BFF BANKING GROUP

Annual Report

2018

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

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

2018 Financial Statements and Reports 34th Year

Extract of notice of the ordinary and extraordinary Shareholders' meeting of Banca Farmafactoring S.p.A. on March 28, 2019

The Ordinary and Extraordinary Shareholders' Meeting of Banca Farmafactoring S.p.A. is hereby convened at the headquarters in Milan, Via Domenichino 5, in a **single call** on **March 28, 2019** at **11:00 am** to resolve upon the following

AGENDA:
Ordinary Shareholders' Meeting

1. Financial Statements at December 31, 2018. Board of Directors', Board of Statutory Auditors' and Independent Auditors' Reports. Related and consequent resolutions. Presentation of the consolidated financial statements of the Banca Farmafactoring Banking Group at December 31, 2018.
2. Appropriation of the profit for the year. Related and consequent resolutions.
3. Remuneration and incentive policies:
   - 3.1. Annual remuneration report; resolutions regarding the first section pursuant to Article 123-ter, paragraph 6, of Italian Legislative Decree no. 58/1998, as subsequently amended.
   - 3.2. Policies for the determination of remuneration in the event of early termination of office or employment, including the limits set for such remuneration. Related and consequent resolutions.
   - 3.3. Proposal to change the Banca Farmafactoring Banking Group's Stock Option Plan. Related and consequent resolutions.
   - 3.4. Group employee free shares plan. Related and consequent resolutions.
4. Authorization to purchase and sell treasury shares, after revocation of the part of Shareholders' Meeting Resolution dated April 5, 2018 not yet implemented. Related and consequent resolutions.

Extraordinary Shareholders' Meeting

1. Proposal to grant the outgoing Board of Directors the power to submit a list of candidates to the Board, and relevant amendment to Article 15 of Company Bylaws. Related and consequent resolutions.
2. Proposal to entrust the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, with the power to increase share capital free of charge, pursuant to Article 2349 of Italian Civil Code, and relevant amendment to Article 5 of Company Bylaws. Related and consequent resolutions.
3. Proposal of a capital increase with consideration, including in installments, and excluding preemption rights, pursuant to Article 2441, paragraphs 5 and 6, of Italian Civil Code, after revocation of the share capital increase resolution, pursuant to Article 2441, paragraph 8, of the Italian Civil Code, passed by the Extraordinary Shareholders' Meeting of December 5, 2016, and relevant amendment to Article 5 of Company Bylaws. Related and consequent resolutions.

Information regarding:

- i) share capital;
- ii) entitlement to attend and vote at the Shareholders' Meeting (record date **March 19, 2019**);
- iii) exercise of proxy voting, also via the Shareholders' representative (Computershare S.p.A.) designated by Banca Farmafactoring S.p.A.;

iv) additions to the agenda and new proposals for resolutions on matters already on the agenda of the Shareholders' Meeting (by **March 7, 2019**);

v) the right to submit questions on matters on the agenda prior to the Shareholders' Meeting (by **March 25, 2019**), and

vi) the availability of meeting documentation, including reports and proposed resolutions on items on the agenda,

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

Milan, February 26, 2019

On behalf of the Board of Directors
THE CHAIRMAN
Salvatore Messina

This extract is published in the newspaper IL SOLE 24ORE and made available, on the same date, on the website of Banca Farmafactoring S.p.A. (www.bffgroup.com, under the section "Governance/Meeting Documentation"), at Borsa Italiana S.p.A. and on the authorized storage mechanism 1info, managed by Computershare S.p.A. (www.1info.it).

Persons entitled to attend and vote at the Shareholders' Meeting are kindly requested to arrive well in advance, with evidence of the notice required from the reference intermediary pursuant to Article 83-sexies of the Italian Consolidated Law on Finance, as well as valid ID, such as to facilitate admission procedures and allow the timely start of the meeting.

Contents

Board of Directors

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

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

Board of Statutory Auditors

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

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

Independent Auditors

PricewaterhouseCoopers S.p.A.

Financial Reporting Officer

Carlo Maurizio Zanni

Committees

Remuneration Committee (*)

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

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

Related Party Transactions Committee (*)

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

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

Appointments Committee (*)

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

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

Control and Risk Committee (*)

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

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

Board of Directors

Role of Board of Director’s members and independence requirements

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

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Report on Operations

The International Economic Scenario

The world economy continued growing in 2018: according to the forecasts published by the OECD in November 2018, global GDP is expected to increase by 3.7% in 2018 and 3.5% in 2019.
At the same time, however, the outlook for international trade has deteriorated: in particular, 2018 was negatively affected by the repercussions of a potential negative outcome to the trade negotiations between the US and China, the financial turmoil in emerging markets, and the arrangements being made for the United Kingdom's withdrawal from the European Union (Brexit).

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

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

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

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

The Eurozone's economy slowed down in the third quarter amid deteriorating business confidence and weak foreign demand. Industrial production continued contracting at a steady pace in November across all major economies and inflation fell as a result of the decrease in energy prices.
In the third quarter of 2018, Eurozone GDP was up 0.2% year-on-year, reflecting a sharp slowdown compared to the spring: as already mentioned, this was attributable to the stagnation in exports and the growth in domestic demand (+0.5%), largely driven by higher inventories. Industrial activity rose in France and contracted in Germany and Italy, also because of the impact, in these two countries, of new emission standards on the automotive industry.

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

In late 2018, the net purchases of financial assets under the Eurosystem's Asset Purchase Program came to an end. In order to maintain favorable liquidity conditions in the Eurozone as well as keep interest rates at their current low levels “as long as deemed necessary”, the ECB announced it will keep reinvesting principal payments from maturing securities.
In 2018, the Euro depreciated by approximately 7.3% against the dollar as well as the yen, while rising nearly 14% against the pound.

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

Concerning Italy's economy, the Bank of Italy estimates an annual GDP growth rate of 1%.
On average, in 2018 industrial activity reportedly slowed down to 1.7% from 3.1% in the previous year as business confidence deteriorated in light of the slump in domestic demand.
Investments also tumbled from 2.8% in the second quarter to 1.1% in the fall. These fluctuations could partially reflect the timing of the tax incentives still in force in 2018 and those outlined in the recently announced budget law for 2019.

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

As for the banking industry, demand for business lending continued growing at a moderate pace, driven primarily by low interest rates. The favorable outlook for the real estate market fueled demand for mortgages from households. The "Expanded Asset Purchase Program (APP)", launched by the ECB to address the risks from a protracted period of low inflation, positively affected lending conditions as well as liquidity in the banking sector. The negative interest rate on deposits held with the Eurosystem continued pushing down the cost of bank lending for households and businesses.
However, in the last quarter of 2018 access to credit deteriorated for all companies and industries, even though credit quality remained high: in the third quarter, new non-performing loans still accounted for a very limited proportion of total loans (1.7%). Non-performing loans are still falling in percentage terms, both when including and excluding impairment losses. The adoption of the new IFRS 9 from January 1 (to replace IAS 39) has led to a marked increase in the coverage ratio for impaired receivables.

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

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

According to projections presented by the Bank of Italy in January 2019, growth is expected to continue at moderate levels in the next three years: on an annual basis, GDP is expected to increase by 0.6% this year, 0.9% next year, and 1.0% in 2021. In spite of accommodating monetary conditions, over the next three years investments are expected to decline because of the deterioration in business confidence and the reduced tax incentives compared to the previous three-year period. Inflation is estimated at 1.0% in 2019, down slightly from 1.2% last year.
The Bank of Italy's projections were recently confirmed by the International Monetary Fund, which downgraded its GDP growth forecast for Italy in 2019 to 0.6% compared to the estimate issued in October 2018, while keeping it at 0.9% for 2020.

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

In 2018, Italy's debt to GDP ratio was estimated at 130.9%, down 0.3% from 2017: at 2.5%, nominal GDP growth outpaced the public debt growth rate, equal to 2.3%.
As nominal GDP growth is projected to accelerate, Italy's debt as a proportion of GDP is estimated at 130.0% in 2019 and expected to continue falling in 2020 (128.1%) as well as 2021 (126.7%).
According to the Bank of Italy's estimates, the public administration agencies' commercial debt for 2018 amounts to €53 billion.
As far as the segment breakdown is concerned, government agencies' consolidated debt increased by €54.7 billion to €2,230.9, while local public administration agencies' debt decreased by €1.5 billion to €85.6; social security agencies' debt was almost stable.
The public finance forecasts set out in the 2018 DEF document estimate public expenditure on goods and services at €139.5 billion in 2018 (compared to €140.2 billion in 2017), of which €33.3 billion in relation to current expenditure on goods and services by the National Healthcare System (compared to €32.8 billion in 2017), and €106.2 billion by other Italian public administration agencies (compared to €107.4 billion in 2017).

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

In order to monitor economic and financial balance, Regions may be subject to Repayment Plans in relation to the healthcare sector. On the basis of the recognition of the causes that structurally determined significant management deficits on a regional level, such plans identify and selectively address the various problems that have arisen in each region.
This procedure is currently adopted in Abruzzo, Apulia and Sicily, in addition to Lazio, Molise, Campania and Calabria, regions for which an administrator (*Commissario ad acta*) is also required for the continuation of the Repayment Plan. Concerning the Lazio Region, with the Resolution dated December 1, 2017 the Italian Prime Minister's Office had tasked the administrator with bringing the temporary receivership to an end and allow normal operations to resume by December 31, 2018. However, according to the most recent update dated November 12, 2018, the Italian Health Ministry still lists Lazio among the Regions put under temporary receivership (November 2018 update).

It should be noted that on December 7, 2017, the European Commission decided to refer Italy to the Court of Justice for breach, by Italian public administration agencies, of the provisions of Directive 2011/7/EU on combating late payment in commercial transactions, implemented in Italy through Legislative Decree 192/2012, which amended Legislative Decree 231/2002.

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

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

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

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

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

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

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

Said data has been published on a quarterly basis up to September 2018. The current structure of the data published does not refer to the age of unpaid and/or outstanding receivables. The largest amount of data concerns municipalities, regional governments, and metropolitan cities, which joined SIOPE+ in early 2018.
Finally, among the measures intended to speed up the payment of the commercial debts of Italian public administration, the 2019 Budget Law establishes that, if certain conditions are met, regional governments, autonomous provincial governments (including on behalf of the respective National Health

Service entities), municipalities, metropolitan cities, and provincial governments may apply for cash advances from, among others, Cassa Depositi e Prestiti in order to settle debts that are certain, liquid, enforceable, and registered with the PCC, whose purpose is to certify and monitor all transactions on payables due from the public administration as a result of public contracts, procurement agreements, and professional services, pursuant to Italian law no. 64 of June 6, 2013.

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

It should also be noted that, beginning January 1, 2015, as established by the 2015 Budget Law, a split payment mechanism was introduced (Article 17-ter of Presidential Decree 633/1972), on the basis of which the public entities, and no longer the suppliers, must pay VAT to the tax authorities on certain sales of goods and on services rendered to those entities. The payment of invoices is therefore split between the tax authorities, with regard to VAT, and the supplier, for the taxable amount. Since this area is regulated by EU laws, the European Commission examined the Italian law and, in June 2018, it authorized the application of the split payment mechanism, but only until December 31, 2017.
Following a request on the part of the Italian government in May 2017, the Council of the European Union extended the deadline for the application of the split payment mechanism for VAT to June 30, 2020, and also extended the parties involved and the scope of application of the mechanism.

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

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

Spain

In the first half of 2018, Spain saw a dramatic change in government: the Popular Party was ousted from power after Parliament passed a no-confidence motion tabled by the Socialist Party. The new administration had decided to approve the 2018 budget proposed by the previous one, as there was no time to launch a new budgeting process. This budget, which would have raised non-financial spending by 4.4% to €125 billion, bringing the deficit target to 1.8% from the 1.5% previously agreed with the European Union, was, however, rejected. This higher spending would be financed by reducing tax exemptions for large businesses and raising the fuel tax as well as the income tax for those making more than €130 thousand a year. Budget rejection resulted in the call for new parliamentary elections, which are scheduled to take place on April 28, 2019.
Against this backdrop, another major political issue is the Catalan crisis and the turmoil in the region. GDP was up 2.5% on an annual basis in June 2018 and is still growing steadily, even though it has slowed down compared to 2017.
The government has lowered the GDP growth forecast for the next year to 2.5%.

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

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

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

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

Portugal

In Portugal, GDP totaled €194.6 billion in 2017 and is estimated to expand by 2.3% in 2018. As for public debt, according to the latest data, referring to November 2018, it reached a new record high of €251.5 billion, but it is estimated to have fallen to €246.8 billion in the final month of the year thanks to an early repayment to the International Monetary Fund (IMF).
Even though public debt grew in nominal terms, it declined as a percentage of GDP in the third quarter to 124.6%—the lowest level since the same period in 2012.
In its budget, the government estimated that public debt would amount to 121.2% of GDP in 2018 and fall to 118.5% in 2019.

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

Total public spending amounted to €76.6 billion at November 2018 and is projected to reach €89.89 billion for the full year (and €91.1 billion in 2019). Part of it is represented by health spending, estimated at €11 billion in 2019 (+5% compared to 2018).
Overall, at November 2018 the public administration had spent €10.7 billion on goods and services (up 8.5% from 2017). The total spending on goods and services is estimated at €12.97 billion in 2018.
At November 2018, Portugal's health budget deficit amounted to €0.528 billion, up €0.159 billion from the prior-year period.

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

Greece

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

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

Greece reported a trade surplus equal to 0.8% of GDP in 2017 and 0.4% in 2018. The country has outperformed the targets set in the budget for two years in a row, boosting its international credibility and pushing down government bond yields as a result. In 2019, Greece is forecast to run a total surplus of 0.8% of GDP.
According to data published by Eurostat, Greek public spending on goods and services totaled €12.6 billion in 2016, down 0.7% year-on-year and 3% compared to 2013.

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

Croatia

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

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

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

Total public spending for 2018 is estimated at €17.8 billion, up 6.7% from €16.7 billion at the end of 2017.
In 2016, public spending on goods and services totaled €4.9 billion, rising 5.8% year-on-year.

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

The Factoring Market in Italy

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

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

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

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

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

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

Results of Operations

At December 31, 2018, the Bank's profit amounted to €73.4 million, compared to €79.5 million recognized in the previous year.
The normalized profit of the Bank (representing the Bank's results of operations net of non-recurring income and expenses) amounted to €74.7 million, up 14% from €65.6 million in 2017. Financial year 2017 included one-off effects of €16.5 million arising from the change in the recovery rate of late payment interest, non-recurring expenses due to listing of €1.7 million, and expenses for employee stock options at listing of €0.9 million.

Compared to the profit for the period, the normalized profit at December 31, 2018 includes:
- €0.8 million charges relating to stock options assigned to some employees in the first quarter of 2018;
- €0.5 million contribution to the European Single Resolution Fund (SRF).

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

In € millions

	12/31/2017	12/31/2018
Non-performing loans (NPLs)	**16.0**	**34.9**
Of which purchased performing	13.2	27.0
Of which purchased already impaired	2.8	7.9
Unlikely to pay exposures	**0.0**	**0.0**
Past due exposures	**63.1**	**38.7**
Total	**79.1**	**73.6**
Total NPL/RECEIVABLES	**0.6%**	**1.2%**
Total NPE/RECEIVABLES	**3.1%**	**2.5%**

Total impaired exposures amounted to €73.6 million at December 31, 2018 compared to €79.1 million in 2017.

Past due exposures of €38.7 million mainly consist of amounts due from public administration agencies (mostly local entities) and other public sector companies accounting for 72% of the total.
Non-performing loans totaled €34.9 million at December 31, 2018, with an NPL ratio accounting for 1.2% of total receivables due from customers. Of this amount, €33 million relates to receivables concerning "municipalities in financial distress", of which €8 million were purchased already impaired. Without the amount concerning municipalities in financial distress, the NPL ratio would be 0.1% instead of 1.2%, in line with the previous year's figures.

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

During the reporting period, the Bank has continued to work for the expansion, diversification and optimization of the deposit-taking structure. Banca Farmafactoring offers an online deposit account on the Italian market (Conto Facto), aimed at retail and corporate customers and guaranteed by the FITD.
Banca Farmafactoring's Spanish branch offers a similar online deposit account on the Spanish market (Cuenta Facto), also aimed at retail and corporate customers and guaranteed by the FITD.

Moreover, in Germany the Banca Farmafactoring's Spanish branch offers, in compliance with regulations on the freedom to provide services, deposit-taking services aimed exclusively at retail customers, using the Weltsparen online platform.
Furthermore, at the end of the third quarter of 2018, Banca Farmafactoring filed the application to open a branch in Poland by the end of the second quarter of 2019, aimed at diversifying and further reducing the costs of funding activities in Polish zloty.
At December 31, 2018, the deposit-taking activity relating to Conto Facto and Cuenta Facto, including the deposits of the German platform, totaled €924 million, in line with the previous year's figures

(€1,000 million), despite a cut in the interest rates offered to customers. This accounts for 29% of corporate funding sources.

In particular, the main activities undertaken during the year 2018 were as follows:
- the Farmafactoring SPV I S.r.l. securitization transaction came to an end at the end of the amortization phase, leading to the special purpose vehicle being liquidated and cancelled;
- as far as the Flexible Note BFF SPV S.r.l. securitization transaction is concerned, in the third quarter of 2018, all the activities relating to the renewal of the revolving period due to end in January 2019 were performed. A new agreement was established and a new revolving period was set, due to end on the Note Payment Date of February 17, 2020;
- various ALM operations were carried out, directed at optimizing and improving the financial structure. The most significant among these related to some banking facilities implemented by:
  - the early termination of stand-by and term loans entered into with a leading Italian lender (for €75 million and €50 million respectively, and which were originally due in 2020), and provision of two new facilities including better conditions, agreed on in April and November 2018 respectively, for an amount equal to €50 million (due in 2020);
  - the partial repayment of Acquisition Financing which was due at the end of May 2019 (down from PLN 355 million to PLN 185 million, with simultaneous early termination of the IRS for hedging purposes with a positive fair value of €190 thousand) and due date postponement from May 27, 2019 to June 30, 2021;
  - the underwriting of a new term loan contract, totaling PLN 220 million and due in February 2021, aimed at refinancing the above-mentioned partial repayment as well as Treasury Shares for an amount of PLN 23 million;
  - the arrangement of new multi-currency lines (euro, Polish zloty, and Czech koruna) and multi-borrower lines with a "credit mandate" by Banca Farmafactoring in favor of BFF Polska and its subsidiaries, for a total of €279 million at December 31, 2018.

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

Equity and Own Funds

Banca Farmafactoring's equity amounted to €320 million at December 31, 2018, up from €333 million at December 31, 2017, which included profit for the year of €79.5 million, of which €83.7 million were distributed.

The following table shows Banca Farmafactoring's own funds, amounting to €298.6 million at December 31, 2018; the overall exposure to risks, relating to the activities carried out, is more than adequate in relation to the level of capitalization and the identified risk profile.

In € millions

	12/31/2017	12/31/2018
Own funds	321.8	298.6
CET1 Capital Ratio	10.6%	8.2%
Tier 1 Capital Ratio	10.6%	8.2%
Total Capital Ratio	15.3%	12.3%

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

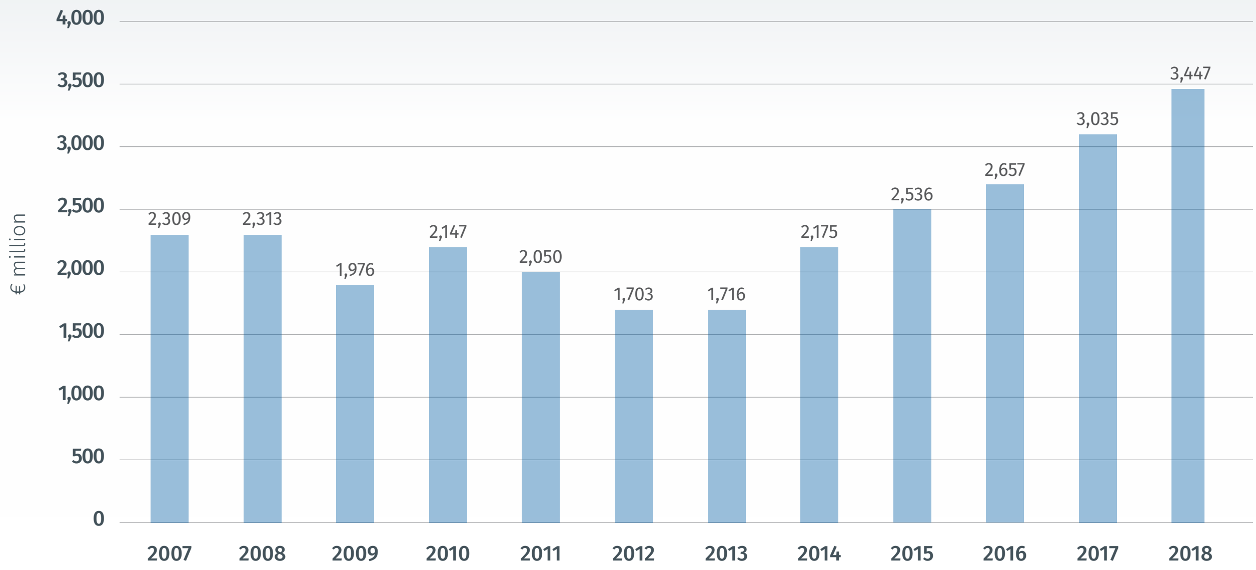
It should be noted that capital ratios at December 31, 2018 have benefited: a) from DBRS upgrading Greece to B initially, and then to BH; as a result, the risk weight relating to receivables due from Greek public administration agencies decreased from 150% to 100%; b) from the application of Article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

Performance of Banca Farmafactoring

At December 31, 2018, net profit amounted to €73.4 million.

The following chart shows the total volumes of new non-recourse purchases of the Bank, which totaled €3,447 million, up 13.5% compared to €3,035 million in 2017.

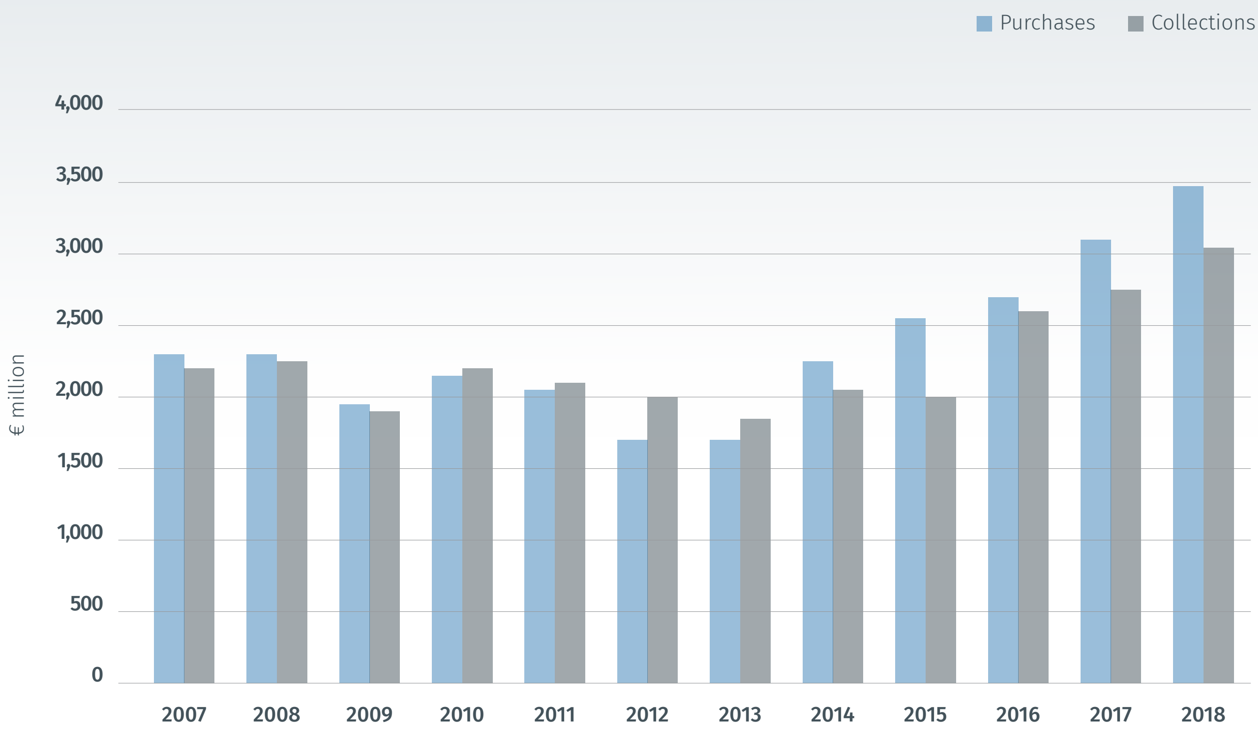
New volumes



Total non-recourse purchases in Italy amounted to €3,162 million, up 10% from €2,871 million at December 31, 2017.
Purchase of receivables due from the Portuguese public sector amounted to €266 million, a considerable increase (+77%) compared to €150 million in 2017.
Purchases made in Greece amounted to €17 million (+25%).
In December, Banca Farmafactoring concluded the first transaction for the purchase of receivables in Croatia: the volume of receivables from the Croatian healthcare system purchased during the year amounted to €2 million.

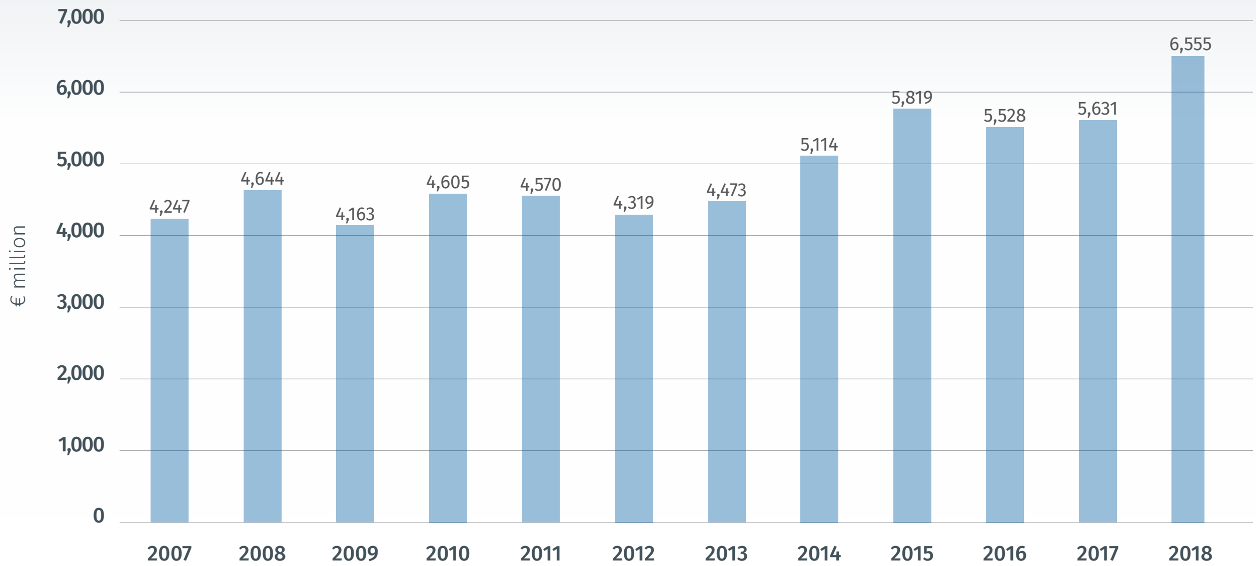
The positive trend of the Bank's non-recourse purchases is shown below with the related collections.

Non-recourse receivables: purchases and collections



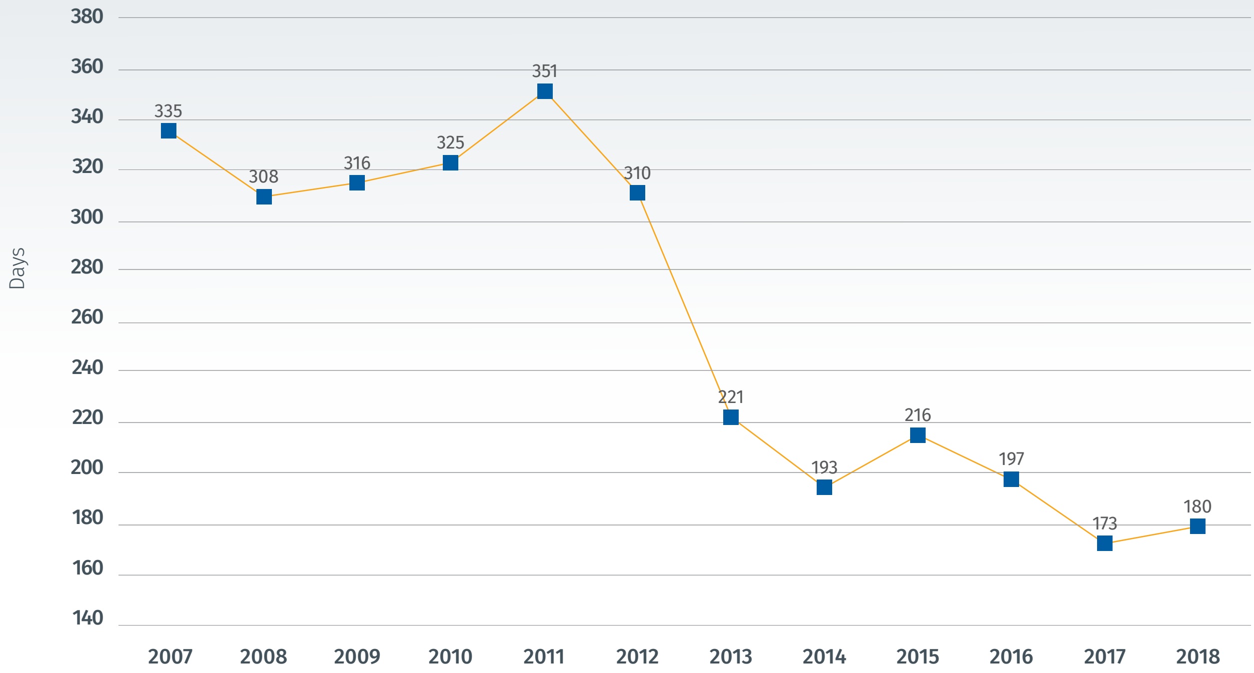
Also considering management activities, 2018 overall volumes amounted to €6,555 million, compared to €5,631 million in 2017, increasing by 16.4%.

Overall volumes



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

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



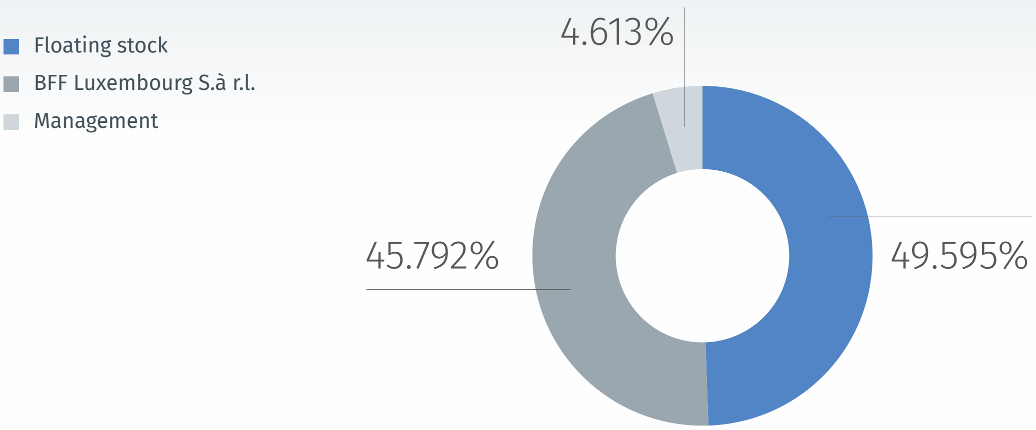
Significant Events during the Period

Shareholder Structure

On February 21, 2018, BFF Luxembourg S.à r.l. informed that it completed the sale of 17.25 million BFF shares, equivalent to 10.1% of the Bank's capital, through an accelerated book build.
Subsequent to the transaction, the stake held in the Group by BFF Luxembourg S.à r.l. decreased from 55.8% to 45.8%. In order to carry out the transaction, the banks acting as Joint Global Coordinators in the Group IPO agreed to grant a waiver to the lock-up commitments taken on by BFF Luxembourg S.à r.l. upon listing.

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

Shareholding structure



It should be noted that, after 12 months of the listing date, the lock-up period expired for the majority shareholder, the managers, the employees and the former employees of the Banking Group.
On April 6, 2018, BFF Luxembourg S.à r.l. signed a lock-up agreement with the CEO and six other Bank managers. Under this agreement they commit not to dispose of a part of the shares held, accounting for 2.6% of the share capital, for a maximum period of three years. BFF Luxembourg S.à r.l. granted those shareholders the option to purchase an equal number of the Bank's ordinary shares, currently held by BFF Luxembourg S.à r.l.

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

Shareholder’s Meeting Resolutions

Pursuant to Article 14 of the company’s bylaws, relating to the composition of the Board of Directors, the Bank's Ordinary Shareholders' Meeting of April 5, 2018 resolved that the Board of Directors shall be composed of nine members remaining in office for three years (2018, 2019 and 2020). Their term of office will end on the date of the Meeting convened to approve the financial statements for the year 2020.
The names of the nine directors were decided by vote at the same Ordinary Shareholders’ Meeting, with respect given to minority representation and gender balance as required by Law 120/2011. During the Ordinary Shareholders' Meeting, Mr. Salvatore Messina was confirmed as Chairman of the Board of Directors.
With regards to the composition of the Board of Statutory Auditors, the Shareholders’ Meeting decided by vote the new members and Chair for the Board of Statutory Auditors, who will remain in office for the three-year period 2018-2020.
Finally, the Shareholders' Meeting authorized the Board of Directors to purchase up to 26,196,539 Banca Farmafactoring shares for the purposes described in the “Treasury shares” section of this report.

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

On January 5, 2018, the Bank received a communication from the Bank of Italy reporting that the Bank of Portugal had been notified of the Bank's intention to open a branch in Portugal.
On April 20, 2018, the Bank of Portugal confirmed that they had received the application from the Bank of Italy. On June 19, the Bank of Portugal advised that the Portuguese branch had been registered and provided the associated registration number which identifies the branch.
On July 16, the branch officially began operations.

On January 15, 2018, the Bank received a communication from the Bank of Italy reporting that the Bank of Croatia had been notified of the Bank's intention to carry out non-recourse factoring activities in the country pursuant to the regulations on the freedom to provide services, in accordance with the Bank of Italy Circular no. 285, Part One, Title 1, Chapter 6, Section II.
During the month of June, set-up operations were completed for the processes, systems and contracts as required, in order to be ready for the launch of initial operations on the Croatian market.
Furthermore, it should be noted that on December 18, 2018, the Bank concluded the first purchase of non-recourse receivables in Croatia, where the Bank operates pursuant to the regulations on the freedom to provide services. Specifically, Banca Farmafactoring purchased a portfolio of healthcare receivables due from Croatia's main public hospitals from a multinational leader in the orthopedic industry.

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

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

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

In addition, on September 24, 2018 the Bank of Italy, in exercise of the powers conferred by Italian Legislative Decree no. 385/93 (Consolidated Law on Banking), began an audit of the Banking Group at Banca Farmafactoring's Head Office.
At the date of preparation of the Separate Financial Statements for 2018, the findings of the audit had not yet been disclosed.

Deposit Guarantee Scheme

Directive (EU) 2014/49 (Deposit Guarantee Schemes Directive, DGSD) introduced in 2015 a new mixed funding mechanism, based on ordinary (*ex-ante*) and extraordinary (*ex-post*) contributions by intermediaries on the basis of the amount of the covered deposits and the degree of risk incurred by the respective member bank.
More specifically, Article 10 of such directive, transposed into Article 24, paragraph 1 of FITD bylaws, establishes the setting up of a mandatory contribution mechanism, according to which available financial resources should be set aside up to the target level of 0.8% of total covered deposits by July 3, 2024.
Paragraph 5 of the aforementioned Article states that member banks must annually pay ordinary contributions (the so-called Mandatory Scheme) commensurate with the amount of protected deposits outstanding at September 30 each year out of the total in the banking system, also taking into account risk adjustments resulting from the application of the new model of performance indicators.
For 2018, the ordinary contribution due from Banca Farmafactoring amounted to €653 thousand, paid in December 2018, showing an increase compared to the previous year’s figures (€546 thousand).

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

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

Resolution Fund

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

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

In order to achieve this objective, therefore, the contributions must be collected, at least annually, from the authorized entities within the respective territory.
The ordinary annual contribution requested of Banca Farmafactoring in 2018 by the Bank of Italy with its Note of April 27, 2018 was €1,872 thousand, paid in May 2018.
The ordinary annual contribution requested in 2017 was €1,171 thousand, while in 2016 it was €1,086 thousand.

