Italian factoring companies.

Other payables principally refer to collections of managed receivables due to clients.

Lease payables, totalling €7.4 million at the group level, refer to the recognition of lease liabilities arising from right-of-use assets, included under line item 90 "Tangible assets" in the balance sheet, following the application of the new IFRS 16 effective January 1, 2019.

The amount mainly includes the effect of the application of the standard on the rents of the properties leased by the Group, and the lease contracts have a duration between 3 and 6 years. For more information see Part M - Lease reporting.

## Securities issued

€808,908 thousand

### 1.3 Financial liabilities at amortised cost: commodity breakdown of securities issued

(Values in thousand euros)

Type of securities/ Values	Total 12/31/2020				Total 12/31/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
<b>A. Securities</b>								
1. bonds								
1.1 structured								
1.2 others	808,908	771,810	0	50,013	1,105,692	966,893		150,023
2. other securities								
2.1 structured								
2.2 others								
<b>Total</b>	<b>808,908</b>	<b>771,810</b>	<b>0</b>	<b>50,013</b>	<b>1,105,692</b>	<b>966,893</b>	<b>0</b>	<b>150,023</b>

#### Key

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Debt securities issued consist of bonds issued by the Bank, with a total face value of €800 million, recognized in the financial statements in the amount of €809 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%;
- ▶ €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 bonds (ISIN XS2068241400) with Moody's Ba1 rating issued by Banca Farmafactoring in October 2019, due in May 2023. The bonds pay an annual coupon of 1.75%;
- ▶ €150 million flexible senior notes issued by the vehicle BFF SPV S.r.l. created together with the Bayerische Landesbank Group (Bayern LB). As far as the securitization transaction is concerned, the receivables were sold to the vehicle company and were not derecognized from the assets of Banca Farmafactoring since the sale did not transfer the relevant risks and rewards.

In June 2020, at maturity the Bank repaid the €200 million senior unsecured and unrated bond (ISIN XS1731881964) issued in December 2017.

## Section 6 - Tax liabilities - Item 60

€83,698 thousand

See "Section 11 - Tax assets and liabilities - Item 110" of the consolidated balance sheet assets.

See "Section 11 - Tax assets and liabilities" of the consolidated balance sheet assets.

## Section 8 - Other liabilities - Item 80

€82,804 thousand

### 8.1 Other liabilities: breakdown

(Values in thousand euros)

Breakdown	Total 12/31/2020	Total 12/31/2019
Trade payables	2,908	1,321
Invoices to be received	13,693	12,289
Payables to tax authorities	13,172	1,323
Payables to social security and welfare bodies	793	743
Payables to employees	7,936	6,524
Payables for receivables management	0	0
Collections pending allocation	36,477	30,495
Other payables	5,028	11,813
Accrued expenses and deferred income	2,798	817
<b>Total</b>	<b>82,804</b>	<b>65,325</b>

"Trade payables" 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 2020 with respect to the one-off transactions carried out by BFF Banking Group.

“Collections pending allocation” refer to payments received by December 31, 2020 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. At December 31, 2020, the item also includes payables to the Revenue Agency relating to the closure of the tax assessment report amounting to approximately €9 million, which the Bank paid on behalf of the parent company BFF Lux in January 2021. This amount corresponds to the receivable from BFF Lux, outstanding at the end of the year and recorded under the item “Other assets”. For more information refer to Section 5 “Other aspects” of the “Accounting Policies”.

“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 pay - Item 90

€667 thousand

### 9.1 Employee severance pay: annual changes

(Values in thousand euros)

	Total 12/31/2020	Total 12/31/2019
<b>A. Opening balance</b>	<b>843</b>	<b>849</b>
<b>B. Increases</b>	<b>743</b>	<b>743</b>
B.1 Provision for the year	618	552
B.2 Other changes	125	191
<b>C. Decreases</b>	<b>(919)</b>	<b>(749)</b>
C.1 Payments made	(27)	(23)
C.2 Other changes	(892)	(726)
<b>D. Closing balances</b>	<b>667</b>	<b>843</b>
<b>Total</b>	<b>667</b>	<b>843</b>

The liability recorded in the financial statements at December 31, 2020 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, 2020 are shown below.

## Actuarial assumptions

### Annual discount rate

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

### Annual increase rate of 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: INPS 2000 tables broken down by age and sex;
- ▶ Retirement: 100% upon reaching AGO requisites, as updated by Decree-Law 4/2019.

## Section 10 - Allowances for risks and charges - Item 100

€6,382 thousand

### 10.1 Provisions for risks and charges: breakdown

(Values in thousand euros)

Items/Components	Total 12/31/2020	Total 12/31/2019
1. Allowances for credit risk relating to Commitments and financial guarantees given	527	580
2. Provisions for other commitments and guarantees issued	0	0
3. Post-employment benefits and similar commitments	4,777	4,313
4. Other provisions for risks and charges		
4.1 legal and tax disputes	0	0
4.2 Personnel costs	0	0
4.3 others	1,078	1,519
<b>Total</b>	<b>6,382</b>	<b>6,412</b>

Starting from January 1, 2018, this item also includes provisions for credit risk associated with commitments/ financial guarantees provided by BFF Polska to its customers, based on impairment requirements provided for by the new IFRS 9.

The pension fund refers mainly to the non-compete agreement entered into with BFF Banking Group'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 2020.

## 10.2 Provisions for risks and charges: annual changes

(Values in thousand euros)

	Provisions for other commitments and guarantees issued	Pension/retirement funds	Other provisions for risks and charges	Total
<b>A. Opening balance</b>	<b>580</b>	<b>4,313</b>	<b>1,519</b>	<b>6,413</b>
<b>B. Increases</b>	<b>940</b>	<b>1,853</b>	<b>430</b>	<b>3,222</b>
B.1 Provision for the year	940	1,853	430	3,222
B.2 Changes due to the passage of time	0	0	0	0
B.3 Changes due to variations in the discount rate	0	0	0	0
B.4 Other changes	0	0	0	0
<b>C. Decreases</b>	<b>(993)</b>	<b>(1,388)</b>	<b>(871)</b>	<b>(3,252)</b>
C.1 Utilisation for the year	(993)	(570)	(871)	(2,435)
C.2 Changes due to variations in the discount rate	0	(252)	0	(252)
C.3 Other changes	0	(566)	0	(565)
<b>D. Closing balances</b>	<b>527</b>	<b>4,777</b>	<b>1,078</b>	<b>6,382</b>

## 10.3 Allowances for credit risk relating to commitments and financial guarantees given

(Values in thousand euros)

	Allowances for credit risk relating to Commitments and financial guarantees given			Total
	Stage one	Stage two	Stage three	
Commitments to disburse funds				
Financial guarantees issued	527			527
<b>Total</b>	<b>527</b>			<b>527</b>

## 10.5 Defined-benefit pension funds

Below are the main changes in this provision:

- ▶ €355 thousand increase as a result of the provision for the non-compete agreement with the managers of the companies that are Group employees;
- ▶ €1,498 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;
- ▶ €252 thousand decrease related to the discounting of the non-compete agreement and the deferred MBO as calculated by an external advisor at December 31, 2020;
- ▶ €571 thousand decrease resulting from the use of the provision for payments.
- ▶ €566 thousand decrease due to the reversal of specific shareholders' equity reserves, deferred MBO and CNP amounts that must be disbursed in financial instruments.

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 technical demographic assumptions used are illustrated below.

### Non-compete agreement

The annual discounting rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate AA index with a duration of 10+ as recorded at December 31, 2020 and equal to 0.34%. The yield with a comparable duration to that of the collective being valued was chosen for this purpose.

Death	RG48 mortality tables published by the State General Accounting Office
Retirement	100% on reaching the AGO requirements
Frequency of voluntary resignation	3.00%
Clawback frequency	3.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual remuneration for Executives	3.40%
Increase in annual remuneration for Supervisors	2.40%
Contribution rate	27.40%

### Deferred bonus

#### Discount rate

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA Index (in line with the duration of the plan). Discount rate used was equal to -0.27%.

#### Mortality and disability

To estimate the phenomenon of mortality, the RG48 survival table used by the Italian State General Accounting Office to estimate the retirement expenses of the Italian population was used. For the probability of total and permanent disability, the tables adopted in the INPS model for the 2010 forecasts were used.

#### Frequency of resignations and dismissals

Equal to 3%.

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

€462,579 thousand

### 13.1 "Capital" and "Treasury shares": breakdown

(Values in thousand euros)

Type	12/31/2020	12/31/2019
1. Share capital	131,401	131,326
1.1 Ordinary shares	131,401	131,326
2. Treasury shares	(3,517)	(1,763)

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

### 13.2 Capital - Number of parent company shares: annual changes

(Values in units)

Items/Type	Ordinary	Others
<b>A. Shares as of the beginning of the year</b>	<b>170,553,778</b>	
- fully paid-in	170,553,778	
- not fully paid-in		
A.1 Treasury shares (-)	(330,776)	
<b>A.2 Shares outstanding: initial balance</b>	<b>170,223,002</b>	
<b>B. Increases</b>	<b>273,702</b>	
B.1 New issues		
- for cash:		
- operation of business combinations		
- conversion of bonds		
- exercise of warrants		
- others		
- free:		
- to employees	96,864	
- to Directors		
- others		
B.2 Sales of treasury shares		
B.3 Other changes	176,838	
<b>C. Decreases</b>	<b>(521,830)</b>	
C.1 Cancellation		
C.2 Purchase of treasury shares	(521,830)	

CONTINUED

(Values in units)

Items/Type	Ordinary	Others
C.3 Disposal of companies		
C.4 Other changes		
<b>D. Shares outstanding: closing balance</b>	<b>169,974,874</b>	
D.1 Treasury shares (+)	(675,768)	
D.2 Shares existing at the end of the year		
- fully paid-in	170,650,642	
- not fully paid-in		

### 13.4 Profit 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).

(Values in thousand euros)

	12/31/2020	Possibility of use (a)	Portion available	Summary of use in the last three years	
				To cover losses	For other reasons
<b>Share capital</b>	<b>131,401</b>				
<b>Reserves</b>	<b>241,473</b>				
- Legal reserve	27,417	B			
- Extraordinary reserve	89	A, B, C	89		
- Retained earnings reserve	176,553	A, B, C	82,084		23256(*)
- Stock option and financial instrument reserves	7,454	A			
- Other reserves	29,960				
<b>Valuation reserves</b>	<b>1,456</b>				
- HTCS securities	0				
- Other	1,456				
<b>Treasury share reserve</b>	<b>(3,517)</b>				0
<b>Share premium reserve</b>	<b>693</b>	A, B, C	693		
<b>Total share capital and reserves</b>	<b>371,506</b>		<b>82,173</b>		

(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, totalling €23,256 thousand, include €277 thousand used in the wake of the capital increases carried out in 2019 and 2020 for the stock options exercised by certain beneficiaries as well as the stock grant plan, as well as the amounts used during the last three years relating to the payment of dividends distributed as per resolutions of shareholders' meetings.

Changes in reserves are as follows:

(Values in thousand euros)

	Legal reserve	Retained earnings	Others	Total
<b>A. Opening balance</b>	27,417	112,995	6,857	147,270
<b>B. Increases</b>		93,558	2,145	95,703
B.1 Appropriation of profits		92,738		92,738
B.2 Other changes		820	2,145	2,965
<b>C. Decreases</b>			(1,499)	(1,499)
C.1 Uses				
- coverage of losses				
- distribution				
- transfer to share capital				
C.2 Other changes			(1,499)	(1,499)
<b>D. Closing balances</b>	27,417	206,553	7,503	241,473

## Retained earnings reserve

The increase of €93 million is due to the allocation of the consolidated profit of the previous year. In fact, the Parent Company did not distribute any dividends relating to the 2019 financial year to shareholders (amounting to €70.9 million), as clearly recommended by the European Central Bank. Consequently, they have been temporarily entered in the "Retained earnings reserve". For more information refer to the specific paragraph in the "Report on Operations" and the Accounting Policies.

## Other reserves

The changes largely refer to the following events occurred during the period:

- ▶ the granting of €1.3 million worth of option rights related to stock option plans during the first half of 2020, recognised in accordance with IFRS 2 through profit or loss with a corresponding increase in equity, partially offset by drawdowns from the stock option reserve after certain beneficiaries exercised their options;
- ▶ Appropriation for €864 thousand relative to the variable remuneration portions of the so-called "Key Personnel" (Risk Takers), in compliance with the provisions as set out in the First Part, Title IV, Chapter 2, Section III, paragraph 2.1, 3 of Bank of Italy Circular 285/2013, as subsequently updated, according to which a portion must be paid in financial instruments;
- ▶ Uses of the reserves of financial instruments for €805 thousand relating to the variable remuneration portions of the so-called "Key Personnel" (Risk Takers), in compliance with the provisions as set out in the First Part, Title IV, Chapter 2, Section III, paragraph 2.1, 3 of Bank of Italy Circular 285/2013, as subsequently updated, according to which a portion must be paid in financial instruments.

## Other information

### 1. Commitments and financial guarantees issued

(Values in thousand euros)

	Notional value of commitments and financial guarantees given			Total 12/31/2020	Total 12/31/2019
	Stage one	Stage two	Stage three		
<b>1. Commitments to disburse funds</b>	<b>210,889</b>			<b>210,889</b>	<b>182,565</b>
a) Central Banks					
b) Public administrations	82,119			82,119	49,572
c) Banks					
d) Other financial companies	1,026			1,026	0
e) Non-financial companies	127,744		1,316	129,060	134,865
f) Households					
<b>2. Financial guarantees</b>	<b>5,200</b>			<b>5,200</b>	<b>4,200</b>
a) Central Banks					
b) Public administrations					
c) Banks	5,200			5,200	4,200
d) Other financial companies				0	0
e) Non-financial companies					
f) Households					

Financial guarantees provided to banks of €5.2 million relate to the amount communicated by the FITD in relation to the extraordinary contributions provided for by Article 23 of the Fund by-laws.

The commitments to disburse funds largely refer to commitments towards clients of BFF Polska Group.

### 3. Assets given as collateral for own liabilities and commitments

(Values in thousand euros)

Portfolios	Amount 12/31/2020	Amount 12/31/2019
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through other comprehensive income		82,748
3. Financial assets measured at amortised cost	2,141,210	1,703,449
4. Tangible assets		
of which: Tangible assets held as 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.

As at December 31, 2020, the Group did not own government securities classifiable in the portfolio of “Financial assets measured at amortized cost through impact on comprehensive income”.

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.

## 5. Administration and brokerage for third parties

(Values in thousand euros)

Type of services	Amount
<b>1. Execution of orders for customers</b>	
a) purchases	
1. settled	
2. not settled	
b) sales	
1. settled	
2. not settled	
<b>2. Individual portfolio management</b>	
<b>3. Custody and administration of securities</b>	<b>1,680,500</b>
a) third-party securities deposited: relating to depositary bank activities (excluding portfolio management)	
1. instruments issued by the reporting bank	
2. other securities	
b) other third-party securities deposited (excluding portfolio management): others	
1. instruments issued by the reporting bank	
2. other securities	
c) third party securities deposited with third parties	
d) proprietary securities deposited with third parties	1,680,500
<b>4. Other transactions</b>	

The amount refers to the face value of owned securities classified in the HTC&S and HTC portfolios deposited with the depositary bank.

## Part C - Notes to the Consolidated Income Statement

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

### Section 1 - Interest - Items 10 and 20

**1.1 Interest and similar income: breakdown of €245,253 thousand** (of which interest income calculated according to the effective interest method: €214,516 thousand)

(Values in thousand euros)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 12/31/2020	Total 12/31/2019
1. Financial assets measured at fair value through profit or loss:					
1.1 Financial assets held for trading	0	0	0	0	
1.2 Financial assets at fair value	0	0	0	0	
1.3 Other financial assets subject to mandatory fair-value valuation	0	0	0	0	
2. Financial assets measured at fair value through other comprehensive income	114	0	X	114	119
3. Financial assets measured at amortised cost:					
3.1 Due from banks	0	4,910	X	4,910	13,946
3.2 Loans to customers	13,459	226,764	X	240,223	234,890
4. Hedging derivatives	X	X	0	0	0
5. Other assets	X	X	6	6	2
6. Financial liabilities	X	X	X	0	0
<b>Total</b>	<b>13,573</b>	<b>231,674</b>	<b>6</b>	<b>245,253</b>	<b>248,957</b>
of which: interest income on impaired assets					
of which: interest income on finance leasing	0	213	0	213	380

### 1.2 Interest income and similar revenues: other information

Interest income concerning "Financial assets measured at fair value through OCI" of €114 thousand was generated by government securities purchased by Banca Farmafactoring to hedge liquidity risk and optimize the cost of money.

These 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. At December 31, 2020 the Bank did not own government securities classified in the portfolio in question.

Interest income concerning "Receivables due from banks" refers to credit balances on BFF Banking Group current accounts held with the banking system.

The item also includes the portion of interest on credit exposures that BFF Banking Group had with respect to third party banking counterparties arising from receivables transferred back.

Interest income on receivables "Due from customers" for loans amounted to €226,764 thousand and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse receivables, and late payment interest for the year, relating to Banca Farmafactoring and BFF Finance Iberia.

Interest income on debt securities linked to receivables due from customers and totalling approximately €13.5 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.

