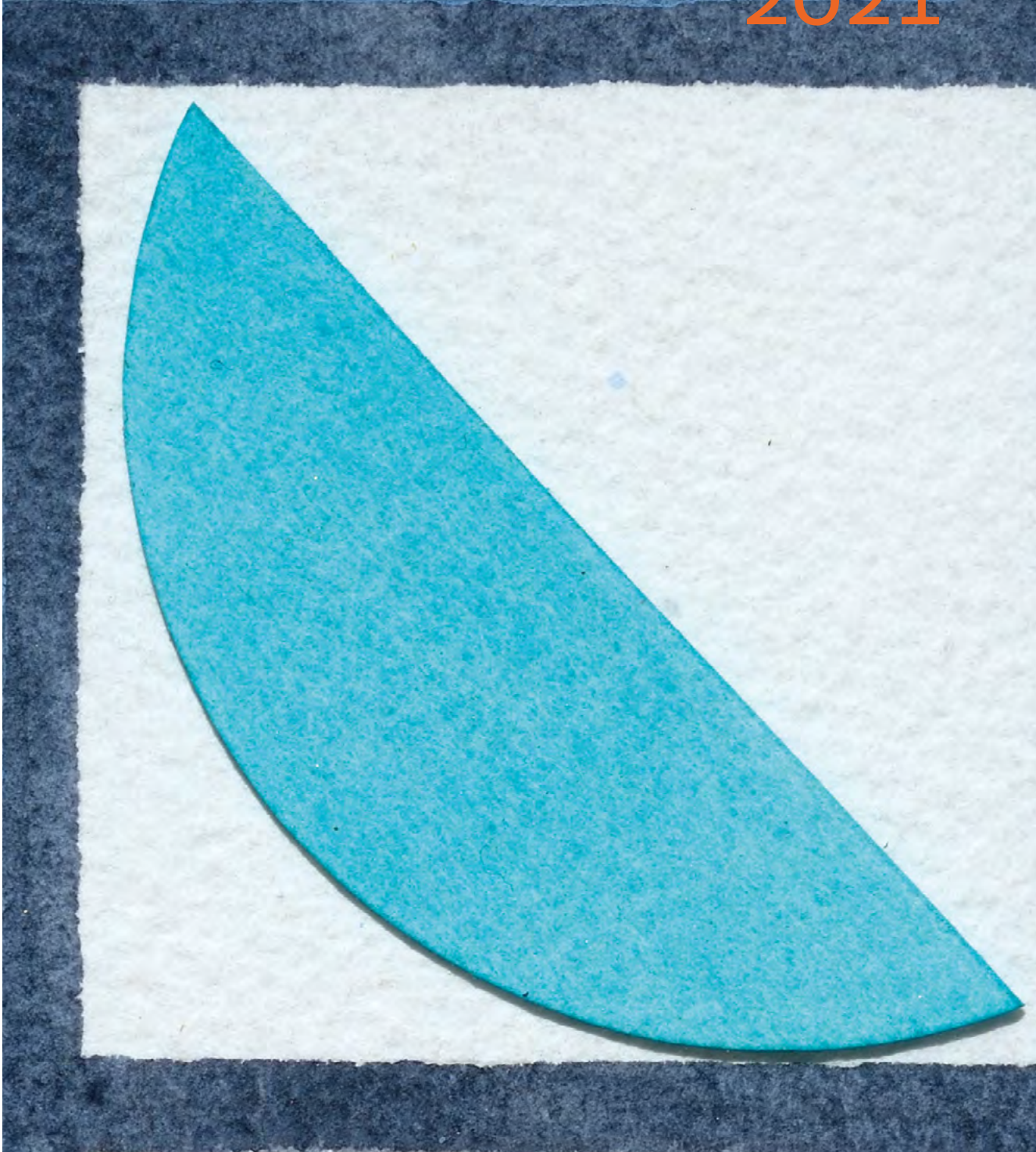


Consolidated Financial
Statements

2021



The works depicted in these pages were created by the artist Lucio Del Pezzo and are part of the Farmafactoring Foundation's contemporary art collection.

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

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

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

www.art-factor.eu

BFF Bank S.p.A.

Parent company of the BFF Banking Group
Registered Office in Milan - Via Domenichino 5
Share Capital €142,692,765.52 (fully paid-in)
Milan Company Register no.,
Tax Code and VAT no. 0796011015

Consolidated Financial
Statements

2021

Contents

Letter from the Chairman of the Board of Directors	4
BFF 2023: a bank <i>like no other</i>	8
Key highlights	10
01 Report on Operations	13
Key events in the Group	14
The business model and the value creation process	16
The evolution of BFF: leader in Europe	18
Sustainability in BFF's services and the materiality matrix	20
Corporate bodies	29
Group Structure	32
Shareholder Structure	34
The operational context	36
Operating performance	58
Ratings	78
Repayment of the €150 million senior unsecured and preferred bond issued in June, and Cash Buyback operation in June 2021	79
Treasury shares	80
Shareholders' Meeting Resolutions	80
Share capital	82
Changes in the Organizational Structure	82
Inspection of the Bank of Italy	85
Deposit Guarantee Scheme	85
Resolution Fund	86
Internal Control System	87
Research and development	90
Changes in the workforce	91
Share performance	93
Main Balance Sheet Items	95
Main Consolidated Income Statement Items	102
Bank's Objectives and Policies on the Assumption, Management and Hedging of Risks	105
Other information	109
Events subsequent to the end of the year	110
Business outlook	112
Allocation of the Banking Group's Profit	113
Proposal for the distribution of BFF Bank S.p.A.'s profit	115

02	Consolidated Financial Statements	117
	Consolidated Statement of Financial Position	118
	Consolidated Income Statement	120
	Consolidated Statements of Comprehensive Income	121
	Consolidated Changes in Equity	122
	Consolidated Cash Flows	124
	Consolidated Explanatory Notes	126
	Part A - Accounting policies	127
	Part B - Information on the Consolidated Balance Sheet	181
	Part C - Information on the Consolidated Income Statement	231
	Part D - Consolidated Comprehensive Income	250
	Part E - Information on risks and related hedging policies	252
	Part F - Information on Consolidated Equity	314
	Part G - Business combinations of companies or business units	324
	Part H - Transactions with related parties	327
	Part I - Share-Based Payments	330
	Part L - Segment reporting	332
	Part M - Lease reporting	335
	Other information	337
03	Certification by the Financial Reporting Officer	339
04	Report of the Independent Auditors	342

Letter from the Chairman of the Board of Directors

Dear Shareholders,

As reported in the Bank of Italy's most recent Economic Bulletin (1, 2022), after a widespread slowdown in economic activity in the third quarter of 2021, at the end of last year signs of a return to a more sustained recovery emerged in the United States and other developed countries, against extended weakness in emerging economies.

However, the resurgence of the COVID-19 pandemic poses risks for growth. In any event, inflation has increased further, basically across the board.

In the Eurozone, GDP decelerated significantly towards the end of last year, especially due to the resumption in contagion.

Inflation reached its highest value since the monetary union began (4.2 percent in December), due to exceptional increases in energy prices, particularly gas.

The European Central Bank's Governing Council reaffirmed that the orientation of monetary policy will remain expansionary, and its management flexible.

In Italy, the economy grew by 6.5 percent in 2021, an increase not seen for 45 years, supported by the expansion of household consumption and, more generally, domestic demand.

The recent uptick in infections and the ensuing deterioration of the climate of confidence nonetheless make it likely that business investments will see a deceleration this year.

In the third quarter of 2021, Italian exports continued to rise, and the current account surplus remains at high levels.

Since last summer, the resumption in demand for labour has translated into an increase in hours worked.

Financial market trends were impacted by concerns linked to the worldwide increase in contagion.

Market volatility and investor risk aversion also rose.

Last autumn, growth in lending to non-financial companies was confirmed as weak.

The expansion in household lending however continued at a sustained pace. Intermediary profitability improved.

For the 2022-2024 three-year period, expansionary public finance interventions are expected, and macroeconomic projections for Italy assume a gradual improvement in the health situation, on the assumption that the spread of the epidemic will attenuate starting in the spring.

For the first half of 2022, GDP is expected to return to pre-pandemic levels, and inflation should attenuate over the course of the year, returning to moderate levels over the next two years.

Although there are appreciable growth outlooks, they are subject to multiple, especially downside, risks. In the short term, the uncertainty surrounding forecasts is connected to health conditions; in the medium term, projections remain influenced by the full implementation of the spending programs included in the budget maneuver and the full and timely implementation of the initiatives set forth in the NRRP.

Taking into account the general scenario described until this point, it can be seen - as more specifically regards BFF - that the emergency phase we have been experiencing is not yet over; we have had to modify our behaviors and lifestyles, and certain strongly impacted sectors will take time to return to pre-pandemic levels. Nonetheless, the conditions have been created for living with the virus, such so as to avoid a large-scale return to lockdowns and favor the continuation of a phase of development which, as noted, in 2022 will continue to be supported by the accommodating policies of governments as well as Central Banks.

Moreover, the positive scenario expected for this year is influenced by significant risks, such as the limits of the low vaccination rate - which could result in the emergence of new variants of the virus - and the possibility that inflation will remain elevated longer than expected, negatively impacting the medium-term expectations of households and businesses, and resulting in a more rapid tightening of monetary policies.

As noted previously, we exited the recession thanks to the decisive action taken by Central Banks and national governments, in addition to the launch of *Next Generation EU*, the massive fiscal plan intended not only to stimulate the economic recovery, but also to favor solidarity, with transfers from wealthier to poorer countries, while also promoting the objective of making Europe more resilient, greener and more digital. In 2021, the first issues of common debt were carried out in order to finance the NGEU program, a historical step towards greater continental integration.

Our country has been the largest beneficiary in absolute terms of this plan (not because we are more efficient, but because we are the furthest behind in terms of economic growth and the unemployment rate), the implementation of which will have considerable positive effects, not only in the short term, by supporting the economic recovery, but also in the medium term, by improving potential growth and reducing public debt. In this context, BFF has done its part, providing proof of how growth can be built even within a situation rife with difficulties. It has done this by entering into significant agreements and achieving commercial success, as well as meeting some of its crucial targets. The results obtained, which you will find summarized in these financial statements, confirm that our business model is both sound and robust.

The most significant of these achievements is without a doubt the conclusion in March of the process of acquiring DEPObank – Banca depositaria italiana S.p.A., after which we changed our corporate name to BFF Bank S.p.A. This transaction brought into being the largest specialized finance operator in Italy and one of Europe's most profitable and best capitalized banks. With this acquisition, new specific focuses within the area of securities services and payments were added to our factoring services and the management of trade receivables from the Public Administration.

The merger with DEPObank gave the Bank a new important role, as a significant player within the infrastructure of our country's banking industry. In view of the new regulations that will be issued by the European Central Bank, and with the desire to offer timely customer support, including for those services that will become indispensable in the near future, confirming BFF's historical mission to always look ahead and anticipate needs.

Subsequent to the acquisition of and merger with DEPObank, Moody's confirmed BFF's financial soundness, attributing it the second highest class amongst Italian banks in its long-term bank deposit rating, and its second highest rating amongst less significant Italian banks, equally highlighting how BFF will continue to generate high returns while maintaining low-risk assets and recognizing the acquisition as beneficial to its funding and liquidity profile.

BFF settled into its new Group structure under the guidance of a new Board of Directors elected in March. For the first time in the Bank's history, the outgoing Board submitted its own slate, elected with more than 70% of the votes, at the end of a rigorous self-assessment process which contributed to providing further stability to the Bank's governance model, a crucial element at a time in which the ability to rapidly adapt and respond to emergencies is fundamental.

Within a year of transformation, we achieved excellent results and, although conditioned in terms of timing by European Central Bank and Bank of Italy recommendations, we moved forward with our dividend policy with the distribution in October of the total remaining amount from 2019-2020, amounting to €165 million.

We gathered suggestions from our shareholders, and undertook to take every possible initiative to pay dividends two times per year starting in 2022, in compliance with regulatory requirements, and further reinforcing BFF's distinctive combination as a growing and highly profitable business with a low risk profile and excellent future opportunities.

In 2021, we achieved record earnings, demonstrating the advantages of diversification and the discipline with which we proceeded in implementing our plans, with a net profit for the year 2021 of €197.4 million.

The Group also maintained a good degree of liquidity and an elevated equity position, with a Common Equity Tier 1 (CET1) of 17.6% (vs. an SREP requirement of 7.85%) and a Total Capital Ratio (TCR) of 22.2%, far surpassing the Bank's target TCR of 15.0% as well as the SREP requirement of 12.05%, with €155 million in excess capital, with respect to the target TCR of 15.0%.

Our excellent Stock Exchange performance also bore witness to the success of our actions, with our shares growing by a brilliant 62% in 2021, compared to 27% for the FTSE MIB Index and 40% for the banking sector. Specifically, the market expressed its appreciation for the acquisition of and merger with DEPObank.

The birth of BFF Bank required changes to be made in the Company's organizational structure, and led to the entry of new resources: we now have nearly 1,000 employees (with an average age of 43 and 55% women), and the new arrivals were forced to embark upon the orientation process within a delicate context, influenced by social distancing and remote working. To make this happen, we committed to developing our tools and processes, relying on innovative solutions and exploiting as much as possible the opportunities offered by digitalization.

In Spain, after the period during which in person activities were closed, employees gradually returned to a new office in Madrid, one of the first of its kind in Europe, designed to reduce environmental impact to a minimum and offer the best working conditions in terms of employee well-being. And in the other countries in which we have a presence as well, we are working toward a similar replacement of our offices with environmentally sustainable solutions and an increasing focus on employee well-being, starting from Poland and Slovakia, to finally move our Milan headquarters, which will become: "Casa BFF".

The project, announced in February, will be completed by the end of the first half of 2024 and will contribute to the redevelopment of a historical area in Milan.

The diversification of our business and services has also been accompanied by geographical diversification. The European economic context, currently common to every country, is directed towards widespread growth in public expenditure. This scenario leads us to expect our business to play a leading role, also thanks to our widespread presence in Europe: our office in Greece is now completely stabilized, we are preparing to strengthen our presence in France and we are becoming increasingly known for our international mission.

It is with the same spirit of opening and moving beyond borders that we also recently inaugurated the cultural project “*ART FACTOR – The Pop Legacy in Post-War Italian Art*”, introducing a selection of works from our Foundation’s contemporary art collection to other parts of Europe; in January, we inaugurated a travelling exhibition in Bratislava, which will be hosted over the coming months in the capitals of the main countries in which we operate. In this manner, we hope to reaffirm the value that we see in the culture of art, as a driver of growth and innovation, as also demonstrated by the graphic design of this document.

Our desire is to share and return to the environment around us part of the wealth we generate, with a view to responsibility to the common good, values which inspire us, and which also gave rise to our business sustainability initiatives, which we will describe in our Non-Financial Disclosure.

In light of all of this, we look with satisfaction at the future of BFF, as a player particularly active during a difficult period in history, whose growth is the fruit of the work and commitment of its human resources, its management and its directors. To them, I express my most heartfelt thanks.

Salvatore Messina

Chairman of the Board of Directors of BFF
Bank S.p.A.

BFF 2023: a bank *like no other*

BFF is the largest specialized finance operator in Italy, as well as one of the leaders in Europe in the management and non-recourse disposal of trade receivables due from Public Administrations, Securities Services and payment services.



OFFER

OPPORTUNITY

Non-Recourse Factoring

 Financing for the public
 sector and healthcare

 Credit Management

> €400 billion
 in trade receivables
 per year

< 10%
 market penetration

Custodian

 Global custody

 Fund accounting

 Transfer agent

Long-term growth
 in assets under
 management
 in Italy

Payment intermediary

 Corporate payments

 Cheques and bills

Epochal transition
 from cash payments
 to digital payments
 in Italy

**ORGANIC
 GROWTH**

Key highlights

BFF Banking Group

- ▶ Reported result of €197.4 million including goodwill and extraordinary impacts arising from the acquisition of DEPObank.
- ▶ Normalized result of €125.3 million (+7% year-on-year) due to the positive contribution of the Securities Service and Payments BU and synergies achieved, including the lower yield of the ex-DEPObank HTC securities portfolio as a result of the MTM accounting treatment at the time of the acquisition.
- ▶ Focus on ALM in order to achieve synergies of funding, reduce excess liquidity and resume activity on the HTC securities portfolio by increasing its yield and duration.

Capital and Dividends

- ▶ Strong capital position: TCR at 22.2% and CET1 ratio at 17.6%.
- ▶ €125 million in dividends recognized, leading to the cumulative distribution since October 2021 of roughly €300 million.
- ▶ Expectation of distributing dividends during the year: first payment to be made in August 2022, after the approval of the half-yearly financial statements.

Synergies

- ▶ Target level of expected run-rate synergies already reached.

Factoring & Lending

- ▶ Volumes aligned with 2020 and robust start to the year.
- ▶ Receivables due from customers 8% lower than in 2020, still influenced by high system liquidity.
- ▶ New assumptions of senior profiles in the commercial area for the Italian and French market.

Securities Services

- ▶ Asset under Deposits grew by 10% year-on-year thanks to market trends and commercial developments.
- ▶ Income before tax from continuing operations increased by 23% year-on-year despite excess liquidity in the first half of 2021, with negative interest rates.

Payments

- ▶ The number of payment operations increased by 11% year-on-year, higher than pre-COVID-19 levels.
- ▶ Income before tax from continuing operations increased by 58% year-on-year.

Post December 31, 2021

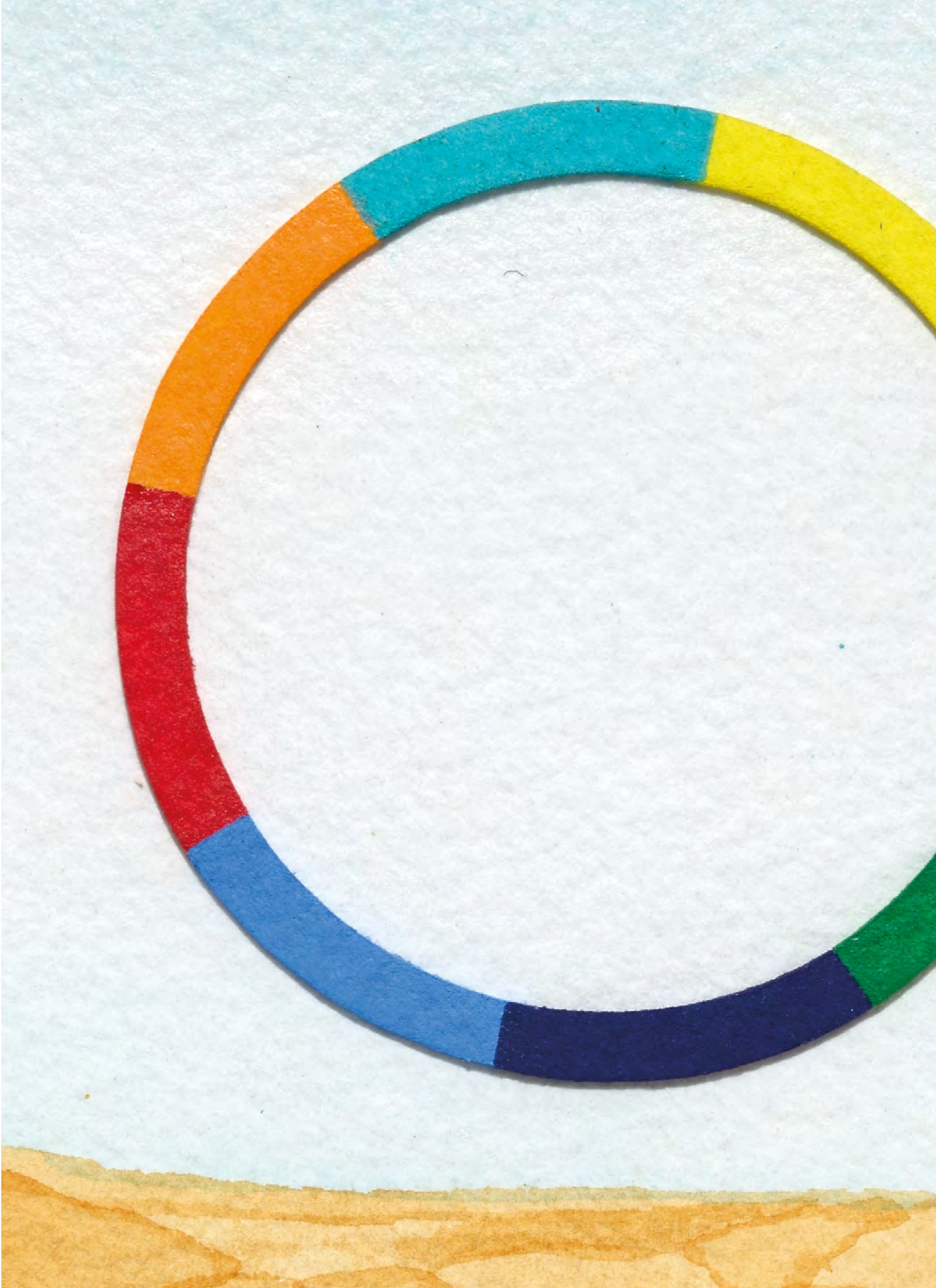
- ▶ Issue of the "Additional Tier 1" capital instrument for €150 million, with an interest rate lower than that of the existing Tier II instrument. TCR and pro forma Tier 1 up by 2.4% and 7%, respectively.
- ▶ New headquarters under construction: incremental synergies expected starting from the first half of 2024.

Income Statement by Business Unit and Corporate Center

(€ million)

	FY 2021*				FY 2020*			
	Revenues	OPEX incl. D&A	LLP	PBT	Revenues	OPEX incl. D&A	LLP	PBT
Factoring & Lending P&L	161.9	(38.8)	(0.7)	122.8	176.9	(34.7)	(3.2)	139.1
+								
Securities Services P&L	57.8	(28.8)	-	29.0	54.2	(30.0)	-	23.6
+								
Payments P&L	62.1	(30.9)	-	31.1	50.0	(30.2)	-	19.8
+								
Corporate Center incl. synergies	49.5	(77.1)	2.1	(25.1)	64.6	(87.9)	1.8	(22.3)
=								
Adj. BFF Banking Group P&L	331.4	(175.7)	1.4	157.9	345.7	(182.8)	(1.3)	160.1
Adjustments	43.0	(2.8)	(1.0)	38.7	(125.9)	90.9	(1.8)	(36.3)
BFF Banking Group P&L reported	374.4	(178.5)	(0.4)	196.7	219.8	(91.9)	(3.1)	123.7

(*) Profit before tax (PBT) adjusted to take into account the effects of extraordinary items and discontinued operations. 2021 adjustments refer: to the adjusted former DEPObank PBT amounting to €5.1 million, expenses referring to the "Stock Option Plan" of €4.5 million, exchange gains covered by the translation reserve in equity of €0.2 million, badwill of €76.9 million, costs related to liability management initiatives amounting to €13.4 million, other transaction and restructuring costs of €10.2 million, expenses relating to the extraordinary contribution to the National Resolution Fund for €2.8 million and the amortization of DEPObank's customer contract amounting to €2.4 million. 2020 adjustments refer: to the adjusted former DEPObank PBT amounting to €27.9 million, expenses referring to the "Stock Option Plan" of €1.4 million, exchange gains covered by the translation reserve in equity of €5.7 million, expenses relating to the extraordinary contribution to the National Resolution Fund and the additional required contribution to the Interbank Deposit Protection Fund for €1.3 million and M&A costs of €11.4 million referring to the integration of IOS Finance with BFF Iberia and the acquisition of DEPObank.





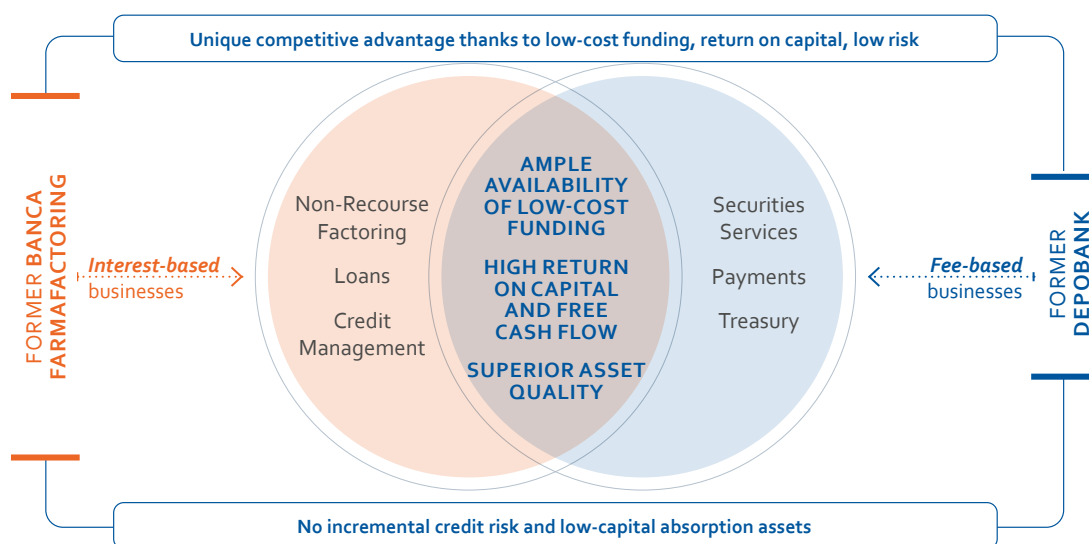
01

Report
on Operations

Key events in the Group

On January 28, 2021, the **Shareholders' Meeting** met and, in an extraordinary session, approved the proposed merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A.¹, ("DEPObank") into Banca Farmafactoring S.p.A.

On March 1, 2021, the acquisition of DEPObank was finalized, with the merger by incorporation into Banca Farmafactoring, effective as of March 5 of the same year. As part of this transaction, which gave rise to the largest player in specialized finance in Italy, as well as one of the most profitable and best-capitalized banks in Europe, with a specific focus on Securities Services, Payments, factoring services and the management of trade receivables from the Public Administration, Banca Farmafactoring changed its name to **BFF Bank S.p.A.** and redesigned its logo to further distinguish this moment in the company's history. The company emblem was simplified and rotated to make the forward movement more immediate, projected towards growth. The slogan remains unchanged from 2017: "a bank like no other". Through the acquisition of DEPObank, BFF has strengthened its strategic positioning, expanding both the business segments in niche markets where DEPObank was a leader and the funding and capital base serving its traditional clients. DEPObank, on the other hand, became part of an international, listed, solid, profitable group, with high standards of execution and operational efficiency.



As part of the merger operation referred to above, Equinova UK HoldCo Limited¹ ("Equinova") became a shareholder of BFF Bank S.p.A., with a share corresponding to 7.6% of the share capital at the time.

On March 15 the "BFF Banking Group 2021-2023 Financial Plan" was approved by the Board of Directors and presented to the market. The Plan illustrates the economic and financial objectives for 2023, identifies the funding synergies and presents BFF's different lines of business: Factoring & Lending, Securities Services, Payments Services and Corporate Center. It also explains the **competitive positioning, opportunities and growth guidelines**. The Plan also includes a focus on business sustainability issues.

1) Equinova is the holding company of Advent International Corporation, Bain Capital Private Equity Europe LLP and Clessidra SGR S.p.A., which was the main shareholder of DEPObank (as of March 1, 2021 it held a 91.6% stake in the share capital).

On March 25, the Shareholders' Meeting elected the **new Board of Directors**, with over 70% of the votes on the slate submitted, for the first time in the Bank's history, by the outgoing Board. This slate is the end result of a rigorous self-assessment process, carried out with the contribution of the Nominations Committee, after evaluation by a leading independent executive search company, which certified its overall consistency with current regulations and the Guidelines on the qualitative-quantitative composition deemed optimal. The Board of Directors and the Board of Statutory Auditors, the latter fully appointed as per the investors' proposal, will remain in office until the approval of the financial statements for the year 2023.

On March 31, 2021, BFF distributed a unit dividend before withholding taxes of €0.017495 per share, for a total of €3.2 million, corresponding to a small fraction of the total amount of 2019-2020 dividends accrued, equal to €168.5 million ("2019-2020 Total Dividends"), in line with the recommendations of the European Central Bank and the Bank of Italy on the payment of dividends. On October 7, 2021, as described in more detail below in this chapter, the Ordinary Shareholders' Meeting approved the payment of the total residual dividends from 2019-2020.

On April 21, 2021, Moody's raised BFF's Long-Term Bank Deposit rating, the BCA, and changed the long-term rating outlook to Stable. The Long-term Issuer rating changed as a result of the greater size of the balance sheet. At the date of Moody's upgrade, BFF has the second-highest rating class among Italian banks for its Long-Term Bank Deposit rating.

The ratings assigned to BFF by Moody's in April 2021 were also confirmed in December during the Periodic Review. For more information refer to the Rating section below.

On June 15, 2021 BFF launched a Cash Tender for the holders of its senior bonds in circulation for the repurchase thereof against consideration in cash in order to allow the Bank to optimize its capital structure and to proactively use its liquidity. The transaction was completed on June 25, allowing the repurchase and simultaneous cancellation of a nominal €154,701,000 for the senior preferred unsecured bond maturing in June 2022, and a nominal €261,031,000 for the senior preferred unsecured bond maturing in May 2023. Following the completion of this cash buyback transaction, the two Issues subject to the Cash Tender remain outstanding for a nominal amount of €42,799,000, and for a nominal amount of €38,969,000 for the bonds maturing in June 2022 and May 2023 respectively.

Finally, on June 21, 2021, a senior preferred BFF bond for a nominal amount of €150 million, was repaid at maturity, with a value date of June 18.

On October 7, 2021, the Ordinary Shareholders' Meeting approved the payment of the total remaining 2019-2020 dividends, or the difference between the amount intended for Shareholders and the amount already distributed in March 2021, totalling €165,275,418.00 (0.8946 per share) for total dividends paid in 2021 of €168,506,806.00.

Also on October 7, the Extraordinary Shareholders' Meeting approved the proposals to change the By-laws in order to incorporate the provisions introduced by Ministry of Economy and Finance Decree no. 169 of November 23, 2020, the Corporate Governance Code and the 35th update of July 2, 2021 of Bank of Italy Circular no. 285 of December 17, 2013, on the corporate governance of banks and banking groups and to take into account aspects linked to the ownership structures of BFF which, in February, became for all intents and purposes a public company, with the resulting need to strengthen shareholder involvement in meeting decisions, as well as facilitate their exercise of their rights, also in order to guarantee a proper governance structure for the Bank.

The business model and the value creation process

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

In addition to the Factoring & Lending services mentioned above, the Group is a leader in Italy in Securities Services and banking payment services, serving more than 400 clients including investment funds, banks, payment and money institutions, large corporations and Public Administrations, following the merger with DEPObank in March 2021.

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

FACTORING & LENDING

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

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

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

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

SECURITIES SERVICES

PAYMENTS

- ▶ **The structural reduction of costs** for the customer thanks to outsourcing services that guarantee constant adaptation to and compliance with the regulatory framework without the financial burden that usually follows.
- ▶ A single interlocutor – "**one stop shop**" – for all back office services for better **cost efficiency and management**.
- ▶ **Rapid, customized solutions** thanks to a superior flexibility and agility in managing customer needs.

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

*Payment Services Providers

The evolution of BFF: leader in Europe

1985-2009

BFF is born

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

2010-2013

Resilient during the crisis, the internationalization process begins

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

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

2014-2020

Transformation into a bank, listing and European leadership

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

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

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

2021

Leader in specialized finance

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

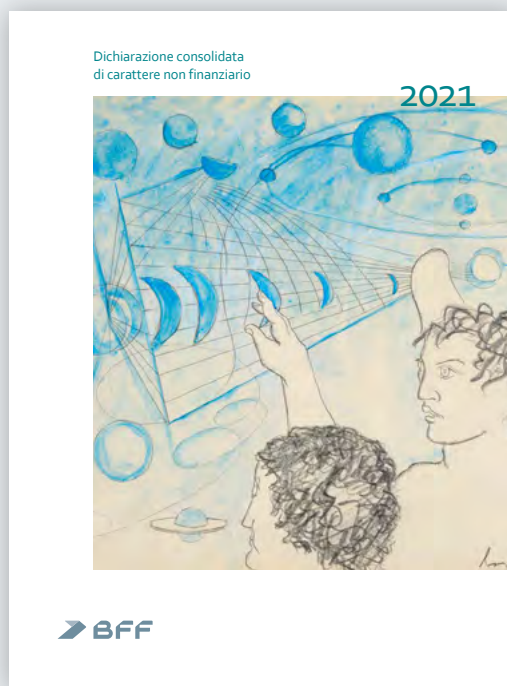
The merger with DEPObank extends the scope of activity and expertise to **Securities Services and banking payment services**.



Sustainability in BFF’s services and the materiality matrix

The business model described on the previous pages is based on core values, such as honesty and transparency, respect for and enhancement of resources, ensuring leadership in innovation and execution in its reference market.

Consolidated Non-Financial Disclosure



In order to provide more comprehensive and transparent disclosure as well as improve its communications with stakeholders, BFF drafted a consolidated Non-Financial Disclosure as early as 2019 on a voluntary and annual basis in compliance with Italian Legislative Decree no. 254/2016.

BFF Banking Group's [Consolidated Non-Financial Disclosure](http://www.bff.com) is separate from this Report on Operations, as per Art. 5, paragraph 3, letter b) of Italian Legislative Decree 254/16, and available, in its third edition, at the website www.bff.com in Italian and English.

Mission

Be the leaders in innovation, customer service and execution in our reference markets, with a low risk profile and high operational efficiency, aligned with the best corporate governance practices for public companies.

Vision

Be a leader in specialty finance niches in Europe, leveraging on our leadership position in financial services to the suppliers of the Public Administrations.

Values

The core values of the Group, which are also set out in the Code of Ethics, can be summarized as follows:

People



We value our people and invest in them, favouring merit and inclusion.

Integrity



We operate with honesty and transparency.

Excellence



We ensure timely execution and completion to our clients.

The Group started a **materiality analysis** process to identify the sustainability issues deemed most relevant to its business.

Material issues are those that (i) can reasonably be considered as important in reflecting the organization's economic, environmental and social impacts, or (ii) affect stakeholders' decisions.