In the event that the financial resources of the National Resolution Fund are insufficient to sustain the recovery and restructuring actions carried out over time, Law 208/2015 (the so-called 2016 Budget Law) requires the banks to make additional contributions, with the amount to be determined by the Bank of Italy.
By letter dated May 25, 2018, the Bank of Italy requested the banking industry to provide an additional extraordinary contribution of €310 million for 2016, taking into account the upcoming financial needs of the Fund.
The amount charged to Banca Farmafactoring, paid in June 2018, was equal to €701 thousand. No extraordinary contributions were requested of the banking sector in 2017.
On December 28, 2016, the Bank of Italy, within the framework of the resolution scheme for the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara, requested an extraordinary contribution equal to twice the amount of the ordinary annual contribution established for 2016. For Banca Farmafactoring, this amounted to €2,179 thousand.

Internal Control

The CEO is the person responsible for the Bank's Internal Control system.
Pursuant to the provisions of the Supervisory Authority, the organizational framework of the Bank's internal control system is based on the following three control levels.

First-level controls

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

Second-level controls

Second-level controls aim to ensure the correct implementation of the risk management process and compliance with the regulatory framework, including the risk of money laundering and terrorist financing. They are entrusted to the Risk Management Function and the Compliance and AML Function of the Parent Company, which, consistently with the current prudential supervisory regulations, have the following main responsibilities:

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

- **Compliance and Anti-Money Laundering (AML):** it supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory framework for the Bank and the Group—also through its reference persons/local functions at its subsidiaries and/or branches—, continuously verifying whether 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 corporate bodies of the Bank and the subsidiaries. Furthermore, this function has the task of preventing and combating money laundering and terrorist financing by continuously identifying the applicable rules in this area, and of verifying the coherence of the processes with the objective of ensuring that the Bank and the Group conform to the law on anti-money laundering and counter-terrorist financing. It is also responsible for the controls required by the anti-money laundering law, so as to prevent the use of the financial system for purposes of laundering profits from criminal activities and financing terrorism.

Third-level controls

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

The Internal Audit function carried out, for the year 2018, the testing activities established in the Group's multi-year 2016-2018 audit plan, subject to annual updating, by carrying out follow-up activities and reporting on the results of its testing on a quarterly basis to the Bank's governance and control bodies, through its dashboard.
In particular, the Internal Audit function, as function of the Parent, was in charge of the management and coordination of the activities carried out by the BFF Polska Internal Audit function.
In addition, the checks envisaged for 2018 in the Group audit plan were carried out, according to a risk-based logic, on the internal structures of the Bank, on the subsidiary BFF Finance Iberia, on the Spanish and Portuguese branches, on BFF Polska and its subsidiaries, and on the new Croatian market where the Bank has been operating pursuant to the regulations on the freedom to provide services since the second half of 2018.
The process for audit planning and management of the BFF Banking Group and BFF Polska was certified under the new quality standard UNI ISO 9001:2015 and was deemed to be compliant.
The Head of the Internal Audit function is responsible for the internal reporting system (so-called whistle-blowing process) in accordance with the reference banking regulations, and prepared the 2018 report for the Banking Group, which states that no reports were received by the Bank or its branches or subsidiaries.

Supervisory Body pursuant to Italian Legislative Decree 231/2001

The Bank has an Organization, Management and Control Model pursuant to Legislative Decree 231/2001 (hereinafter referred to as the "Model"), prepared in compliance with the provisions of the above-mentioned Legislative Decree 231/2001, as well as the guidelines issued by Assifact, ABI and Confindustria in accordance with industry best practice.
During 2018, the Model was updated as per the resolutions passed by the Board of Directors following an analysis of the most recently introduced types of criminal offenses as well as to account for the Bank's organizational changes.
The Model includes a General Part, which provides a summary description of the reference regulatory framework, the key characteristics and features of the Model identified within the operations defined as "sensitive" for the purposes of Italian Legislative Decree no. 231/01, and the structure of the Supervisory Body as well as the system of sanctions to prevent violation of the provisions contained in the Model.
In addition, the Model includes Special Parts comprising: i) the Matrix of operations at risk of committing a criminal offense, intended to identify the criminal offenses that may potentially be committed as part of the Bank's operations; ii) the Protocols as per Italian Legislative Decree no. 231/01, which detail the operations, audits, and reporting mechanisms intended to ensure the Bank's organizational and control system - including the foreign branches in Spain and Portugal - complies with the rules in the Decree; iii) the Information Flows to the Supervisory Body.
The Code of Ethics is part of the Model: this document defines the set of ethical values embraced by the Group and that allow, among other things, to prevent the criminal offenses as per Italian Legislative Decree no. 231/01.

The Bank makes sure that all employees receive adequate training, especially in the event of updates to external and internal regulations concerning the topics set out in Italian Legislative Decree no. 231/01.
The activities of the Supervisory Body carried out in 2018 aimed mainly to assess the adequacy of the Model, to monitor information flows, and to carry out independent audits also with the support

of the Internal Audit function. The Supervisory Body reported to the Board of Directors on its work, specifically stating it did not receive any complaint relevant to Italian Legislative Decree no. 231/01 during 2018.
The Supervisory Body was also constantly updated, to the extent of its competence, on projects that are strategically relevant for the Bank, and shared the updates of the 231 Organization Model approved by the Board of Directors in 2018.
As far as the Group's administrative liability is concerned, the following should be noted:
- the Spanish subsidiary BFF Finance Iberia adopted its own Organizational Model in accordance with Article 31-bis of the Spanish Penal Code, similar to the Bank's 231 Organizational Model (general section, specific section on activities at risk and information flows), with an independent, monocratic Supervisory Body;
- the Polish subsidiary BFF Polska and its subsidiaries adopted specific guidelines to govern "anti-corruption" issues, with the identification of a relevant, monocratic body, represented by the BFF Polska's Compliance and AML Function.

Systems Development

In 2018, investments were made in the Information & Communication Technologies sector. These investments were directed to applications software, basic software and hardware, to ensure the availability, continuity, performance and security of the systems (see Bank of Italy Circular no. 285, and subsequent updates, regarding systems and operating continuity, Regulation (EU) 2016/679 and the international standards ISO/IEC 27001:2013 - ISO/IEC 27002:2013).
More specifically, the following main projects were implemented:
- update of the infrastructure and activation of new physical and logical server systems, new systems for communication and safety at the Bank's production and disaster recovery Data Centers;
- creation of new software systems, mainly aiming at:
  - Asset Liability Management (ALM);
  - Management of Electronic Loan Document (*Pratica Elettronica di Fido, PEF*) in Spain and Portugal.

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

Change in Staff Headcount

In order to support the development plans of the Bank and seize growth opportunities, the number of staff has been steadily increased over the years.
At December 31, 2018, the total number of the Bank's employees amounted to 228 staff members, of which 217 in Italy, 3 at the Banca Farmafactoring branch in Lisbon (of which 1 seconded from the headquarters in Italy), and 8 at the Banca Farmafactoring branch in Madrid.

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

Category	2017			2018			
	Italy	Spain	**Total**	Italy	Spain	Portugal	**Total**
Senior Executives/Executives	15		**15**	15		-	**15**
Managers/Middle Managers/Professionals	66	5	**71**	80	4	3	**87**
Specialists	120	4	**124**	122	4	-	**126**
Total by country	**201**	**9**	**210**	**217**	**8**	**3**	**228**

Share Performance

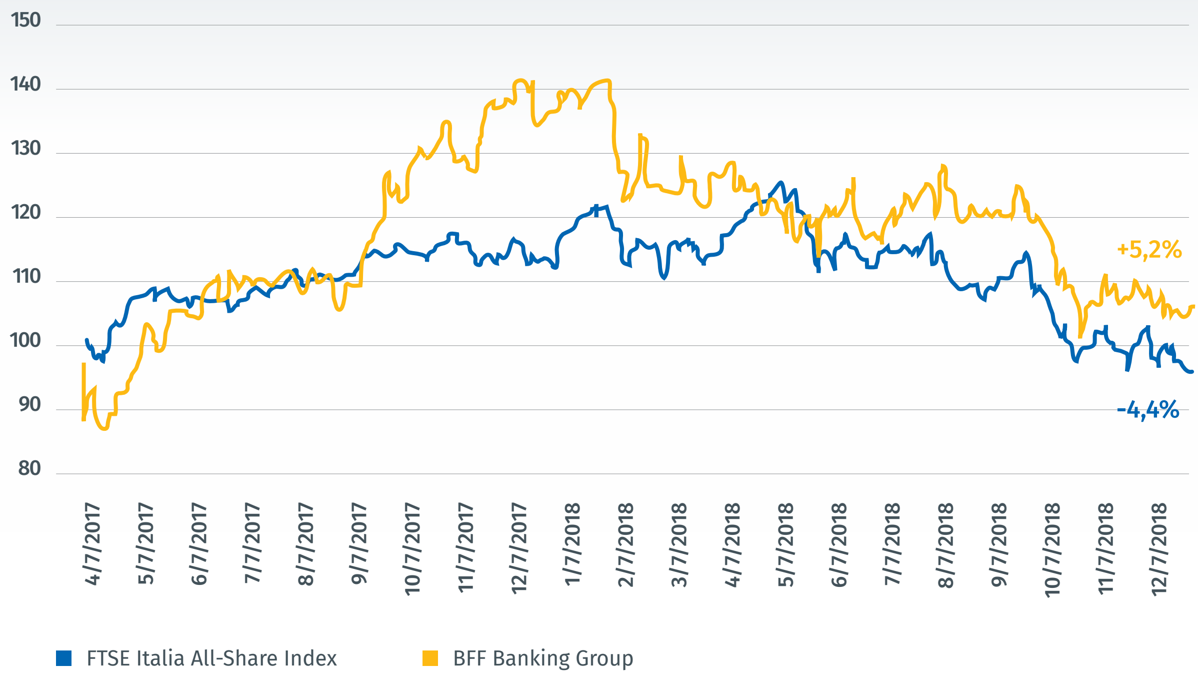
Banca Farmafactoring shares (ISIN code IT0005244402) have been traded on the Mercato Telematico Azionario (MTA) of Borsa Italiana in the Blue Chips segment since April 07, 2017, and are part of the following FTSE indexes:

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

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

The share price at December 31, 2018 was €4.54, decreasing by 3.4% compared to the share placement price of €4.7. Since listing, the Bank has distributed dividends of €0.492 per share. Taking into consideration the distributed dividends, and assuming them to be reinvested in the BFF share on ex-date, total return for shareholders at December 31, 2018 compared to the placement price was 5.2%. The FTSE Italia All Share Index total return was instead negative: -4.4% in the same period.

Total Return (Rebased to 100)



Main Balance Sheet Items

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

Financial assets measured at fair value through OCI

(Amounts in € thousands)

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

The item mainly includes government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €165 million. The average duration of such securities is 44.4 months.
These securities earn interest at variable rates (CCT) and have residual maturity dates within five years.

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

At December 31, 2018, the negative reserves on HTC&S government securities (formerly AFS) amounted to approximately €4,170 thousand, net of taxes.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, such securities were classified in the category belonging to the Held to Collect and Sell (HTC&S) business model.

Financial assets measured at amortized cost

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Government securities - (HTC)	1,120,610	948,206	(172,404)
Due from banks	16,195	47,345	31,150
Due from customers	2,587,720	2,938,845	351,125
Total	**3,724,525**	**3,934,396**	**209,871**

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

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

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

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

"Due from banks" mainly consists of Banca Farmafactoring's current account balances at the end of the year.

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

Since 2014, every year the Bank has been updating the analysis of the time series concerning the average collection percentage and time for late payment interest. In 2018, it once again reviewed the average collection percentage and time for late payment interest, updating the existing time series.
Concerning this review, please consider the following:
- for the year 2018, the Bank added more depth to its time series by including the reference basis for 2018 in the existing time series;
- the depth of the time series appears to be significant for all existing relationships: the database for the Italian Public Administration, which dates back to 2010, is especially deep.

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

Credit quality

In order to assess its credit exposures, with the goal of - among others - identifying any potential impairment losses on financial assets in accordance with IFRS 9, the Bank classifies exposures as Performing and Non-Performing.
Non-Performing exposures, whose overall gross amount was €73.6 million at December 31, 2018, with impairment losses totaling €5.6 million, are divided into the following categories.

Non-performing loans

These are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the Bank.
At December 31, 2018, the Bank's total non-performing loans, net of impairment, amounted to €34.9 million, of which €7.9 million purchased already impaired. Among these non-performing exposures, €32.3 million (92.5% of the total) concerned municipalities in financial distress.
Gross non-performing loans amounted to €40.3 million and were adjusted to the tune of €5.4 million - among these adjustments, €3.5 million concerned municipalities in financial distress.
Please note that, as for the exposures to Local Authorities (Municipalities and Provincial Governments), the portion subject to the relevant settlement procedure is classified as Bad Loan in accordance with the Bank of Italy's Circular no. 272, even though all receivables can be collected under the law.

Unlikely to pay exposures

Unlikely to pay exposures reflect the judgment made by the intermediary about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments). Therefore, it is not necessary to wait

for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor.
At December 31, 2018, gross exposures classified as unlikely to pay totaled €2.5 thousand; no adjustments were recognized, thus determining a net amount of €2.5 thousand.

Impaired past due exposures
These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days.
At December 31, 2018, total net past due exposures amounted to €38.7 million, of which 72.8% referring to public administration and public sector companies of the countries where the Bank operates. The Bank's gross exposures totaled €38.9 million and relevant adjustments amounted to €0.2 million.

In 2018 credit quality remained good: total net non-performing loans amounted to €34.9 million, thus increasing compared to 2017, mainly due to the increase in purchases of non-recourse receivables due from local entities. The ratio of net NPLs to receivables due from customers was 1.37%, up compared to 2017 (0.6%).

With reference to measurements and calculation of impairment, in compliance with IFRS 9, methodology is based on the new expected loss model, which prospectively considers credit losses over the life of the financial instrument and requires their immediate recognition rather than on the occurrence of a trigger event as required by the incurred loss model pursuant to IAS 39.
In this context, an approach based on the use of credit risk parameters (Probability of Default - PD -, Loss Given Default - LGD -, Exposure at Default - EAD -), redefined based on a multi-period perspective, is deemed feasible.
More specifically, the new expected loss impairment model requires companies to segment their portfolios into three levels (stages), in relation to the change in credit risk of the asset compared to initial recognition.
In particular, Stage 1 includes performing exposures showing no significant increase in credit risk in the period between the initial recognition date and the reporting date. In this case, expected losses are measured over a period no longer than 12 months.
Stage 2 includes exposures showing a significant deterioration in credit quality compared to initial recognition, and the entire residual life of the asset is used to calculate the expected loss (lifetime parameter).
Stage 3 includes financial instruments whose credit risk deteriorated significantly, to the point that the exposure is considered impaired (non performing). For exposures classified in this stage too, expected loss is calculated over the lifetime of the asset but, unlike the positions recorded in Stage 2, impairment is measured on a case-by-case basis. Stage 3 also includes impaired past due exposures (non performing), which are however subject to specific adjustments calculated on a collective basis (Stage 2), since—despite volatility and the Bank's core business—specific measurement is not needed for impaired past due exposures.

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

(Amounts in € thousands)

Type	12/31/2017			12/31/2018		
	Gross amount	Adjust-ments	Net amount	Gross amount	Adjust-ments	Net amount
Impaired exposures purchased performing (Stage 3)	78,916	(2,630)	76,286	68,649	(2,919)	65,730
Impaired exposures purchased non-performing (Stage 3)	4,196	(1,373)	2,824	10,561	(2,699)	7,862
Performing exposures (Stage 1 and 2)	2,098,785	(3,016)	2,095,769	2,867,439	(2,186)	2,865,252
Total	**2,181,898**	**(7,019)**	**2,174,879**	**2,946,648**	**(7,804)**	**2,938,844**

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

Property, plant and equipment and intangible assets

(Amounts in € thousands)

Property, plant and equipment	12/31/2017	Increase	Decrease	12/31/2018
Land	3,685	0	0	3,685
Buildings	6,820	0	(325)	6,495
Furniture and fixtures	188	0	(48)	140
Electronic systems	937	241	(589)	589
Other	242	29	(80)	191
Total	**11,873**	**270**	**(1,042)**	**11,101**

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

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

(Amounts in € thousands)

Intangible assets	Life	12/31/2017	Increase	Decrease	12/31/2018
Goodwill					0
Other intangible assets:	Finite				0
Internally generated	Indefinite				0
Other intangible assets:	Finite	3,439	2,026	(1,704)	3,762
other	Indefinite				0
Total		**3,439**	**2,026**	**(1,704)**	**3,762**

Intangible assets amounted to €3,762 thousand; they refer to investments in new multi-year programs and software.

Tax assets and liabilities

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Tax assets	**28,409**	**31,840**	**3,431**
current	*24,680*	*25,873*	*1,193*
prepaid	*3,729*	*5,967*	*2,238*
Tax liabilities	**80,866**	**85,700**	**4,834**
current	*24,459*	*20,052*	*(4,407)*
deferred	*56,407*	*65,648*	*9,241*

Current tax assets totaled €25,873 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amounted to €20,052 thousand; they include the accrual of income taxes for the year.
Deferred tax liabilities amounted to €65,648 thousand; they mainly include the taxes calculated on Banca Farmafactoring's late payment interest accrued and to be accrued, and will be paid upon collection.

Financial liabilities measured at amortized cost

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

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Due to banks	460,387	806,238	345,851
Due to customers	2,499,059	2,428,379	(70,680)
Of which due to financial institutions	*280,460*	*371,174*	*90,714*
Debt securities issued	652,037	653,640	1,603
Total	**3,611,483**	**3,888,257**	**(276,774)**

"Due to banks" refers to loans granted by the banking system to the Bank.
"Due to financial institutions" mainly refers to cooperation agreements with financial entities other than banks.
"Due to customers" includes €924 million for the online deposit accounts Conto Facto and Cuenta Facto, and €1,031 million for repurchase agreements with the counterparty *Cassa di Compensazione e Garanzia*, executed to refinance the Bank's securities portfolio.

The face value of "Debt securities issued" amounted to €653 million at December 31, 2018.
The item includes:
- the 2016-2021 bond issued by Banca Farmafactoring for a total face value of €150 million;
- the first subordinated unsecured and unrated €100 million Tier 2 bond issued by Banca Farmafactoring, with a duration of 10 years and the right to an issuer call date in the fifth year;
- the five-year senior unsecured and unrated €200 million bond issued in June 2017;
- the 30-month senior unsecured €200 million bond issued in December 2017.

Provisions for risks and charges

At December 31, 2018, "Provisions for risks and charges" totaled €5,249 thousand. They mostly include allocations to "Pension and other post-employment benefits" of €3,829 thousand and "Other provisions" of €615 thousand.

(Amounts in € thousands)

Items	12/31/2017	Increase	Decrease	12/31/2018
Commitments and guarantees provided	0	805	0	805
Employee benefits	4,219	1,883	(2,273)	3,829
Other provisions	927	0	(312)	615
Total	**5,146**	**2,688**	**(2,585)**	**5,249**

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

Main Income Statement Items

A brief comment on the main income statement items is provided below, while for a more in-depth description reference should be made to the section relating to the results of operations and to Part C of the Notes.
At December 31, 2018, the Bank's profit amounted to €73.4 million, compared to €79.5 million recognized in the previous year.

Net banking income

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Maturity commissions and late payment interest on non-recourse receivables	173,864	164,236	(15,285)
Interest income on securities	4,248	5,493	1,142
Other interest	11,795	6,889	7,803
Interest income	**189,907**	**176,618**	**(6,340)**
Interest expense	**(31,406)**	**(29,996)**	**(2,936)**
Net fees and commissions	**6,559**	**6,751**	**(762)**
Dividends and similar income	0	0	(58)
Gain (losses) on trading	(4,804)	2,613	8,017
Gain (losses) on hedge accounting	32	110	79
Gain (losses) on disposal of financial assets measured at fair value through OCI	1,759	386	(1,373)
Net banking income	**162,047**	**156,482**	**(3,373)**

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

The amount of maturity commissions and late payment interest on non-recourse receivables of Banca Farmafactoring totaled €164,236 thousand in 2018, compared to €173,864 thousand in the previous reporting period. In 2017 the amount included a one-off effect of €16.5 million, net of taxes, which derives from the change in the late payment interest collection percentages from 40% to 45%, with average collection times unchanged at 1,800 days.

Banca Farmafactoring updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. The outcome of this analysis has confirmed for 2018, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

On an annual basis, the net impact of "over-recovery" (i.e., late payment interest collected exceeding 45%, net of reschedulings) on late payment interest recognized in Profit or Loss was higher (€13.4 million at December 31, 2018).

At December 31, 2018, the cumulative amount of late payment interest due to Banca Farmafactoring, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €522 million, including approximately €34 million due from Portuguese debtors and €1 million due from Greek debtors. Of these, only €192 million were recognized in the income statement of the reporting period and in previous years.

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

Interest expense decreased from €31.4 million at December 31, 2017 to €30.0 million at December 31, 2018. This decrease in absolute terms is due to the combined effect of, on the one hand, higher interest expense on the Tier 2 bonds (€5.9 million at December 31, 2018, compared to €4.9 million in 2017) and higher charges for the outstanding recorded, more than offset, on the other hand, by lower charges resulting from better euro funding conditions, lower interest expense relating to securitizations for an overall amount of €0.9 million (attributable to the end of the FFSPVI program in the first quarter of 2018), and by lower charges generated by loans denominated in currencies other than the euro and amounting to approximately €1 million (as a result of lower use of intra-group financing and loan in zloty relating to the acquisition of BFF Polska).

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

Net fees and commissions show an increase of €0.2 million compared to the prior year, as presented in the following table.

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Fee and commission income	7,713	8,243	530
Fee and commission expenses	(1,153)	(1,492)	(339)
Net fees and commissions	**6,560**	**6,751**	**191**

Gains on trading amounted to €2.6 million; they include the exchange differences on foreign currency loans between Group companies and other financial intermediaries, notably the loan payable in Polish zloty secured for the acquisition of the BFF Polska Group, equal to €88 million, before taxes, at December 31, 2018.
A hedge is considered effective if, both at inception and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value. In this latter case, the changes in the hedging derivative's fair value are recorded in equity.
The hedge ineffectiveness is represented by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item, recognized in the income statement under item 90 "Gains (losses) on hedge accounting".
At December 31, 2018, Banca Farmafactoring did not have any derivative hedging contracts.

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

Administrative expenses

(Amounts in € thousands)

Items	12/31/2017	12/31/2018	Change
Personnel costs	22,154	25,512	3,358
Other administrative expenses	28,546	29,932	1,386
Total administrative expenses	**50,700**	**55,444**	**4,744**

The increase in this item can mainly be traced to an increased number of employees and to higher personnel costs over the year.
Other administrative expenses amounted to €29.9 million at December 31, 2018, showing an increase compared to 2017. They include the €0.7 million extraordinary contribution to the Single Resolution Fund for 2016, before taxes, and the €0.7 million increase in the relevant contribution for 2018.

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

Going concern

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

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

The data can be summarized as follows:
- growing trend for equity;
- capital adequacy in relation to the risks connected with lending activities;
- sufficient availability of financial resources;
- positive commercial prospects associated with the trend in demand;
- high credit quality.

A summary of relevant quantitative information is provided below.

(Amounts in € millions, unless otherwise indicated)

Items	12/31/2018	12/31/2017
Net interest margin	146.6	158.5
Net banking income	156.5	162.0
EBTDA	105.6	115.2
Net income	**73.4**	**79.5**
ROE (%)	**29.8%**	**31.4%**
Net banking income / Non-recourse volumes (%)	4.25%	5.30%
Net banking income / Interest and similar income (%)	81.5%	83.5%
NPLs (net of impairment) / Due from customers (%)	1.37%	0.62%
Own funds / Due from customers (%)	15.12%	20.4%
Leverage	17.7	16.1
Equity	**319.7**	**332.9**
Own funds	**298.6**	**321.8**

Risk management and compliance with Prudential Supervision regulations

The prudential supervision regulations are mainly governed by the Bank of Italy Circular no. 285 *"Supervisory provisions for banks"* and Circular no. 286 *"Instructions for the preparation of supervisory reporting by banks and securities intermediaries"*, both dated December 17, 2013, which adopt the harmonized regulation for banks and investment firms contained in the EC Regulation CRR (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 2013.
These regulations include the standards set forth by the Basel Committee on Banking Supervision (Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of the Bank of Italy, and define the ways in which the powers attributed by EU regulations to national authorities were exercised.

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

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

Pillar I – Capital adequacy to meet the typical risks associated with financial operations
From the standpoint of operations, the absorption of risks is calculated using various methods:
- “Standardized approach” for credit risk;
- “Standardized approach” for counterparty risk;
- “Basic approach” for operational risk;
- “Standardized approach” for market risk.

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

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

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

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

Pursuant to this procedure, the disclosure should be:
- approved by the Board of Directors before it is made public;
- published on the website **www.bffgroup.com** at least once a year, within the deadline established for the publication of the financial statements, thus within 21 days of the date of approval of the financial statements by the Shareholders’ Meeting.

With regard to the provisions of the Bank of Italy Circular no. 285 of December 17, 2013, and subsequent updates, Banca Farmafactoring will publish on its website **www.bffgroup.com**, once a year, within the deadlines established for the publication of the financial statements, a country-by-country reporting document, which contains information inherent to the business, turnover, and the number of staff in the various countries in which the Bank is present.
The information to be published is defined by Appendix A, first part, Title III, Chapter 2 of the above Circular.

Other Information Required by Article 2428 of the Italian Civil Code

Related party transactions

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

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

The Regulation is aimed at overseeing the risk that proximity, if any, of such parties to the Bank's decision-making centers may compromise the objectivity and impartiality of the decisions taken on transactions involving those parties, with possible distortions in the resource allocation process, exposure of the Bank to risks not adequately measured or supervised, and potential damage for shareholders and stakeholders.

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

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

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

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

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

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

Unusual or atypical transactions

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

Events subsequent to the end of the reporting period

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

Treasury shares

At December 31, 2018, the Bank owned 41,552 treasury shares (accounting for 0.020% of share capital), purchased as part of the buyback program launched in February 2019.

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

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

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

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

Other offices

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

Business Outlook

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

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

Commercial efforts will focus on the management and expansion of relationships with traditional customers, the acquisition of new customers and the development of new products in the various countries where the Bank operates as well as in new markets.
Growth opportunities for 2019 include opening a new branch in Poland—the Bank of Italy was notified of the Bank's intention in October 2018. The Polish Authority KNF started the relevant document verification procedures on January 2, 2019. Further assessments to penetrate other European markets are also underway.

Proposal for the Appropriation of Banca Farmafactoring's Profit

Dear Shareholders,

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

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

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

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

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

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

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

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

resolved

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

The Chairman
of the Board of Directors
Salvatore Messina

BFF BANKING GROUP

02

Financial Statements at December 31, 2018

Balance Sheet

Amounts in euros

Assets		12/31/2018	12/31/2017 (*)
10.	Cash and cash equivalents	99,456,450	80,928,000
30.	Financial assets measured at fair value through OCI	160,755,859	101,449,267
40.	Financial assets measured at amortized cost	3,934,396,480	3,724,524,786
	a) due from banks	*47,345,594*	*16,194,697*
	b) due from customers	*3,887,050,886*	*3,708,330,089*
50.	Hedging derivatives	0	321,839
70.	Equity investments	115,487,012	115,487,012
80.	Property, plant and equipment	11,100,569	11,872,992
90.	Intangible assets	3,762,199	3,439,560
100.	Tax assets	31,840,480	28,408,962
	a) current	*25,872,800*	*24,679,709*
	b) deferred	*5,967,680*	*3,729,253*
120.	Other assets	9,028,769	7,678,847
	TOTAL ASSETS	**4,365,827,818**	**4,074,111,265**

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

Amounts in euros

Liabilities and Equity	12/31/2018	12/31/2017 (*)
10. Financial liabilities measured at amortized cost	3,888,257,146	3,611,483,088
a) due to banks	*806,238,473*	*460,386,581*
b) due to customers	*2,428,378,977*	*2,499,059,328*
c) debt securities issued	*653,639,696*	*652,037,179*
60. Tax liabilities	85,700,811	80,866,182
a) current	*20,052,590*	*24,459,003*
b) deferred	*65,648,221*	*56,407,179*
80. Other liabilities	66,102,156	42,889,583
90. Employee severance benefits	848,841	848,138
100. Provisions for risks and charges:	5,249,087	5,146,149
a) commitments and guarantees provided	*805,294*	*0*
b) pension and other post-employment benefits	*3,828,712*	*4,218,868*
c) other provisions	*615,081*	*927,281*
110. Revaluation reserves	(278,463)	3,920,581
140. Reserves	115,820,526	118,497,150
160. Share capital	130,982,698	130,982,698
170. Treasury shares	(244,721)	0
180. Profit (loss) for the period	73,389,737	79,477,696
TOTAL LIABILITIES AND EQUITY	**4,365,827,818**	**4,074,111,265**

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

Income Statement

Amounts in euros

Items		12/31/2018	12/31/2017 (*)
10.	Interest and similar income	176,617,819	189,906,947
	of which: interest income calculated using the effective interest rate method	146,610,496	157,672,029
20.	Interest and similar expenses	(29,995,836)	(31,406,338)
30.	**Net interest margin**	**146,621,983**	**158,500,609**
40.	Fee and commission income	8,243,356	7,712,597
50.	Fee and commission expenses	(1,492,202)	(1,153,468)
60.	**Net fees and commissions**	**6,751,154**	**6,559,129**
80.	Gains (losses) on trading	2,613,385	(4,804,040)
90.	Gains (losses) on hedge accounting	110,652	32,279
100.	Gains (losses) on disposal or repurchase of:		
	a) financial assets measured at amortized cost	(459)	0
	b) financial assets measured at fair value through OCI	385,750	1,758,957
120.	**Net banking income**	**156,482,465**	**162,046,934**
130.	Net adjustments/reversals of impairment for credit risk concerning:		
	a) financial assets measured at amortized cost	(1,759,147)	(1,156,177)
	b) financial assets measured at fair value through OCI	(8,318)	(701,869)
150.	**Net profit from financial activities**	**154,715,000**	**160,188,888**
160.	Administrative expenses:		
	a) personnel costs	(25,512,960)	(22,154,182)
	b) other administrative expenses	(29,932,022)	(28,546,994)
170.	Net allocations to provisions for risks and charges		
	a) commitments and guarantees provided	(335,649)	0
	b) other net allocations	(929,709)	(824,628)
180.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,042,650)	(1,142,327)
190.	Net adjustments to/reversals of impairment of intangible assets	(1,703,682)	(1,630,569)
200.	Other operating income (expenses)	5,853,650	5,358,688
210.	**Operating costs**	**(53,603,022)**	**(48,940,012)**
260.	**Profit (loss) before tax from continuing operations**	**101,111,978**	**111,248,876**
270.	Income taxes on profit (loss) from continuing operations	(27,722,241)	(31,771,180)
280.	**Profit (loss) after tax from continuing operations**	**73,389,737**	**79,477,696**
300.	**Profit (loss) for the period**	**73,389,737**	**79,477,696**
	Basic earnings per share	**0.431**	**0.467**
	Diluted earnings per share	**0.425**	**0.467**

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

Statement of Comprehensive Income

Amounts in euros

Items		12/31/2018	12/31/2017
10.	**Profit (loss) for the period**	**73,389,737**	**79,477,696**
	Other comprehensive income, after tax, that will not be reclassified to profit or loss		
20.	Equity securities designated at fair value through OCI		
30.	Financial liabilities designated at fair value through profit or loss (change in credit quality rating)		
40.	Hedging of equity securities designated at fair value through OCI		
50.	Property, plant and equipment		
60.	Intangible assets		
70.	Defined benefit plans	17,675	(20,497)
80.	Non-current assets and disposal groups held for sale		
90.	Portion of revaluation reserves from equity investments measured using the equity method		
	Other comprehensive income, after tax, that will be reclassified to profit or loss		
100.	Hedges of foreign investments		
110.	Exchange differences		
120.	Cash flow hedges	(194,156)	(151,404)
130.	Hedging instruments (not designated)		
140.	Financial assets (other than equity securities) measured at fair value through OCI	(4,237,866)	(402,377)
150.	Non-current assets and disposal groups held for sale		
160.	Portion of revaluation reserves from equity investments measured using the equity method		
170.	**Total other comprehensive income, after tax**	**(4,414,347)**	**(574,278)**
180.	**Comprehensive income (Items 10+170)**	**68,975,390**	**78,903,418**

Statement of Changes in Equity

Amounts in euros

At 12/31/2017

	Balance at 12/31/2016	Change in opening balance	Balance at 01/01/2017	Retained earnings (Accumulated losses)		Change during the year								Equity at 12/31/2017
							Equity transactions							
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	*Stock options*	Comprehensive income for the year 2017	
Share capital:														
a) ordinary shares	130,900,000		130,900,000				82,698							130,982,698
b) other shares	82,698		82,698				(82,698)							
Share premium														
Reserves														
a) from profits	117,640,902		117,640,902	16,540		(1,828,359)								115,829,083
b) other												2,668,067		2,668,067
Revaluation reserves	4,494,859		4,494,859										(574,278)	3,920,581
Equity instruments														
Treasury shares														
Profit (loss) for the year	70,313,719		70,313,719	(16,540)	(70,297,179)								79,477,696	79,477,696
Equity	**323,432,178**		**323,432,178**	-	**(70,297,179)**	**(1,828,359)**	-					**2,668,067**	**78,903,418**	**332,878,125**

Valori in unità di euro

At 12/31/2018

	Balance at 12/31/2017	Change in opening balance	Balance at 01/01/2018	Retained earnings (Accumulated losses)		Change during the year								Equity at 12/31/2018
							Equity transactions							
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	*Stock options*	Comprehensive income for the year 2018	
Share capital:														
a) ordinary shares	130,982,698		130,982,698											130,982,698
b) other shares														
Share premium														
Reserves														
a) from profits	115,829,083		115,829,083			(4,215,145)								111,613,938
b) other	2,668,067		2,668,067			(5,267)						1,543,788		4,206,588
Revaluation reserves	3,920,581	215,303	4,135,884										(4,414,347)	(278,463)
Equity instruments														
Treasury shares								(244,721)						(244,721)
Profit (loss) for the year	79,477,696		79,477,696		(79,477,696)								73,389,737	73,389,737
Equity	**332,878,125**	**215,303**	**333,093,428**		**(79,477,696)**	**(4,220,412)**		**(244,721)**				**1,543,788**	**68,975,390**	**319,669,777**

Statement of Cash Flows Indirect Method

Amounts in euros

	Amount	
A. OPERATING ACTIVITIES	12/31/2018	12/31/2017
1. Operations	**77,992,282**	**82,024,429**
- profit or loss for the period (+/-)	73,389,737	79,477,696
- capital gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)		
- capital gains/losses on hedge accounting (-/+)		
- net adjustments/reversals of impairment for credit risk (+/-)	1,759,147	1,156,177
- net adjustments to/reversals of impairment of property, plant and equipment and intangible assets (+/-)	2,746,332	2,772,129
- net allocations to provisions for risks and charges and other expenses/income (+/-)	97,066	(1,381,573)
- unpaid taxes and tax credits (+/-)		
- net adjustments to/reversals of impairment of discontinued operations, net of the tax effect (+/-)		
- other adjustments (+/-)		
2. Liquidity generated/absorbed by financial assets	**279,634,900**	**(514,541,620)**
- financial assets held for trading	-	(110,869)
- financial assets designated at fair value		
- other assets mandatorily measured at fair value		
- financial assets measured at fair value through OCI	63,544,457	(283,428,241)
- financial assets measured at amortized cost	384,033,911	270,682,273
- other assets	(167,943,468)	(501,684,783)
3. Liquidity generated/absorbed by financial liabilities	**306,405,178**	**(441,039,432)**
- financial liabilities measured at amortized cost	276,774,057	(452,884,519)
- financial liabilities held for trading	-	(6,568)
- financial liabilities designated at fair value		
- other liabilities	29,631,120	11,851,655
Net liquidity generated/absorbed by operating activities	**104,762,560**	**155,526,616**
B. INVESTING ACTIVITIES		
1. Liquidity generated by	-	-
- sale of equity investments		
- dividends collected on equity investments		
- sale of property, plant and equipment		
- sale of intangible assets		
- sale of business branches		
2. Liquidity absorbed by	**(2,296,548)**	**(2,618,556)**
- purchase of equity investments	-	-
- purchase of property, plant and equipment	(270,227)	(862,316)
- purchase of intangible assets	(2,026,321)	(1,756,240)
- purchase of business branches		
Net liquidity generated/absorbed by investing activities	**(2,296,548)**	**(2,618,556)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(244,721)	-
- issue/purchase of equity instruments		
- distribution of dividends and other	(83,692,841)	(72,125,538)
Net liquidity generated/absorbed by funding activities	**(83,937,562)**	**(72,125,538)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**18,528,450**	**80,782,523**

Reconciliation

Amounts in euros

Item	Amount	
	12/31/2018	12/31/2017
Cash and cash equivalents at the beginning of the year	80,928,000	145,477
Total net liquidity generated/absorbed during the year	18,528,450	80,782,523
Cash and cash equivalents: effect of change in exchange rate		
Cash and cash equivalents at the end of the year	**99,456,450**	**80,928,000**

Notes to the Financial Statements

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

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

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

Amounts in euros

	Assets	12/31/2017		Financial statement items pursuant to new Circular 262/2005 – 5th Update	
10.	Cash and cash equivalents	80,928,000	**10.**	Cash and cash equivalents	80,928,000
20.	Financial assets held for trading	0	**20.**	Financial assets measured at fair value through profit or loss a) financial assets held for trading b) financial assets designated at fair value c) other financial assets mandatorily measured at fair value	0
30.	Financial assets measured at fair value	0			
40.	Available-for-sale financial assets	101,449,267	**30.**	Financial assets measured at fair value through OCI	101,449,267
50.	Held-to-maturity financial assets	1,120,609,553	**40.**	Financial assets measured at amortized cost a) due from banks b) due from customers (*)	3,724,524,786 16,194,697 3,708,330,089
60.	Due from banks	16,194,697			
70.	Due from customers	2,587,720,536			
80.	Hedging derivatives	321,839	**50.**	Hedging derivatives	321,839
100.	Equity investments	115,487,012	**70.**	Equity investments	115,487,012
110.	Property, plant and equipment	11,872,992	**80.**	Property, plant and equipment	11,872,992
120.	Intangible assets of which *- goodwill*	3,439,560 *0*	**90.**	Intangible assets of which *- goodwill*	3,439,560 *0*
130.	Tax assets *a) current* *b) deferred* *under Law 214/2011*	28,408,962 *24,679,709* *3,729,253* *685,606*	**100.**	Tax assets *a) current* *b) deferred*	28,408,962 *24,679,709* *3,729,253*
150.	Other assets	7,678,847	**120.**	Other assets	7,678,847
	TOTAL ASSETS	**4,074,111,265**		**TOTAL ASSETS**	**4,074,111,265**

(*) "Due from customers" includes both item 70 ("due from customers"), equal to €2,587,720,536, and item 50 ("Held-to-maturity financial assets"), equal to €1,120,609,553, of the old set of financial statements.