Banca Farmafactoring and BFF Finance Iberia update the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. However, a prudent decision was made to consider, also for 2020, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by Banca Farmafactoring.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's portfolio, for a total amount of €58 million.

### 1.3 Interest expense and similar expenses: breakdown

€46,873 thousand

(Values in thousand euros)

Items/Technical forms	Debt	Securities	Other transactions	Total 12/31/2020	Total 12/31/2019
1. Financial liabilities measured at amortised cost					
1.1 Amounts due to central banks		X	X		
1.2 Payables due to banks	15,967	X	X	15,967	20,891
1.3 Amounts due to customers	11,182	X	X	11,182	10,505
1.4 Debt securities issued	X	19,628	X	19,628	17,052
2. Financial liabilities held for trading	0	0	93	93	0
3. Financial liabilities carried at fair value	0	0	0	0	0
4. Other liabilities and provisions	X	X	3	3	0
5. Hedging derivatives	X	X	0	0	0
6. Financial assets	X	X	X		
<b>Total</b>	<b>27,149</b>	<b>19,628</b>	<b>96</b>	<b>46,873</b>	<b>48,449</b>
of which: interest expense relative to lease liabilities	162			162	56

Interest expense increased from €48.4 million at December 31, 2018 to €46.9 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 both the Parent and its subsidiaries. Specifically, the item includes interest on the 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. Payables due to banks rose steadily compared to the end of the previous year in order to support the growth of the business in Italy and abroad.

The interest expense on "Payables due to customers" mainly refers to interest expense relating to the online deposit accounts of Banca Farmafactoring: specifically, €2,217 thousand for Conto Facto, offered in Italy, €12,719 thousand for Cuenta Facto, offered in Spain by the Spanish branch of Banca Farmafactoring, and around €2,196 thousand for the deposit account offered in Poland.

This item also includes interest expense of €328 thousand on loans granted by other factoring companies, in addition to interest (income) on repurchase agreements for €7,336 thousand.

Finally, the item also includes interest expense for "Securities in circulation" amounting to approximately €19.6 million, up as a result of the issue of a new bond at the end of 2019 for a face value of €300 million.

## Section 2 - Fees and commissions - Items 40 and 50

### 2.1 Fee and commission income: breakdown

€6,333 thousand

(Values in thousand euros)

Type of service/Amounts	Total 12/31/2020	Total 12/31/2019
a) guarantees given	301	10
b) receivable derivatives	0	
c) management, brokerage and advisory services:	0	
1. trading in financial instruments	0	
2. currency trading	0	
3. portfolio management:	0	
3.1 individual	0	
3.2 collective	0	
4. custody and administration of securities	0	
5. custodian bank	0	
6. placement of securities	0	
7. reception and transmission of orders	0	
8. advisory services	0	
8.1 related to investments	0	
8.2 related to financial structure	0	
9. distribution of third party services	0	
9.1 portfolio management	0	
9.1.1 individual	0	
9.1.2 collective	0	
9.2 insurance products	0	
9.3 other products	0	
d) collection and payment services	6,032	6,287
e) servicing services for securitisation transactions	0	
f) services for factoring transactions	0	
g) tax collection and treasury services	0	
h) management of multilateral trading systems	0	
i) maintenance and management of current accounts	0	
j) other services	0	
<b>Total</b>	<b>6,333</b>	<b>6,298</b>

The balance mainly refers to fees and commissions relating to the mandates for the management and collection of receivables.

**2.2 Fee and commission expense: breakdown**

€1,723 thousand

*(Values in thousand euros)*

Service/Values	Total 12/31/2020	Total 12/31/2019
a) guarantees received	374	267
b) receivable derivatives	0	
c) management and brokerage services:		
1. trading in financial instruments	0	
2. currency trading	0	
3. portfolio management:		
3.1. own	0	
3.2. delegated by third parties	0	
4. custody and administration of securities	0	
5. placement of financial instruments	0	
6. off-site offer of financial instruments, products and services	0	
d) collection and payment services	0	
e) other services	1,349	1,533
<b>Total</b>	<b>1,723</b>	<b>1,800</b>

The item mainly refers to expenses on existing banking relationships.

## Section 4 - Net trading result - Item 80

### 4.1 Profits (losses) on trading: composition €5,932 thousand

(Values in thousand euros)

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B)-(C+D)]
<b>1. Financial assets held for trading</b>					
1.1 Debt securities	0	0	0	0	0
1.2 Equity instruments	0	0	0	0	0
1.3 Units of UCIs	0	0	0	0	0
1.4 Loans	0	0	0	0	0
1.5 Others	0	0	0	0	0
<b>2. Financial liabilities held for trading</b>					
2.1 Debt securities	0	0	0	0	0
2.2 Payables	0	0	0	0	0
2.3 Others	0	0	0	0	0
<b>3. Financial assets and liabilities: foreign exchange differences</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>5,725</b>
<b>4. Derivatives</b>					
4.1 Financial derivatives:	0		0		0
- On debt securities and interest rates	0	0	0	0	0
- On equity securities and stock indices	0	0	0	0	0
- On currency and gold	X	X	X	X	207
- Others	0	0	0	0	0
4.2 Credit derivatives	0	0	0	0	0
of which: natural hedging related to the fair value option	X	X	X	X	0
<b>Total</b>	<b>0</b>				<b>5,932</b>

Gains (losses) on trading mainly arise from the positive exchange effect recorded in the income statement, deriving from the revaluation in 2020 of exchange rates applied to loans payable in zloty used for the acquisition of BFF Polska Group and amounting to €5.7 million before taxes at December 31, 2020, compared to the negative effect of €689 thousand recorded at the end of the previous year, before taxes offset by a positive effect from the revaluation of exchange rates applied to BFF Polska Group's equity in consolidated shareholders' equity.

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

€419 thousand

### 6.1 Gains (Losses) on disposals/repurchases: breakdown

*(Values in thousand euros)*

Items/Income items	Total 12/31/2020			Total 12/31/2019		
	Profits	Loss	Net profit/ loss	Profits	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost						
1.1 Loans to banks						
1.2 Loans to customers	0	-	0	371	-	371
2. Financial assets measured at fair value through other comprehensive income						
2.1 Debt securities	464	(102)	363	2,958	(2,959)	(1)
2.2 Loans						
<b>Total assets (A)</b>	<b>464</b>	<b>(102)</b>	<b>363</b>	<b>3,329</b>	<b>(2,959)</b>	<b>370</b>
Financial liabilities measured at amortised cost						
1. Amounts due to banks						
2. Amounts due to customers						
3. Securities issued	56		56			
<b>Total liabilities (B)</b>	<b>56</b>	<b>0</b>	<b>56</b>	<b>0</b>	<b>0</b>	<b>0</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 €363 thousand, before the tax effect. At December 31, 2020 the Bank did not own government securities classifiable in the HTC&S portfolio.

## Section 8 - Net write-downs/write-backs for impairment - Item 130

€3,139 thousand

### 8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortised cost: breakdown

(Values in thousand euros)

Transactions/Income items	Write-downs (1)			Write-backs (2)		Total 12/31/2020	Total 12/31/2019
	Stage one and Stage two	Write-offs	Stage three Others	Stage one and Stage two	Stage three		
A. Receivables due from banks	0	0	0	2	0	2	(3)
– Loans	0	0	0	2	0	2	(3)
– Debt securities	0	0	0	0	0	0	
of which: purchased or originated credit impaired	0	0	0	0	0	0	
B. Receivables due from customers	(492)	(487)	(4,303)	660	1,469	(3,153)	(2,380)
– Loans	(418)	(487)	(4,303)	660	1,469	(3,079)	(2,373)
– Debt securities	(74)	0	0	0	0	(74)	(7)
of which: purchased or originated credit impaired	0	0	0	0	10	10	178
<b>Total</b>	<b>(492)</b>	<b>(487)</b>	<b>(4,303)</b>	<b>663</b>	<b>1,469</b>	<b>(3,150)</b>	<b>(2,383)</b>

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

### 8.1a Net adjustments for credit risk relating to loans measured at amortised cost subject to Covid-19 support measures: breakdown

(Values in thousand euros)

Transaction/Income items	Write-downs (1)			Write-backs (2)		Total 12/31/2020	Total 12/31/2019
	Stage one and Stage two	Stage three Write-offs	Others	Stage one and Stage two	Stage three		
1. Loans granted in accordance with GL	45		9			54	
2. Loans subject to other forbearance measures							
3. New funding							
<b>Total 12/31/2020</b>	<b>45</b>		<b>9</b>			<b>54</b>	
<b>Total 12/31/2019</b>							

At December 31, 2020, the adjustments relate to the activities of the BFF Polska Group, which granted voluntary moratoria in 2020 for a total amount of €2.9 million.

### 8.2 Net losses/recoveries for credit risk relating to financial assets measured at fair value with impact on comprehensive income: breakdown

(Values in thousand euros)

Transaction/Income items	Write-downs (1)			Write-backs (2)		Total 12/31/2020	Total 12/31/2019
	Stage one and Stage two	Stage three Write-offs	Others	Stage one and Stage two	Stage three		
<b>A. Debt securities</b>				<b>11</b>		<b>11</b>	<b>11</b>
<b>B. Loans</b>							
– To customers							
– To banks							
of which: purchased or originated credit-impaired financial assets							
<b>Total</b>				<b>11</b>		<b>11</b>	<b>11</b>

## Section 12 - Administrative expenses- item 190

€86,414 thousand

### 12.1 Personnel costs: breakdown

€41,353 thousand

(Values in thousand euros)

Type of expense/Sectors	Total 12/31/2020	Total 12/31/2019
1) Employees		
a) wages and salaries	27,068	24,106
b) social security contributions	6,925	6,228
c) provision for employee severance pay	0	0
d) pension costs	0	0
e) provision for employee severance pay	618	552
f) provision for retirements and similar provisions:		
- defined contribution	0	0
- with defined benefits	0	0
g) payments to external complementary pension funds:		
- defined contribution	0	0
- with defined benefits	203	185
h) costs related to share-based payments	199	778
i) other employee benefits	3,438	3,921
2) Other personnel in service	253	579
3) Directors and statutory auditors	2,649	3,749
4) Early retirement costs	0	0
<b>Total</b>	<b>41,353</b>	<b>40,098</b>

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 approximately €1.4 thousand before taxes for the current year. Such costs also generate an increase, before taxes, in equity. For more information refer to Part I of the Explanatory Notes.

## 12.2 Average number of employees broken down by category

### Employees

(Values in working units)

FTE	2020	2019
Senior Executives/Executives	25	24
Manager/Coordinator	101	83
Professional/Specialist	383	368
<b>Total</b>	<b>509</b>	<b>475</b>

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.

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

The average number of employees increased from 475 in 2019 to 509 in 2020 (34 staff members, 7%).

### 12.4 Other employee benefits

The amount of €3,438 thousand mainly refers to costs of stock options granted to some employees, to expenses incurred for training, to insurance on behalf of staff, to meal tickets and donations to employees.

## 12.5 Other administrative expenses: breakdown

€45,061 thousand

(Values in thousand euros)

Breakdown	Total 12/31/2020	Total 12/31/2019
Legal fees	3,404	2,964
Data processing services	2,203	2,045
External credit management services	1,006	1,097
Supervisory Body fees	42	42
Legal fees for receivables under management	213	229
Notary fees	605	1,475
Notary fees to be recovered	959	1,579
Entertainment expenses and donations	1,900	1,533
Maintenance expenses	2,375	1,815
Non-deductible VAT	4,202	3,896
Other taxes	1,133	1,105
Consulting services	13,957	10,504
Head office operating expenses	922	1,299
Resolution Fund and FITD	4,881	3,299
Other expenses	7,259	6,545
<b>Total</b>	<b>45,061</b>	<b>39,426</b>

Other administrative expenses at December 31, 2020 amounted to €45 million, up from the same period in the previous year.

Furthermore, with regard to contributions to the Deposit Guarantee Scheme, a cost of about €4.9 million before taxes was recorded at December 31, 2020. This cost was made up of:

- ▶ €2.3 million as ordinary annual contribution to the Resolution Fund, and €0.7 million as extraordinary contribution for 2018 (paid in June and July of 2020);
- ▶ Around €1.9 million as contribution to the FITD, paid in December 2020.

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 €213 thousand and notary fees of €959 thousand, incurred on behalf of corporate customers, which were fully recovered and included in other operating income.

For the item "Consulting services" amounting to €13.9 million, the increase is mainly due to costs incurred for M&A projects. For more information refer to the Report on Operations.

"Other administrative expenses" mainly include services outsourced in 2020, which are listed below.

*(Values in thousand euros)*

<b>Breakdown</b>	<b>Total 12/31/2020</b>
Fees paid to external company for support to Internal Audit	76
Fees paid to external companies for Data Processing	2,327
Fees paid to external companies for Credit Checks	1,006

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

€989 thousand

### 13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

-€42 thousand

*(Values in thousand euros)*

<b>Breakdown</b>	<b>Total 12/31/2020</b>	<b>Total 12/31/2019</b>
Provision for risk on commitments and guarantees	(42)	376
<b>Total</b>	<b>(42)</b>	<b>376</b>

### 13.3 Net provisions for risks and charges: breakdown

€1,031 thousand

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

*(Values in thousand euros)*

<b>Breakdown</b>	<b>Total 12/31/2020</b>	<b>Total 12/31/2019</b>
Provision for post-employment benefits and similar obligations	1,594	2,052
Other provisions	(563)	763
<b>Total</b>	<b>1,031</b>	<b>2,815</b>

The allocation to "Pension and other post-employment benefits" refers to deferred employee benefits.

"Other provisions" as at December 31, 2019 included the expenses associated with the restructuring costs arising from the acquisition of the former IOS Finance (now merged into BFF Finance Iberia).

## Section 14 - Net write-downs/write-backs on tangible assets - Item 210

€3,430 thousand

### 14.1 Net write-downs/write-backs on tangible assets: composition

(Values in thousand euros)

Asset/Income items	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
A. Tangible assets				
1. Non-investment	3,369	0	0	3,369
– Owned	1,411	0	0	1,411
– Lease rights of use	1,959	0	0	1,959
2. Held for investment	61	0	0	61
– Owned	61	0	0	61
– Lease rights of use	0	0	0	0
3. Inventories	x	0	0	0
<b>Total</b>	<b>3,430</b>	<b>0</b>	<b>0</b>	<b>3,430</b>

As of 2019, following the application of International Accounting Standard IFRS 16, the item “Value adjustments on tangible assets” also includes the amortisation of right-of-use assets amounting to €1,959 thousand, the counterpart of which is recognised under tangible assets.

## Section 15 - Net write-downs /write-backs on intangible assets – Item 220

€2,090 thousand

### 15.1 Net adjustments to intangible assets: breakdown

(Values in thousand euros)

Asset/Income items	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned				
– Generated internally by the company	0	0	0	0
– Other	2,090	0	0	2,090
A.2 Lease rights of use	0	0	0	0
<b>Total</b>	<b>2,090</b>	<b>0</b>	<b>0</b>	<b>2,090</b>

## Section 16 - Other net operating income - Item 230

€10,436 thousand

### 16.1 Other operating expenses: breakdown

€1,993 thousand

(Values in thousand euros)

Breakdown	Total 12/31/2020	Total 12/31/2019
Contingent expenses	(283)	(488)
Rounding off and allowance expenses	(14)	(18)
Other charges	(1,626)	(1,585)
Deposit guarantee scheme expenses	0	0
Registry tax expenses	(70)	(417)
<b>Total</b>	<b>(1,993)</b>	<b>(2,508)</b>

Other expenses mainly refer to taxes associated with the legal actions initiated by the Bank and other Group companies.

## 16.2 Other operating income: breakdown

€12,429 thousand

(Values in thousand euros)

Breakdown	Total 12/31/2020	Total 12/31/2019
Recovery of legal fees for purchases of non-recourse receivables	1,426	1,395
Recovery of operational legal fees	220	194
Contingent assets	3,272	1,087
Recovery of assignor notary expenses	1,075	1,577
Other income	6,436	5,488
<b>Total</b>	<b>12,429</b>	<b>9,742</b>

This item includes the net revenue from the management/sale of vehicles leased to customers by BFF MedFinance. Compared to the same period in 2019 it was decided to present the aforementioned expenses and income net in order to provide a more correct representation. To this end, the Bank restated the amount reported in the same table at December 31, 2019, where said costs and revenues had been presented separately.

## Section 21 - Income taxes on current operations - item 300

€32,641 thousand

### 21.1 Income taxes for the year on current operations: breakdown

(Values in thousand euros)

Income items/Sectors	Total 12/31/2020	Total 12/31/2019
1. Current taxes (-)	24,018	25,592
2. Adjustment to current tax of prior years (+/-)	0	0
3. Reduction of current tax for the year (+)	0	0
3.bis Reduction of current taxes for the year for tax credits pursuant to Italian Law no. 214/2011 (+)	0	0
4. Change in prepaid taxes (+/-)	225	(6,470)
5. Change in deferred taxes (+/-)	8,398	9,431
<b>6. Taxes for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5)</b>	<b>32,641</b>	<b>28,553</b>

## 21.2 Reconciliation of theoretical tax charge with actual tax charge

The reconciliation between the theoretical and effective tax expense for the Parent Banca Farmafactoring S.p.A. only is provided below.