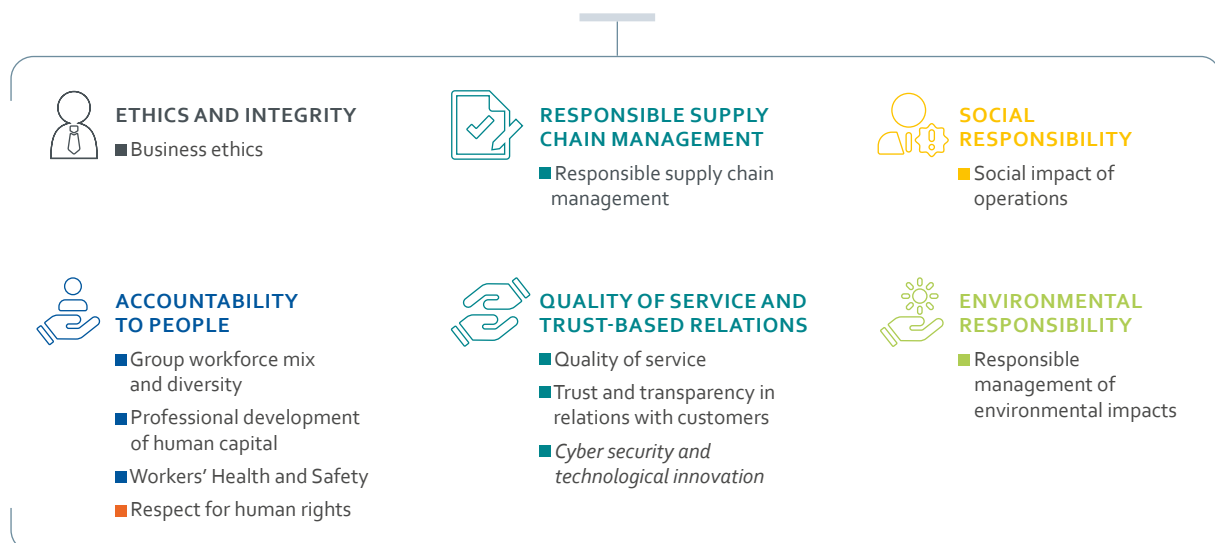
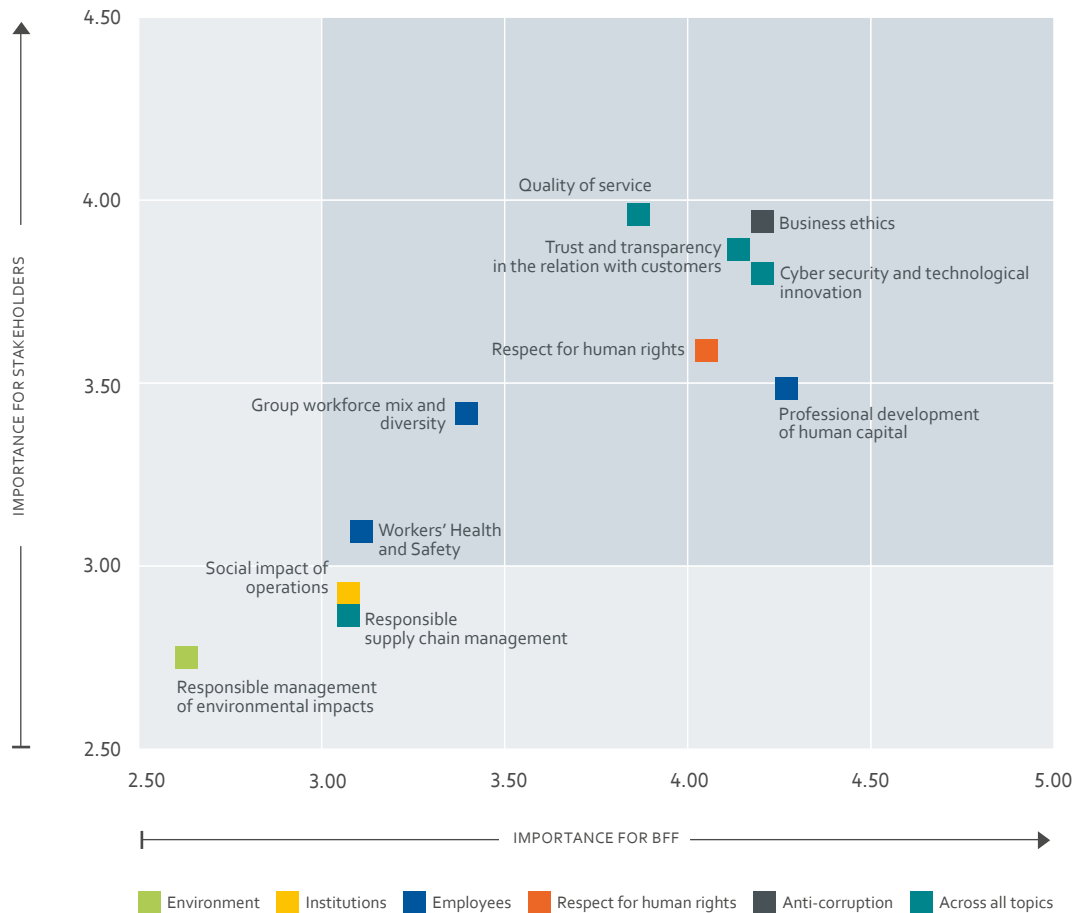
The matrix (shown on the following page), consisting of two Cartesian axes where the x-axis represents the significance of the issue to the Group, and the y-axis represents the significance of the issues to stakeholders, defines relevance in terms of (actual and potential) impacts that each issue involves with respect to the Group's ability to create value over the long term.

The issues shown in the cluster are those deemed material.

The following issues are excluded from the cluster: "Social impact of operations", "Responsible supply chain management" and "Responsible management of environmental impacts". Although not extremely relevant based on the Group's business type, these issues are in any event addressed and duly reported on in the Consolidated Non-Financial Disclosure and are also expressed in the following paragraphs devoted to the environment and corporate culture.

The Consolidated Non-Financial Disclosure was prepared based on the relevance of the issues within the matrix. In particular, at the beginning of each chapter, the subject matter being disclosed is shown, followed by its description.

MATERIALITY MATRIX



Work environment and corporate culture: drivers of innovation and inclusion at BFF

THE WORK ENVIRONMENT

With the progressive return to working in person in the second quarter of 2021, BFF opened its new offices in Madrid, where it had already moved its Spanish headquarters last March 2020, before the COVID-19 pandemic exploded in Europe and throughout the world.

Situated within the Castellana 81 complex, the offices confirm BFF's commitment to **reducing environmental impact and optimizing people's working conditions**. In fact, the building earned **LEED Platinum** certification for the highest levels of sustainability, as well as WELL certification in the Core & Shell category for the quality of the working environment. The facility selected for the headquarters in the Spanish capital guarantees maximum accessibility, as recognized by the maximum five-star rating of the DIDA certification (Distinctive Indicator of the Degree of Accessibility).

In May 2021, the offices of the Slovak headquarters were also relocated, albeit within the same building, which had also been renovated to ensure lower energy consumption.

The process of transferring to low-energy, highly inclusive locations began in 2019 with the new offices in Lodz, Poland, and **looks to the future with Milan**, to take this important step also in the headquarters, with over 500 employees, **in compliance with the highest standards of environmental sustainability**.

Casa BFF

In February 2022, the construction of BFF's new headquarters, which will be built by mid 2024, was announced.

Designed by Architects Paolo Brescia and Tommaso Principi of OBR, Open Building Research, the building will be **LEED Platinum** certified, focused on people and merging integration with the city with a sense of community. It will feature an **Energy Flying Carpet** which, with 2,600 m² of photovoltaic panels, will produce 360 Megawatt hours, **becoming the symbol of BFF's environmental and sustainability values** and generating energy to meet the needs of the building and the surrounding area.

The project's detailed attention to open spaces is also reflected in the presence of an **Agora** accessible to everyone, not only employees: a shared space that will become a **super-urban meeting place**, enhanced by easy access to public transport, new cycling lanes, a pedestrian walkway that will connect two different city neighborhoods and a **museum area** dedicated to the Italian works of contemporary art which the Bank has collected since the 1980s and today are involved in a travelling exhibition in Europe: "ART FACTOR – The Pop Legacy in Post-War Italian Art" (<https://www.art-factor.eu>).

INTERNAL AND EXTERNAL CULTURE

Corporate culture is central to enabling business sustainability and inclusion. The creation of a sustainable service or product, respect for people, the environment and a just transition originate precisely from the internal culture of an organization.

Internal Culture and Training

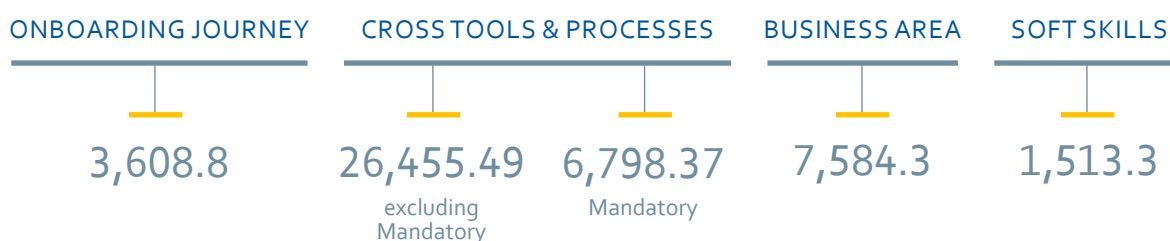
The Human Resources and Organizational Development Function supports employees by providing the resources and tools necessary for proper training.

Specifically, the aims of the training project are to: (i) disseminate and align people with the Group's strategic values and objectives, (ii) increase the knowledge and skills necessary to generate value from production processes, and (iii) strengthen the Group's organizational culture; to which is added the need to provide training, in compliance with business objectives.

To achieve the objectives described above, in 2021 **45,960.2 hours** of instruction were provided, approximately 55 hours per person, throughout the Group. All the Group's training is carried out within the framework of the *BFF Academy*, founded in 2019 and aimed at ensuring the development of skills and training for all BFF employees. The Academy covers four macro-areas, identified as follows:

- ▶ **Onboarding Journey:** to aid with the entry of new employees at BFF;
- ▶ **Cross Tools & Processes:** includes technical courses on BFF systems and processes, and among other things covers the areas of project management and language courses;
- ▶ **Business Area:** includes professional training courses and conferences, specific refresher and professional training;
- ▶ **Soft Skills:** for training aimed at improving relational, professional and managerial skills.

Specifically, the breakdown of BFF Academy training hours by macro-area is shown below, with further details on mandatory training, which is part of the Cross Tool & Processes Area:



Covid-Pulse

In April 2021 BFF launched "*Covid Pulse*", a survey with the aim of learning more about the experiences of its employees over the last year, also in order to try to understand any difficulties that might arise upon returning to work in person, albeit progressively and with all the necessary precautions.

With a **91% participation rate** the survey showed very positive results in terms of the company's ability to respond to the pandemic.

"Overall, I think my organization is doing a good job in responding to the pandemic"



Purpose Survey

In October 2021, BFF launched the Group's second bi-annual survey called **"Purpose Survey"**. With 82% participation, the initiative aims to analyze the behaviors that directly drive the desired company results as well as investigate internal culture as a lever for the success of BFF Banking Group.

The combined results of the **Purpose Survey** and **Covid Pulse** will guide the development of an action plan to be implemented over the next two years, through initiatives intended to make the Group a better place to work and to achieve established strategic objectives.

Cooperation with Universities and Culture Centres

In 2021, BFF continued with its membership in the **Cergas** Network of Associated Companies (Centre for Research on Health and Social Care Management) of the SDA Bocconi School of Management. This membership allows BFF staff to participate in in-depth discussions and debates with key stakeholders in the healthcare sector regarding the changes and challenges of the public and private system, which accounts for an important portion of BFF customers in the Factoring & Lending area. Other collaborations of this nature are carried out through the **Farmafactoring Foundation**. Indeed, the partnerships with **Ca Foscari University of Venice** Foundation and **Censis** Centro Studi Investimenti Sociali have been ongoing for many years now.

Collaboration and contributions of an educational nature are also provided by **Mefop** (Società per lo sviluppo del Mercato dei Fondi pensione), founded in 1999 by the Ministry of Economy and Finance, its majority shareholder, aimed at promoting the development of forms of welfare through training, study, assistance and promotion in matters related to supplementary pensions.

Alongside analysis and economic and financial information, art also plays a central role at BFF, as a constant stimulus to observe reality from new and different perspectives and thus contribute to an increasing willingness to innovate and include.

In this context two initiatives were organized, one at local level in Portugal and the other at an international level. In May an area of the **Gulbenkian Museum in Lisbon** was inaugurated that BFF helped to restore as part of a project launched in 2020, during the pandemic that severely penalized the entire arts sector.

Art and culture are important driving forces for the development of companies and society. Thus was born the project **ART FACTOR – The Pop Legacy in Post-War Italian Art**, which took form first in the publication of the book of the same title in April 2021, and then in a travelling exhibition in Europe. Thanks to this initiative, the Collection – which is on permanent display at BFF's headquarters in Milan – can be enjoyed in the cities the Group operates in, including Bratislava, in January-March 2022, to then continue to Warsaw in the spring of the same year, as well as the following other European cities: Athens, Paris, Madrid and Lisbon.(*)

The Farmafactoring Foundation

BFF's constant interest in scientific research is made possible and regularly inspired by the activity of the **Farmafactoring Foundation**, established in 2004 precisely to ensure the continuity of the projects undertaken by BFF and aimed primarily at analyzing the management models, structures and governance of the Healthcare Systems in Italy and Europe, and in general of the Public Administration.

Also in the course of 2021, BFF contributed to the Foundation's activities with a €520 thousand donation, in line with previous years, as well as additional projects for €75 thousand, for a total of €595 thousand.

Additional details on the activities of the Farmafactoring Foundation during the year are available on the dedicated website (**) and in the 2021 Non-Financial Disclosure.

Governance

BFF has implemented a traditional governance and control model based on two corporate bodies appointed by the Shareholders' Meeting: the **Board of Directors**, as the body entrusted with the strategic supervision of the company, and the **Board of Statutory Auditors**, as the body entrusted with the control function.

BFF's governance model is aligned with the best market practices of public companies, and is consistent with the principles of the Corporate Governance Code of listed companies.

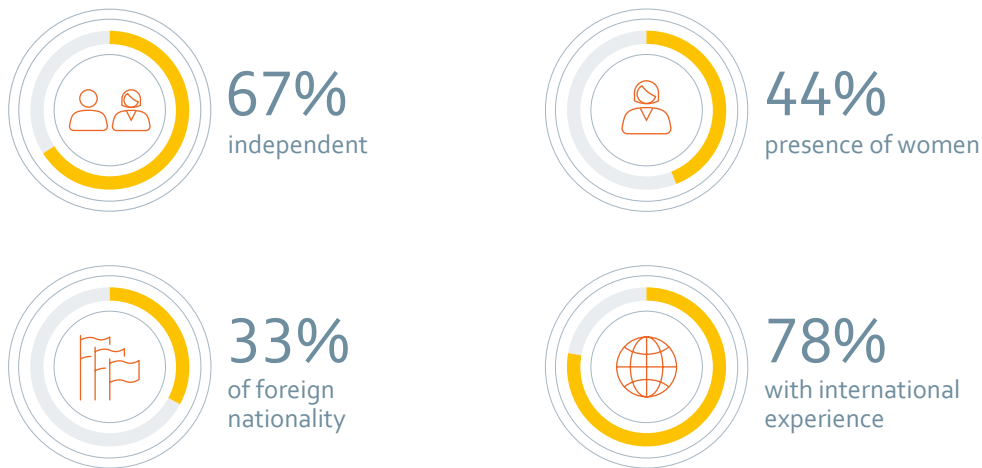
In this regard, in March of this year the Shareholders' Meeting appointed the new Board of Directors, which will remain in office until the approval of the financial statements for the year 2023.

For the first time, the outgoing Board of Directors made use of the option envisaged by Art. 15 of the By-laws to present its own slate of candidates, following a rigorous self-assessment process, carried out with the contribution of the Nominations Committee, after evaluation by a leading independent executive search company, which certified its overall consistency with current regulations and the Guidelines on the qualitative-quantitative composition deemed optimal.

(*) more information available on www.art-factor.eu

(**) www.fondazionefarmafactoring.it

Today, BFF's Board of Directors has this composition in terms of professional experience, gender, international profile and independence:



In 2017 the Board of Directors adopted a succession plan for the Chief Executive Officer. Note that a self-assessment of the Board of Directors is performed on an annual basis. The independent directors meet periodically in order to discuss issues relating to corporate governance.

Indeed, with specific regard to Environment, Social and Governance ("ESG") responsibilities, in 2020 the Board of Directors assigned fact-finding, advisory and proposing functions to the Control and Risks Committee, and more generally tasking it to support the Board of Directors with respect to topics related to sustainability, as well as the periodic review of updates on the progress of actions in this area.

Ethics and integrity

Ethics and integrity are the pillars of BFF's governance. The Group's Code of Ethics, the Code of Conduct and the 231 Model are the elements through which these two areas are supervised, not to mention the Anti-Money Laundering Policy which BFF followed up on with the completion of the Wolfsberg Group Correspondent Bank Due Diligence Questionnaire.

The introduction of an additional whistleblowing channel during the first half of 2021 is also worthy of note, as it will allow BFF employees to submit fully anonymous reports through a portal managed by third parties, available and reachable 24/7/365. The channel is available on the intranet, and specific training will be provided. The other channels, as indicated in the Code of Ethics and 231 Model, will remain active and available to both employees and third parties.

Corporate bodies

BOARD OF DIRECTORS

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Federico Fornari Luswergh
Directors	Anna Kunkl (*) Michaela Aumann Piotr Henryk Stępnik Domenico Gammaldi Monica Magri (**) Giovanna Villa

The Board of Directors was appointed by the Shareholders' Meeting held on March 25, 2021 and its term of office will end on the date of the Meeting convened to approve the Financial Statements at December 31, 2023.

(*) Appointed by co-option by the Board of Directors on March 1, 2022, to replace Ms. Amélie Scaramozzino, who resigned as of February 24, 2022.

(**) Appointed by co-option by the Board of Directors on February 10, 2022, to replace Ms. Barbara Poggiali, who resigned as of February 3, 2022.

BOARD OF STATUTORY AUDITORS

Chairperson	Paola Carrara
Standing Auditors	Fabrizio Riccardo Di Giusto Paolo Carbone
Alternate Auditors	Claudia Mezzabotta Carlo Carrera

The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on March 25, 2021 and its term of office will end on the date of the Meeting convened to approve the Financial Statements at December 31, 2023.

Please note that, on February 18, 2022, Ms. Paola Carrara, Chairwoman of the Board of Statutory Auditors, resigned effective as of the earlier of (i) the date of the Shareholders' Meeting called to approve the Group's financial statements at December 31, 2021 and (ii) March 31, 2022.

INDEPENDENT AUDITORS

KPMG S.p.A.

FINANCIAL REPORTING OFFICER

Claudio Rosi

Committees

REMUNERATION COMMITTEE

NAME	QUALIFICATIONS	POSITION
Giovanna Villa (*)	Independent Director	Chairperson
Domenico Gammaldi (**)	Independent Director	Committee Member
Piotr Henryk Stepniak	Non-Executive Director	Committee Member

(*) Appointed on February 10, 2022, to replace Ms. Barbara Poggiali.

(**) Appointed on March 1, 2022, to replace Ms. Amélie Scaramozzino.

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

NAME	QUALIFICATIONS	POSITION
Giovanna Villa	Independent Director	Chairperson
Domenico Gammaldi (*)	Independent Director	Committee Member
Michaela Aumann	Independent Director	Committee Member

(*) Appointed on March 1, 2022, to replace Ms. Amélie Scaramozzino.

NOMINATIONS COMMITTEE

NAME	QUALIFICATIONS	POSITION
Domenico Gammaldi	Independent Director	Chairperson
Monica Magri (*)	Independent Director	Committee Member
Federico Fornari Luswergh	Non-Executive Director	Committee Member

(*) Appointed on February 10, 2022, to replace Ms. Barbara Poggiali.

CONTROL AND RISKS COMMITTEE

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

BOARD OF DIRECTORS

ROLE OF MEMBERS OF THE BOARD OF DIRECTORS AND INDEPENDENCE REQUIREMENTS

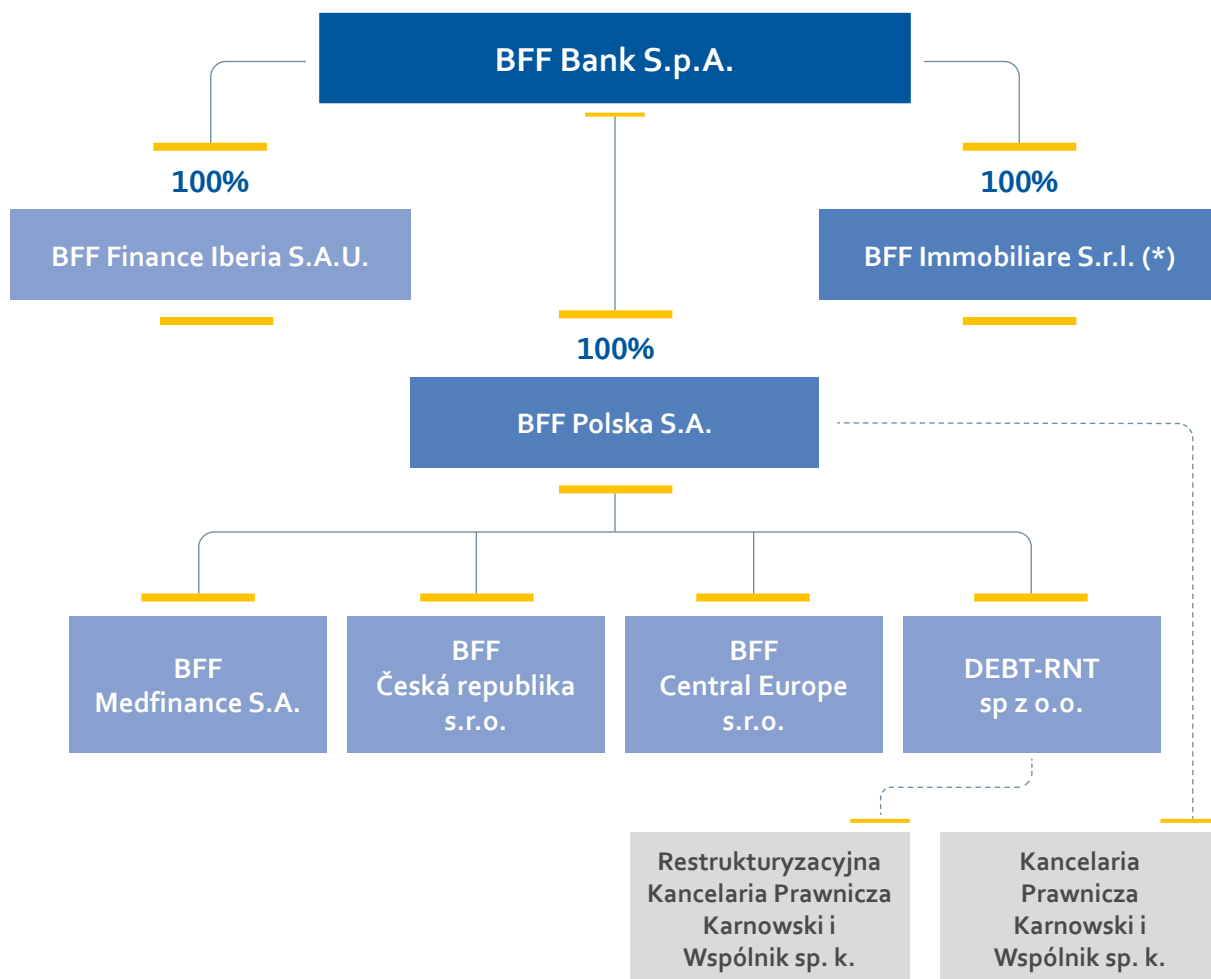
NAME	OFFICE IN BFF	EXECUTIVE	NON- EXECUTIVE	INDEPENDENCE	
				PURSUANT TO THE CONSOLIDATED LAW ON FINANCE	PURSUANT TO THE CORPORATE GOVERNANCE CODE
Salvatore Messina	Chairman		✘		
Federico Fornari Luswergh	Deputy Chairman		✘		
Massimiliano Belingheri	Chief Executive Officer	✘			
Anna Kunkl (*)	Director		✘	✘	✘
Michaela Aumann	Director		✘	✘	✘
Piotr Henryk Stepniak	Director		✘		
Domenico Gammaldi	Director		✘	✘	✘
Monica Magri (**)	Director		✘	✘	✘
Giovanna Villa	Director		✘		

(*) Appointed by co-option by the Board of Directors on March 1, 2022, to replace Ms. Amélie Scaramozzino.

(**) Appointed by co-option by the Board of Directors on February 10, 2022, to replace Ms. Poggiali.

The composition of BFF's Board of Directors meets the diversity and gender criteria recommended by the Corporate Governance Code as set out in the Corporate By-laws the Board of Directors' Regulations and the Board of Directors' Diversity Policy, most recently approved by the Board on July 28, 2021. This Policy defines the ideal characteristics of the composition of the Board of Directors, covering aspects such as age, gender composition, education and professional background, so that the Board of Directors may effectively carry out its duties, making its decisions on the basis of a different, qualified and diverse point of view.

Group Structure



(*) Company incorporated on January 19, 2022. This company was established with a view to finalizing the "Casa BFF" operation, which will involve the development of an office building which will become the new registered office of the BFF Group and will house all of the Bank's personnel present in the city of Milan, who are currently divided between three different buildings.

At December 31, 2021, BFF Group included the Parent Company BFF Bank S.p.A. and the following companies:

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

From March 1, 2021, with the acquisition of DEPObank by BFF, the latter holds a 26.46% stake in Unione Fiduciaria.

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

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

Key:

(1) Type of relationship:

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

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

Shareholder Structure

On February 10, 2021, with markets closed, Scalve S.à r.l. ("Scalve"), a company controlled by Massimiliano Belingheri, CEO of BFF, initiated a reverse accelerated book-building ("RABB") targeted exclusively at institutional investors and aimed at purchasing a maximum of 3.5 million BFF ordinary shares. The completion of the RABB transaction took place the following day, February 11, 2021, with the acquisition by Scalve of 1,938,670 BFF ordinary shares, equal at the time to approximately 1.1% of the Bank's share capital.

On the same date of February 11, 2021, BFF Luxembourg S.à r.l. (*Centerbridge*) ("**BFF Lux**") initiated, and then concluded on February 12, the sale of all remaining shareholdings in BFF (equal to 7.9%):

- (i) through an accelerated bookbuilding (ABB) procedure, targeting certain categories of institutional investors, for 11,806,970 shares (6.9%), and
- (ii) following the exercise of the call option by Massimiliano Belingheri, with physical delivery of 1,756,417 BFF shares (1%), envisaged pursuant to the relevant existing Lock up and Option Agreement.

Following this transaction BFF Lux completed its exit from the capital of BFF, and Massimiliano Belingheri came to hold – both directly and indirectly through persons closely related to him (Scalve and Bray Cross Ltd.) – approximately 10.03 million BFF shares (10.17 million at December 31, 2021 equal to 5.49% of the share capital of BFF).

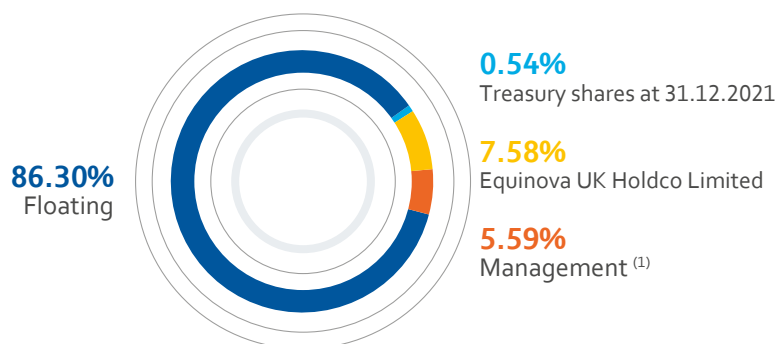
Following the elimination of BFF Lux's shareholding in the Bank in February 2021, the Bank of Italy, via a notice dated February 23, 2021 removed the CRR Group with BFF Lux at the top from the register of banking groups. The BFF Banking Group's CRR group now coincides with the Banking Group.

On March 5, 2021 the Bank issued to Equinova UK HoldCo Limited ("**Equinova**")² 14,043,704 new BFF ordinary shares for the merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. into BFF. The share amounted to 7.604% of the BFF share capital at that date.

As of December 31, 2021, Equinova is the main shareholder of BFF with 7.58% of the share capital; it is followed by BFF management (CEO, the Vice Presidents in office at that date, and their respective closely related persons) with 5.59%. The remaining 86.30% is floating, and includes 0.54% in treasury shares (974,461 at December 31, 2021).

2) Equinova is the holding company of Advent International Corporation, Bain Capital Private Equity Europe LLP and Clessidra SGR S.p.A., which was the main shareholder of DEPObank (as of March 1, 2021 it held a 91.6% stake in the share capital).

TOTAL NUMBER OF SHARES ISSUED AT DECEMBER 31, 2021: 185,312,690



Source: Forms 120A - 120B - 120D and Internal Dealing communications. Percentage is calculated based on the total number of shares issued at 12/31/2021.

(1) As at 12/31/2021 the Chief Executive Officer Massimiliano Belingheri and his Closely Related Persons (Bray Cross Ltd. and Scalve S.à. r.l.) held 10.17 million BFF shares, for a quota equal to 5.49% of the share capital. The remaining quota of the management refers to the BFF shares held by the 4 vice presidents in office at that date and by their respective Closely Related Persons.

The operational context

International Economic Landscape

The year 2021 was characterized, like 2020, by the spread of the SARS-Cov-2 virus, with more than 200 million infections and 3.6 million deaths, bringing the balance since the pandemic began to 288 million people infected and 5.4 million deaths.

However, unlike in the previous year, the implementation of a large-scale vaccination campaign permitted governments to reduce restrictions on production activities - triggering the global drop in GDP of 3.1% in 2020 - thus favoring an economic recovery which, according to the estimates of the main international forecasters, came to 5.9%, stimulated by the expansionary orientation of monetary and fiscal policies.

The **European Union** continued to deal with the impacts of the pandemic, with over 41 million cases of contagion in 2021 and more than half a million deaths, bringing the count since the beginning of 2020 to over 56 million people infected and 906 thousand deaths. The continuation of the vaccination campaign made it possible to limit deaths and pressures on hospitals, thus avoiding new, extended lockdowns.

THE MAIN MACROECONOMIC INDICATORS OF THE EUROPEAN UNION

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	1.8%	-6.4%	5.5%	4.1%
Inflation rate (annual change)	1.5%	0.6%	2.7%*	3.8%
Unemployment rate	6.6%	7.2%	7.1%*	6.5%
Balance of payments (% of GDP)	2.1%	1.9%	2.3%	2.1%
Public Budget Balance (% of GDP)	-0.8%	-7.9%	-6.6%	-3.7%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

Starting from spring 2021, the Eurozone exited the recession phase that began in the first quarter of 2020, with estimated **GDP** growth of 5.5% in 2021, after a 6.4% decline in the previous year.

The strong support provided by both monetary policy and fiscal policy and, at economic level, the clear improvement in the confidence of households and businesses, laid the foundations for a continuation of the recovery in 2022, with a consensus estimate of 4.1% GDP growth.

Inflation surged in the course of the year, rising to 5.3% in December (from 0.3% twelve months prior), driven by a sharp rise in commodity prices, with the core figure (which excludes the volatile components of food, energy, alcohol and tobacco) increasing from 0.8% to 2.9%.

Price trends were impacted by a faster recovery in demand than in supply (this explains, for example, the lack of chips in the automotive industry) and slowdowns in procurement from Asia, caused by the spread of COVID-19 in ports, with the dual negative effect of reducing supplies and increasing shipping costs. While inflation was 2.7% in 2021 (from 0.6% in the previous year), for 2022 analysts expect it to reach an average of 3.8%.

In this scenario, **monetary policy** remained highly expansionary, with the ECB maintaining reference rates stable at all-time lows and continuing to inject liquidity into the system through the *Pandemic Emergency Purchase Programme* (the “PEPP”), which will continue until the end of March 2022.

Despite the Central Bank’s accommodating stance, the economic recovery and higher inflation drove up long-term rates on the 10-year Bund and BTP, to 39 and 63 basis points, respectively; furthermore, operators have revised slightly upward their expectations on the evolution of interest rates (forward rates on the three-month Euribor with maturity at the end of 2022 rose during the year by 21 basis points to -0.32%), penalizing short-term securities. Overall, the Italian bond market lost 2.15% during the year (based on the general MTS index).

Despite the negative trends in the European and Italian government bond markets, the BFF securities portfolio - nearly entirely included in a Held to Collect (HTC) business model - performed positively during 2021 thanks to its short-term duration and the decision to privilege variable rate securities over fixed rate.

To stimulate the recovery of the economy, the European Union has strengthened the 2021-2027 multi-year budget by launching the **Next Generation EU** (NGEU) plan, which provides for investments and reforms to accelerate the climate transition and digital transformation from 2021 until 2026. NGEU is divided into 7 programs for a total amount of €806.9 billion, the main one being the Recovery and Resilience Facility (RRF) worth €723.8 billion, divided into 338.0 billion in grants and 385.8 billion in loans. In addition to the RRF, there is the €50.6 billion from *ReactEU* and €32.5 billion from *Horizon Europe*, *InvestEU*, *Rural Development*, *Just Transition Fund* and *RescEU*. The distribution of the RRF among the various countries depends on the trend of economic growth, so that the countries that grow less will receive a greater share of the program.

The countries that BFF operates in will have access to €234 billion (in real terms) in grants, equivalent to 75% of the total, compared to 47.4% of the total European Union GDP. In June 2022, 30% of this breakdown will be revised on the basis of actual GDP growth data for 2020 and 2021.

THE GRANTS OF THE RECOVERY AND RESILIENCE FACILITY IN THE COUNTRIES THAT BFF OPERATES IN

Countries	Maximum grant in nominal terms (billion euros, current prices)	Weight of total planned grants
European Union (27 countries)	338.0	100.0%
Italy	68.9	20.4%
France	39.4	11.6%
Spain	69.5	20.5%
Poland	23.9	7.1%
Czech Republic	7.1	2.1%
Portugal	13.9	4.1%
Greece	17.8	5.3%
Slovakia	6.3	1.9%
Croatia	6.3	1.9%
Total for countries that BFF Bank operates in	253.1	74.9%

Source: Eurostat.