Amounts in euros

	Liabilities and Equity	12/31/2017		Financial statement items pursuant to new Circular 262/2005 – 5th Update	
10.	Due to banks	460,386,581	**10.**	Financial liabilities measured at amortized cost a) due to banks b) due to customers c) debt securities issued	3,611,483,088 460,386,581 2,499,059,328 652,037,179
20.	Due to customers	2,499,059,328			
30.	Debt securities issued	652,037,179			
40.	Financial liabilities held for trading	0	**20.**	Financial liabilities held for trading	0
50.	Financial liabilities measured at fair value	0	**30.**	Financial liabilities designated at fair value	0
60.	Hedging derivatives	0	**40.**	Hedging derivatives	0
70.	Adjustments to hedged financial liabilities	0	**50.**	Adjustments to hedged financial liabilities	0
80.	Tax liabilities *a) current* *b) deferred*	80,866,182 *24,459,003* *56,407,179*	**60.**	Tax liabilities *a) current* *b) deferred*	80,866,182 *24,459,003* *56,407,179*
90.	Liabilities associated with assets held for sale	0	**70.**	Liabilities associated with assets held for sale	0
100.	Other liabilities	42,889,583	**80.**	Other liabilities	42,889,583
110.	Employee severance benefits	848,138	**90.**	Employee severance benefits	848,138
120.	Provisions for risks and charges: *a) pension and other post-employment benefits* *b) other provisions*	5,146,149 *4,218,868* *927,281*	**100.**	Provisions for risks and charges: *a) commitments and guarantees provided* *b) pension and other post-employment benefits* *c) other provisions*	5,146,149 *4,218,868* *927,281*
130.	Revaluation reserves	3,920,581	**110.**	Revaluation reserves	3,920,581
140.	Redeemable shares	0	**120.**	Redeemable shares	0
150.	Equity instruments	0	**130.**	Equity instruments	0
160.	Reserves	118,497,150	**140.**	Reserves	118,497,150
170.	Share premium	0	**150.**	Share premium	0
180.	Share capital	130,982,698	**160.**	Share capital	130,982,698
200.	Treasury shares	0	**170.**	Treasury shares	0
220.	Profit (loss) for the period	79,477,696	**180.**	Profit (loss) for the period	79,477,696
	TOTAL LIABILITIES AND EQUITY	**4,074,111,265**		**TOTAL LIABILITIES AND EQUITY**	**4,074,111,265**

Amounts in euros

	Consolidated Income Statement items	12/31/2017		Financial statement items pursuant to new Circular 262/2005 – 5th Update	
10.	Interest and similar income	189,906,947	**10.**	Interest and similar income	189,906,947
				of which: interest income calculated using the effective interest rate method	157,672,029
20.	Interest and similar expenses	(31,406,338)	**20.**	Interest and similar expenses	(31,406,338)
30.	**Net interest margin**	**158,500,609**	**30.**	**Net interest margin**	**158,500,609**
40.	Fee and commission income	7,712,597	**40.**	Fee and commission income	7,712,597
50.	Fee and commission expenses	(1,153,468)	**50.**	Fee and commission expenses	(1,153,468)
60.	**Net fees and commissions**	**6,559,129**	**60.**	**Net fees and commissions**	**6,559,129**
70.	Dividends and similar income	0	**70.**	Dividends and similar income	0
80.	Gains (losses) on trading	(4,804,040)	**80.**	Gains (losses) on trading	(4,804,040)
90.	Gains (losses) on hedge accounting	32,279	**90.**	Gains (losses) on hedge accounting	32,279
100.	Gains (losses) on disposal or repurchase of:		**100.**	Gains (losses) on disposal or repurchase of:	
	a) receivables			*a) financial assets measured at amortized cost*	
	b) available-for-sale financial assets	*1,758,957*		*b) financial assets measured at fair value through OCI*	*1,758,957*
	c) held-to-maturity financial assets			*c) financial liabilities*	
	d) financial liabilities				
110.	Gains (losses) on financial assets and liabilities measured at fair value	0	**110.**	Gains (losses) on other financial assets and liabilities measured at fair value through profit or loss	
				a) financial assets and liabilities designated at fair value	*0*
				b) other financial assets mandatorily measured at fair value	
120.	**Net banking income**	**162,046,934**	**120.**	**Net banking income**	**162,046,934**
130.	Net adjustments to/reversals of impairment of:		**130.**	Net adjustments/reversals of impairment for credit risk:	
	a) receivables	*(1,156,177)*		*a) financial assets measured at amortized cost*	*(1,156,177)*
	b) available-for-sale financial assets	*(701,869)*		*b) financial assets measured at fair value through OCI*	*(701,869)*
	c) held-to-maturity financial assets				
	d) other financial transactions				
140.	**Net profit from financial activities**	**160,188,888**	**150.**	**Net profit from financial activities**	**160,188,888**

Follows on the next page >>

150.	Administrative expenses:		**160.**	Administrative expenses:	
	a) personnel costs	*(22,154,182)*		*a) personnel costs*	*(22,154,182)*
	b) other administrative expenses	*(28,546,994)*		*b) other administrative expenses*	*(28,546,994)*
			170.	Net allocations to provisions for risks and charges	
				a) commitments and guarantees provided	*0*
160.	Net allocations to provisions for risks and charges	(824,628)		*b) other net allocations*	*(824,628)*
170.	Net adjustments to/reversals of impairment of property, plant and equipment	(1,142,327)	**180.**	Net adjustments to/reversals of impairment of property, plant and equipment	(1,142,327)
180.	Net adjustments to/reversals of impairment of intangible assets	(1,630,569)	**190.**	Net adjustments to/reversals of impairment of intangible assets	(1,630,569)
190.	Other operating income (expenses)	5,358,688	**200.**	Other operating income (expenses)	5,358,688
200.	**Operating costs**	**(48,940,012)**	**210.**	**Operating costs**	**(48,940,012)**
210.	Gains (losses) on equity investments	0	**220.**	Gains (losses) on equity investments	0
220.	Gains (losses) on fair value measurement of property, plant and equipment and intangible assets	0	**230.**	Gains (losses) on fair value measurement of property, plant and equipment and intangible assets	0
230.	Adjustments to goodwill	0	**240.**	Adjustments to goodwill	0
240.	Gains (losses) on disposal of investments	0	**250.**	Gains (losses) on disposal of investments	0
250.	**Profit (loss) before tax from continuing operations**	**111,248,876**	**260.**	**Profit (loss) before tax from continuing operations**	**111,248,876**
260.	Income taxes on profit (loss) from continuing operations	(31,771,180)	**270.**	Income taxes on profit (loss) from continuing operations	(31,771,180)
270.	**Profit (loss) after tax from continuing operations**	**79,477,696**	**280.**	**Profit (loss) after tax from continuing operations**	**79,477,696**
280.	Profit (loss) after tax from disposal groups held for sale	0	**290.**	Profit (loss) after tax from discontinued operations	0
290.	**Profit (loss) for the period**	**79,477,696**	**300.**	**Profit (loss) for the period**	**79,477,696**

IFRS 9 – Financial Instruments – Bank's transition process

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

Qualitative impacts for the Bank

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

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

In compliance with IFRS 9, the Bank has, on the one hand, defined the contractual cash flow characteristics of the financial instruments and, on the other, identified the management intentions with which they are held (the so-called business model). In this context, the procedures used to test the contractual cash flow characteristics were established (the so-called SPPI test) and the business models adopted were formalized.
As far as the SPPI test is concerned, the composition of the securities and receivables portfolios at December 31, 2017 was analyzed based on the methodology defined, in order to determine the proper classification upon First Time Adoption (FTA) of the new standard.
The securities and receivables portfolio of the Bank at December 31, 2017 were subject to all the analysis phases required by the new IFRS 9. The analysis confirmed the assessment and measurement criteria used for the Bank's financial instruments. This confirmation essentially derives from having passed the SPPI tests. Upon first time adoption, marginal circumstances emerged from the analysis of certain financial instruments in the receivables portfolio, requiring, by virtue of specific contractual clauses, the performance of a benchmark test. Prior measurements were confirmed in these cases, too.
With regards to the securities portfolio, the SPPI test was performed upon first time adoption of the new accounting standard, and measurement criteria were confirmed. This test is performed with regard to continuing operations in compliance with current policies.

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

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

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

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

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

As far as receivables are concerned, following the adoption of the new IFRS 9, non-recourse receivables measured at amortized cost have been classified in the category belonging to the Held to Collect (HTC) business model.
The Bank has decided not to define thresholds of value, frequency or timing prior to the maturity of the financial instrument, as no sales transactions are expected.
Therefore, if sales were considered necessary/appropriate (based on the relevant business model), by virtue of common market practice, a value percentage threshold determined as the sum of the value of sales made in the period/the carrying amount of the HTC portfolio at the beginning of the period should be considered sustainable.
With regard to the sales frequency threshold, the Bank sets the frequency threshold based on market practice.

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

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

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

ii) Impairment, based on the new expected loss model, which prospectively considers credit losses over the life of the financial instrument and requires their immediate recognition rather than on the occurrence of a trigger event as required by the incurred loss model pursuant to IAS 39.
In this context, an approach based on the use of credit risk parameters (Probability of Default - PD -, Loss Given Default - LGD -, Exposure at Default - EAD -), redefined based on a multi-period perspective, is deemed feasible.
More specifically, the new expected loss impairment model requires companies to segment their portfolios into three levels (Stages), in relation to the change in credit risk of the asset compared to initial recognition.

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

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

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

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

With regard to the transfer of performing financial assets (recognized in Stage 1 and Stage 2), IFRS 9 does not explicitly define the concept of "significant" increase, but it specifies that the information used to measure changes in credit risk may fall into one or both of the following categories:
- qualitative/non-statistical quantitative information, not involving statistical models or the credit ratings process;
- quantitative information, captured through the internal ratings process.

Based on the provisions on stage allocation, an entity shall consider the following when assessing whether the credit risk on a financial instrument has increased significantly (see IASB, 2014, B5.5.12):
- the change in the risk of a default occurring since initial recognition;
- the expected life of the financial instrument;
- the forward-looking information that may affect credit risk.

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

In order to implement the stage allocation process proposed by IFRS 9, the Bank adopted the following criteria:
- The first (Low Credit Risk Exemption) concerns the possibility of avoiding the transition to Stage 2 if, at the reporting date, the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. An external rating of investment grade - according to the ECAIs' master scale - is an example of a financial instrument that may be considered as having "low credit risk".
- The second concerns the transition from Stage 1 to Stage 2 for contractual payments that are more than 30 days past due or in the case of other qualitative information (e.g., forbearance). The standard specifies that a significant deterioration in credit risk can occur even before this deadline, which is therefore intended to serve as a backstop beyond which the transition to Stage 2 shall be made and lifetime expected credit losses shall be recognized. This presumption is defined as "rebuttable" by the standard. An entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not actually increased since initial recognition even though the contractual payments are more than 30 days past due.

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

At the end of each reporting period, the Bank shall recognize a loss allowance for expected credit losses on all performing financial assets that are measured at (see IFRS 9, 5.5.1):
- Amortized cost (AC);
- Fair value through other comprehensive income (FVOCI).

The Bank shall also test the following items for impairment:
- commitments and guarantees provided not measured at FVPL;
- Lease receivables governed by IAS 17;
- Trade receivables governed by IAS 15.

The methodology for the purposes of IFRS 9 mainly applies to the Bank's performing exposures, under the assumption that the calculation of Stage 3 impairment will not substantially change. Within this framework, multi-scenario analyses will be run.
Expected credit losses are a probability-weighted estimate of the present value of all cash shortfalls (i.e., the difference between the cash flows due under the contract and those that the bank expects to receive) which are expected in the future (or in the event of lifetime estimates, over the expected life of the financial instrument).

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

The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous accounting standards are as follows:
- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the instrument, thus replacing the “incurred loss” criterion. According to the latter, impairment losses were recognized only when there was evidence that they existed (based on the identification of a trigger event). According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;
- ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;
- use of forward-looking information and macroeconomic factors to determine ECL;
- introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

The ECL calculation model requires a quantitative assessment of future cash flows and assumes that they can be reliably estimated. This requires the identification of certain elements, namely:
- probability of default (PD) models and assumptions about the forward distribution of default events, for the calculation of multi-period PDs used to determine the lifetime expected credit loss;
- LGD model;
- a deterministic and stochastic EAD model, for which it is possible to define a multi-period distribution, as well as a 12-month horizon.

Therefore, the risk parameters that should be modeled to comply with the rationale of considering the full lifetime of the financial instrument are as follows:
- multi-period PD;
- multi-period LGD;
- multi-period EAD.

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

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

Probability of Default (PD)

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

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

In the absence of an internal rating system to define the PD, the Bank has adopted a model based mainly on external information sources (e.g., rating agencies). The methodological orientation was directed towards the identification of discriminating risk drivers so that a credit quality rating, and therefore a probability of default, could be assigned. This choice was guided by the following factors:
- Bank's adoption of a standard model for determining the capital requirement for credit risk;
- coherence with the methodology used to assign ratings for the calculation of collective impairment losses according to IAS 39;
- analysis of the Bank's counterparties and products (technical forms) by type.

To calculate the PD, the Bank has divided its exposures into uniform clusters to distinguish the risk profiles of financial instruments requiring the calculation of value adjustments, as shown below.
- **Public counterparties:** the credit rating was assigned according to the time series of external ratings provided by the ECAI employed and referring to sovereign and sub-sovereign counterparties. The rating was assigned based on an external assessment assigned to the counterparties associated with the exposure subject to impairment, at the various observation times (reporting date and transaction origin date).

• **Non-public counterparties** (excluding Financial Institutions): with reference to Banca Farmafactoring S.p.A. exposures, the Bank considered the quarterly decay rate[1] *("The decay rate in a given quarter is given by the ratio of two quantities. The denominator consists of the number of subjects registered in the Central Credit Register and not considered as "adjusted impairment" at the end of the previous quarter. The numerator is the number of persons who entered into adjusted impairment during the quarter of recognition. The denominator is net of any receivables assigned in the quarter to intermediaries not participating in the Central Credit Register. The denominator of the ratio, although referring to the end of the previous quarter, is conventionally reported with an accounting date in the quarter in which it is recognized (the same as the numerator and the decay rate).")* from 1996 to the present.
• **Financial Institution counterparties:** Financial Institution counterparties receive a credit rating assessment defined by the applicable ECAI, based on the evaluation time (reporting/origination date).

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

After the assignment of the one-year PD, the lifetime PD is determined using the Homogeneous Discrete-time Markov Chain Method (HDTMC), which considers the following assumptions:
- estimation of cumulative PD curves using homogeneous migration matrices;
- estimation of the probability of the migration matrix's cumulative migration using the "cohort method" over discrete time horizons.

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

The calculation methodology underlying the creation of these scenarios takes into account:
- specific currently observable factors of counterparties in identified clusters (e.g., current rating, outlook/watchlist status);
- future developments in macroeconomic factors (e.g., GDP growth rate, unemployment rate, credit spread movements).

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

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.

[1] In accordance with the definition adopted by the Bank of Italy's Statistical Bulletin.

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

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

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

Loss Given Default (LGD)

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

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

The Bank assigns an LGD value to each transaction on the basis of appropriate portfolio “clustering”, taking into account the following risk factors: the probability of default associated with the counterparty, the reference economic sector, and factors specific to the transaction (e.g., type of financing and positioning of the financing within the capital structure).

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

In this context, an approach based on the use of credit risk parameters (including Exposure at Default – EAD) to define and set parameters based on a multi-period perspective, is deemed feasible.

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

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

Exposure at Default (EAD)

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

From these distinguishing factors for Exposure at Default modelling, the following cases have been defined:
• exposures with a deterministic repayment plan (known cash flows and due dates);
• stochastic exposures (unknown cash flows and/or due dates).

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

Stage Allocation

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

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

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

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

Activities and quantitative impacts on the Bank

In relation to the application of IFRS 9 as from January 1, 2018, in the first quarter of 2017 Banca Farmafactoring launched a project to adopt the new requirements introduced by the new standard.
This project, which involves every legal entity of the Group, has been divided into two macro areas - Classification and Measurement and Loss Loan Provision (LLP) - and into three phases: Assessment, Design and Implementation.
On launching the project, an Assessment phase was undertaken in which an estimate was made, at both individual and aggregate level, of the effects arising from the adoption of the new standard, so as to be able to assess its impact and identify the actions to be taken in order to best manage the changes introduced by IFRS 9.
As part of Classification and Measurement (C&M), the so-called SPPI test was carried out: the various types of contracts included in the scope of consolidation were identified and analyzed for the various portfolios, securities and receivables.
The SPPI test did not identify any financial assets or liabilities to be measured at fair value, therefore confirming substantial continuity of the criteria already adopted in compliance with IAS 39.

Having taken account of the characteristics of the financial assets which make up the Bank's portfolio, no significant divergences emerged in terms of economic impact between the new model based on expected losses and the model used currently, based on incurred losses, since most of the Bank's receivables are due from public administration agencies or are short-term.
In particular, calculations carried out on the portfolio at January 1, 2018 show that, at the Bank level, the impact of the First Time Adoption of IFRS 9 generated collective impairment in line with that calculated according to IAS 39.
The positive impact for the Bank (equal to €321 thousand, as detailed in the statement showing transition to IFRS 9) mainly arose from the characteristics of the portfolio, mostly including public administration counterparties and with duration of less than 1 year, in relation to which calculation parameters have been redetermined even more precisely during the transition to IFRS 9.

The Design phase, which was completed within the timeframes envisaged in planning the activities, focused on defining the criteria necessary to implement processes and procedures relating to the business model, the SPPI test, the Benchmark test and the Stage allocation.
The Implementation phase was undertaken as planned, and IT work (e.g., development and adoption of the impairment engine and of the SPPI tool) and organizational work (Regulations, Policies and Processes) were carried out.

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

		IFRS 9 impacts				
Assets	12/31/2017 (IAS 39)	Effects on classification and measurement	Effects on credit risk	Equity	Tax effect	01/01/2018 (IFRS 9)
10. Cash and cash equivalents	80,928,000					80,928,000
30. Financial assets measured at fair value through OCI	101,449,267		(14,020)			101,435,247
40. Financial assets measured at amortized cost	3,724,524,786					3,725,320,573
a) due from banks	*16,194,697*		*(10,172)*			*16,184,525*
b) due from customers	*3,708,330,089*		*805,959*			*3,709,136,048*
50. Hedging derivatives	321,839					321,839
70. Equity investments	115,487,012					115,487,012
80. Property, plant and equipment	11,872,992					11,872,992
90. Intangible assets	3,439,560					3,439,560
100. Tax assets	28,408,962					28,610,385
a) current	*24,679,709*					*24,679,709*
b) deferred	*3,729,253*				*201,423*	*3,930,676*
120. Other assets	7,678,847					7,678,847
Total assets	**4,074,111,265**		**781,767**		**201,423**	**4,075,094,455**

Liabilities and Equity	12/31/2017 (IAS 39)	IFRS 9 impacts Effects on classification and measu-rement	IFRS 9 impacts Effects on credit risk	IFRS 9 impacts Equity	IFRS 9 impacts Tax effect	01/01/2018 (IFRS 9)
10. Financial liabilities measured at amortized cost	3,611,483,088					3,611,483,088
a) due to banks	*460,386,581*					*460,386,581*
b) due to customers	*2,499,059,328*					*2,499,059,328*
c) debt securities issued	*652,037,179*					*652,037,179*
20. Financial liabilities held for trading	0					0
40. Hedging derivatives	0					0
60. Tax liabilities *a) current* *b) deferred*	80,866,182 *24,459,003* *56,407,179*				 *307,513* 	81,173,695 *24,766,516* *56,407,179*
80. Other liabilities	42,889,583					42,889,583
90. Employee severance benefits	848,138					848,138
100. Provisions for risks and charges:	5,146,149					5,607,110
a) commitments and guarantees provided	*0*		*460,961*			*460,961*
b) pension and other post-employment benefits	*4,218,868*					*4,218,868*
c) other provisions	*927,281*					*927,281*
110. Revaluation reserves	3,920,581			214,715		4,135,297
140. Reserves	118,497,150					118,497,150
160. Share capital	130,982,698					130,982,698
170. Treasury shares	0					0
180. Profit (loss) for the period	79,477,696					79,477,696
Total liabilities and equity	**4,074,111,265**		**460,961**	**214,715**	**(106,091)**	**4,075,094,455**
	Total		**320,806**	**(214,715)**	**(106,091)**	

Part A - Accounting Policies

A.1 – GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

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

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

Section 2 – General preparation principles

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

The financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity, and the notes to the financial statements, and are accompanied by the Directors' report on operations.

In accordance with the provisions of Article 5, paragraph 2, of Legislative Decree no. 38 of February 28, 2005, the financial statements are denominated in euros, as the euro is BFF's functional currency.

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

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

General preparation principles

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

Accounting standards and interpretations effective as of January 1, 2018

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

IFRS 15 "Revenue from Contracts with Customers" introduces a single model to recognize all revenue deriving from contracts signed with customers. It replaces the previous standards/interpretations on revenue (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). This model requires an entity to recognize revenue on the basis of the payments expected to be received for goods and services provided as part of ordinary operations. This is a new model for recognizing revenues which no longer refers to the characteristics of the item being transferred to the customer (goods, services, interest, royalties, etc.), but which is based on the distinction between a performance obligation satisfied at a point in time and an obligation satisfied over time.

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

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

Owing to this approach, the measurement and timing of recognition of sales revenues could diverge from those identified in compliance with the provisions of IAS 18. Based on the analysis carried out, the application of this standard will not have any particular impact on the Group.

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

- IFRS 9 – Financial Instruments, adopted by Regulation (EU) 2016/2067. This new accounting standard IFRS 9 largely replaced IAS 39 – Financial Instruments: Recognition and Measurement, in order to improve disclosure on financial instruments to better take into account the difficulties which arose during the financial crisis. It has also introduced an accounting model that can promptly reflect the expected losses on financial assets. The new standard requirements on financial instruments were complied with in the above-mentioned criteria.

- Clarifications to IFRS 15 – Revenue from Contracts with Customers, adopted by Regulation (EU) 2017/1987. These amendments aim to clarify the new revenue recognition requirements and provide additional transitional relief for companies that are retrospectively implementing the standard.

- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, adopted by Regulation (EU) 2017/1988. The amendments aim to address the temporary accounting consequences of the different effective dates of IFRS 9 and the new standard for insurance contracts

replacing IFRS 4 (IFRS 17) from January 1, 2021. Specifically, by virtue of these new provisions, insurance entities are allowed to:
a) apply a temporary exemption from IFRS 9, that permits the insurer to apply IAS 39 until January 1, 2021. The insurer may apply this exemption if, and only if its activities are predominantly connected with insurance; or
b) apply the overlay approach, an option that allows to recognize in OCI the difference between the profit (loss) generated by "Financial assets designated at fair value through profit or loss" under IFRS 9, and the profit (loss) generated by such financial assets under IAS 39. As a result, the effect of such financial assets on profit or loss would be the same, regardless of the accounting rules followed.

• Annual Improvements to IFRS Standards 2014–2016 Cycle, adopted by Regulation (EU) 2018/182, as part of the annual improvements to and general revision of international accounting standards. The amendments provided for by such Regulation impact the following standards: IAS 28 – Investments in Associates and Joint Ventures and IFRS 1 – First-time Adoption of International Financial Reporting Standards.

• Amendments to IFRS 2 – Share-based Payment, adopted by Regulation (EU) 2018/289. Such Regulation introduces some formal amendments and examples to clarify the cases specified in the standard. Furthermore, the amendments clarify the accounting treatment of vesting and non-vesting conditions for cash-settled share-based payment transactions. Finally, the Regulation also provides the new requirements on the accounting for "Share-based payment transactions with a net settlement feature for withholding tax obligations".

• Amendments to IAS 40 – Investment Property - Transfers of Investment Property, adopted by Regulation (EU) 2018/400. These amendments clarify when an entity is allowed to reclassify a property to (or from) the 'investment property' category.

• IFRIC 22 - Foreign Currency Transactions and Advance Consideration, adopted by Regulation (EU) 2018/519. This Interpretation aims at clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

Upcoming accounting standards and interpretations

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

• IFRS 16 - Leases, adopted by Regulation (EU) 2017/1986. The new standard aims to improve financial reporting on lease contracts, by giving a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of a lessee.
IFRS 16 significantly modifies current provisions on the lease accounting treatment, by introducing a single lessee accounting model for both operating and finance leases.
Lessees are required to comply with the following main provisions:
a) For contracts within the Standard's scope, the identified asset is classified as a right-of-use asset and presented in the statement of financial position as investment property. The relevant financial liability shall also be recognized.
b) At the commencement date, a lessee shall measure the asset at the present value of the lease payments agreed by contract to use the asset.
c) For subsequent measurement of the asset and over the lease term, the asset is depreciated on a

systematic basis, while interest expense on the financial liability is calculated based on the interest rate implicit in the lease.
d) When lease payments are made, the financial liability is reduced by that amount. The scope of this standard does not include the so-called "short-term leases" (with a lease term of 12 months or less) and "leases for which the underlying asset is of low value" (with assets worth 5,000 dollars or less). For such contracts, the lessor may exercise the option of not applying IFRS 16, thus continuing to comply with the current accounting treatment provisions. Although they qualify as leases, a lessor may elect not to apply this standard to leases of intangible assets other than those expressly excluded (such as rights on motion picture films, video recordings, plays, manuscripts, patents and copyrights). In 2018, the Bank started its analysis of the categories of contracts involved (albeit negligible in number) and the related impacts that the applications of said standard will have on the annual financial statements. The initial results do not reveal any significant quantitative impacts worthy of note as at today's date.

• Amendments to IFRS 9 – Financial Instruments - Prepayment Features with Negative Compensation, adopted by Regulation (EU) 2018/498. These amendments are intended to clarify the classification of particular prepayable financial assets when applying the new accounting standard on financial instruments.

• IFRIC 23 – Uncertainty over Income Tax Treatments, adopted by Regulation (EU) 2018/1595. This interpretation aims to specify how to reflect uncertainty in accounting for income taxes.

At the approval date of these financial statements, the following accounting standards, amendments and interpretations were issued by the IASB, although not yet endorsed by the European Commission:
• IFRS 17 – Insurance Contracts;
• IFRIC 23 – Uncertainty over Income Tax Treatments;
• Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
• Annual Improvements to IFRS Standards 2015-2017 Cycle;
• Amendments to IAS 19: Plan Amendment, Curtailment or Settlement;
• Amendments to References to the Conceptual Framework in IFRS Standards.

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

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

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

Section 4 – Other issues

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

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

to a change in the subjective assessments.
Estimates and assumptions are reviewed on a regular basis. Any changes resulting from such reviews are recognized in the period in which the review is made, provided that the review involves only that period. Should the review involve both current and future periods, the change is recognized in the period in which the review is made, and in the related future periods.

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

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

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

Independent audit

The Shareholders' Meeting of Farmafactoring S.p.A. held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. to audit the financial statements from 2012 to 2020, pursuant to the provisions of Legislative Decree no. 39/2010.

A.2 - MAIN ITEMS OF THE FINANCIAL STATEMENTS

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

Financial assets

The following three paragraphs include the guidelines for recognizing, accounting for and measuring financial assets pursuant to new IFRS 9 requirements, as described in the previous section and in compliance with the 5th Update of Bank of Italy's Circular no. 262 of December 22, 2005, which incorporates the changes introduced about the recognition requirements and distinguishes these categories:
- Financial assets measured at fair value through profit or loss (not included among Banca Farmafac-

toring's assets);
- Financial assets measured at fair value through OCI;
- Financial assets measured at amortized cost.

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

Recognition criteria

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

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTC&S business model); and

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

In addition, equity instruments for which the Bank has decided to use the FVOCI (Fair Value through Other Comprehensive Income) option are also measured at fair value through OCI. The FVOCI option provides for the recognition in OCI of all income components relating to these instruments, without any impact (even in the event of disposals) on profit or loss.
The Bank has decided to use the FVOCI option for the equity instruments held, whose amount is not significant.
Such financial assets are initially recognized at fair value on the settlement date. This amount usually corresponds to the consideration paid, including transaction costs and income directly attributable to the instrument.

Classification criteria

The main items in this category are government securities classified in the HTC&S portfolio, the equity investment in Nomisma S.p.A. (since this company is not subject to significant influence), and the operations required by the FITD Voluntary Scheme.
The financial assets classified within the HTC&S business model are held in order to collect contractual cash flows and for the sale of the assets as well. According to the provisions of IFRS 9, a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets has a higher frequency and amount of sales compared to a Held to Collect business model. This is because the sale of financial assets is essential in order to achieve the objective of the business model, rather than incidental to it.

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

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

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

Measurement criteria

With regard to debt securities, these assets are subsequently measured at fair value, with the interest recognized at amortized cost in the income statement under item 10 “Interest and similar income”. Gains and losses arising from changes in fair value are recognized in equity under item 110 “Revaluation reserves” except for impairment and impairment losses pursuant to IFRS 9, which are recognized under item 130 “Net adjustments to/reversals of impairment of: b) financial assets measured at fair value through OCI”.
Gains and losses are recognized in Revaluation reserves until the financial asset is disposed of, when the accumulated gains or losses are recognized in the income statement under item 100 “Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through OCI”.
Fair value changes recognized under item 110 “Revaluation reserves” are also reported in the statement of comprehensive income.
Equity instruments (shares) not traded in an active market, whose fair value cannot be determined reliably due to the lack or unreliability of the information needed for fair value measurement, are measured at their last reliably measured fair value.
For the purposes of IFRS 9, the impairment of financial assets included in this category is recognized in three different stages based on the relevant credit risk level.

More specifically, for Stage 1 instruments (financial assets that are not credit-impaired on initial recognition and instruments that have not been subject to significant increases in credit risk since initial recognition) 12-month expected credit losses are recognized at the initial recognition date and at each subsequent reporting date.
For Stage 2 instruments (performing exposures showing significant increases in credit risk since initial recognition) and Stage 3 instruments (credit-impaired exposures), full lifetime expected credit losses are recognized instead.

For debt instruments, any circumstances indicating that the borrower or issuer is experiencing financial difficulties such as to prejudice the collection of principal or interest, constitute evidence of an impairment loss.
If there is objective evidence of impairment, the cumulative loss that was initially recognized in equity under item 110 “Revaluation reserves” is then transferred to the income statement under item 130 “Net adjustments to/reversals of impairment of: b) financial assets measured at fair value through OCI”. The amount transferred to the income statement is equal to the difference between the asset’s carrying amount (value at initial recognition net of any previous impairment losses already recognized in the income statement) and its current fair value.

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

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

Derecognition criteria

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

3 - Financial assets measured at amortized cost

Recognition criteria

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

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (HTC business model); and

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

On the basis of the accounting statements introduced by the 5th Update of Bank of Italy's Circular no. 262 of December 22, 2005, this financial statement item shall separately show:
- receivables due from banks;
- receivables due from customers, including debt securities classified in the HTC business model.

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

Non-recourse receivables:

a) purchased on a non-recourse basis, with substantial transfer of all risks and rewards as well as cash flows, are initially recognized at fair value, represented by the face value of the receivable net of fees and commissions charged to the assignor;

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

HTC debt securities have fixed or determinable payments and a fixed maturity and may be used for repurchase agreements, loans or other temporary refinancing operations.
These assets are initially recognized at fair value on the settlement date. This amount usually corresponds to the consideration paid, including transaction costs and income.
This item also includes finance lease transactions, meaning contracts that transfer all the risks and rewards of ownership of the asset to the lessee. At the end of the contract, the title to the asset is not necessarily transferred to the lessee.

Classification criteria

Receivables due from banks mainly refer to current account transactions generated by liquidity collected in the closing days of the period, pending clearance, relating to both receivables management contracts and management of non-recourse receivables.
Receivables due from customers are primarily comprised of receivables from debtors relating to factoring activities and late payment interest, computed based on receivables purchased on a non-recourse basis in accordance with existing laws (Legislative Decree 231/2002 "Implementation of Directive 2000/35/EC on combating late payments in commercial transactions").

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

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

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

As far as the reclassification of financial assets is concerned (excluding equity securities, which are not eligible for reclassification), IFRS 9 allows an entity to reclassify its financial assets to other categories of financial assets if and only if the business model for managing those assets changes.
In such cases, which are expected to be very infrequent according to the standard, financial assets can be reclassified from amortized cost to one of the other two categories provided for by IFRS 9 (FVOCI or FVPL).
The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. Gains or losses arising from the difference between the amortized cost of a financial asset and its fair value are recognized in the income statement in the case of a reclassification to FVPL, or in equity, as part of the relevant revaluation reserve, in the case of a reclassification to FVOCI.

Measurement criteria

After initial recognition, financial assets are measured at amortized cost, equal to the original amount, less repayment of principal and impairment losses, and increased by any reversal and amortization, calculated using the effective interest rate method, 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 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 sales contract.

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

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

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

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

The Bank carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets.
As already illustrated in the section on its first time adoption, IFRS 9 introduces the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are an estimate of the weighted probability of credit losses over the expected lifetime of the financial instrument. Since a loss may not necessarily occur before it is recognized in the financial statements, generally all financial assets will entail the recognition of a provision.
The approach adopted is represented by the general deterioration model, which envisages a three-stage classification. These stages reflect the deterioration of the credit quality of the financial instruments included within the scope of application of IFRS 9.
At each reporting date, the entity assesses whether there has been a significant change in credit risk compared to the initial recognition. If so, this will result in a change of stage: the model is symmetrical, and assets can move between different stages.
For assets classified in Stage 1, the loss allowance relating to each individual financial asset is 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 carrying amount of the asset is reduced accordingly and the loss is recognized in the income statement under item 130 "Net adjustments to/reversals of impairment of: a) financial assets measured at amortized cost".
If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be objectively attributable to an event relating to the improvement in the debtor's creditworthiness occurring after recognition of impairment, the previously recognized impairment loss is reversed. After the reinstatement, the carrying amount cannot in any case exceed measurement at amortized cost, had the impairment loss not been recognized. The amount of the reinstatement is recognized in the same item of the income statement.
For more extensive, detailed description of the methodological choices made by the Bank, in regard to the staging allocation and models used to determine the essential parameters for calculating value adjustments (PD, LGD, EAD), reference is made to the specific section dedicated to the description of the effects of the first-time adoption of IFRS 9.

Derecognition criteria

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

4 - Hedging

Recognition criteria

As noted above, in compliance with IFRS 9, the Bank has opted to continue to apply IAS 39 hedge accounting even after IFRS 9 came into force.
A hedging transaction is the designation of a financial instrument having as its purpose to offset, in whole or in part, the profit or loss arising from the changes in the fair value or cash flows of the hedged item. The intent of hedging must be formally designated, not retroactive and consistent with the risk hedging strategy set out by the Bank's management. Hedge accounting is permitted by IAS 39 only under certain circumstances provided that the hedging relationship is:
- clearly designated and documented;
- measurable;
- currently effective.