(Values in thousand euros)

Breakdown	IRES	IRAP
Taxable profit used for purposes of tax calculations	167,504	17,822
Theoretical tax charge: 27.5% IRES - 5.57% IRAP	46,064	993
Permanent non-deductible differences	(78,401)	0
Deductible IRAP	(431)	0
Temporary differences taxable in future years	(35,868)	0
Temporary differences deductible in future years	2,532	199
Reversal of temporary differences from previous years	(3,750)	97
<b>Taxable income</b>	<b>51,585</b>	<b>18,118</b>
<b>Current taxes for the year: 27.5% IRES - 5.57% IRAP</b>	<b>14,186</b>	<b>1,009</b>

## Section 25 - Earnings per share

### 25.1 Average number of ordinary shares with diluted capital

(Values in units)

Breakdown	12/31/2020	12/31/2019
Average number of shares outstanding	170,648,346	170,553,778
Average number of potentially dilutive shares	6,620,000	7,457,574
Weighted average number of potentially dilutive shares	177,268,346	178,011,352

### 25.2 Other information

(Amounts in units, unless otherwise stated)

Breakdown	12/31/2020	12/31/2019
Consolidated net profit for the period (in euros)	91,072,581	93,156,528
Average number of shares outstanding	170,648,346	170,553,778
Average number of potentially dilutive shares	6,620,000	7,457,574
Weighted average number of potentially dilutive shares	177,268,346	178,011,352
<b>Basic earnings per share (in euro units)</b>	<b>0.53</b>	<b>0.55</b>
<b>Diluted earnings per share (in euro units)</b>	<b>0.51</b>	<b>0.52</b>

## Part D - Consolidated Comprehensive Income

### Statement of Consolidated Comprehensive Income

(Values in euro units)

Items	12/31/2020	12/31/2019
<b>10. Profit (loss) for the period</b>	<b>91,072,581</b>	<b>93,156,528</b>
<b>Other income components not transferred to the income statement</b>		
<b>20. Equity instruments carried at fair value through other comprehensive income</b>		
a) fair value changes		
b) transfers to other net equity items		
<b>30. Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)</b>		
a) fair value changes		
b) transfers to other net equity items		
<b>40. Hedging of equity instruments carried at fair value through other comprehensive income</b>		
a) fair value changes (hedged instrument)		
b) fair value changes (hedging instrument)		
<b>50. Tangible assets</b>		
<b>60. Intangible assets</b>		
<b>70. Defined-benefit plans</b>	10,086	(21,904)
<b>80. Non-current assets held for sale and discontinued operations</b>		
<b>90. Share of valuation reserves connected with investments carried at equity</b>		
<b>100. Income taxes on other comprehensive income without recycling to the income statement</b>	(2,774)	6,024
<b>Other income components with recycling to the income statement</b>		
<b>110. Hedging of foreign investments:</b>		
a) fair value changes		
b) reclassification through income statement		
c) other changes		
<b>120. Foreign exchange differences:</b>		
a) changes in value		
b) reclassification through income statement		
c) other changes	(7,657,576)	1,724,093

(CONT'D)

*(Values in euro units)*

<b>Items</b>	<b>12/31/2020</b>	<b>12/31/2019</b>
<b>130. Cash flow hedges:</b>		
a) fair value changes	0	0
b) reclassification through income statement		
c) other changes		
of which: result of net positions		
<b>140. Hedging instruments (undesignated elements)</b>		
a) changes in value		
b) reclassification through income statement		
c) other changes		
<b>150. Financial assets (other than equity instruments) measured at fair value through other comprehensive income</b>		
a) fair value changes	119,390	6,110,470
b) reclassification through income statement		
- adjustments for credit risk		
- profits/losses on disposals		
c) other changes		
<b>160. Non-current assets and asset groups held for sale:</b>		
a) fair value changes		
b) reclassification through income statement		
c) other changes		
<b>170. Share of valuation reserves for equity investments measured at equity:</b>		
a) fair value changes		
b) reclassification through income statement		
- adjustments due to impairment		
- profits/losses on disposals		
c) other changes		
<b>180. Income taxes relating to other income components with recycling to the income statement</b>	2,417,180	(2,092,632)
<b>190. Total other income components</b>	<b>(5,113,694)</b>	<b>5,726,050</b>
<b>200. Other comprehensive income (Item 10+190)</b>	<b>85,958,886</b>	<b>98,882,578</b>
210. Consolidated comprehensive income attributable to minority interests		
<b>220. Consolidated comprehensive income attributable to the Parent Company</b>	<b>85,958,886</b>	<b>98,882,578</b>

## Part E - Information on risks and related hedging policies

### Introduction

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

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

Such policies define:

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

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

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

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

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

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

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

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

It should be noted that the CRR Group, including BFF Banking Group and BFF Luxembourg S.à r.l. (the latter as the parent company for the scope of consolidation for prudential supervisory purposes only), has marginal exposures with BFF Luxembourg S.à r.l. that do not change the risk profile of the Banking Group. As a consequence, the reference made to one of the two scopes of consolidation, for prudential supervisory purposes only, does not alter the overall risk profile.

## Section 1 - Accounting consolidation risks

### Quantitative information

#### A. Credit quality

##### A.1 Impaired and non-impaired credit exposures: amounts, value adjustments, trends and economic distribution

###### A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

(Values in thousand euros)

Portfolios/quality	Bad loans	Unlikely-to-pay positions	Past-due impaired exposures	Performing past due exposures	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	66,821	15,703	42,105	1,934,420	3,721,530	5,780,579
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets subject to mandatory fair-value valuation	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
<b>Total 12/31/2020</b>	<b>66,821</b>	<b>15,703</b>	<b>42,105</b>	<b>1,934,420</b>	<b>3,721,530</b>	<b>5,780,579</b>
<b>Total 12/31/2019</b>	<b>61,943</b>	<b>9,526</b>	<b>34,961</b>	<b>684,637</b>	<b>4,542,667</b>	<b>5,333,465</b>

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

(Values in thousand euros)

Portfolios/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	140,935	16,305	124,629	-	5,659,663	3,712	5,655,950	5,780,579
2. Financial assets measured at fair value through other comprehensive income	-	-	-	0	-	-	-	-
3. Financial assets designated at fair value	-	-	-	0	X	X	0	-
4. Other financial assets subject to mandatory fair-value valuation	-	-	-	0	X	X	0	-
5. Financial assets held for sale	-	-	-	0	0	0	0	-
<b>Total 12/31/2020</b>	<b>140,935</b>	<b>16,305</b>	<b>124,629</b>	<b>0</b>	<b>5,659,663</b>	<b>3,712</b>	<b>5,655,950</b>	<b>5,780,579</b>
<b>Total 12/31/2019</b>	<b>119,992</b>	<b>13,832</b>	<b>106,160</b>	<b>0</b>	<b>5,231,216</b>	<b>3,911</b>	<b>5,227,305</b>	<b>5,333,465</b>

## Section 2 - Prudential consolidation risks

### 1.1 Credit risk

#### Qualitative information

#### 1. General aspects

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

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

At this time, non-recourse factoring represents approximately 74% of all the exposures to customers of the Group excluding the securities component.

With regard to the measures adopted by the Bank in response to Covid-19 contained in the EBA Guidelines ("Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis – EBA/GL/2020/07") and as applicable, express reference is made to the public disclosure ("Pillar 3").

### *Impacts of the Covid-19 pandemic*

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

## 2. Credit risk management policies

### 2.1 Organisational aspects

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

The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on June 24, 2019, and by the "Credit Regulation" of subsidiaries. A further organizational measure tackling credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the aforementioned "Credit Regulation".

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

### 2.2 Management, measurement and control systems

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

For this purpose, it must be noted that the core business carried out by the Group consists, as mentioned above, 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 Group is exposed, which is fairly limited considering the nature of the Group's counterparties, the majority of which are not subject to bankruptcy proceedings or other procedures that could undermine their substantial solvency;
- ▶ **Dilution risk**: the risk that the amounts owed by the assigned debtor are reduced due to allowances or offsets arising from returns and/or disputes concerning the quality of the product or service or any other issue;
- ▶ **Factorability risk**: the risk related to the nature and characteristics of the commercial relationship subject to factoring/sale, affecting the ability of the receivable sold to self-liquidate (e.g., risk of direct payments from the debtor to the potentially insolvent assignor);
- ▶ **Risk of late payment**: the risk of a delay in the collection times of the receivables sold compared to those expected by the Group.

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

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

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

The Group also marginally offers the following two types of services: “receivables management only” and “recourse factoring”.

In the “receivables management only” service, credit risk is considerably reduced because it is limited to the Group’s exposure to the customer for payment of the agreed fees and commissions, that is, the reimbursement of legal fees incurred. The granting of a credit line for “receivables management only” follows the normal procedures used in the credit process, although the credit line can be approved by a single-person body.

Recourse factoring is a marginal activity for BFF Banking Group, since this type of factoring is only included in BFF Polska S.A.’s product portfolio.

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

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

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

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

Exposure to the customers’ credit risk is constantly monitored. The credit quality of public sector entities is analyzed within the framework of the risk of delay in repaying liabilities.

The assessment of credit risk is part of an overall analysis of the adequacy of the Group’s capital in relation to the risks connected with lending.

With this in mind, the Group uses the “standardized” approach to measure credit risk, as governed by Regulation (EU) no. 575/2013 (CRR) and adopted by the Bank of Italy Circular no. 285 “*Supervisory provisions for banks*” and Circular no. 286 “*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*,” both dated December 17, 2013, and subsequent amendments. This approach involves the classification of

exposures into different classes (“portfolios”), depending on the type of counterparty, and the application of diversified weighted ratios to each portfolio.

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

- ▶ 0% for exposures to government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish public sector entities and other local authorities as provided for by EBA lists “*EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013*” and “*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013*”;
- ▶ 20% for (i) exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the local currency, (ii) exposures to public sector entities of countries with Credit Quality Step 1, (iii) exposures to public sector entities and supervised intermediaries with an original duration of three months or less;
- ▶ 50% for exposures to the public administration agencies of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector;
- ▶ 100% for (i) exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy, Portugal and Greece—please note that on May 3, 2019 DBRS upgraded Greece from BH to BBL, thus improving the credit quality step from 5 to 4, but leaving the capital absorption percentage unchanged at 100%) and (ii) exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Czech Republic and Croatia);
- ▶ 50% or 100% for 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 tangible assets, 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;
- ▶ 250% to deferred tax assets not deducted from own funds.

In order to assign the weights for the calculation of capital requirements for credit risk to the Group's exposures to public sector entities, the Group adopted DBRS Morningstar as the reference ECAI. For this purpose, it should be noted that the unsolicited rating attributed to the Republic of Italy by DBRS was “BBB high”. Therefore, exposures to Italian public sector entities with an original maturity of more than 3 months, including receivables due from the National Healthcare Service and Local Healthcare Entities, fall within the Credit Quality Step 3 with an associated weighting of 100%.

However, as at December 31, 2020, with a view to approximating the provisions on the new definition of default (i.e. Guidelines on the application of the definition of default under Article 178 of Regulation (EU) no. 575/2013) in force since January 1, 2021, the Group, like the intermediaries, was required to adopt the invoice due date (with an original expiry of less than three months) as starting date for counting the overdue amount for the non-recourse factoring product instead of the estimated internal collection date. This therefore means that a

significant proportion of exposures to public sector bodies is weighted at 20% under Article 116, paragraph 3 of the CRR.

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

Based on the method described above, the capital requirement for credit risk at December 31, 2020 is €96.6 million for BFF Banking Group.

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

Specifically:

- ▶ "Large exposure" means any risk position equal to or greater than 10% of the eligible capital, as defined in the CRR (sum of Tier 1 Capital and Tier 2 Capital equal to or lower than one-third of Tier 1 Capital);
- ▶ For banking groups, each risk position must not be greater than 25% of the eligible capital.

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

### Credit quality assessment

The Group performs an impairment test on the receivables portfolio, aimed at identifying any impairment of its assets, in line with the provisions of the applicable accounting standards and the prudential criteria required by supervisory regulations and the internal policies adopted by BFF Banking Group.

This assessment is based on the distinction between these two categories of exposures:

- ▶ *Receivables subject to generic adjustments ("collective impairment");*
- ▶ *Receivables subject to specific adjustments.*

Note that the IFRS 9 accounting principle entered into force on January 1, 2018. This standard replaces the concept of incurred losses, envisaged by IAS 39, with that of expected losses.

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

More specifically, according to IFRS 9, impairment of receivables is recognized in three stages, each with different methods for calculating the losses to be recorded.

As for Stage 1, expected losses are measured over a 12-month period. As for Stage 2 (including financial assets whose credit risk increased significantly since initial recognition), expected losses are measured over the full lifetime of the instrument (lifetime expected losses). Stage 3 includes all financial assets that show objective impairment at the reporting date (non-performing exposures).

## 2.3 Methods of measuring expected losses

### 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 modelling approach. Therefore, by analyzing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Group's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.

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

- ▶ A forward-looking model, allowing the immediate recognition of all expected losses over the life of the receivable, thus replacing the “incurred loss” criterion. According to the latter, impairment losses were recognized only when there was evidence that they existed (based on the identification of a trigger event). According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;
- ▶ ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;
- ▶ Use of forward-looking information and macroeconomic factors to determine ECL;
- ▶ introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

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

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

The risk parameters that should be modelled to comply with the rationale of considering the full life- time of the financial instrument are as follows:

- ▶ Multi-period PD;
- ▶ Multi-period LGD;
- ▶ Multi-period EAD.

Furthermore, in compliance with IFRS 9, the ECL calculation shall include Point-in-Time (PIT) adjustments and Forward-Looking Information (FLI).

#### **Receivables subject to specific adjustments (“specific impairments”)**

As required by IFRS 9 and in line with current supervisory provisions, the Group carried out a review of the assets classified as impaired in order to identify any objective impairment of individual positions.

It should be noted that, with reference to past due receivables, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures referred to in this section were carried out. This decision is supported by the fact that, in consideration of the Group’s core business, positions past due by over 90 days, identified according to objective criteria, do not necessarily represent a deterioration of the risk position with individual objective impairment elements. The results arising from impairment are then individually attributed to each single counterparty classified in such risk position.

BFF Banking Group’s impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €124.6 million - net of individual impairment - and are broken down as follows:

- ▶ €66.8 million NPLs;
- ▶ €15.7 million unlikely to pay exposures;
- ▶ €42.1 million impaired past due exposures.

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

## Changes due to COVID-19

### Assessment of the significant increase in credit risk (SICR)

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

### Measuring expected losses

The model for determining risk parameters was also unchanged following the spread of Covid-19.

However, actions were taken, resulting in an update by the Bank, as the Parent Company, of its macroeconomic scenarios to include the effects of the pandemic within ECL estimates. To this end, as at June 30, 2020 the Bank updated the macroeconomic scenarios provided by Moody's rating agency. These scenarios are constructed considering the evolution of the unemployment rate and the High Yield Spread in the context of a pandemic whose negative effects are estimated to continue for the period 2020--2022 until the situation returns normal in the following years. The updating of the scenarios also led to a worsening of the baseline scenario, which shifted towards a recessionary trend compatible with the severity of the macroeconomic situation following the Covid-19 pandemic. Based on this evidence, it was not considered necessary to change the weights attributed to each individual scenario, which therefore remained the same as initially attributed (40% for the Baseline scenario, 30% for the High Growth scenario and 30% for the Mild Recession scenario).

At December 31, 2020, in order to quantify the impact of Covid-19, the Bank carried out a sensitivity analysis of the Expected Credit Loss calculation using the PD and LGD curves that take into account the effects of the pandemic, and the PD and LGD curves reported at December 31, 2019 and therefore not affected by it. The analysis showed a greater impact due to the updating of macroeconomic scenarios amounting to approximately €428 thousand. However, this analysis does not take into account the impact on the specific corrections as, by their nature, it is difficult to estimate the quantification of the greater impact due to the pandemic.

## 2.4 Credit risk mitigation techniques

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

## 3. Non-performing credit exposures

In compliance with Bank of Italy Circular no. 272, BFF Banking Group's net "Impaired assets" amounted to a total of €124,629 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, 2020, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €66,821 thousand, of which €5,614 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €63,999 thousand, accounting for 95.8% of the total.

Gross non-performing loans amounted to €79,960 thousand. Relevant impairment totalled €13,139 thousand. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €1,374 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €81,334 thousand and relevant adjustments totalled €14,513 thousand.

With reference to the Bank, at December 31, 2020 total non-performing loans, net of any estimated impairment losses, amounted to €64,753 thousand, of which €63,999 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.

Specifically, the amount of €5,614 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.

The remaining positions referring to Banca Farmafactoring are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €13,182 thousand; after estimated impairment losses of €11,142 thousand, the net amount totalled €2,041 thousand.

- ▶ BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that-absent such actions as the enforcement of guarantees-the debtor will fully fulfil (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or instalments).

At December 31, 2020, gross exposures classified as unlikely to pay amounted to €18,743 thousand, of which €18,279 thousand attributable to BFF Polska Group and €450 thousand to BFF Finance Iberia. The total net amount was €15,703 thousand, relating mainly to BFF Polska Group, since the gross exposures of Banca Farmafactoring and BFF Finance Iberia were almost entirely impaired.