The European Commission's estimate on growth in **public expenditure**, following the significant emergency measures that were made necessary to deal with the pandemic, was 5.5% (equal to €7.509 billion), after the increase of 9.2% in 2020. However, as a result of the higher growth in nominal GDP, the incidence of public expenditure on GDP declined from 53.1% to 52.4%, a level which moreover remains considerably higher than 46.5% in 2019.

In the countries where BFF is present, the increase was consistent: +9.8% in Slovakia, +7.1% in the Czech Republic, +5.6% in Italy; while the change was more limited in Poland (+1.5%) where, moreover, due to the relatively low ratio between public expenditure and GDP (45.1% in 2021), a significant increase is expected in 2022 (+5.2%).

THE TREND OF PUBLIC EXPENDITURES IN THE COUNTRIES WHERE BFF IS PRESENT

Countries	2019 Public Expenditure (billion euros)	2019 Public Expenditure (% of GDP)	2020 Public Expenditure (billion euros)	2020 Public Expenditure (% of GDP)	Chg 2020/2019	2021 Public Expenditure (billion euros)	2021 Public Expenditure (% of GDP)	Chg 2021/2020	2022 Public Expenditure (billion euros)	2022 Public Expenditure (% of GDP)	Chg 2022/2021
European Union (27 countries)	6,520	46.5	7118	53.1	9.2%	7,509	52.4	5.5%	7,440	48.8	-0.9%
France	1,349	55.4	1420	61.6	5.2%	1,486	60.1	4.7%	1,467	56.4	-1.3%
Italy	871	48.5	944	57.1	8.4%	997	56.2	5.6%	990	52.7	-0.8%
Spain	524	42.1	588	52.4	12.3%	606	50.9	3.1%	602	47.2	-0.7%
Poland	223	41.8	255	48.7	14.3%	259	45.1	1.5%	272	42.9	5.2%
Czech Republic	93	41.1	102	47.2	9.7%	109	47.3	7.1%	110	44.5	1.1%
Portugal	91	42.5	99	49.3	8.5%	104	49.1	5.1%	105	46.6	1.6%
Greece	88	47.9	99	59.8	12.7%	102	57.9	3.6%	95	50.8	-6.9%
Slovakia	38	40.7	42	45.6	9.7%	46	47.6	9.8%	47	43.9	1.4%
Croatia	26	46.0	27	54.5	7.0%	28	51.2	3.8%	30	49.7	4.5%

Source: BFF calculations based on European Economic Forecast, Autumn 2021 and Eurostat data.

Public expenditure on goods and services (defined as the sum of intermediate consumption and social services in nature acquired in the market³) represented 11.8% of the European Union's GDP, of which 6.1% in intermediate consumption and 5.6% in social benefits in kind acquired in the market.

In the countries in which BFF operates, the weight on GDP was more limited, exceeding 10% only in France (11.7%) and Croatia (10.9%).

3) Intermediate consumption is all goods and services destined to be transformed into production processes for the direct provision of health and welfare services and the provision of welfare and social security benefits in cash. The social benefits in kind acquired in the market regard goods and services produced by parties that are not part of Public Administrations and made available directly to households; spending on those goods and services regards the Healthcare (expense for pharmaceutical assistance and for healthcare services provided under agreement) and Social Protection functions for the acquisition of welfare services.

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

Countries	2020 Intermediate Consumption (billion euros)	2020 Intermediate Consumption (% of GDP)	Chg 2020/2019	2020 Social Benefits in Kind (billion euros)	2020 Social Benefits in Kind (% of GDP)	Chg 2020/2019	2020 Public Expenditure for Goods and Services (billion euros)	2020 Public Expenditure for Goods and Services (% of GDP)	Chg 2020/2019
European Union (27 countries)	823.1	6.1	5.7%	752.4	5.6	2.5%	1575.5	11.8	4.1%
France	123.0	5.3	2.2%	145.9	6.3	1.8%	268.9	11.7	2.0%
Italy	104.2	6.3	2.9%	46.7	2.8	2.2%	150.9	9.1	2.7%
Spain	65.9	5.9	2.8%	33.6	3.0	2.7%	99.5	8.9	2.8%
Poland	30.6	5.8	1.0%	10.1	1.9	3.0%	40.7	7.8	1.5%
Czech Republic	13.1	6.1	-1.0%	7.4	3.4	7.3%	20.5	9.5	1.9%
Portugal	11.3	5.7	2.6%	4.2	2.1	1.2%	15.5	7.8	2.2%
Greece	8.8	5.3	1.3%	5.1	3.1	4.4%	14.0	8.4	2.4%
Slovakia	5.5	6.0	7.1%	3.0	3.3	-2.1%	8.6	9.3	3.7%
Croatia	4.2	8.4	-5.8%	1.3	2.5	3.8%	5.5	10.9	-3.8%

Source: BFF calculations based on Eurostat data.

THE FACTORING MARKET IN EUROPE

Across nearly all **European** countries, the increase in factoring exceeded the change in the country's GDP, with the exception of Spain, Portugal and Norway, in which GDP had an annual increase surpassing factoring turnover. Despite the pandemic, synergies between factors and high-profile companies have allowed support for production chains: the turnover generated by Supply Chain Finance in 2021 amounted to over €18 billion, up 10.7% on the previous year.

The trend of 2020 also continued through the beginning of 2021, with a progressive improvement starting in the spring, which translated into positive growth in the factoring market starting in April that continued incrementally in 2021 as well.

In the **EU**, overall factoring market turnover marked growth of 12% (H1 2021 vs H1 2020). If we look at the absolute value of turnover in the countries where the BFF Group has a presence, the highest increases were seen in France (+€21 billion) and in Italy (+€13 billion).

As regards the **markets of the countries in which the BFF Group operates**, the DSO trend decreased by 19% compared to 2020, provoking a reduction in the amount outstanding. The market was also influenced by the high degree of liquidity injected and inflation growth (+2.36% compared to 2020).

The average payment gap in Europe (the number of days between established payment terms and actual payment) declined over the last year⁴.

Intermediate consumption (excluding Italy) is expected to reach €269 billion (+1% compared to 2021), while total public investments in the countries in which BFF operates will rise to €180 billion (+3.5% compared to 2021). In terms of absolute value of the investment, the countries with the greatest increase are France (+1.5% vs 2021) and Portugal (+22.2% vs 2021).

The volumes generated by factoring in 2021 see their highest contribution in Italy (with 52% of the total), followed by Spain (28%).

Lastly, looking at *Credit Management* in Europe, in the course of 2021 BFF managed roughly €4.1 billion in receivables, the majority of which in Italy (85% of volumes managed), Spain (12%) and, on a residual basis, Portugal (3%).

The following is a summary representation of the economic context in the individual countries that BFF operates in to provide a better understanding of the dynamics of the business, then further discussed in the next chapter relating to the performance of operations in 2021.

Italy

THE MAIN MACROECONOMIC INDICATORS OF ITALY

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	0.4%	-8.9%	6.3%	4.2%
Inflation rate (annual change)	0.7%	-0.2%	2.0%*	3.7%
Unemployment rate	9.9%	9.3%	9.5%*	9.0%
Balance of payments (% of GDP)	3.2%	3.2%	3.4%	3.0%
Public Budget Balance (% of GDP)	-1.5%	-9.6%	-9.4%	-5.5%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

In Italy, in 2021 nearly 4 million people were infected by the new Coronavirus (for a total of more than 6 million since the start of 2020); deaths amounted to 63 thousand (for a total of more than 137 thousand victims over the two-year period).

The intensification of the vaccination campaign over the course of the year, with 82% of Italians receiving at least one dose, however made it possible to relax restrictions on production activities, allowing for an economic recovery.

4) Assifact - quarterly data in September 2021

Economic growth was supported by consumption and investments, which benefitted from the newfound optimism of households and businesses as well as exports, which were supported by the recovery of our commercial partners and a weaker euro.

The significant fiscal and monetary stimulus measures, along with the drive toward consumption due to the high level of savings accumulated by households during the pandemic, underlie the sustained recovery that took place in 2021 - on average estimated by analysts at 6.3% - and the growth of 3.8% forecast for 2022 (on the basis of Bank of Italy findings in economic bulletin no. 1 of 2022, and lowered compared to the previous 4.2% estimated by Consensus), after 2020 marked the heaviest decline (-8.9%) since World War II.

In December, **inflation** rose to 3.9% (from -0.2% at the end of 2020), driven up by energy prices. The increase in the core figure (net of the more volatile components of food, energy, alcohol and tobacco) was much more limited, from 0.4% to 1.5%. According to Consensus estimates, in 2022 inflation should reach 3.7%, from 2.0% in 2021, before lowering in the next year to 1.4%.

The speed of the recovery will also depend on the success of the **National Recovery and Resilience Plan (NRRP)**, the massive fiscal plan of €235.6 billion (equal to 14.3% of GDP), which includes 205.0 billion from *Next Generation EU* and 30.6 billion from a complementary national fund.

NGEU in turn is broken down into €191.5 billion from the *Recovery and Resilience Facility (RRF)* of which €122.6 billion in loans and €68.9 billion in grants - and €13.5 billion in grants from the *Recovery Assistance for Cohesion and the Territories of Europe (React EU)*. The resources will need to be used in the 2021-2026 period.

The growth stimulus deriving from measures financed with European funds and the national budget will be significant and, according to the Bank of Italy, amount to a cumulative 5% in the 2021-2024 period, of which just under half attributable to the NRRP.

The Plan, which will be financed by grants (€82.4 billion) and debt (€153.2 billion), is broken down into three strategic axes: digitalization and innovation, ecological transition and social inclusion, and includes three transversal priorities: gender quality, youth and overcoming regional gaps.

The interventions set forth in the NRRP are broken down into:

- 1) digitalization, innovation, competitiveness, culture and tourism (to which €49.9 billion is allocated);
- 2) green revolution and ecological transition (€69.9 billion);
- 3) health (€20.2 billion).

The implementation of the NRRP will be coordinated and controlled by the Ministry of Economy and Finance, while the execution of the individual projects will be under the responsibility of the (central or local) administrations concerned.

THE TAX PLANS TO SUPPORT THE ITALIAN ECONOMY

	billion euros	billion euros	% of GDP*	% of GDP*
Recovery and Resilience Facility (RRF)	191.5		11.6%	
<i>of which: - loans</i>		122.6		7.4%
<i>- grants</i>		68.9		4.2%
React EU, grant	13.5		0.8%	
Next Generation EU (NGEU)	205.0		12.4%	
Supplementary national fund, loan	30.6		1.9%	
National Recovery and Resilience Plan (NRRP)	235.6		14.3%	
<i>of which: - loans</i>		153.2		9.3%
<i>- grants</i>		82.4		5.0%

(*) GDP 2020.

To deal with the health emergency and the recession caused by the pandemic, the governments in office over the last two years intervened with a series of measures that increased **public spending**, which in 2021 reached €997 billion (with an increase of 5.6% compared with the previous year), equal to 56.2% of GDP. This contributed towards increasing the public deficit to a significant extent, which reached 10% of GDP in both of the last two years.

On the basis of the DEF Update Note (NADEF), net debt in 2022 should decline to 5.6% of GDP (from 9.4% in 2021), thanks to the improvement in the primary balance (from 6.0% to 2.7% of GDP) generated, on one hand, by the increased revenues deriving from the economic recovery and, on the other, by the limitation of public expenditure, which should reduce not only as a percentage of GDP (to 52.7%, coming closer to the pre-pandemic value of 48.5% in 2019), but also in nominal terms (of €7 billion, 0.8% less than this year).

After peaking at 155.6% in 2020, public debt should have started a path of gradually lowering, with the preliminary data from 2021 at a value lower than that indicated in the NADEF, at around 150% of GDP.

THE KEY NUMBERS OF ITALIAN PUBLIC FINANCE

		2019	2020	2021	2022	2023	2024
Net Indebtedness	- NADEF Sept. 21/ PBD Oct. 21	-1.5	-9.6	-9.4	-5.6	-3.9	-3.3
	- September 2021 trend	-1.5	-9.6	-9.4	-4.4	-2.4	-2.1
	- EFD April 2021	-1.6	-9.5	-11.8	-5.9	-4.3	-3.4
Net Structural Indebtedness	- NADEF Sept. 21/ PBD Oct. 21	-1.8	-4.7	-7.6	-5.4	-4.4	-3.8
	- September 2021 trend	-1.8	-4.8	-7.6	-4.2	-2.8	-2.6
	- EFD April 2021	-1.7	-4.7	-9.3	-5.4	-4.4	-3.8
Primary Surplus	- EFDUN Sept. 21/ PBD Oct. 21	1.8	-6.1	-6.0	-2.7	-1.2	-0.8
	- September 2021 trend	1.8	-6.1	-6.0	-1.5	0.3	0.4
	- EFD April 2021	1.8	-6.0	-8.5	-3.0	-1.5	-0.8
Public Deficit	- EFDUN Sept. 21/ PBD Oct. 21	134.3	155.6	153.5	149.4	147.6	146.1
	- September 2021 trend	134.3	155.6	153.5	148.8	145.9	143.3
	- EFD April 2021	134.6	155.8	159.8	156.3	155.0	152.7

Source: MEF.

Data as a percentage of GDP.

Considering that the level of public expenditure for goods and services in Italy is equal to 9.1% of GDP, the level of intermediate consumption (equal to 6.3%) is aligned with the weight that it has in the rest of the European Union, while the figure relating to social benefits in kind, of 2.8%, is equal to half of the weight that they have in other EU countries (5.6%). According to EFDUN estimates, this level is expected to have remained stable at 9.1% of GDP in 2021.

With reference to healthcare spending, which rose by 4.8% over the last two years (from €123,474 billion in 2020 to €129,449 billion in 2021) due to the actions required to deal with the pandemic emergency, after reaching 7.5% of GDP in 2020, it is estimated to have declined slightly in 2021 to 7.3% of GDP.

As of 2022 and over the next two-year period, annual healthcare spending should fall further, with an average of -2.3% per year. The relative impact on GDP will decline, with around €3.7 billion less spending in 2022 and €2.2 billion less in 2023.

Spending on pensions rose by 2.2% in 2021, due to the number of new pension payments, increases due to inflation and the recalculation of those already outstanding. Over the next three years, this spending will rise by 2.8% on average, a rate lower than that expected by the EFDUN for nominal GDP.

The expectations for local bodies takes into account the provisions of article 1, paragraphs 859 et seq. of Italian Law no. 145 of December 30, 2018 guaranteeing compliance with the payment times envisaged by the European Directive for public administration commercial debts, and the elimination of the stock of previous debts that impose limitations on the spending capacity of defaulting institutions.

THE FACTORING MARKET IN ITALY

In December 2021, the data of the Italian factoring market showed the first signs of recovery in terms of volumes: turnover settled at €250.63 billion (of which 198 billion for non-recourse factoring) and the amount outstanding at €65.5 billion (of which 48.7 billion for non-recourse factoring).

In 2020, turnover was equal to €228 billion (with €181 billion for non-recourse factoring), with an outstanding of €62 billion (of which €46 billion related to non-recourse). In 2019, turnover amounted to €255 billion (of which €199 billion for non-recourse), with an outstanding amount of €66 billion (€48 billion for non-recourse).

In December 2021, Italian factoring turnover rose by 10.01 compared to the same month of the previous year, highlighting a recovery aligned with the general economic recovery. In the second half of the year, the market consolidated the strong second quarter rebound, with the monthly turnover recording an acceleration in the final months of the year.

Turnover from supply chain finance transactions came to €24.2 billion, up by 22.15% compared to December of the previous year.

In the second half of 2021, international factoring turnover recorded slightly lower performance than domestic factoring, with a composition strongly oriented towards exports, which account for in excess of 90% of this item.

Analyzing the composition of receivables in December 2021, it can be observed that purchases of trade receivables from the Public Administration remained stable at nearly €27.7 billion in 2021; while outstanding receivables from public bodies were €8.6 billion, down compared to the end of 2020, highlighting an improvement in payment times, which however focuses on the non-overdue component, while overdue receivables accumulate further delays. At December 31, 2021, overdue receivables amounted to €3.4 billion, of which 2.4 overdue by more than one year.

In Italy, BFF achieved volumes equal to €3.7 billion in its **credit management service**. Therefore, 2021 closed positively with respect to 2.8 billion in 2020. This difference is explained by the decrease in DSO levels (expected to grow at the end of 2020 over 2021, which instead decreased by 30% during the year) and the liquidity injected into the market, which resulted in more rapid collection timing.

Within **non-recourse factoring**, there was a sharp decline in the outstanding amount due to lower acquisitions recorded during the year and, as also recognized for management, the lower DSO. Receivables outstanding, totalling €2.001 million, fell by 7% compared to 2020, and by 17% if BFF is compared within the market of competitors. The joint effect of the contraction in volumes acquired, the decrease in DSO levels and the faster recovery of receivables, also negatively impacted performance on the recovery of late payment interest.

The overall average DSO recorded by the factoring industry in December 2021 is 114 days, with average trade receivable payment timing reducing by 49 days compared to the end of 2020, in fact absorbing the negative impact recorded during the previous year caused by pandemic containment measures.⁵

5) Assifact – figures at December 31, 2021

THE ITALIAN SECURITIES SERVICES MARKET

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

The performance of the Group's **Fund Services and Global Custody** businesses, which are highly correlated with each other, was influenced by the growth trend in assets under management in Italy, which saw positive performance in 2021, with assets growing by 8.0% compared to the end of 2020, amounting to €2,583 billion. The increase was achieved partly as a result of the appreciation of the markets and partly thanks to the increase in net inflows, amounting to approximately €92 billion.

Looking at the figures in more detail, there was growth for various types of asset management, with particularly positive performance for collective management (open-end funds and closed-end funds) and for retail asset management. Specifically, the open-end funds collected in net terms €64.8 billion – for a net worth rising to €1,263 billion – although the increase is mainly attributable to foreign funds. With regard to funds under Italian law, net funding came to €5.8 billion in 2021, while growth in assets under management increased by 7.1%, to €259 billion.

Following the issuance of the "Relaunch Italy Decree" there continues to be an interest in establishing alternative Pir AIFs alongside traditional Pirs. There is also a particularly dynamic market within standard AIF funds (real estate, private equity and loans), which has seen BFF among the main beneficiaries of the numerous new initiatives launched during 2021, with the acquisition of several mandates to play the role of Custodian.

Within Social Security Institutions, the growth of assets followed the positive trend of UCITS funds. BFF confirms its activities as **Custodian of Pension Funds**, the leading operator in Italy with a market share of approximately 38.7%.

Finally, 2021 saw a high impact of "regulatory" projects on daily operations, for example T2-T2S Consolidation, ECMS, CSDR, SHRD II, Spanish FTT, which on the one hand represent an opportunity to strengthen the role of correspondent bank and partner in the market in the field of Global Custody, and on the other hand allow proposing new products and services that can contribute to a further increase in BFF's revenues.

THE PAYMENT MARKET IN ITALY

As the leading independent operator in Italy in the field of processing services dedicated to PSPs (Payment Service Providers: Banks, IMELs, Payment Institutions) and in structured collection and payment services for companies and the Public Administration, BFF should benefit from a growing payments market thanks to the recovery in consumption and measures to support the economy. Specifically, for BFF the recovery is already visible in the area of interbank processing services and in the collection and corporate payments sector.

The recovery is still in a transition phase for all payment instruments that operate in a "face-to-face" logic (e.g. payments with cards, cheques, etc.) and which were impacted by the economic slowdown attributable to the COVID emergency. Restrictions due to the COVID-19 pandemic have therefore led to an acceleration in the use of digital payments, although Italy is still well below the European average.

The consequences of the pandemic, together with the impact of the "Cashless Italy" government plan, have accelerated the process of digitising payments, with prospects for improvement in the coming years.

In this scenario, PSPs – BFF’s target customers – will necessarily have to plan significant investments to innovate and transform products and processes related to Payment Systems, while maintaining the traditional instruments used by private individuals and companies.

In the domestic field, the process of aggregation between banks continues. The evolution and digitalization of the European Payment System have been the focus of attention of the European Commission and the European Central Bank (ECB), which are committed to defining strategic guidelines for the coming years.

The cheques and bills sector paid the highest price of both a downward trend in the system and the effect of the increase in digital payments, with a downturn at segment level of 28%.

Croatia

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

THE MAIN MACROECONOMIC INDICATORS OF CROATIA

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	3.5%	-7.8%	10.0%	4.4%
Inflation rate (annual change)	0.8%	0.1%	2.6%*	3.3%
Unemployment rate	7.8%	9.0%	8.1%*	7.0%
Balance of payments (% of GDP)	2.8%	-1.8%	1.0%	0.8%
Public Budget Balance (% of GDP)	1.8%	-8.0%	-4.1%	-2.9%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

The recovery in the Croatian economy, which began in the second half of 2020, continued decisively at the start of the year, although it did suffer from a slowdown starting in the spring, due to the resurgence of the pandemic and increasing inflation. Household confidence suffered from a negative impact, while business confidence remained high. Lively service sector and export trends are expected to have made it possible to close 2021 with sustained GDP growth. On average, analysts estimate that GDP grew by 10.0% in the year that just ended (from -7.8% in 2020) and that it may grow by 4.4% in 2022.

Inflation has risen sharply, reaching 5.5% in December (from -0.7% twelve months prior), driven upwards by higher energy prices. On an average yearly basis, the Consensus expects inflation to reach 3.3% in 2022, from 2.6% in 2021.

The high public deficit generated in 2020 as a result of the severe recession caused by the pandemic (equal to 8.0% of GDP, after 2019 closed with a budget surplus of 1.8%) should progressively disappear, with analysts estimating it to decrease to 4.1% on average in 2021 and 2.9% in 2022.

Croatia is the country with the lowest public spending in the countries where BFF operates, amounting to €28 billion in 2021, which in 2022 should rise by 4.5% to €30 billion, although with a lower incidence on GDP, from 51.2% to 49.7%.

The third wave of COVID-19 that began in February limited normal operations. The debt of the National Health System has again reached critical levels. Therefore the local government has implemented actions aimed at achieving an initial reduction of the debt of €130 million, which concluded in August, assigning an additional €386 million to regular payments. The DSO is 282 days (-58 compared to 2020)⁶.

The funds were transferred from spending planned for 2022, so stakeholders expect issues in the future, as there is no clear action plan for the announced Health System reform.

France

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

THE MAIN MACROECONOMIC INDICATORS OF FRANCE

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	1.8%	-7.9%	6.8%	4.0%
Inflation rate (annual change)	1.3%	0.5%	2.1%*	2.6%
Unemployment rate	8.4%	8.0%	7.9%*	7.7%
Balance of payments (% of GDP)	-0.3%	-2.2%	-1.2%	-1.4%
Public Budget Balance (% of GDP)	-3.1%	-9.1%	-8.2%	-5.0%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

In France, the recovery strengthened progressively throughout 2021, benefitting from the intensification of the vaccination campaign after the slow start early in the year. Households and service businesses gradually regained confidence, while manufacturing companies reduced their optimism in the final months of the year, due to concerns surrounding supply gaps linked to port congestion in Asia. The improved health situation and the resulting reduction of limitations on activity, along with the drive towards consumption provided by the considerable savings accumulated during the pandemic, should allow for a consolidation of growth.

According to Consensus estimates, GDP is expected to have grown by 6.8% in 2021 (from -7.9% in 2020) and to rise by 4.0% in 2022.

Consumer inflation, driven by the uptick in producer prices, rose in December by 2.8% (from 0.0% 12 months prior), with the core figure reaching 2.1% (from -0.2%). In light of a persistently high unemployment rate (which analysts estimate on average to be 7.9% this year and 7.7% in 2022), wage demands will be contained, limiting the pressure on inflation, which Consensus expects to reach 2.6% in 2022, from 2.1% in 2021.

6) Source: Intrum European Payment Report 2021.

Fiscal policy in 2021 supported the recovery, leaving the public deficit at high levels (at 8.2% of GDP, from 9.1% in 2020). A more decisive deficit reduction path will likely be taken starting in 2022 (expected to decrease to 5.0% of GDP), with the aim of reversing the direction of public debt, which in 2021 the OECD estimates has reached 115.1% of GDP.

France's total public spending remains the highest in Europe, with €1,486 billion in 2021, equal to 60.1% of GDP and up by 4.7% from the previous year. In 2022, the incidence on GDP is expected to reduce to 56.4% through a €19 billion reduction (-1.3%), which would bring it closer to pre-pandemic values.

To combat the crisis, since 2020 the French government has offered companies a state-guaranteed loan (PGE), making available a total amount of €300 billion, and allowing more than 700 thousand companies to benefit from this instrument. So far, €134 billion has been distributed locally by French banks. In addition to this, the *séjour de la santé* launched in 2020 initially envisaged providing the National Health System with a liquidity injection of €150 million, but the French Prime Minister later announced an increase in this budget to €650 million in 2021.

Observing the factoring market, an analysis of volumes shows that in France the use of factoring services rose by around 8% between 2018 and 2019, while the GDP value remained unchanged. This dynamic can be attributed in part to the increase in liquidity in the market resulting from the initiatives described above, and is in line with the dynamics and business needs that BFF has witnessed in its local counterparties.

The DSO is 107 days, marking a slightly negative difference (6 days total) compared to 2020⁷.

Greece

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

THE MAIN MACROECONOMIC INDICATORS OF GREECE

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	1.8%	-8.8%	8.0%	4.0%
Inflation rate (annual change)	0.5%	-1.3%	0.6%*	2.4%
Unemployment rate	17.3%	16.4%	14.8%*	13.4%
Balance of payments (% of GDP)	-1.5%	-7.4%	-3.6%	-4.1%
Public Budget Balance (% of GDP)	1.1%	-10.1%	-9.5%	-4.1%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

7) Source: Intrum European Payment Report 2021.

In Greece, the economic recovery was robust after the heavy recession of 2020. Thanks to the progress made in the vaccination campaign and the reduction in restrictions on activities, business and household confidence rose to their highest levels. According to Consensus estimates, GDP is expected to have risen by 8% in 2021 and should reach growth of 4.0% in 2022. In the coming years investment support from the substantial EU-funded recovery and resilience plan will be crucial to stimulating growth. Indeed, Greece is the greatest beneficiary of RRF funds as a percentage of GDP, with 16.3%, equal to €30.5 billion.

In December, inflation rose to 5.1% from the particularly low level of -2.3% reached at the end of 2020 in the wake of higher energy prices. The figure net of more volatile components returned to positive territory, at 1.1% from -2.5% at the end of 2020. On average analysts estimate inflation at 2.4% for 2022 (from 0.6% in 2021) in the presence of a high unemployment rate (estimated at 13.4% in 2022), the reduction of which will take precedence over wage demands. The public deficit – which rose to 10.1% of GDP in 2020 from a budget surplus situation in 2019 (1.1% of GDP) – is expected to have decreased to 9.5% in the year that just ended and should decline to a more decisive extent to 3.5% in 2022 given the need to reduce the high public debt (which the OECD estimates at 192.0% of GDP in 2021, from the peak of 206.3% reached last year). To achieve this objective, public expenditure - which in 2021 reached €102 billion and rose by 3.6% compared to the previous year - this year should have reduced by 7 billion (-6.9%), which will lower the incidence on GDP from 57.9% to 50.8%.

The third wave of COVID-19 resulted in a national lockdown from March 2021 to May 2021. Authorities then lifted the restrictions and re-opened their borders to tourism on May 14, with a number of requirements for overseas visitors.

The government enacted a package of fiscal measures for a total in 2020 of roughly 13.7% of GDP (€23.5 billion), including guarantees on loans financed with national and EU resources. The government extended selected support measures in parallel with the imposition of new restrictions on movement in November 2020 and March 2021, increasing the cost of the fiscal measures to roughly 8.5% of GDP in 2021.

On August 9, the European Commission disbursed €4 billion in prefinancing to Greece, equal to 13% of the country's subsidy and the assignment of loans within the scope of the RRF. The country should receive €30.5 billion in total over the term of its plan (€17.8 billion in grants and €12.7 billion in loans). In Greece, the RRF will finance investments and reforms which should have a profoundly transformative effect on the Greek economy and society.

Greece – like Italy, Slovakia, Spain and Portugal – is also the subject of infringement proceedings for non-implementation of Directive 2011/7/EU on late payments, and in February received a letter of formal notice from the European Commission urging Greece to comply with the Directive. In fact, as for Slovakia, the warning to Greece had to do with the excessive delay in payments on health expenditures.

In relation to the figures recorded by the Bank, in Greece the DSO in 2021 was 210 days, with a reduction of 100 days compared to the previous year (310 days), primarily in the hospital segment.

Poland

BFF started operations in the Polish market in 2016, with the acquisition of Magellan (now BFF Polska Group), which provides funding to healthcare providers and the government. In Poland, the Group also operates with its own branch since 2019.

THE MAIN MACROECONOMIC INDICATORS OF POLAND

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	4.7%	-2.5%	5.7%*	4.7%
Inflation rate (annual change)	2.3%	3.4%	5.1%*	7.1%
Unemployment rate	5.4%	5.9%	6.0%*	5.3%
Balance of payments (% of GDP)	0.5%	3.2%	-0.4%	-0.3%
Public Budget Balance (% of GDP)	-0.7%	-7.1%	-3.5%	-3.0%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

In Poland, the recovery strengthened in the course of 2021, benefitting from the reopening of activities and the ensuing recovery in household confidence, which drove consumption. Businesses displayed growing optimism in the first half of the year, which however reduced considerably in the second half of the year, due to interruptions in global supply chains. According to Consensus estimates, after a decline of 2.5% in 2020, GDP growth is expected to go from 5.7% in 2021 to 4.7% in 2022.

In December, inflation rose to 8.6%, from 2.4% 12 months prior, driven by higher commodity prices, the increase in certain administered prices and lively wage performance. The higher labor cost drove core inflation to 4.7% (from 3.7% at the end of 2020), its highest levels of the last twenty years. The Consensus expects inflation to accelerate from 5.1% in 2021 to 7.1% in 2022.

The substantial public deficit incurred in 2020 (equal to 7.1% of GDP) is progressively falling and is expected to have declined to 3.5% in the year just ended, to reach 3.0% in 2022. Moreover, fiscal policy, like monetary policy, is expansive in order to support the recovery of the economy and favor the decrease of unemployment to 6.0% in 2021. The limited level of public expenditure in relation to GDP, compared to other European countries, will allow for an increase of 13 billion in 2022 (+5.2%), bringing it to €272 billion, corresponding to 42.9% of GDP.

In line with what was recorded in 2020, in the first half of 2021 the impacts deriving from the third wave of COVID-19 led to an overall decrease in demand linked to good levels of DSO, and an overall postponement of decisions regarding long-term financing by hospitals, mainly caused by the absence of long-term prospects on revenues.

In general, the dynamics across all business lines offered on the Polish market are linked to the persistence of support for the local economy with an anti-crisis shield and liquidity injections to local authorities, such as direct support from the Government Investment Fund (RFIL) for a total of about PLN 13 billion.

Furthermore, the central government has proposed a new programme called the Polish Deal which promises support for local public authorities worth PLN 20 billion (€4.4 billion). Through this instrument, Polish local authorities will be able to request non-repayable co-financing of investments made between 8% and 95% depending on the area of investment. As of the date of this document, the Polish Deal is still under discussion. In this context, it is conceivable that BFF's services will grow in the future in the country, as most of the Group's activity in the country is concentrated precisely in the context of direct loans to public administration entities, directly linked to public investments.

Portugal

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

THE MAIN MACROECONOMIC INDICATORS OF PORTUGAL

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	2.7%	-8.4%	5.3%*	5.3%
Inflation rate (annual change)	0.3%	-0.1%	0.9%*	1.8%
Unemployment rate	6.5%	7.0%	6.6%*	6.3%
Balance of payments (% of GDP)	0.4%	-1.3%	-0.7%	-0.4%
Public Budget Balance (% of GDP)	0.1%	-5.8%	-4.4%	-3.2%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

After dealing with one of the worst resurgences of the pandemic in the world at the start of last year, forcing the government to impose new lockdowns, Portugal recovered considerably starting from the second quarter, when the improvement of the health situation and the progressive reduction of restrictions on activities allowed for the initiation of a recovery in the confidence of families and companies.

The recovery should consolidate thanks to two important drivers: the high level of savings, which will support higher consumption, and EU funds, which will boost investments. On average, the main international forecasters estimate that in 2022 GDP will be able to maintain the same sustained pace of growth as in 2021 (5.3%).

Inflation rose from -0.2% at the end of 2020 to 2.7% in December 2021, reflecting higher energy prices, while net of the more volatile components it rose from -0.4% to 1.8%. In the face of still high unemployment (6.6% in 2021), the Consensus predicts that the change in consumer prices will remain at contained values again in 2022 (at 1.8%, from 0.9% in the year just ended).

After having increased in 2020 to 5.8% of GDP from a substantially balanced situation in the previous year, the public deficit began to gradually decrease, given the dual need to promote the recovery of the economy and to keep the high public debt under control, which in 2020 reached 135.2% of GDP.

In 2021, public expenditure rose by 5.1% to €104 billion, and for 2022 an additional slight increase to €105 billion is expected (+1.6%), declining from 49.1% of GDP to 46.6%, approaching pre-pandemic values.

On the basis of the approved NRPP, Portugal appears set to benefit from €13.9 billion in subsidies and €2.7 billion in loans.

The impacts on the Portuguese market in the first half of 2021 show a decrease in overall demand both for the new business component and for existing customers. The DSO for the NHS/PA sectors showed a rising trend starting in March, primarily on the NHS side, with increasing overdue debt linked to the impacts of COVID-19. The government balance was influenced in large part by the health crisis, due to the measures adopted to combat the pandemic and support businesses and households. However, the official data reflect an increasing trend in spending for personnel, for goods and services of the National Health System and of the relative total payables to suppliers past due for over 90 days, which in May 2021 amounted to €485 million compared to €130 million recorded in 2020, leading to a reversal of the trend in collection times, which have started growing again, with a consequent potential for new business opportunities for the second part of the year.

To counteract the economic impacts of COVID-19, between the end of 2020 and the beginning of 2021 the Portuguese government injected approximately €250 million into NHS institutions for the settlement of residual debt with suppliers.