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

Classification criteria

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

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

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

Measurement criteria

Derivative financial instruments designated as hedges are recognized and measured at their fair value.
When a financial instrument is designated as a hedge, the Bank - as previously described - formally reports the relationship between the hedging instrument and the hedged item, and assesses the hedging instrument’s effectiveness, both at inception and during its life, in achieving offsetting changes in the fair value or cash flows of the hedged item. A hedge is considered effective if, both at inception and during its life, the changes in the hedged item’s fair value or cash flows are offset by the changes in the hedging derivative’s fair value.
Consequently, the hedge’s effectiveness is assessed by comparison of the above changes, taking into account the objective pursued by the entity when the hedge was put into place. It is effective (within a range of 80-125%) when the estimated and effective changes in the fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item.

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

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

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

- fair value hedge: changes in the fair value of the hedged item attributable exclusively to the hedged risk are recognized in profit or loss, the same as the fair value change of the hedging derivative; any difference, which represents the partial ineffectiveness of the hedge, consequently corresponds to the net gain or loss;
- cash flow hedge: changes in the fair value of the derivative are recognized in equity, for the effective portion of the hedge, and are recognized in profit or loss only when, with regard to the hedged item, there is variability in cash flows that needs to be offset, or for the ineffective portion of the hedge;
- hedge of a net investment in a foreign operation: cash flow hedge accounting is applied.

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

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

Derecognition criteria

Hedge accounting is discontinued in the following cases: a) the hedging relationship ceases or is no longer highly effective; b) the hedged item is sold or repaid; c) early revocation of the designation; d) the hedging instrument expires or is sold, terminated or exercised.
If the hedge is not effective, the portion of the derivative contract no longer hedging (over hedging) is reclassified to trading instruments. If the interruption in the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be hedged and is again measured in the portfolio to which it belongs.
The hedging financial assets and liabilities are derecognized when there are no longer any contractual rights (e.g., expiration of the contract, early closing exercised according to the contractual clauses - unwinding) to receive cash flows from the financial instruments, the hedged assets/liabilities, and/or the derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and rewards connected thereto.

5 – Equity investments

Recognition criteria

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

Classification criteria

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

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

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

Measurement criteria and recognition of income components

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

Derecognition criteria

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

6 - Property, plant and equipment

Recognition criteria

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

Costs incurred subsequently are added to the asset's carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be measured reliably (e.g., extraordinary maintenance costs). Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized in the period incurred in the income statement under item 160 b) "other administrative expenses," if they refer to assets used in the Bank's business activities.
This item also includes assets used by the entity as the lessee in finance lease agreements, or those granted as the lessor in operating lease agreements.

Classification criteria

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

Measurement criteria

Subsequent to initial recognition, property, plant and equipment is carried at cost, net of accumulated depreciation and impairment losses, if any.
They are depreciated on a straight-line basis over their estimated useful lives, understood as the period during which an asset or property is expected to contribute to company operations, adopting the straight-line method as the depreciation criterion. The estimate of the useful life is shown below:

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

Land and buildings are treated separately for accounting purposes, even if purchased together. Land is not depreciated since, as a rule, it has an indefinite useful life.
The estimated useful life of property, plant and equipment is reviewed at the end of each reporting period, taking into account the conditions of use of the assets, maintenance conditions, expected obsolescence etc. and, if expectations differ from previous estimates, the depreciation expense for the current and subsequent periods is adjusted.

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

If there is objective evidence that an asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 180 "Net adjustments to/reversals of impairment of property, plant and equipment".
If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

Derecognition criteria

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

7 - Intangible assets

Recognition criteria

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

Classification criteria

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

Measurement criteria

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives, which are usually as follows:

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

If there is objective evidence that an asset has been impaired, the asset's carrying amount is compared with its recoverable amount, equal to the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. Any adjustments to the value of the asset are recognized in the income statement under item 190 "Net adjustments to/reversals of impairment of intangible assets."
If the value of a previously impaired intangible asset is reinstated, the new carrying amount cannot exceed the net carrying amount that would have been attributed to the asset if no impairment loss had been recognized in prior years.

Derecognition criteria

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

9 - Current and deferred taxes

Recognition and measurement criteria

Income taxes are computed in accordance with the tax legislation in force.
The tax charge consists of the total amount of current and deferred income taxes, included in determining the result for the period.
Current taxes correspond to the amount of income taxes due for the period. Deferred tax liabilities correspond to the amount of income taxes due in future periods and refer to taxable temporary differences which arose in the period or in previous periods. Deferred tax assets correspond to the amount of income taxes recoverable in future periods and refer to deductible temporary differences which arose in the period or in previous periods.

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

Deferred tax assets are recorded under item 100 b) of assets. Deferred tax liabilities are recorded under item 60 b) of liabilities. Deferred tax assets and liabilities are constantly monitored and are recorded by applying the tax rates that it is expected will be applicable in the period in which the tax asset will be realized, or the tax liability will be extinguished, on the basis of the tax rates and the tax law established by provisions in force. The accounting contra entry for both current and deferred assets and liabilities consists normally of the income statement item 270 "Income taxes on profit (loss) from continuing operations". The size of the provision for taxes is adjusted to meet charges that might arise from any assessments already communicated or in any case from outstanding disputes with tax authorities.

10 - Provisions for risks and charges

Recognition and measurement criteria

Provisions for risks and charges cover costs and expenses of a determinate nature, the existence of which is certain or probable, which, at the end of the reporting period, are uncertain as to amount or timing.
Accruals to the provisions for risks and charges are recognized only when:
- a present obligation has arisen as a result of a past event;
- upon its manifestation, the obligation is onerous;
- the amount of the obligation can be estimated reliably.

As required by IAS 19, the provisions for risks and charges include the measurement of post-employment benefit obligations.
The measurement of such obligations in the balance sheet is made, when necessary, based on actuarial calculations, by determining the charge at the measurement date based on demographic and financial assumptions.
Under IFRS 9, expected credit losses on commitments and guarantees provided shall be determined based on the initial credit risk of the commitment, starting from the date on which such commitment was made.
The relevant loss allowance shall be recognized as a balance sheet liability under item "100 Provisions for risks and charges: a) commitments and guarantees provided".

Derecognition criteria

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

11 - Financial liabilities measured at amortized cost

Recognition criteria

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

Classification criteria

Financial instruments (other than trading liabilities and those measured at fair value) representing the different forms of third-party funding are allocated to "Due to banks", "Due to customers" and "Debt securities issued".
Interest expense is recorded in the income statement under item 20 "Interest and similar expenses".

Measurement criteria

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

Derecognition criteria

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

15 - Other information

Employee severance benefits

Recognition and measurement criteria

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

- by projecting the accrued employee severance benefits, using demographic assumptions, to estimate the time of termination of employment;

- by discounting to present value, at the measurement date, the amount of the accrued benefits at December 31, 2018, based on financial assumptions.

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

The costs for servicing the plan are recorded under personnel costs, item 160 "Administrative expenses - a) personnel costs" as the net total of contributions paid, contributions accrued in previous periods and not yet recorded, interest accrued, and expected revenues from assets servicing the plan. Actuarial gains and losses, as envisaged by IAS 19, are recorded in a revaluation reserve.

Share-based payment arrangements with BFF employees

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

On December 5, 2016, the BFF Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, already submitted for examination by the Bank of Italy pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular no. 285.
During the first half of 2017, following the listing, the option rights relating to the aforementioned stock option plan were assigned for the first tranche only. Option rights relating to second tranche were assigned during the first quarter of 2018.

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

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

(i) the Bank's shares and related instruments, including the stock option plan; and

(ii) where possible, the other instruments identified in Delegated Regulation (EU) no. 527 of March 12, 2014.

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

i) both pursuant to the incentive system based on company and individual objectives (so-called "MBO"),

ii) and in order to meet any payment obligations pursuant to non-competition agreements ("NCAs"), should in the future Risk Takers who have signed such agreements leave the Group.

Revenue recognition criterion

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

- Fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenues and are therefore part of the effective return on the receivable recognized at amortized cost;

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

  Concerning the first two points, one may argue that the collection of late payment interest on receivables acquired without recourse represents a structural element of the ordinary business activities for the management of such receivables and is not ancillary to profitability.
  As for the third point, every year since 2014, the Bank has been updating the analysis of the time series concerning the average collection percentage and time for late payment interest. Also in 2018, it reviewed the average collection percentage and time for late payment interest, and updated the existing time series.

As a matter of fact, Banca Farmafactoring has time series of data concerning collection percentages and times - acquired through suitable analysis tools - enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15.
The updating of the time series, which was undertaken considering the collections for 2018, confirmed the suitability of the existing collection percentage (45%).

- Interest income on debt securities in portfolio and interest expense on securities issued by the Bank are recognized at amortized cost, i.e., by applying to the face value of the securities the effective interest rate of return (IRR), determined as the difference between the coupon rate of interest and the purchase price of the same security and taking into account any issue discount.
  The interest thus computed is recognized in the income statement pro-rated over the duration of the financial asset or liability.

- Fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:
  – when the receivables are entrusted for management (fees and commissions on acceptance and handling expenses);
  – when the receivables are collected (collection fees and commissions).

A.4 – FAIR VALUE DISCLOSURE

Qualitative information

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

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

A.4.2 Measurement processes and sensitivity

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

A.4.3 Fair value hierarchy

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

Quantitative information

All amounts are stated in thousands of euros.

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	12/31/2018			12/31/2017		
	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 designated at fair value						
c) other assets mandatorily measured at fair value			0			
2. Financial assets measured at fair value through OCI	160,592	147	17	101,285	147	17
3. Hedging derivatives		0			322	
4. Property, plant and equipment						
5. Intangible assets						
Total	**160,592**	**147**	**17**	**101,285**	**468**	**17**
1. Financial liabilities held for trading		0				
2. Financial liabilities measured at fair value						
3. Hedging derivatives					322	
Total		**0**			**322**	

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

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

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

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	12/31/2018				12/31/2017			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortized cost	3,934,396	940,907		2,986,190	3,724,525	1,127,929		2,603,915
2. Property, plant and equipment held for investment								
3. Non-current assets and disposal groups held for sale								
Total	**3,934,396**	**940,907**		**2,986,190**	**3,724,525**	**1,127,929**		**2,603,915**
1. Financial liabilities measured at amortized cost	3,888,257	615,742		3,234,617	3,611,483	654,873		2,959,446
2. Liabilities associated with assets held for sale								
Total	**3,888,257**	**615,742**		**3,234,617**	**3,611,483**	**654,873**		**2,959,446**

Key:
CA = Carrying amount
L1 = Level 1: quoted prices (without adjustments) recognized in active markets according to the definition of IFRS 13.
L2 = Level 2: inputs other than quoted market prices included within Level 1 that are observable directly (prices) or indirectly (derived from the prices) in the market.
L3 = Level 3: inputs that are not based on observable market data.

A.5 - DISCLOSURE ON "DAY ONE PROFIT/LOSS"

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

Part B - Balance Sheet

All amounts are stated in thousands of euros.

ASSETS

Section 1 – Cash and cash equivalents – Item 10

€99,456 thousand

1.1 Cash and cash equivalents: breakdown

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
a) Cash	1	1
b) Demand deposits with Central Banks	99,455	80,927
Total	**99,456**	**80,928**

The balance includes the cash on hand and Banca Farmafactoring's account with the Bank of Italy, amounting to €99,454 thousand.

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

€160,756 thousand

The item mainly includes government securities purchased by Banca Farmafactoring to hedge liquidity risk and to optimize the cost of money, for a total face value of €165 million.
They totaled €160.8 million, increasing by €59.4 million compared to the previous year (€101.4 million).
These securities earn interest at variable rates (CCT) and have residual maturity dates of maximum five years.
Starting from January 1, 2018, following the adoption of the new accounting standard IFRS 9, the securities are classified as HTC&S (Held to Collect and Sell—previously AFS under IAS 39) and, therefore, they are measured at fair value. The interest earned is recognized in the income statement according to the effective rate of return.
At the end of the reporting period, the value of securities is compared to their fair value and any adjustment is recognized in equity as part of the revaluation reserves, after tax.
At December 31, 2018, the negative reserves on the HTC&S government securities amounted to approximately €4,170 thousand, after tax.
During the reporting period, HTC&S securities were sold, realizing a gain of €386 thousand, before the tax effect, recorded in the income statement under item 100 "Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through OCI".

The item also includes:

- the amount charged to Banca Farmafactoring as part of its contributions to the Voluntary Scheme established by FITD in relation to the actions taken to support Cassa di Risparmio di Cesena for a total of €147 thousand, equal to the fair value communicated directly by FITD in January 2018. As already

mentioned, the Bank has already announced its intention to withdraw from the Voluntary Scheme on September 17, 2017. For this reason, the Bank will no longer be forced to make any additional payments to the aforesaid Voluntary Scheme;
- the amount held by Banca Farmafactoring in Nomisma S.p.A. - Società di Studi Economici, equal to €17 thousand, accounted for at cost, in the absence of other measurement inputs.

As regards the valuation of equity securities, it is specified that, as envisaged by the new IFRS 9, any changes in value (with the exception of dividends) will directly impact shareholder's equity, without being carried on the Income Statement, with an indication on the Statement of Comprehensive Income.

Nomisma S.p.A.'s highlights are as follows:

(Amounts in euros, unless otherwise stated)

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cent)	Percentage of equity investment
Nomisma S.p.A.	17,335.18	72,667	0.239	0.250%

(In Euro, at 12/31/2017)

Registered office	Bologna - Strada Maggiore no. 44
Share capital	6,963,499.89 fully paid in
Equity	7,844,455
Profit (loss) for the year	400,568

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

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018			Total 12/31/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**160,592**			**101,285**		
1.1 Structured securities						
1.2 Other debt securities	160,592			101,285		
2. Equity securities		**147**	**17**		**147**	**17**
3. Loans						
Total	**160,592**	**147**	**17**	**101,285**	**147**	**17**

3.2 Financial assets measured at fair value through OCI: breakdown by debtor/issuer

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018	Total 12/31/2017
1. Debt securities	**160,592**	**101,285**
a) Central Banks	160,592	101,285
b) Public administration agencies		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	**164**	**164**
a) Banks		
b) Other issuers:		
- other financial companies	147	147
of which: insurance companies		
- non-financial companies	17	17
- other		
3. Loans		
a) Central Banks		
b) Public administration agencies		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	**160,756**	**101,449**

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

(Amounts in € thousands)

	Gross amount				Total adjustments			Total partial write-offs*
	Stage 1	of which: Instru-ments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	160,614				(22)			
Loans								
Total 12/31/2018	**160,614**				**(22)**			
Total 12/31/2017								
of which: impaired financial assets acquired or internally generated	X	X			X			

* Provided for disclosure purposes

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

€3,934,397 thousand

This item is broken down as follows:

- receivables due from banks of €47,346 thousand;
- receivables due from customers of €3,887,051 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Held to Collect (HTC) securities portfolio (formerly HTM) of €948,206 thousand.

Due from banks

€47,346 thousand

At December 31, 2018, receivables due from banks mainly refer to transactions relating to the current accounts held by the Bank at the end of the reporting period.

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

Type of transaction/Amounts	Total 12/31/2018						Total 12/31/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3
A. Due from Central Banks												
1. Fixed-term deposits				X	X	X				X	X	X
2. Mandatory reserve				X	X	X				X	X	X
3. Repos				X	X	X				X	X	X
4. Other				X	X	X				X	X	X
B. Due from banks	**47,346**						**16,195**					
1. Loans												
1.1. Current accounts and demand deposits	5,048			X	X	X	6,910			X	X	X
1.2. Fixed-term deposits	9,004			X	X	X	9,284			X	X	X
1.3. Other loans:				X	X	X				X	X	X
- Reverse repos				X	X	X				X	X	X
- Finance leases				X	X	X				X	X	X
- Other	33,294			X	X	X				X	X	X
2. Debt securities												
2.1. Structured securities												
2.2. Other debt securities												
Total	**47,346**	**0**	**0**	**0**	**0**	**0**	**16,195**	**0**	**0**	**0**	**0**	**0**

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

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

Restricted deposits mainly include the mandatory reserve deposit with Depobank (formerly ICBPI/Nexi), as Banca Farmafactoring is an indirect participant in that banking system, and the amount deposited with Banco de España as CRM (*Coeficiente de Reservas Mínimas*) for the deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto.

Other loans relate to credit exposures that Banca Farmafactoring has with regards to banking counterparties.

This item does not include any impaired assets.

Due from customers
€3,887,051 thousand, including Held to Collect securities of €948,206 thousand

Starting from January 1, 2018, the item “Financial assets measured at amortized cost – Due from customers” includes debt securities in the Held to Collect (HTC) portfolio in addition to loans to customers, pursuant to the updates of Bank of Italy’s Circular no. 262, in compliance with the new IFRS 9.

This item therefore includes loans to customers of €3,887,051 thousand (mainly receivables due from debtors in relation to factoring activities) and €948 million in debt securities in the HTC portfolio.

Receivables due from customers are measured at amortized cost, determined based on the present value of estimated future cash flows.
Banca Farmafactoring’s non-recourse receivables include both principal and late payment interest accruing as from the due date of the receivable. In order to compute amortized cost, including late payment interest recognized on an accrual basis, Banca Farmafactoring updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. The outcome of this analysis has confirmed for 2018, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

The cumulative amount of late payment interest due to Banca Farmafactoring, but not yet collected, in relation to non-recourse receivables (Provision for late payment interest), amounted to €522 million, of which only €192 million were recognized in the income statement of the reporting period and in previous years.

4.2 Financial assets measured at amortized cost: due from customers broken down by type

€3,887,051

(Amounts in € thousands)

Type of transaction/ Amounts	Total 12/31/2018						Total 12/31/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3	Stages 1 and 2	Stage 3	of which: impaired assets acquired or internally generated	L1	L2	L3
1. Loans	**2,865,252**	**73,592**	**7,862**			**2,938,844**	**2,508,611**	**79,110**	**2,824**			**2,587,721**
1.1 Current accounts	1			X	X	X				X	X	X
1.2. Reverse repos				X	X	X				X	X	X
1.3. Mortgages				X	X	X				X	X	X
1.4. Credit cards, personal loans, salary-backed loans (cessione del quinto)				X	X	X				X	X	X
1.5. Finance leases				X	X	X				X	X	X
1.6. Factoring	2,294,226	69,655	7,862	X	X	X	1,938,067	76,651	2,824	X	X	X
1.7. Other loans	571,024	3,937		X	X	X	570,544	2,459		X	X	X
2. Debt securities	**948,206**			**940,907**			**1,120,610**			**1,127,929**		
2.1. Structured securities												
2.2. Other debt securities	948,206			940,907			1,120,610			1,127,929		
Total	**3,813,459**	**73,592**	**7,862**	**940,907**		**2,938,844**	**3,629,221**	**79,110**	**2,824**	**1,127,929**		**2,587,721**

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

The breakdown is as follows:

• Performing factoring amounted to a total of €2,294,226 thousand.

This included non-recourse receivables purchased as "performing", registered under the name of the assigned debtor, with the conditions for "derecognition", and measured at "amortized cost", worth a total of €2,290,971 thousand.

Non-recourse receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued or accruing late payment interest is acquired upon purchase. These receivables include receivables sold, totaling €187,044 thousand, but not derecognized as the sale transaction did not meet the derecognition requirements for the transfer of the risks and rewards associated with such receivables. The amount refers to securitization transactions involving health-care receivables.

Receivables purchased below face value totaled €43,072 thousand.

• Other performing loans due from customers amounted to €656,208 thousand; they mainly include:

– accrued late payment interest of approximately €100,184 thousand; such amount has already been recognized in the income statement in the current and prior years and refers only to late payment interest accrued on principal already collected. Therefore, of the €192 million late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2018, €100 million refers to the item under review, while the remaining amount of €92 million was recognized under "factoring";

– intercompany loans granted to the subsidiary BFF Finance Iberia and the BFF Polska Group for an overall amount of €385.8 million;

– amounts deposited as collateral with Cassa di Compensazione e Garanzia to secure repos of €64,722 thousand;

• The BFF's net "Impaired assets" amounted to a total of €73,592 thousand. They include:

– Non-performing loans: these are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the company.

At December 31, 2018, the overall total of non-performing loans, net of impairment, amounted to €34,884 thousand, of which €7,862 thousand purchased already impaired. Net non-performing loans concerning municipalities in financial distress amounted to €32,278 thousand, accounting for 83.4% of the total; this case is classified as non-performing, in accordance with the indications given by the Supervisory Authority, despite the fact that the BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.

The remaining positions were impaired based on subjective assessments arising from legal opinions or on the time value, as they consist of exposures relating to local entities in financial distress for which no provisions were recognized as the distressed condition is expected to be remedied, resulting in the collection of 100% of receivables.

The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €11,682 thousand entirely impaired, and refers mainly to exposures with Fondazione Centro San Raffaele del Monte Tabor (ongoing liquidation and composition agreement with creditors). Taking account of this amount, too, gross non-performing loans amounted to €52,000 thousand and relevant adjustments totaled €17,116 thousand.

– Unlikely to pay exposures: these exposures reflect the judgment made by the intermediary about the unlikelihood that—absent such actions as the enforcement of guarantees—the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).

At December 31, 2018, gross and net exposures classified as unlikely to pay amounted to €2.5 thousand overall.

– Net past due exposures totaled €38,706 thousand, of which €28,186 thousand, corresponding to 72.8%, attributable to public administration counterparties and public sector companies.

Debt securities classified in the HTC portfolio, equal to €948 million, are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement. At December 31, 2018, this portfolio consists exclusively of government securities purchased to hedge liquidity risk and to optimize the cost of money. It has a total face value of €917 million and fair value of €941 million, with a negative difference (before taxes) of around €5 million compared to the carrying amount on the same date. This difference has not been recognized in the financial statements. These securities are at a fixed rate (BOT, BTP and CTZ), with maturity dates related to the sources of committed and unsecured funding.
The HTC portfolio consists of government securities purchased to hedge liquidity risk and to optimize the cost of money.

Fair value

The financial statement item "Due from customers" mainly refers to non-recourse receivables, for which an active and liquid market is not available. In particular, these are past due receivables due from public administration agencies for which the price in a hypothetically independent transaction cannot be easily determined, partly due to difficulties in reasonably assessing the liquidity risk that would be accepted by the market for such transactions.
Consequently, the carrying amount (determined based on "amortized cost" and taking into account any individual and collective impairment), in relation to the nature, type, duration of such assets and related collection projections, was deemed to be substantially representative of the fair value of these receivables on the reporting date.

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2018			Total 12/31/2017		
	Stages 1 and 2	Stage 3	of which impaired assets acquired or internally generated	Stages 1 and 2	Stage 3	of which impaired assets acquired or internally generated
1. Debt securities	**948,206**	0	0	**1,120,610**	-	-
a) Public administration agencies	948,206	0	0	1,120,610	-	-
b) Other financial companies	0	0	0	-	-	-
of which: insurance companies	0	0	0	-	-	-
c) Non-financial companies	0	0	0	-	-	-
2. Loans due from:	**2,865,257**	**73,587**	**7,862**	**2,508,611**	**79,110**	**2,824**
a) Public administration agencies	2,382,023	55,532	7,862	1,998,141	69,453	2,824
b) Other financial companies	450,876	0	0	476,755	-	-
of which: insurance companies	0	0	0	-	-	-
c) Non-financial companies	30,848	7,926	0	20,558	8,802	-
d) Households	1,509	10,129	0	13,157	855	-
Total	**3,813,464**	**73,587**	**7,862**	**3,629,221**	**79,110**	**2,824**

Exposures to financial companies mainly include loans granted to the subsidiaries BFF Finance Iberia and BFF Polska Group (for an overall amount of €385,826 million) and Cassa di Compensazione e Garanzia (€65 million).

4.5 Financial assets measured at amortized cost: gross amount and total adjustments

(Amounts in € thousands)

	Gross amount				Total adjustments			
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Total partial write-offs***
Debt securities	948,348	-	0	-	142	-	-	-
Loans	2,802,287	-	112,503	79,205	2,164	28	5,617	-
Total 12/31/2018	**3,750,635**	-	**112,503**	**79,205**	**2,306**	**28**	**5,617**	-
Total 12/31/2017	**2,511,627**	-	-	**83,113**	**3,016**	-	**4,003**	-
of which: impaired financial assets acquired or internally generated	X	X	-	10,561	X	-	2,698,662	-

** Provided for disclosure purposes*

Section 5 – Hedging derivatives – Item 50

€0

5.1 Hedging derivatives: breakdown by type of hedge and by level

(Amounts in € thousands)

	Fair value 12/31/2018			NA 12/31/2018	Fair value 12/31/2017			NA 12/31/2017
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives						**322**		**85,005**
1) Fair value		0				0		
2) Cash flows		0		0		322		85,005
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Cash flows								
Total	**0**	**0**	**0**	**0**	**0**	**322**	**0**	**85,005**

Key:
NA = Notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

As the Bank has not entered into any derivative contracts, this item was zero at December 31, 2018.

Section 7 – Equity investments - Item 70

€115,487 thousand

Equity investment totaled €115.5 million; this item includes the investments in BFF Polska Group and BFF Finance Iberia, exclusively controlled by Banca Farmafactoring, which holds 100% of their share capital.

The equity investment in BFF Polska Group amounted to €109.2 million
The Polish subsidiary's profit amounted to €13.9 million, therefore contributing to the BFF Banking Group's income statement for the same amount.

The equity investment in BFF Finance Iberia amounted to €6.3 million; it refers to the share capital, ancillary charges relating to the incorporation and start up of activities on the Spanish market. The Spanish subsidiary's profit amounted to €4.4 million, therefore contributing to the BFF Banking Group's income statement for the same amount.

During the year, there were no transactions in relation to business combinations.

As far as BFF Polska Group is concerned, the impairment test was carried out pursuant to international accounting standards, and the carrying amount was not impaired.

This test, which must be carried out on an annual basis or when there is evidence of an impairment loss, is performed by comparing the carrying amount of the equity investment and the recoverable amount of the Cash Generating Unit (CGU).

Therefore, the equity investment in the BFF Polska Group was considered, in accordance with international accounting standards, as a Cash Generating Unit and the measurement of the equity investment as a whole thus made it possible to determine the relevant recoverable amount.
At December 31, 2018, the recoverable amount of the equity investment held by Banca Farmafactoring in the BFF Polska Group was estimated using the value-in-use calculation method, identified based on the Dividend Discount Model (DDM). The DDM determines the value of an entity or a branch based on a dividend flow which is expected to be generated prospectively.
The comparison between the result of the DDM analysis and the carrying amount of the investment confirms the identified recoverable amount reported in the financial statements.

7.1 Equity investments: information on investment relationships

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

7.5 Partecipazioni: variazioni annue

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
A. Opening balance	**115,487**	**115,487**
B. Increase		
B.1 Purchases	0	0
B.2 Reversals of impairment		
B.3 Revaluations		
B.4 Other changes		
C. Decrease		
C.1 Sales		
C.2 Adjustments		
C.3 Impairment		
C.4 Other changes		
D. Closing balance	**115,487**	**115,487**
E. Total revaluations		
F. Total adjustments		

Section 8 - Property, plant and equipment - Item 80

€11,101 thousand

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

(Amounts in € thousands)

Assets/Amounts	Total 12/31/2018	Total 12/31/2017
1. Owned assets		
a) land	3,685	3,685
b) buildings	6,495	6,820
c) furniture and fixtures	140	188
d) electronic systems	590	937
e) other	191	242
2. Assets purchased under finance leases		
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other		
Total	**11,101**	**11,873**
of which: obtained from enforcement of guarantees received		

8.6 Property, plant and equipment used for business activities: year-over-year change

(Amounts in € thousands)

	Land	Buildings	Furniture and fixtures	Electronic systems	Other	Total
A. Gross opening balance	**3,685**	**16,823**	**2,457**	**7,426**	**5,378**	**35,769**
A.1 Net total impairment		(10,003)	(2,268)	(6,489)	(5,136)	(23,896)
A.2 Net opening balance	**3,685**	**6,820**	**188**	**937**	**242**	**11,873**
B. Increase:	**0**	**0**	**0**	**241**	**29**	**270**
B.1 Purchases	0	0	0	241	29	270
B.2 Capitalized improvements						
B.3 Reversals of impairment						
B.4 Positive fair value changes recognized in:						
a) equity						
b) income statement						
B.5 Positive exchange differences						
B.6 Transfers from properties held for investment			X	X	X	
B.7 Other changes						
C. Decrease:	**0**	**(325)**	**(48)**	**(589)**	**(80)**	**(1,043)**
C.1 Sales				(0)	0	(0)
C.2 Depreciation	0	(325)	(48)	(589)	(80)	(1,043)
C.3 Adjustments from impairment recognized in:						
a) equity						
b) income statement						
C.4 Negative fair value changes recognized in:						
a) equity						
b) income statement						
C.5 Negative exchange differences						
C.6 Transfers to:						
a) property, plant and equipment held for investment			X	X	X	
b) non-current assets and disposal groups held for sale						
C.7 Other changes						
D. Net closing balance	**3,685**	**6,495**	**140**	**589**	**191**	**11,101**
D.1 Net total impairment		(10,327)	(2,316)	(7,078)	(5,211)	(24,932)
D.2 Gross closing balance	**3,685**	**16,822**	**2,457**	**7,667**	**5,402**	**36,032**
E. Measured at cost	3,685	16,822	2,457	7,667	5,402	36,032

At December 31, 2018, the item was mainly composed of:

- land of €3,685 thousand, unchanged from December 31, 2017;
- buildings (including capitalized extraordinary maintenance) of €6,495 thousand, compared to €6,820 thousand at December 31, 2017.

Upon IFRS first-time adoption (January 1, 2005), the buildings owned by Banca Farmafactoring and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date. Such amount is depreciated at the end of each reporting period based on the assets' estimated useful life.
The measurement at first-time adoption resulted in a revaluation of the buildings for about €4 million, from about €5 million to about €9 million.
In the financial statements, the land and building owned in Milan (Via Domenichino 5) were recognized separately based on an appraisal conducted by the same company that determined their value. The land on which the Rome building sits was not separated because Banca Farmafactoring is not the owner of the entire building.

Section 9 - Intangible assets – Item 90

€3,762 thousand

9.1 Intangible assets: breakdown by type of asset

(Amounts in € thousands)

	Total 12/31/2018		Total 12/31/2017	
Assets/Amounts	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X		X	
A.2 Other intangible assets	**3,762**		**3,440**	
A.2.1 Assets measured at cost:				
a) intangible assets generated internally				
b) other assets	3,762		3,440	
A.2.2 Assets measured at fair value:				
a) intangible assets generated internally				
b) other assets				
Total	**3,762**		**3,440**	

In accordance with IAS 38, paragraph 118, letter a), the amortization rates applied are based on the estimated useful lives of the intangible assets.

9.2 Intangible assets: year-over-year change

(Amounts in € thousands)

	Goodwill	Other intangible assets: Internally generated		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance				**3,440**		**3,440**
A.1 Net total impairment						0
A.2 **Net opening balance**				**3,440**		**3,440**
B. Increase						
B.1 Purchases				2,026		**2,026**
B.2 Increase in intangible assets generated internally	X					
B.3 Reversals of impairment	X					
B.4 Positive fair value changes in						
- equity	X					
- income statement	X					
B.5 Positive exchange differences						
B.6 Other changes						
C. Decrease						
C.1 Sales						
C.2 Adjustments						
- Amortization	X			(1,704)		**(1,704)**
- Impairment						
+ equity	X					
+ income statement						
C.3 Negative fair value changes						
- equity	X					
- income statement	X					
C.4 Transfers to non-current assets held for sale						
C.5 Negative exchange differences						
C.6 Other changes						
D. Net closing balance	**0**	**0**	**0**	**3,762**	**0**	**3,762**
D.1 Net total adjustments				(1,704)		(1,704)
E. Gross closing balance	**0**	**0**	**0**	**5,466**	**0**	**5,466**
F. Measured at cost	0	0	0	5,466	0	5,466

Key:
FIN = finite
INDEF = indefinite

Assets are recognized at cost, net of amortization, which is computed based on their estimated useful life.

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

Current tax assets totaled €25,873 thousand; they mainly include advance payments for IRES and IRAP taxes made by Banca Farmafactoring.
Current tax liabilities amounted to €20,052 thousand; they include the accrual of income taxes for the year.

10.1 Deferred tax assets: breakdown
€5,968 thousand

The main components of deferred tax assets include the portion of amounts deductible in future years of adjustments to receivables, the accrual on deferred employee benefit obligations, and depreciation and amortization the recognition of which is deferred for tax purposes.

10.2 Deferred tax liabilities: breakdown
€65,648 thousand

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

10.3 Change in deferred tax assets (through the income statement)
€3,325 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	**3,375**	**3,392**
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) reversals of impairment		
d) other	764	547
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax assets derecognized in the year		
a) reversals	(814)	(564)
b) impairment of unrecoverable tax assets		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases:		
a) conversion into tax credit under Law 214/2011		
b) other		
4. Closing balance	**3,325**	**3,375**

10.3 bis Change in deferred tax assets under Law 214/2011
€686 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	**686**	**749**
2. Increase	0	0
3. Decrease		
3.1 Reversals	0	(63)
3.2 Conversion into tax credit		
a) due to losses in the year		
b) due to tax losses		
3.3 Other decreases		
4. Closing balance	**686**	**686**

10.4 Change in deferred tax liabilities (through the income statement)
€65,615 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	**56,278**	**48,502**
2. Increase		
2.1 Deferred tax liabilities recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	10,089	8,399
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	(752)	(623)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**65,615**	**56,278**

10.5 Change in deferred tax assets (through equity)
€2,643 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	**354**	**346**
2. Increase		
2.1 Deferred tax assets recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies	201	
c) other	2,094	8
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax assets derecognized in the year		
a) reversals	(7)	0
b) impairment of unrecoverable tax assets		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**2,643**	**354**

10.6 Change in deferred tax liabilities (through equity)
€33 thousand

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
1. Opening balance	**129**	**403**
2. Increase		
2.1 Deferred tax liabilities recognized in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	130	19
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decrease		
3.1 Deferred tax liabilities derecognized in the year		
a) reversals	(226)	(293)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Closing balance	**33**	**129**

Section 12 - Other assets - Item 120

€9,029 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Security deposits	22	4
Other receivables	5,666	5,369
Accrued income and prepaid expenses	3,341	2,306
Total	**9,029**	**7,679**

Other receivables refer primarily to non-trade receivables due from sundry debtors and pending items. Accrued income and prepaid expenses refer to the deferral of costs relating to administrative expenses.

LIABILITIES

Section 1 – Financial liabilities measured at amortized cost – Item 10
€3,888 thousand

Starting from January 1, 2018 (and based on guidance provided in the new IFRS 9), this item is broken down as follows:
- due to banks of €806,238 thousand;
- due to customers of €2,428,379 thousand;
- outstanding securities of €653,639 thousand.

Due to banks
€806,238 thousand

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2018				Total 12/31/2017			
		Fair Value				Fair Value		
	CA	L1	L1	L3	CA	L1	L1	L3
1. Due to central banks	**0**	X	X	X		X	X	X
2. Due to banks	**806,238**	X	X	X	**460,387**	X	X	X
2.1 Current accounts and demand deposits	0	X	X	X		X	X	X
2.2 Fixed-term deposits	806,238	X	X	X	460,387	X	X	X
2.3 Loans		X	X	X		X	X	X
2.3.1 Repos	0	X	X	X		X	X	X
2.3.2 Other		X	X	X		X	X	X
2.4 Payables following commitments to repurchase treasury shares		X	X	X		X	X	X
2.5 Other payables	0	X	X	X		X	X	X
Total	**806,238**				**460,387**			

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

"Due to banks" primarily refers to loans provided by the banking system at current market rates.
The item also includes the loan agreements in zloty used to acquire the BFF Polska Group, which were partially entered into with the Unicredit Group (for PLN 185 million, equivalent to €43 million) and partially with the Intesa Sanpaolo Group (PLN 170 million, equivalent to €39 million). Payables due to banks rose steadily compared to the end of the previous year in order to support the growth of the business in Italy and abroad.

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

(Amounts in € thousands)

Type of transaction/Amounts	Total 12/31/2018				Total 12/31/2017			
		Fair Value				Fair Value		
	CA	L1	L1	L3	CA	L1	L1	L3
1. Current accounts and demand deposits	63,104	X	X	X	46,526	X	X	X
2. Fixed-term deposits	871,313	X	X	X	953,059	X	X	X
3. Loans		X	X	X		X	X	X
3.1 repos	1,030,719	X	X	X	1,162,912	X	X	X
3.2 other	230,497	X	X	X	200,323	X	X	X
4. Payables following commitments to repurchase treasury shares		X	X	X		X	X	X
5. Other payables	232,747	X	X	X	136,239	X	X	X
Total	**2,428,379**				**2,499,059**			

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

"Due to customers" includes €934 million for online deposit accounts offered in Italy, Spain and Germany (restricted deposits and current accounts), compared to €999 million at December 31, 2017. The counterparty in repos amounting to €1,031 million is Cassa di Compensazione e Garanzia. These transactions were executed to refinance the Bank's securities portfolio.