- ▶ Net past due exposures of BFF Banking Group totalled €42,105 thousand, of which €30,226 thousand (94.6%) attributable to public administration counterparties and public sector companies in the various countries where BFF Banking Group operates. These consist of exposures which, at the end of the reporting period, were overdue by more than 90 days.

More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Banca Farmafactoring's overall amount of net past due exposures at December 31, 2020 was equal to €39,587 thousand. Of this amount, €29,483 thousand (equal to 99.6%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €2,113 thousand. The remaining past due exposures, for a net amount of €405 thousand, refer to BFF Finance Iberia and entirely concerned public administration counterparties.

#### 4. Financial assets subject to commercial negotiations and forbore exposures

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

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted in 2020 for a total amount of €2.9 million and are mainly represented by corporate clients (approximately 33%), public-sector entities (approximately 30%) and retail clients (approximately 37%). The main products affected are credit exposures deriving from amounts, accounting for approximately 62%, loans, 34% from loans (MEDLekarz - loans to medical practices) and 4% from factoring operations.

## Quantitative information

### A. Credit quality

#### A.1 Non-performing and performing credit exposures: amounts, value adjustments, trends and economic distribution

##### A.1.1 Consolidated accounts for prudential supervision - Financial assets broken down by past due amounts (book values)

(Values in thousand euros)

Portfolios/risk stages	Stage one			Stage two			Stage three		
	Up to 30 days	Between 30 and 90 days	More than 90 days	Up to 30 days	Between 30 and 90 days	More than 90 days	Up to 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	419,903	111,950	1,223,669	-	5,320	173,577	325	606	110,699
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
<b>Total 12/31/2020</b>	<b>419,903</b>	<b>111,950</b>	<b>1,223,669</b>	<b>0</b>	<b>5,320</b>	<b>173,577</b>	<b>325</b>	<b>606</b>	<b>110,699</b>
<b>Total 12/31/2019</b>	<b>39,784</b>	<b>42,050</b>	<b>479,249</b>	<b>847</b>	<b>11,274</b>	<b>111,434</b>	<b>1,905</b>	<b>449</b>	<b>88,447</b>

*A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: trend in total value adjustments and total provisions*

Description/risk stages	Total value adjustments							
	Assets in stage one				Assets in stage two			
	Financial assets measured at amortized cost.	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortized cost.	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs
<b>Opening total adjustments</b>	<b>2,456</b>	<b>11</b>	<b>-</b>	<b>2,456</b>	<b>1,446</b>	<b>-</b>	<b>-</b>	<b>1,446</b>
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-
Net value adjustments/write-backs for credit risk (+/-)	516	-	-	516	-706	-	-	-706
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Other changes	-	-11	-	-	-	-	-	-
<b>Closing balances</b>	<b>2,972</b>	<b>-</b>	<b>-</b>	<b>2,972</b>	<b>740</b>	<b>-</b>	<b>-</b>	<b>740</b>
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-
Write-offs recognised directly on the income statement	-	-	-	-	-	-	-	-

(Values in thousand euros)

					Total provisions on commitments to disburse funds and financial guarantees issued			Total
Assets in stage three								
Financial assets measured at amortized cost.	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which collective write-downs	Of which: purchased or originated impaired financial assets	Stage one	Stage two	Stage three	
13,832	-	13,832	-	224	560	-	21	18,325
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2,474	-	2,474	-	-10	-39	-	-17	2,229
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-11
16,305	-	16,305	-	214	521	-	4	20,543
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

*A.1.3 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees provided: transfers among the various credit risk stages (gross amounts and face values)*

*(Values in thousand euros)*

Portfolios/risk stages	Gross values /nominal 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 amortised cost	41,136	41,303	5,869	6,229	21,814	4,750
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale						
4. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-
<b>Total 12/31/2020</b>	<b>41,136</b>	<b>41,303</b>	<b>5,869</b>	<b>6,229</b>	<b>21,814</b>	<b>4,750</b>
<b>Total 12/31/2019</b>	<b>14,322</b>	<b>30,231</b>	<b>8,549</b>	<b>4,399</b>	<b>17,341</b>	<b>8,806</b>

A.1.4 Prudential consolidation – On- and off-balance-sheet credit exposures to banks: gross and net  
(Values in thousand euros)

Type of exposures/values	Gross exposure		Total adjustments/ recoveries and total provisions	Net exposure	Total partial write-offs (*)
	Non-performing	Performing			
<b>A. ON-BALANCE-SHEET EXPOSURES</b>					
a) Non-performing loans	-	X	-	-	-
– of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay positions	-	X	-	-	-
– of which: forborne exposures	-	X	-	-	-
c) Impaired past-due exposures	-	X	-	-	-
– of which: forborne exposures	X	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
– of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	31,088	9	31,078	-
– of which: forborne exposures	-	-	-	-	-
<b>TOTAL A</b>	<b>0</b>	<b>31,088</b>	<b>9</b>	<b>31,078</b>	<b>0</b>
<b>B. OFF-BALANCE-SHEET CREDIT EXPOSURES</b>					
a) Impaired	-	X	-	-	-
b) Performing	X	5,200	0	5,200	-
<b>TOTAL B</b>	<b>0</b>	<b>5,200</b>	<b>0</b>	<b>5,200</b>	<b>0</b>
<b>TOTAL A+B</b>	<b>0</b>	<b>36,288</b>	<b>9</b>	<b>36,278</b>	<b>0</b>

(\*) Value for disclosure purposes.

**A.1.5 Prudential consolidation – On- and off-balance-sheet credit exposures to customers: gross and net**
*(Values in thousand euros)*

Type of exposures/values	Gross exposure		Total value adjustments and total provisions for credit risk	Net exposure	Total partial write-offs (*)
	Non-performing	Performing			
<b>A. ON-BALANCE-SHEET EXPOSURES</b>					
a) Non-performing loans	79,960	X	13,139	66,821	-
- of which: forborne exposures	89	X	75	14	-
b) Unlikely-to-pay positions	18,743	X	3,040	15,703	-
- of which: forborne exposures	1,450	X	880	570	-
c) Impaired past-due exposures	42,232	X	127	42,105	-
- of which: forborne exposures	402	X	15	386	-
d) Performing past due exposures	X	1,935,419	998	1,934,420	-
- of which: forborne exposures	X	19	1	18	-
e) Other performing exposures	X	3,693,157	2,705	3,690,452	-
- of which: forborne exposures	X	2,431	60	2,371	-
<b>TOTAL A</b>	<b>140,935</b>	<b>5,628,575</b>	<b>20,008</b>	<b>5,749,501</b>	<b>0</b>
<b>B. OFF-BALANCE-SHEET CREDIT EXPOSURES</b>					
a) Impaired	1,316	X	4	1,312	-
b) Performing	X	210,889	521	210,368	-
<b>TOTAL B</b>	<b>1,316</b>	<b>210,889</b>	<b>525</b>	<b>211,680</b>	<b>0</b>
<b>TOTAL A+B</b>	<b>142,250</b>	<b>5,839,464</b>	<b>20,533</b>	<b>5,961,181</b>	<b>0</b>

(\*) Value for disclosure purposes.

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

(Values in thousand euros)

Portfolios/risk stages	Gross values /nominal 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
<b>A. Loans measured at amortised cost</b>						
A.1 subject to forbearance in accordance with GL	342	361			36	
A.2 subject to other forbearance measures						
A.3 new loans						
<b>B. Loans measured at fair value through other comprehensive income</b>						
B.1 subject to forbearance in accordance with GL						
B.2 subject to other forbearance measures						
B.3 new loans						
<b>Total 12/31/2020</b>	<b>342</b>	<b>361</b>			<b>36</b>	
<b>Total 12/31/2019</b>						

(\*) Value for disclosure purposes.

*A.1.7 Prudential consolidation - On-balance sheet credit exposures to customers trend of gross non-performing exposures*

(Values in thousand euros)

Descriptions/Categories	Bad loans	Unlikely-to-pay positions	Past-due impaired exposures
<b>A. Starting gross exposure</b>	<b>73,376</b>	<b>11,836</b>	<b>34,780</b>
– of which: exposures transferred but not derecognised	273	-	2,420
<b>B. Increases</b>	<b>10,386</b>	<b>10,924</b>	<b>30,723</b>
B.1 inflows from performing exposures	8,237	10,279	30,324
B.2 transfers from purchased or originated impaired financial assets	0	0	0
B.3 transfers from other impaired exposures	484	625	0
B.4 contractual amendments without derecognitions	0	0	0
B.5 other increasing variations	1,665	20	400
<b>C. Decreases</b>	<b>3,802</b>	<b>4,018</b>	<b>23,272</b>
C.1 outflows to performing exposures	1,852	0	21,114
C.2 write-offs	0	0	0
C.3 collections	0	1,047	549
C.4 collections from disposals	0	0	0
C.5 losses from disposals	0	0	0
C.6 transfers to other impaired exposures	0	0	1,109
C.7 contractual amendments without derecognitions	0	0	0
C.8 other decreasing variations	1,950	2,971	500
<b>D. Final gross exposure</b>	<b>79,960</b>	<b>18,743</b>	<b>42,232</b>
– of which: exposures transferred but not derecognised		-	40

A.1.7a On-balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net values

(Values in thousand euros)

Type of exposures/values	Gross exposure	Total adjustments/recoveries and total provisions	Net exposure	Total partial write-offs (*)
<b>A. Non-performing loans:</b>	<b>5</b>	<b>1</b>	<b>4</b>	
a) Subject to forbearance in accordance with GL	5	1	4	
b) Subject to other forbearance measures		-	-	
c) New funding				
<b>B. Loans unlikely to pay:</b>				
a) Subject to forbearance in accordance with GL				
b) Subject to other forbearance measures				
c) New funding				
<b>C. Impaired overdue loans:</b>	<b>35</b>	<b>8</b>	<b>27</b>	
a) Subject to forbearance in accordance with GL	35	8	27	
b) Subject to other forbearance measures				
c) New funding				
<b>D. Past due performing loans:</b>				
a) Subject to forbearance in accordance with GL				
b) Subject to other forbearance measures				
c) New funding				
<b>E. Other overdue performing loans:</b>	<b>2,923</b>	<b>86</b>	<b>2,837</b>	
a) Subject to forbearance in accordance with GL	2,923	86	2,837	
b) Subject to other forbearance measures				
c) New funding				
<b>Total (A+B+C+D+E)</b>	<b>2,964</b>	<b>96</b>	<b>2,868</b>	

(\*) Value provided for disclosure purposes.

*A.1.7-bis Consolidated accounts for prudential supervision – On-balance sheet exposures with customers: changes in gross forborne exposures broken down by credit quality*

(Values in thousand euros)

Descriptions/Quality	Forborne exposures: non- performing	Forborne exposures: performing
<b>A. Starting gross exposure</b>	<b>1,495</b>	<b>16,818</b>
– of which: exposures transferred but not derecognised	-	-
<b>B. Increases</b>	<b>844</b>	<b>2,418</b>
B.1 inflows from performing, non forborne exposures	844	2,418
B.2 inflows from performing, forborne exposures		X
B.3 inflows from non-performing forborne exposures	X	-
B.4 other increasing variations	-	-
<b>C. Decreases</b>	<b>398</b>	<b>16,785</b>
C.1 transfers to performing exposures not subject to forbearance measures	X	16,727
C.2 outflows towards forborne performing exposures	116	X
C.3 outflows towards non-performing forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	142	57
C.6 collections from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreasing variations	140	0
<b>D. Final gross exposure</b>	<b>1,941</b>	<b>2,451</b>
– of which: exposures transferred but not derecognised	-	-

*A.1.9 Prudential consolidation - On-balance sheet non-performing credit exposures to Customers: trend of the total value adjustments*

(Values in thousand euros)

Descriptions/Categories	Bad loans		Unlikely-to-pay positions		Past-due impaired exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
<b>A. Total opening adjustments</b>	<b>11,433</b>	<b>102</b>	<b>2,310</b>	<b>915</b>	<b>88</b>	<b>1</b>
– of which: exposures transferred but not derecognised	1	-	-	-	4	-
<b>B. Increases</b>	<b>2,155</b>	<b>-</b>	<b>874</b>	<b>-</b>	<b>106</b>	<b>15</b>
B.1 value adjustments to purchased or originated credit impaired assets	-	-	-	-	-	-
B.2 other value adjustments	954	-	-	-	-	-
B.3 losses from disposals	-	-	-	-	-	-
B.4 transfers from other categories of impaired exposures	349	-	-	-	85	15
B.5 contractual amendments without derecognitions	-	-	-	-	-	-
B.6 other increasing variations	852	-	874	-	21	-
<b>C. Decreases</b>	<b>449</b>	<b>27</b>	<b>144</b>	<b>36</b>	<b>68</b>	<b>1</b>
C.1 write-backs from valuation	-	-	-	-	-	-
C.2 write-backs from recoveries	283	13	-	-	3	-
C.3 profits from disposals	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of impaired exposures	166	14	-	-	59	1
C.6 contractual amendments without derecognitions	-	-	-	-	-	-
C.7 other decreasing variations	-	-	144	36	6	-
<b>D. Total final adjustments</b>	<b>13,139</b>	<b>75</b>	<b>3,040</b>	<b>880</b>	<b>127</b>	<b>15</b>
– of which: exposures transferred but not derecognised	-	-	-	-	0	-

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

### A.2.1 Consolidated accounts for prudential supervision – Credit exposures, commitments to disburse funds and financial guarantees provided broken down by external rating classes (gross amounts)

(Values in thousand euros)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
<b>A. Financial assets measured at amortised cost</b>		<b>1,335,444</b>	<b>4,003,767</b>	<b>53,695</b>	-	-	<b>402,204</b>	<b>5,799,494</b>
– Stage one	4,377	1,268,362	3,803,195	50,690	-	-	338,510	5,465,134
– Stage two	7	66,675	98,129	1,324	-	-	27,291	193,425
– Stage three	-	408	102,442	1,681	-	-	36,403	140,935
<b>B. Financial assets measured at fair value through other comprehensive income</b>	-	-	-	-	-	-	-	-
– Stage one	-	-	-	-	-	-	-	-
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	-	-
<b>C. Financial assets held for sale</b>								
– Stage one								
– Stage two								
– Stage three								
<b>Total (A+B+C)</b>	<b>4,384</b>	<b>1,335,444</b>	<b>4,003,767</b>	<b>53,695</b>	-	-	<b>402,204</b>	<b>5,799,494</b>
<b>of which: purchased or originated impaired financial assets</b>	-	-	<b>5,630</b>	-	-	-	<b>198</b>	<b>5,828</b>
<b>D. Commitments to disburse funds and financial guarantees issued</b>	-	-	-	-	-	-	<b>217,405</b>	<b>217,405</b>
– Stage one	-	-	-	-	-	-	216,089	216,089
– Stage two	-	-	-	-	-	-	-	-
– Stage three	-	-	-	-	-	-	1,316	1,316
<b>Total D</b>	-	-	-	-	-	-	<b>217,405</b>	<b>217,405</b>
<b>Total (A+B+C+D)</b>	<b>4,384</b>	<b>1,335,444</b>	<b>4,003,767</b>	<b>53,695</b>	-	-	<b>619,609</b>	<b>6,016,899</b>

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

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

### A.3 Distribution of secured credit exposures by type of guarantee

#### A.3.2 Prudential consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)			
			Real estate - mortgages	Finance lease properties	Securities	Other collateral
<b>1. Guaranteed On-Balance-sheet credit exposures:</b>	<b>2,204</b>	<b>2,091</b>	<b>153</b>	-	-	<b>1,937</b>
1.1 totally secured	2,204	2,091	153	-	-	1,937
– of which impaired	266	153	153	-	-	-
1.2 partially secured	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-
<b>2. Guaranteed “Off-Balance Sheet” credit exposures:</b>	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-

(Values in thousand euros)

Personal guarantees (2)										Total (1)+(2)
Credit derivatives					Endorsement credits					
Credit link notes	Other derivatives				Public administrations	Banks	Other financial companies	Other entities		
	Central counterparties	Banks	Other financial companies	Other entities						
									0	2,091
									0	2,091
									-	153
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-

## B. Breakdown and concentration of credit exposures

### B.1 Prudential consolidation - Sector breakdown of on- and "off-balance sheet" credit exposures to customers

(Values in thousand euros)

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-balance sheet credit exposures</b>										
A.1 Bad loans	64,175	492	-	-	-	-	2,221	11,516	425	1,131
– of which: forborne exposures	-	-	-	-	-	-	14	75	-	-
A.2 Unlikely-to-pay positions	-	-	-	-	-	-	15,703	3,040	-	-
– of which: forborne exposures	-	-	-	-	-	-	570	880	-	-
A.3 Past-due non- performing exposures	39,822	42	-	-	-	-	2,254	84	30	0
- of which forborne exposures	-	-	-	-	-	-	386	15	-	-
A.4 Performing exposures	5,265,152	1,012	139,510	47	0	0	190,155	2,214	30,055	430
- of which forborne exposures	-	-	-	-	-	-	2,390	61	-	-
<b>Total A</b>	<b>5,369,148</b>	<b>1,547</b>	<b>139,510</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>210,333</b>	<b>16,854</b>	<b>30,510</b>	<b>1,561</b>
<b>B. Off-balance sheet credit exposures</b>										
B.1 Non-performing exposures	-	-	-	-	-	-	1,312	4	-	-
B.2 Performing exposures	82,118	1	1,026	-	-	-	127,224	520	-	-
<b>Total B</b>	<b>82,118</b>	<b>1</b>	<b>1,026</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>128,536</b>	<b>524</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2020</b>	<b>5,451,266</b>	<b>1,548</b>	<b>140,536</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>338,869</b>	<b>17,378</b>	<b>30,510</b>	<b>1,561</b>
<b>Total (A+B) 12/31/2019</b>	<b>4,907,157</b>	<b>1,493</b>	<b>64,363</b>	<b>44</b>	<b>0</b>	<b>0</b>	<b>392,468</b>	<b>15,507</b>	<b>16,657</b>	<b>1,265</b>