From the perspective of credit management, in Portugal roughly €84 million in volumes were managed in the course of 2021, while the outstanding relating to *non-recourse factoring* came to €227 million, up by 8.5% compared to 2020. Lastly, thanks to constant contact and interactions with the debtor, the Past Due level remained at zero. The total debt collection carried out during the year was higher than the amount collected in previous years.

Lastly, the DSO also declined in Portugal, to 299 compared to 330 in 2020.

Czech Republic

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

THE MAIN MACROECONOMIC INDICATORS OF THE CZECH REPUBLIC

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	3.0%	-5.7%	2.8%	4.2%
Inflation rate (annual change)	2.8%	3.2%	3.9%*	5.0%
Unemployment rate	2.0%	2.6%	2.8%*	2.9%
Balance of payments (% of GDP)	0.3%	1.5%	0.5%	0.5%
Public Budget Balance (% of GDP)	0.3%	-5.6%	-7.0%	-4.3%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

The Czech Republic has been hard hit by the pandemic, registering infection and mortality rates among the highest in the OECD area. Moreover, the vaccination campaign started slowly, delaying the relaxation of the restrictive measures aimed at containing the spread of COVID-19, and consequently the start of the economic recovery. After the strong contraction of 2020 (-5.7%), GDP was again down in the first three months of 2021 and demand showed signs of awakening only in the spring.

The reopening of activities allowed for a net improvement in service company confidence, while in manufacturing, optimism dimmed in the second half of the year, due to rising commodity prices and procurement issues. Household sentiment reached a peak in August, before deteriorating in the face of concerns about rising inflation. According to consensus estimates, GDP is expected to accelerate to 4.2% in 2022, from 2.8% in the year just ended.

In December inflation rose to 6.6% from 2.3% at the end of 2020, caused by the uptick in energy prices. On average, analysts expect inflation to rise from 3.9% in 2021 to 5.0% in 2022.

Fiscal policy has been very accommodating to help get out of the recession, and only as of 2022 should it begin a phase of gradual consolidation. The public deficit is therefore expected to reduce to 4.3% of GDP after reaching a peak of 7% in 2021. Monetary policy, on the other hand, has already assumed a restrictive orientation, with the Czech National Bank increasing official interest rates on multiple occasions - from 0.25% to 3.75% - and continuing to stand out due to its severe conduct within the European Union, being the only Central Bank not to adopt a quantitative easing policy.

In 2021, public expenditure rose by 7.1% (to €109 billion), and for 2022 an additional slight increase of 1.1% (to €110 billion) is expected, declining from 47.3% of GDP to 44.5%, still higher than pre-COVID-19 values. Specifically, public investment expenditures in the Czech Republic grew over the last two years from €4.79 billion in 2019 to €5.75 billion in 2020, to reach €7.35 billion in 2021, with a forecast of €7.41 billion in 2022.

In the Czech Republic, business has slowed due to the injection of liquidity into the healthcare sector, the postponement of tenders involving public administration entities and the increased risk of private debtors. Similar to Slovakia, a moderate recovery in government investment and therefore in business is expected from the third quarter onwards.

Slovakia

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

THE MAIN MACROECONOMIC INDICATORS OF SLOVAKIA

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	2.7%	-4.4%	3.1%*	4.5%
Inflation rate (annual change)	2.7%	2.0%	3.2%*	4.2%
Unemployment rate	5.7%	6.7%	6.8%*	6.4%
Balance of payments (% of GDP)	-2.7%	-2.5%	-1.1%	-1.0%
Public Budget Balance (% of GDP)	-1.3%	-5.5%	-6.5%	-4.6%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

In early 2021, the Slovak economy continued to be penalized by strict pandemic containment measures. Therefore, it began to see the first signs of a recovery only towards the end of the second quarter, when the acceleration of the vaccination campaign and the consequent reduction of restrictions on activities allowed for a clear improvement in the confidence of service businesses and a recovery in that of households. On the other hand, the sentiment of manufacturing companies backslid, due to an undesired increase in finished product stocks and rising commodity prices. On average, analysts estimate that GDP will grow by 4.5% in 2022, from 3.1% in 2021.

Inflation rose to 5.8% in December, from 1.6% at the end of 2020, driven upward by rising energy prices and the effects of reopenings; the latter caused an increase in the core figure from 2.5% to 5.2%. According to Consensus estimates, inflation should rise from 3.2% in 2021 to 4.2% in 2022. The relatively sustained trend in inflation in 2022 can be attributed to higher administered prices of energy and lively private sector salaries. To promote the recovery of the economy, fiscal policy remained expansionary, with a public deficit that should have risen to 6.5% of GDP last year (from 5.5% in 2020). In 2022, the removal of the extraordinary measures adopted to deal with the pandemic emergency and the acceleration of the economy should help the budget balance to improve to -4.6% of GDP.

In the 2020-2021 two-year period, public expenditure rose at rates close to 10%, reaching €46 billion, equal to 47.6% of GDP. For 2022, an additional slight increase to 47 billion is expected (+1.4%), for an incidence on GDP down to 43.9%, which would bring it closer to pre-COVID-19 values.

Specifically, public investment expenditures in Slovakia rose from €3.29 billion in 2019 to €2.77 billion in 2020, to reach €3.42 billion in 2021, with a forecast of €3.36 billion in 2022. Slovakia will receive €6.3 billion in RRF funds, equal to 6.7% of GDP.

In the first half of 2021, the impacts of COVID-19 on the Slovak market were mainly evident in the slowdown in the development of new volumes. This dynamic is linked to the willingness of Slovak municipalities to postpone investment decisions due to an unclear development of the pandemic. A moderate recovery in business was seen in the third quarter due to the launch of new tenders and new investments.

In fact, in general, there was a gradual recovery of investment projects and the creation of a simultaneous demand for financing and investment in infrastructure.

Looking at the healthcare sector, in 2021 the debt of public hospitals amounted to more than €300 million due to the delay in the implementation of debt relief: announced by the government at the start of 2021, it has not yet been carried out (it would generate new debt of roughly €500 million), and it is expected with market level impact effects for the first quarter of 2022.

In this context, it is recalled that in February 2021 the European Commission – which has already opened an infringement procedure against Slovakia with regard to Directive 2011/7/EU on late payments – sent a reasoned opinion to Slovakia due to excessive payment delays in the public health sector. In the absence of a satisfactory response, the latter may decide to refer the country to the EU Court of Justice.

Spain

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

THE MAIN MACROECONOMIC INDICATORS OF SPAIN

Indicators	2019	2020	Consensus forecasts	
			2021	2022
Real GDP (annual change)	2.1%	-10.8%	5.0%*	5.5%
Inflation rate (annual change)	0.8%	-0.3%	3.0%*	4.0%
Unemployment rate	14.1%	15.6%	14.8%*	14.0%
Balance of payments (% of GDP)	2.1%	0.8%	0.9%	1.4%
Public Budget Balance (% of GDP)	-2.9%	-11.0%	-8.3%	-5.4%

Consensus from Bloomberg, updated at 02/15/2022.

(*) actual data.

After a deep recession in 2020 and a weak start to 2021, Spain was able to benefit from the rapid deployment of vaccines and the decrease in infections, which made it possible to progressively reduce limitations on activity, allowing for an economic recovery. Both business and consumer confidence improved considerably, pointing to a strengthening of growth in 2022 supported by the reawakening of repressed demand, thanks to the conversion of part of the high savings accumulated into higher consumption and support to investments from the national recovery plan. According to the estimates of the main international forecasters, inflation should rise to 5.5% in 2022 from 5.0% in 2021.

Inflation rose sharply from -0.5% at the end of 2020 to 6.7% last December, driven upwards by the surge in energy prices. The figure net of more volatile components rose to a more limited extent, from -0.1% to 1.6%. With unemployment still very high – which on average economists expect to be at 14% – in 2022 inflation is expected to reach an average annual level that the Consensus estimates at 4%, from 3% in 2021.

After a sharp increase in 2020 to 11% of GDP (from just 2.9% in the previous year), the budget deficit is expected to have reduced starting from 2021 (to 8.3%, according to average analyst forecasts), thanks to the economic recovery, to then fall in 2022 to 5.4%, deriving advantages from more robust growth and the lifting of a series of temporary measures taken to support businesses and workers in the sectors most impacted by the pandemic.

In 2021, public expenditure rose by 3.1% to €606 billion, equivalent to 50.9% of GDP. In 2022, in order to limit the deficit, it should decline by 4 billion (-0.7%), decreasing its incidence on GDP to 47.2%.

The impacts on the Spanish market in the first half of 2021 following the liquidity injection by the government (€4 billion at the end of the second quarter 2021 and a total of €15.9 billion from the beginning of 2021) and the increase in collection volumes show a decrease in overall demand both for new and existing customers. This dynamic is consistent with the overall trend seen in 2020 for the factoring market, down by -2%.

The Spanish government has announced that it will also guarantee quarterly liquidity injections for 2021 to support the public administration and National Health System suppliers. Based on this information, the assumption is that the moderate DSO levels could continue for the rest of the year. In this regard, a budget of €3,000 million has been approved, which should allow the various autonomous communities to access REACT-EU (European level) aid. In parallel, the availability of funds from the FLA / FF (Financing Fund of the Autonomous Communities) was confirmed, which provided for a liquidity injection of about €12 billion in the second half of 2021.

Overall, taking into account what was approved until July by the CDGAE (*Comisión Delegada del Gobierno para Asuntos Económicos*), the total estimated needs of the Communities for 2021, also considering 3Q and 4Q, is equal to €37,575.17 million. Finally, it is recalled that in June 2021 the Commission sent a reasoned opinion to Spain regarding the 2015 infringement procedure concerning non-implementation of Directive 2011/7/EU on late payments. The reasoned opinion dealt with excessive delays in payment by the public authorities. Although Spain has made efforts to improve its performance, the Commission has expressed serious concern about the persistent delays by regional and local authorities. In the absence of a satisfactory response, as with Slovakia and Italy, the Commission may decide to refer Spain to the EU Court of Justice.

From the perspective of credit management in 2021, in Spain €366 million was realized. In 2020, it was €353 million (+3.7%). The outstanding was higher than the amount realized, because multiple portfolios were under management. The Past Due level remained at zero thanks to the debt collection strategy and the initiation of legal actions. On the other hand, debt collection was 9% higher than last year (+€145 million in absolute value). In Spain, the DSO is currently similar to the Italian figure, at 94 days, marking a 15 day decrease with respect to 2020.

Monitoring and control of Liquidity

Despite the current macroeconomic scenario, characterized by the continuation of the COVID-19 pandemic, the Group has always been able to count on a more than adequate level of liquidity, largely respecting regulatory and internal liquidity indicator limits (LCR, NSFR and other specific Group indicators). In this context, the Group has therefore not identified any critical situations.

The acquisition of DEPObank S.p.A. in March 2021 generated robust resources to be used in the Group's lending activities, to further support the funding profile characterized by liquidity deriving from custodian and payment activities.

The Group adopts solid oversight mechanisms for monitoring and governing the liquidity position and carries out (i) when deemed necessary, more frequent and more detailed stress analyses as well as with increasing and variable impacts, (ii) maintains an important share of assets freely available to meet unforeseen liquidity needs, verifying their level of adequacy with respect to future cash flows, (iii) monitors the markets through banks it has relationships with, and (iv) monitors changes in the collection trends of debtors, particularly of the Public Administration.

Moreover, each year the Group updates its Contingency Funding Plan (“CFP”), which is approved by the BFF Bank Board of Directors and implemented by the Subsidiaries. The document was updated in June, as well as for the planned annual review, also in order to take into account the new characteristics of the BFF Group following the merger by incorporation of DEPObank S.p.A. This document illustrates indicators and related thresholds in order to trigger the appropriate actions and escalation and decision processes, with a view to preventing and managing a possible liquidity crisis.

The main accounting issues dealt with during the epidemic

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

Impairment on loans: for the purposes of calculating impairment, the Risk Management Function updated the risk parameters underlying the calculation of Expected Credit Loss (e.g. updating the PD curves and updating the LGD curves). With regard to the PD curves, the 1-year transition matrices were updated for the Sovereign, Corporate and Financial Institutions segments. Subsequently, the Risk Management Function updated the macroeconomic scenarios aimed at obtaining PD Point in Time (PIT) and Forward-Looking (FLI). The Baseline, High Growth and Mild Recession forecasts provide the forecast default rates for the 20 quarters following the download date.

These scenarios, provided by the external info provider, are also basically aligned with the new scenarios published by such info provider in December. The analyses of the Risk Management Function, performed for the fourth quarter of the year, indeed highlight that in December 2021 macroeconomic estimates do not significantly differ from those of June 2021. Indeed, the economic recovery is confirmed, driven especially by the vaccination campaign, and estimated unemployment rates, in any event, are better than what was estimated in June 2021. Indeed, according to the analysis of the external info provider, “the unemployment rate is stagnant, while inflation is resuming due to base effects, pressures from the reopening of the economy and rising energy prices”. The comparison between the macroeconomic scenarios of the external info provider and those provided by the European Central Bank in December 2021 also highlights a substantial alignment between the scenarios.

In line with what was described in IAS 36 an impairment test was performed in 2021 on goodwill recognized in the financial statements, concerning BFF Polska Group and BFF Iberia (formerly IOS Finance) in order to determine the relevant recoverable amount. Likewise, following the acquisition of DEPObank and the finalization of the PPA, the annual impairment test was performed on intangible assets (“Customer Relationships”) at the balance sheet date of December 31, 2021 by determining the recoverable value and comparing it with the asset's book value.

Following the outcomes of the impairment test performed at December 31, 2021, the Group did not recognize any impairment loss on the aforementioned items.

Operating performance

General context

The consolidated financial statements at December 31, 2021 show the equity and economic elements of BFF Banking Group, including the newly acquired and merged DEPObank.

The merger with DEPObank produced accounting effects from March 1, 2021, and therefore it is only from that date that the accounting data of the two companies was consolidated.

The Group's results include the extraordinary effects of the acquisition and merger, which took place in March 2021, and the dynamics of the sectors the Group operates in through the Business Units that offer services to customers (Factoring & Lending, Securities Services, Payments) and through the Corporate Center Business Unit that offers support to other BUs, manages the Group's funding (regulated internally by a transfer pricing mechanism), and the use of liquidity in excess of the needs of the Factoring and Lending Business Unit through investments in government bonds, repurchase agreements and deposits with the ECB.

During 2021, the most significant elements that influenced the Group's final economic result were the acquisition of DEPObank, the continuation of the COVID-19 pandemic crisis, albeit accompanied by economic recovery phenomena and with contrasting effects on the products and services offered by the Group, the launch of some commercial initiatives linked to new regulatory interventions and the desire to expand the products offered and the customer base served, and the implementation of the initiatives to achieve the synergies envisaged by the integration plan.

The acquisition of DEPObank, finalized with an accounting date of March 1, 2021, as previously noted has allowed the Group not only to enrich the range of products/services offered by expanding the type of customers served and to access new alternative, less expensive and less traditional sources of financing, but also to generate a negative surplus (Badwill) equal to €76.9 million shown in the Financial Statements under the item "230 Other operating expenses and income".

This value derives from the lower price paid for the purchase of DEPObank's equity investment than the Net Equity expressed at fair value at the time of closing.

The valuation of the fair value of DEPObank's assets and liabilities and the final purchase price allocation were completed in December 2021.

Furthermore, the Bank made use of the option permitted by Italian Decree-Law no. 104 of August 14, 2020, which provides for the possibility for IAS/IFRS subjects to realign the tax values of the assets that are recorded in the 2019 and 2020 financial statements to their higher book value, with the payment of a substitute tax at a rate of 3%.

With regard to this latter aspect, note that the Bank proceeded with the tax realignment of the value of the Goodwill of the Payments cash generating unit, amounting to approximately €81.0 million present in the Financial Statements of the merged company DEPObank. This transaction resulted in a net tax benefit of €23.7 million. At the same time, as set forth by regulations, part of the equity reserves were subject to a tax suspension restriction, in an amount equal to the higher realigned value (net of the relative tax of 3%), or for €76.6 million.

Lastly, with reference to the special provisions on the realignment of the higher accounting values with respect to tax values pursuant to art. 15, paragraph 11 of Decree-Law no. 185 of November 29, 2008 (hereinafter, the "Realignment") and following the outcome of the request made concerning the applicability of that regulation to the higher value recognized on the HTC securities portfolio acquired following the merger with DEPObank, in 2022 the Bank will pay substitute tax on the higher value at December 31, 2021 by way of exemption from the ordinary rules that establish the tax neutrality of the Merger and the resulting need to neutralize the effects of the Misalignment between the statutory value and the tax value by recognizing deferred tax liabilities. The effect of this transaction, recognized in the 2021 Financial Statements, led to a tax benefit of roughly €3.7 million.

The COVID-19 pandemic, which arose at the beginning of 2020 and lasted until 2021, had negative effects on the Group.

In the Factoring & Lending BU, there were adverse impacts. In fact, there was a strong liquidity injection by national governments which led to a reduction in payment times, a reduction in the size of the portfolios subject to sale and a lower interest of new customers for the services offered by BFF.

In contrast, in the Securities Services BU there were positive effects due to the growth in assets under management in Italy, leading to positive performance in 2021. The increase was achieved partly as a result of the appreciation of the markets and partly thanks to the increase in net inflows.

In the Payments BU there were disparate effects due to the different dynamics that COVID-19 had on the various activities and consequently on the various services offered by the Group: positive in the area of interbank processing and corporate customer and public administration collections and payments, negative, in that they limited expected growth, on payment transactions with instruments operating in "face-to-face" logic (e.g., payments with cards, cheques, etc.).

Finally, the effects were manifold in the Corporate Center BU: the increase in liquidity produced by the *Securities Services* and *Payments* BUs accelerated the process of implementing the actions envisaged by the integration plan, which provided for a change in the mix of funding sources, while maintaining the availability of activation of the various funding sources.

In terms of funding, the Group focused on using the funding made available by the *Securities Services* and *Payments* BUs to finance its loans and to further diversify its funding sources by closing the most expensive ones, while maintaining a certain diversification of funding sources. In this regard, Liability Management during the second quarter of 2021 was aimed at bringing liquidity below tiering levels, thanks among other things to the buyback of senior bonds issued by BFF with maturities of 2022 and 2023 for a total amount of €416 million (with a result allowing the repurchase of 83% of the original value of the bonds). This initiative made it possible to use part of the available liquidity deriving from the acquisition of DEPObank, further improving the cost of funding and liquidity over the plan horizon, and helping to improve the levels of the Bank's financial leverage, allowing the finalization of all the funding synergy development activities envisaged in the business plan as of June 30, 2021, which generated positive effects starting from the third quarter of 2021 and will have a full impact on 2022. Furthermore, in order to first reduce and then eliminate the economic effects of the negative rates expected from deposits with the ECB, at the end of the first half of 2021 and in the course of the entire second half of the year, the Group implemented a strategy (i) for better control of customer deposits, coinciding with an update of the investment policies of some of the bank's client funds, which allowed them to use the liquidity that until May was deposited in the current accounts held with BFF Bank differently and (ii) for investment in Italian government bonds with medium-long horizons, starting to restore an average duration consistent with what has been done in the past.

In fact, investments in government securities had been halted in DEPObank until the closing of the transaction, as per the agreements contained in the Sale, Purchase and Merger Agreement (SPMA) signed in May 2020, resulting in a sharp contraction of the HTC securities portfolio.

In this regard, note that in view of the aforementioned acquisition, the fair value measurement of the former DEPObank securities portfolio at the closing date envisaged by the application of the aforementioned accounting standard led to the recognition of greater value of the HTC securities in the Financial Statements of approximately €53 million. This effect will be reabsorbed through the amortized cost mechanism during the years following the closing with consequent lower revenues compared to the value of the amortized cost pre-deal, until the maturity of the related securities (€27 million in 2021, €21 million in 2022 and a further €5 million in subsequent years). As at December 31, 2021 the application of this accounting standard generated a negative effect on the Income Statement of roughly €27 million before taxes.

Moreover, 2021 saw commercial efforts resume in the **form of some initiatives** including the processing of settlements relating to certificates on the Hi-MTF market, securities lending for medium-small-sized Pension Funds and the performance of the role of General Adherent in Cassa di Compensazione e Garanzia for wholesale bond markets, the offer of custodian bank services to Pension Funds, Religious Bodies and Banking Foundations and the proposal of Paying Agent, Account and Custodian Bank services also to Corporate customers, not to mention initiatives related to the opportunities deriving from regulatory interventions (such as Ecobonus 110%, T2-T2S Consolidation, ECMS, CSDR, SHRD II, Spanish FTT, PSD2) as well as those related to the evolution of the payment system (with the full implementation of PSD2). These initiatives began to have their effects in the course of 2021 and will have full effects starting from 2022.

Finally, the acquisition of DEPObank has made it possible to identify potential areas of efficiency to achieve additional value for shareholders through the creation of the cost and funding synergies announced to the market during the presentation of March 15.

With regard to costs, the Group has associated the initiatives taken to achieve the synergies envisaged in the integration plan with its usual careful monitoring of costs. At December 31, 2021, approximately €20 million of the run rate was achieved starting from January 1, 2022, corresponding to 100% of the total planned.

As regards funding, already as of June 30, 2021 the Group has already implemented all the initiatives aimed at achieving the synergies envisaged in the plan. These initiatives were discussed previously in the part relating to the Corporate Center.

Finally, precisely with regard to funding and its allocation and remuneration, the Group has adopted a transfer pricing mechanism in order to regulate the funding flows between the various BUs and apply remuneration/penalty mechanisms for proper management representation. This mechanism envisages: 1) that the Securities Services and Payments BUs make the funding collected available to the Corporate Center; 2) that the Corporate Center manages the funding received from Securities Services, Payments, retail deposits and wholesale sources and makes it available to the Factoring & Lending BU, or, for the excess part, uses it in alternative ways; 3) that the Factoring & Lending BU uses the funding received in the forms of use specific to its business; 4) that the Corporate Center remunerates the Securities Services and Payments BUs and is remunerated by the Factoring & Lending BU for the funding made available through an internal proprietary mechanism.

Group profit/(loss)

Reported Result

In terms of overall profitability, the cumulative performance of the Group's BUs and Corporate Center, influenced by the aforementioned phenomena, led to a reported economic result amounting to €197.4 million, including among other things the positive effects deriving from the acquisition of DEPObank, such as Badwill amounting to €76.9 million and the realignment of Goodwill amounting to €23.7 million, net of costs related to liability management initiatives and other transaction and restructuring costs amounting to €9.5 million and €6.4 million, respectively, the change of the exchange difference amounting to €0.1 million, the cost of stock options amounting to €3.3 million, the extraordinary contribution to the resolution fund amounting to €2.0 million, the amortization of DEPObank's customer contract amounting to €2.4 million and with the exclusion of DEPObank's pre-acquisition normalized result amounting to €5.1 million. Note that this result includes only ten months of DEPObank, i.e. the results achieved as of March 1, 2021.

Normalized Profit/(Loss)

Adding back the remaining 2 months of DEPObank and eliminating the extraordinary items listed above, the Group's normalized profit/(loss) (including 12 months of BFF and 12 months of DEPObank) amounted to €125.3 million, 7% higher than the same period last year (pro-forma profit/(loss)), the explanation of which is to be found in the phenomena affecting the Group's BUs.

With regard to the performance of the BUs compared to 2020, the main elements that affected the Group's economic result can be summarized as follows:

- ▶ lower interest margin mainly due to lower yields of uses (such as lower yields on loans to customers, MTM effect of securities of the former DEPObank generated at closing), higher excess liquidity in the first half of the year, later eliminated following the ALM initiatives carried out;
- ▶ higher commissions due to increased transactions in Securities Services and Payments BUs;
- ▶ lower costs thanks to careful monitoring and the initiatives taken to achieve the synergies envisaged in the plan.

The table below explains the transition from the reported result to the normalized data.

(Values in € million)

Adjustments – €m	FY'20 pf	FY'21 pf	YoY%
BFF Group - Reported profit/(loss)	91.1	197.4	n.s.
Pre-acquisition normalized result of DEPObank	19.5	5.1	–
Exchange differences covered by Translation Reserve in Equity	(4.1)	(0.1)	–
<i>Stock Options & Stock Grants</i>	1.0	3.3	–
Badwill & transaction and restructuring costs	–	(70.5)	–
Liability Management one-off costs	–	9.5	–
DEPObank Goodwill tax relief	–	(23.7)	–
Extraordinary Resolution Fund	0.9	2.0	–
M&A costs	8.1	–	–
Current tax charges deriving from the one-off distribution of dividends from subsidiaries	1.7	–	–
Milan property tax relief	(1.2)	–	–
Amortization of DEPObank's customer contract	–	2.4	–
BFF Group - Normalized profit/loss	117.1	125.3	+7%

Group Balance Sheet

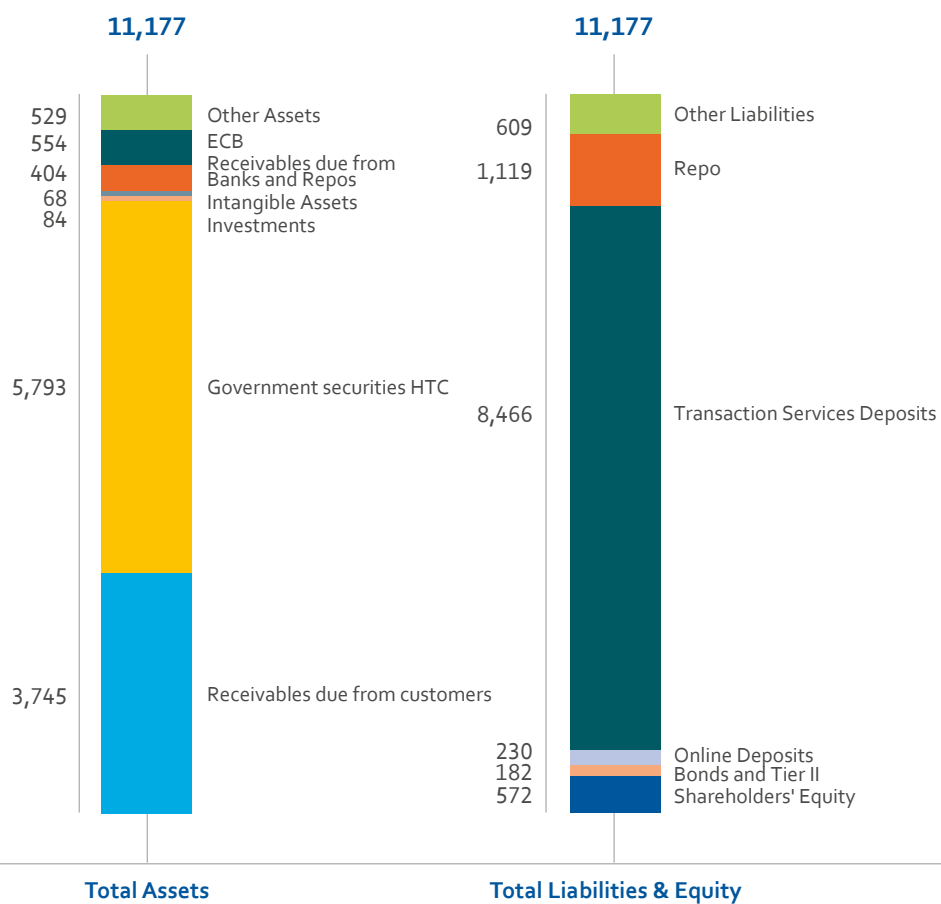
Following the acquisition of DEPObank, the Group's balance sheet has been enriched with categories of assets and liabilities specific to the business acquired, in certain cases new ones, and which have significantly increased its size. To mention the most important ones: on the asset side, the financial statements include DEPObank's securities portfolio and liquidity, which were added to those already existing of BFF, and the PCT portfolio; on the liability side, however, the main items refer to the funds left in deposit by customers and to those useful for carrying out the ordinary operations of the *Securities Services and Payments BUs*.

Precisely on the Balance Sheet front, starting in the second quarter of 2021 the Group focused on optimizing the forms of funding generated by the businesses of the former DEPObank, rationalising their levels and closing the most expensive historical forms of financing of BFF while maintaining a certain diversification.

On the other hand, the Group focused on better managing the forms of use, resuming investments in government bonds and eliminating excess liquidity, with improved effects on both the Group's leverage and profitability.

The final effect of all of this was a balance sheet which, despite the merger of the two banks, at December 31, 2021 is large in size like that of the former DEPO, especially thanks to the refinancing of the forms of funding of the BFF Group "pre-acquisition".

(€m)



Uses

Receivables due from Customers (Factoring & Lending): these came to €3.7 billion, down by 8% compared to 2020: the international markets now account for 44% of total loans to customers.

Receivables due from Customers (Factoring & Lending)	FY'20	FY'21
Italy	2,302	2,105
Spain	589	330
Poland	693	790
Slovakia	205	231
Portugal	217	207
Greece	54	70
Croatia	1	1
France	4	10
Czech Republic	2	2
Total	4,067	3,745

The portfolio of government bonds reached €5.8 billion, 0.9 billion higher than at December 31, 2020 of the two banks and 0.7 billion higher than the first half of 2021: indeed, the Group began investing again in this area during the second quarter of 2021 in order to use unused liquidity.

Cash and cash equivalents equal to €0.6 billion and Receivables from Banks equal to €0.4 billion: actions were taken in this area during the second quarter of 2021 through the ALM initiative to eliminate the excess liquidity deposited with the ECB, bringing it below tiering levels, the positive effects of which were seen on the Income Statement starting from the end of June.

Funding

On the liabilities side, the rationalization of funding sources following the repurchase and repayment of €566 million of Bonds, the reduction of online deposits and of wholesale funding, as well as the better management of the deposits of former DEPObank customers, coinciding with an update of the investment policies of some of the bank's client funds, which has allowed them to use differently the liquidity that until May was deposited in the accounts with BFF Bank, has allowed them to significantly reduce the level of funding used in the ECB.

The *Transaction Services* department, with its *Securities Services and Payments BUs*, raised approximately €8.5 billion compared to €9.8 billion in 2020, with a decrease in the share of *Securities Services* of €1.5 billion (€6.1 billion v €7.6 billion), and with an amount generated by *Payments* up slightly by +€0.3 billion (€2.4 billion v €2.1 billion).

Although with reduced needs, the Group continued to offer an online deposit account on the Italian market ("Conto Facto"), aimed at retail and corporate customers and guaranteed by the Interbank Deposit Protection Fund. Furthermore, BFF's Spanish and Polish branches continued to offer a similar online deposit account in their respective markets (Cuenta Facto and Lokata Facto), also aimed at retail and corporate customers and guaranteed by the Interbank Deposit Protection Fund. The collection of deposits issued by the Spanish branch of BFF and reserved exclusively for retail savers through the online Weltsparen platform remained active in Germany and the Netherlands, in compliance with regulations on the freedom to provide services.

At December 31, 2021, total nominal takings of Conto Facto, Cuenta Facto and Lokata Facto amounted to €230 million, down from €1,652 million in 2020.

With regard to wholesale deposits, the more expensive and less interesting lines were closed, and thanks to the repurchases and repayments described above, the bonds in circulation were brought to a residual nominal amount of €82 million. In contrast, the TIER II Bond Issue of €100 million remains in place. Precisely with respect to the latter, on November 16 a request was sent to the Bank of Italy asking for authorization to exercise the call option for early repayment, exercisable on March 2, 2022, and the relative authorization was received on February 11, 2022.

With regard to foreign exchange positions arising from the collection and uses of BUs offering services and products to customers, the Group – through the use of treasury instruments such as interbank deposits and the use of derivative instruments – manages positions, keeping them overall at levels below regulatory limits in order to avoid the continuous absorption of capital deriving from open positions.

Shareholders' Equity, Own Funds and Equity Ratios

In 2021 BFF Bank continued to demonstrate its capital soundness, also in consideration of the fact that the capital ratios and own funds do not include approximately €125 million relating to the normalized profit for the period, not allocated to capital as the TCR is greater than 15%.

Please recall that, in the course of 2021 the entire amount of dividends outstanding at December 31, 2020 was distributed: roughly €3 million was distributed on March 31, 2021, while the remaining €165 million was distributed to October 2021.

As previously stated, the acquisition and subsequent merger of DEPObank with accounting effect from March 1, 2021 among other things led to the generation of Badwill amounting to €76.9 million, and to the tax relief of DEPObank's Goodwill (recorded in the former DEPObank Financial Statements for €81 million) for an amount equal to €23.7 million, which at December 31, 2021 were posted to Own Funds net of the costs incurred to implement the Liability Management initiatives described above and equal to €9.5 million net of taxes and net of the share of profit for the year needed to distribute an amount of dividends, equal to the total adjusted profit realized by the Group, in compliance with the Policy.

Furthermore, the investment held in Unione Fiduciaria S.p.A., with a 24% stake in the issued shares corresponding to 26.455% of the share capital net of treasury shares, and consolidated with the equity method, saw an increase in value of €4.8 million compared to December 31, 2020. This amount, resulting from the increase in the amount of the share capital pertaining to BFF Bank S.p.A. net of the effect of the buy-back of treasury shares carried out in 2021, was allocated to Own Funds at December 31, 2021.

Shareholders' equity amounted to €572 million, up compared to €463 million at December 31, 2020.

BFF Banking Group's own funds amounted to €383 million at December 31, 2021. 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.