Other loans, worth a total of €230 million, mainly refer to payables due to financial institutions deriving from existing cooperation between Banca Farmafactoring and other Italian factoring companies. Other payables include the securitization transaction (BFF SPV) for €141 million and collections of managed receivables due to assignors to the tune of €92 million.

Debt securities issued
€653,640 thousand

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

(Amounts in € thousands)

Type of securities/Amounts	Total 12/31/2018				Total 12/31/2017			
		Fair value				Fair value		
	CA	L1	L2	L3	CA	L1	L2	L3
A. Securities								
1. bonds	653,640	615,742	0	0	652,037	654,873	0	0
1.1 structured								
1.2 other	653,640	615,742			652,037	654,873		
2. other securities								
2.1 structured								
2.2 other								
Total	**653,640**	**615,742**	**0**	**0**	**652,037**	**654,873**	**0**	**0**

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

Debt securities issued consist of bonds issued by the Bank. They have a total face value of €650 million and are recognized in the financial statements (to the tune of €654 million) at amortized cost using the effective interest rate method, in compliance with international accounting standards.

The item includes:

- €100 million subordinated unsecured and unrated Tier 2 bonds (ISIN XS1572408380) issued by Banca Farmafactoring in March 2017. The 10-year bonds due March 2027 have the right to an issuer call date (one-off) in the fifth year (in March 2022). The bonds pay an annual fixed coupon of 5.875%;
- €200 million senior unsecured and unrated bonds (ISIN XS1639097747) issued by Banca Farmafactoring in June 2017, due in 2022. The bonds pay an annual fixed coupon of 2%;
- €200 million senior unsecured and unrated bonds (ISIN XS1731881964) issued by Banca Farmafactoring, due June 5, 2020. The bonds pay a quarterly variable coupon based on 3M Euribor + 145 bp spread;
- €150 million bonds (ISIN XS1435298275) issued by Banca Farmafactoring in June 2016, due in 2021.

Section 6 – Tax liabilities – Item 60

See “Section 10 – Tax assets and liabilities” under assets in the balance sheet.

Section 8 – Other liabilities – Item 80
€66,102 thousand

8.1 Other liabilities: breakdown

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Payables to suppliers	1,498	3,992
Invoices to be received	7,439	5,234
Payables to tax authorities	593	2,148
Payables to social security agencies	847	610
Payables to employees	4,408	3,138
Payables for receivables management	6,950	3,647
Collections pending allocation	23,843	14,434
Other payables	18,681	8,879
Accrued liabilities and deferred income	1,843	807
Total	**66,102**	**42,890**

"Payables to suppliers" and "Invoices to be received" refer to purchases of goods and the performance of services.
"Collections pending allocation" refer to payments received by December 31, 2018 but still outstanding since they had not been cleared and recorded by that date.
"Payables to tax authorities" relate largely to unpaid withholding taxes on the online deposit accounts and on employee earnings from employment.
"Other payables" include portions of collections to be transferred, stamp duties to be paid, payables to directors and other pending items.

Section 9 – Employee severance benefits – Item 90
€849 thousand

9.1 Employee severance benefits: year-over-year change

(Amounts in € thousands)

	Total 12/31/2018	Total 12/31/2017
A. Opening balance	**848**	**867**
B. Increase	**655**	**611**
B.1 Allocation for the year	579	422
B.2 Other changes	75	189
C. Decrease	**(654)**	**630**
C.1 Settlements made	(30)	(173)
C.2 Other changes	(624)	(457)
D. Closing balance	**849**	**848**
Total	**849**	**848**

The liability recorded in the financial statements at December 31, 2018 in relation to employee severance benefits is equal to the current value of the obligation, estimated by an independent actuary on the basis of demographic and economic assumptions.
Other decreases include outflows from the provision for employee severance benefits to pension funds and the differences resulting from actuarial valuation recognized directly in equity.

Actuarial assumptions used to determine the liability at December 31, 2018 are shown below.

Actuarial assumptions

Annual discount rate

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

Annual increase rate of employee severance benefits

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

The demographic assumptions used are as follows:

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

Section 10 – Provisions for risks and charges – Item 100

€5,249 thousand

10.1 Provisions for risks and charges: breakdown

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018	Total 12/31/2017
1. Provisions for credit risk on commitments and financial guarantees provided	805	
2. Provisions for other commitments and guarantees provided		
3. Pension funds	3,829	4,219
4. Other provisions for risks and charges		
4.1 legal and tax disputes		
4.2 personnel expenses		
4.3 other	615	927
Total	**5,249**	**5,146**

Starting from January 1, 2018, this item also includes provisions for credit risk associated with financial guarantees issued by Banca Farmafactoring to BFF Polska Group, based on impairment requirements provided for by the new IFRS 9.

The pension fund refers mainly to the non-compete agreement entered into with the Bank's managers and the provision relating to the deferred payment incentive scheme envisaged for specific Banca Farmafactoring employees.
The decrease in this item was attributable to payments made during the reporting period, and to the reversals which became necessary after staff benefitting from deferred MBO left the service.

10.2 Provisions for risks and charges: year-over-year change

(Amounts in € thousands)

	Provisions for other commitments and guarantees provided	Pension funds	Other provisions for risks and charges	**Total**
A. Opening balance	**0**	**4,219**	**927**	**5,146**
B. Increase	**805**	**1,883**		2,688
B.1 Allocation for the year	336	1,441		1,777
B.2 Change due to passing of time				
B.3 Variation due to change in the discount rate				
B.4 Other changes	469	442		911
C. Decrease	**0**	**(2,273)**	**(312)**	**(2,585)**
C.1 Use in the year			(312)	(312)
C.2 Variation due to change in the discount rate		(512)		
C.3 Other changes		(1,761)		
D. Closing balance	**805**	**3,829**	**615**	**5,249**

10.3 Provisions for credit risks on commitments and financial guarantees provided

(Amounts in € thousands)

	Provisions for credit risk on commitments and financial guarantees provided			
	Stage 1	Stage 2	Stage 3	**Total**
1. Commitments to disburse funds				0
2. Financial guarantees provided	805			805
Total	**805**	**0**	**0**	**805**

10.5 Defined benefit pension funds

Below are the main changes in this provision:

- €399 thousand increase as a result of the funds set aside for the non-competition agreement with the managers of the companies that are part of the Bank;
- €856 thousand increase as a result of the funds set aside for the deferred payment of a portion of the annual bonuses for first- and second-level staff;
- €512 thousand decrease related to the discounting of the non-competition agreement and the deferred MBO as calculated by an external advisor at December 31, 2018;
- €1,761 thousand decrease resulting from the use of the provision for payments.

Under a non-compete agreement, the employee agrees that, after the end of the employment relationship, he/she will not engage, for any reason whatsoever, in any activities in direct competition with that of Banca Farmafactoring. The commitment is for a three-year period and starts from the date that the employment relationship is ended.
As consideration for this commitment, the Bank agrees to pay a specific amount to the employee in semi-annual installments.
The system involving deferral of a portion of the annual bonuses envisages medium-term restrictions, according to which 30% of the annual bonus will be paid after three years, provided that the Bank achieves specific targets relating to its profitability, regulatory capital requirements established by existing regulations, and the employee's continued employment at the company. In accordance with the provisions of IAS 19, accruals were quantified based on an actuarial calculation performed externally by a specialized firm. The Bank's obligations were computed using the "Projected Unit Credit Method", which treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to compute the final obligation, in accordance with paragraphs 67 and 69 of IAS 19. This actuarial method entails valuation aimed at determining the average present value of the Bank's obligations. The main economic and demographic assumptions used for actuarial valuation purposes are the following.

• *Non-compete agreement*

The annual discount rate used to calculate the present value of the obligation was deduced, in compliance with paragraph 83 of IAS 19, from the iBoxx Corporate AA Index with 10+ duration, reported at December 31, 2018 and equal to 1.57%. In determining the rate, the yield with a duration comparable to that of the items measured was used.

Death	Mortality tables RG48 published by the Italian State General Accounting Office (Ragioneria Generale dello Stato)
Retirement	100% upon reaching AGO requisites
Frequency of voluntary resignation	3.00%
Clawback frequency	3.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual remuneration for Executives	3.40%
Increase in annual remuneration for Supervisors	2.40%
Contribution rate	27.40%

• ***Deferred bonus***

Discount rate

The financial basis used to calculate the present value of the obligation was determined, in compliance with paragraph 83 of IAS 19, by reference to the iBoxx Eurozone Corporate AA Index (in line with the duration of the plan). Discount rate used was equal to -0.10%.

Death and disability

To estimate the phenomenon of mortality, the RG48 survival table used by the Italian State General Accounting Office to estimate the retirement expenses of the Italian population was used. For the probability of total and permanent disability, the tables adopted in the INPS model for the 2010 forecasts were used.

Frequency of resignations and dismissals

Equal to 3%.

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

€319,670 thousand

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

€130,983 thousand

(Amounts in € thousands)

Type	12/31/2018	12/31/2017
1. Share capital	**130,983**	**130,983**
1.1 Ordinary shares	130,983	130,983
2. Treasury shares	**(245)**	**0**

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

Items/Types	Ordinary	Other
A. Shares at the beginning of the year	**170,107,400**	
- fully paid	170,107,400	
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares outstanding: opening balance	**170,107,400**	
B. Increase		
B.1 New issues		
- against payment:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- free:		
- to employees		
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other changes		
C. Decrease	**(41,552)**	
C.1 Cancellation		
C.2 Purchase of treasury shares	(41,552)	
C.3 Transactions for sale of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**170,065,848**	
D.1 Treasury shares (+)	41,552	
D.2 Shares outstanding at the end of the year		
- fully paid	170,107,400	
- not fully paid		

12.4 Retained earnings reserves: other information

In accordance with the provisions of Article 2427, paragraph 7-bis of the Italian Civil Code, the following tables provide a breakdown of the individual components of equity according to their possibility of use, the amount available for distribution, and past use in the previous years (the three-year period before the date of preparation of these financial statements).

(Amounts in € thousands)

	12/31/2018	Possibility of use (a)	Amount available	Summary of use in the last three years	
				For absorption of losses	For other reasons
Share capital	**130,983**				
Reserves	**115,821**				
- Legal reserve	26,197	*B*			
- Extraordinary reserve	89	*A,B,C*	89		
- Retained earnings reserve	85,328	*A,B,C*	85,328		15,231 (*)
- Stock option and financial instrument reserves	4,212	*A*			
- Other reserves	(5)				
Revaluation reserves	**(278)**				
- HTC&S securities	(4,170)				
- Other	3,891				
Treasury share reserve	**(245)**				
Total share capital and reserves	**246,280**		**85,417**		

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

(*) Uses made in the last three years, equal to € 15,231 thousand, also include €83 thousand relative to share capital increases made in 2016.

Changes in Reserves are as follows:

(Amounts in € thousands)

	Legal reserve	Retained earnings	Other	Total
A. Opening balance	**26,197**	**89,543**	**2,757**	**118,497**
B. Increase			**1,539**	
B.1 Appropriation of profit				
B.2 Other changes			1,539	
C. Decrease		**(4,215)**		
C.1 Uses				
- absorption of losses				
- distribution		(4,215)		
- transfer to share capital				
C.2 Other changes				
D. Closing balance	**26,197**	**85,328**	**4,296**	**115,821**

Retained earnings reserve

The decrease of €4,215 thousand was attributable to the distribution to shareholders of the retained earnings reserve by Banca Farmafactoring, as per the relevant shareholders' meeting resolution of April 5, 2018 in regards to the financial statements at December 31, 2017.

Other reserves

Changes refer mainly to the granting, during 2018 of option rights related to the stock option plan, for a total of €1.3 million, recorded in accordance with the provisions of IFRS 2 through recognition in the income statement, with a corresponding increase in equity. The remaining €217 thousand refer to the variable remuneration of so-called Risk Takers, in accordance with the provisions set forth in Part I, Title IV, Chapter 2, Section III, paragraphs 2.1, 3 of Circular 285/2013, as subsequently amended, issued by the Bank of Italy, according to which a portion must be paid in financial instruments.
The corresponding accounting treatment, in accordance with IFRS 2, resulted, during the period, in the above-mentioned positive effect on equity.

Other information

1.Commitments and financial guarantees provided

	Notional amount of commitments and financial guarantees provided			Total 12/31/2018	Total 12/31/2017
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	**432,112**			**432,112**	**200**
a) Central Banks					
b) Public administration agencies					
c) Banks					
d) Other financial companies					
e) Non-financial companies	432,112			432,112	200
f) Households					
2. Financial guarantees provided	**250,602**			**250,602**	**115,986**
a) Central Banks					
b) Public administration agencies					
c) Banks	3,391			3,391	3,391
d) Other financial companies	247,212			247,212	112,595
e) Non-financial companies					
f) Households					

Financial guarantees provided to banks of €3,391 thousand relate to the amount communicated by the FITD in relation to the extraordinary contributions provided for by Article 23 of the Fund bylaws.
Commitments for uncertain use to customers are mainly attributable to the Bank's commitments to subsidiaries.

3. Assets pledged to secure own liabilities and commitments

(Amounts in € thousands)

Portfolios	Amount at 12/31/2018	Amount at 12/31/2017
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through OCI	155,746	143,890
3. Financial assets measured at amortized cost	1,610,040	1,155,444
4. Property, plant and equipment		
- of which: inventories		

“Financial assets measured at amortized cost through OCI” and “Financial assets measured at amortized cost” consist of government securities used as collateral in operations with the ECB and repos. The item “Due from customers” includes receivables sold but not derecognized as part of the current securitization transaction and receivables pledged to secure financing transactions with other financial intermediaries.

5. Asset management and trading on behalf of others

(Amounts in € thousands)

Type of services	Amount
1. Execution of orders on behalf of customers	
a) purchases	
1. settled	
2. unsettled	
b) sales	
1. settled	
2. unsettled	
2. Individual portfolio management	
3. Custody and administration of securities	**1,082,172**
a) third-party securities on deposit: connected to bank operations as custodian (excluding portfolio management)	
1. securities issued by the bank that prepares the financial statements	
2. other securities	
b) third-party securities on deposit (excluding portfolio management): other	
1. securities issued by the bank that prepares the financial statements	
2. other securities	
c) third-party securities deposited with third parties	
d) owned securities deposited with third parties	1,082,172
4. Other transactions	

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

Part C - 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

€176,618 thousand (of which interest income calculated using the effective interest rate method: €146,610 thousand)

(Amounts in € thousands)

Items/Types	Debt securities	Loans	Other transactions	Total 12/31/2018	Total 12/31/2017
1. Financial assets measured at fair value through profit or loss:					
1.1. Financial assets held for trading					**91**
1.2. Financial assets designated at fair value					
1.3. Other financial assets mandatorily measured at fair value					
2. Financial assets measured at fair value through OCI	100		X	**100**	**160**
3. Financial assets measured at amortized cost					
3.1 Due from banks		13	X	**13**	**33**
3.2 Due from customers	5,393	171,111	X	**176,505**	**189,623**
4. Hedging derivatives	X	X			
5. Other assets	X	X			
6. Financial liabilities	X	X	X		
Total	**5,494**	**171,124**		**176,618**	**189,907**
of which: interest income on impaired financial assets					

1.2 Interest and similar income: other information

Interest income concerning "Financial assets measured at fair value through OCI" of €100 thousand was generated by government securities purchased by Banca Farmafactoring to hedge liquidity risk and optimize the cost of money.
The securities are classified as HTC&S (Held to Collect and Sell - previously AFS under IAS 39) and, therefore, they are measured at fair value. The interest earned is recognized in the income statement according to the effective rate of return.
Interest income concerning receivables "Due from banks" refers to credit balances on BFF Banking Group current accounts held with the banking system.

Interest income on receivables "Due from customers" for loans amounted to €171,111 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.

The Bank updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. The outcome of this analysis has confirmed for 2018, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

1.3 Interest and similar expenses: breakdown
€29,996 thousand

(Amounts in € thousands)

Items/Types	Payables	Securities	Other transactions	Total 12/31/2018	Total 12/31/2017
1. Financial liabilities measured at amortized cost					
1.1 Due to central banks		X	X		
1.2 Due to banks	6,923	X	X	**6,923**	**8,953**
1.3 Due to customers	7,410	X	X	**7,410**	**7,681**
1.4 Debt securities issued	X	15,637	X	**15,637**	**13,962**
2. Financial liabilities held for trading					
3. Financial liabilities designated at fair value					
4. Other liabilities and provisions	X	X	26	**26**	**14**
5. Hedging derivatives	X	X			**796**
6. Financial assets	X	X	X		
Total	**14,333**	**15,637**	**26**	**29,996**	**31,406**

Interest expense decreased from €31.4 million at December 31, 2017 to €29.9 million at December 31, 2018.

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

The interest expense on "Due to customers" mainly refers to interest expense relating to the online deposit accounts of Banca Farmafactoring: specifically, €3,643 thousand for Conto Facto, offered in Italy, and €6,626 thousand for Cuenta Facto, offered in Spain by the Bank's Spanish branch.
This item also includes interest expense of €314 thousand on loans granted by other factoring companies, in addition to interest (income) on repurchase agreements to the tune of €4,487 thousand.

1.5 Differences relating to hedging transactions

(Amounts in € thousands)

Items	Total 12/31/2018	Total 12/31/2017
A. Positive differences relating to hedging transactions	0	(7)
B. Negative differences relating to hedging transactions	0	803
C. Balance (A-B)	**0**	**796**

Section 2 – Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

€8,243 thousand

(Amounts in € thousands)

Type of service/Amounts	Total 12/31/2018	Total 12/31/2017
a) guarantees provided	1,075	3
b) credit derivatives		
c) management, brokerage and consulting services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management		
3.1 individual		
3.2 collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. receipt and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third-party services		
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other products		
d) collection and payment services	7,168	7,709
e) securitization servicing		
f) factoring services		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services		
Total	**8,243**	**7,713**

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

2.3 Fee and commission expenses: breakdown
€1,492 thousand

(Amounts in € thousands)

Services/Amounts	Total 12/31/2018	Total 12/31/2017
a) guarantees received	179	0
b) credit derivatives		
c) management and brokerage services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities		
5. placement of financial instruments		
6. off-site distribution of financial instruments, products and services		
d) collection and payment services		
e) other services	1,314	1,153
Total	**1,492**	**1,153**

The item mainly refers to expenses on existing banking relationships.

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

4.1 Gains (losses) on trading: breakdown
€2,613 thousand

(Amounts in € thousands)

Transactions/Income components	Capital gains (A)	Gains on trading (B)	Capital losses (C)	Losses on trading (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in CIUs					
1.4 Loans					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Other					
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**2.613**
4. Derivative instruments					
4.1 Financial derivatives:					
- on debt securities and interest rates					
- on equity securities and equity indices					
- on currency and gold	X	X	X	X	
- other					
4.2 Credit derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total					**2.613**

Gains (losses) on trading mainly arise from the positive exchange effect recognized in the income statement, arising from the revaluation of exchange rates applied to the loans payable in Polish zloty used for the acquisition of the BFF Polska Group and amounting, at December 31, 2018, to €2.6 million, before taxes, compared to €4.7 million, before taxes, recognized at the end of the previous reporting period.

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

5.1 Gains (losses) on hedge accounting: breakdown
€111 thousand

(Amounts in € thousands)

Income components/Amounts	Total 12/31/2018	Total 12/31/2017
A. Income from:		
A.1 Fair value hedging derivatives		
A.2 Hedged financial assets (fair value)		
A.3 Hedged financial liabilities (fair value)		
A.4 Cash flow hedging derivatives	116	139
A.5 Assets and liabilities denominated in currency		
Total income from hedging activities (A)	**116**	**139**
B. Charges related to:		
B.1 Fair value hedging derivatives		
B.2 Hedged financial assets (fair value)		
B.3 Hedged financial liabilities (fair value)		
B.4 Cash flow hedging derivatives	(5)	(107)
B.5 Assets and liabilities denominated in currency		
Total charges from hedging activities (B)	**(5)**	**(107)**
C. Net result of hedging activities (A - B)	**111**	**32**
of which: result of hedging of net positions		

At December 31, 2018, the Bank did not have any derivative hedging contracts.

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

€386 thousand

6.1 Gains (losses) on disposal or repurchase: breakdown

(Amounts in € thousands)

Items/Income components	Total 12/31/2018			Total 12/31/2017		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets measured at amortized cost						
1.1 Due from banks						
1.2 Due from customers						
2. Financial assets measured at fair value through OCI						
2.1 Debt securities	386		386	1,759		1,759
2.2 Loans						
Total assets (A)	**386**		**386**	**1,759**		**1,759**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Debt securities issued						
Total liabilities (B)						

The amount refers to the sale of government securities in the Held to Collect and Sell (HTC&S) portfolio during the year, resulting in a net gain of €385 thousand, before the tax effect.

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

€1,759 thousand

8.1 Net adjustments for credit risk on financial assets measured at amortized cost: breakdown

(Amounts in € thousands)

Transactions/ Income components	Adjustments (1)			Reversals of impairment (2)		Total 12/31/2018	Total 12/31/2017
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Due from banks	**(4)**					**(4)**	-
- Loans	(4)					(4)	-
- Debt securities							
of which: impaired loans acquired or internally generated							
B. Due from customers	**(124)**	**(50)**	**(2,564)**	**37**	**946**	**(1,755)**	**(1,156)**
- Loans	(124)	(50)	(2,564)	32	946	(1,759)	(1,156)
- Debt securities				5		5	-
of which: impaired loans acquired or internally generated			(1,408)			(1,408)	-
Total	**(128)**	**(50)**	**(2,564)**	**37**	**946**	**(1,759)**	**(1,156)**

At December 31, 2018, adjustments mainly consisted of €2 million impairment relating to municipalities under financial distress.

8.2 Net adjustments for credit risk on financial assets measured at fair value through OCI: breakdown

(Amounts in € thousands)

Transactions/ Income components	Adjustments (1)			Reversals of impairment (2)		Total 12/31/2018	Total 12/31/2017
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	8					8	702
B. Loans							
- customers							
- banks							
of which: financial assets impaired or internally generated							
Total	**8**					**8**	**702**

Section 10 – Administrative expenses – Item 160
€55,445 thousand

10.1 Personnel costs: breakdown
€25,513 thousand

(Amounts in € thousands)

Type of expense/Amounts	Total 12/31/2018	Total 12/31/2017
1) Employees		
a) wages and salaries	15,402	13,331
b) social security contributions	4,034	3,485
c) employee severance benefits		
d) pension		
e) allocation to employee severance benefits	579	422
f) provision for pension and other post-employment benefits:		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds:	185	189
- defined contribution	185	189
- defined benefit		
h) costs of share-based payment arrangements		
i) other employee benefits	2,718	2,585
2) Other staff in service	598	541
3) Directors and statutory auditors	1,997	1,601
4) Early retirement costs		
5) Recovery of expenses for employees on secondment to other companies		
6) Recovery of expenses for third-party employees on secondment to the company		
Total	**25,513**	**22,154**

The increase in this item can mainly be traced to an increased number of employees over the year. The amount also includes expenses for employee stock options, equal to €1.1 million for the current year, before taxes. Such cost also generates an increase, before taxes, in equity.

10.2 Average number of employees by category

Employees

(number)

Category	Average number 2018	Average number 2017
Senior Executives/Executives	15	15
Managers/Coordinators/Professionals	74	68
Specialists	117	119
Total	**206**	**202**

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

Other staff
Internship: 0

10.4 Other employee benefits

The amount of €2,718 thousand mainly refers to costs of stock options granted to some employees, to expenses incurred for training, to insurance on behalf of staff, to meal tickets and donations to employees.

10.5 Other administrative expenses: breakdown

€29,932 thousand

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Legal fees	2,047	2,178
Data processing services	2,711	2,342
External credit management services	1,008	1,014
Supervisory Body fees	42	42
Legal fees for receivables under management	275	723
Notary fees	646	499
Notary fees to be recovered	1,324	711
Entertainment expenses and donations	841	950
Maintenance expenses	1,602	1,241
Non-deductible VAT	3,141	3,142
Other taxes	1,002	1,162
Advisory fees	4,802	5,670
Head office operating expenses	1,569	1,457
Resolution Fund and FITD	3,236	1,727
Other expenses	5,688	5,689
Total	**29,932**	**28,547**

Other administrative expenses at December 31, 2018 amounted to €29.9 million, basically in line with the same period in the previous year.

Furthermore, with regards to contributions to the Deposit Guarantee Scheme, a cost of €3.2 million before taxes was recorded at December 31, 2018. This cost was made up of:
- €1.8 million as ordinary annual contribution to the Resolution Fund, and €0.7 million as extraordinary contribution for 2016 (both paid in the first half of 2018);
- €0.7 million as contribution to the FITD, paid in December 2018.

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

This item also includes legal fees of €275 thousand and notary fees of €1,324 thousand, incurred on behalf of corporate customers, which were fully recovered and included in other operating income.

"Other administrative expenses" mainly include services outsourced in 2018, which are listed below.

(Amounts in € thousands)

Breakdown	Total 12/31/2018
Fees paid to external companies for support to Internal Audit	48
Fees paid to external companies for Data Processing	2,711
Fees paid to external companies for Credit Checks	1,008

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

€1,266 thousand

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

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Provision for risk on commitments and guarantees	336	0
Total	**336**	**0**

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

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

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Pension and other post-employment benefits	930	261
Other provisions	0	564
Total	**930**	**825**

The allocation to "Pension and other post-employment benefits" refers to deferred employee benefits.

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

12.1 Net adjustments to/reversals of impairment of property, plant and equipment: breakdown

€1,043 thousand

(Amounts in € thousands)

Asset/Income component	Depreciation (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a+b-c)
A. Property, plant and equipment				
A.1 Owned assets	1,043			1,043
- Used in the business	1,043			1,043
- Held for investment				
- Inventory	X			
A.2 Purchased under finance leases				
- Used in the business				
- Held for investment				
Total	**1,043**			**1,043**

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

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

€1,704 thousand

(Amounts in € thousands)

Asset/Income component	Amortization (a)	Impairment losses (b)	Reversals of impairment (c)	Net adjustments (a+b-c)
A. Intangible assets				
A.1 Owned assets	1.704			**1.704**
- Internally generated				
- Other	1.704			1.704
A.2 Purchased under finance leases				
Total	**1.704**			**1.704**

Section 14 – Other operating income (expenses) – Item 200

€5,854 thousand

14.1 Other operating expenses: breakdown

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Contingent expenses	(490)	
Rounding off and allowance expenses	(74)	(90)
Tax expenses	(688)	(600)
Total	**(1,252)**	**(690)**

14.2 Other operating income: breakdown

(Amounts in € thousands)

Breakdown	Total 12/31/2018	Total 12/31/2017
Recovery of legal fees for purchases of non-recourse receivables	1,768	2,139
Recovery of operational legal fees	275	723
Receivables realized at other than face value	-	8
Contingent assets	853	1,454
Recovery of assignor notary expenses	1,324	652
Royalties, BFF Finance Iberia	951	704
Other income	1,936	369
Total	**7,106**	**6,048**

"Other Income" includes the tax contribution relative to system development, for approximately €700 thousand. The disclosure is given in accordance with the requirements of Italian law no. 124/2017, which, starting 2018, requires a compulsory publication of said contribution in the Notes.

Section 19 – Income taxes on profit (loss) from continuing operations – Item 270

€27,722 thousand

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

(Amounts in € thousands)

Income components/Sectors	Total 12/31/2018	Total 12/31/2017
1. Current taxes (-)	19,455	23,978
2. Change in current taxes of prior years (+/-)		
3. Reduction in current taxes for the year (+)		
3.bis Reduction in current taxes for the year due to tax credit under Law 214/2011 (+)		
4. Change in deferred tax assets (+/-)	50	17
5. Change in deferred tax liabilities (+/-)	8,217	7,776
6. Taxes for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	**27,722**	**31,771**

19.2 Reconciliation of theoretical tax and effective tax expense

(Amounts in € thousands)

Breakdown	IRES	IRAP
Taxable profit used for purposes of tax calculations	101,112	18,459
Theoretical tax: 27.5% IRES – 5.57% IRAP	**27,806**	**1,028**
Permanent non-deductible differences	(3,532)	-
Deductible IRAP	(372)	-
Temporary differences taxable in future years	(32,590)	-
Temporary differences deductible in future years	2,583	968
Reversal of temporary differences from previous years	(470)	1,413
Taxable profit	**66,731**	**20,840**
Current taxes for the year: 27.5% IRES – 5.57% IRAP	**18,351**	**1,161**

Section 22 – Earnings per share

22.1 Average number of diluted ordinary shares

Breakdown	Total 12/31/2018	Total 12/31/2017
Average number of shares outstanding	170,107,400	170,107,400
Average number of potentially dilutive shares	2,458,721	-
Average number of diluted shares	172,566,121	170,107,400

22.2 - Other information

Breakdown	Total 12/31/2018	Total 12/31/2017
Net profit for the period (in euros)	73,389,737	79,477,696
Average number of shares outstanding	170,107,400	170,107,400
Average number of potentially dilutive shares	2,458,721	-
Average number of diluted shares	172,566,121	170,107,400
Basic earnings per share (in euros)	**0.431**	**0.467**
Diluted earnings per share (in euros)	**0.425**	**0.467**

Part D - Comprehensive Income

Statement of Comprehensive Income

(amounts in euros)

	Items	Total 12/31/2018	Total 12/31/2017
10.	**Profit for the year**	**73,389,737**	**79,477,696**
	Other comprehensive income that will not be reclassified to profit or loss		
20.	Equity securities designated at fair value through OCI:		
	a) fair value changes		
	b) transfers to other equity components		
30.	Financial liabilities designated at fair value through profit or loss (change in credit quality rating):		
	a) fair value changes		
	b) transfers to other equity components		
40.	Hedging of equity securities designated at fair value through OCI:		
	a) fair value changes (hedged instrument)		
	b) fair value changes (hedging instrument)		
50.	Property, plant and equipment		
60.	Intangible assets		
70.	Defined benefit plans	24,380	(28,272)
80.	Non-current assets and disposal groups held for sale		
90.	Portion of revaluation reserves from equity investments measured using the equity method		
100.	Income taxes on OCI that will not be reclassified to profit or loss	(6,704)	7,775
	Other comprehensive income that will be reclassified to profit or loss		
110.	Hedges of foreign investments:		
	a) fair value changes		
	b) reclassification to profit or loss		
	c) other changes		
120.	Exchange differences:		
	a) fair value changes		
	b) reclassification to profit or loss		
	c) other changes		
130.	Cash flow hedges:		
	a) fair value changes	(290,088)	(226,212)
	b) reclassification to profit or loss		
	c) other changes		
	of which: result of net positions		
140.	Hedging instruments (not designated):		
	a) fair value changes		
	b) reclassification to profit or loss		
	c) other changes		
150.	Financial assets (other than equity securities) measured at fair value through OCI:		
	a) fair value changes	(6,331,788)	(601,191)
	b) reclassification to profit or loss		
	- adjustments for credit risk		
	- capital gains (losses)		
	c) other changes		
160.	Non-current assets and disposal groups held for sale:		
	a) fair value changes		
	b) reclassification to profit or loss		
	c) other changes		
170	Portion of revaluation reserves relating to equity investments measured using the equity method:		
	a) fair value changes		
	b) reclassification to profit or loss		
	- impairment losses		
	- capital gains (losses)		
	c) other changes		
180.	Income taxes on OCI that will be reclassified to profit or loss	2,189,855	273,622
190.	**Total other comprehensive income**	**(4,414,347)**	**(574,278)**
200.	**Comprehensive income (Items 10+190)**	**68,975,390**	**78,903,418**

Part E - Risks and Related Risk Management Policies

Introduction

Banca Farmafactoring 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 consistent with the characteristics, dimensions and complexity of the business activities carried out by the Bank.
With this in mind, the Bank formalized its risk management policies and periodically reviews them to ensure their effectiveness over time, and constantly monitors the functioning of the risk management and control processes.

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

The corporate governance bodies of the Bank define the risk governance and management model, taking into account the specific types of operations and the related risk profiles characterizing all the entities belonging to it, with the aim of creating an integrated and consistent risk management policy. Within this framework, the Bank's corporate governance bodies perform the functions entrusted to them not only with regard to the specific business activities of the Bank but also taking into account the Group's operations as a whole and the risks to which it is exposed and involving, as appropriate, the governance bodies of the subsidiaries in the decisions made regarding risk management procedures and policies.

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

In addition to other tasks, the Risk Management Function is responsible for:
- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Bank risks (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;
- providing an assessment of current and future adequacy of capital and liquidity risk governance and management systems, under normal and stress conditions, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes;

- overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system;
- submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

SECTION 1 - CREDIT RISKS

Qualitative information

1. General information

Factoring is governed, in Italy, by the Italian Civil Code (Book IV, Chapter V, Articles 1260–1267) and Law no. 52 of February 21, 1991 and subsequent amendments, and consists of a plurality of financial services that can be structured in various ways, mainly through the sale of trade receivables.

2. Credit risk management policies

2.1 Organizational issues

The assessment of a transaction, for the different products offered by the Bank, must be conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial relationship underlying the credit quality, and the customer's ability to repay.
The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation" approved by the Board of Directors on February 20, 2018. A further organizational measure tackling credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the aforementioned "Credit Regulation".
Credit risk is therefore adequately monitored at various levels within the framework of the multiple operating processes.

2.2 Management, measurement and control systems

The management, measurement and control system relating to credit risk has been created to ensure control over the main types of risks belonging to the credit risk category.
For this purpose, it must be noted that the core business carried out by the Bank consists, as mentioned above, in the purchase of receivables on a non-recourse basis due from debtors belonging to public administration agencies.

Based on the above, in particular, credit risk is linked to the possibility that an unexpected change in the creditworthiness of a counterparty, to which the Company is exposed, generates a corresponding decrease in the value of the credit position. It can be broken down as follows:
- credit risk in the strict sense: the risk of default of counterparties to which the Bank is exposed, which is fairly limited considering the nature of the Bank's counterparties, the majority of which are not subject to bankruptcy proceedings or other procedures that could undermine their substantial solvency;

* dilution risk: the risk that the amounts owed by the assigned debtor are reduced due to allowances or offsets arising from returns and/or disputes concerning the quality of the product or service or any other issue;
* factorability risk: the risk related to the nature and characteristics of the commercial relationship subject to factoring/sale, affecting the ability of the receivable sold to self-liquidate (e.g., risk of direct payments from the debtor to the potentially insolvent assignor);
* risk of late payment: the risk of a delay in the collection times of the receivables sold compared to those expected by the Bank.

Banca Farmafactoring has an internal regulation that describes the phases that in industry regulations are identified as components of the credit process:
- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

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

Banca Farmafactoring also marginally offers these two types of services: "receivables management only" and "recourse factoring".

In the "receivables management only" service, the credit risk is considerably reduced because it is limited to the Bank's exposure with the customer for payment of the agreed fees and commissions, that is, the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process, although the credit line can be approved by a single-person body.

"Recourse factoring" is a marginal activity for Banca Farmafactoring.

As a general rule, the Bank's customers have a suitable credit standing and, if necessary, adequate guarantees are requested to mitigate the risk of financial losses arising from customers' non-performance.
Exposure to customer credit risk is constantly monitored. The credit quality of public sector entities is analyzed within the framework of the risk of delay in repaying liabilities.

As for the assessment and measurement of credit risk from the regulatory point of view, in terms of capital requirements for capital adequacy purposes, the Bank uses the "standardized" approach, as governed by Regulation (EU) no. 575/2013 (CRR) and adopted by the Bank of Italy Circular no. 285 *"Supervisory provisions for banks" and Circular no. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries"*, both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes ("portfolios") depending on the type of counterparty, and the application of diversified risk weights to each portfolio, as shown in detail in Section 4 of this document.

The Bank constantly maintains, as a capital requirement for credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposures for credit risk (RWA – Risk Weighted Assets).

In particular, the Bank applies the following weighting factors, for RWA calculation purposes:
- 0% for receivables due from government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions;
- 20% for *(i)* exposures to regional government agencies and local authorities with offices in a European Union member state and financed in the local currency, *(ii)* exposures to public sector entities of countries with Credit Quality Step 1, *(iii)* exposures to public sector entities and supervised intermediaries with an original duration of three months or less;
- 50% for exposures to the public administration agencies of countries with Credit Quality Step 2;
- 100% for *(i)* exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy, Portugal and Greece) and *(ii)* exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Croatia);
- 50% or 100% for receivables due from supervised intermediaries, according to the credit quality step of the country in which they have their offices;
- 75% for retail exposures and exposures to SMEs;
- 100% for exposures to private debtors (i.e., businesses);
- 100% for property, plant and equipment, equity investments, collective investment undertakings and other;
- 150% for non-performing exposures, if the specific value adjustments are 20% less than the non-collateralized portion, before any adjustments;
- 100% for non-performing exposures, if the specific value adjustments are 20% or more than the non-collateralized portion, before any adjustments.