## B.2 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to customers

(Values in thousand euros)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-balance sheet credit exposures</b>										
A.1 Bad loans	64,753	1,907	2,068	11,232	-	-	-	-	-	-
A.2 Unlikely-to-pay positions	0	-	15,702	3,040	-	-	-	-	-	-
A.3 Past-due non-performing exposures	37,907	44	4,199	83	-	-	-	-	-	-
A.4 Performing exposures	3,880,373	1,264	1,744,500	2,439	-	-	-	-	-	-
<b>Total A</b>	<b>3,983,033</b>	<b>3,216</b>	<b>1,766,468</b>	<b>16,793</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>B. Off-balance sheet credit exposures</b>	-	-	-	-	-	-	-	-	-	-
B.1 Impaired exposures	-	-	1,312	4	-	-	-	-	-	-
B.2 Performing exposures	1,026	-	209,342	521	-	-	-	-	-	-
<b>Total B</b>	<b>1,026</b>	<b>0</b>	<b>210,654</b>	<b>525</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2020</b>	<b>3,984,059</b>	<b>3,216</b>	<b>1,977,122</b>	<b>17,318</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2019</b>	<b>3,517,051</b>	<b>2,714</b>	<b>1,863,594</b>	<b>15,596</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

(Values in thousand euros)

Exposures/Geographic areas	Northwest Italy		Northeast Italy		Central Italy		Southern Italy and Islands		
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	
<b>A. On-balance sheet credit exposures</b>									
A.1 Bad loans		583	386	173	48	2,513	1,151	61,484	322
A.2 Unlikely-to-pay positions		-	-	-	-	0	-	-	-
A.3 Past-due non-performing exposures		1,816	5	2,037	0	2,880	2	31,174	36
A.4 Performing exposures		202,698	235	118,726	138	2,660,057	708	898,892	184
<b>Total A</b>		<b>205,097</b>	<b>627</b>	<b>120,936</b>	<b>186</b>	<b>2,665,450</b>	<b>1,861</b>	<b>991,550</b>	<b>542,171</b>
<b>B. Off-balance sheet credit exposures</b>									
B.1 Impaired exposures		-	-	-	-	-	-	-	-
B.2 Performing exposures		-	-	-	-	1,026	-	-	-
<b>Total B</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,026</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2020</b>		<b>205,097</b>	<b>627</b>	<b>120,936</b>	<b>186</b>	<b>2,666,476</b>	<b>1,861</b>	<b>991,550</b>	<b>542</b>
<b>Total (A+B) 12/31/2019</b>		<b>216,460</b>	<b>528</b>	<b>112,141</b>	<b>68</b>	<b>2,072,540</b>	<b>1,573</b>	<b>1,115,909</b>	<b>545</b>

### B.3 Prudential consolidation - Territorial distribution of on- and off-balance sheet credit exposures to banks

(Values in thousand euros)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-balance sheet credit exposures</b>										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay positions	-	-	-	-	-	-	-	-	-	-
A.3 Past-due non-performing exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	8,022	3	21,953	6	-	-	-	-	-	-
<b>Total A</b>	<b>8,022</b>	<b>3</b>	<b>21,953</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>B. Off-Balance Sheet credit exposures</b>										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	5,200	0	-	-	-	-	-	-	-	-
<b>Total B</b>	<b>5,200</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2020</b>	<b>13,222</b>	<b>3</b>	<b>21,953</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2019</b>	<b>81,546</b>	<b>7</b>	<b>38,943</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>0</b>

(Values in thousand euros)

Exposures/Geographic areas	Northwest Italy		Northeast Italy		Central Italy		Southern Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-balance sheet credit exposures</b>								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay positions	-	-	-	-	-	-	-	-
A.3 Past-due non-performing exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	7,122	2	318	0	582	1	-	-
<b>Total A</b>	<b>7,122</b>	<b>2</b>	<b>318</b>	<b>0</b>	<b>582</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>B. Off-Balance Sheet credit exposures</b>								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	5,200	0	-	-
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,200</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) 12/31/2020</b>	<b>7,122</b>	<b>2</b>	<b>318</b>	<b>0</b>	<b>5,782</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) 12/31/2019</b>	<b>4,646</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>76,894</b>	<b>3</b>	<b>6</b>	<b>-</b>

## B.4 Large exposures

At December 31, 2020, the CRR Group had 15 “large exposures”, i.e. exposures equal to or higher than 10% of eligible capital.

The nominal unweighted amount of these positions was €4,935,995 thousand, while the weighted amount was €636,881 thousand.

It should be noted that a credit position taken by BFF Luxembourg S.à r.l. vis-à-vis a company belonging to the parent company of BFF Luxembourg S.à r.l. exceeds the concentration limit of 25% of eligible capital of the CRR Group. It should be noted that this exposure up to December 30, 2020 was within the regulatory limit. However, at December 31 the Bank changed its approach for the Group (preferential weighting) and therefore, due to the decrease in minorities following the decrease in RWA, there was a decrease in eligible capital of €59.2 million for BFF Luxembourg, which resulted in a change in the individual limit of €14.8 million, resulting in a loss of approximately €15 million. In a communication dated February 23, 2021 following the elimination of BFF Luxembourg S.à r.l.'s shareholding in the Bank, the Bank of Italy removed BFF Luxembourg S.à r.l.'s de facto excess of the limit from the register of banking groups.

## C. Securitisation transactions

### INFORMATION ON THE TRANSACTION WITH “BAYERISCHE LANDESBANK - BFF SPV S.R.L.”

#### *Qualitative information*

##### *Strategies, processes and objectives*

In July 2017 and renewed for a year in December 2018, the private placement of a securitization transaction was concluded with the Bayerische Landesbank (BayernLB) Group for €150 million - the maximum amount of the flexible senior note - with the aim of diversifying funding activities.

##### *Transaction details*

The receivables, due from Local Healthcare Entities 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.

In February 2020 the revolving phase was renewed, with a new deadline of February 15, 2021.

It should be noted that in January 2021 the activities necessary for the repayment of Senior Notes and the unwinding of the program were implemented and are expected to be completed by the end of the first half of 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 over-collateral ratio at December 31, 2020 is equal to 138.00% 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 totalled €89.9 million at December 31, 2020.

### C.1 Prudential consolidation - Exposures resulting from the main "in-house" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitisation/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs
A. Subject of complete derecognition from the financial statements						
B. Object of partial derecognition from the financial statements						
C. Not derecognised from the financial statements	62,967	(18)				
C.1 BFF SPV I						
– Factoring	62,967	(18)				

(Values in thousand euros)

Guarantees issued						Credit facilities					
Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs

### C.3 Consolidated accounts for prudential supervision - Interests in securitization SPVs

(Values in thousand euros)

Securitization name/ SPV name	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Others	Senior	Mezzanine	Junior
BFF SPV S.r.l.	Milan - Via V. Betteloni 2	Line-by-line	132,310			50,013		

## D. Disposal transactions

### A. FINANCIAL ASSETS SOLD AND PARTIALLY DERECOGNISED

#### *Qualitative information*

The disclosure required by IFRS 7, paragraph 42D, letters a), b) and c), regarding the nature of the transferred assets, the relationship between them and the associated liabilities, and corresponding risks to which the Group is exposed, is provided below.

With reference to the above-mentioned securitization transaction, the value of the receivables sold and not derecognized amounts to €91.5 million.

The other "Receivables due from customers" refer for a total of €235 million to the receivables pledged as collateral for loans with financial intermediaries and for a total of €237 million for the loans granted as collateral by BFF Polska and its subsidiaries.

The counterparty in repurchase agreements, amounting to €1.7 billion, is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

## Quantitative information

### D.1. Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: book values

(Values in thousand euros)

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which:	of which:	of which	Book value	of which:	of which:
		subject to securitization	subject to sale agreements with repurchase clause	impaired		subject to securitization	subject to sale agreements with repurchase clause
<b>A. Financial assets held for trading</b>							
1. Debt securities				X			
2. Equity securities				X			
3. Loans				X			
4. Derivatives				X			
<b>B. Other financial assets subject to mandatory fair-value measurement</b>							
1. Debt securities				-			
2. Equity securities				X			
3. Loans							
<b>C. Financial assets at fair value</b>							
1. Debt securities							
2. Loans							
<b>D. Financial assets measured at fair value through other comprehensive income</b>							
1. Debt securities							
2. Equity securities				X			
3. Loans							
<b>E. Financial assets measured at amortised cost</b>	<b>2,141,210</b>	<b>91,473</b>	<b>1,669,164</b>		<b>2,055,805</b>	<b>28,506</b>	<b>1,674,754</b>
1. Debt securities	1,669,164		1,669,164		1,674,754		1,674,754
2. Loans	472,046	91,473		40	381,051	28,506	
<b>Total 12/31/2020</b>	<b>2,141,210</b>	<b>91,473</b>	<b>1,669,164</b>	<b>40</b>	<b>2,055,805</b>	<b>28,506</b>	<b>1,674,754</b>
<b>Total 12/31/2019</b>	<b>1,786,197</b>	<b>219,243</b>	<b>996,022</b>	<b>2,688</b>	<b>1,613,647</b>	<b>129,775</b>	<b>995,513</b>

## E. Prudential consolidation - credit risk assessment models

### 1.2 Market risk

#### 1.2.1 Interest rate risk and price risk - regulatory trading portfolio

##### *Qualitative information*

##### **A. General aspects**

At December 31, 2020 no financial assets held for trading were recognized.

#### 1.2.2 Interest rate risk and price risk – banking portfolio

##### *Impacts of the Covid-19 pandemic*

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

##### *Qualitative information*

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

For assessing interest rate risk potentially linked to fluctuations in interest rates, the Group adopted the method used to determine internal capital set forth in Annex C of Bank of Italy Circular no. 285/2013 (Part I, Title III, Chapter I), as subsequently updated, together with the guidelines defined by the European Banking Authority (EBA) and the Basel Committee on Banking Supervision ("BCBS").

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 interest rate sensitivity analysis 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 weights, 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 BFF'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 BFF.

The interest rate risk position is reported on a quarterly basis to BFF'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.

## Quantitative information

### 1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency of denomination: EUROS

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
<b>1. On-balance sheet assets</b>	<b>2,398,614</b>	<b>820,510</b>	<b>997,152</b>	<b>57,768</b>	<b>728,166</b>	<b>72,170</b>	<b>2,191</b>	-
1.1 Debt securities	-	12,216	914,218	45,685	709,932	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	12,216	914,218	45,685	709,932	-	-	-
1.2 Loans to banks	20,241	2,680	-	-	-	-	-	-
1.3 Loans to customers	2,378,373	805,613	82,935	12,083	18,234	72,170	2,191	-
– current account	3	-	-	-	-	0	-	-
– other loans	2,378,370	805,613	82,935	12,083	18,234	72,170	2,191	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	2,378,370	805,613	82,935	12,083	18,234	72,170	2,191	-
<b>2. On-balance sheet liabilities</b>	<b>245,946</b>	<b>2,583,715</b>	<b>678,494</b>	<b>432,313</b>	<b>683,313</b>	<b>103,656</b>	-	-
2.1 Payables to customers	202,927	2,263,215	478,220	357,313	178,348	-	-	-
– current account	101,407	533,629	409,231	357,313	112,582	-	-	-
– other payables	101,519	1,729,586	68,988	-	65,766	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	101,519	1,729,586	68,988	-	65,766	-	-	-
2.2 Payables to banks	43,019	320,500	50,000	75,000	-	-	-	-
– current account	-	-	-	-	-	-	-	-
– other payables	43,019	320,500	50,000	75,000	-	-	-	-
2.3 Debt securities	-	-	150,275	-	504,965	103,656	-	-
– with option of advance repayment	-	-	-	-	201,785	103,656	-	-
– others	-	-	150,275	-	303,180	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-

(CONT'D)

Currency of denomination: EUROS

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
<b>4. Other off-balance sheet transactions</b>	<b>1,026</b>	<b>1,026</b>	-	-	-	-	-	-
+ long positions	-	1,026	-	-	-	-	-	-
+ short positions	1,026	-	-	-	-	-	-	-

Currency of denomination: OTHERS

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
<b>1. On-balance sheet assets</b>	<b>282,356</b>	<b>329,933</b>	<b>35,883</b>	<b>13,709</b>	<b>22,400</b>	<b>25,671</b>	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-
1.2 Loans to banks	7,053	-	-	-	-	-	-	-
1.3 Loans to customers	275,303	329,933	35,883	13,709	22,400	25,671	-	-
– current account	-	-	-	-	-	-	-	-
– other loans	275,303	329,933	35,883	13,709	22,400	25,671	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	275,303	329,933	35,883	13,709	22,400	25,671	-	-
<b>2. On-balance sheet liabilities</b>	<b>22,064</b>	<b>560,123</b>	<b>46,713</b>	<b>31,754</b>	<b>18,772</b>	-	-	-
2.1 Payables to customers	7,320	35,076	46,713	31,754	18,772	-	-	-
– current account	7,320	35,076	46,713	31,754	18,772	-	-	-
– other payables	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-
2.2 Payables to banks	14,744	525,047	-	-	-	-	-	-
– current account	-	-	-	-	-	-	-	-
– other payables	14,744	525,047	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-

(CONTD)

Currency of denomination: OTHERS

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	Between 5 and 10 years	More than 10 years	Indefinite duration
<b>3. Financial derivatives</b>	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
<b>4. Other off-balance sheet transactions</b>	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

### 1.2.3 Exchange risk

#### Qualitative information

#### A. General aspects, management processes and measurement methods for exchange rate risk

The Group's asset portfolio at December 31, 2020 is denominated as follows:

- ▶ Euro;
- ▶ Polish zloty;
- ▶ Czech koruna;
- ▶ Croatian kuna.

The Group thus manages and monitors the risk of fluctuations in such exchange rates. The Group has a specific internal regulation for the management of exchange risk referring to exposures arising from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency, and any other type of transaction in a currency other than the reference currency. Specifically, the Group 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 recognised in the income statement arising from the revaluation of 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.

No hedging transactions using derivative instruments were recognized at December 31, 2020.

## Quantitative information

### 1. Breakdown by currency of assets, liabilities and derivatives

(Values in thousand euros)

Items	Currencies					
	US Dollar	Pounds	Yen	Canadian Dollar	Swiss francs	Other currencies
<b>A. Financial assets</b>	-	-	-	-	-	<b>713,381</b>
A.1 Debt securities	-	-	-	-	-	
A.2 Equity instruments	-	-	-	-	-	
A.3 Loans to banks	-	-	-	-	-	7,816
A.4 Loans to customers	-	-	-	-	-	705,564
A.5 Other financial assets	-	-	-	-	-	
<b>B. Other assets</b>	-	-	-	-	-	
<b>C. Financial liabilities</b>	-	-	-	-	-	<b>713,331</b>
C.1 Payables to banks	-	-	-	-	-	548,748
C.2 Payables to customers	-	-	-	-	-	164,582
C.3 Debt securities	-	-	-	-	-	
C.4 Other financial liabilities	-	-	-	-	-	
<b>D. Other liabilities</b>	-	-	-	-	-	
<b>E. Financial derivatives</b>	-	-	-	-	-	
- Options	-	-	-	-	-	
+ long positions	-	-	-	-	-	
+ short positions	-	-	-	-	-	
- Other derivatives	-	-	-	-	-	
+ long positions	-	-	-	-	-	
+ short positions	-	-	-	-	-	
<b>Total assets</b>	-	-	-	-	-	<b>713,381</b>
<b>Total liabilities</b>	-	-	-	-	-	<b>(713,331)</b>
<b>Difference (+/-)</b>	-	-	-	-	-	<b>50</b>

## 1.4 Liquidity risk

### *Qualitative information*

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

Liquidity risk is represented by the possibility that the Group may not be able to fulfil its payment obligations due to the inability to access funding in the financial markets, or because of restrictions on the disposal of assets. This risk is also represented by the inability to raise new financial resources adequate, in terms of amount and cost, to meet operating needs, which would force the Group to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profitability of its operations.

As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the Group adopted a Group Risk Management Policy and a Group Treasury and Finance Regulation, aimed at maintaining a high degree of diversification in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.

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

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

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

BFF Banking Group's LCR and NSFR at the reporting date were equal to 635.4% and 113.5%, respectively, compared to 476.9% and 106.6% at December 31, 2019, in relation to the scope of consolidation used solely for prudential supervision purposes, which envisages that BFF Luxembourg S.à r.l. is the parent.