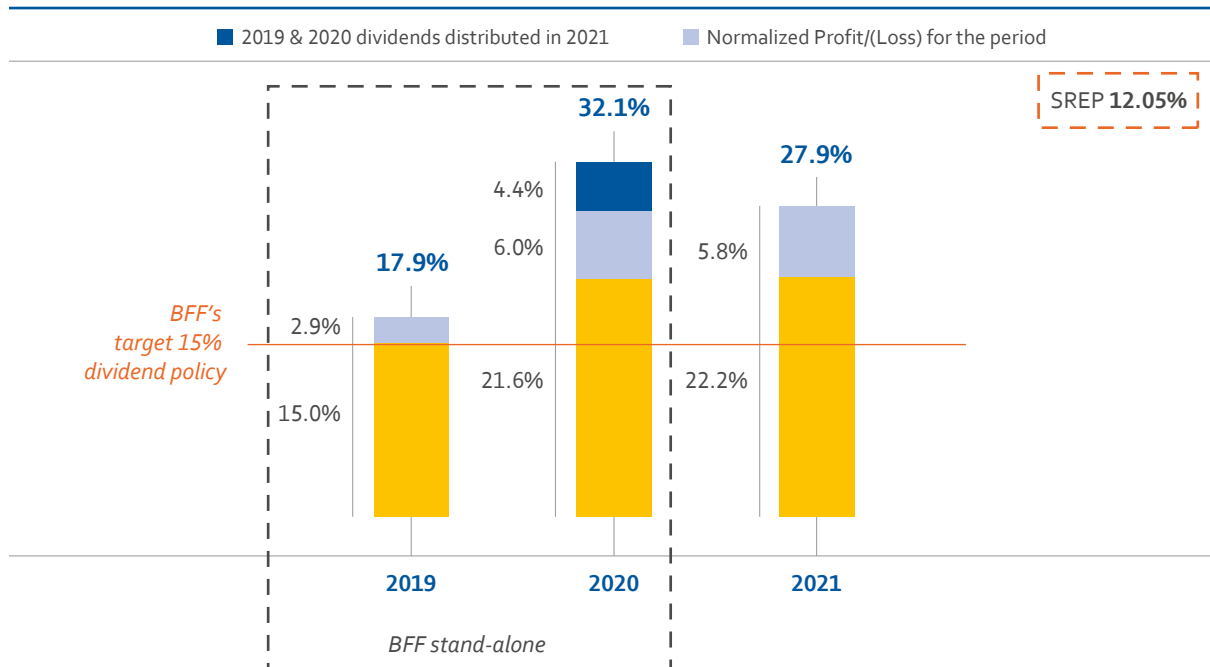
The CET1, Tier 1 and Total capital ratios are 17.6%, 17.6% and 22.2%, respectively, with 155 million in capital in excess of the target TC ratio of 15%: these ratios do not include roughly €125 million of the normalized result of 2021.

Furthermore, it is recalled that the Group did not need to apply the emergency measures made available by the ECB, the EBA or the European Commission's COVID-19 banking package.

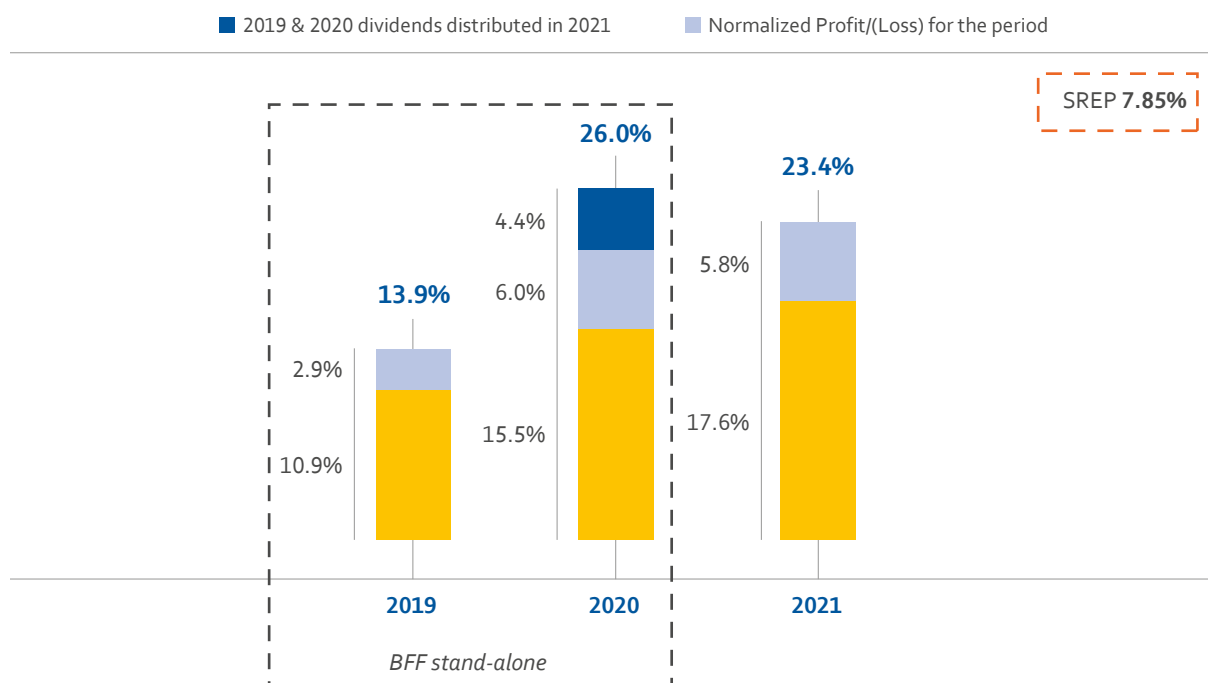
It is worth noting that as at December 31, 2020, with a view to approximating the provisions on the new definition of default starting from January 1, 2021, the Group adopted the invoice due date (with an original expiry of less than three months) as starting date instead of the estimated internal collection date for counting the overdue amount for the non-recourse factoring product, aligning itself with what has been done by other intermediaries. This approach leads to considering the preferential weighting of 20% envisaged by art. 116, paragraph 3, of the CRR for all performing exposures to public administration entities with an original expiry of less than three months. The effect of this change is a lower absorption of capital, with a consequent improvement in relevant ratios. This amendment makes it possible to align the calculation of RWAs with the approach followed by the other intermediaries and to unlink the calculation of capital absorptions from the assessments made by the credit rating agencies of the countries that the Group operates in.

TOTAL CAPITAL RATIO - BANKING GROUP EXTUB

RWAs	<u>2,414</u>	Excluding DEPObank	<u>1,616</u>	<u>2,171</u>
RWAs density	<u>54%</u>		<u>39%</u>	<u>45%</u>



COMMON EQUITY TIER I RATIO - BANKING GROUP EXTUB



Factoring & Lending BU - Main KPIs and Economic Results

The Factoring & Lending BU represents the original business of the banking group and carries out its lending through products such as non-recourse factoring, lending and credit management to public administration bodies and private hospitals.

The Group currently performs this activity in nine countries (Italy, Croatia, France, Greece, Poland, Portugal, the Czech Republic, Slovakia and Spain), all of which have been deeply affected by the COVID-19 pandemic.

The liquidity injections made by national governments and the simultaneous reduction in payment times, although in many cases concentrated on the non-overdue component of receivables, and the postponement of decisions regarding long-term financing by hospitals and local authorities have made products such as factoring less interesting or the need for financing less urgent, negatively affecting the Group's business.

The main indicators of the Factoring & Lending BU compared to 2020 showed contrasting trends, having been influenced differently from what happened in the course of 2021.

Receivables from customers decreased by -8% (€3,745 million versus €4,067 million), albeit with signs of a recovery compared to the first half of the year (the period in which the difference with respect to the same period of 2020 was -11%) due to a level of purchased receivables substantially in line with the same period of the previous year (€5,781 million versus €5,786 million) and a strong increase in capital receipts (€5,456 million versus €5,209 million) due to the reduction in public administration payment times, especially in Italy and Spain:

DSO – days

	12/31/2019	12/31/2020	12/31/2021
ITALY	163	163	119
SPAIN	185	109	94
PORTUGAL	300	330	299
GREECE	226	310	210
CROATIA	N/A	340	282
FRANCE	N/A	113	107

The provision for late payment interest and the portion not transferred to the Income Statement thereof continued to grow (reaching €713 million and €415 million, respectively, up by +€32 million and +€9 million), while receipts of late payment interest recorded declined compared to 2020 (€67 million in 2021 compared to €78 million in 2020).

Gross yield on loans to customers decreased due to the different mix of items that generate revenues and the decrease in the Wibor base rate in Poland (starting from February 2020). The cost of money has decreased, mainly as a result of a general decrease in costs related to the various forms of funding, and from the third quarter of 2021 further benefited from the ALM activities implemented in June (described above).

Risk weighted assets (RWA) increased in absolute value, with density up compared to December 2020, due to the different mix of financial statement items, with a reduction in loans to customers, and a greater weight of operational risk, and as a result impacted the Interest Margin/RWA, which went from 10% in 2020 to 8.4% in 2021. Please recall that already since the end of 2020, RWAs were positively influenced by the use of the preferential weighting of 20% applied to all performing exposures to public administration entities with an original expiry of less than three months. This change was implemented in the fourth quarter of 2020 in anticipation of the application of the new legislation on Default, following the indications provided by the Bank of Italy with a note containing guidelines on the application of the delegated regulation (EU no. 171/2018) which provides that the counting of days overdue starts from the invoice due date and not from the date of presumed collection.

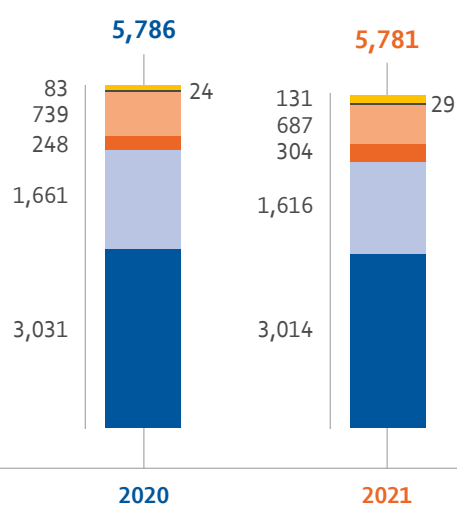
Costs/Loans to customers and the Cost/Income ratio increased slightly, while the Cost of credit risk remains at negligible levels, also thanks to the release of reserves on some positions, bearing witness to the high standing of the customers served and thanks to the rigorous origination process and monitoring of credit.

(Values in € million)

	FY'20	FY'21
Volumes	5,786	5,781
Capital collections – Non-recourse	5,209	5,456
Receivables due from customers	4,067	3,745
RWAs	1,616	1,780
Late payment interest collected	78	67
Provision for late payment interest	681	713
Provision for late payment interest "not transferred" to the income statement	406	415
Gross yield on loans and to customers %	5.8%	5.6%
Cost of money %	1.8%	1.7%
Interest Margin/RWA %	10.0%	8.4%
Expenses/Receivables from customers %	0.9%	1.1%
Cost/Income %	20%	24%
Cost of risk %	0.08%	0.02%
Employees	375	366

VOLUMES BY COUNTRY

■ Italy
 ■ Spain
 ■ Portugal
 ■ Poland
 ■ Slovakia
 ■ Others



As anticipated by the previous indicators, the main Income Statement items show that despite the commercial initiatives implemented, the strict cost controls and the attentive credit monitoring carried out in the origination and management phases, the Factoring & Lending BU has not fully counterbalanced the effects that the pandemic has caused.

The interest margin amounted to €148.9 million compared to €161.8 million in 2020, and was influenced by lower loans to customers and faster than expected receipts.

The range of "rescheduling/capital gains" included in the interest margin, i.e. the differential between capital gains generated by the receipts of late payment interest exceeding 45% accounted for by accrual and the rescheduling, i.e. the effects related to the discounting of uncollected receivables according to internal estimates and therefore reprojected forward over time, was basically stable when compared to the same period last year and was negatively influenced by the lower receipts of late payment interest recorded.

Net value adjustments for credit risk continued to show positive dynamics thanks to the careful monitoring of credit, both in the origination and management phases (compared to 2020, net value adjustments decreased by €2.5 million).

Income before tax from continuing operations therefore amounted to €122.8 million, down €16.3 million compared to the same period last year, mainly due to the phenomena described previously that influenced the interest margin.

(Values in € million)

	FY'20 pf	FY'21 pf
Interest income	226.8	195.0
<i>of which "rescheduling/capital gains" range</i>	7.3	7.3
Interest expenses	(64.9)	(46.1)
Interest Margin	161.8	148.9
Net fees and commissions	4.6	5.6
Other revenues	(0.0)	–
Intermediation Margin	166.4	154.5
Other operating income and expenses	10.4	7.4
Total net revenues	166.4	161.9
Direct costs	(33.9)	(37.4)
<i>of which Personnel Expenses</i>	(20.8)	(21.4)
<i>of which Other Administrative Expenses</i>	(13.1)	(16.0)
Net write-downs/write-backs on tangible/intangible assets	(0.7)	(1.4)
Net value adjustments/write-backs for credit risk	(3.2)	(0.7)
Net provisions for risks and charges	–	0.3
Profit (loss) before tax from continuing operations	139.1	122.8

Securities Services BU - Main KPIs and Economic Results

The Securities Services BU is the business unit that deals with custodian banking for investment funds and related services such as global custody, fund accounting and transfer agents for national managers and banks and for various investment funds such as pension funds, mutual funds and alternative funds: the activity is concentrated on the domestic market.

During 2021, the BU witnessed good commercial performance, despite the cancellations received from several customers, the most important of which in terms of magnitude was Arca, with effects starting from the end of 2022 / start of 2023. This was possible thanks to the launch of strategic initiatives aimed at i) further expansion and improvement of the commercial experience (through services such as the processing of settlements relating to certificates on the Hi-MTF market; securities lending for medium to small-sized Pension Funds; and the performance of the role of General Adherent in Cassa di Compensazione e Garanzia for wholesale bond markets), ii) an expansion of the customer base (through the offer of custodian bank services to Pension Funds, Religious Bodies and Banking Foundations and by proposing the services of Paying Agent, Account and Custodian Bank also to Corporate customers) and iii) seizing the opportunities deriving from regulatory interventions (such as T2-T2S Consolidation, ECMs, CSDR, SHRD II, Spanish FTT). The market saw growth in managed savings in Italy, achieved partly as a result of the upsurge of the markets and partly thanks to the increase in net inflows. The start of the vaccination campaign and the gradual reopening of businesses increased the propensity of households to risk, and this more favourable context with respect to 2020 combined with the effectiveness of the initiatives previously described drove results in 2021.

The main indicators of the Securities Services BU compared to last year showed positive trends.

The Custodian Bank's Assets under Deposit (AuD) amounted to €83.6 billion, up from €75.7 billion at the end of 2020, thanks to a better market situation than in 2020 and the positive effects of initiatives related to the development of new business opportunities, in particular in the Alternative Investment Funds segment.

The value of the Assets under Management (AuM) of the Fund Accounting and the number of Transfer Agent clients (respectively growing and steady) benefited from the positive performance of the custodian bank.

Assets under Custody (AuC) of Global Custody amounted to €172.6 billion, with growth of 19%, and the number of settlements made was influenced by market performance and, in the case of AuCs, by higher custody receivables (partly due to a combination operation involving a client bank).

Despite what was described previously with respect to market trends, the balance of customer deposits decreased compared to 2020, thanks to ALM and repricing activities on liquidity deposited by customers carried out in order to decrease excess liquidity. This also coincided with the updating of investment policies of some of the bank's client funds, which allowed them to use the liquidity that until May was deposited in current accounts with BFF Bank differently, and allowed them to close the year eliminating, since the end of the first half, the costs associated with the excess liquidity deposited with the ECB.

Finally, Cost/Income showed a positive trend thanks to the good performance of revenues, driven by the increase in service fees to €46.1 million and the stable cost base.

	FY'20 pf	FY'21 pf
Custodian Bank (AuD, €m)	75,659	83,573
Fund Accounting (AuM, €m)	47,892	53,522
Transfer Agent (no. customers, #k)	2,147	2,175
Global Custody (AuC, €m)	144,592	172,625
Settlements (no. transactions, #k)	2,318	2,711
Deposits - Final Balance (€m)	7,614	6,092
Employees	177	180
Cost/Income	55%	50%

The main Income Statement items therefore show that the commercial initiatives implemented, the strict cost controls and ALM and customer deposit repricing activities, together with the updating of the investment policies of some funds, have positively influenced the result of the BU.

The interest margin amounted to €10.8 million (v €11.4 million in 2020) and was negatively affected by higher deposits in the first half of the year and the cost of liquidity with the ECB.

The level of Net Commissions was higher than the same period last year due to the greater effect of AuD, AuM, AuC, number of customers and number of transactions.

The amount of Direct Costs remained stable despite the higher AuM and higher revenues, as evidenced by the trend of Cost/Income and evidence of the efficient monitoring of costs in place.

(Values in € million)

	FY'20 pf	FY'21 pf
Interest Margin	11.4	10.8
Net fees and commissions	42.1	46.1
Intermediation Margin	53.6	56.9
Other operating income and expenses	0.7	0.9
Total net revenues	54.2	57.8
Direct costs	(28.6)	(28.6)
<i>of which Personnel Expenses</i>	<i>(12.1)</i>	<i>(12.2)</i>
<i>of which Other Administrative Expenses</i>	<i>(16.5)</i>	<i>(16.4)</i>
Net write-downs/write-backs on tangible/intangible assets	(1.4)	(0.2)
Net provisions for risks and charges	(0.6)	–
Profit (loss) before tax from continuing operations	23.6	29.0

Income before tax from continuing operations therefore amounted to €29.0 million, up €5.4 million compared to last year thanks mainly to the increase in commissions from services following the increase in operations.

Payments BU - Main KPIs and Economic Results

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

In 2021, the BU witnessed good commercial performance in addition to the contrasting effects of the COVID-19 pandemic: positive effects on the area of corporate transfers and payments and negative effects on cheques and bills (area in structural decline and in any case with market trends) and settlements (up but still lower than 2019 as a result of the prolongation of the effects of COVID-19 on this type of operation and competition from the “contactless” segment and other credit card issuers).

The market is showing the effects of the evolution and digitalization of the Payment System and the aggregation of banks, not to mention potential increased competitiveness in the Payments sector, also led by the ECB and the European Commission, along with the entry of many new operators into the payments market, such as Payment Institutions, IMELs, TPPs and Fintech operators. Precisely these last two phenomena have meant that during 2021 with the full implementation of PSD2 BFF saw a growing demand for payment intermediation services.

The main indicators of the Payments BU, in terms of the number of transactions executed compared to last year, showed trends mainly related to the effects of the COVID emergency on the economy.

The number of collection and transfer processing transactions grew by 11%, reaching 312 million, also thanks to the positive performance of SEPA transactions.

Card settlement was still influenced by the economic restrictions related to the COVID-19 pandemic.

Transactions related to Cheques and Bills decreased in line with market trends and with the aggravating effects of the COVID-19 pandemic.

Corporate Payments saw 8% growth due to the positive performance of INPS pension payments.

The balance of deposits amounted to €2,408 million, up compared to 2020, amounting to €2,136 million. Finally, Cost/Income showed a positive trend thanks to the good performance of revenues, driven by the increase in service fees to €43.8 million.

	FY'20 pf	FY'21 pf
Intermediations (no. transactions #'m)	282	312
Settlements (no. transactions #'m)	188	191
Cheques and Bills (no. transactions #'m)	36	26
Corporate payments (no. transactions #'m)	56	61
Deposits - Final Balance (€m)	2,136	2,408
Employees	49	49
Cost/Income	60%	50%

The main Income Statement items therefore show that, despite the negative effects that the COVID-19 pandemic has had on certain services, the market trends together with the commercial initiatives and the strict cost controls implemented have positively influenced the result of the BU.

The interest margin amounted to €7.2 million in 2021 (v €2.2 million in 2020), and was influenced by the new transfer pricing mechanism applied to liquidity.

The level of Net Commissions was higher than last year by €3.5 million (+9% v 2020) as a result of the increase in intermediation transactions and the overperformance of National Guarantee Fund fees.

The amount of Direct Costs recorded an increase (+6% v 2020) due to higher operations, but Cost/Income decreased as evidence of the efficient monitoring of current costs.

(Values in € million)

	FY'20 pf	FY'21 pf
Interest Margin	2.2	7.2
Net fees and commissions	40.3	43.8
Intermediation Margin	42.5	51.0
Other operating income and expenses	7.5	11.1
Total net revenues	50.0	62.1
Direct costs	(29.0)	(30.8)
<i>of which Personnel Expenses</i>	(4.0)	(3.7)
<i>of which Other Administrative Expenses</i>	(25.0)	(27.1)
Net write-downs/write-backs on tangible/intangible assets	(1.2)	(0.2)
Net provisions for risks and charges	(0.1)	–
Profit (loss) before tax from continuing operations	19.8	31.1

Income before tax from continuing operations therefore amounted to €31.1 million, up €11.3 million compared to last year thanks mainly to the increase in commissions from services following the increase in operations and the different transfer pricing mechanism applied to liquidity between the BUs.

Corporate Center BU - Main KPIs and Economic Results

The Corporate Center BU manages the group treasury and the reallocation of funding between the various BUs and any other forms of use. It incorporates all the staff and control functions as well as the Technology & Processes Improvement and Finance and Administration departments to support the business. Its results include everything not directly attributable to the other BUs. It is the area the Group has focused on to achieve the Funding and Cost synergies underlying the integration plan with DEPObank, and therefore it is the BU, along with its internal structures, that a large part of the Group's strategic initiatives not strictly related to business developments are concentrated on (e.g. the recent Assets & Liability management activities described above).

The Income Statement of the BU suffered COVID-19's effects on the reduction in interest rates – which greatly limited the core businesses' possible alternative forms of use – as well as the negative impact deriving from lower revenues from the ex-DEPObank securities portfolio following the fair value measurement performed at the closing date, as explained above.

The interest margin declined by €25.7 million compared to the previous year, and was influenced by the decrease in revenues deriving from amortized cost trends on the former-DEPO securities portfolio cited previously, for around €27 million, and the cost of liquidity with the ECB recognized in the first half of the year, on which action was taken in the second quarter of 2021 to bring liquidity levels back within the tiering through the Liability Management initiative, described previously.

In particular, at the time of closing, these securities generated a positive effect – gross of fair value measurement taxes following the application of IFRS 3 – equal to €53 million, which was reabsorbed in part during 2021 and for the remainder in the coming years until the expiry of the related portfolio. The negative impact for 2021 due to the aforementioned phenomenon amounted, as already noted, to €27 million. Considering the profile of the forward curves applicable to Italian government securities with a multi-year maturity – largely positive over the next three years for maturities between three and ten years (source: Bloomberg) – the Group aimed to improve returns through new purchases of government securities issued by the Italian Republic, operating through an investment policy aimed at restoring the size of the portfolio and its duration to pre-closing levels, when they were respectively greater than €6 billion and in the order of approximately three years on average.

Other operating income and expenses benefited from the revenues associated with the release of several costs recognized in the past.

Costs showed a slight reduction compared to 2020, reflecting the careful control of costs, the prerogative of all Group BUs, and the effects of the initiatives taken to achieve the cost synergies envisaged in the plan in order to increase the operational efficiency of the BU.

Finally, it is recalled that in terms of funding synergies, the BU and the Group in general have already implemented all the actions that took effect from July 1, 2021 and that allow exceeding the minimum level of the range envisaged on a run-rate basis for 2023. On the cost side, useful initiatives have already been implemented to generate €20.0 million of savings on a run-rate basis starting from January 1, 2022, equal to 100% of the cost synergies identified in the plan.

(Values in € million)

	FY'20 pf	FY'21 pf
Interest Margin	58.0	32.3
Net fees and commissions	(0.9)	(1.2)
Other revenues	6.5	9.7
Intermediation Margin	63.5	40.8
Other operating income and expenses	1.1	8.8
Personnel expenses	(33.7)	(32.9)
Other Administrative Expenses	(46.1)	(37.5)
Net write-downs/write-backs on tangible/intangible assets	(8.1)	(6.8)
Net value adjustments/write-backs for credit risk	1.8	2.1
Net provisions for risks and charges	(0.8)	0.4
Profit (loss) before tax from continuing operations	(22.3)	(25.1)
Employees	299	267

The loss of current operations before taxes, therefore, amounted to -€25.1 million, down €2.8 million compared to the same period last year due mainly to the mark-to-market of the securities and the cost of excess liquidity generated in the first half of the year and fully eliminated in the second half thanks to the actions undertaken. If even only the negative effect deriving from the securities portfolio of the former DEPObank were to be removed, linked to the valuation at fair value at closing and amounting to -€27.3 million, the result of the BU would be €24.5 million higher than in 2020.

Credit quality

In terms of credit quality, the high standing of the portfolio of loans to customers is confirmed once again thanks both to the type of customers served by the three business units and the rigorous origination process and monitoring of credit.

Compared to 2020, there was a decline in total net impaired receivables, equal to €104.1 million compared to €124.6 million at December 31, 2020.

Of the impaired receivables, €82.8 million at December 31, 2021 were related to the public sector, compared to €104 million at December 31, 2020.

At December 31, 2021 non-performing loans amounted to €72.2 million, up compared to the previous year.

Of this amount, €64.5 million relates to receivables concerning "Local authorities in financial distress". Municipalities in financial distress are classified as non-performing loans, in compliance with the Supervisory Authority's regulations, although BFF Bank is entitled to receive 100% of principal and late payment interest at the end of the insolvency procedure. It should be noted that €0.3 million relates to the exposure to San Raffaele Hospital, for which the Bank awaits full recovery of the amount.

At December 31, 2021 the NPL ratio net of municipalities in distress was 0.2%, essentially in line with December 31, 2020.

Net past due exposures amounted to €19.4 million at December 31, 2021, down significantly compared to €42.1 million at December 31, 2020. 93% of this amount relates to public administration entities (mostly local authorities) and other public sector companies.

Adjustments to impaired assets in the year (risk cost) benefited from some releases of reserves and the decline in the portfolio, and amounted to -0.9 bps annualized.

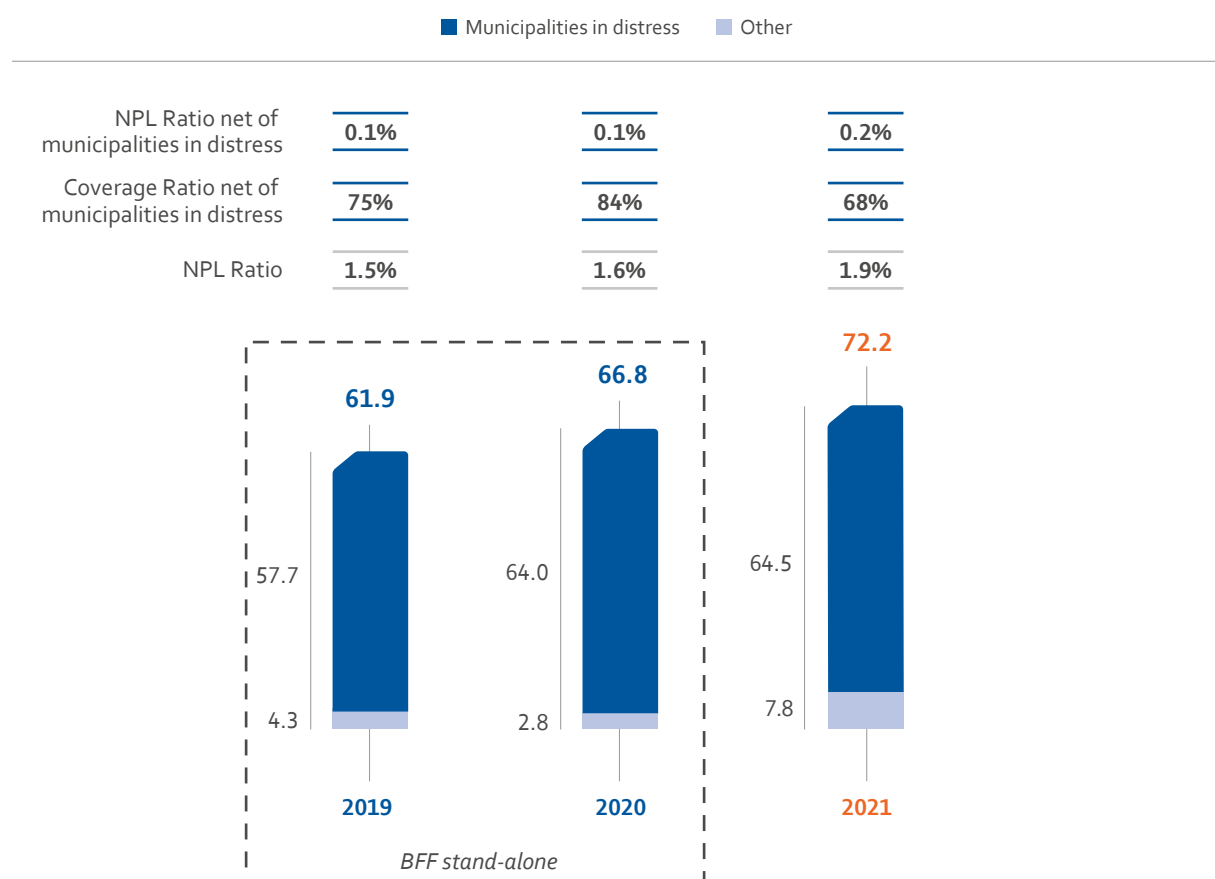
The coverage ratio for bad debts, excluding municipalities in distress, was 68% at December 31, 2021, down compared to December 31, 2020, when it was 84%.

Finally, it should be noted that, both with respect to December 31, 2020, probable defaults decreased as a result of the change in the classification of an exposure of BFF Polska fully covered by guarantees. This change, which adds to the increase in exposures to municipalities in distress, explains the increase in non-performing loans mentioned above.

(Values in € million)

	BFF alone			BFF & DEPObank
	FY'18	FY'19	FY'20	FY'21
Non-performing loans	40.3	61.9	66.8	72.2
Unlikely-to-pay positions	6.8	9.5	15.7	12.4
Net past-due exposures	72.6	34.7	42.1	19.4
Net impaired loans	119.7	106.2	124.6	104.1
Net impaired loans net of municipalities in distress	86.2	48.5	60.6	39.6

EVOLUTION OF NON-PERFORMING LOANS (€m)



Ratings

Following (i) the completion of the acquisition of DEPObank on March 1, 2021, (ii) the consequent effectiveness of the merger by incorporation of DEPObank into BFF on March 5, 2021, as well as (iii) the approval of the "2021-2023 BFF Banking Group Financial Plan", presented to the market on March 15, 2021, the Moody's rating agency took the following rating actions on BFF on April 21, 2021:

- ▶ it increased the Long-Term Bank Deposit rating to "Baa2" from "Baa3" with a Stable outlook (from Positive), the second-highest rating class among all Italian banks rated by Moody's at that date;
- ▶ it increased BFF's Baseline Credit Assessment ("BCA") from "Ba3" to "Ba2", the second-highest rating among the less significant Italian banks (Less Significant Institutions - LSI) assessed by Moody's on that date, to reflect the agency's opinion that, following the acquisition of DEPObank, BFF will continue to generate high returns while maintaining low-risk assets. Moody's recognises that the acquisition of DEPObank results in a benefit to BFF's funding and liquidity profile, as the Bank has obtained access to a broad deposit base and a high amount of liquid assets;
- ▶ it decreased the Long-term Issuer rating to "Ba2" from "Ba1", with a Stable outlook (from Developing), due to the lower proportion of senior debt at a consolidated level compared to the total of banking activities, a direct consequence of the greater size of the balance sheet following the merger of DEPObank;
- ▶ it changed the long-term rating outlook to Stable, to reflect the agency's view that BFF will maintain high asset quality, good profit generation and a strong funding profile over the next 12-18 months. Moody's also believes that compared to other Italian commercial banks BFF is less exposed to the recessionary risks deriving from the pandemic caused by the Coronavirus thanks to its business model.

In summary, Moody's ratings of BFF in April 2021, later confirmed during the Periodic Review on December 13, 2021, are as follows:

- ▶ Long-term Issuer rating: "Ba2", outlook Stable;
- ▶ Long-term Bank Deposit rating: "Baa2", outlook Stable;
- ▶ Short-term Bank Deposit rating: "P-2";
- ▶ BCA: "Ba2".

For further information refer to the press release and the Moody's Credit Opinion published on the Agency's website and the [Investors > Debt > Ratings](#) section of the BFF Group website.

Lastly note that on March 10, 2021 Standard & Poor's Global Ratings declared that it had withdrawn its "BB-/ Watch Pos/B Issuer Credit Rating" on DEPObank following the above-mentioned merger with the BFF Group. At the time of withdrawal the ratings on DEPObank were listed on Credit Watch with positive opinions.

Repayment of the €150 million senior unsecured and preferred bond issued in June, and Cash Buyback operation in June 2021

On June 21, 2021 the €150 million Bond (ISIN XS1435298275) issued in June 2016 was redeemed at maturity.

On June 25, 2021 a Liability management (Cash Buyback) transaction was completed for the senior preferred unsecured bonds maturing in June 2022 and May 2023. The transaction, which entailed one-off costs for a total of €13.4 million and will generate a benefit in terms of savings on future coupons and optimization of liquidity, involved the early repayment of a nominal €154,701,000 for the senior preferred unsecured bond, maturing in June 2022, and a nominal €261,031,000 for the senior preferred unsecured bond maturing in May 2023.

In light of the above, the situation of bond issues as of December 31, 2021 is as follows:

ISIN code	Issue date	Maturity	Bond type		Nominal value (€ million)	Coupon
Unrated and listed bonds						
XS1572408380	2-Mar-2017	2-Mar-2027	10Y	Tier 2 ⁽¹⁾	100.0	5.875%
XS1639097747	29-Jun-2017	29-Jun-2022	5Y	Senior Preferred Unsecured	42.8	2.000%
Rated and listed bonds						
XS2068241400	23-Oct-2019	23-May-2023	3,6Y	Senior Preferred Unsecured ⁽²⁾	39.0	1.750%
TOTAL AMOUNT OF OUTSTANDING BONDS as of December 31, 2021					181.8	

(1) Option call exercise date set for March 2, 2022.

(2) Rating assigned by Moody's: "Ba1".

Please recall that BFF Bank sent the Bank of Italy a request for authorization to exercise the Tier II call option, planned for March 2022, and obtained such authorization on February 11, 2022.

Furthermore, in the course of December 2021, the Bank approved a repurchase program concerning outstanding bonds: the repurchase transactions may regard the entire amount of Bonds outstanding and will be carried out by means of a direct offset in the market until June 30, 2022. The maximum price at which the purchases will take place will change based on daily changes in the security price. The securities repurchased will be cancelled out: when the nominal amount of the 2022 Bonds outstanding following the repurchases and cancellations is equal to €30 million or lower, the Bank may exercise the option of early redemption at par set forth in clause 6(c) (Clean-Up Call Option) of the 2022 Bond regulation.

Treasury shares

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

At December 31, 2021, the Bank owned 974,461 treasury shares, accounting for 0.526% of the share capital, of which 750,000 purchased as part of the treasury share buy-back program disclosed to the market on September 28, 2021 and concluded on October 22, 2021, and allocated 430,547 of them, of which 35,500 for a portion of the CEO's 2020 MBO bonus, 380,759 following the exercise of options under the "2016 Stock Option Plan" and 14,288 for non-competition agreements and exit incentives. The Bank did not sell any treasury shares.