Banca Farmafactoring adopted the Dominion Bond Rating Service (DBRS) as reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS on July 13, 2018 was "BBB high". Exposures to the Italian public administration agencies, which include those to entities belonging to the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%.
The exposures of Banca Farmafactoring are principally represented by exposures with counterparties of the public administration or healthcare entities of the countries in which the Bank operates.

Based on the method described above, the capital requirement for credit risk at December 31, 2018 is €170.1 million for the Bank.

Furthermore, the credit risk management process abides by external regulations (CRR, Bank of Italy Circulars no. 285 "*Supervisory provisions for banks" and no. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries*" and subsequent amendments) regarding risk concentration.

In particular:
- "large exposure" means any position equal to or greater than 10% of the eligible capital, as defined in the CRR (sum of Tier 1 Capital and Tier 2 Capital equal to or lower than one-third of Tier 1 Capital);
- for banking groups and banks, each risk position must not be greater than 25% of the eligible capital.

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

Finally, the Bank files a monthly report with the Central Credit Register (in compliance with Bank of Italy's Circular no. 139 of February 11, 1991, and subsequent amendments, "*Central Credit Register. Instructions for Credit Intermediaries*"), providing information on the financial debt trend of the debtor over the course of time and on the available/used ratio (which shows the financial obligations of the company and its debt margins to the system). For the purposes of improving the monitoring of credit performance, complying with this requirement also allows to have visibility of the financial position of the entities reported by the Bank.

Credit quality assessment

The Bank performs an impairment test on the receivables portfolio, aimed at identifying any impairment of its assets, in line with the provisions of the applicable accounting standards and the prudential criteria required by supervisory regulations and the internal policies adopted by the Bank.

This assessment is based on the distinction between these two categories of exposures:
- *Receivables subject to generic adjustments ("collective assessment")*
- *Receivables subject to specific adjustments.*

It should be noted that IFRS 9 came into force on January 1, 2018. This standard replaces the concept of incurred losses, envisaged by IAS 39, with that of expected losses.

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

More specifically, according to IFRS 9, impairment of receivables is recognized in three stages, each with different methods for calculating the losses to be recorded.
As for Stage 1, expected losses are measured over a 12-month period. As for Stage 2 (including financial assets whose credit risk increased significantly since initial recognition), expected losses are measured over the full lifetime of the instrument (lifetime expected losses). Stage 3 includes all financial assets that show objective impairment at the reporting date (non-performing exposures).

2.3 Expected credit loss measurement methods

Receivables subject to generic adjustments ("collective impairment")

The impairment model is characterized by:
- the allocation of the transactions in the portfolio to different buckets, based on an assessment of

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

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modeling approach. Therefore, by analyzing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Bank's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.
The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous accounting standards are as follows:
- a forward-looking model, allowing the immediate recognition of all expected losses over the life of the instrument, thus replacing the "incurred loss" criterion. According to the latter, impairment losses were recognized only when there was evidence that they existed (based on the identification of a trigger event). According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;
- ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;
- use of forward-looking information and macroeconomic factors to determine ECL;
- introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

The ECL calculation model requires a quantitative assessment of future cash flows and assumes that they can be reliably estimated. This requires the identification of certain elements, namely:
- probability of default (PD) models and assumptions about the forward distribution of default events, for the calculation of multi-period PDs used to determine the lifetime expected credit loss;
- LGD model;
- a deterministic and stochastic EAD model, for which it is possible to define a multi-period distribution, as well as a 12-month horizon.

The risk parameters that should be modeled to comply with the rationale of considering the full lifetime of the financial instrument are as follows:
- Multi-period PD;
- Multi-period LGD;
- Multi-period EAD.

Furthermore, in compliance with IFRS 9, the ECL calculation shall include Point-in-Time (PIT) adjustments and Forward-Looking Information (FLI).

Receivables subject to specific adjustments ("individual impairment")

As required by IFRS 9 and in line with current supervisory provisions, the Bank carried out a review of the assets classified as non-performing in order to identify any objective impairment of individual positions.

It should be noted that, with reference to past due receivables, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures referred to in this section were carried out. This decision is supported by the fact that, in consideration of the Bank's core business, positions past due by over 90 days, identified according to objective criteria, do not necessarily represent a deterioration of the risk position with individual objective impairment elements. The results arising from impairment are then individually attributed to each single counterparty classified in such risk position.
The Bank's impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €73.5 million - net of individual impairment - and are broken down as follows:
- €34.9 million NPLs;
- €2.5 million unlikely to pay exposures;
- €38.7 million impaired past due exposures.

2.4 Credit risk mitigation techniques

The Bank has adequate credit risk mitigation mechanisms in place that ensure a sound and prudent management of the risk positions assumed.

Concerning specifically credit risk mitigation techniques, the Bank has adopted specific Regulations ("Group Regulations for the management of credit risk mitigation techniques") that govern the Credit Risk Mitigation (CRM) process. Among other things, the Regulations describe how to manage all instruments considered eligible by the Group in accordance with applicable prudential provisions ("Regulation EU/2013/575" and "Bank of Italy Circular 285/2013") to mitigate credit risk for regulatory purposes.

3. Impaired credit exposure

On July 24, 2014, the EBA published the *"Final draft implementing technical standards on supervisory reporting on forbearance and non-performing exposures"* (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for non-performing exposures and forbearance measures. According to these definitions, adopted by the Bank of Italy with the seventh update to Circular no. 272 of January 20, 2015, impaired assets shall be classified as follows:
- Non-performing loans
- Unlikely to pay exposures
- Impaired past due exposures

3.1 Non-performing loans
These are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.
Total non-performing loans, net of any estimated impairment losses, amounted to €34.9 million at December 31, 2018, €32.3 million of which were due from Italian municipalities in financial distress.
Specifically, the amount of €7.9 million 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 were impaired based on subjective assessments arising from legal opinions or on the time value, as they consist of exposures relating to local entities in financial distress for which no provisions were recognized as the distressed condition is expected to be remedied, resulting in the collection of 100% of receivables.

The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €11,682 thousand entirely impaired, and refers mainly to exposures with Fondazione Centro San Raffaele del Monte Tabor (ongoing liquidation and composition agreement with creditors). Taking account of this amount, too, gross non-performing loans amounted to €52,000 thousand and relevant adjustments totaled €17,116 thousand.

3.2 Unlikely to pay exposures

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

At December 31, 2018, net exposures classified as unlikely to pay amounted to €2.5 thousand overall.

3.3 Impaired past due exposures

These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. They are classified as impaired based on the Bank of Italy's Circular no. 272 of January 20, 2015.

More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the Bank for more than 90 days. Measurement of such past due exposures is carried out at the portfolio level, since there are no objective indications of individual impairment.

At December 31, 2018, net past due exposures amounted to €38.7 million overall. Of such amount, €28.2 million (72.8%) concerned Italian, Portuguese and Greek public administration agencies (largely local entities) and public sector companies.

Quantitative information

A. Credit quality

A.1 Impaired and not impaired credit exposures: amounts, adjustments, changes, breakdown by business activity

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

(Amounts in € thousands)

Portfolios/Quality	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures	Past due but not impaired exposures	Other not impaired exposures	**Total**
1. Financial assets measured at amortized cost	34,884	3	38,706	548,371	3,312,433	3,934,396
2. Financial assets measured at fair value through OCI					160,592	160,592
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets held for sale						
Total 12/31/2018	**34,884**	**3**	**38,706**	**548,371**	**3,473,025**	**4,094,988**
Total 12/31/2017	**16,009**		**63,101**	**449,763**	**3,296,937**	**3,825,810**

Not impaired receivables due from customers include past due but not impaired exposures, pursuant to the provisions of Bank of Italy Circular no. 272 of July 30, 2008 *"Account matrix"*, and subsequent amendments, amounting to €548,371 thousand.

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

(Amounts in € thousands)

Portfolios/Quality	Impaired				Not impaired			**Total (net exposure)**
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortized cost	79,210	5,617	73,592		3,863,138	2,334	3,860,804	**3,934,396**
2. Financial assets measured at fair value through OCI					160,592		160,592	**160,592**
3. Financial assets designated at fair value					X	X		
4. Other financial assets mandatorily measured at fair value					X	X		
5. Financial assets held for sale								
Total 12/31/2018	**79,210**	**5,617**	**73,592**		**4,023,730**	**2,334**	**4,021,396**	**4,094,988**
Total 12/31/2017	**83,113**	**4,003**	**79,110**		**3,749,716**	**3,016**	**3,746,700**	**3,825,810**

** Provided for disclosure purposes*

(Amounts in € thousands)

Portfolio/quality	Subprime assets		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading			
2. Hedging derivatives			
Total 12/31/2018			
Total 12/31/2017			**322**

A.1.3 Financial assets broken down by past due amounts (carrying amounts)

(Amounts in € thousands)

Portfolios/Risk Stages	Stage 1			Stage 2			Stage 3		
	1 to 30 days	30 to 90 days	over 90 years	1 to 30 days	30 to 90 days	over 90 years	1 to 30 days	30 to 90 days	over 90 years
1. Financial assets measured at amortized cost	16,784	49,099	370,014	10	8,831	103,634	409	583	48,076
2. Financial assets measured at fair value through OCI									
Total 12/31/2018	**16,784**	**49,099**	**370,014**	**10**	**8,831**	**103,634**	**409**	**583**	**48,076**

A.1.5 Financial assets, commitments to disburse funds and financial guarantees provided: transfers among the various credit risk stages (gross amounts and face values)

(Amounts in € thousands)

Portfolios/Risk Stages	Gross amount/Face value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortized cost	210,206				40,978	51,323
2. Financial assets measured at fair value through OCI						
3. Commitments to disburse funds and financial guarantees provided						
Total 12/31/2018	**210,206**	**-**	**-**	**-**	**40,978**	**51,323**

A.1.6. On- and off-balance sheet credit exposures with banks: gross and net amounts

(Amounts in € thousands)

Type of exposure/Amounts	Gross exposure		Total adjustments and allocations	Net exposure	Total partial write-offs*
	Impaired	Not impaired			
A. On-balance sheet credit exposures					
a) Non-performing loans		X			
- of which: forborne exposures		X			
b) Unlikely to pay exposures		X			
- of which: forborne exposures		X			
c) Impaired past due exposures		X			
- of which: forborne exposures	X	X			
d) Past due but not impaired exposures	X				
- of which: forborne exposures	X				
e) Other not impaired exposures	X	47,351	6	47,346	
- of which: forborne exposures					
TOTAL (A)		**47,351**	**6**	**47,346**	
B. Off-balance sheet credit exposures					
a) Impaired		X			
b) Not impaired	X	3,391	11	3,380	
TOTAL (B)	**0**	**3,391**	**11**	**3,380**	
TOTAL (A+B)	**0**	**50,742**	**8**	**50,726**	

* *Provided for disclosure purposes*

A.1.7 On- and off-balance sheet credit exposures with customers: gross and net amounts

(Amounts in € thousands)

Type of exposure/Amounts	Gross exposure		Total adjustments and allocations	Net exposure	Total partial write-offs*
	Impaired	Not impaired			
A. On-balance sheet credit exposures					
a) Non-performing loans	40,318	X	5,434	34,884	
- of which: forborne exposures		X			
b) Unlikely to pay exposures	3	X		3	
- of which: forborne exposures		X			
c) Impaired past due exposures	38,889	X	183	38,706	
- of which: forborne exposures		X			
d) Past due but not impaired exposures	X	548,426	55	548,371	
- of which: forborne exposures	X				
e) Other not impaired exposures	X	3,427,952	2,273	3,425,679	
- of which: forborne exposures	X				
TOTAL (A)	**79,210**	**3,976,379**	**7,946**	**4,047,643**	
B. Off-balance sheet credit exposures					
a) Impaired		X			
b) Not impaired	X	679,324	805	678,519	
TOTAL (B)		**679,324**	**805**	**679,519**	
TOTAL (A+B)	**79,210**	**4,655,703**	**8,751**	**4,726,162**	

** Provided for disclosure purposes*

A.1.9 On-balance sheet credit exposures with customers: changes in gross impaired exposures

(Amounts in € thousands)

Sources/Categories	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures
A. Opening gross exposures	**19,486**	**440**	**63,187**
- of which: exposures sold but not derecognized	4,955		15,197
B. Increase	**21,014**	**2**	**29,202**
B.1 transfer from performing exposures	12,475		28,503
B.2 transfer from impaired financial assets acquired or internally generated	5,869		
B.3 transfers from other categories of impaired exposures	1,607		
B.4 contractual changes without derecognition			
B.5 other increases	1,063	2	699
C. Decrease	**183**	**440**	**53,499**
C.1 transfer to performing exposures	33		51,290
C.2 write-off			
C.3 collections	150	440	602
C.4 proceeds on sale			
C.5 losses on disposal			
C.6 transfers to other categories of impaired exposures			1,607
C.7 contractual changes without derecognition			
C.8 other decreases			
D. Closing gross exposure	**40,317**	**2**	**38,890**
- of which: exposures sold but not derecognized	14,112		5,484

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

(Amounts in € thousands)

Sources/Categories	Non-performing loans		Unlikely to pay exposures		Impaired past due exposures	
		of which: forborne exposures		of which: forborne exposures		of which: forborne exposures
A. Opening total adjustments	**3,477**		**440**		**86**	
- of which: exposures sold but not derecognized	103				21	
B. Increase	**2,458**				**172**	
B.1 adjustments from impaired financial assets acquired or internally generated	1,407					
B.2 other adjustments	818				172	
B.3 losses on disposal						
B.4 transfers from other categories of impaired exposures	73					
B.5 contractual changes without derecognition						
B.6 other increases	160					
C. Decrease	**501**		**440**		**75**	
C.1 reversals of impairment from revaluations						
C.2 reversals of impairment from collections	500		440		2	
C.3 gains on disposal						
C.4 write-off						
C.5 transfers to other categories of impaired exposures					73	
C.6 contractual changes without derecognition						
C.7 other decreases	1					
D. Closing total adjustments	**5,434**				**183**	
- of which: exposures sold but not derecognized	1,757				14	

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

A.2.1 Financial assets, commitments to disburse funds and financial guarantees provided broken down by external rating classes (gross amounts)

(Amounts in € thousands)

	External rating classes						Unrated	Total
Exposures	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost		**6,676**	**3,403,432**		**15,843**		**516,397**	**3,942,348**
- Stage 1		6,676	3,232,564		15,349		496,051	3,750,640
- Stage 2			111,599		175		724	112,498
- Stage 3			59,269		319		19,622	79,210
B. Financial assets measured at fair value through OCI			**160,592**					**160,592**
- Stage 1			160,592					160,592
- Stage 2								
- Stage 3								
Total (A + B)		**6,676**	**3,564,024**		**15,843**		**516,397**	**4,102,940**
of which: impaired financial assets acquired or internally generated			10,561					10,561
C. Commitments to disburse funds and financial guarantees provided							**682,715**	**682,715**
- Stage 1							682,715	682,715
- Stage 2								
- Stage 3								
Total (C)							**682,715**	**682,715**
Total (A + B + C)		**6,676**	**3,564,024**		**15,843**		**1,199,112**	**4,785,655**

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

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

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.2 On- and off-balance sheet guaranteed credit exposures with customers

(Amounts in € thousands)

			Collaterals (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Mortgaged property	Property under finance leases	Securities	Other collaterals	CLN	Clearing house	Banks	Other financial companies	Other	Public administration agencies	Banks	Other financial companies	Other	**Total (1)+(2)**
1. Guaranteed on-balance sheet credit exposures:	**3,634**	**3,586**	**3,256**												**330**	**3,586**
1.1 totally guaranteed	3,634	3,586	3,256												330	3,586
- of which impaired																
1.2 partially guaranteed																
- of which impaired																
2. Guaranteed off-balance sheet credit exposures:																
2.1 totally guaranteed																
- of which impaired																
2.2 partially guaranteed																
- of which impaired																

B. Breakdown and concentration of credit exposures

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

(Amounts in € thousands)

Exposures/Counterparties	Public administration agencies		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	33,628	4,005					2	284	1,253	1,145
- of which: forborne exposures										
A.2 Unlikely to pay exposures							3			
- of which: forborne exposures										
A.3 Impaired past due exposures	21,909	47					7,921	69	8,876	67
- of which: forborne exposures										
A.4 Not impaired exposures	3,490,817	418	450,876	1,715			30,848	177	1,509	18
- of which: forborne exposures										
Total (A)	**3,546,354**	**4,469**	**450,876**	**1,715**			**38,775**	**531**	**11,638**	**1,230**
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures			678,519	805						
Total (B)			**678,519**	**805**						
Total (A+B) 12/31/2018	**3,546,354**	**4,469**	**1,129,395**	**2,521**			**38,775**	**531**	**11,638**	**1,230**
Total (A+B) 12/31/2017	**3,289,663**	**5,142**	**590,543**				**29,385**	**750**	**14,012**	**1,126**

B.2 Breakdown by geographical area of on- and off-balance sheet credit exposures with customers

(Amounts in € thousands)

Exposures/ Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	34,884	5,434								
A.2 Unlikely to pay exposures	3									
A.3 Impaired past due exposures	38,389	182	317	2						
A.4 Not impaired exposures	3,378,969	571	595,082	1,757						
Total (A)	**3,452,244**	**6,186**	**595,399**	**1,759**						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures			678,519	805						
Total (B)			**678,519**	**805**						
Total (A+B) 12/31/2018	**3,452,244**	**6,186**	**1,273,917**	**2,564**						
Total (A+B) 12/31/2017	**3,274,494**	**6,855**	**649,109**	**164**						

(Amounts in € thousands)

Exposures/ Geographical areas	Italy – Northwest		Italy – Northeast		Italy – Central part		Italy – South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures								
A.1 Non-performing loans	1,272	330	181	41	1,452	1,273	31,979	3,790
A.2 Unlikely to pay exposures					3			
A.3 Impaired past due exposures	3,006	25	580	1	11,843	72	22,960	84
A.4 Not impaired exposures	225,112	209	114,564	7	2,083,659	259	957,124	95
Total (A)	**229,389**	**565**	**115,324**	**48**	**2,095,466**	**1,605**	**1,012,064**	**3,969**
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures								
Total (B)								
Total (A+B) 12/31/2018	**229,389**	**565**	**115,324**	**48**	**2,095,466**	**1,605**	**1,012,064**	**3,969**
Total (A+B) 12/31/2017	**194,223**	**576**	**96,720**	**188**	**2,088,691**	**2,701**	**897,667**	**3,391**

B.3 Breakdown by geographical area of on- and off-balance sheet credit exposures with banks

(Amounts in € thousands)

	Italy		Other European countries		America		Asia		Rest of the world	
Exposures/ Geographical areas	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay exposures										
A.3 Impaired past due exposures										
A.4 Not impaired exposures	39,872	6	7,474							
Total (A)	**39,872**	**6**	**7,474**							
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures	3,380	11								
Total (B)	**3,380**	**11**								
Total (A+B) 12/31/2018	**43,252**	**17**	**7,474**							
Total (A+B) 12/31/2017	**10,031**		**9,876**							

Valori in migliaia di euro

Exposures/ Geographical areas	Italy – Northwest		Italy – Northeast		Italy – Central part		Italy – South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures								
A.4 Not impaired exposures	5,488	4	190		34,090	2	105	
Total (A)	**5,488**	**4**	**190**		**34,090**	2	**105**	
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures					3,380	11		
Total (B)					**3,380**	**11**		
Total (A+B) 12/31/2018	**5,488**	**4**	**190**		**37,470**	**13**	**105**	
Total (A+B) 12/31/2017	**5,645**		**68**		**4,308**		**11**	

B.4 Large exposures

At December 31, 2018, the Bank had 14 “large exposures”, meaning—as specified in the Bank of Italy Circular no. 263 of December 27, 2006 “New prudential supervision regulations for banks” and subsequent amendments—risk positions equal to or higher than 10% of eligible capital.

The nominal unweighted amount of these positions was €4,110,476 thousand, while the weighted amount was €186,847 thousand.

However, none of these positions exceed the individual concentration limit of 25% of eligible capital of the CRR Group.

C. Securitization transactions

This section presents "qualitative" and "quantitative" information about transactions concerning the securitization and asset sale activities of the Bank.

Information on the transaction with "Deutsche Bank AG – Farmafactoring SPV I S.r.l."

On January 25, 2018, the Senior Note of the €150 million securitization program FF SPV I S.r.l. (Deutsche Bank) was repaid in full.

Following the repayment of the Senior Note, the Bank signed the agreements and documents required to close the securitization program with the SPV (Issuer), the Deutsche Bank Group (Noteholder), and the other parties to the transaction, under which:
- all contracts related to the transaction were terminated;
- Banca Farmactoring repurchased the outstanding portfolio of receivables held by the SPV as well as the debit memos issued and not yet collected.

In the first half of the year, the special purpose vehicle was liquidated and dissolved (June 2018).

Information on the transaction with "Bayerische Landesbank – BFF SPV S.r.l."

Qualitative information

Strategies, processes and objectives

In July 2017, the private placement of a securitization transaction was concluded with the Bayerische Landesbank (BayernLB) Group for €150 million—the maximum amount of the flexible senior note—with the aim of diversifying funding activities.

Transaction details

The receivables, due from Local Healthcare Entities (ASL) and Hospitals (AO), are sold without recourse to a special purpose vehicle pursuant to Law 130/99, BFF SPV, which finances the purchase of the receivables by issuing securities up to a total of €150 million, underwritten by Corelux, a special purpose vehicle in the BayernLB Group, using liquidity made available by BayernLB AG.

The securitization structure provides for a revolving period during which sales of revolving receivables will be made against collections of the receivables in order to maintain the collateralization ratio provided for by the contract.
The revolving phase that started in September 2017 and originally valid through January 15, 2019 was renewed in December 2018: as a result, the revolving phase outstanding at December 31, 2018 is to end on February 17, 2020.

Description of the risk profile

Banca Farmafactoring, as the originator, maintains a role in the securitization transaction, even though it sells receivables on a non-recourse basis.
This transaction includes a credit enhancement mechanism through an overcollateralization ratio (at December 31, 2018, equal to 138.05% of the amount of the securities issued) and a subordinated loan by Banca Farmafactoring.

At the end of the revolving period, there will be an amortization period of up to one year related to the receivables collection performance, until full repayment of securities.
Through the exercise of a put option, the vehicle may also transfer back to Banca Farmafactoring S.p.A. any receivables outstanding after the 12 months set as the maximum limit for the amortization period.

Based on the above, all of the risks and rewards of the transaction were not transferred to the assignee but remain with Banca Farmafactoring. Consequently, the securitization risk is included in the credit risk.
Banca Farmafactoring does not hold any financial instruments issued by the vehicle as part of the transaction and, as collection agent, takes care of the recovery and collection of receivables on behalf of the servicer Zenith Service S.p.A.

Quantitative information

Type of financial instruments held

Banca Farmafactoring does not hold any financial instruments connected with the above-mentioned transaction.

Sub-servicer activity

Banca Farmafactoring, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A.

Following the sales of receivables during the revolving phase of the transaction, the face amount of total outstanding receivables totaled €211 million at December 31, 2018.

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

(Amounts in € thousands)

Types of securitized assets / Exposures	On-balance sheet exposures						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Adj./ Re-ver.	Carrying amount	Adj./ Re-ver.	Carrying amount	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.	Net exp.	Adj./ Re-ver.
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**46**	**0**																
C.1 Farmafactoring SPV I - Factoring	-	0																
C.1 BFF SPV - Factoring	46	0																

C.3 Securitization SPVs

(Amounts in € thousands)

Securitization name/ SPV name	Registered office	Scope of consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Senior	Mezzan.	Junior
BFF SPV S.r.l.	Milano - Via V. Betteloni, 2	Full	237,416		7	150,031		

E. Sales transactions

A. Financial assets sold and not fully derecognized

Qualitative information

The disclosure required by IFRS 7, paragraph 42D, letters a), b) and c), regarding the nature of the transferred assets, the relationship between them and the associated liabilities, and corresponding risks to which the Bank is exposed, is provided below.

Financial assets sold and fully recognized include:
- €187 million relating to the previously-mentioned securitization;
- €474.8 million pledged as collateral for loans with financial intermediaries;
- €1,104.0 million as collateral mainly in repurchase transactions.

Quantitative information

E.1 Financial assets sold and fully recognized and relevant financial liabilities: carrying amounts

(Amounts in € thousands)

	Financial assets sold and fully recognized				Relevant financial liabilities		
	Carrying amount	of which: subject to securitization	of which: subject to sale and repurchase agreements	of which impaired	Carrying amount	of which: subject to securitization	of which: subject to sale and repurchase agreements
A. Financial assets held for trading							
1. Debt securities				X			
2. Equity securities				X			
3. Loans				X			
4. Derivatives				X			
B. Other financial assets mandatorily measured at fair value							
1. Debt securities				-			
2. Equity securities				X			
3. Loans							
C. Financial assets designated at fair value							
1. Debt securities							
2. Loans							
D. Financial assets measured at fair value through OCI	**155,746**		**155,746**		**101,311**		**101,311**
1. Debt securities	155,746		155,746		101,311		101,311
2. Equity securities				X			
3. Loans							
E. Financial assets measured at amortized cost	**1,610,040**	**187,044**	**948,206**		**1,300,510**	**140,678**	**929,407**
1. Debt securities	948,206		948,206		929,407		929,407
2. Loans	661,834	187,044			371,103	140,678	
Total (12/31/2018)	**1,765,786**	**187,044**	**1,103,952**		**1,401,822**	**140,678**	**1,030,719**
Total (12/31/2017)	**1,619,855**	**173,661**	**1,155,942**		**1,443,367**	**80,137**	**1,162,912**

F. Credit Risk assessment models

SECTION 2 - MARKET RISKS

2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

A. General information

The interest rate risk is represented by the risk that fluctuations in the level of market interest rates may generate adverse effects on the company's income statement. Lending activities deriving from the factoring activities of the Bank, represented by non-recourse receivables, are in part at fixed rates and, for the late payment interest component, a 45% collection estimate at variable rates is included in amortized cost. Funding activities are mainly carried out at variable rates.
The exposure is given by the amount of financing subject to this risk.
The amount of derivative instruments executed to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be changed to fixed rates, correlating the amount of the hedging to the portion of funding used to finance the lending made at fixed rates. Therefore, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the fees and commissions and the correlated exposure flows, so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contractual rate on all derivative transactions.

2.2 Interest rate risk and price risk – Banking portfolio

Qualitative information

A. General information, operational procedures and methods for measuring interest rate risk and price risk

In accordance with the Bank of Italy's guidelines in the 20th update to circular no. 285/2013 as well as the guidance recently issued by the European Banking Authority (EBA), the Bank has defined its guidelines for the creation of a system to measure the internal capital in light of the interest rate risk in its banking book under normal and stressed market conditions.

The method adopted to measure this type of risk was developed with the goal of assessing the potential impact of changes in interest rates on both the financial position, i.e. considering the so-called "investment risk", and profit or loss, i.e. accounting for the impact in terms of "earnings risk".

"Investment risk" is the risk that the economic value of assets, liabilities, and off-balance-sheet instruments owned by the Bank will decline as a result of changes in interest rates, affecting the financial position. The Bank's approach to measuring this risk is based on the techniques known as "Duration Gap" and "Sensitivity Analysis", which estimate the financial impact of potential fluctuations in the value of assets and liabilities sensitive to interest rate movements as a result of changes in their structure.

“Earnings risk” is the risk that an unexpected change in interest rates will cause the Bank's net interest margin to decline. This risk, starting with the maturity mismatch between loans and funding, exposes the Bank to a refinancing risk as well as a reinvestment risk.
The Bank's approach to measuring the overall impact, in line with market practices, is the so-called Repricing Gap Approach”, applied over a short-term time horizon.

To better evaluate the risk exposure and the relevant mitigation and control systems, the Bank assesses the current and future adequacy of internal capital in light of the risk concerned under both normal and stressed market conditions.
In addition, the Bank reviews the impact of applying differentiated analyses to exposures denominated in foreign currency if this is found to be material.

In assessing both the current situation and the outlook for internal capital under normal market conditions, the Bank accounts for the annual changes in interest rates observed over a period of 6 years, considering either the 1st percentile (downside) or the 99th percentile (upside), based on its expectations concerning the outlook for interest rates and the reference macroeconomic scenario at the measurement date.
To determine internal capital using the Economic Value approach under stressed market conditions, in accordance with the regulatory provisions and guidelines of the European Banking Authority, the Bank conducts differentiated scenario analyses on parallel and non-parallel interest rate shocks. Internal capital under stressed market conditions is calculated as the worst outcome across the different scenarios considered.

B. Operational procedures and methods for measuring interest rate risk and price risk

As for the measurement of internal capital under the Net Interest Margin approach, the Bank conducts scenario analyses by accounting for parallel interest rate shocks applied in a consistent manner over time. In line with the best practices adopted by the Group, the scenarios are differentiated in terms of severity (e.g.+/- 25 bps, +/- 100 bps, +/- 200 bps, etc.).

Finally, besides the measurements based on the regulatory approach, only for the purposes of calculating internal capital in terms of economic value and measuring interest rate risk in terms of earnings, the Bank uses a method specifically developed to account for the peculiarities of its operations.
This method is based on the assumption that the regulatory approach does not allow to fully represent the actual breakdown of the assets and liabilities that form part of the banking book. To this end, the Bank has developed a classification that is more consistent with the actual breakdown of its assets and liabilities in terms of fixed and floating rates. These are implicit in the Bank’s core business, which is characterized by interest on both payments and late payments.

Specifically, under the classification resulting from the above method:
- 45% of the assets related to “Loans to Customers – Other Loans”, which are performing and denominated in Euros, with maturity or interest rate renegotiation date greater than six months, are classified as assets with maturity between 3 and 6 months, while the remaining 55% are included in the respective time band;
- the assets and liabilities other than the above are classified in accordance with the rules of the Duration Gap Model as per regulatory provisions.

C. Cash flow hedging activities

Previously, the Bank had used interest rate swaps (IRS) as tools to hedge the interest rate applied to its funding.

At December 31, 2018, Banca Farmafactoring did not hold any derivative contract aimed at offsetting potential losses attributable to specific types of risks.
In February 2018, early repayment of the IRS contract of PLN 355 million, entered into with Natixis, was made, after the purchase of the equity investment of Banca Farmafactoring in 2016. Early repayment generated a positive effect on the income statement totaling €110 thousand.

Quantitative information

1. Banking portfolio: breakdown by residual maturity (by repricing date) of financial assets and liabilities

Currency: EURO *(Amounts in € thousands)*

Type/ Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Un-specified maturity
1. On-balance sheet assets	**785,033**	**603,901**	**529,635**	**413,690**	**1,264,478**	**446,097**	**24,832**	
1.1 Debt securities		16,345	260,626	40,448	694,380	96,999		
- with early repayment option								
- other		*16,345*	*260,626*	*40,448*	*694,380*	*96,999*		
1.2 Loans to banks	43,955	3,397						
1.3 Loans to customers	741,100	584,159	269,009	373,242	570,097	349,098	24,832	
- current account	*1*							
- other loans	*741,099*	*584,159*	*269,009*	*373,242*	*570,097*	*349,098*	*24,832*	
- with early repayment option								
- other	*741,099*	*584,159*	*269,009*	*373,242*	*570,097*	*349,098*	*24,832*	
2. On-balance sheet liabilities	**184,224**	**2,136,599**	**376,334**	**152,628**	**818,170**	**102,705**		
2.1 Due to customers	168,033	1,569,767	331,334	122,632	236,613			
- current account	*65,762*	*218,051*	*331,334*	*122,632*	*196,624*			
- other payables	*102,272*	*1,351,716*			*39,989*			
- with early repayment option								
- other	*102,272*	*1,351,716*			*39,989*			
2.2 Due to banks	16,190	369,891	45,000	29,996	230,000			
- current account								
- other payables	*16,190*	*369,891*	*45,000*	*29,996*	*230,000*			
2.3 Debt securities		199,377			351,558	102,705		
- with early repayment option		*199,377*			*200,774*	*102,705*		
- other					*150,783*			
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
4. Other off-balance sheet transactions								
+ long positions								
+ short positions								

In relation to non-recourse purchases, the repricing date is the last receivables collection date.

Currency: OTHER *(Amounts in € thousands)*

Type/ Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Un-specified maturity
1. On-balance sheet assets	**456**	**24,847**		**2,005**				
1.1 Debt securities								
- with early repayment option								
- other								
1.2 Loans to banks								
1.3 Loans to customers	456	24,847		2,005				
- current account								
- other loans	*456*	*24,847*		*2,005*				
- with early repayment option								
- other	*456*	*24,847*		*2,005*				
2. On-balance sheet liabilities	**368**	**114,793**						
2.1 Due to customers								
- current account								
- other payables								
- with early repayment option								
- other								
2.2 Due to banks	368	*114,793*						
- current account								
- other payables	*368*	*114,793*						
2.3 Debt securities								
- with early repayment option								
- other								
2.4 Other liabilities								
- with early repayment option								
- other								
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
4. Other off-balance sheet transactions								
+ long positions								
+ short positions								

2.3 Exchange rate risk

Qualitative information

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

Exchange rate risk is represented by Banca Farmafactoring's exposure to fluctuations in exchange rates, considering both positions in foreign currency and those including indexation clauses linked to changes in the exchange rate of a specific currency.

The Bank's asset portfolio at December 31, 2018 is denominated as follows:
- Euro;
- Polish zloty;
- Czech koruna;
- Croatian kuna.

Therefore, Banca Farmafactoring manages and monitors the risk associated with currency volatility. The Bank has a specific internal regulation for the management of exchange risk referring to exposures from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency, and any other type of transaction in a currency other than the reference currency. Specifically, the Bank uses specific hedging instruments in order to mitigate exchange rate risk.
With regard to the acquisition of the BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty is hedged by a loan agreement, so that the asset and liability positions offset each other and, consequently, there is an open position in currency that is practically nil (natural hedging).
The currency effect, recognized in the income statement, arising from the revaluation of the zloty loan payable, corresponds to a related effect with the opposite sign in consolidated equity (the so-called "Translation reserve"), which comes from the revaluation of the exchange rates applied to the equity of the BFF Polska Group.

B. Hedging of exchange rate risk

At December 31, 2018, Banca Farmafactoring did not hold any forex swap derivative instruments.

Quantitative information

The Bank's asset portfolio is denominated in currencies other than the euro. Consequently, a method has been adopted to measure and manage this risk. The exchange rate risk is monitored by the Risk Management Function in accordance with European regulation guidelines (EU Regulation no. 575/2013, CRR).

1. Breakdown by currency of derivative assets and liabilities

(Amounts in € thousands)

Items	Currencies					
	US dollar	British pound	Japanese yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets						**114,350**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						36
A.4 Loans to customers						114,314
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities						**(114,836)**
C.1 Due to banks						(114,836)
C.2 Due to customers						
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ *Long positions*						
+ *Short positions*						
- Other derivatives						
+ *Long positions*						
+ *Short positions*						
Total assets						**114,350**
Total liabilities						**(114,836)**
Difference (+/-)						**(486)**

SECTION 3 – DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.2 Hedge accounting

Qualitative information

At December 31, 2018, Banca Farmafactoring did not hold any derivative instruments.

Quantitative information

A. Financial derivatives for hedging purposes

A.1 Financial derivatives for hedging purposes: year-end notional amounts

(Amounts in € thousands)

Underlying assets/ Types of derivatives	Total 12/31/2018				Total 12/31/2017			
	Over the counter			Regulated markets	Over the counter			Regulated markets
	Clearing house	Without clearing house			Clearing house	Without clearing house		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates			**-**				**84,928**	
a) Options								
b) Swaps			-				84,928	
c) Forwards								
d) Futures								
e) Other								
2. Equity securities and equity indices								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Other								
3. Currencies and gold								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Other								
4. Commodities								
5. Other								
Total			**-**				**84,928**	

A.2 Financial derivatives for hedging purposes: gross positive and negative fair value – breakdown by product

(Amounts in € thousands)

Types of derivatives	Positive and negative fair value								Change in value used to measure hedge ineffectiveness	
	Total 12/31/2018				Total 12/31/2017				Total 12/31/2018	Total 12/31/2017
	Over the counter			Regulated markets	Over the counter			Regulated markets		
	Clearing house	Without clearing house			Clearing house	Without clearing house				
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements			
1. Positive fair value			**-**				**322**			
a) Options										
b) Interest rate swaps			-				322			
c) Cross currency swaps										
d) Equity swaps										
e) Forwards										
f) Futures										
g) Other										
Total			**-**				**322**			
Negative fair value										
a) Options										
b) Interest rate swaps										
c) Cross currency swaps										
d) Equity swaps										
e) Forwards										
f) Futures										
g) Other										
Total										

A.4 Remaining life of OTC financial derivatives for hedging purposes: notional amount

(Amounts in € thousands)

Underlying assets/Remaining life	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and equity indices				
A.3 Financial derivatives on currencies and gold				
A.4 Financial derivatives on goods				
A.5 Other financial derivatives				
Total 12/31/2018				
Total 12/31/2017		**84,928**		**84,928**

Section 4 - Liquidity risks

Qualitative information

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

Liquidity risk is represented by the possibility that the Bank may not be able to fulfill its payment obligations due to the inability to access funding in the financial markets, or because of restrictions on the disposal of assets. This risk is also represented by the inability to raise new financial resources adequate, in terms of amount and cost, to meet operating needs, which would force the Bank to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profitability of its operations.
As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the Bank adopted a Risk Management Policy and a Treasury and Finance Regulation, aimed at maintaining a high degree of diversification in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.
To ensure the implementation of the liquidity risk management and control processes, the Bank adopted a governance model based on the following principles:
- separation of processes for the management of liquidity and processes for the control of liquidity risk;
- development of processes to manage and control liquidity risk, consistent with the hierarchical structure and through a process for the delegation of powers;
- sharing of decisions and clear responsibilities among management, control and operational bodies;
- making liquidity risk management and monitoring processes consistent with prudential supervisory requirements.