#### *Impacts of the Covid-19 pandemic*

In light of the business model, the Covid-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

## Quantitative information

### 1. Time breakdown by contractual residual maturity of financial assets and liabilities

Currency of denomination: EUROS

(Values in thousand euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
<b>On-balance sheet assets</b>	<b>2,333,769</b>	<b>138,050</b>	<b>79,702</b>	<b>270,515</b>	<b>212,484</b>	<b>229,478</b>	<b>77,760</b>	<b>1,609,848</b>	<b>90,554</b>	-
A.1 Government Securities	9	-	86	-	15,658	173,913	54,084	1,456,500	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units of UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	2,333,760	138,050	79,616	270,515	196,825	55,565	23,676	153,348	90,554	-
- banks	20,248	2,681	-	-	-	-	-	-	-	-
- customers	2,313,512	135,369	79,616	270,515	196,825	55,565	23,676	153,348	90,554	-
<b>On-balance sheet liabilities</b>	<b>243,825</b>	<b>769,146</b>	<b>353,549</b>	<b>581,468</b>	<b>633,923</b>	<b>645,527</b>	<b>497,751</b>	<b>923,348</b>	<b>100,000</b>	-
B.1 Deposits and current accounts	142,306	14,650	24,315	41,472	522,253	415,415	497,751	357,582	-	-
- banks	43,019	-	-	-	65,500	-	135,000	245,000	-	-
- customers	99,287	14,650	24,315	41,472	456,753	415,415	362,751	112,582	-	-
B.2 Debt securities	-	-	-	-	5,811	161,124	-	500,000	100,000	-
B.3 Other liabilities	101,519	754,496	329,235	539,996	105,860	68,988	-	65,766	-	-
<b>Off-balance sheet transactions</b>	<b>6,226</b>	<b>1,026</b>	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	1,026	-	-	-	-	-	-	-	-
- short positions	1,026	-	-	-	-	-	-	-	-	-

(CONT'D)

Currency of denomination: EUROS

(Values in thousand euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
C.5 Financial guarantees issued	5,200	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: OTHER CURRENCIES

(Values in thousand euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
<b>On-balance sheet assets</b>	<b>126,756</b>	<b>93</b>	<b>34</b>	<b>794</b>	<b>3,785</b>	<b>17,456</b>	<b>21,227</b>	<b>166,059</b>	<b>381,755</b>	-
A.1 Government Securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units of UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	126,756	93	34	794	3,785	17,456	21,227	166,059	381,755	-
- banks	7,055	-	-	-	-	-	-	-	-	-
- customers	119,701	93	34	794	3,785	17,456	21,227	166,059	381,755	-
<b>On-balance sheet liabilities</b>	<b>21,076</b>	<b>529</b>	<b>1,572</b>	<b>17,670</b>	<b>109,866</b>	<b>149,222</b>	<b>205,862</b>	<b>174,447</b>	-	-
B.1 Deposits and current accounts	21,076	529	1,572	17,670	109,866	149,222	205,862	174,447	-	-
- banks	14,744	-	1,572	15,083	77,473	101,766	173,477	155,675	-	-
- customers	6,332	529	-	2,587	32,393	47,456	32,385	18,772	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet transactions</b>	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-

(CONT'D)

Currency of denomination: OTHER CURRENCIES

(Values in thousand euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

## 1.5 Operational risks

### *Qualitative information*

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

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

The process adopted by the Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives with the aim of fostering the adoption of professional and responsible behaviour at all operational levels, as well as designing, implementing and managing an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted is of the “mixed” type, meaning a model based both on qualitative assessments - linked to process mapping, at-risk activities - and the corresponding controls adopted - and on quantitative assessment.

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

- ▶ Money laundering risk: the risk that the Bank’s financial and commercial counterparties, suppliers, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities.
- ▶ Compliance risk: 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 Banking Group uses the Basic Indicator Approach (BIA), according to which capital requirements are computed by applying a regulatory coefficient to an indicator of the volume of business activity (Relevant Indicator).

The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems, and mitigates the consequent operational risk that may arise through the preventive involvement of the corporate Control Functions and the definition of specific policies and regulations on various subjects and topics.

In addition, in order to control the above mentioned risks, the Group adopts specific Organization Models for the management of the risks regarding money laundering, occupational health and safety, and information security.

#### *Impacts of the Covid-19 pandemic*

In light of the business model, the Covid-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

## Section 4 - Risks of the other companies

### *Qualitative information*

The consolidated financial statements include the aggregated balance sheet items of Banca Farmafactoring S.p.A., BFF Finance Iberia S.A., the special purpose vehicle BFF SPV I S.r.l., and BFF Polska Group.

The SPV, established for the securitization transactions structured by the Bank, was included in the scope of consolidation, pursuant to the requirements of IASs/IFRSs providing for the obligation to consolidate a special purpose entity when - absent an investment relationship - the company that prepares the financial statements substantially controls the special purpose entity.

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

## Part F - Consolidated Equity

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation used solely for prudential supervisory reporting includes BFF Banking Group companies and envisages that BFF Luxembourg S.à r.l. is the parent.

For the purpose of preparing the other parts of the consolidated financial statements and for the submission of “non-harmonized” reporting, reference has been made to the Banking Group pursuant to the Consolidated Law on Banking.

As for this Part F, therefore, Section 1 reports the data of the Banking Group pursuant to the Consolidated Law on Banking, while Section 2 refers to the scope of consolidation envisaged by the CRR for prudential supervisory purposes, unless otherwise indicated.

### Section 1 - Consolidated shareholders' equity

#### *A. Qualitative information*

The equity of the Banking Group pursuant to the Consolidated Law on Banking includes the aggregated share capital, reserves, revaluation reserves and profit for the period of the companies in the Group.

**B. Quantitative information****B.1 Consolidated shareholders' equity: breakdown by type of enterprise***(Values in thousand euros)*

Items in shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	131,401				131,401
2. Share premium reserve	693				693
3. Reserves	241,473				241,473
4. Equity instruments					
5. (Treasury shares)	(3,517)				(3,517)
6. Valuation reserves:					
- Equity instruments measured at fair value through other comprehensive income					
- Hedging of equity instruments measured at fair value through other comprehensive income					
- Financial assets (other than equity instruments) at fair value through other comprehensive income	-				-
- Tangible assets					
- Intangible assets					
- Hedging of foreign investments					
- Cash flow hedges	-				-
- Hedging instruments [not designated elements]					
- Foreign exchange differences	(2,523)				(2,523)
- Non-current assets held for sale and discontinued operations					
- Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)					
- Actuarial gains (losses) relating to defined benefit plans	(156)				(156)
- Shares of valuation reserves for equity investments measured at equity					
- Special revaluation laws	4,135				4,135
7. Profit (Loss) (+/-) for the period attributable to the Group and minority interests	91,073				91,073
<b>Total</b>	<b>462,579</b>				<b>462,579</b>

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

(Values in thousand euros)

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total 12/31/2020	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		-								-
2. Equity securities										
3. Loans										
<b>Total</b>		-								-
<b>Total 12/31/2019</b>		(80)								(80)

Financial assets measured at fair value through OCI (HTC&S) 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. At December 31, 2020 the Group no longer owned government bonds accounted for in the HTC&S portfolio.

## B.3 Valuation reserves of the financial assets measured at fair value through other comprehensive income: annual changes

(Values in thousand euros)

	Debt securities	Equity securities	Loans
<b>1. Opening balances</b>	(80)		
<b>2. Positive changes</b>			
2.1 Increases in fair value	80		
2.2 Value adjustments for credit risk		X	
2.3 Transfer to income statement of negative reserves following disposal		X	
2.4 Transfers to other equity items (equity securities)			
2.5 Other changes			
<b>3. Negative changes</b>			
3.1 Decreases in fair value			
3.2 Adjustments in value for credit risk			
3.3 Reclassification through profit or loss of positive reserves: following disposal		X	
3.4 Transfers to other net equity items (equity securities)			
3.5 Other changes			
<b>4. Closing balances</b>	-		

## B.4 Revaluation reserves on defined benefit plans: annual changes

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, 2020, this revaluation reserve is negative for €156 thousand.

## Section 2 - Own funds and regulatory ratios

### Scope of application of the regulation

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

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

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation at December 31, 2020 used solely for prudential supervision purposes envisages that BFF Luxembourg S.à r.l. is the parent.

### Own funds

#### Qualitative information

Own funds represent the first line of defence 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;
- ▶ 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.

Additional Tier 1 (AT1) and Tier 2 (T2) capital include exclusively the non-controlling interests which can be recognized in consolidated own funds, in accordance with the CRR, Part 2, Title II "Minority interest and Additional Tier 1 and Tier 2 instruments issued by subsidiaries".

The decrease in BFF Banking Group's own funds compared to December 31, 2019 was mainly influenced by the distributions of profits of the subsidiaries that were still recorded in the Group's reserves in the previous reporting.

## Quantitative information

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

(Values in thousand euros)

	Total 12/31/2020	Total 12/31/2019
<b>A. Common Equity Tier 1 (CET1) pre-application of prudential filters</b>	<b>287,817</b>	<b>336,910</b>
of which CET1 instruments subject to transitional provisions		
B. Prudential CET1 filters (+/-)		
C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)	287,817	336,910
D. Elements to be deducted from CET1	- 36,675	- 35,351
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
<b>F. Total Common Equity Tier 1 (CET1) (C - D +/- E)</b>	<b>251,142</b>	<b>301,559</b>
G. Tier 1 (Additional Tier 1 - AT1) inclusive of elements to be deducted and effects of transitional rules		
of which AT1 instruments subject to transitional provisions		
H. Elements to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier 1 (AT1) (G - H +/- I)		
M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules	98,224	98,224
of which T2 instruments subject to transitional provisions		
N. Elements to be deducted from T2		
O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions		
P. Total Tier 2 (T2) capital (M - N +/- O)	98,224	98,224
<b>Q. Total own funds (F + L + P)</b>	<b>349,366</b>	<b>399,783</b>

Own funds of the CRR Group are presented below.

	Total 12/31/2020	Total 12/31/2019
<b>A. Common Equity Tier 1 (CET1) pre-application of prudential filters</b>	558,847	415,759
of which CET1 instruments subject to transitional provisions		
<b>B. Prudential CET1 filters (+/-)</b>		
<b>C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)</b>	558,847	415,759
<b>D. Elements to be deducted from CET1</b>	- 54,901	- 110,485
<b>E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions</b>	-	-
<b>F. Total Common Equity Tier 1 (CET1) (C - D +/-E)</b>	503,946	305,275
<b>G. Tier 1 (Additional Tier 1 - AT1) inclusive of elements to be deducted and effects of transitional rules</b>	26,446	29,051
of which AT1 instruments subject to transitional provisions		
<b>H. Elements to be deducted from AT1</b>		
<b>I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions</b>		
<b>L. Total Additional Tier 1 (AT1) (G - H +/- I)</b>	26,446	29,051
<b>M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules</b>	48,427	71,187
of which T2 instruments subject to transitional provisions		
<b>N. Elements to be deducted from T2</b>		
<b>O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions</b>		
<b>P. Total Tier 2 (T2) capital (M - N +/- O)</b>	48,427	71,187
<b>Q. Total own funds (F + L + P)</b>	578,818	405,512

The change in the CRR Group's own funds at December 31, 2020 was affected by the various sales of BFF Luxembourg S.à r.l. (Centerbridge) in 2020, which brought the stake held by BFF Luxembourg S.à r.l. in the Group in BFF from 32.78% on December 31, 2019 to 7.95% at the end of 2020, and by the inclusion in the shareholders' equity of profits for 2019 and 2020 for €168.7 million.

The aforementioned own funds do not consider the accelerated bookbuilding carried out on February 11, 2021 and the exercise of the call option by the CEO, which effectively sanction the exit of BFF Luxembourg S.à r.l. from the prudential scope.

At CRR Group level, minority equity interests cannot be recognized in entirety under own funds, and should only be shown proportional to the risk borne.

## 2.3 Capital adequacy

### A. Qualitative information

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

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

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

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

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

The Group's total exposure to risks at December 31, 2020, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

With regard to the Banking Group, the CET1 Capital Ratio is 15.5%, the Tier 1 Capital Ratio is 15.5% and the Total Capital Ratio is 21.6%.

With regard to the CRR Group, the CET1 Capital Ratio is 27.9%, the Tier 1 Capital Ratio is 29.3%, and the Total Capital Ratio is 32.0%.

It should be noted that the majority shareholder, BFF Luxembourg S.à r.l., has formalized its commitment to maintain a dividend payment policy such as to preserve, over time, a total capital ratio of not less than 15% both at the level of BFF Banking Group and within the CRR Group framework.

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

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

- ▶ "Standardized approach" for credit risk;
- ▶ "Standardized approach" for counterparty risk;
- ▶ "Basic approach" for operational risk;
- ▶ "Standardized approach" for market risk.

### **Credit risk**

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

### **Counterparty risk**

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.

For BFF, 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 Group measures operational risk using the “Basic” approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statement items of the last three years, in accordance with Regulation (EU) no. 575/2013.

Continuing the developmental path of the Group’s Operational Risk Management framework that was launched in recent years, in 2018 BFF Banking Group focused attention on strengthening the identification and forward-looking assessment components, along with introducing an internal statistical management model for quantifying exposure to operational risk. This was done for the purpose of verifying that the method used for regulatory purposes did value capital adequately against assumed and assumable risk. Actions carried out in regards to the scope of BFF, BFF Finance Iberia, and BFF Polska Group (and of its subsidiaries) focused on the methodological evolution of the Risk Self Assessment process, in order to use the output from this process to quantify the exposure to operational risk in economic and capital terms. The operational risk results obtained from the forward-looking assessment process have also been used for quantifying the adequacy of internal capital against operational risk for ICAAP purposes. 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” approach.

### *Pillar II – The ICAAP/ILAAP Report*

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

BFF Banking Group annually submits the "ICAAP/ILAAP Report" to the Bank of Italy as an update on the internal processes for determining adequacy of the Group's capital and liquidity risk governance and management systems. In accordance with prudential supervisory provisions, the Group prepared the "ICAAP/ILAAP Report", approved by BFF's Board of Directors on June 24, 2020. The Report has been prepared in compliance with the new requirements introduced in 2018 by Circular no. 285. In particular, the updates involve, 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) no. 468/2014, which include BFF Banking Group.

In relation to the "Supervisory Review and Evaluation Process" (SREP), on March 31, 2020 the Bank of Italy informed the Group that it had adopted a new capital decision for 2020, and therefore BFF Banking Group must comply with a CET1 Ratio of 7.85%, a Tier1 Ratio of 9.65%, and a Total Capital Ratio of 12.05%, with an incremental change of 0.05% for each indicator compared to the previous report.

## Quantitative information

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

(Amounts in € thousands, unless otherwise stated)

Categories/values	Non-weighted amounts		Weighted amounts / requirements	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>A. RISK ASSETS</b>				
<b>A.1 Credit and counterparty risk</b>				
1. Standardised methodology	6,092,559	5,522,227	1,208,030	2,007,897
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
<b>B. REGULATORY CAPITAL REQUIREMENTS</b>				
<b>B.1 Credit and counterparty risk</b>			96,642	160,632
<b>B.2 Credit valuation adjustment risk</b>				
<b>B.3 Settlement risks</b>				
<b>B.4 Market risks</b>				
1. Standard methodology				
2. Internal models				
3. Concentration risk				
<b>B.5 Operational risk</b>				
1. Basic approach			32,613	32,453
2. Standardised method				
3. Advanced method				
<b>B.6 Other calculation factors</b>				
<b>B.7 Total prudential requirements</b>			129,256	193,085
<b>C. RISK ASSETS AND REGULATORY RATIOS</b>				
C.1 Risk-weighted assets			1,615,694	2,413,558
C.2 CET 1/Risk-weighted assets (CET1 capital ratio) (%)			15.54%	12.49%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			15.54%	12.49%
C.4 Total own funds/Risk-weighted assets (Total capital ratio) (%)			21.62%	16.56%

The following table presents the capital adequacy relating to the scope of consolidation, used for prudential supervisory purposes only, which calls for BFF Luxembourg S.à r.l. as the parent.

(Values in thousand euros)

Categories/values	Non-weighted amounts		Weighted amounts / requirements	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
<b>A. RISK ASSETS</b>				
<b>A.1 Credit and counterparty risk</b>				
1. Standardised methodology	6,451,432	5,678,038	1,400,136	2,039,329
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
<b>B. REGULATORY CAPITAL REQUIREMENTS</b>				
<b>B.1 Credit and counterparty risk</b>			<b>112,011</b>	<b>163,146</b>
<b>B.2 Credit valuation adjustment risk</b>				
<b>B.3 Settlement risks</b>				
<b>B.4 Market risks</b>				
1. Standard methodology				
2. Internal models				
3. Concentration risk				
<b>B.5 Operational risk</b>				
1. Basic approach			32,626	32,453
2. Standardised method				
3. Advanced method				
<b>B.6 Other calculation factors</b>				
<b>B.7 Total prudential requirements</b>			<b>144,636</b>	<b>195,599</b>
<b>C. RISK ASSETS AND REGULATORY RATIOS</b>				
C.1 Risk-weighted assets			1,807,955	2,444,990
<b>C.2 CET 1/Risk-weighted assets (CET1 capital ratio) (%)</b>			<b>27.87%</b>	<b>12.49%</b>
<b>C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)</b>			<b>29.34%</b>	<b>13.67%</b>
<b>C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) (%)</b>			<b>32.02%</b>	<b>16.59%</b>

## Part G - Business combinations of companies or business units

### Section 1 - Transactions completed during the year

In 2020 the Group did not carry out any aggregation transactions falling within the definition provided for in the revised IFRS 3 (“Business Combination”).