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

Shareholders' Meeting Resolutions

On January 28, 2021, the Ordinary and Extraordinary Shareholders' Meeting of the Bank resolved to, among other things:

- ▶ pursuant to article 2502 of the Italian Civil Code, approve the merger plan in its entirety (including its annexes), and consequently to proceed – under the terms and conditions set forth therein – to the merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. into Banca Farmafactoring S.p.A. in the manner set out in the plan, and therefore, among other things, through an increase in the share capital of BFF for €10,813,652 (ten million eight hundred thirteen thousand six hundred fifty-two) through the issuance of 14,043,704 (fourteen million forty-three thousand seven hundred four) ordinary shares, without an express nominal value, for the purposes of the Merger, and therefore to be allocated on the basis of the relevant Exchange Ratio;
- ▶ approve the proposed amendments to the By-laws relating to the change of the corporate name to "BFF Bank S.p.A." and the change of the name of the related banking group to "BFF Banking Group" (articles 1 and 4 of the By-laws), with effect from the effective date of the merger.

For the sake of completeness of information, note that at the shareholders' meeting the Chair – following the Board resolution of December 22, 2020 – convened the shareholders' meeting for January 28, 2021 to resolve in ordinary session on the allocation of the profit for the 2019 financial year, pending the outcome of the discussions initiated with the Bank of Italy, aimed at clarifying some aspects of the BI Recommendation of December 16, 2020, on that occasion conferring on the Chair and the CEO, separately from each other, the powers to revoke the proposed resolution if this was necessary to comply with different instructions from the Regulator.

Subsequently, in order to ensure the adoption of a healthy and prudent approach, and inspired by principles of compliance with supervisory standards – also in light of the approaches that, according to the Bank, the less significant Italian credit institutions had taken – the Bank's Board of Directors therefore resolved to confer a mandate on the Chair not to vote on the proposed resolution on the distribution of 2019 profits, confirming the commitment to distribute the 2019 Total Dividends as soon as possible, in compliance with the instructions of the Regulator.

On March 25, 2021, the Ordinary Shareholders' Meeting of the Bank resolved:

- ▶ to allocate the profit of the Banking Group at December 31, 2020, equal to €143,281,246, for (i) €3,231,388 to Shareholders, in compliance with the limitations indicated by the Bank of Italy, equal to €0.017495 for each of the 184,694,346 BFF ordinary shares outstanding at the third ex date, March 29, 2021. This dividend includes the portion attributable to the treasury shares that may be held by the company at the "record date"; and (ii) €140,049,858 to reserve the retained earnings of BFF S.p.A. without prejudice to the commitment of

the Bank's Board of Directors to convene as soon as possible – in compliance with the recommendations of the Regulator issued following the economic emergency related to the Covid-19 pandemic, and therefore predictably after September 30, 2021 – an ordinary shareholders' meeting to resolve on the distribution of the remaining 2019-2020 Total Dividends of €165,275,418;

- ▶ to appoint nine directors in compliance with the gender balance guidance of current laws and regulations, who will remain in office for the period 2021-2023. The Ordinary Shareholders' Meeting confirmed Salvatore Messina as Chairman of the Board of Directors;
- ▶ with regard to the composition of the Board of Statutory Auditors, to appoint the new members of the Board of Statutory Auditors and their Chair, who will remain in office for the period 2021-2023;
- ▶ to revoke the previous authorisation to purchase and dispose of treasury shares granted by the Shareholders' Meeting of April 2, 2020 for the part not executed by the date of March 25, 2021, and therefore without prejudice to the transactions carried out in the meantime, and to authorise the Board of Directors – pursuant to and for the purposes of Art. 2357 of the Italian Civil Code – to purchase a maximum of 8,561,523 ordinary shares of BFF, taking into account the shares already in stock, for the purposes indicated under "Purchase of treasury shares";
- ▶ to approve only the policies for determining compensation in the event of early termination of office or termination of the employment relationship, including the limits to such compensation, thus remaining in force the Remuneration Policy approved by the Shareholders' Meeting held on April 2, 2020.

Conversely, the Shareholders' Meeting did not approve: the first section of the Annual Report on remuneration policy and on remuneration paid, pursuant to art. 123-ter, paragraph 3-bis of Italian Legislative Decree no. 58/1998 and subsequent amendments and additions ("TUF"), and the second section of the Annual Report on remuneration policy and on remuneration paid, pursuant to art. 123-ter, paragraph 6 of the TUF. Therefore, following the shareholders' resolutions on remuneration the Bank will continue to apply the Remuneration Policy approved by the Shareholders' Meeting on April 2, 2020.

Most recently, on October 7, 2021, the Ordinary and Extraordinary Shareholders' Meeting of the Bank resolved to, among other things:

- ▶ set aside €165,275,418 for the distribution of dividends in favor of Shareholders. The corresponding amount per share, gross of legal withholdings and inclusive of the portion attributable to treasury shares held by the Company at the record date, was quantified as €0.8946 at the end of the day of the shareholders' meeting;
- ▶ pay such dividend as of October 13, 2021 (payment date) and, following the Supervisory Authority's authorization, resolved to:
- ▶ approve the proposal by the Board of Directors to modify articles 9, 11, 14, 15, 16, 18, 19, 21 and 22 of the By-laws, as presented in the Illustrative report;
- ▶ grant to the Board of Directors, and on its behalf to the Chairman and the Chief Executive Officer, including separately, within legal limits, all of the most extensive powers to do what is necessary for the implementation and full execution of this resolution [...].

Partial execution of the share capital increase without consideration approved by the Extraordinary Shareholders' Meeting of April 2, 2020

Following the resolution of the Extraordinary Shareholders' Meeting of April 2, 2020 – to increase the share capital of the Bank without consideration, in a divisible manner and in several tranches, pursuant to Art. 2349 of the Italian Civil Code, for a total amount not exceeding €5,254,563.16, through the issue of up to 6,824,108 ordinary shares for the purposes connected with the Group's remuneration and incentive policies, including

the "2020 Banca Farmafactoring Banking Group Stock Option Plan" (the "2020 Capital Increase") – the 2020 Capital Increase was partially executed through the issue of new ordinary shares without nominal value with regular dividend rights, having the same characteristics as those already in circulation at the time of allocation, as regards:

- ▶ 47,925 shares, in the period between May 27, 2020 and August 25, 2020, and
- ▶ 618,344 shares, in the period between April 7, 2021 and December 21, 2021.

Share capital

In 2021 the share capital increased from €131,400,994.34 (at December 31, 2020) to €142,691,300.98 first following the effectiveness of the Merger by incorporation of DEPObank – Banca Depositaria Italiana – into Banca Farmafactoring S.p.A. (now BFF Bank S.p.A.) (the "Merger") – which was part of a more complex operation involving among other things the issuance of 14,043,704 ordinary shares without a nominal value for a capital increase of €10,813,652 at the service of the Merger and, subsequently as a result of the partial execution which took place in the period between April 7, 2021 and December 21, 2021 – of the delegated free capital increase for an amount equal to €476,124.88 through the issuance of new BFF ordinary shares, assigned to BFF Group personnel for needs related to remuneration and incentive policies (2020 Management by Objectives and 2016 Stock Option Plan).

At December 31, 2021 the option rights relating to the outstanding stock option plans were equal to 11,149,684 options awarded: if the price of the shares doubles (for example up to €15), the dilution would be 2.18%.

Specifically, at December 31, 2021, with regard to the 2016 stock option plan (according to which a total of 8,358,640 option rights had been assigned), the number of options assigned and not exercised amounted to 2,534,684 (6,830,198 at December 31, 2020). The vesting period has matured for 1,581,684 of these (3,626,068 at December 31, 2020).

With regard to the 2020 stock option plan, 8,615,000 options were assigned as of December 31, 2021 (compared to 6,620,000 options assigned as of December 31, 2020), none of which is yet exercisable.

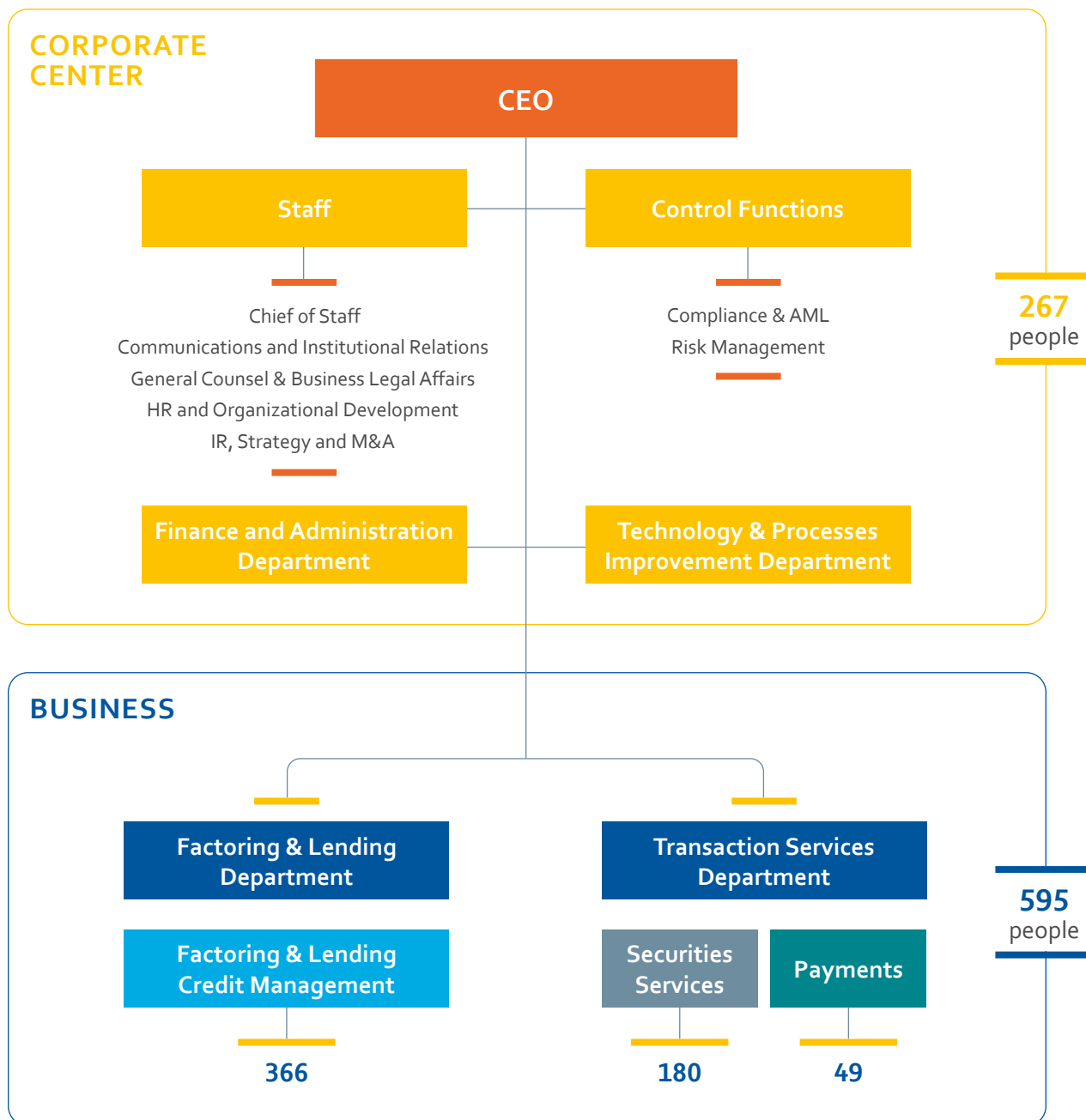
Changes in the Organizational Structure

With regard to actions aimed at continuously improving the Bank's governance and organizational efficiency, also with respect its Branches and its Subsidiaries and in view of the merger with DEPObank, initiatives have been taken to align the working methods and processes of the Subsidiaries with those of the Bank and to harmonise the organizational structure.

There are three objectives established with the new organizational structure:

- (i) refocusing traditional business activities
- (ii) taking advantage of commercial development opportunities
- (iii) further aligning approaches to credit management in the various markets.

As of December 31, 2021 the Group is organized along 2 business lines - Factoring & Lending and Transaction Services - supported by the Corporate Center.



In the course of 2021, both the three lines of business and several Corporate Center structures were involved in the changes set forth below.

The Factoring Department was merged with the International Markets Department in order to create a single **Factoring & Lending Department** for the management of the (i) Factoring, (ii) Credit Management and (iii) Financing & Lending business lines. Specifically, within this department:

- ▶ a specific organizational unit was created for the management of marketing activities;
- ▶ all credit management and recovery activities at Group level were concentrated within the Group Credit Management O.U., whose credit management and recovery activities were reorganized in the underlying organizational structures.

Custodian bank, securities services and payments operating activities were regrouped into a new Department named **Transaction Services**, broken down into the following organizational structures:

- ▶ Business Support O.U.
- ▶ Business Development O.U.
- ▶ Depository Bank O.U.
- ▶ Security Services O.U.
- ▶ Payments O.U.

The **Group General Counsel & Business Legal Affairs** function concentrated legal activities other than the Factoring & Lending Department's collection dispute management within a single function, to further reduce the fragmentation of legal and contractual responsibilities and better oversee all legal issues.

The Operations Department was renamed **Technology & Processes Improvement**, with a greater focus on ICT and process issues, with several changes taking place in the second part of the year in the underlying organizational structures, with the objectives of (i) focusing ICT as a business partner for internal customers in a moment of large transformation projects in our IT systems, (ii) supporting the future evolution of the BFF Group with adequate governance, security and project oversight and (iii) consolidating the integration of ICT structures post-merger.

Furthermore, the Deposit Account Organizational Unit was moved within the Finance & Treasury O.U.

Within the **Finance & Administration Department**:

- ▶ in the Finance & Treasury O.U., (i) a new Area was created to handle Middle Office activities and (ii) the Deposit Account Organizational Unit was moved into it, therefore centralizing all Group funding management;
- ▶ an O.U. was also created named Administration Processes Improvement & Financial Reporting Officer for the management of administrative process improvement activities, and those relating to the role of the Financial Reporting Officer for drafting the Group's accounting and corporate documents.

The **Integration Function** was removed from the organizational chart due to the merger of Banca Farmafactoring and DEPObank into a single entity: BFF Bank.

Inspection of the Bank of Italy

Please note that, in the period between March 8 and June 24, 2021 the Bank of Italy performed an inspection at BFF, pursuant to Articles 54 and 68 of Italian Legislative Decree no. 385/83, as subsequently amended (the "TUB").

The Supervisory Authority submitted the results of the above-mentioned assessments to the Bank's Board of Directors on November 4, 2021.

On December 28 2021, the Bank submitted its considerations relating to the findings provided to the Banking Supervision 2 (SB2) and Supervisory Inspectorate (VIS) Services, notifying them of the measures taken and those that it intends to take.

Deposit Guarantee Scheme

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

More specifically, Article 10 of such directive, transposed into Article 24, paragraph 1 of the Interbank Deposit Protection Fund (*Fondo Interbancario di Tutela dei Depositi*, FITD)'s by-laws, establishes the setting up of a mandatory contribution mechanism ensuring that, by July 3, 2024, available financial resources shall be set aside up to the target level of 0.8% of total covered deposits.

Paragraph 5 of the aforementioned article states that member banks must annually pay ordinary contributions (so-called Mandatory Scheme) commensurate with the amount of covered deposits outstanding at September 30 each year out of the total in the banking system, also taking into account risk adjustments resulting from the application of the new model of performance indicators with the methods described in the "Regulations for Reports and Risk-based Contributions by Member Banks to FITD" available on the FITD website.

The ordinary contribution for 2021 communicated by FITD on December 17, 2021 amounted to €1,451 thousand, while for the year 2020 it was €1,856 thousand for BFF and €399 thousand for the merged former DEPObank; for 2019, BFF paid an ordinary contribution of €913 thousand and the former DEPObank a contribution of €633 thousand.

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

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

Resolution Fund

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

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

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

The ordinary annual contribution requested of BFF Bank for the year 2021 and with a note of April 29, 2021 was €8,688 thousand (€2,963 thousand for BFF and €5,725 thousand for the incorporated DEPObank), paid in May 2021.

The contribution requested in 2020 was €2,296 thousand for BFF and €7,035 thousand for the incorporated DEPObank, paid in May 2020, while the amounts requested in 2019 were €1,734 thousand for BFF and €3,884 thousand for DEPObank.

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

In June 2021, the Bank of Italy requested the banking system to provide an additional extraordinary contribution of €350 million for 2019, taking into account the upcoming financial needs of the Fund.

The amount charged to BFF, paid in July 2021, amounts to €965 thousand, while the merged former DEPObank paid €1,865 thousand. In 2020 the extraordinary contribution for 2018 totalled €726 thousand for BFF and €2,222 thousand for the former DEPObank, while in 2019 the extraordinary contribution for 2017 totalled €635 thousand for BFF and €1,423 thousand for the former DEPObank.

On December 28, 2016, the Bank of Italy, within the framework of the resolution scheme for the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti, and Cassa di Risparmio di Ferrara, requested an extraordinary contribution equal to twice the amount of the ordinary annual contribution established for 2016. For BFF this amounted to €2,179 thousand, while the same share for the former DEPObank amounted to €4,328 thousand.

On July 16, 2021 the Bank of Italy, as Resolution Authority, adopted the 2020 resolution plan for BFF Banking Group, identifying resolution as a crisis management strategy for the BFF Bank group.

Internal Control System

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

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

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

The organizational framework of the Group's internal control system, based on the following three control levels, and the main activities carried out in 2021, are described below.

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. The functions responsible for such controls are distinct from business functions and contribute to the definition of risk governance policies and the risk management process:

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

Amongst the main activities carried out by the Risk Management Function during 2021, please note: the review of the capital adequacy process, the liquidity risk management systems (ICAAP/ILAAP) and the amendment of the Contingency Funding Plan ("CFP"), as well as the Recovery Plan, from a combined entity perspective following the acquisition of DEPObank S.p.A.; the launch of projects regarding ESG matters and on loan origination and monitoring (EBA/GL/2020/06); support for activities aimed at migrating the core banking IT system in Transaction Services.

- ▶ **Financial Reporting Officer:** under the provisions and terms of the law, Staff reporting to the Financial Reporting Officer evaluate the effectiveness of the oversight being provided by the Internal Control System in regards to Financial Reporting Risk. In particular, it performs assessments and monitoring at a Group level, evaluating the adequacy of the coverage of the potential risk by performing adequacy and effectiveness tests on key controls on an ongoing basis, identifying possible points of improvement in the Internal Control System in the accounting area. In this context, the Financial Reporting Officer and the Chief Executive Officer of the Parent Company together certify the following aspects through specific reports attached to the annual and

consolidated financial statements, and interim reporting: the suitability of the accounting procedures used in preparing the annual, consolidated and interim financial statements; compliance of documentation with applicable international accounting standards endorsed by the European Union; whether accounting books and records are suitable for providing a true and fair view of the financial position, financial performance and cash flows of the Group on a consolidated level and of the individual subsidiaries included under the scope of the consolidation; and the reliability of content, in relation to specific aspects, of the Director's report on operations and interim reporting.

- ▶ **Compliance and Anti-Money Laundering (AML):** this function supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory framework for the Bank and the Group - also through its reference persons/local functions at its subsidiaries and/or branches - continuously verifying whether internal processes and procedures are adequate in preventing such risk and identifying the relevant risks to which the Bank and the subsidiaries are exposed; the function also has the duty of preventing and combatting money laundering and terrorist financing transactions, moreover identifying on an ongoing basis the regulations applicable in that area.

The Function is broken down into three areas: Factoring & Lending Compliance, Transaction Services & ICT Compliance and AML.

For 2021, note first of all that the pandemic did not hinder the regular performance of the activities carried out according to defined planning: in cases where needs for improvement were identified the Bank and Group organizational units undertook action plans whose implementation is constantly monitored.

In relation to the acquisition and subsequent merger by incorporation of DEPObank into BFF, the Function harmonized the Compliance and AML Policy and the relative Organizational Model and updated the self-assessment of money laundering risk of the BFF Group to include the risks deriving from the business lines in which DEPObank operated: the overall assessment of the residual risk of the BFF Group is "low".

At the end of May the Bank also participated in the AML College, established for BFF Bank as a European credit institution operating internationally, which has established offices or branches in at least two different States belonging to the European Union other than Italy (State where the Bank has its head office). This initiative was promoted in compliance with the Guidelines issued on December 16, 2019 by the three European Supervisory Authorities (EBA, ESMA and EIOPA) relating to cooperation and the exchange of information between the Supervisory Authorities in the credit and financial fields. Organized by the Bank of Italy, the College also includes permanent members of the EBA. The aim of the AML College is to attribute a money laundering risk profile to the BFF Group and to monitor its international supervisory activities accordingly.

Third-level controls

Internal audits are carried out by the Group's Internal Audit function, directly reporting to the Board of Directors. The Internal Audit function carries out independent controls, not only at the Parent Company but also at the subsidiary BFF Finance Iberia under a specific service agreement; it also performs management and coordination activities for the Internal Audit Function of the subsidiary BFF Polska. The regulation approved by the Board of Directors specifies that the Internal Audit function, within the third-level controls, evaluates the overall functioning of the internal control system, bringing to the attention of the corporate bodies any possible improvements.

The Head of the Internal Audit function has the necessary autonomy and is independent of the operating structures, in compliance with Bank of Italy's regulation on Internal Controls, the Corporate Governance Code and internal regulations.

For 2021, the Internal Audit function carried out the testing activities provided for by the Group's multi-year 2019-2021 Audit Plan, prepared according to a risk-based approach, updated by the Board of Directors in March 2021, 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.

The audits envisaged for 2021 in the Group Audit Plan were performed by the function without any interruption, though the period of the health emergency required that such audits be performed remotely in part. More specifically, the audits were performed on the internal structures of the Bank, on the foreign branches, on the subsidiary BFF Finance Iberia and on BFF Polska and its subsidiaries. Moreover, such function carried out the audits provided for by the regulations applicable to Group activities, including those relating to remuneration and incentive policies, ICAAP and ILAAP processes, the Recovery Plan and IT system reliability, security and adequacy aspects. The function also drafted the required reporting established by banking regulations represented by the "Annual Internal Audit Report" and the "Audit Report on outsourced critical or important functions" (CIF).

The manager of the Internal Audit Function is also responsible for the whistleblowing system. In this regard, in the course of the year internal regulations were updated and an IT reporting management platform was adopted at Group level.

Supervisory Body pursuant to Italian Legislative Decree 231/2001

The Bank has an Organization, Management and Control Model (hereinafter referred to as the "Model") prepared pursuant to Italian Legislative Decree 231 of June 8, 2001 (hereinafter also referred to as the "Decree"), drafted in compliance with the requirements of such Decree as well as the guidelines of ASSIFACT and ABI. In the course of 2021, the 231 Model was integrated with the "Protocol for the integration of the Bank's Organizational Model pursuant to Italian Legislative Decree no. 231/2001 with respect to the operations of DEPObank S.p.A.", approved by the Board of Directors on February 17, 2021 as amended with the approval of the Board of Directors of November 26, 2021, in order to incorporate primarily i) the changes in the organizational structure of BFF, ii) the sensitive transaction service activities and the relative oversight mechanisms; iii) the adaptation of information flows to the Supervisory Body post-merger by incorporation of DEPObank.

The Model includes a General Part, which provides a summary description of the reference regulatory framework, the key characteristics and features of the Model identified within the operations defined as "sensitive" for the purposes of the Decree, the structure and composition of the Supervisory Body as well as the description of the system of sanctions to prevent violation of the provisions contained in the Model. It also includes Special Parts comprising: i) the Matrix of operations at risk of committing a criminal offence, intended to identify the criminal offences that may potentially be committed as part of the Bank's operations; ii) the Protocols of the Departments and Organizational Units of the company, which detail the operations, audits and reporting mechanisms intended to ensure that the Bank's organizational and control system – including the foreign branches in Spain, Portugal, Poland and Greece – complies with the rules in the Decree; iii) Table of Information Flows to the Supervisory Body ("Information Flows to the SB").

The Code of Ethics, the most recent update of which was approved by the Board of Directors on November 26, 2021, is an integral part of the Model. This document defines the set of ethical values embraced by the Group and that allow, among other things, to prevent the criminal offences as per the Decree.

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

On May 10, 2021 the Board of Directors appointed the new members of the Supervisory Body: two external members, one of whom is the Chair, and one internal member, the Head of the Internal Audit Department.

The work of the Supervisory Body in 2021 focused mainly on the updating and adequacy of the Model, monitoring information flows and monitoring the working situation in terms of compliance with the provisions on the health and safety of workers in consideration of the ongoing COVID-19 health emergency.

The Supervisory Body reported to the Board of Directors on its work during 2021. Specifically, it noted that it had not directly or indirectly received any report relevant for the proper application of the Model.

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

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

At its meeting of May 10, 2021 the Board of Directors appointed the new members of the Supervisory Body: two external members, one of whom is the Chair, and one internal member, the Head of the Internal Audit Department.

Research and Development

During 2021 the primary objective of the various projects carried out within the Group concerned the efficiency of internal processes and IT systems.

More specifically, the following important projects were carried out:

- ▶ migration of the information systems of the subsidiaries in the Czech Republic and Slovakia to the Bank's systems.

The activity was completed in April 2021;

- ▶ development of new technological solutions aimed at increasing the efficiency of the software supporting the Group's business, including the out-of-court debt management and recovery system, the systems supporting the Payments service and the subsidiary's systems in Poland;
- ▶ development of new technological solutions aimed at managing regulatory compliance for all Group companies.

All activities for the integration with DEPObank were also completed during the year, including the migration of the core system.

Changes in the workforce

At December 31, 2021 the total number of BFF Banking Group employees amounted to 862 persons and was affected by the merger with DEPObank, broken down as follows by country: 580 in Italy (611 in 2020, including DEPObank), 10 at the BFF branch in Portugal, 8 at the branch in Greece, 57 in Spain (9 at the BFF branch in Madrid, 48 at BFF Finance Iberia), 188 in Poland (of which 39 at the branch), 16 in Slovakia and 3 in the Czech Republic.

During the year, there were 69 new hires, still employed on December 31, 2021, of which 22 in Italy (including FOS), 2 in Greece, 26 in Poland, 3 in Slovakia, 1 in the Czech Republic, 13 in Spain and 2 in Portugal.

The following table shows the composition of the Group's staff broken down by the countries in which BFF Banking Group operates through a permanent establishment. The data from 2020 include the staff of DEPObank.

Category	2020							
	Italy	Spain	Poland	Slovakia	Czech Rep.	Greece	Portugal	Total
Senior Executives/ Executives	33	1	5	–	–	–	–	39
Manager/Coordinator	88	17	36	3	–	3	2	149
Specialists/Professionals	490	38	157	13	3	3	8	712
Headcount 12/31	611	56	198	16	3	6	10	900

Category	2021							
	Italy	Spain	Poland	Slovakia	Czech Rep.	Greece	Portugal	Total
Senior Executives/ Executives	21	1	3	–	–	–	1	26
Manager/Coordinator	93	15	38	4	–	3	1	154
Specialists/Professionals	466	41	147	12	3	5	8	682
Headcount 12/31	580	57	188	16	3	8	10	862

At December 31, 2021 there were 862 people: 474 (55%) women and 388 (45%) men.

Below are the details by country:

2020					
Country	Women		Men		Total
Italy	313	51%	298	49%	611
Spain	29	52%	27	48%	56
Poland	128	65%	70	35%	198
Slovakia	10	63%	6	38%	16
Czech Rep.	3	100%	–	0%	3
Greece	2	33%	4	67%	6
Portugal	4	40%	6	60%	10
Total by country	489	54%	411	46%	900

2021					
Country	Women		Men		Total
Italy	294	51%	286	49%	580
Spain	31	54%	26	46%	57
Poland	129	69%	59	31%	188
Slovakia	11	69%	5	31%	16
Czech Rep.	2	67%	1	33%	3
Greece	4	50%	4	50%	8
Portugal	3	30%	7	70%	10
Total by country	474	55%	388	45%	862

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

Share performance

The BFF Bank stock (ISIN Code: IT0005244402 – Italian stock exchange ticker: BFF) has been traded on the Mercato Telematico Azionario (MTA) of Borsa Italiana since April 7, 2017, “Finance” Industry and “Financial Services” Super Sector.

The BFF share price at December 31, 2021 was €7.09, up by 51% over the IPO share placement price of €4.70. Since listing until December 31, 2021, the Bank has distributed total gross dividends of €1.943095 per share (€0.492 per share in April 2018, €0.539 per share in April 2019, €0.017495 per share in March 2021 and €0.8946 per share in October 2021). 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, 2021 compared to the IPO placement price was 105.7%. The FTSE Italia All-Share Index total return was 56.3% in the same year.

At December 31, 2021, it is part of the following FTSE indexes:

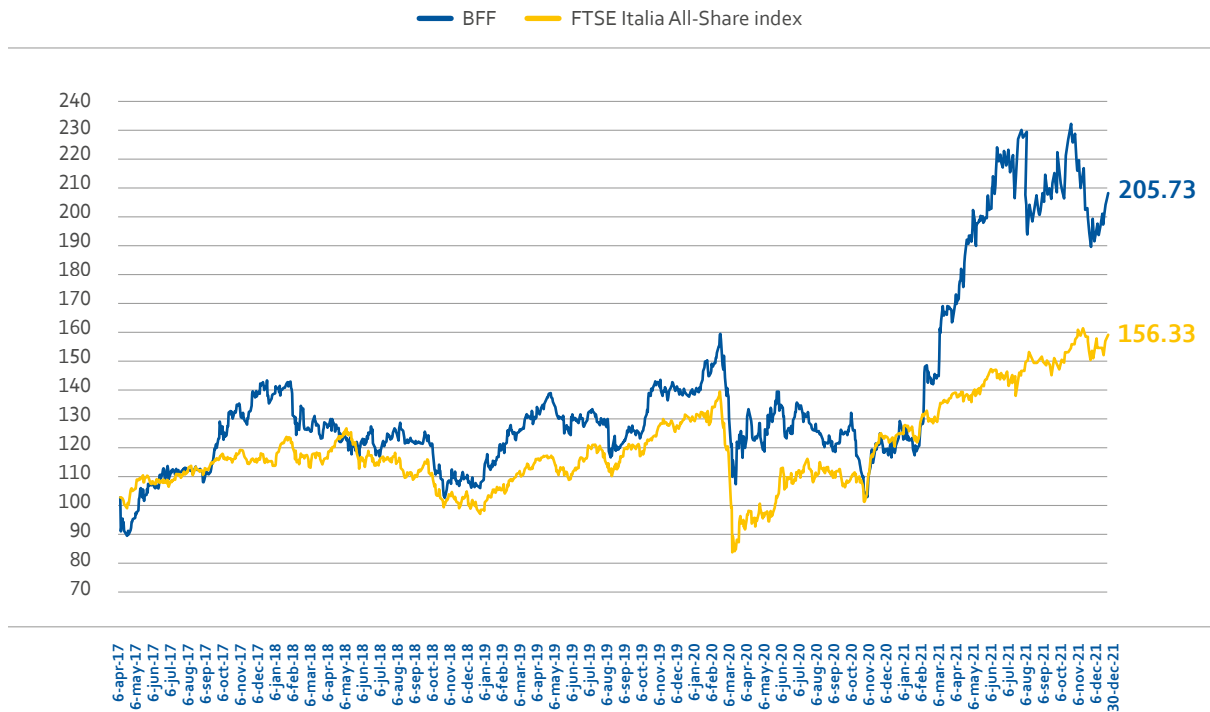
- ▶ FTSE Italia All-Share
- ▶ FTSE All-Share Capped
- ▶ FTSE Italia Mid Cap
- ▶ FTSE Italia Finanza
- ▶ FTSE Italia Servizi Finanziari
- ▶ FTSE Italia PIR PMI
- ▶ FTSE Italia PIR Mid Small Cap
- ▶ FTSE Italia PIR PMI All
- ▶ FTSE Italia PIR Mid Cap

and the following STOXX indices:

- ▶ EURO STOXX Total Market
- ▶ EURO STOXX Total Market ESG-X
- ▶ EURO STOXX Total Market Financial Services
- ▶ EURO STOXX Total Market Financials
- ▶ EURO STOXX Total Market Small
- ▶ STOXX All Europe Total Market
- ▶ STOXX Developed Markets Total Market
- ▶ STOXX Developed Markets Total Market ESG-X
- ▶ STOXX Developed Markets Total Market Small
- ▶ STOXX Developed and Emerging Markets Total Market
- ▶ STOXX Europe Total Market
- ▶ STOXX Europe Total Market ESG-X
- ▶ STOXX Europe Total Market Financial Services
- ▶ STOXX Europe Total Market Financials
- ▶ STOXX Europe Total Market Small
- ▶ STOXX Europe ex UK Total Market
- ▶ STOXX Europe ex UK Total Market Small
- ▶ STOXX Global Total Market
- ▶ STOXX Italy Total Market
- ▶ iSTOXX Europe Carry Factor
- ▶ iSTOXX Europe Multi-Factor
- ▶ iSTOXX Europe Multi-Factor XC
- ▶ iSTOXX Europe Quality Factor
- ▶ iSTOXX Italy Small Mid Cap
- ▶ iSTOXX PPF Responsible SDG

BFF shares are also included in various MSCI indices (including MSCI Europe ex UK Small Cap Index, MSCI EMU Small Cap index and MSCI ACWI/Financials Index).

TOTAL RETURN WITH REINVESTED DIVIDENDS



Main Balance Sheet Items

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

Cash and cash equivalents

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
a) Cash	4	192	188
b) Current accounts and sight deposits at Central Banks	173,276	360,142	186,866
c) Current accounts and sight deposits at banks	16,321	194,134	177,813
Total	189,601	554,468	364,866

Starting from December 31, 2021, in line with what is set forth in the 7th update of Bank of Italy circular 262/205, the item in question, aside from cash and sight deposits at Central Banks, with the exception of the compulsory reserve, also includes current accounts, as well as sight receivables (current accounts and sight deposits) from banks.

As of December 31, 2021, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €360 million, as well as current accounts held the Bank and its subsidiaries at third-party banks at the end of 2021, amounting to €194 million. Specifically, "Current accounts and sight deposits at banks" mainly refer for €183,075 thousand to BFF Bank, for €9,623 thousand to BFF Polska Group and for €1,616 thousand to BFF Finance Iberia.