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

Quantitative information

1. Time breakdown by residual contractual maturity of financial assets and liabilities

Currency: EURO *(Amounts in € thousands)*

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
A. Balance sheet assets	**756,019**	**19,957**	**12,611**	**39,201**	**296,793**	**610,809**	**417,480**	**1,418,143**	**476,202**	
A.1 Government securities					20,830	103,207	47,481	843,000	84,000	
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	756,019	19,957	12,611	39,201	275,964	507,602	369,999	575,143	392,202	
- Banks	43,953	3,399								
- Customers	712,066	16,558	12,611	39,201	275,964	507,602	369,999	575,143	392,202	
B. Balance sheet liabilities	**312,599**	**250,657**	**424,628**	**468,547**	**492,708**	**465,377**	**210,566**	**1,062,180**	**100,000**	
B.1 Deposits and current accounts	80,024	36,108	48,235	68,501	301,494	458,953	209,433	426,624		
- Banks	16,138	19,916	29,997	30,000	155,030	125,000	84,996	230,000		
- Customers	63,886	16,192	18,238	38,501	146,464	333,953	124,436	196,624		
B.2 Debt securities					6,356	6,424	1,133	550,000	100,000	
B.3 Other liabilities	232,575	214,549	376,393	400,046	184,857			85,557		
C. Off-balance sheet transactions	**3,380**									
C.1 Financial derivatives with exchange of capital										
- Long positions										
- Short positions										
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Commitments to disburse funds										
- Long positions										
- Short positions										
C.5 Financial guarantees provided	3,380									
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- Long positions										
- Short positions										
C.8 Credit derivatives without exchange of capital										
- Long positions										
- Short positions										

In relation to non-recourse purchases, the due date is the last principal collection date.

Currency: OTHER *(Amounts in € thousands)*

Items/Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
A. Balance sheet assets	**456**		**11,624**	**6,983**	**6,277**		**2,092**			
A.1 Government securities										
A.2 Other debt securities										
A.3 Units in CIUs										
A.4 Loans	456		11,624	6,983	6,277		2,092			
- Banks										
- Customers	456		11,624	6,983	6,277		2,092			
B. Balance sheet liabilities	**368**						**18,599**	**96,194**		
B.1 Deposits and current accounts	368						18,599	96,194		
- Banks	368						18,599	96,194		
- Customers										
B.2 Debt securities										
B.3 Other liabilities										
C. Off-balance sheet transactions				**16,268**	**47,623**	**93,928**		**86,653**		
C.1 Financial derivatives with exchange of capital										
- Long positions										
- Short positions										
C.2 Financial derivatives without exchange of capital										
- Long positions										
- Short positions										
C.3 Deposits and loans to be received										
- Long positions										
- Short positions										
C.4 Commitments to disburse funds										
- Long positions										
- Short positions										
C.5 Financial guarantees provided				16,268	47,623	93,928		86,653		
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										

SECTION 5 - OPERATIONAL RISKS

Qualitative information

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

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

Operational risk, therefore, refers to various types of events that would not be significant unless analyzed together and quantified for the entire risk category.
With regard to the Bank, 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 Bank to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives with the aim of fostering the adoption of professional and responsible behavior at all operational levels, as well as designing, implementing and managing an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted by the Bank is of the "mixed" type, meaning a model based both on qualitative assessments—linked to process mapping, at-risk activities and the corresponding controls adopted—and on quantitative assessments, using the methodologies specified by the Bank of Italy and the industry best practices.

For computing capital requirements for operational risk, the Bank uses the Basic Indicator Approach (BIA), according to which capital requirements are computed by applying a regulatory coefficient to an indicator of the volume of business activity (Relevant Indicator).

The Bank also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems, and mitigates the consequent operational risk that may arise through the preventive involvement of the corporate control functions and the definition of specific policies and regulations on various subjects and topics.

In addition, in order to control the above-mentioned risks, the Bank adopts specific organizational models for the management of the risks regarding money laundering, occupational health and safety, and information security.

Starting from the year 2016, some new measures aimed at further enhancing the identification, measurement and management of the Bank's operational risk were introduced; specifically:

• the implementation of Risk Self-Assessment, an annual forward-looking assessment of exposure to operational risk. This risk assessment is carried out by so-called “business experts”.
The identification of operational risks is based on corporate processes, taking account of the event type classification defined by Supervisory provisions;
• quarterly loss data collection. This allowed to carry out further assessment, measurement, monitoring and reporting activities.

Based on the method described above, the capital requirement for operational risk was equal to €24,312 thousand at December 31, 2018.

Part F - Equity

Section 1 – The Bank's equity

A. Qualitative information

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

B. Quantitative information

B.1 The Bank's equity: breakdown

(Amounts in € thousands)

Items/Amounts	Amount at 12/31/2018	Amount at 12/31/2017
1. Share capital	130,983	130,983
2. Share premium		
3. Reserves	115,821	118,497
- from profits	115,821	118,497
a) legal	26,197	26,197
b) statutory		
c) treasury shares		
d) other	89,624	92,301
- other		
4. Equity instruments		
5. (Treasury shares)	(245)	-
6. Revaluation reserves:	(278)	3,921
- Equity securities designated at fair value through OCI		
- Hedging of equity securities designated at fair value through OCI		
- Financial assets (other than equity securities measured at fair value through OCI	(4,170)	68
- Property, plant and equipment		
- Intangible assets		
- Hedges of foreign investments		
- Cash flow hedges	-	194
- Hedging instruments (not designated)		
- Exchange differences		
- Non-current assets and disposal groups held for sale		
- Financial assets measured at fair value through profit or loss(change in credit quality rating)		
- Actuarial gains (losses) relating to defined benefit plans	(147)	(165)
- Portion of revaluation reserves from equity investments measured using the equity method		
- Special revaluation laws	4,038	3,823
7. Profit (loss) for the period	73,390	79,478
Total	**319,670**	**332,878**

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

(Amounts in € thousands)

Assets/Amounts	Total 12/31/2018		Total 12/31/2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities		(4,170)	68	
2. Equity securities				
3. Loans				
Total		**(4,170)**	**68**	

Financial assets measured at fair value through OCI (HTC&C—formerly AFS) are recognized at fair value. At the end of the reporting period, the carrying amount of securities must be compared with the previous period's fair value changes, and any difference is recognized in the revaluation reserves of the balance sheet. This measurement led to the recognition at December 31, 2018 of a negative reserve of €4,170 thousand relating to government securities recorded in the Parent's HTC&C portfolio.

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

(Amounts in € thousands)

	Debt securities	Equity securities	Loans
1. Opening balance	**68**		
2. Positive change			
2.1 Increase in fair value			
2.2 Reclassification of negative reserves to income statement:			
- due to impairment			
- following disposal			
2.3 Other changes			
3. Negative change			
3.1 Decrease in fair value	(4,170)		
3.2 Impairment losses			
3.3 Reclassification of positive reserves to income statement:			
following disposal	(68)		
3.4 Other changes			
4. Closing balance	**(4,170)**		

B.4 Revaluation reserves related to defined benefit plans: year-over-year change

IAS 19 no longer allows the deferral of actuarial gains and losses under the “corridor method”, requiring instead their immediate recognition in comprehensive income for the year to which they are attributable.
The results of the actuarial valuation reflect the impact of the provisions of Law 296/2006 and the computation, for IAS 19 purposes, refers solely to accrued employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.
At December 31, 2018, this revaluation reserve is negative to the tune of €147 thousand.

Section 2 – Own funds and banking regulatory ratios

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

2.1 Own funds

A. Qualitative information

Own funds represent the first line of defense against risks associated with overall financial activities and constitute the main reference parameter for the assessment of the Bank’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 Bank constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and Risk Committee within the Board of Directors.

Own funds are the sum of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) capital, net of items to be deducted and IAS/IFRS prudential filters.
The main components of the Group’s own funds are computed in Common Equity Tier 1 (CET1), and are the following:
• paid-in share capital;
• reserves (legal reserve, extraordinary reserve, retained earnings reserve, stock option reserve, and financial instruments reserve);
• undistributed portion of profit for the year, if any;
• revaluation reserves (IASs/IFRS 9 transition reserve, reserve for actuarial gains/losses relating to defined benefit plans, and revaluation reserve for HTC&S securities);
• any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets are deducted from the above.
January 1, 2018 (the date on which the IFRS 9 accounting standard was adopted) marked the end of the Bank of Italy's transitional period which allowed intermediaries to "not include unrealized profit or loss under any component of own funds, where that profit or loss was in relation to exposures to government agencies classified as available-for-sale financial assets under IAS 39 and as approved by the EU".
Therefore, as provided by the CRR, these revaluation reserves (referring to HTC&S securities) are to be included in the calculation of own funds from that date.

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

The Bank's Own funds amounted to €298.6 million in 2017, compared to €321.8 million at December 31, 2017.

B. Quantitative information

(Amounts in € thousands)

Items/Amounts	Total 12/31/2018	Total 12/31/2017
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	**226,237**	**249,117**
of which CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	226,237	249,117
D. Items to be deducted from CET1	**(25,908)**	**(25,586)**
E. Transitional period - Impact on CET1 (+/-)		
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**200,328**	**223,531**
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects		
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-)		
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)		
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects		
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-)		
P. Total Tier 2 (T2) capital (M - N +/- O)	*98,224*	*98,224*
Q. Total own funds (F + L + P)	**298,552**	**321,755**

2.2 Capital adequacy

A. Qualitative information

Compliance with Group capital adequacy limits for the CET1 Capital Ratio, Tier 1 Capital Ratio, and Total Capital Ratio is constantly monitored by the relevant corporate bodies.
The CET1 Capital Ratio is the ratio of Common Equity Tier 1 capital to Risk-Weighted Assets.
The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to Risk-Weighted Assets.
The Total Capital Ratio is the ratio of Total Own Funds to Risk-Weighted Assets.
In accordance with the provisions of Bank of Italy Circular no. 262 of December 22, 2005 "Banks' financial statements: layout and preparation", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).
The Group's total exposure to risks at December 31, 2018, in relation to its business, is adequate ac-

cording to the level of capitalization and the risk profile identified.
With regard to the Bank, the CET1 Capital Ratio is 8.24%, the Tier 1 Capital Ratio is 8.29% and the Total Capital Ratio is 12.29%.

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

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

Credit risk

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

Counterparty risk

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

Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.
Operational risk, therefore, refers to various types of events that would not be significant unless analyzed together and quantified for the entire risk category.
The Bank measures operational risk using the "Basic" approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statement items of the last three years, in accordance with Regulation (EU) no. 575/2013.
Continuing the developmental path of the Group's Operational Risk Management framework that was launched in recent years, in 2018 the Bank focused attention on strengthening the identification and forward-looking assessment components, along with introducing an internal statistical management model for quantifying exposure to operational risk. This was done for the purpose of verifying that the method used for regulatory purposes did value capital adequately against assumed and assumable risk. Actions carried out in regards to the scope of the Bank focused on the methodological evolution of the Risk Self Assessment process, in order to use the output from this process to quantify the exposure to operational risk in economic and capital terms. The operational risk results obtained from the forward-looking assessment process have also been used for quantifying the adequacy of internal

capital against operational risk for ICAAP purposes. This value, from a forward-looking perspective, was found to be below capital requirements, confirming that there are suitable levels of capital available to cover this type of risk.

Market risk

Market risk is the risk relating to positions held for trading, that is, positions intentionally held for sale in the short term, acquired in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.
The regulation identifies and regulates the treatment of the various types of market risk in reference to the trading portfolio for supervisory purposes. The Bank measures market risk using the "Standardized" method.

Pillar II – The ICAAP Report

The supervisory regulations require intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Supervisory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, to take appropriate corrective action.
The Bank annually submits the "ICAAP Report" to the Bank of Italy, thus updating the risk management system aimed at determining the adequacy of capital.
In accordance with prudential supervisory provisions, the Bank has prepared a "Report on internal processes for determining adequacy of capital and liquidity risk governance and management systems". This report was approved by the Banca Farmafactoring Board of Directors on June 28, 2018. It is specifically noted that the Bank of Italy opened consultation for a new update on prudential supervisory provisions on April 6, 2018 while also postponing the date for approving and sending the Report to June 30, 2018. The consultation ended on May 7, 2018, and a legislative update was issued by the Bank of Italy and specifically published to their website on June 19, 2018. The Group's Report has therefore been prepared in compliance with the new requirements introduced by Circular no. 285. In particular, the new updates propose—inter alia—regulatory changes in regards to "Prudential supervision" (Part I, Title III, Chapter 1) which are mainly linked to the introduction of (i) an internal process for determining the adequacy of the liquidity risk governance and management systems ("ILAAP" - Internal Liquidity Adequacy Assessment Process), (ii) new content in the area of internal processes for determining capital adequacy ("ICAAP" - Internal Capital Adequacy Assessment Process) and (iii) different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy. These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) 468/2014, which includes the Bank.
On April 24, 2018, on the basis of guidance received from the Bank of Italy, the Bank approved an updated "Recovery plan" as compared to the version in place, and this was approved by the Board of Directors on May 31, 2017.

B. Quantitative information

(Amounts in € thousands)

Categories/amounts	Unweighted assets		Weighted assets/ Requirements	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	4,598,010	4,521,157	2,126,264	1,681,377
2. Approach based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			170,101	145,868
B.2 Credit valuation adjustment risk			0	24
B.3 Settlement risk				
B.4 Market risks				
1. Standardized approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			24,312	22,770
2. Standardized approach				
3. Advanced approach				
B.6 Other calculation items				
B.7 Total regulatory capital requirements			**194,413**	**168,662**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,430,162	2,107,975
C.2 Common Equity Tier 1/Risk-weighted assets *(CET1 capital ratio)* (%)			**8.24%**	**10.60%**
C.3 Tier 1 Capital/Risk-weighted assets *(Tier 1 capital ratio)* (%)			**8.24%**	**10.60%**
C.4 Total Own Funds/ Risk-weighted assets *(Total capital ratio)* (%)			**12.29%**	**15.30%**

Part G - Business Combinations

Section 1 – Transactions performed during the year

During the year, there were no transactions in relation to business combinations.

Part H - Related Party Transactions

Related parties, as defined by IAS 24, include:
- the parent company;
- subsidiaries;
- directors and executives with key management responsibilities and their close family.

The following table provides the income and balance sheet amounts arising from related party transactions performed by the Bank at December 31, 2018, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statement item.

(Amounts in € thousands)

	Parent Company	Directors and Executives with key management responsibilities (1)	Total related parties	Financial statement item	% of financial statement item	Cash flow statement item	% of cash flow statement item
Impact of transactions on the consolidated income statement							
Other assets							
At December 31, 2018	11		**11**	**9,029**	**0.1%**	**(167,943)**	**0.0%**
Due to customers							
At December 31, 2018		(76)	**(76)**	**(3,888,257)**	**0.0%**	**276,774**	**0.0%**
Provisions for risks and charges: a) pension and other post-employment benefits							
At December 31, 2018		(2,144)	**(2,144)**	**(5,249)**	**40.8%**	**29,631**	**7.2%**
Other liabilities							
At December 31, 2018		(350)	**(350)**	**(66,102)**	**0.5%**	**29,631**	**1.2%**
Reserves							
At December 31, 2018		(1,411)	**(1,411)**	**(115,821)**	**1.2%**	**29,631**	**4.8%**
Impact of transactions on the consolidated income statement							
Interest and similar expenses							
At December 31, 2018		(1)	**(1)**	**(29,996)**	**0.0%**	**0**	
Administrative expenses a) personnel costs							
At December 31, 2018		(4,256)	**(4,256)**	**(25,513)**	**16.7%**	**0**	
Net allocations to provisions for risks and charges							
At December 31, 2018		(692)	**(692)**	**(1,265)**	**54.7%**	**97**	**n.d.**
Other operating income (costs)							
At December 31, 2018	11		**11**	**5,854**	**0.2%**	**0**	

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

In order to optimize the Group's funding activities, the Parent Company has entered into intercompany loan agreements with subsidiaries, regulated at arm's length.
More specifically, the balances of the intercompany positions at December 31, 2018 are as follows:
• BFF Finance Iberia (through Banca Farmafactoring Sucursal en España): €239.5 million;
• BFF Polska: PLN 107 million (equal to €500 thousand);
• BFF Central Europe: €120.9 million.

Banca Farmafactoring and BFF Finance Iberia have entered into a license agreement. Such agreement allows the use, under license, of the software, organizational methods and communication lines of Banca Farmafactoring (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at December 31, 2018 amounted to about €951 thousand.

During 2016, BFF Finance Iberia purchased Italian healthcare receivables from the Parent for about €82 million. At the end of the reporting period, these receivables were already collected for about €80.9 million (of which €67 million in 2016, €12.2 million in 2017 and €1.7 million in 2018), with an outstanding balance of about €1.1 million.

Banca Farmafactoring and BFF Polska Group have entered into an intra-group service and cost-sharing agreement. Such agreement focuses on service provision and optimal cost sharing between the participating companies. The costs charged back to the BFF Polska Group at December 31, 2018 amounted to approximately €842 thousand.

It should be noted that Banca Farmafactoring provides the following:
• administrative support services to the Parent BFF Luxembourg S.à r.l. for the preparation of CRR Group consolidated reporting. The consideration under the service agreement is €10,500 per year;
• audit activities for the subsidiary BFF Finance Iberia, for €6,400 per year;
• risk management activities for the subsidiary BFF Finance Iberia, for €12,000 per year;
• administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year.

The Group has also entered into agreements with its shareholder companies in relation to factoring services and the management and collection of receivables at arm's length.
Lastly, it should be noted that the conditions of deposit accounts relating to Group directors and other related parties correspond to those recorded in the relevant prospectus at the time the deposit accounts were opened.

Part I - Share-based Payment Arrangements

A. Qualitative information

1. Description of the share-based payment arrangements

Stock Option Plan

On December 5, 2016, the Bank's Extraordinary Shareholders' Meeting approved the stock option plan for employees and members of the corporate boards, already submitted to the Supervisory Authority pursuant to paragraph 1.2, Section III, Chapter 2 of the Bank of Italy Circular no. 285 of 17 December 2013. The plan has the following features:

- purpose: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe one newly issued ordinary share of the Bank, or to purchase one ordinary share (cum dividend, without par value) included in the company portfolio when the option is exercised (taking into account the share split);
- beneficiaries: the identification of beneficiaries and the granting of options are decided by:
  a) the Board of Directors, after consulting with the Remuneration Committee, with reference to executives and directors;
  b) the Chief Executive Officer in the other cases;
- plan management: the Board of Directors fixed, as proposed by the Remuneration Committee, the operating criteria (including establishing the exercise price of the options on the basis of the formula indicated in the stock option plan) under the remuneration and incentive policy for members of the key supervision, management and control bodies, and personnel of the Banking Group, and in accordance with the law.

In line with current regulations, the options granted under the stock option plan contribute to the determination of the variable remuneration paid through the use of financial instruments, and are subject to all the restrictions established under the remuneration and incentive policy for members of the key supervision, management and control bodies, and personnel of the Banking Group, and in accordance with the law.
The vesting conditions of the options included in the plan are as follows:

- the options awarded in each tranche will vest starting from the twelfth month following the award, subject to a series of conditions detailed in the plan:
  (a) continuation of employment relationship with the Group and/or of the office held in the Board of Directors; and
  (b) levels of capital and liquidity resources suitable to cover the activities undertaken and compliance with other parameters, also of a regulatory nature;
  (c) after a 12 month deferral period starting from the relevant vesting date.
- The plan is subject to malus and clawback conditions: options are subject to ex post correction mechanisms (malus and/or clawback) which, when the pre-set circumstances arise, result in the loss and/or the restitution of the rights attributed by the plan.

At December 31, 2018, option rights to the stock option plan awarded were equal to 7,756,802 options awarded, accounting for 4.36% of fully diluted capital.

Other information

Audit fees to the independent auditors and other companies in their network.

The table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 2018 for auditing services and other services provided by the audit firm and other companies in its network. Such fees represent the costs incurred and recorded in the separate financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

(Amounts in € thousands)

	Banca Farmafactoring SpA			
	PwC SpA		Rete PwC	
Type of services	Italy	Outside Italy	Italy	Outside Italy
Audit fees	229			33
Certification services (*)	40			
Tax advice services				
Other services (**)	60		56	135
Total	**329**		**56**	**168**

(*) Amounts referring to the comfort letters issued for the purposes of bond loan issues.
(**) Amounts referring to agreed verification procedures, due diligence activities and methodological support.

03

Certification by the Financial Reporting Officer

Certification of the Annual Report in accordance with article 81-ter of CONSOB regulation n. 11971 of 14 may 1999 as amended and supplemented

1) The undersigned

- Massimiliano Belingheri, in his capacity as Chief Executive Officer;
- Carlo Zanni, as Financial reporting officer of Banca Farmafactoring S.p.A.,

hereby certify, having taken into account the provisions of art. 154-bis, paragraphs 3 e 4, of legislative decree no. 58 of 24 February 1998:

- the suitability as regards the characteristics of the company, and
- the effective implementation of the administrative and accounting procedures employed to draw up the 2018 Annual report.

2) The suitability and effective application of the administrative and accounting process employed to draw up the 2018 Annual report was verified based on internally defined method adopted by Banca Farmafactoring S.p.A., in accordance with the Internal Control - *Integrated Framework* model issued by *Committee of Sponsoring Organizations of Tradeway Commission (COSO)* of the reference standards for the internal audit system generally accepted on an international level.

3) Moreover, the undersigned hereby certify that:

3.1 the Annual report as of 31 December 2018

a. was drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b. corresponds to the results of the accounting books and records;

c. is suitable for providing a true and fair view of the financial position of the issuer.

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

Milan, 19 February 2019

Massimiliano Belingheri

Chief Executive Officer

Carlo Zanni

Financial reporting officer

04

Board of Statutory Auditors' Report

Banca Farmafactoring S.p.A.

Board of Statutory Auditors' Report

to the Shareholders' Meeting of

Banca Farmafactoring S.p.A. pursuant to Article 153 of

Italian Legislative Decree 58/1998

and Article 2429, paragraph 2, of the Italian Civil Code

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

Dear Shareholders,

The Board of Statutory Auditors ["**the Board**"] has been asked to report to the Shareholders' Meeting of Banca Farmafactoring S.p.A., Parent Company of the Banca Farmafactoring Banking Group [hereinafter also referred to as "**BFF**", "**the Bank**" or "**the Company**"], convened to approve the financial statements for the year ended December 31, 2018, on the supervisory activities carried out during the year and on the other activities provided for by the regulations, also in its capacity as Internal Control and Audit Committee, pursuant to Article 153 of Italian Legislative Decree 58/1998 [the "**Consolidated Law on Finance**"], Article 2429 *et seq.* of the Italian Civil Code, Articles 17 and 19 of Italian Legislative Decree 39/2010, and Articles 4, 5, 6, 11 and 17 of Regulation (EU) 537/2014.

The draft financial statements for the year ended December 31, 2018, which are submitted for your approval, are accompanied by the Directors' Report on Operations.

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

The Ordinary Shareholders' Meeting held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. ["**PWC**"] to audit the financial statements for the years 2012-2020, as proposed by the Board of Statutory Auditors.

This Report describes the work carried out by the Board in the performance of its duties, which, during the year—and with specific reference to supervisory activities—were conducted in accordance with the law.

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

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

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

The Board of Statutory Auditors, again for 2018, has assessed the qualifications of its members and the proper composition of the body—with reference to the requirements of professionalism, competence, integrity and independence required by law—as well as the availability of sufficient time and resources given the complexity of the engagement and the effective functioning, taking into account the size, complexity and activities carried out by the Bank.
The Board of Statutory Auditors' self-assessment took place in accordance with the Regulations adopted by the Board itself within the meaning and for the purposes of Article 26, paragraph 5 of the Consolidated Law on Banking and Section VI of the Provisions on Corporate Governance, which—in recalling the purpose of the self-assessment process contemplated by the strategic supervisory body—envisage that "*the control body shall also perform a self-assessment on its composition and functioning, inspired by the above-listed purposes and on the basis of criteria and procedures that are coherent with its characteristics*".

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

The Board of Statutory Auditors took part, individually, in training sessions organized by the trade associations and/or professional orders of reference, concerning matters relevant to the role of Board of Statutory Auditors as well as subjects relating to corporate governance and internal control and risk management systems. The Board of Statutory Auditors also attended induction sessions organized internally within the Bank regarding its characteristics and business model, matters of corporate governance, the organizational and business profiles of the subsidiaries, and the reference regulatory and legislative framework.

The Board of Statutory Auditors also attended non-board meetings, held at the office of the subsidiary BFF Polska, to discuss strategic, organizational and business matters.

In order to govern the composition, functioning and powers of the supervisory body, in line with the principles established by applicable laws and regulations as well as the Corporate Governance Code the Company adheres to, the Board of Statutory Auditors has adopted its own Regulations, updated from time to time to reflect changes in legislation.

The Board of Statutory Auditors, in accordance with its Regulations and as far as its responsibilities are concerned, has monitored the observance of the law, bylaws, and the principles of proper administration, the adequacy of the organizational structure, the internal control system, and the administrative and accounting structure, and the reliability of the latter to correctly represent operating events.

During the year, the Board of Statutory Auditors, which also has the role of Internal Control and Audit Committee as envisaged by Italian Legislative Decree no. 39 of January 27, 2010, carried out the verification activities entrusted to it by Article 19 of such Decree.

During the year, the Board of Statutory Auditors hold, as far as its responsibilities are concerned, 33 meetings (of which 21 as currently composed, and 12 as previously composed), on the basis of an Annual Audit Plan agreed with the second and third level control functions.

The Board of Statutory Auditors, with limited excused absences by some of its members, also took part in all 19 meetings of the Board of Directors and all 16 meetings of the Control and Risk Committee.

The Chair, in the name of the entire Board of Statutory Auditors, also participated in all the meetings of the Related Party Transactions Committee (except for 1 meeting where the Chair was replaced by another Standing Auditor), the Remuneration Committee, and the Appointments Committee (except for 1 meeting).

In conducting the supervisory and control activities, the Board also had numerous meetings with senior management, the internal control functions (Compliance, Anti-Money Laundering, Risk Management, Internal Audit), the Audit Firm, the Supervisory Body appointed pursuant to Italian Legislative Decree 231/2001, and the Heads of the various Operating Units.

The participation in the meetings of the Board of Directors and in meetings with the control functions and the Heads of the various Departments and Operating Units, as well as the examination of the information flows prepared by the functions, enabled the Board to acquire, in the various sectors, necessary and useful information regarding the general trend in operations, the business outlook, the organization, the internal control and risk management system, and the administrative and accounting system, in order to assess their adequacy in meeting the Company's needs and their operating reliability.

The meetings with the internal control functions specifically made it possible to obtain adequate information on the system of internal control and risk management at the level of the Banking Group.

The contacts with the Head of the Planning, Administration and Control Department allowed to adequately check the observance of the control policies and procedures relating to the administrative and accounting system, which can be confirmed as adequate.

With regard to the manner in which it has carried out its duties, the Board of Statutory Auditors informs and states that it:

- has acquired the elements of information necessary to conduct control activities, as far as its responsibilities are concerned, on the degree of adequacy of the organizational structure adopted by the Company, also as regards the liaison with subsidiaries, through direct inquiry, gathering of information from the Heads of the interested functions, exchange of data and information with the Audit Firm;

- has monitored the observance of the requirements of the Bank of Italy;
- has overseen the application of the anti-money laundering laws;
- has overseen the functioning of the internal control and the administrative and accounting systems, in order to assess their adequacy in relation to operational needs and their reliability to represent operating events, through direct observance of company documents, gathering of information from the Heads of the respective functions, and analyses of the results of the work carried out by the Audit Firm;
- has overseen the strategic and operational control activities carried out by the Bank in its capacity as Parent Company.

Worthy of note is the involvement of the Bank's Internal Audit Function and Supervisory Body pursuant to Italian Legislative Decree 231/2001—with regard to their respective competences—in the activities of the Board of Statutory Auditors; the function of Supervisory Body pursuant to Italian Legislative Decree 231/2001 has not been transferred to the Board of Statutory Auditors, but is carried out by a separate collective body.

b) Significant transactions and events during the year

The financial statements of Banca Farmafactoring S.p.A. for the year ended December 31, 2018 show a profit of €73,389,737, which is formed as described in detail in the Director's Report on Operations, to which reference should be made. With regard to significant transactions, also present in the Report on Operations, the Board of Statutory Auditors has deemed it useful to point out as follows:

i) In 2018, the authorization process to open a branch in Portugal was completed, and the Portuguese branch started operations on July 16.

ii) In 2018, Banca Farmafactoring carried out the following financing transactions:

   a. early termination of the stand-by and term loans entered into with a leading Italian lender (for €75 million and €50 million respectively, and which were originally due in 2020), and underwriting of two new facilities including better conditions, agreed on in April and November 2018 respectively, for an amount equal to €50 million and due in 2020;

b. partial repayment of the acquisition financing due in May 2019 (down from PLN 355 million to 185 million) and due date postponement from May 27, 2019 to June 30, 2021;

c. underwriting of a new term loan contract totaling PLN 220 million and due in February 2021;

d. arrangement of new multi-currency lines (euro, Polish zloty, and Czech koruna) and multi-borrower lines for a total of €279 million at December 31, 2018;

e. finalization of the "EMTN – European Medium Term Notes Program" with an overall cumulative issue limit of €1 billion on November 30, 2018. The issues to be carried out under the 12-month Program will be reserved for institutional investors in Italy and abroad, with the exclusion of the United States of America, pursuant to Regulation S of the United Securities Act.

iii) As far as securitization transactions are concerned, after the end of the amortization period, the Bank has decided to end the Farmafactoring SPV securitization and, as a result, the vehicle was liquidated and dissolved. Additionally, as part of the initiatives aiming to diversify funding activities, during the third quarter of 2018, in the context of the securitization in private placement with the Bayerische Landesbank (BayernLB) Group, the Bank carried out the activities required for the renewal of the revolving period due to end in January 2019, therefore establishing a new agreement envisaging a new phase due to end on February 17, 2020; the maximum amount of the flexible senior note is €150 million.

iv) During the third quarter of 2018, the Bank filed a request to open a branch in Poland, with the aim of carrying out deposit-taking activities.

v) As part of the free provision of services in Croatia, the set-up activities for which were completed during the year, in December 2018, the Bank concluded the first purchase of receivables due from the Croatian healthcare system, for €2 million.

The Board of Statutory Auditors also points that on September 24, 2018, the Bank of Italy, in exercise of the powers conferred by Italian Legislative Decree 385/93

(Consolidated Law on Banking), began an audit of the Banking Group; the results of this audit are not yet known.

Furthermore, in 2018 Banca Farmafactoring continued to contribute to the Deposit Guarantee Scheme (*Fondo Interbancario di Tutela dei Depositi*, introduced by Directive 2014/49/EU - Deposit Guarantee Schemes, DGS) through a mandatory contribution of €653 thousand, and to the European Single Resolution Fund (SRF) established by Regulation (EU) 806/2014 and effective from January 1, 2016, through a contribution of €1.872 million. It should also be noted that, by letter dated May 25, 2018, the Bank of Italy requested the banking industry to provide an additional extraordinary contribution for 2016, taking into account the upcoming financial needs of the National Resolution Fund: the amount charged to the Bank was €701 thousand.

Directors have also reported on the Group's capital adequacy, computed by considering the inclusion of BFF Luxembourg S.à r.l. (so-called CRR Group), and the motivations underlying its reduction compared to 2017.

More specifically, at December 31, 2018, the Bank's equity amounted to €319.7 million, decreasing compared to €332.9 million recorded in the previous year.

Own funds recognized in the separate financial statements amounted to €298.6 million at December 31, 2018; the overall exposure to risks, relating to the activities carried out, is adequate in relation to the level of capitalization and the identified risk profile.

The CET 1 Capital Ratio was 8.2% compared to 10.6% in 2017; the Tier 1 Capital Ratio amounted to 8.2% compared to 10.6% in 2017; and the Total Capital Ratio was equal to 12.3% compared to 15.3% in 2017.

With reference to the consolidated financial statements, own funds amounted to €344.6 million; the CET1 Capital Ratio amounted to 10.9% compared to 12.6% in 2017; the Tier 1 Capital Ratio amounted to 10.9% compared to 12.6% in 2017; and the Total Capital Ratio was equal to 15.2% compared to 17.5% in 2017.

The Report on Operations provides a detailed description of the reasons behind such changes compared to the prior year, which can be summarized as follows:

- Decrease in own funds due to the inclusion in the calculation, starting January 1, 2018, of the HTC&S securities revaluation reserve, which, as a result of the reduction in the fair value of Italian government securities evidenced in 2018, has had a negative impact;

- For consolidation purposes only, reduction in the translation reserve for €2.7 million, due to the revaluation of the exchange rates applied to the equity of the BFF Polska Group in consolidated equity;
- Deduction, from the calculation of own funds, of €1.68 million for the purchase of own shares, after having obtained, on December 14, 2018, the related authorization from the Bank of Italy;
- Increase in risk-weighted assets;
- Implementation of the Group's dividend policy;
- Upgrade to B initially and then to BH of Greece, issued by the ECAI DBRS, with the consequent reduction in the risk weight relating to receivables due from Greek public administration agencies, from 150% to 100%;
- Application of Article 115, paragraph 2 and Article 116, paragraph 4 of the CRR, which made it possible to apply a 0% risk weight to Spanish local entities and other local authorities—including hospitals—treating them as exposures to the central government.

The Board of Statutory Auditors also found that, for the year 2018, the late payment interest collection percentage estimate to be included in amortized cost remained at 45%, with average collection times confirmed at an estimated 1,800 days.
The updating of the time series, which was undertaken considering the collections for 2018, confirmed the suitability of the existing percentage and of the estimated collection times for the overall portfolio.
Based on the information acquired and the controls carried out, the Board of Statutory Auditors has no observations or matters to report in relation to the conformity of the transactions executed by the Company with the law and the bylaws.

c) Atypical and/or unusual transactions

The Report on Operations, the information received during the meetings with the Board of Directors and from the Chairman, the Chief Executive Officer, the management, the control functions and the auditors, did not indicate the existence of atypical and/or unusual transactions, including intragroup or involving related parties.

d) Intragroup or related party transactions

The Board of Statutory Auditors has monitored the compliance and observance of the policies, regulations and procedures followed by the Bank, without finding any critical issues.

The main document of reference is the "Banca Farmafactoring Banking Group Regulation for the management of transactions with parties that may be in a conflict of interest" approved by the Board of Directors on November 11, 2016 (effective subject to listing).

During 2018, the Board of Directors identified no atypical or unusual transactions with related parties, intragroup, or with other parties, nor did it receive any indications in that sense from the Board of Directors or the auditors.

The transactions between the Bank and certain shareholder companies and between the Bank, its subsidiaries and its parent are based on ordinary operating activities and are in the interests of the Company, as stated by the Directors in the Report on Operations.

Such transactions are carried out at arm's length and take into account the characteristics of the transactions that have been entered into.

Detailed information on related party transactions is provided in the relevant section of the separate financial statements.

e) Monitoring and control activities carried out by the Board of Statutory Auditors in relation to the duties attributed to it as the "Internal Control and Audit Committee"

As a result of the Reform of the audit of annual financial statements or consolidated financial statements, implementing (by Italian Legislative Decree 135/2016) Regulation (EU) 537/2014 and Directive 2014/56, the Board, in its capacity as Internal Control and Audit Committee (*Comitato per il controllo interno e per la revisione contabile*, hereinafter also referred to as "CCIRC"), carried out independent assessments of the organizational measures aimed at fully implementing the new regulatory provisions, intended, in particular, to improve the quality of the audit and the independence of the auditors and audit firms, in order to improve market and investor confidence in financial information.

During the year, the CCIRC constantly interacted with auditors, placing particular emphasis on maintaining the independence requirement, also through the constant monitoring of the activities performed by the auditor with reference to both audit and non-audit services, previously subject to the assessment and opinion of the CCIRC in order to rule out the presence of services that are prohibited under Article 5 of said Regulation.

In 2017, the Bank, together with the Board of Statutory Auditors, with a view to better governing the new context, issued its own "Group Regulations for the approval of non-audit services to be assigned to the company entrusted with the statutory audit", which set out the general principles and operating procedures related to the assignment of non-audit services entrusted to the Primary Auditor and its Network, as well as to the Secondary Auditor.