In 2020 the Group worked to define the M&A operation that will be carried out in 2021, the details of which are discussed in the following section.

### Section 2 - Transactions after the closing of the year

On May 13, 2020 BFF signed a binding agreement governing the acquisition from Equinova UK Holdco Limited<sup>21</sup> (“Equinova”) of control of DEPObank and the subsequent merger by incorporation of the latter into BFF (the “Operation”).

The Operation will create the number-one Italian player in specialty finance, further develop DEPObank’s business and improve access to funding and capital to serve BFF’s traditional clients.

The operation is expected to be completed by the first quarter of 2021, following the approval of the merger by BFF’s Extraordinary Shareholders’ Meeting<sup>22</sup> held on January 28, 2021.

On June 24, 2020 the boards of directors of BFF and DEPObank approved the merger plan for the merger by incorporation of DEPObank into BFF, including (i) the exchange ratio of 4.2233377 BFF shares per each DEPObank share, without any cash balance payments, and, (ii) as limited to BFF, the plan to amend the Articles of Association governing the change of the name of the Bank and banking group, which from the effective date of the merger will be changed to “BFF Bank S.p.A.” and “BFF Banking Group”, respectively, as well as the change in share capital, which will be increased through the issuance of 14,043,704 new ordinary BFF shares for Equinova. In addition, following the authorisations from the authorities (Bank of Italy and European Central Bank) obtained on December 9, 2020, BFF and DEPObank approved their respective illustrative reports on the Merger Plan for the merger by incorporation of DEPObank into BFF, prepared in accordance with Art. 2501-*quinquies* of the Italian Civil Code and Art. 70 of the Issuers Regulation, in addition to convening their respective extraordinary shareholders’ meetings to approve the merger and approving and making available to the public the Merger Plan and additional prescribed documentation in view of the aforementioned extraordinary shareholders’ meetings.

21) A holding company whose shareholders are funds managed by Advent International Corporation, Bain Private Equity Europe LLP and Clessidra SGR S.p.A. and which holds an approximately 91% equity interest in DEPObank. The remaining 9% is held by various Italian banks: Banco BPM (2.5%), Credito Valtellinese (2.0%), Banca Popolare di Sondrio (2.0%), UBI Banca (1.0%) and other Italian banks (the “Minority Shareholders”).

22) The merger will not give rise to rights of withdrawal for shareholders of BFF who do not vote in favour of the relevant resolution.

Furthermore, antitrust authorisation was obtained on June 30, 2020 and, following the decree of the President of the Council of Ministers of July 7, 2020 regarding the exercise of special powers (so-called “golden powers”) containing prescriptions not impeding the completion of the Operation, BFF and DEPObank announced that the condition precedent relating to the so-called “golden power” must be understood to have been fulfilled. Furthermore, on December 9, 2020 authorisations were received from the Bank of Italy (“BoI”) and the European Central Bank (“ECB”) relating among other things to the acquisition of DEPObank and the merger by incorporation of DEPObank into BFF.

As part of the transaction Banca Farmafactoring will change its name to BFF Bank S.p.A.

For more information refer to the “Report on Operations”.

## Part H - Transactions with related parties

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, 2020, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statement item.

(Values in thousand euros)

	Parent company	Directors and Executives with key management responsibilities (1)	Total related parties	Balance sheet item	% of financial statement item	Cash flow statement item	% of cash flow statement item
<b>Impact of transactions on the consolidated balance sheet</b>							
<b>Other assets</b>							
At 12/31/2020	11		11	27,180	0.0%	15,180	-0.1%
<b>Amounts due to customers</b>							
At 12/31/2020		(468)	(468)	(3,571,621)	0.0%	453,454	0.1%
<b>Provision for risks and charges:</b>							
<b>a) pensions and similar obligations</b>							
At 12/31/2020		(1,165)	(1,165)	(4,777)	24.4%	15,926	7.3%
Other liabilities							
At 12/31/2020		(538)	(538)	(82,805)	0.6%	15,926	3.4%
<b>Reserves</b>							
At 12/31/2020		(3,145)	(3,145)	(241,473)	1.3%	15,926	19.7%
<b>Impact of transactions on the consolidated income statement</b>							
<b>Interest expenses and similar charges</b>							
At 12/31/2020		(1)	(1)	(46,873)	0.0%	0	
<b>Administrative expenses:</b>							
<b>a) personnel expenses</b>							
At 12/31/2020		(6,014)	(6,014)	(41,353)	14.5%	0	
<b>Net provisions for risks and charges</b>							
At 12/31/2020		(341)	(341)	(989)	34.5%	989	34.5%
<b>Other operating income/expenses</b>							
At 12/31/2020	11		11	10,436	0.1%	0	

Notes:

Including members of the Board of Directors.

At December 31, 2020, the awarded option rights relating to the aforementioned stock option plan accounted for 3.88% of fully diluted capital, equal to 6,620,000 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, 2020 are as follows:

- ▶ BFF Finance Iberia (through Banca Farmafactoring Sucursal en España): €487.2 million;
- ▶ BFF Polska: PLN 1,405 million;

- ▶ BFF Central Europe: €144.2 million;
- ▶ BFF Polska: PLN 212.0 million.

Banca Farmafactoring and BFF Finance Iberia have entered into a licence 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, 2020 amounted to about €864 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 with an outstanding balance of about €0.9 million.

In December 2020, the Bank acquired Spanish tax receivables from BFF Finance Iberia for approximately €79 million, which by January 2021 had already been collected.

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 €699.5 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 - Payment agreements based on equity instruments

### A. Qualitative information

#### 2016 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, authorised beneficiaries who requested it can be allocated a number of shares determined based on the market value of the shares at the exercise date, with no obligation for them to pay the exercise price.

In line with current regulations, the options granted under the 2016 Plan contribute to the determination of the variable remuneration paid through the use of financial instruments; therefore, the plan is subject to all the restrictions established under the remuneration and incentive policy for members of the 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.

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

At December 31, 2020 the number of stock options assigned and not exercised amounted to 6,830,198, of which 3,626,068 exercisable.

## 2020 Stock Option Plan

On April 2, 2020, the Ordinary Shareholders' Meeting approved a new Stock Option Plan ("2020 Plan") for employees and directors holding executive positions in the Company and/or its subsidiaries, having the following characteristics:

- ▶ *Purpose*: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe 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;
- ▶ *Recipients*: the beneficiaries are identified by the Board of Directors and/or the CEO at their sole discretion – within the limits envisaged by the applicable legislation and the plan – among the employees and/or Directors with executive positions in the Company and/or its subsidiaries;
- ▶ *Type of exercise*: ordinary or cashless exercise.

The options assigned within each tranche accrue upon completion of the vesting period, i.e. after 3 years from the relative assignment date. Vesting is subject to the following conditions being met: (i) The continuation of the employment relationship with the Group and/or of the office held in the Board of Directors and absence of notice due to resignation or dismissal; and (ii) Levels of capital and liquidity resources necessary to cover the activities undertaken and compliance with other parameters, also of a regulatory nature.

At December 31, 2020 6,620,000 options were assigned under the 2020 Plan, none of which is exercisable.

## Part L - Segment reporting

At December 31, 2020, BFF Banking Group is composed of BFF S.p.A., the parent company, and the subsidiaries BFF Finance Iberia and BFF Polska Group.

BFF and its subsidiary BFF Finance Iberia are engaged in the management and sale of receivables due from the National Healthcare System and the public administration in Italy, Portugal, Spain and Greece.

At December 31, 2020 BFF also operates in Croatia and France pursuant to the regulations on the freedom to provide factoring services.

The two subsidiaries provide financial and management support to leading Italian and international companies operating in various sectors (primarily pharmaceutical and biomedical) through non-recourse factoring.

Customers are mainly multinational companies in the pharmaceutical and biomedical sectors which generate receivables from the provision of goods and services to the National Healthcare System or the public administration. Banca Farmafactoring is currently also diversifying its business into other sectors (telecommunications and utilities).

The following table shows the breakdown at December 31, 2020 and the same period of the previous year of managed turnover, receivables due from customers and receivables purchased, relating to BFF and the subsidiary BFF Finance Iberia, by debtor and geographical area.

At the balance sheet date, receivables due from BFF and BFF Finance Iberia customers amounted to €3,167 million, compared to €3,228 million at December 31, 2020, down by approximately 2%.

(Values in thousand euros)

	12/31/2020			12/31/2019		
	Managed turnover	Outstanding	Receivables purchased	Managed turnover	Outstanding	Receivables purchased
<b>Italy</b>	<b>5,853,162</b>	<b>2,301,593</b>	<b>3,030,557</b>	<b>5,982,110</b>	<b>2,438,580</b>	<b>3,082,208</b>
National Healthcare System	4,245,737	892,669	2,009,080	4,263,722	911,732	1,938,091
Public administration agencies	948,831	1,203,991	920,867	1,086,053	1,402,540	1,067,350
Other	658,594	204,934	100,610	632,336	124,308	76,767
<b>Spain</b>	<b>2,019,271</b>	<b>588,044</b>	<b>1,660,812</b>	<b>951,449</b>	<b>613,953</b>	<b>951,449</b>
National Healthcare System	1,419,366	372,519	1,060,908	559,984	464,964	559,984
Public administration agencies	599,904	194,579	599,904	391,465	125,494	391,465
Other		20,945		0	23,496	0
<b>Portugal</b>	<b>247,961</b>	<b>217,974</b>	<b>247,961</b>	<b>174,251</b>	<b>142,156</b>	<b>174,251</b>
National Healthcare System	218,201	206,928	218,201	171,198	140,789	171,198
Public administration agencies	29,760	10,917	29,760	3,052	1,272	3,052
Other	0	130		0	94	0
<b>Greece</b>	<b>64,941</b>	<b>54,216</b>	<b>64,941</b>	<b>53,523</b>	<b>30,542</b>	<b>53,523</b>
National Healthcare System	56,897	41,523	56,897	42,957	20,601	42,957
Public administration agencies	8,044	12,051	8,044	10,567	8,899	10,567
Other	0	643			1,042	0
<b>Croatia</b>	<b>925</b>	<b>550</b>	<b>925</b>	<b>996</b>	<b>1,715</b>	<b>996</b>
National Healthcare System	925	550	925	996	1,715	996
Public administration agencies	0		0			
Other	0		0			
<b>France</b>	<b>14,967</b>	<b>4,401</b>	<b>14,967</b>	<b>812</b>	<b>831</b>	<b>812</b>
National Healthcare System	14,373	4,341	14,373	676	679	676
Public administration agencies	594	43	594	136	136	136
Other	0	17	0		17	
<b>Total</b>	<b>8,201,227</b>	<b>3,166,778</b>	<b>5,020,163</b>	<b>7,163,142</b>	<b>3,227,778</b>	<b>4,263,239</b>

BFF Polska Group is an independent specialized operator, leader in the provision of financial services to companies operating in the healthcare sector in Poland.

In the European Union, BFF Polska Group also has a significant presence in Slovakia and the Czech Republic.

BFF Polska Group mainly operates in three areas:

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

BFF Polska Group's receivables due from customers at December 31, 2020 amounted to €901 million (at the exchange rate of December 31, 2020), in line with the figure recorded at the end of the previous year.

BFF Polska Group's new business in 2020 amounted to €765 million (based on the average exchange rate recorded in the year), up by 30.3% compared to €587 million at December 31, 2019.

The breakdown of receivables due from customers and BFF Polska Group's new business volumes by geographical region is presented below:

*(Values in € millions)*

	12/31/2020		12/31/2019	
	Receivables due from customers	New Business	Receivables due from customers	New Business
Poland	693	739	704	567
Slovakia	205	24	182	17
Czech Republic	2	3	4	3
<b>Total</b>	<b>901</b>	<b>765</b>	<b>890</b>	<b>587</b>

## 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 has a contractual value below €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 balance sheet as if it was owned. The relevant financial liability shall also be recognized;
- ▶ At the commencement date, a lessee shall measure the financial liability at the present value of the lease payments agreed by the parties to use the asset over the term of the contract that is reasonably certain. The initial measurement of the right-of-use shall be equal to the value of the financial liability, less some specific items, e.g. those relating to the direct costs incurred in obtaining the lease;
- ▶ For subsequent measurement of the asset and over the lease term, the asset is depreciated on a systematic basis, while the financial liability includes any interest expense, calculated based on the interest rate implicit in the lease where expressly stated or on the cost of funding for the period, and any periodical lease payments.

### Section 1 - Lessee

#### *Qualitative information*

During 2018, BFF Banking Group launched a project 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 purposes of the first adoption of the accounting standard (first-time adoption or FTA), on January 29, 2019 the Board of Directors resolved that BFF and all companies belonging to BFF Banking Group shall adopt the “Modified Retrospective Approach”. As a result, the Group does not need to apply the standard retrospectively (therefore considering complex comparative information), and the amount relating to right-of-use assets under “Tangible assets” is equal to the financial liability amount.

### Quantitative information

BFF Banking Group's right-of-use assets accounted for as "Tangible assets" at first-time adoption and at December 31, 2020 are shown below.

(Values in thousand euros)

	Right of use 12/31/2020	Right of use 12/31/2019
BFF	4,089	1,990
BFF Finance Iberia	1,211	973
BFF Polska Group	1,483	1,553
<b>Total BFF Banking Group</b>	<b>6,783</b>	<b>4,516</b>

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

## Section 2 - Lessor

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

### Quantitative information

(Values in thousand euros)

Time periods	Total 12/31/2020 Lease payments to be received	Total 12/31/2019 Lease payments to be received
Up to 1 year	421	436
More than 1 year to 2 years	244	
More than 2 year to 3 years	228	1,093
More than 3 year to 4 years	209	
More than 4 year to 5 years	185	
Over 5 years	235	57
<b>Total lease payments to be received</b>	<b>1,522</b>	<b>1,587</b>
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)		
Unguaranteed residual value (-)		
Loans for leases	1,937	3,092

## Other information

Audit fees to the independent auditors and other companies in their network.

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 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 consolidated financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

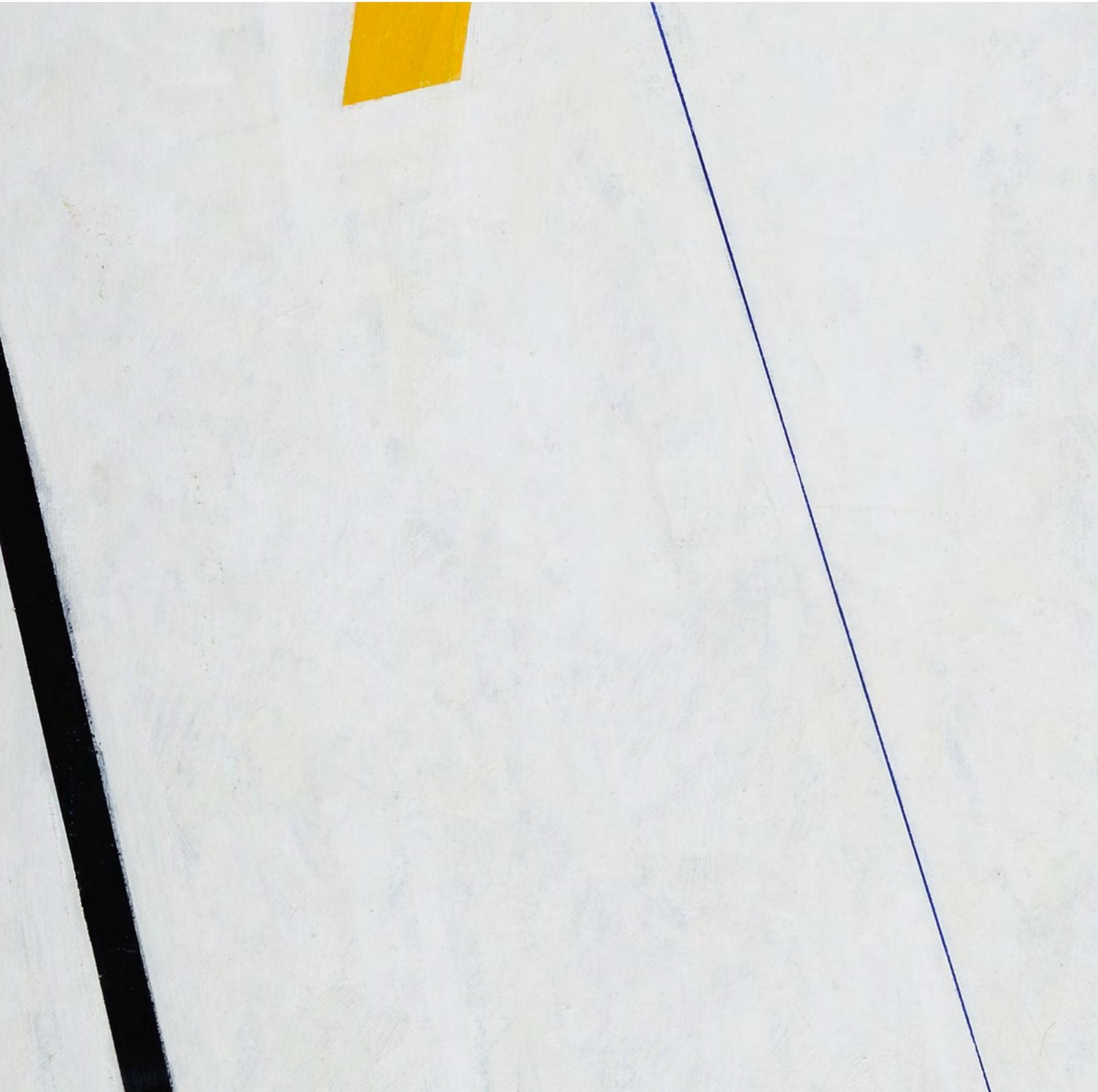
(Values in thousand euros)