Financial assets measured at fair value through profit or loss

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
a) financial assets held for trading	–	4,095	4,095
c) other financial assets subject to mandatory fair value measurement	–	32,503	32,503
Total	–	36,598	36,598

The item consists essentially of i) Financial assets held for trading of €4,095 thousand, which includes the positive fair value of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Group is exposed to and ii) Other financial assets mandatorily measured at fair value of €32,503, which mainly include the "UCI units" and the share in the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) for Banca Carige.

Financial assets measured at fair value through other comprehensive income

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Equity investments	17	–	(17)
Equity securities	147	83,506	83,359
Total	164	83,506	83,342

The item consists essentially of the stake in the Bank of Italy of €80 million, purchased in March 2021, as well as some shares and equity investments for an amount of €3.5 million.

Financial assets measured at amortized cost

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Government securities – (HTC)	1,682,050	5,792,627	4,110,577
Receivables due from banks	31,078	404,099	373,021
Loans to customers	4,067,451	3,872,771	(194,680)
Total	5,780,579	10,069,497	4,288,918

The amount relating to the item Government Securities – (HTC) consists entirely of government securities classified in the Held to Collect (HTC) portfolio and purchased to hedge liquidity risk, for a total value of €5,793 million.

"Receivables from banks" includes the item "Receivables from central banks - Mandatory reserve" relating to the deposit of Mandatory reserves, including the amounts deposited in compliance with the reserve requirement of the client banks, for which the Parent Company BFF provides the service indirectly, as well as the amounts deposited with Banco de España as CRM (*Coeficiente de Reservas Mínimas*) in relation to the deposit-taking activities carried out by the Spanish branch of the Bank through "Cuenta Facto", and with the National Bank of Poland (Narodowy Bank Polski) for the deposit-taking activities carried out by the Polish branch through "Lokata Facto". The item also includes "Receivables due from banks – Repurchase agreements" relating to contracts governed by the Global Master Repurchase Agreement (GMRA) as well as "Receivables due from banks – Others" which increase compared to December 31, 2020 following the acquisition of DEPObank and derive from the provision of activities and services offered.

With regard to "Receivables due from customers", the item mainly includes receivables relating to outright purchases and loans made by the subsidiary BFF Polska Group.

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Receivables purchased outright	3,204,561	2,643,786	(560,775)
Receivables purchased below face value	24,895	23,864	(1,031)
Other receivables	837,996	1,205,122	367,126
Total	4,067,451	3,872,771	(194,680)

Credit quality

With regard to credit quality, total net impaired receivables decreased by €104.1 million at December 31, 2021 compared to €124.6 million at December 31, 2020.

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

Non-Performing exposures, whose overall gross amount was €124.4 million at December 31, 2021 with impairment losses totalling €20.4 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, 2021, the total non-performing loans of the Banking Group, net of impairment, amounted to €72.2 million. Among these non-performing exposures, €64.5 million (89% of the total) concerned regional authorities in financial distress.

Gross non-performing loans amounted to €87.5 million and related adjustments amounted to €15.2 million.

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

Unlikely-to-pay positions

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

At December 31, 2021, gross exposures classified as unlikely to pay totalled €17.5 million and related adjustments amounted to €5.1 million, a net amount of €12.4 million.

Past-due impaired exposures

Past due impaired exposures consist of positions vis-à-vis entities for which the conditions for classification as past due impaired exposures are met by presenting one or more credit lines that meet the definition of "Non-performing exposures with forbearance measures" set out in Section V, Part 2, paragraph 262 of the ITS.

At December 31, 2021, total net past due exposures amounted to €19.4 million for the entire Banking Group.

The Banking Group's gross exposures totalled €19.5 million and relevant adjustments amounted to €58 thousand.

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".

Type	12.31.2020			12.31.2021		
	Gross value	Write-downs/ write-backs	Net value	Gross value	Write-downs/ write-backs	Net value
Impaired exposures purchased performing (Stage 3)	135,107	(16,091)	119,015	118,965	(20,176)	98,789
Impaired exposures purchased impaired (Stage 3)	5828	(214)	5,614	5,493	(206)	5,287
Performing exposures (Stage 1 and 2)	3,946,325	(3,503)	3,942,822	3,770,502	(1,806)	3,768,696
Total	4,087,260	(19,809)	4,067,451	3,894,960	(22,189)	3,872,771

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

Tangible and intangible assets

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Tangible assets	18,014	36,452	18,438
Intangible assets	36,675	67,547	30,873
- of which goodwill	30,874	30,874	-
Total	54,689	103,999	49,310

At December 31, 2021, the item "Tangible assets" amounted to a total of €36,452 thousand. Of this amount, €33,138 thousand related to BFF Bank, €2,041 thousand to BFF Polska Group, and €1,273 thousand to BFF Finance Iberia. The amount relating to BFF Bank includes i) land of €6,325 thousand, ii) buildings (including capitalized extraordinary maintenance) of €11,017 thousand including the Rome property at Via Elio Chianesi 110/d owned by the former DEPObank, iii) rights of use relating to the application of IFRS 16 on leases of €16,290 thousand. For further information on this topic, please refer to section M.

Intangible assets largely consist of the goodwill arising from BFF's acquisition of BFF Polska Group in 2016 and the former IOS Finance (now merged into BFF Finance Iberia) in 2019, totalling respectively €22,146 thousand and €8,728 thousand, as well as the Customer Relationships recognized following the finalization of the PPA, equal to €25,740 thousand.

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

Hedging derivatives, equity investments and financial liabilities held for trading

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Hedging derivative assets	–	13	13
Equity investments	88	13,484	13,396
Financial liabilities held for trading	–	2,725	2,725
Hedging derivative liabilities	–	4,814	4,814

The items Hedging derivative assets and liabilities include respectively the positive and negative fair value at December 31, 2021 relating to interest rate swap hedges with notional in zloty defined with the aim of hedging the loans disbursed in zloty to Polish subsidiaries under current intercompany agreements.

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

The item Financial liabilities held for trading includes the negative fair value at December 31, 2021 of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Group is exposed to.

Tax assets and liabilities

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Tax assets	15,333	10,0519	85,186
current	4,090	41,390	37,300
prepaid	11,243	59,129	47,886
Tax liabilities	83,698	100,684	16,985
current	5,824	5,027	(798)
deferred	77,873	95,657	17,783

As at December 31, 2021, current tax assets and liabilities amount to €41,390 thousand and €5,027 thousand respectively, and include the net balance of the Group's tax positions with respect to tax authorities, in accordance with the provisions of IAS 12.

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

During the first half of 2021 the tax value and book value relating to Banking Payments goodwill deriving from the former DEPObank were aligned (see what is described in the specific item 100 "Intangible Assets" of the Balance Sheet Assets) following the payment of substitute tax equal to €2.4 million, resulting in a net positive effect of €23.7 million on income taxes for the year. Furthermore, the item also includes the share of deferred tax assets deriving from the financial statements of the former DEPObank relating to goodwill and the tax loss realized at the end of 2020.

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

Other Assets and Liabilities

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Other assets	27,180	214,614	187,434
Other liabilities	82,805	460,856	378,051

Following the merger with DEPObank, the Other assets and liabilities items include the transitory items and the items to be settled with a debit and credit balance that fall within the scope of bank payment intermediation and include settlements that were suspended in the first business days after the date of reference.

Financial liabilities measured at amortized cost

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

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Payables due to banks	1,034,655	795,053	(239,602)
Payables due to customers	3,571,621	9,029,014	5,457,393
- of which to financial institutions	189,656	-	(189,656)
Securities issued	808,908	186,286	(622,622)
Total	5,415,184	10,010,353	4,595,169

The item "Payables due to banks" mainly consists of "current accounts and demand deposits", mainly deriving from custodian bank operations, and includes the balances of accounts of bank customers (formerly DEPObank).

Following the acquisition and merger with the former DEPObank and in order to achieve funding synergies, during the first half of 2021 BFF Bank reimbursed all the loans representing the funding requested from third-party banks to support the core business by the parent company and its subsidiaries. Specifically, the loan agreements in zloty used to acquire BFF Polska Group were also repaid.

Payables to customers mainly refer to "current accounts and demand deposits" relating to balances on operational accounts, i.e. accounts opened for customers (e.g. funds, asset management companies, corporate customers and other institutions) related to the custodian bank core business (former DEPObank). The item includes €230 million for online deposit accounts ("conto facto") offered in Italy, Spain and Germany, the Netherlands, Ireland and Poland (restricted deposits and current accounts), compared to €1,654 million at December 31, 2020.

As mentioned above, following the acquisition and merger with the former DEPObank and in order to achieve funding synergies, during the first half of 2021 all debt relationships relating to collaborations with the other factoring companies were closed, which at the end of 2020 amounted to €189 million.

Debt securities issued consist of bonds issued by the Bank, with a total face value of €181.8 million (€800 million at December 31, 2020), recognised in the financial statements in the amount of €186.3 million at amortized cost using the effective interest rate method.

The significant decrease recorded compared to December 31, 2020 is attributable to the repayment at maturity of the senior unsecured and unrated bond loan (ISIN XS1435298275) equal to €150 million, the Cash Buyback completed on June 25, 2021 which allowed the early repayment of €415.7 million for two senior bonds due in 2022 and 2023, and the repayment of the flexible senior notes issued by the securitisation vehicle (BFF SPV S.r.l.), now in liquidation, in place with the Bayerische Landesbank Group (Bayern LB) for a nominal amount of €50 million. The total cost of this Liability Management operation was 9.5 million net of taxes.

As a result of the above, as of December 31, 2021 the item includes:

- ▶ €100 million subordinated unsecured and unrated Tier 2 bonds (ISIN XS1572408380) issued by Banca Farmafactoring in March 2017. The 10-year bonds due March 2027 have the right to an issuer call date (one-off) in the fifth year (in March 2022). The bonds pay an annual coupon of 5.875%;
- ▶ €42.8 million remaining on senior unsecured and unrated bonds (ISIN XS1639097747) issued by Banca Farmafactoring in June 2017, due in June 2022. The bonds pay an annual coupon of 2%;
- ▶ €39 million remaining on senior unsecured bonds (ISIN XS2068241400) with Moody's Ba1 rating issued by Banca Farmafactoring in October 2019, due in May 2023. The bonds pay an annual coupon of 1.75%.

Provisions for risks and charges

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Commitments and other guarantees provided	527	294	(233)
Employee benefits	4,777	6,133	1,356
Other provisions	1,078	15,533	14,456
Total	6,382	21,960	15,579

At December 31, 2021 "Provisions for risks and charges" mainly include allocations to "Pension and similar obligations" and allocations to "Other Provisions" to cover contingent liabilities that Group companies may incur.

Main Consolidated Income Statement Items

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

At December 31, 2021, the Group achieved a reported profit of €197.4 million, inclusive inter alia of the positive effects deriving from the acquisition of DEPObank, such as Badwill amounting to €76.9 million and Goodwill realignment amounting to €23.7 million, net of costs related to liability management initiatives and other transaction and restructuring costs amounting to €9.5 million and €6.4 million, respectively, the change of the exchange difference amounting to €0.1 million, the cost of stock options amounting to €3.3 million, the extraordinary contribution to the resolution fund amounting to €2.0 million and the amortization of DEPObank's customer contract amounting to €2.4 million.

Also considering the two months prior to the merger with DEPObank and eliminating the extraordinary items listed above, the Group's normalized economic result (including six months of BFF and six months of DEPObank) amounted to €125.3 million, 7% higher than last year, the explanation of which is to be found, as described in the previous paragraphs, in the phenomena affecting the BUs through which the Group operates.

As described previously, with regard to the performance of the BUs compared to 2020, the main elements that affected the Group's economic result can be summarized as follows:

- ▶ lower interest margin mainly due to lower yields of uses (such as lower yields on loans to customers, MTM effect of securities of the former DEPObank generated at closing), higher excess liquidity in the first half of the year, later eliminated following the ALM initiatives carried out;
- ▶ higher commissions due to increased transactions in *Securities Services and Payments BUs*;
- ▶ lower costs thanks to careful monitoring and the initiatives taken to achieve the synergies envisaged in the plan.

For the purposes of the following explanations, the standardized items will be mainly commented on to take into account the contribution of DEPObank in the months in which it was not part of the Group (12 months in 2020 and 2 months in 2021: note that for the purposes of these consolidated financial statements 2020 does not include DEPObank, while 2021 only includes it for 10 months) and to eliminate all extraordinary items: in fact, a large part of the increase in non-standardized balance sheet items net of extraordinary items is attributable to effects generated by the inclusion of DEPObank in the Group's scope only from March 2021.

Intermediation Margin

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Maturity commissions and late payment interest on non-recourse receivables	164,310	136,452	(27,858)
Interest income on securities	13,459	10,268	(3,192)
Other interest	67,484	83,595	16,111
Interest and similar income	245,253	230,315	(14,938)
Interest expenses	(46,873)	(34,999)	11,875
Interest Margin	198,380	195,316	3,063
Net fees and commissions	4,610	80,779	76,169
Dividends and similar income	–	3,676	3,676
Net trading result	5,932	(490)	(6,422)
Net hedging result	–	2,577	2,577
Profits (losses) on disposal or repurchase of:			
a) financial assets designated at amortized cost	–	–	–
b) financial assets designated at fair value through other comprehensive income	363	–	(363)
c) financial liabilities	56	(12,650)	(12,706)
Profits (losses) on other financial assets and liabilities at fair value through profit or loss	–	–	–
b) other financial assets subject to mandatory fair value measurement	–	2,733	2,733
Intermediation Margin	209,340	271,941	62,601

The interest margin at December 31, 2021 amounted to €195.3 million, 199.2 million normalized, down 34.2 million compared to last year mainly due to: 1) the contraction of revenues deriving from amortized cost trends on the former DEPO securities portfolio mentioned above (equal to €27 million), which, moreover, at the time of closing generated a positive MTM allowing an increase in goodwill net of the tax effect of approximately €35.6 million; 2) the cost of liquidity in the ECB recognized in the first half of the year, on which action was taken during the second quarter of 2021, to bring the levels of liquidity under the tiering through the Liability Management initiative, described previously. The intermediation margin amounted to €271.9 million at December 31, 2021, €303.2 million normalized and down 7% from €326 million normalized at December 31, 2020.

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.

Interest income on securities, amounting to €10.3 million, originates from government securities classified in the HTC portfolio. The valuation is to be carried out at amortized cost, and interest calculated using the effective rate of return is recognized in the income statement.

Other interest includes interest income calculated at amortized cost, generated by BFF Polska Group's financial assets as well as the funding generated by the former DEPObank businesses at negative rates, for a total amount of €84 million.

Interest expense deriving from the various forms of existing funding decreased from €46.9 million in 2020 to €35 million at December 31, 2021, €34 million normalized; this item was influenced among other things by the decrease in the Wibor base rate in Poland, with an effect also on uses, and by the cost of excess liquidity (on which action was taken during the second quarter of 2021 to bring liquidity levels under tiering).

Net fee and commission income amounted to €80.8 million, €94.3 million normalized, and the main part is represented by fees for services generated by the business of the former DEPObank.

Other items that contributed to the intermediation margin amounted to -€4.2 million, +€9.7 million normalized, and of these the most significant equal to -€12.7 million, though eliminated from the normalized value, mainly refers to the loss on securities in circulation recorded as a result of the cash buyback transaction carried out at the end of June 2021.

Administrative costs

(Values in thousand euros)

Items	12.31.2020	12.31.2021	Changes
Personnel expenses	41,353	71,245	29,892
Other administrative expenses	45,061	97,132	52,071
Total administrative expenses	86,414	168,377	81,963

Administrative costs at December 31, 2021 amounted to €168.4 million, €167.1 million normalized net of charges for M&A operations, extraordinary contributions to the National Resolution Fund and charges for stock options for directors and certain employees.

Finally, note that under "Other operating expenses and income" BFF recorded an amount equal to €102.5 million, €28.2 million normalized excluding extraordinary items, the most significant of which refers to badwill equal to €76.9 million resulting from the merger transaction with DEPObank.

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

Disclosure regarding the going concern assumption

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

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

A performance review of the last few years shows a continuing positive trend. The data can be summarized as follows:

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

A quantitative summary of this analysis can be found below.

Items	12.31.2020	12.31.2021
Interest margin	198.4	195.3
Intermediation Margin	209.3	271.9
EBTDA (gross of provisions)	132.4	206.5
Net Profit	91.1	197.4
R.O.E. (Return On Equity) (%)	19.7%	34.5%
R.O.T.E. (Return on Tangible Equity) (%)	21.4%	39.2%
Net interest margin / Interest and similar income (%)	80.9%	84.8%
NPLs (net of impairment) / Receivables due from customers (%)	1.6%	1.9%
Own funds / Receivables due from customers (%)	32.8%	49.1%
Leverage Ratio	4.1%	3.5%
Shareholders' equity	462.6	571.6
Own Funds	349.4	481.1

Risk Management and Compliance with Prudential Supervision Regulations

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

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

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

The regulation applicable at December 31, 2021 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 Company of the Banking Group - has prepared the "ICAAP/ILAAP 2020 Report" on internal processes for determining adequacy of capital and of liquidity risk governance and management systems.

Pillar III - Disclosure to the public

Pursuant to Article 433 of the CRR, banks shall publish the disclosures required by EU regulations at least on an annual basis, in conjunction with the date of publication of the financial statements.

Pillar III provisions establish specific periodic disclosure obligations concerning capital adequacy, risk exposure and the general features of the related systems for the identification, measurement and management of such risks.

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

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

Pursuant to this procedure, the disclosure should be:

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

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

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

Disclosure regarding Calendar Provisioning and Past Due

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

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

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

Thanks to the credit management processes established by the BFF Group, as of December 31, 2021 the impact on CET 1 deriving from the application of calendar provisioning was limited to roughly €106 thousand.

Regarding the classification to NPE, note that on June 27, 2019 the Bank of Italy introduced certain amendments to Circular no. 272 concerning credit quality and the rules on the new definition of default, and most recently on February 15, 2021 it updated its note containing the guidelines of the Supervisory Body on the application of Delegated Regulation (EU) no. 171/2018 on the materiality threshold of overdue credit obligations pursuant to art. 178, para. 2, letter d) CRR (RD), and more generally on the application of the RD regulations.

Note also that, in the context of these guidelines, the Supervisory Body had already clarified that – for trade receivables whose debtor is a public administration – unless specific legal provisions provide otherwise the deadline for calculating the days in arrears of the credit exposure starts from the due date of the individual payments.

Given the above, with a view to adhering to the new definition of default and in line with the clarifications provided by the Bank of Italy, as at December 31, 2020 the Group adopted as starting date the expiry of the invoice from which the credit exposure for the non-recourse factoring product originates.

This approach led to considering – for all exposures to public sector entities with an original expiry of less than three months – the preferential weighting of 20% envisaged by art. 116, paragraph 3 of the CRR instead of the weighting envisaged by the previous paragraphs of the same article, which provides that the coefficient to be applied depends on the rating issued by the ECAI used by the Bank on the debtor's country of residence, adopted until the end of 2020. The effect of this change was a lower absorption of capital, with a consequent improvement in capital ratios.

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

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

(Values in thousand euros)

	Shareholders' equity as at 12/31/2020	Of which Profit at 12/31/2020	Shareholders' equity as at 12/31/2021	Of which Profit at 12/31/2021
Parent Company's balances	444,872	143,281	516,652	164,289
Effect of transactions among Group companies (including dividends)		(78,707)		
BFF Finance Iberia - adjustment due to derecognition of equity investment	(22,134)		(12,807)	
BFF Finance Iberia - profit	9,332	9,332	11,344	11,344
BFF Polska - adjustment due to derecognition of equity investment	12,524		33,776	
BFF Polska - profit	20,767	20,767	22,907	22,907
Exchange differences - translation reserves	(2,562)		(3,720)	
Other consolidation adjustments	(219)	(3,600)	3,444	(1,168)
Shareholders' equity attributable to non-controlling interest				
Group consolidated figures	462,579	91,073	571,596	197,372

Other information

Transactions with related parties

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

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

On June 30, 2021 the Bank approved the update of the conflict of interest management policy, the RPT Regulation and the RPT Committee Regulation in order to update them in compliance with the amendments made to Consob Regulation no. 17221/2010 with resolution no. 21624 of December 10, 2020, which will enter into force from July 1, 2021.

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

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

The Regulation for the management of transactions with parties that may be in a conflict of interest and the Group Policy to manage conflicts of interest are communicated to the public via the Bank's website under the section [Governance > Procedures and Regulations > Related-Party Transactions](#).

Information on related party transactions is provided in Part H of the Notes on the Financial Statements.

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

The 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 has signed on to the new Corporate Governance Code (formerly the Code of Conduct) for listed companies as defined by the Corporate Governance Committee established by the business associations (ABI, ANIA, Assonime, Confindustria), the association of professional investors (Assogestioni) and Borsa Italiana, approved on January 31, 2020 and in force as of January 1, 2021.

Already in December 2020, the Bank adopted the new Corporate Governance Code, by updating its internal regulations to incorporate – in the terms represented in the 2021 Report on Corporate Governance and Ownership Structure – the new features introduced by such Code.

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 year.

Events subsequent to the end of the year

Authorization to repurchase TIER II and AT1 Placement

The Bank sent the Bank of Italy a request for authorization to exercise the Tier II call option, planned for March 2022, and obtained such authorization on February 11, 2022.

Furthermore, on January 19, 2022, the first unsecured, rated Additional Tier 1 subordinated bond was placed at par for a total nominal amount of €150 million, which is perpetual in duration and has the right to repayment reserved to the issuer starting from the fifth year.

Payment of dividends by foreign subsidiaries

In the course of the first quarter of 2022, the foreign subsidiaries BFF Polska S.A. and BFF Finance Iberia S.A.U. distributed dividends to the parent company BFF Bank S.p.A. for a total amount of €67.8 million.

As regards BFF Polska, this distribution will be approved by the ordinary shareholders' meeting that will be held on March 15, 2022, for a total of €53 million.

With respect to BFF Finance Iberia, this distribution, for an amount of €14.8 million, was approved by its Board of Directors at its meeting held on January 21, 2022 since, as set forth by the company's By-Laws, this decision did not require a shareholders' resolution.

Establishment of the new company BFF Immobiliare S.r.l.

On January 19, 2022, the company BFF Immobiliare S.r.l., a wholly owned subsidiary of BFF Bank S.p.A., was established. This company was established with a view to finalizing the Casa BFF operation, which involved the acquisition of a buildable area for the development of an office building which will become the new registered office of the BFF Group and will house all of the Bank's personnel present in the city of Milan, who are currently divided between three different buildings.

Changes in the composition of the Board of Directors of BFF Bank S.p.A.

On February 3, 2022, Ms. Barbara Poggiali, Independent and non-executive director, as well as Chairwoman of the Remuneration Committee and member of the Bank's Nominations Committee, resigned from office.

On February 10, 2022, the Board of Directors approved the appointment by co-option of Ms. Monica Magri to replace Ms. Poggiali.

On February 24, 2022, Ms. Amélie Scaramozzino, Independent and non-executive director, as well as member of the Remuneration Committee and member of the Committee for the evaluation of transactions with related parties and associated entities, resigned from office.

On March 1, 2022, the Board of Directors approved the appointment by co-option of Ms. Anna Kunkl to replace Ms. Scaramozzino.

It should be noted that:

- ▶ no indemnities or other benefits are due following departure from office;
- ▶ at the date of their resignations, Ms. Poggiali and Ms. Scaramozzino did not hold, either directly or indirectly, ordinary shares of the Bank, pursuant to Article IA.2.6.7 of the Instructions to the Regulation on Markets organized and managed by Borsa Italiana S.p.A.

Changes in the composition of the Board of Statutory Auditors

Furthermore, please note that, on February 18, 2022, Ms. Paola Carrara, Chairwoman of the Board of Statutory Auditors, resigned effective as of the earlier of (i) the date of the Shareholders' Meeting called to approve the Group's financial statements at December 31, 2021 and (ii) March 31, 2022.

Ukraine-Russia crisis

Following the crisis between Russia and Ukraine, culminating in the military intervention launched by Russia on February 24, and the resulting countermeasures undertaken by the international community and by parties in the international financial sector, please note that the BFF Group does not have trade exposure to the Russian or Ukrainian markets, and undertakes to rigorously monitor the interbank processing activity of the Payments Business Unit in compliance with the restrictions imposed on Russia.

Other offices

BFF has an office in Rome, at Via di San Basilio 41 and, as of March 5, 2021 at Via Elio Chianesi 110/d, Rome and Via Anna Maria Mozzoni 1.1, Milan. The Bank opened a branch in Madrid, Spain in 2015, in Lisbon, Portugal in July 2018, in Łódź, Poland in July 2019 and in Athens, Greece in September 2020.

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

Business Outlook

As per the five-year strategic plan, approved by the BFF Board of Directors on May 29, 2019 ("BFF 2023" or the "Plan"), the Group's objectives for 2023 – confirmed by the updating of the 2021-2023 financials of the business plan following the closing of the transaction with DEPObank on March 1, 2021 and the approval of the combined budget by the Board of Directors on March 3, 2019 – are:

- 1) continue to develop the current core business, i.e. factoring, Securities Services and payments, further improving operating efficiency and strengthening the leadership position in Italy and abroad.
- 2) maintain the focus on limiting the cost of funding, leveraging what has already been achieved in 2021 in terms of synergies resulting from the DEPObank operation.
- 3) consolidate the existing business and/or expand into other market niches via acquisitions.

In view of the above, and in the face of a gradual reduction in the pandemic effects over the coming months, the Bank expects a recovery in terms of business volumes and operations, and with substantial growth in terms of intermediation margin.

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

With regard to non-recurring income, some can be expected from the special projects that the company is evaluating and which are carefully monitored, as are the various indicators relating to liquidity monitoring (LCR, NSFR and Leverage).

The issuance of a Tier I eligible instrument enables the Group to optimize the concentration limit on large exposures and leverage, also contributing to compliance with the next MREL regulation, as per the communication received from the Supervisory Authority in July 2021 on the subjection of the BFF Group to the Resolution Plan.

Finally, tensions on capital ratios are not expected. The excellent levels of capital, which increased as a result of the operation with DEPObank, make it possible to maintain high dividend policy levels, providing for the payment of the profit generated during the year exceeding what needs to be retained to maintain a Total Capital Ratio of 15%.

Allocation of the Banking Group's Profit

At December 31, 2021 the Banking Group's profit amounted to €197,372,423. This result includes, as described above, the positive effects deriving from the acquisition of DEPObank, such as Badwill amounting to €76.9 million and Goodwill realignment amounting to €23.7 million, costs related to liability management initiatives and other transaction and restructuring costs amounting to €9.5 million and €6.4 million, respectively, the change of the exchange difference amounting to €0.1 million, the cost of stock options amounting to €3.3 million, the extraordinary contribution to the resolution fund amounting to €2.0 million and the amortization of DEPObank's customer relationships amounting to €2.4 million. Note that this result includes only ten months of DEPObank, i.e. the results achieved as of March 1, 2021.

Consistent with the dividend policy approved by the Bank's Board of Directors, which allows paying Shareholders the portion of the Group's consolidated net profit for the year not necessary to maintain a minimum Total Capital Ratio of 15% (calculated by considering the scope of the Banking Group, pursuant to the Consolidated Law on Banking and/or the CRR), the intention is to allocate:

- ▶ €2,342,013 to the legal reserve (to bring the reserve to 20% of the Share Capital as of today);
- ▶ €69,750,011 to the retained earnings reserve;
- ▶ €125,280,399 to Shareholders for dividends; this total amount may be distributed after the Board of Directors meeting held on March 31, 2022, which will be called to approve the 2021 Financial Statements, after verifying the actual fulfilment of the conditions pursuant to art. 2433-*bis* of the Italian Civil Code.

In relation to the allocation of profits of BFF Bank S.p.A., the proposal that will be presented to the Shareholders' Meeting of the Bank on March 31, 2022 is set forth below.

Proposal for the distribution of BFF Bank S.p.A.'s profit

Dear Shareholders,

The Board of Directors has called you to this ordinary meeting on Thursday, March 31, 2022 at 9:00 a.m. (the "**Shareholders' Meeting**") at the registered office of BFF Bank S.p.A. (the "**Company**" or the "**Bank**" or "**BFF**") in Milan at Via Domenichino no. 5 (the "**Registered Office**"), in single call, to approve, inter alia, the proposed allocation of profit for the year.

The Group's financial statements at December 31, 2021, to be approved by the Shareholders' Meeting, show a profit of €164,289,349, which it is proposed be allocated as follows:

- i) €2,342,013 to the legal reserve (to bring the reserve to 20% of the Share Capital as of today);
- ii) €36,666,937 to the Retained earnings reserve;
- iii) €125,280,399 to the Shareholders.

Therefore, the Shareholders will be due a dividend of approximately €0.679 for each of the 185,315,280 shares.

Furthermore, lastly, as reported by Borsa Italiana S.p.A. by notice no. 5930 of February 17, 2022, on February 21, 2022 American type option contracts were admitted to trading on the Derivative Instruments Market (IDEM) with BFF shares as their underlying asset. In light of the foregoing and in compliance with what is set forth in the Instructions to the Regulation of the Markets organized and managed by Borsa Italiana (Title IA.2, Section IA.2.1, Art. IA.2.1.3), for the payment date of dividends to be paid by companies issuing shares in the FTSE MIB index or underlying derivative contracts on shares traded in the IDEM market, the reference date needs to coincide with the first day of trading subsequent to the third Friday of each calendar month.

Therefore, in light of the foregoing, the month for the payment of any dividend drawn from the results of the year 2021 will be April 2022 with the coupon date (no. 5) of April 19, 2022 (the ex date). Pursuant to Article 83-*terdecies* of Italian Legislative Decree no. 58 of February 24, 1998 as amended (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 day of April 20, 2022 ("record date"). The payment of such dividend, gross of the withholdings required by law, is planned for April 21, 2022 ("payment date").

* * *

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

“The Shareholders’ Meeting of BFF Bank S.p.A., having examined the illustrative report of the Board of Directors,

resolves

- ▶ to distribute to Shareholders part of the net profit for the year of €125,280,399, equal to approximately €0.679 before tax for each of the 185,315,280 ordinary shares outstanding at coupon date (no. 5) of April 19, 2022 (ex date). 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 day of April 20, 2022 (record date);
- ▶ to allocate €2,342,013 to the Legal Reserve;
- ▶ to allocate the remainder of the profit for the year, equal to €36,666,937, to the Retained earnings reserve;
- ▶ to pay the above-mentioned dividend as of April 21, 2022 (payment date). Payment will be made through authorized intermediaries with which shares have been registered in the Monte Titoli system.”

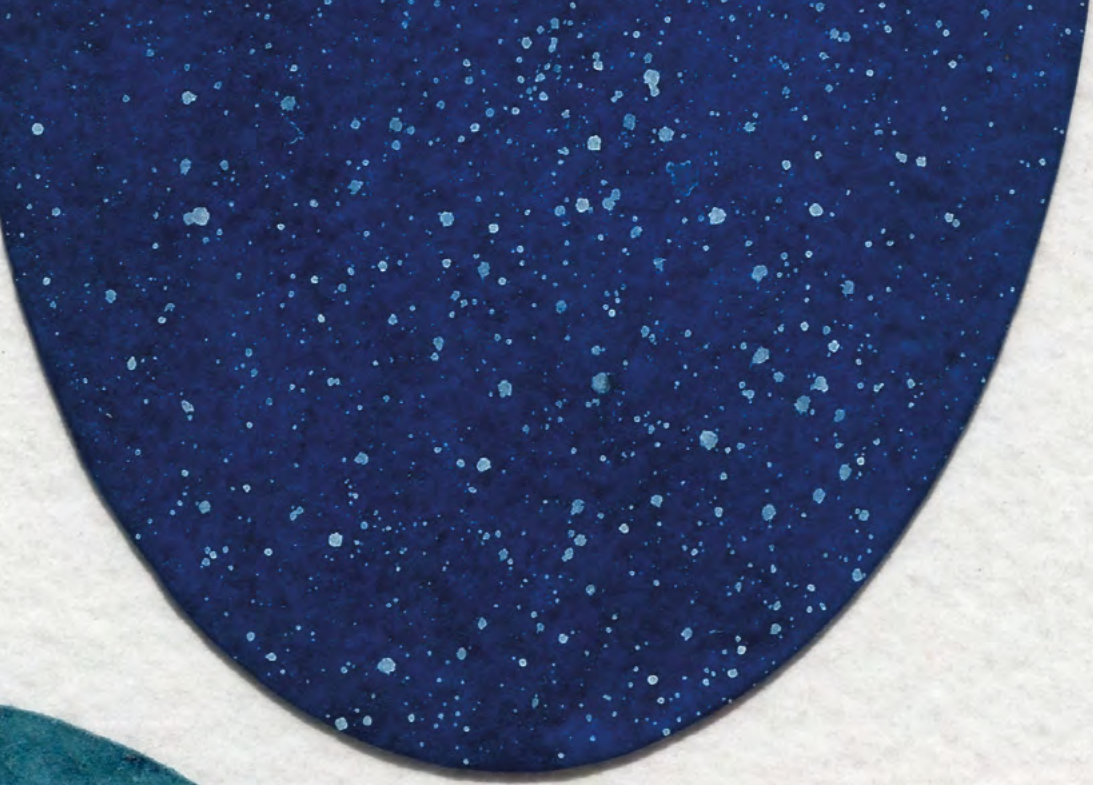
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For the Board of Directors
The CHAIRMAN
(Salvatore Messina)

02

Consolidated
Financial
Statements





Consolidated Statement of Financial Position

(Values in euro units)

Assets	12.31.2021	12.31.2020 ^(*)
10. Cash and cash equivalents ^(**)	554,467,803	189,601,179
20. Financial assets measured at fair value through profit or loss	36,598,343	–
<i>a) financial assets held for trading</i>	4,094,816	–
<i>c) other financial assets subject to mandatory fair value measurement</i>	32,503,527	–
30. Financial assets measured at fair value through other comprehensive income	83,505,780	163,924
40. Financial assets measured at amortized cost	10,069,496,866	5,764,258,647
<i>a) due from banks</i>	404,099,101	14,757,279
<i>b) loans to customers</i>	9,665,397,765	5,749,501,367
50. Hedging derivatives	13,098	–
70. Equity investments	13,483,781	87,944
90. Tangible assets	36,451,859	18,014,021
100. Intangible assets	67,547,298	36,675,140
of which		
- <i>goodwill</i>	30,874,236	30,874,236
110. Tax assets	100,518,550	15,333,003
<i>a) current</i>	41,389,440	4,090,128
<i>b) deferred</i>	59,129,110	11,242,874
130. Other assets	214,613,950	27,179,709
TOTAL ASSETS	11,176,697,328	6,051,313,567

(*) The comparative figures at December 31, 2020 do not contain the balances at the same date of the company incorporated in the course of 2021, DEPObank.