In 2018, the Board of Statutory Auditors, with particular regard to the adequacy of non-audit services provided to the audited entity, in accordance with Article 5 of the EU Regulation, constantly verified and monitored the independence of the auditor, issuing specific opinions for all engagements assigned and classified as non-audit services.

As regards the audit activities, during the many meetings held with the auditor PWC, the Board of Statutory Auditors:

(i) has acquired information on the tests carried out on the proper keeping of the Company's accounting records and on the proper recognition of operating events in the accounting entries;

(ii) has received from the audit firm, pursuant to Article 11 of Regulation (EU) 537/2014, the additional Report for the Internal Control and Audit Committee, which showed: i) no significant weaknesses in the internal control system as regards the financial reporting process considered important enough to be brought to the attention of the CCIRC; ii) no cases of fraud or suspected fraud; iii) no significant matters concerning cases of non-compliance; iv) no significant difficulties concerning the availability of the information required for audit activities; v) no significant errors; vi) no significant aspects concerning the related

parties of the Company such as to require reporting to those charged with governance;

(iii) has received from the same audit firm, pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) 537/2014, and pursuant to paragraph 17 of ISA Italia 260, confirmation of its independence, referring to the statement presented in the financial statements of Banca Farmafactoring for disclosure of the total fees charged to the Bank.

The Board of Statutory Auditors has also examined the reports issued by the auditors, PricewaterhouseCoopers S.p.A., on March 7, 2019, the activities of which integrate the overall framework of the control functions established by law with reference to the financial reporting process.

The text of the Audit Report also includes the so-called Key Audit Matters of the audit, i.e., the aspects considered most significant in the scope of the audit of the separate and consolidated financial statements.

With regard to the opinions and attestations, the Audit Firm, in the Report on the audit of the financial statements:

- has issued an opinion stating that the separate and consolidated financial statements of Banca Farmafactoring give a true and fair view of the financial position of the Bank and the Group at December 31, 2018 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement Article 9 of Italian Legislative Decree 38/2005 and Article 43 of Italian Legislative Decree 136/2015;
- has issued an opinion on consistency stating that the Reports on Operations accompanying the separate and consolidated financial statements at December 31, 2018, and specific disclosures contained in the "Report on Corporate Governance and Ownership Structure" pursuant to Article 123-bis, paragraph 4, of the Consolidated Law on Finance, for which the Bank's Directors are responsible, were drawn up in compliance with the law;
- has declared there was nothing to report in relation to any material errors in the Reports on Operations, on the basis of the knowledge and understanding of the Company and its operating context acquired during the audit.

As regards the identification of the Key Audit Matters, the Board of Statutory Auditors has ascertained that these only concern: i) the first-time adoption of IFRS 9 – Financial Instruments, and ii) the recognition of late payment interest on performing receivables purchased on a non-recourse basis.
In this regard, the Board of Statutory Auditors acknowledged the audit procedures identified by the audit firm in response to the Key Audit Matters, agreeing on the measures for mitigating any relevant risks.

f) Monitoring activities on the independence of the auditors

As anticipated, the Board of Statutory Auditors has taken note of the Report on the independence of the auditors issued on March 7, 2019 pursuant to Article 6, paragraph 2, letter a) of Regulation (EU) 537/2014 and paragraph 17 of ISA Italia 260, which does not report any situations that would compromise the independence or reasons for incompatibility, pursuant to Articles 10 and 17 of Italian Legislative Decree 39/2010 and Articles 4 and 5 of Regulation (EU) 537/2014.
The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 2018 for audit and non-audit services provided by the audit firm and other companies in its network.

(Amounts in € thousands)

Type of services	Banca Farmafactoring SpA				Group companies			
	PwC SpA		PwC Network		PwC SpA		PwC Network	
	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy
Audit	229			33				102
Certification services (*)	40							
Tax advice services								
Other services (**)	60		56	135				
Total	329		56	168				102

(*) Amounts referring to the comfort letters issued for the purposes of bond loan issues.
(**) Amounts referring to agreed verification procedures, due diligence activities and methodological support.

As mentioned, in relation to the assignment of non-audit services, the Board of Statutory Auditors constantly carried out independent assessments of the potential independence risks of the auditor and the safeguards applied pursuant to Article 22-ter of Directive 2006/43/EC, mainly ascertaining:

- that the non-audit service was not prohibited by Article 5, paragraph 1, of the EU Regulation, unless otherwise determined by the Member States;
- the reasons for assignment to the auditor PWC by the management of the PIE (the Bank);
- that the fees requested were determined such as to guarantee the quality and reliability of the engagement, and were such as not to lead to the emergence of possible risks to the auditors' independence.

As regards the statement above, it should be noted that most of the non-audit services assigned to the Auditor, besides the audit of the separate and consolidated financial statements, the limited audit of separate interim financial statements prepared to determine the half-year profit to be included in Common Equity Tier 1 capital and of condensed interim financial statements, the limited audit of consolidated and separate financial statements prepared to determine period-end profit for the purposes of calculating Common Equity Tier I at March 31, 2018 and September 30, 2018, and besides the verification of the proper keeping of accounting records and proper recognition of operating events in the accounting entries—for the entire Group, including the foreign companies—, refer to due diligence, methodological support and certification services provided for the purposes of the finalization of the "EMTN – European Medium Term Notes Program" on November 30, 2018.

As for the above, regarding the engagements assigned to PWC and its network by Banca Farmafactoring and the companies of the Group, the Board of Statutory Auditors does not believe there are any critical issues regarding the independence of the auditor.

g) Monitoring activities on the administrative accounting and financial reporting process

In compliance with Article 19 of Italian Legislative Decree 39/2010, the CCIRC is responsible for monitoring the process of financial disclosure and submit recommendations or proposals aimed at ensuring its integrity as well as monitoring the effectiveness of the internal control and risk management systems in relation to financial disclosure.

The Board of Statutory Auditors acknowledged that the Board of Directors of Banca Farmafactoring, in accordance with the provisions of Law no. 262 of December 28, 2005 and Article 154-bis of the Consolidated Law on Finance, had already reviewed its governance structure, with resolutions dated April 28 and July 28, 2016, also with specific reference to the internal control and risk management systems with regard to financial reporting. In particular, on such occasions the Financial Reporting Officer was appointed, and the project for structuring the control model of Financial Reporting Officer was approved, consisting mainly of the Regulations for the Financial Reporting Officer Function and the Methodological Framework of the Financial Reporting Officer.

During the year, the Board of Statutory Auditors, for the duties assigned thereto, also in its capacity as the Internal Control and Audit Committee, monitored the activities of the Financial Reporting Officer Function, with which it held regular meetings, examining the reference model, structured according to best market practices (COSO Report) and able to provide reasonable assurance on the reliability of the financial reporting, the effectiveness and efficiency of operations, and compliance with the law and internal regulations.

In particular, the Board of Statutory Auditors noted that the Bank selected a so-called mixed control model, deemed suitable to guarantee the monitoring of the Internal Control System for periodic financial reporting based on the characteristics of the Group, defining the characteristics for subsidiaries, which, for the purposes of carrying out the planned activities, envisage:

- direct controls for the Parent BFF, with the preliminary definition of activities ("scoping"), the identification of procedures considered significant and the consequent identification of risks concerning "incorrect accounting representation due to errors and/or omissions relating to the balance of an account or class of transactions, resulting from calculation errors, classification errors and/or the manipulation of information, such as to generate, individually or jointly, material errors in the financial statements and/or financial reporting", i.e., accounting risks;

- a centralized control for the subsidiary BFF Finance Iberia, which provides for the adoption of the model by the staff of the Financial Reporting Officer of the Parent Company carrying out the checks required by the control model on both the Parent Company and BFF Finance Iberia, also through on-the-spot checks;
- a decentralized control for the subsidiary BFF Polska, which provides for the identification of a local resource reporting hierarchically to the CFO of the subsidiary and functionally to the department of the Financial Reporting Officer of the Parent Company, which is responsible for carrying out checks on the administrative and accounting procedures, for the purpose of generating adequate information flows to ensure the proper monitoring of financial reporting risks.

As regards the activities carried out by the Financial Reporting Officer Function in order to attest in its report the adequate and effective application of the administrative and accounting procedures, essential for ascertaining correspondence between the corporate accounting documents and the results of the accounting books and their suitability to give a true and fair view of the financial position, financial performance and cash flows, the Board of Statutory Auditors has verified the results of the checks carried out, which showed a situation that is monitored across the various areas, without the recognition of any critical issues or deficiencies such as to invalidate the opinion on the adequate and effective application of the administrative and accounting procedures.

As regards the structure and content of the periodic Reports prepared by the Financial Reporting Officer for the interim, separate and consolidated financial statements, the Board of Statutory Auditors believes that the activities carried out to assess the adequate and effective application of the processes and procedures necessary for the financial reporting of the Banca Farmafactoring Group were sufficient to support the attestation required from the CEO and Financial Reporting Officer of the Banca Farmafactoring Group pursuant to art 154-bis of Italian Legislative Decree 58/1998 (Consolidated Law on Finance).

The Board of Statutory Auditors has also obtained adequate information from the Directors on the general performance of operations and the business outlook as well as on the most significant transactions, in terms of size or features, carried out by the Bank and its subsidiaries, and, in this regard, there are no significant issues to report.

h) Monitoring activities on the adequacy of the internal control system

The Board of Statutory Auditors has monitored the adequacy of the internal control system also through regular meetings with the Bank's senior management and control functions: Internal Audit, Compliance and AML, Risk Management, and with the Financial Reporting Officer Function, as well as through constant participation in the work of the Control and Risk Committee.
In particular, the Board of Statutory Auditors has verified that each company of the BFF Group is equipped with an internal control system in line with the Group strategy and policy, especially with regard to foreign subsidiaries, in relation to which initiatives were implemented aimed at ensuring adequate standards and organizational controls, in compliance with local regulations.
In this regard, recalling that the Bank, in its capacity as Parent Company of the BFF Group, in addition to the banking businesses, carries out management, coordination and control activities over BFF Finance Iberia and BFF Polska, the Board of Statutory Auditors has acknowledged the approval by the Board of Directors of the "Intercompany Regulations", which define the organizational structure, objectives and content of management, coordination and control activities, and the Group Regulations, aimed at better governing adoption of relevant provisions.
Furthermore, BFF, as Parent Company and representative with the Supervisory Authority, has issued to its subsidiaries the various measures necessary to implement the general and specific instructions given by the Bank of Italy in the interest of Group stability, pursuant to Article 61, paragraph 4 of the Consolidated Law on Banking and Circular no. 285.

For lack of equivalent control bodies to the Board of Statutory Auditors in the subsidiaries, the Board of Statutory Auditors in any case, during its regular meetings with the Bank's corporate control functions—which are directly responsible for the respective equivalent structures in BFF Iberia, whilst they are the parties to which the corresponding equivalent functions of the BFF Polska Group report functionally—analyzed the activities carried out and conclusions drawn in relation to the subsidiaries. The Board of Statutory Auditors also met directly with the Head of the Internal Audit Function of BFF Polska, for a mutual exchange of information.

The Board of Statutory Auditors has also acknowledged that in 2018 the regulatory body of BFF was further adapted both in terms of Governance Regulations and Operating Regulations, also in implementation of the observations of the control functions and the requests from senior management and the operational structures.

Particular relevance, in the revision of the regulatory system of the Bank and Group, was assigned to: i) the review of the AML (Anti-Money Laundering) system in place at the Spanish and Portuguese branches, by virtue of the adjustment of local legislation to comply with the IV Anti-Money Laundering Directive; ii) security for payment services on the domestic market; iii) the update of internal regulations, following the updates of the reference regulatory system; iv) approval of the Group usury prevention policy; and v) implementation of the various Group policies, internal procedures and the consequent requirements in connection with the new privacy legislation.

With particular reference to the BFF Polska Group acquired in 2016, during the year under review Banca Farmafactoring, in its capacity as Parent Company of the Banking Group, and taking into account its level of importance, continued in the strategic control over the evolution of the areas in which BFF Polska operates and in monitoring the various risks referring to the activities conducted, as well as in the technical and operational control directed to the measurement of the various risk profiles brought to the Group, also through the evolution subsequent to the BFF Polska integration process, currently in its final stages.

As reported in detail in the previous paragraph, another significant aspect in the process of strengthening the Group's internal control system is the further strengthening of the Financial Reporting Officer Function, starting direct controls on subsidiaries from 2018, and of all other activities aimed at ensuring the effectiveness of the internal control and risk management system with regard to financial reporting.

The Board of Statutory Auditors, as far as its responsibilities are concerned, has followed the different activities carried out and was informed about the implementation of the activity plans and the results achieved, also in terms of the effectiveness of the coordination of the activities and the information flows among the various subjects involved.

The Board of Statutory Auditors has also taken note of the activities conducted by the Supervisory Body, appointed to ensure the adequacy, observance and updating of the organizational and management model set forth in Italian Legislative Decree 231/2001, and monitored the requisites of efficiency and independence related thereto, through periodical meetings.

The Board of Statutory Auditors has also checked the Bank's compliance with the correspondence and submission obligations towards the Supervisory Bodies.

Based on the activities performed and the information acquired, the Board of Statutory Auditors therefore believes that there are no critical issues such as to undermine the structure of the internal control system.

i) Monitoring activities on the adequacy of the risk management system

The Board of Statutory Auditors has monitored the adequacy of the risk management systems, also through the examination of the periodic Reports of the control functions and their periodic disclosures, the results of the monitoring activities and the implementation of the corrective measures identified, as well as through participation in the work of the Control and Risk Committee.

In particular, the Board took note that the Bank's internal control and risk management system involves each of the following according to their specific responsibilities: a) the Board of Directors, which has the role of guidance and assessment of the system's adequacy; b) the Control and Risk Committee, which is tasked with lending support, by appropriate oversight activities, to the assessments and the decisions made by the Board of Directors regarding the system of internal control and risk management; c) the Risk Management Function and the Compliance and AML Function, which bear specific responsibilities on the subject of internal control and risk management, according to the dimensions, complexity and risk profile of the company; d) the Internal Audit Function, charged with the duty to verify that the system of internal control and risk management is functioning and adequate; e) the Board of Statutory Auditors, which monitors the effectiveness of the system of internal control and risk management.

More specifically, also at the Group level, a fundamental aspect is considered to be the optimization of the governance of risks, in observing the following risk statements:

- ensure that regulatory requirements are met, guaranteeing that the levels of capital and liquidity of the Group remain strong, both under normal operating conditions and under stress scenarios;
- maintain a low risk profile;
- guarantee an adequate leverage level, through a policy of capitalization consistent with the level of the assets;
- ensure the availability of high-quality liquidity assets (Liquidity Coverage Ratio) and stable funding sources (Net Stable Funding Ratio), such that the Group continuously maintains a level of liquidity sufficient to absorb potential shocks in the short and medium/long term;
- implement an adequate Internal Control System (ICS).

The Group, therefore, has adopted a structured reference framework by implementing a disciplined process based on a specific internal risk appetite framework ["RAF"] regulation. This is evaluated by the Board of Directors in relation to the business model and the strategic plan, and calls for the approval of risk objectives and tolerance thresholds.

In this regard, the Board of Statutory Auditors has supervised, to the extent of its responsibilities, the completeness, adequacy, functionality and reliability of the RAF, also evaluating the changes to the framework during the year, in relation to developments in terms of metrics and the calibration of risk limits, in order to incorporate such developments in the Bank's business models, or in consideration of the regulatory guidelines.

The Board of Directors has set out the guidelines for the internal control system, ensuring that the main corporate risks are identified, managed and monitored in an adequate manner. Specifically, it has assessed all types of risk at the consolidated level and has approved the assumption of risk in a broad manner for all the Group companies and for all the countries in which it operates.

The system of internal control and risk management therefore appears to be fully consistent with the rules and regulatory framework, with the organizational structure of the Group, and in line with the standards as well as national and international best practices.

Again in 2018, the Board of Statutory Auditors constantly monitored the activities carried out by the control functions, reporting on the most relevant aspects and the outcome of checks carried out, with the following observations.

During the year, the Compliance Function carried out a new mapping of the compliance risks for the Bank and at a Group level, too, and identified the measures adopted to mitigate them. The Board of Statutory Auditors agreed on the methodological approach used, through: i) the mapping of the areas and regulatory requirements applicable to the Bank, and the identification of the activities at risk associated with the same; ii) the determination of Inherent Risk; iii) the assessment of the Vulnerability of the Organization and Control System; and iv) the determination of the Residual Risk. No critical issues emerged from such mapping.

The Board of Statutory Auditors considers the representation of the overall compliance risks to which Banca Farmafactoring is exposed adequate, and that the initiatives taken and measures carried out, or being completed, can be considered effective with respect to the proper implementation of the risk management process.

The Board of Statutory Auditors also analyzed the management model used to assess and measure the operational risks that the Bank's Risk Management Function structured and developed for the Group in 2018, with the aim of assessing, under the ICAAP framework, a more adequate measurement of operational and reputational risks, arising from compliance risks.

On April 24, 2018, the Company's Board of Directors approved the suitable amendments and supplements to the Banca Farmafactoring S.p.A. Banking Group Recovery Plan, as requested by the Supervisory Authority in its communication dated January 26, 2018, thereafter sent to the same Authority together with the considerations of the Board of Statutory Auditors.

In this regard, the Board of Statutory Auditors proceeded to examine the Recovery Plan, together with the Risk Management Function, investigating certain aspects with the Control and Risk Committee in order to properly understand the logics and criteria applied in the amendments/supplements made and to assess the relevant consistency, both with respect to the points of attention highlighted in the communication specified and the reference provisions of law and regulations.

During the course of its investigations, the Board of Statutory Auditors was able to confirm its consistency with respect to the Farmafactoring Banking Group business model, the RAF, the ICAAP process, the Contingency Funding Plan, and the general structure of the Bank.

On June 28, 2018, the Board of Directors of Banca Farmafactoring approved the 2017 ICAAP/ILAAP Report, acknowledging the various observations made by the relevant control functions and by the Control and Risk Committee. The 22nd update of Circular 285/2013 introduced, for Banks and banking groups that are recognized as being "less significant" by the European Central Bank pursuant to Regulation (EU) 438/2014, the internal process for determining the adequacy of the liquidity risk governance and management systems (ILAAP).

The Board of Statutory Auditors, in this regard, also taking into account the ICAAP/ILAAP Audit Report, has verified that the ICAAP/ILAAP adopted by the Bank is structured in accordance with the applicable regulatory provisions, agreeing on the observations expressed by the control functions on the initiatives proposed to improve the internal capital adequacy assessment process.

As part of the activities carried out by the AML Function, the Board of Statutory Auditors has constantly monitored, with reference to anti money laundering and terrorist financing legislation, the activities carried out and the outcome of the ex post checks, with no critical situations to report.

The Board of Statutory Auditors has also examined the self-assessment of money laundering and terrorist financing risks carried out in 2018, during which the Bank's AML Function identified and processed the data and information subject to assessment within the Group and prepared the results of the process, with the identification of any adaptations required.

In this regard, the Board of Statutory Auditors noted that, in the opinion of the Head of the Function, the overall evaluation of the Group's residual money laundering risk should be considered "low", in consideration of the assessment of the design and the effectiveness of controls on each legal entity belonging to the Group.

The Board of Statutory Auditors has also verified the completeness, adequacy, functionality and reliability of the Business Continuity Plan prepared by the Board of Directors.

j) Monitoring activities on the adequacy of the internal auditing system

During the performance of its control activities, the Board of Statutory Auditors continued its constant dialogue with the Internal Audit Function in the year under review, sharing the results of its verifications both in relation to the Parent Company and the individual investee companies.

The Board of Statutory Auditors, in this regard, has ascertained that the activities planned by the Internal Audit Function for the year 2018 covered the scope of activities that the Function undertook to perform. No critical issues emerged from this activity.

The Board of Statutory Auditors has also endorsed the Audit Plan, prepared on a three-year basis for the 2019-2021 period, where the planning of audit activities is carried out at a process-oriented level and according to an approach based on risk assessment.

The Audit Plan is reviewed and/or supplemented annually and submitted for approval by the Board of Directors after examination by the Control and Risk Committee, and subject to a preliminary review by the Chairman of the Board of Directors, the CEO, the Board of Statutory Auditors and the Supervisory Body pursuant to Italian Legislative Decree 231/2001.

The Board of Statutory Auditors has examined the guidelines for updating and revising the Group's Audit Plan for the year 2019 and noted, with particular regard to foreign subsidiaries: i) for the BFF Polska Group, that the audit reports are shared by the local Internal Audit Function with BFF Polska's corporate bodies and transmitted to the Parent Company's Internal Audit Function, which involves, if necessary, the relevant corporate functions for audits in the areas they are responsible for; the results of the checks carried out are also included in the Dashboards of the Parent Company's Internal Audit Function; ii) for BFF Finance Iberia, that the results of checks carried out by the Parent Company's function, based on a specific service contract, are first submitted to the Board of Directors of the subsidiary and included in the Dashboard of the Parent Company's Internal Audit Function.

It should be noted that the Internal Audit Function is also responsible for the so-called whistleblowing system, in relation to which no report was received in 2018.

The Board of Statutory Auditors also noted that the Bank's Internal Audit Function, with the objective of continuously improving the quality of its services in accordance with the highest international standards, has adopted a quality certification process since 2014 based on the standard UNI EN ISO 9001:2008 and, following the entry into force of the new standard UNI EN ISO 9001:2015 in 2017, the Function has adapted its quality model to the new requirements and extended the certification to the Group, including the Internal Audit Function of BFF Polska.

k) Monitoring activities on compliance with principles of proper administration and adequacy of the organizational structure

The Board of Statutory Auditors has acquired information and monitored the adequacy of the organizational structure adopted by the Bank and its functioning, the observance of the principles of proper administration, and the adequacy of the instructions given to subsidiaries by the Company pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, through meetings and direct observations and by gathering information from the Heads of the relevant functions and Departments, in addition to acquiring additional necessary information from the firm appointed to audit the financial statements, PricewaterhouseCoopers S.p.A.
In particular, the Board of Statutory Auditors noted that in 2018 the process aimed at integrating the BFF Polska Group into the Banking Group continued, notably in relation to IT systems (ongoing) and financial disclosure.
No critical issued emerged from the examination of the periodic reports of subsidiaries submitted to the attention of the Board of Directors and the Board of Statutory Auditors.
The Board of Statutory Auditors also examined how budget is prepared and found the process consistent with the Bank's business model, the RAF, and operating conditions.
The Board of Statutory Auditors, considering also the previous points discussed in this Report, believes that the Bank's organizational structure is adequate in relation to the needs of its current operations and size.
The Board of Statutory Auditors also believes that the instructions given to the subsidiaries by the Company in order to provide all information necessary to meet the disclosure obligations required by law, pursuant to Article 114, paragraph 2, of Italian Legislative Decree 58/98, are adequate.

l) Remuneration policies

The remuneration policies of the Banca Farmafactoring Group are governed by the

Remuneration and Incentive Policy for members of the key supervision, management and control bodies, and personnel [the "Policy"], drawn up in accordance with the provisions of Title IV, Chapter 2, of the Supervisory Provisions for Banks as per Circular no. 285 of December 17, 2013, and implementing the provisions of the Commission Delegated Regulation (EU) 604/2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, which came into force on June 26, 2014.

The Policy currently in effect, approved by the Shareholders' Meeting held on April 5, 2018, considers the Company's status as an intermediate-size bank, in conformity with the relevant Supervisory Provisions, and precisely defines:

- the scope of the roles whose remuneration is approved directly by the Board of Directors based on the proposal by the Remuneration Committee, including directors vested with specific powers, Senior Executives, Executives directly reporting to the CEO, and the Heads of the Group's control functions;
- 50% of the variable remuneration to which Risk Takers are entitled (both for the up front and deferred portion), paid in financial instruments, in compliance with regulations for intermediate-size banks;
- confirmation of the resolutions passed by the Shareholders' Meeting of December 5, 2016, regarding the adoption of a maximum ratio between the variable and fixed component of remuneration equal to 2:1.

The Board of Statutory Auditors also took note of the procedure to prepare the Remuneration Report for the year 2019, in relation to the disclosure required pursuant to Article 123-ter of Italian Legislative Decree 58/1998 and Article 84-quarter of CONSOB Regulation 11971/1999, which is divided into two sections:

- The first section, which contains the remuneration policy of the Banca Farmafactoring Banking Group for the year 2019, which will be submitted for approval by the Shareholders' Meeting;

- The second section, which describes how the remuneration policy for 2018 was implemented during the year, providing an overview of the remuneration effectively disbursed.

Lastly, the Board of Statutory Auditors took note of the changes made to the procedure for identifying the performance parameters, which limit access to variable remuneration in order to take into account the Group's operations and risks.

m) Complaints, reports, omissions or reprehensible actions, opinions issued and measures undertaken

During 2017, and up to the date of the preparation of this report, the Board did not receive any complaints pursuant to Article 2408 of the Italian Civil Code, or reports or claims or notices of reprehensible actions.

During the year, the Board of Statutory Auditors has issued the opinions and expressed the observations which the existing law and supervisory provisions for banks assign to the Board, including, besides the opinions on non-audit services:

- considerations on the 2017 report on external key operational functions;
- assessments of the Recovery Plan of the Banking Group, as amended following the Bank of Italy's Communication dated January 26, 2018;
- the favorable opinion on the appointment of the director responsible for supervising the internal control and risk management system and the Financial Reporting Officer;
- opinions issued on Remuneration;
- the opinion on the ICAAP/ILAAP Report and RAF;
- opinions on the outsourcing of 2 key operational functions;
- assessments of the outcomes of the checks carried out by the Internal Audit Function in relation to the adequacy of the organizational measures implemented by the Portuguese branch;
- the attestation required pursuant to Article 2438 of the Italian Civil Code to increase the Bank's share capital.

During the activities performed and based on the information acquired, the Board of Statutory Auditors did not find any omissions, reprehensible actions, irregularities nor any significant circumstances requiring to be reported to the Supervisory

Authority or mentioned in this Report.

n) Governance

The Board of Directors of Banca Farmafactoring S.p.A., which has adopted a traditional administration and control system, is currently composed of 9 members, 6 of whom are independent pursuant to the Consolidated Law on Finance (5 of whom are independent also pursuant to the Corporate Governance Code). The only executive director is the Chief Executive Officer, who is in charge of management. Corporate governance also provides for the creation of a Supervisory Body pursuant to Italian Legislative Decree 231/2001 and of specific committees with analytical, consulting and proactive responsibilities serving the corporate governing bodies with strategic and management supervision functions, meaning:

- the Remuneration Committee;
- the Related Party Transactions Committee;
- the Appointments Committee;
- the Control and Risk Committee.

The Board of Statutory Auditors, which regularly takes part in all the meetings of the Board of Directors, has taken note that in 2018 all the regulations of the Bank's corporate bodies were updated.

As mentioned above, in 2018 the Board of Statutory Auditors conducted a process of self-assessment of its members, after the approval of its own Regulations on self-assessment, and took note that the Board of Directors and relevant committees also performed their self-assessment and the annual review of the succession plan for the CEO.

The Board of Statutory Auditors also approved its own Diversity Policy, in accordance with Article 123-bis of the Consolidated Law on Finance, acknowledging that the Board of Directors had also approved its own Diversity Policy.

The Board of Statutory Auditors assessed the implementation of the Corporate Governance Code promoted by Borsa Italiana and adopted by Banca Farmafactoring, as illustrated in the "Report on Corporate Governance and Ownership Structure".

During the year 2018, the Board of Statutory Auditors also verified the proper application of the criteria and procedures for ascertaining the independence requirements of the members of the Board of Directors, pursuant to application criterion 3.C.5 of the Corporate Governance Code. In this regard, the Board of Statutory Auditors found that both the Appointments Committee and the Board of Directors, based on the documentation provided and the statements made by each Director, verified the independence of Directors. The Board of Statutory Auditors thus examined the documentation made available by the Company, verifying, in accordance with Article 3.C.5 of the Corporate Governance Code and to the extent of the duties assigned by law, the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of Directors.

Conclusions

In conclusion of the monitoring activities carried out by the Board of Statutory Auditors as described above, we can reasonably affirm that the Bank's activities have been carried out in accordance with the law and the bylaws and that the organizational, administrative and accounting structures as well as their actual functioning, are adequate.

The Board of Statutory Auditors has taken note of the reports issued on March 7, 2019 by the Audit Firm pursuant to Articles 14 and 16 of Italian Legislative Decree 39/2010, including an unqualified opinion on the financial statements of the Bank and the consolidated financial statements of the Banking Group. According to the same reports, the information included in the Report on Operations is compliant with relevant regulations and consistent with the financial statements as set out in Article 14, paragraph 2, letter e) of Italian Legislative Decree 39/2010.

Taking into account the above, the Board of Statutory Auditors, having considered the content of the reports issued by the auditors, has no reason, as far as its responsibilities are concerned, to oppose the approval of the financial statements for the year ended December 31, 2018 and the payment of dividends as proposed by the Board of Directors.

To this end, the Board of Statutory Auditors takes note that the Board of Directors has assessed the proposal for the distribution of dividends based on prerequisites aimed at constantly complying with prudent capital requirements over time.

Milan, March 7, 2019

Signed by

The Statutory Auditors

Paola Carrara

Marco Lori

Patrizia Paleologo Oriundi

05

Independent Auditors' Report

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banca Farmafactoring SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Farmafactoring SpA (the Company), which comprise the balance sheet as of 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recognition of late-payment interest on non-impaired non-recourse purchases of receivables	
Notes to the financial statements: *Part A – Accounting policies, "3 - Financial assets measured at amortized cost" and "Revenue recognition criterion" sections;* *Part B – Notes to the balance sheet, Asset, section 4;* *Part C – Notes to the income statement, section 1.* In order to calculate the amortized cost of receivables from customers purchased without recourse, the Company also considered the estimate of late-payment interest accrued and deemed recoverable in accordance with what set out in the "Document of the Bank of Italy/Consob/Ivass no. 7 of 9 November 2016" regarding the "Treatment in financial statements of late-payment interest under Legislative Decree No. 231/2002 on non-impaired non-recourse purchases of receivables". We focused our attention on this matter since, on the one hand, the amount of late-payment interest recognised but not yet collected is significant and, on the other hand, the parameters selected to estimate this revenue component implies the availability of statistically reliable historical series built on the basis of collection flows and times observable at the measurement date, and an elevated professional judgement is requested and includes judgemental elements of the management. Specifically, in order to select the key parameters for recognising the late-payment interest considered recoverable, the Company made use of internal databases consisting of historical series about the recovery percentages and actual collection times in the last nine years for the	In conducting the audit, we took into account the internal control relevant to the preparation of the financial statements, in order to design the appropriate audit procedures in the circumstances, considering also the first-time adoption of the new international accounting standards IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers". In particular, as part of our analysis of this key audit matter, also supported by the PwC network experts, we carried out the following main activities: • analysis of internal documentation regarding the management of late-payment interest's recovery, including limits set for the transactions with debtors; • understanding, evaluating and validating of the process including the controls about the historical series elaboration and the determination of the parameters for the estimate of this revenues stream; • analysis of the IT/management systems from which the historical data relating to the collection flows and times of the late-payment interest were extracted and check of the adequacy of the extracted data bases used in determining the parameters; • examination and reperforming of the processing of the extracted data bases, as well as controls performed, to verify that the adjustments to the extracted data are not arbitrary and are supported by evidence;

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
National Healthcare System and in the last five years for the Public Administration sector.	• 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 algorithm for calculating the parameters used and of the calculation of the amortized cost.
First-time adoption of international accounting standard IFRS 9 "Financial instruments" *Notes to the financial statements:* *IFRS 9 – Financial Instruments – Bank's transition process*	
Starting from 1 January 2018 the Company adopted the international financial reporting standard IFRS 9 "Financial instruments", governing the classification and measurement of financial instruments, as well the determination of any related impairment loss. IFRS 9 introduced new rules for the classification and measurement of financial assets which are based on the way an entity manages such financial assets ("Business Model") and their contractual cash flow characteristics. With reference to the measurement of financial assets other than those measured at fair value through profit and loss and off-balance sheet items (guarantees and commitments), the new standard replaced the measurement model for impairment losses under IAS 39, which was based on the "Incurred loss", with a measurement model based on the "Expected Credit Loss" (ECL). The result is that IFRS 9, besides introducing significant changes in the classification and measurement criteria, entailed significant operating impacts requiring the use of new	In conducting our audit we focused on understanding and evaluating the activities planned and performed by the Company, also with the support of external consultants, in order to implement the new accounting standard (including changes to the IT systems), as well as the related governance and the set of control activities put in place by the management and the control functions. Considering that IFRS 9 was adopted from 1 January 2018, our procedures covered the opening balances in order to verify the transition from IAS 39; these procedures were aimed, *inter alia*, to assess the compliance with the new standard of the accounting choices made, to verify the accounting adjustments versus IAS 39 and the disclosures provided. With specific reference to classification and measurement, our audit procedures, which were carried out also with the support of PwC network experts, included, among other things:

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
models and additional information, parameters and assumptions, which, accordingly, increased the degree of subjectivity and uncertainty of the estimates. Due to the reasons reported above, although the first-time adoption's accounting impacts were quite low according to the specific features of the Company's business, we considered the first adoption of IFRS 9 as a key matter in the audit of the consolidated financial statements of Banca Farmafactoring at 31 December 2018.	• understanding and critical analysis of the policies, procedures and solutions adopted by the Company in respect of key aspects (definition of the Business Model, analysis of the contractual cash flows and valuation methodologies) to assess their compliance with the new standard; • examination of the completeness and accuracy of the new accounting categories on the basis of the Business Model established and the results of the analysis of the contractual cash flows (i.e. the *SPPI test – Solely Payments of Principal and Interest)*; • reperforming of the SPPI test in relation to a sample of financial assets selected taking into account the different financial instruments held in portfolio and, in particular, the various types of contracts with customers in respect of receivables arising from factoring business. With reference to the new impairment criteria, our procedures, which were carried out also with the support of PwC network experts, included among other things: • understanding and critical analysis of the new policies and significant methodologiess and assumptions, as well as the models implemented, in order to verify their reasonableness, appropriateness and compliance with the new standard. This activity was addressed to the methodologies and models adopted to measure significant increases in credit risk (SICR), to allocate assets to the various risk stages, as well as to determine the Expected Credit Loss (ECL);

Key Audit Matters	Auditing procedures performed in response to key audit matters
	• checks on the SICR, stage allocation and the ECL models defined and on the methods used to set the relevant underlying estimate parameters, in order to verify whether they were adequately implemented and determined; • analyses aimed to verify the correctness of the data feeding the models, the computation formulae and the correct determination of the key parameters and estimate elements (Probability of Default, Loss Given Default and Exposure at Default); • verification of the correct implementation of the estimation parameters established within the IT systems, together with the verification of the completeness and accuracy of the data bases used to calculate the expected loss; • critical analysis of the results of the review activities carried out by the relevant internal functions and remediation actions that might have been put in place. Finally, we verified the completeness and adequacy of the disclosures to the financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 3 May 2012, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the statutory audit of the Company's separate financial statements for the years ending 31 December 2012 to 31 December 2020; after the institution of the banking group, on 20 February 2015, the shareholders of Banca Farmafactoring SpA in general meeting engaged us to perform the statutory audit of the Company's consolidated financial statements for the years ending 31 December 2014 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Banca Farmafactoring SpA is responsible for preparing a report on operations and a corporate governance and share ownership report of Banca Farmafactoring SpA as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the corporate governance and share ownership report referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Banca Farmafactoring SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the corporate governance and share ownership report mentioned above are consistent with the financial statements of Banca Farmafactoring SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 7 March 2019

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

Resolutions of the Ordinary Shareholders' Meeting

The Ordinary Shareholders' Meeting, convened on March 28, 2019 in a single call, resolved, among other things:

i) to approve the separate financial statements for the year ended December 31, 2018, and the relevant report on operations prepared by the Board of Directors, showing profit for the year of €73,389,737;

ii) to withdraw €18,763,155 from the "Retained earnings reserve" to be distributed to Shareholders; after such allocation, the above-mentioned reserve will decrease to €66,565,157;

iii) to distribute to Shareholders part of the net profit for the year of €72,990,079, in addition to €18,763,155 withdrawn from the "Retained earnings reserve", for an overall amount of dividends to be distributed of €91,753,234, equal to €0.539 - before tax provided for by the law - for each of the 170,107,400 ordinary shares outstanding at the second ex-date (April 1, 2019). Such dividend includes the portion attributable to any treasury share held by the Company at the record date. Pursuant to Article 83-terdecies of Italian Legislative Decree no. 58 of February 24, 1998 (Consolidated Law on Finance), entitlement to the dividend payment is established based on the accounts of the intermediary as referred to in Article 83-quater, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting date of April 2, 2019 (record date);

iv) to allocate the remaining amount of net profit for the year of €399,658 to the "Retained earnings reserve";

v) that such dividend be paid as of April 3, 2019 (payment date). Payment will be made through authorized intermediaries with which shares have been registered in the Monte Titoli system.

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