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
Accounting audit	250			57				161
Certification services (*)	47		58					
Tax consulting services								
Other services (**)	60		251	20				
<b>Total</b>	<b>357</b>		<b>309</b>	<b>77</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161</b>

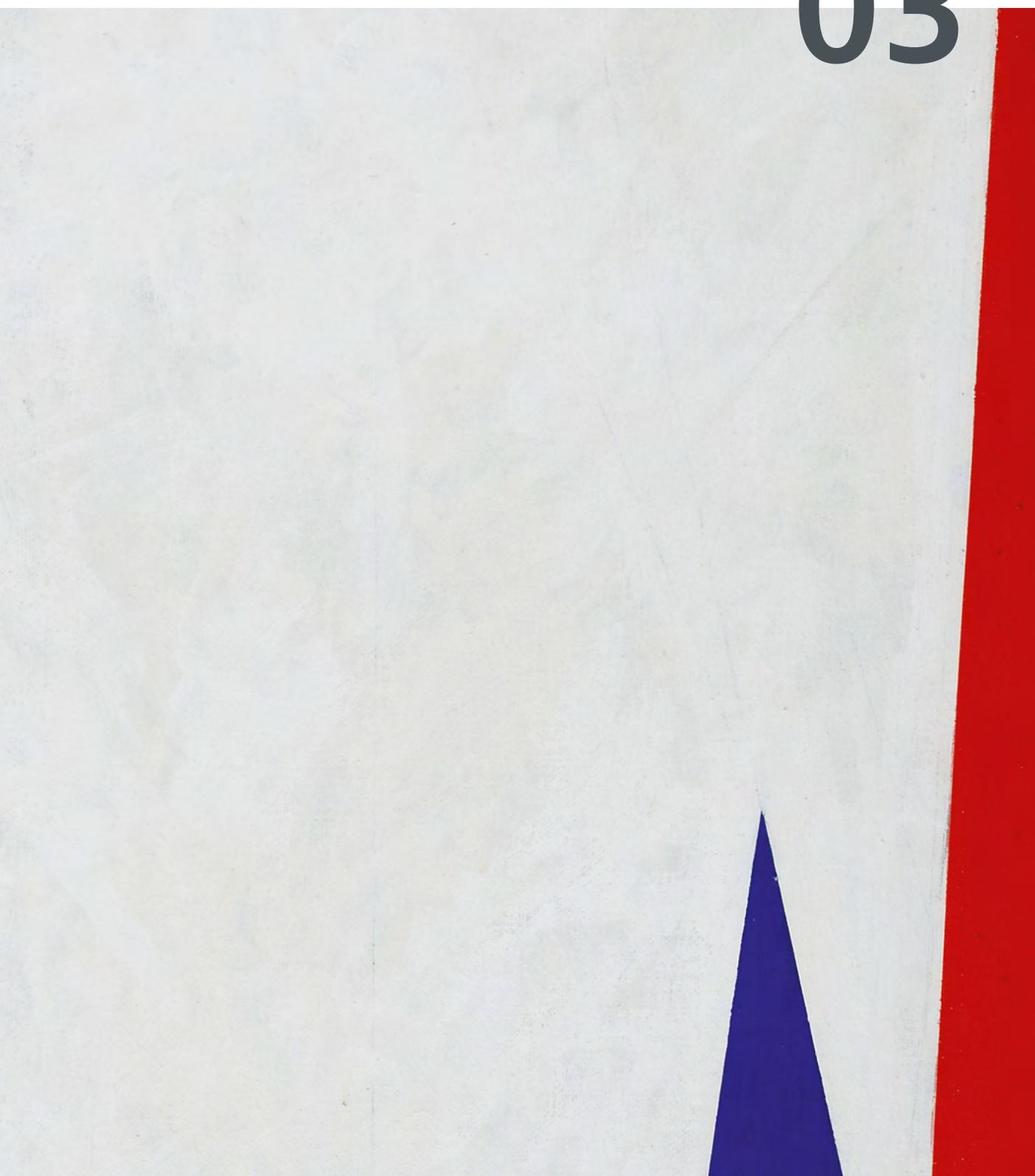
(\*) Amounts referring to the comfort letters for bond issues, to the declarations on the non-financial statement and to the statement of costs incurred by the Bank for research and development.

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

Certification by the Financial Reporting Officer



03



Report on Operations

Consolidated Financial  
Statements



**Certification by the  
Financial Reporting Officer**

Report of the  
Independent Auditors

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

1) The undersigned

- ▶ Massimiliano Belingheri, in his capacity as Chief Executive Officer;
- ▶ Carlo Zanni, as Financial reporting officer of Banca Farmafactoring S.p.A.,

hereby certify, having taken into account the provisions of art. 154-bis, paragraphs 3 e 4, of legislative decree no. 58 of 24 February 1998:

- the suitability as regards the characteristics of the company, and
- the effective implementation of the administrative and accounting procedures employed to draw up the 2020 Consolidated Financial Statement.

2) The suitability and effective application of the administrative and accounting process employed to draw up the 2020 Consolidated Financial Statements was verified based on internally defined method adopted by Banca Farmafactoring S.p.A., in accordance with the Internal Control - *Integrated Framework* model issued by *Committee of Sponsoring Organizations of Tradeway Commission (COSO)* of the reference standards for the internal audit system generally accepted on an international level.

3) Moreover, the undersigned hereby certify that:

3.1 the Consolidated Financial Statement

- a. was drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b. corresponds to the results of the accounting books and records;
- c. is suitable for providing a true and fair view of the financial position of the issuer and all the companies included in the scope of consolidation.

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

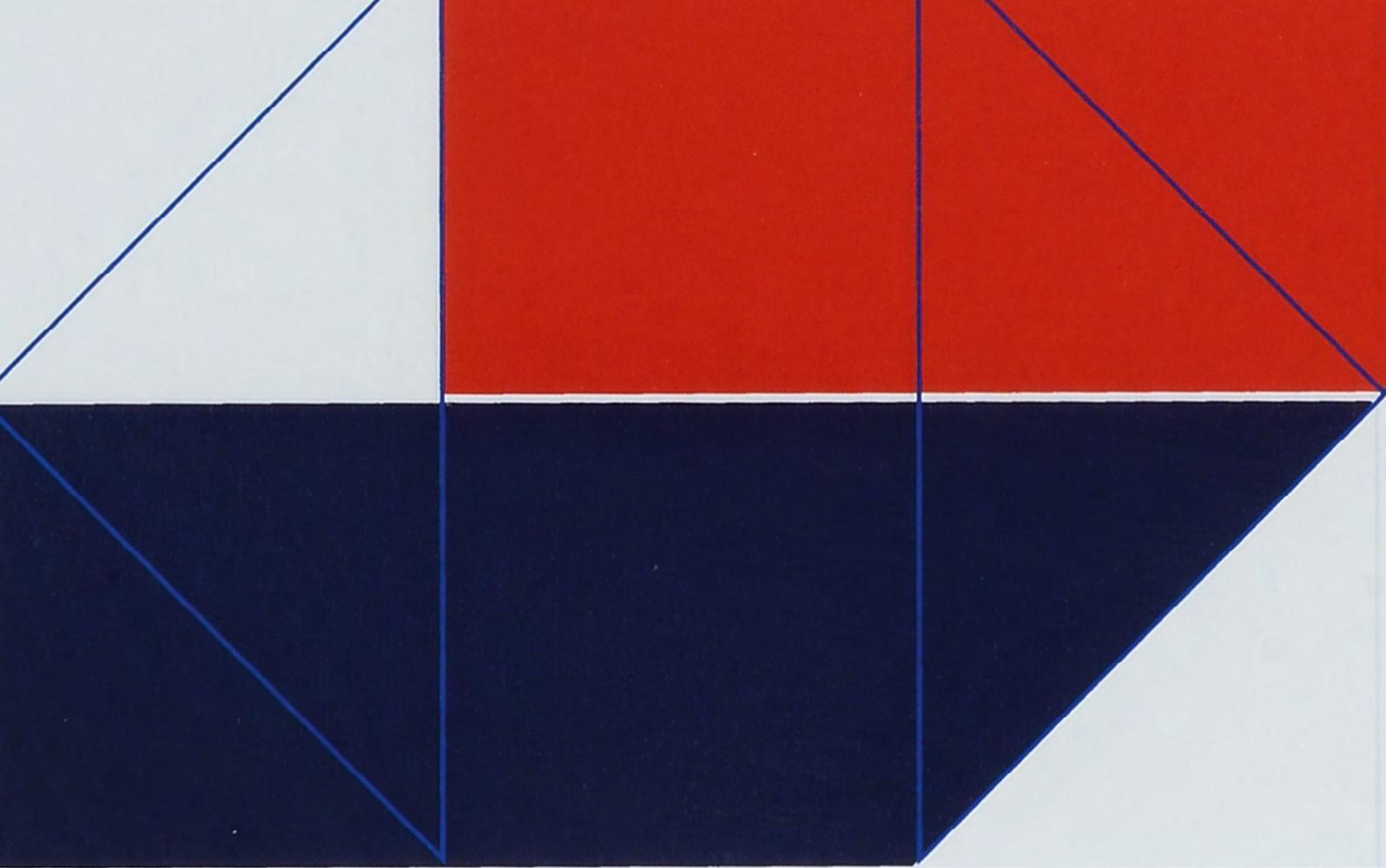
Milan, 17 February 2021

Massimiliano Belingheri  
Chief Executive Officer

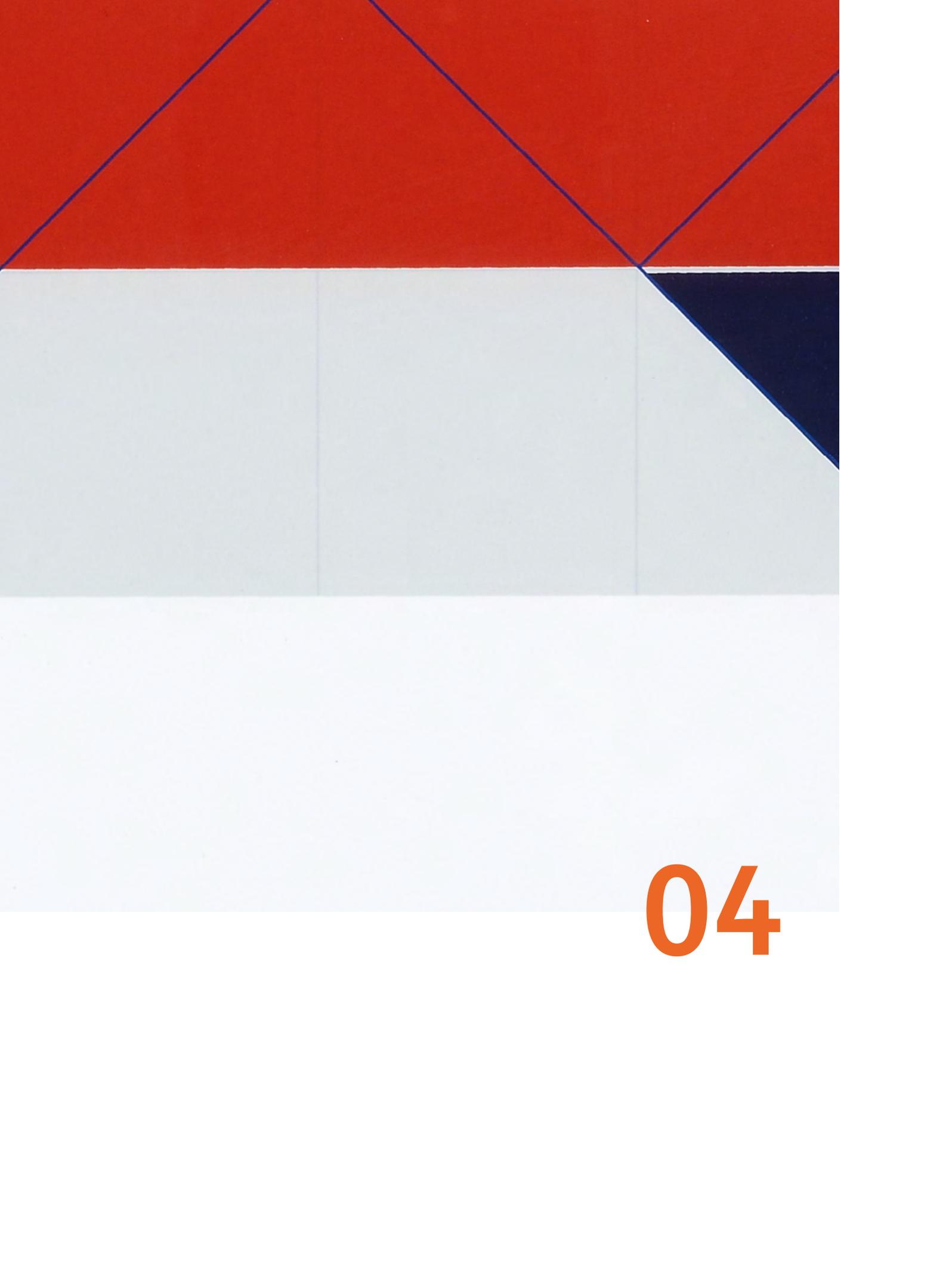


Carlo Zanni  
Financial reporting officer





Report of the  
Independent Auditors



04



### **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

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### **Report on the Audit of the Consolidated Financial Statements**

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#### **Opinion**

We have audited the consolidated financial statements of BFF Banking Group (the Group), which comprise the consolidated balance sheet as of 31 December 2020, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banca Farmafactoring SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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#### **PricewaterhouseCoopers SpA**

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**Key Audit Matters**


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**Auditing procedures performed in response to key audit matters**


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**Recognition of late-payment interest on non-impaired non-recourse purchases of receivables**

*Notes to the consolidated financial statements: Part A – Accounting policies, paragraph A.2 Main Items of the Consolidated Financial Statements, “3 - Financial assets measured at amortized cost” and “Revenue recognition criterion” sections; Part B – Notes to the consolidated balance sheet, Assets, section 4; Part C – Notes to the consolidated income statement, section 1.*

Within the calculation of the amortized cost of non-recourse receivables from customers of the parent company Banca Farmafactoring and its subsidiary BFF Finance Iberia, the Group also considered the estimate of late-payment interest accrued and deemed recoverable in accordance with the provisions of the Bank of Italy/Consob/Ivass Document no. 7 of 9 November 2016” regarding the “Treatment in the financial statements of late-payment interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables”.

We focused our attention on this matter since, on the one hand, the amount of late-payment interest recognised but not yet collected is significant and, on the other hand, the parameters selected to estimate this revenue component implies the availability of statistically reliable historical series, built on the basis of collection’s flows and times observable at the measurement date and includes judgemental elements of the management.

Specifically, in order to select the key parameters for recognising the late-payment interest considered recoverable, Banca Farmafactoring made use of internal databases consisting of historical series about the recovery percentages and actual collection times in the last eleven years for the Italian National Healthcare System and in

In conducting the audit, we took into account the internal control relevant to the preparation of the financial statements, to design the appropriate audit procedures in the circumstances, considering also the 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;
- analysis of the technological platform used by the Company to elaborate the parameters and testing of the transfer into the platform of the adjusted data;
- critical analysis of the model used by the Company to determine the parameters




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**Key Audit Matters**

the last seven years for the Italian and Spanish Public Administration sector.

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**Auditing procedures performed in response to key audit matters**

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.

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**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Banca Farmafactoring SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.



As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.



#### ***Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014***

On 3 May 2012, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the statutory audit of the Company's separate financial statements for the years ending 31 December 2012 to 31 December 2020; after the registration of the banking group, on 20 February 2015, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the audit of the Group's consolidated financial statements for the years ending 31 December 2014 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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#### ***Report on Compliance with other Laws and Regulations***

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#### ***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 BFF Banking Group as of 31 December 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the corporate governance and share ownership report referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of BFF Banking Group as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the corporate governance and share ownership report mentioned above are consistent with the consolidated financial statements of BFF Banking Group as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have nothing to report.



***Statement in accordance with article 4 of Consob's Regulation implementing  
Legislative Decree No. 254 of 30 December 2016***

Management of Banca Farmafactoring SpA is responsible for preparing the consolidated non-financial statement pursuant to article 7 of Legislative Decree No. 254 of 30 December 2016. We have verified that the Management approved the consolidated non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the consolidated non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 4 March 2021

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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**Studio Tre SpA**

Printing  
**Arti Grafiche Baratelli**



**Gianfranco Pardi, Diagonal, 1989**

*80x100 cm, Oil on canvas*

*Farmafactoring Foundation Collection*