(**) In line with what is set forth in Bank of Italy Circular 262 of 2005 as updated, starting from December 31, 2021 the item "Cash and cash equivalents" also includes current accounts and sight deposits at Central Banks, with the exception of the compulsory reserve, as well as sight receivables (current accounts and sight deposits) from banks. For comparative purposes, the reclassification was also performed on the figures at December 31, 2020.

(Values in euro units)

Liabilities and shareholders' equity	12.31.2021	12.31.2020^(*)
10. Financial liabilities measured at amortized cost	10,010,352,805	5,415,184,174
<i>a) due to banks</i>	795,053,359	1,034,654,607
<i>b) due to customers</i>	9,029,014,284	3,571,621,161
<i>c) debt securities issued</i>	186,285,162	808,908,406
20. Financial liabilities held for trading	2,724,511	–
40. Hedging derivatives	4,814,350	–
60. Tax liabilities	100,684,173	83,697,710
<i>a) current</i>	5,027,559	5,824,367
<i>b) deferred</i>	95,656,614	77,873,344
80. Other liabilities	460,855,826	82,804,576
90. Employee severance pay	3,709,582	666,641
100. Provision for risks and charges:	21,959,653	6,381,691
<i>a) commitments and guarantees given</i>	293,721	527,436
<i>b) post-employment benefits</i>	6,132,998	4,776,556
<i>c) other allowances for risks and charges</i>	15,532,934	1,077,699
120. Valuation reserves	5,268,845	1,456,095
150. Reserves	166,903,826	241,473,311
160. Share premium reserve	66,492,997	693,106
170. Share capital	142,690,771	131,400,994
180. Treasury shares	(7,132,434)	(3,517,312)
200. Profit (loss) for the period	197,372,423	91,072,581
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	11,176,697,328	6,051,313,567

(*) The comparative figures at December 31, 2020 do not contain the balances at the same date of the company incorporated in the course of 2021, DEPObank.

Consolidated Income Statement

(Values in euro units)

Items	2021 ^(*)	2020 ^(**)
10. Interest income and similar income	230,314,704	245,252,959
<i>of which: interest income calculated according to the effective interest method</i>	201,786,632	214,515,905
20. Interest expenses and similar charges	(34,998,521)	(46,873,268)
30. Interest margin	195,316,183	198,379,691
40. Fee and commission income	109,277,422	6,332,699
50. Fee and commission expense	(28,498,392)	(1,723,137)
60. Net fees and commissions	80,779,030	4,609,562
70. Dividends and similar income	3,675,911	–
80. Profits (losses) on trading	(490,070)	5,931,970
90. Profits (losses) on hedging	2,576,529	–
100. Profits (losses) on disposal or repurchase of:	(12,649,882)	418,573
<i>a) financial assets measured at amortized cost</i>	(6)	–
<i>b) financial assets measured at fair value through other comprehensive income</i>	–	362,572
<i>c) financial liabilities</i>	(12,649,876)	56,001
110. Profits (losses) on other financial assets and liabilities at fair value through profit or loss	2,733,566	–
<i>b) other financial assets subject to mandatory fair value measurement</i>	2,733,566	–
120. Intermediation margin	271,941,267	209,339,796
130. Net losses/recoveries for credit risks associated with:	196,904	(3,138,955)
<i>a) financial assets measured at amortized cost</i>	343,493	(3,150,236)
<i>b) financial assets measured at fair value through other comprehensive income</i>	(146,589)	11,281
150. Net result from banking activities	272,138,171	206,200,842
180. Profits (losses) of banking and insurance management	272,138,171	206,200,842
190. Administrative expenses:	(168,377,227)	(86,413,528)
<i>a) personnel expenses</i>	(71,245,242)	(41,352,616)
<i>b) other administrative expenses</i>	(97,131,985)	(45,060,913)
200. Net provisions for risks and charges	276,976	(989,294)
<i>a) commitments and guarantees given</i>	233,720	41,956
<i>b) other net provisions</i>	43,256	(1,031,250)
210. Net write-downs/write-backs on tangible assets	(5,132,422)	(3,429,853)
220. Net write-downs/write-backs on intangible assets	(4,950,500)	(2,090,399)
230. Other operating income/expenses	102,508,187	10,435,530
240. Operating costs	(75,674,985)	(82,487,544)
250. Profits (Loss) on equity investments	195,391	0
290. Profit (loss) before tax from continuing operations	196,658,577	123,713,298
300. Income taxes for the financial year on current operations	713,846	(32,640,717)
310. Profit (Loss) from current operations after tax	197,372,423	91,072,581
330. Profit (loss) for the period	197,372,423	91,072,581
340. Profit (Loss) for the financial year attributable to minority interests	–	–
350. Profit (Loss) for the financial year attributable to the Parent Company	197,372,423	91,072,581
Basic earnings per share	1.06	0.52
Diluted earnings per share	1.01	0.52

(*) The Income Statement as of December 31, 2021 includes the balances of the months from March to December of the merged DEPObank.

(**) The comparative figures at December 31, 2020 do not contain the balances at the same date of the merged company DEPObank.

Consolidated Statements of Comprehensive Income

(Values in euro units)

Items	12.31.2021	12.31.2020
10. Profit (loss) for the period	197,372,423	91,072,581
Other income components net of taxes that may not be reclassified to the income statement		
20. Equity instruments carried at fair value through other comprehensive income		
30. Financial liabilities carried at fair value through profit or loss (changes in creditworthiness)		
40. Hedging of equity instruments carried at fair value through other comprehensive income		
50. Tangible assets		
60. Intangible assets		
70. Defined-benefit plans	(34,331)	7,312
80. Non-current assets held for sale and discontinued operations		
90. Share of valuation reserves connected with investments carried at equity		
Other income components net of taxes reclassified to the income statement		
100. Hedging of foreign investments		
110. Foreign exchange differences	(1,196,618)	(5,200,914)
120. Cash flow hedges		
130. Hedging instruments (undesignated elements)		
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	211,224	79,908
150. Non-current assets held for sale and discontinued operations		
160. Share of valuation reserves connected with investments carried at equity	4,832,475	
170. Total other income components net of tax	3,812,750	(5,113,694)
180. Comprehensive income (Items 10+170)	201,185,173	85,958,886
190. Consolidated comprehensive income attributable to minority interests		
200. Consolidated comprehensive income attributable to the parent company	201,185,173	85,958,886

Consolidated Changes in Equity

At 12/31/2020	Balances as at 12/31/2019	Change to opening balances	Balances as at 01/01/2020	Allocation of profit/loss for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
- ordinary shares	131,326,409		131,326,409		
- other shares					
Share premium reserve	693,106		693,106		
Reserves:					
- earnings	140,501,134		140,501,134	93,156,528	
- others	6,768,055		6,768,055		
Valuation reserves	6,569,790		6,569,790		
Equity instruments					
Treasury shares	(1,762,756)		(1,762,756)		
Profit (Loss) for the year	93,156,528		93,156,528	(93,156,528)	-
Group shareholders' equity	377,252,266	-	377,252,266		-
Minority interests	-		-		

At 12/31/2021	Balances as at 12/31/2020	Change to opening balances	Balances as at 01.01.2021	Allocation of profit/loss for the previous year	
				Reserves	Dividends and other allocations
Share capital:					
- ordinary shares	131,400,994		131,400,994		
- other shares					
Share premium reserve	693,106		693,106		
Reserves:					
- earnings	234,058,930		234,058,930	87,841,192	
- others	7,414,381		7,414,381		
Valuation reserves	1,456,095		1,456,095		
Equity instruments					
Treasury shares	(3,517,312)		(3,517,312)		
Profit (Loss) for the year	91,072,580		91,072,580	(87,841,192)	(3,321,388)
Group shareholders' equity	462,578,775	-	462,578,775	-	(3,231,388)
Minority interests	-		-		

(Values in euro units)

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

(Values in euro units)

Change in reserves	Changes in the year								Consolidated comprehensive income 2021	Shareholders' equity attributable to the group as at 12/31/2021	Shareholders' equity attributable to minorities as at 12/31/2021
	Shareholders' equity transactions										
	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests				
	11,289,777								142,690,771	-	
									-	-	
									66,492,997	-	
	1,635,534		(165,275,418)						158,260,237	-	
1,421,236						(192,028)			8,643,589	-	
								3,812,750	5,268,845	-	
									-	-	
2,363,892		(5,979,014)							(7,132,434)	-	
									197,372,423	197,372,423	
5,420,662	77,089,668	(5,979,014)	(165,275,418)	-	-	(192,028)	-		201,185,173	571,596,428	
									-	-	

Consolidated Cash Flows

Indirect method

(Values in euro units)

	Amount	
	12.31.2021	12.31.2020 ^(*)
A. OPERATING ACTIVITIES		
1. Operations	199,314,609	100,721,082
- net profit/loss for the year (+/-)	197,372,423	91,072,581
- gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	(7,263,471)	
- gains/losses on hedging operations (-/+)	(2,576,529)	
- net adjustments/recoveries for credit risk (+/-)	(196,903)	3,138,955
- net adjustments/recoveries on tangible and intangible assets (+/-)	10,082,922	5,520,252
- net allocations to provisions for risks and charges and other costs/income (+/-)	(276,976)	989,294
- net premiums not collected (-)		
- other income/expenses from insurance activities not collected (-/+)		
- taxes, duties and unpaid tax credits (+/-)	2,368,535	
- net value adjustments/write-backs on discontinued operations, net of the tax effect (+/-)		
- other adjustments (+/-)	(195,391)	
2. Cash flow generated/absorbed by financial assets	4,700,768,927	449,113,387
- financial assets held for trading	11,358,287	
- financial assets carried at fair value		
- other financial assets subject to mandatory fair value measurement	32,503,527	
- financial assets measured at fair value through other comprehensive income	83,341,856	(82,748,039)
- financial assets measured at amortized cost	4,305,041,315	516,681,025
- other assets	268,523,943	15,180,401
3. Cash flow generated/absorbed by financial liabilities	5,034,680,576	469,380,426
- financial liabilities measured at amortized cost	4,596,116,101	453,453,960
- financial liabilities held for trading	2,724,511	
- financial liabilities carried at fair value		
- other liabilities	435,839,964	15,926,466
Net cash generated/absorbed by funding activities	533,226,258	120,988,122

(cont'd)

(Values in euro units)

	Amount	
	12.31.2021	12.31.2020 ^(*)
B. INVESTING ACTIVITIES		
1. Liquidity generated by	3,675,199	(6,493)
- sales of equity investments	(712)	(6,493)
- dividends collected on equity investments	3,675,911	
- sales of tangible assets		
- sales of intangible assets		
- sales of subsidiaries and business units		
2. Liquidity absorbed by	(74,713,267)	(7,057,868)
- purchases of equity investments	(13,396,767)	(79,183)
- purchases of tangible assets	(26,705,613)	(3,037,949)
- purchases of intangible assets	(34,610,887)	(3,940,736)
- purchases of subsidiaries and business units		
Net cash generated/absorbed by investing activities	(71,038,068)	(7,064,360)
C. FUNDING ACTIVITIES		
- issue / purchase of treasury shares	(5,979,014)	(2,702,469)
- issue/purchase of equity instruments	77,164,253	74,585
- distribution of dividends and other purposes	(168,506,806)	
- sale/purchase of ownership interests in subsidiaries		
Net cash generated/absorbed by financing activities	(97,321,567)	(2,627,884)
NET CASH GENERATED/ABSORBED DURING THE FINANCIAL YEAR	364,866,623	111,295,877

Reconciliation

(Values in euro units)

Financial statement items	12.31.2021	12.31.2020
Cash and cash equivalents at start of financial year	189,601,179	78,305,302
Total net cash generated/absorbed during the financial year	364,866,623	111,295,877
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at end of financial year	554,467,803	189,601,179

(*) In line with what is set forth in Bank of Italy Circular 262 of 2005 as updated, starting from December 31, 2021 the item "Cash and cash equivalents" also includes current accounts and sight deposits at Central Banks, with the exception of the compulsory reserve, as well as sight receivables (current accounts and sight deposits) from banks. This modification entailed a reclassification for comparative purposes of the above-mentioned items at December 31, 2020, which as a result also concerned the Cash flow statement.

CONSOLIDATED EXPLANATORY NOTES

Shareholders,

The Notes are broken down into the following parts:

- Part A - Accounting policies
- Part B - Information on the Consolidated Balance Sheet
- Part C - Information on the Consolidated Income Statement
- Part D - Consolidated Comprehensive Income
- Part E - Information on risks and related hedging policies
- Part F - Information on consolidated equity
- Part G - Business Combinations of companies or business units
- Part H - Transactions with related parties
- Part I - Share-Based Payments
- Part L - Segment reporting
- Part M - Lease Reporting

Part A - Accounting policies

A.1 GENERAL

Section 1 - Statement of compliance with international accounting standards

The consolidated financial statements at December 31, 2021 have been prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the IASB, endorsed by the European Commission, as provided for by Regulation (EC) No 1606 of July 19, 2002 governing the application of IASs/IFRSs and related interpretations (IFRIC interpretations), endorsed by the European Commission and in force at the end of the reporting period.

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

Section 2 - General preparation principles

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

The consolidated financial statements consist of the Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Statement of Changes in Consolidated Shareholders' Equity, the Consolidated Cash Flow Statement, the Notes to the Consolidated Financial Statements and the Directors' Report on Operating Performance.

In accordance with the provisions of Article 5, paragraph 2, of Italian Legislative Decree no. 38 of February 28, 2005, the consolidated financial statements are drafted in euros, when not specified otherwise, and also show the corresponding comparisons with the previous year.

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

Moreover, in the light of the supplementary provisions issued by the Bank of Italy in its communication of December 15, 2020, the consolidated financial statements at December 31, 2021 have been prepared, where applicable, in accordance with the recommendations set out in the following communications from the EBA (European Banking Authority), ECB (European Central Bank) and ESMA (European Securities and Market Authority):

- ▶ EBA communication of March 25, 2020 “Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures”;
- ▶ ESMA communication of March 25, 2020 - “Public Statement. Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9”;

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

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

Accounting standards, amendments and interpretations effective from 2021

The following standards, interpretations and amendments are applicable from 2021:

- ▶ Interest rate benchmark reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). As a result of the IBOR reform process, the IASB Board has launched a project divided into two distinct phases:
 - **Phase 1 completed in September 2019 (entry into force: from January 1, 2020):** the objective of the IASB Board was to introduce mandatory temporary exceptions to the general hedge accounting model in order to avoid the interruption of hedging relationships due to uncertainties about the timing and amount of future cash flows during the transition phase to the new benchmarks;
 - **Phase 2 completed in August 2020 (entry into force on January 1, 2021):** the objective of the IASB Board was to insert some practical expedients and some facilitations in order to limit the accounting impacts deriving from the reform of the IBORs.
- ▶ COVID-19-related rent concessions (Amendment to IFRS 16):

Given the significant increase in rent concessions following the COVID-19 pandemic and the complexity of their accounting treatment, which is based on a preliminary analysis of contractual clauses and applicable regulations, the IASB Board amended IFRS 16 by inserting a practical expedient that simplifies the accounting of rent concessions by lessees only.

The Bank took into consideration the aforementioned changes introduced by the IASB from January 1, 2021, not seeing significant impacts on the related accounts.

Section 3 – Scope and basis of consolidation

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

Subsidiary companies

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

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

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

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

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

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

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

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

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

1. Shares in companies within the scope of consolidation

At December 31, 2021, BFF Banking Group included the Parent BFF Bank S.p.A. and the following companies:

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

As far as points 7 and 8 are concerned, voting rights refer to the investors' right to vote at the Meeting.

The companies in points 9 and 10 above are limited partnerships and are consolidated according to the equity method since their total asset figures are not significant.

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

Key:

- 1) Type of relationship:
 - 1 = having the majority of voting rights at ordinary shareholders' meetings
 - 2 = dominant influence at the ordinary shareholders' meeting
 - 3 = arrangements with other shareholders
 - 4 = other forms of control
- 2) Voting rights at ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.

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

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

Issue of the “Additional Tier 1” capital instrument

The Bank sent the Bank of Italy a request for authorization to exercise the Tier II call option, planned for March 2022. Subsequently, on January 19, 2022, the first unsecured, rated Additional Tier 1 subordinated bond was placed at par for a total nominal amount of €150 million, which is perpetual in duration and has the right to repayment reserved to the issuer starting from the fifth year.

Payment of dividends by foreign subsidiaries

In the course of the first quarter of 2022, the foreign subsidiaries BFF Polska S.A. and BFF Finance Iberia S.A.U. will distribute dividends to the parent company BFF Bank S.p.A. for a total amount of up to €69 million.

In relation to BFF Polska S.A., the subsidiary, after approval by the supervisory board, will need to obtain authorization for the distribution of profits and reserves by the Sole shareholder’s meeting, which will also approve, inter alia, the 2021 Financial Statements, and will be held by March 17, 2022.

For BFF Finance Iberia S.A.U., the Shareholders' Meeting held on February 14, 2022 approved the distribution of reserves, consisting inter alia of the profit from 2021, for the payment of dividends to the Bank.

Establishment of the new company BFF Immobiliare S.r.l.

On January 19, 2022, the company BFF Immobiliare S.r.l., a wholly owned subsidiary of BFF Bank S.p.A., was established. This company was established with a view to finalizing the Casa BFF operation, which involved the purchase of a buildable area and the subsequent development of an office building which will become the new registered office of the BFF Group and will house all of the Bank’s personnel present in the city of Milan, who are currently divided between three different buildings.

Assessments concerning the possibility of distributing interim dividends during the year and related resolutions

On February 10, 2022, the Board of Directors committed to carrying out, already starting in 2022, all initiatives required for the distribution of interim dividends during the year, when legal conditions so permit.

Changes in the composition of the Board of Directors of BFF Bank S.p.A.

On February 3, 2022, Ms. Barbara Poggiali, Independent and non-executive director, as well as Chairwoman of the Remuneration Committee and member of the Bank’s Nominations Committee, resigned from office.

On February 10, 2022, the Board of Directors approved the appointment by co-option of Ms. Monica Magri to replace Ms. Poggiali.

On February 24, 2022, Ms. Amélie Scaramozzino, Independent and non-executive director, as well as member of the Remuneration Committee and member of the Committee for the evaluation of transactions with related parties and associated entities, resigned from office.

On March 1, 2022, the Board of Directors approved the appointment by co-option of Ms. Anna Kunkl to replace Ms. Scaramozzino.

It should be noted that:

- ▶ no indemnities or other benefits are due following departure from office;
- ▶ at the date of their resignations, Ms. Poggiali and Ms. Scaramozzino did not hold, either directly or indirectly, ordinary shares of the Bank, pursuant to Article IA.2.6.7 of the Instructions to the Regulation on Markets organized and managed by Borsa Italiana S.p.A.

Changes in the composition of the Board of Statutory Auditors

Furthermore, please note that, on February 18, 2022, Ms. Paola Carrara, Chairwoman of the Board of Statutory Auditors, resigned effective as of the earlier of (i) the date of the Shareholders' Meeting called to approve the Group's financial statements at December 31, 2021 and (ii) March 31, 2022.

Ukraine-Russia crisis

Following the crisis between Russia and Ukraine, culminating in the military intervention launched by Russia on February 24, and the resulting countermeasures undertaken by the international community and by parties in the international financial sector, please note that the BFF Group does not have trade exposure to the Russian or Ukrainian markets, and undertakes to rigorously monitor the interbank processing activity of the Payments Business Unit in compliance with the restrictions imposed on Russia.

Section 5 - Other issues

Shareholder Structure

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

On the same date of February 11, 2021, BFF Luxembourg S.à r.l. (Centerbridge) ("**BFF Lux**") initiated, and then concluded on February 12, the sale of all remaining shareholdings in BFF:

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

Following this transaction BFF Lux completed its exit from the capital of BFF, and Massimiliano Belingheri came to hold – both directly and indirectly through persons closely related to him (Scalve and Bray Cross Ltd.) –

approximately 10.03 million BFF shares (10.17 million at December 31, 2021 equal to 5.49% of the share capital of BFF).

Following the elimination of BFF Luxembourg S.à r.l.'s shareholding in the Bank in February 2021, the Bank of Italy, via a notice dated February 23, 2021, removed the Group with Luxembourg S.à r.l. at the top from the register of banking groups.

On March 5, 2021 the Bank issued to Equinova UK HoldCo Limited ("**Equinova**"¹) 14,043,704 new BFF ordinary shares for the merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. ("**DEPObank**") into BFF. These shares represented a quota of 7.604% of BFF's share capital at that date.

As of December 31, 2021, Equinova is the main shareholder of BFF with 7.58% of the share capital; it is followed by BFF management (CEO, 4 Vice Presidents in office at that date, and their respective closely related persons) with 5.59%. The remaining 86.84% is floating, and includes treasury shares (995,005, equal to 0.54%).

Acquisition of DEPObank - Banca Depositaria Italiana S.p.A. Merger by incorporation into BFF Bank S.p.A.

On March 1, 2021 Banca Farmafactoring S.p.A. completed the closing of the acquisition transaction. ("BFF") of DEPObank – Banca Depositaria Italiana S.p.A. ("DEPObank") and subsequent merger by incorporation of DEPObank. On March 5, 2021 the Bank also changed its name to BFF Bank S.p.A.

As a result of the closing, BFF:

- (i) completed the purchase of approximately 76% of the share capital of DEPObank from the shareholders thereof, including the shareholder of reference Equinova UK HoldCo Limited ("Equinova"); and
- (ii) entered into the relative merger deed with DEPObank, through which, effective March 5, 2021, the merger by incorporation of DEPObank into BFF was finalized (with the consequent exchange into BFF Bank shares of the remaining approximately 24% of the share capital of DEPObank, and related increase in the share capital of BFF Bank). Following this capital increase, Equinova holds 7.6% of the share capital of the new "combined entity".

With the merger by incorporation of DEPObank S.p.A. into BFF Bank S.p.A., the largest specialized finance operator in Italy was born, with a specific focus on securities services, payments, factoring services and the management of trade receivables from the Public Administration.

To ensure full continuity and efficiency, DEPObank's business activities have been merged into an independent division within BFF.

The recognition of business combinations is governed by the international accounting standards IAS/IFRS issued by the IASB and endorsed by the European Commission, and specifically by IFRS 3 Business Combinations.

In particular, IFRS 3 revised requires a purchaser to be identified for all business combinations. The latter must be identified in the entity that obtains control of another entity or group of businesses. The acquisition, and therefore the first-time consolidation of the acquiree, is accounted for on the date in which the acquirer obtains effective control of the business or the assets acquired. When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to

¹ Equinova is the holding company of Advent International Corporation, Bain Capital Private Equity Europe LLP and Clessidra SGR S.p.A., which was the main shareholder of DEPObank (of which as of March 1, 2021 it held a 91.6% stake in the share capital).

verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date.

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

Business combinations are accounted for using the "acquisition method", which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.

In accordance with the aforementioned accounting standard, the Bank concluded the process of definitively allocating the Purchase Price of DEPObank S.p.A. (so-called "Purchase Price Allocation" - PPA), recording goodwill of €76.9 million at December 31, 2021.

Pursuant to IFRS 3 revised, the Bank is required to value the assets and liabilities acquired at their fair value (at the date of acquisition of control) and compare the shareholders' equity at fair value (difference between estimated assets and liabilities at fair value) with the purchase price. This process, defined as the PPA ("Purchase Price Allocation"), involves determining, at the date of acquisition of control by BFF Bank (or March 1, 2021), the assets (including intangibles) and liabilities (including contingent liabilities, even those that are not likely) at their fair value. The difference between the fair value of the net assets and the price paid expresses goodwill which, according to IAS/IFRS, must be recognized directly in the income statement.

For further information, please refer to the specific Section G "Business combinations" in the Explanatory Notes to these financial statements.

For the purposes of the transaction in question, the Bank recognized a total price of €293.9 million, lower than the book value of shareholders' equity at the acquisition date, equal to €437.3 million.

PPA activities involve:

- ▶ restating at fair value the assets and liabilities already recognized in the financial statements of the acquired entity, derecognizing any goodwill previously posted and estimating any internally generated intangibles;
- ▶ estimating goodwill as the difference between assets and liabilities restated at fair value inclusive of intangibles recognized and the price consideration.

Aside from recognizing a price for the acquisition of 76% of the shares, equal to €217 million, the Purchase Agreement calls for possible future earn out payments by the Bank, linked to extraordinary positive income components deriving from the release of specific provisions previously recognized in the financial statements and for a maximum amount of €11 million, and the savings actually achieved following the renegotiation of certain IT contracts (with Nexi) for a maximum of €10 million.

The Bank found that at March 1, 2021 the payment of the IT earn out is certain, as is the relative outlay planned for the years 2027-2039, when the savings will actually be realized. The management instead believes that the earn outs linked to positive income components deriving from the release of provisions have no likelihood of occurring. In order to estimate the Price Consideration, the present value was estimated (at the rate expressing the cost of debt, equal to the sum of the interbank rate at the end of each specific year plus a spread) of future payments deriving from the agreement with NEXI, assigning a likelihood of occurrence of 100%, while the value of the earn outs linked to the release of provisions was attributed a null value, as there is no likelihood of occurrence. The price inclusive of such outlays was estimated as €302.2 million (€293.93 million + €8.27 million).

Inspection of the Bank of Italy Supervisory Authority

Please note that, in the period between March 8 and June 24, 2021 the Bank of Italy performed an inspection at BFF, pursuant to Articles 54 and 68 of Italian Legislative Decree no. 385/83, as subsequently amended (the "TUB").

The Supervisory Authority submitted the results of the above-mentioned assessments to the Bank's Board of Directors on November 4, 2021.

The Bank submitted its considerations relating to the findings provided to the Banking Supervision 2 (SB2) and Supervisory Inspectorate (VIS) Services, notifying them of the measures taken and those that it intends to take.

Ratings of BFF Bank S.p.A.

Following (i) the completion of the acquisition of DEPObank on March 1, 2021, (ii) the consequent effectiveness of the merger by incorporation of DEPObank into BFF on March 5, 2021, as well as (iii) the approval of the "2021-2023 BFF Banking Group Financial Plan", presented to the market on March 15, 2021, the Moody's rating agency took the following rating actions on BFF on April 21, 2021, also confirmed during the periodic review on December 13, 2021:

- ▶ it increased the Long-Term Bank Deposit rating to "Baa2" from "Baa3" with a Stable outlook (from Positive), the second-highest rating class among all Italian banks rated by Moody's at that date;
- ▶ it increased BFF's Baseline Credit Assessment ("BCA") from "Ba3" to "Ba2", the second-highest rating among the less significant Italian banks (Less Significant Institutions - LSI) assessed by Moody's on that date, to reflect the agency's opinion that, following the acquisition of DEPObank, BFF will continue to generate high returns while maintaining low-risk assets. Moody's recognizes that the acquisition of DEPObank results in a benefit to BFF's funding and liquidity profile, as the Bank has obtained access to a broad deposit base and a high amount of liquid assets;
- ▶ it decreased the Long-term Issuer rating to "Ba2" from "Ba1", with a Stable outlook (from Developing), due to the lower proportion of senior debt at a consolidated level compared to the total of banking activities, a direct consequence of the greater size of the balance sheet following the merger of DEPObank;
- ▶ it changed the long-term rating outlook to Stable, to reflect the agency's view that BFF will maintain high asset quality, good profit generation and a strong funding profile over the next 12-18 months. Moody's also believes that compared to other Italian commercial banks BFF is less exposed to the recessionary risks deriving from the pandemic caused by the Coronavirus thanks to its business model.

In summary, Moody's ratings of BFF in April 2021, confirmed in December 2021, are as follows:

- ▶ Long-term Issuer rating: "Ba2", outlook Stable;
- ▶ Long-term Bank Deposit rating: "Baa2", outlook Stable;
- ▶ Short-term Bank Deposit rating: "P-2";
- ▶ BCA: "Ba2".

For further information refer to the press release and the Moody's Credit Opinion published on the Agency's website and the [Investors > Debt > Ratings](#) section of the Group website.

Lastly note that on March 10, 2021 Standard & Poor's Global Ratings declared that it had withdrawn its "BB-/ Watch Pos/B Issuer Credit Rating" on DEPObank following the above-mentioned merger with the BFF Group. At the time of withdrawal the ratings on DEPObank were listed on Credit Watch with positive opinions.

Risks, uncertainties and impacts of the COVID-19 epidemic

Material events in 2021 include the continuation of the emergency and the spread of COVID-19 (hereinafter the "Coronavirus"), which in the first weeks of the previous year initially affected China, to then spread to other countries, with repercussions for their economic activity.

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

The current state of global emergency precipitated by COVID-19 represents a factor of instability that generally has a considerable impact on the macroeconomic scenarios of the countries in which BFF operates and their GDP growth prospects as a result of the restrictive containment measures put in place by the public authorities. At the same time, the various European governments have implemented a series of measures in support of the economy, including injections of liquidity into the system.

However, in relation to the Bank's business, again in 2021 the impacts are believed to have been contained and may be summarized as follows:

- ▶ a slowdown in the process of developing new business relationships, which, given the characteristics of the service offered, requires intense, extended communications efforts; this process was thus adversely impacted, once again, by remote working conditions;
- ▶ an acceleration in collections of more recent invoices, driven by the considerable liquidity in the system, which was channelled to payment of those debt positions that presented lesser complexity (i.e., generally, more recent invoices);
- ▶ positive effects in the Securities Services area due to the growth trend in assets under management in Italy, leading to a positive start in 2021. The increase was achieved partly as a result of the appreciation of the markets and partly thanks to the increase in net inflows;
- ▶ disparate effects in the area of Payments due to the different dynamics that COVID-19 has had on the various activities and consequently on the various services offered by the Group: positive in the area of interbank processing, partially positive in the card area where there was a limited recovery in low retail, travel and tourism spending, negative as expected in the area of cheques and bills.

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

Following is information on topics and measures undertaken during 2021:

- ▶ **Business continuity:** the Bank has continuously monitored the situation and its operations have been guaranteed without any critical issues. In this context, particular attention has been paid to operational risks, with appropriate measures to guarantee operations. To date there have not been any business continuity issues. In fact, the IT structure was already reinforced last year. Moreover, the acquisition of DEPObank in early March was among the significant transactions in the first nine months of 2021. Staff are now fully operational, working both remotely and in person, alternating groups, and are equipped with the tools needed to telework. The services provided by suppliers and outsourcers have not suffered any deterioration in terms of quality or quantity, nor has service been disrupted. Any deterioration in the quality

of the service – which in any case is not able to compromise the Group's operations – is in fact subject to tracking and evaluation/resolution in a specific internal application.

- ▶ **Commercial aspects:** with regard to the Factoring and Lending BU, note that the COVID-19 pandemic affected all the countries that the Group operates in offering non-recourse factoring and/or customer financing, but, nonetheless, the Group continued to operate throughout the emergency period, guaranteeing full efficiency to current and potential customers. The restrictive measures put in place due to the pandemic have had a significant impact on credit risk, but the Bank has suffered relatively little as the main customers are large companies or multinationals. In this context, the Group encountered a certain degree of difficulty in developing new commercial relationships and the inflow of liquidity to local governments also accelerated payments of the most recent invoices. To the contrary, there have been lower collections of late payment interest, but with higher rates of success.

With regard to the Securities Service BU, in 2021, despite the negative influence of the pandemic, customer assets (both fund services and global custody) maintained a positive trend.

With regard to the activity of the custodian bank, the net inflows of mutual funds and pension funds also showed a higher growth trend than in the pre-COVID period, in fact making up for all of the negative financial market effects linked to the pandemic. With regard to commercial developments, we noted a positive trend in 2021 in AIFs, whose closed commercial initiatives recorded growth compared to the negotiations closed in the same period of 2020.

With regard to the Payment BU, while on one hand there are important signs of recovery in interbank mediation services (e.g. transfers and collections) and collection and payment of corporate customers and the public administration, on the other hand the effects of the COVID-19 pandemic continued to limit growth – even expected at a system level – of payment transactions whose instruments depend on an "in-person" logic (e.g. payments with cards, cheques, etc.).

- ▶ **Liquidity:** despite the current macroeconomic scenario, characterized by the continuation of the COVID-19 pandemic, the Bank has maintained the necessary measures to monitor and control the liquidity position. The Bank:
 - (i) when deemed necessary, reserves the right to perform stress analyses that are more frequent and more detailed as well as with increasing and variable impacts,
 - (ii) maintains a significant share of assets freely available to meet unforeseen liquidity needs, also thanks to the contribution deriving from the operation concluded during the month of March 2021 with DEPObank;
 - (iii) monitors the markets, including through continuous comparison with market operators and related banks; and
 - (iv) continues to closely monitor the collection trends of Public Administration debtors.
- ▶ **Capital requirements:** there are no particular impacts on Own Funds and regulatory requirements following the COVID-19 health emergency. Capital ratios in the final quarter of the year remain well above the minimum required by the Regulator.

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

Contractual amendments due to COVID-19

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

All the counterparties, for a total amount of €2.1 million that benefited from moratoria are based in Poland, Slovakia and the Czech Republic and are primarily represented by corporate clients (approximately 48%), public-sector entities (approximately 21%) and retail clients (approximately 31%).

Statutory audit

The Shareholders' Meeting of Banca Farmafactoring S.p.A. (now BFF Bank S.p.A.) held on April 2, 2020 appointed the auditing firm KPMG S.p.A. to audit the financial statements from 2021 to 2029, pursuant to the provisions of Article 2409-bis of the Italian Civil Code and Italian Legislative Decree 39/2010.

A.2 MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The following describes the accounting policies adopted to prepare the consolidated financial statements at December 31, 2021, in accordance with IAS 1 and the instructions contained in Bank of Italy Circular no. 262 of December 22, 2005, as amended.

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

Financial assets

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

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

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

Classification criteria

This category includes financial assets other than those classified as financial assets measured at fair value through other comprehensive income or as financial assets measured at amortized cost. Specifically, this item includes:

- ▶ financial assets held for trading;
- ▶ financial assets with obligatory fair value measurement, represented by the financial assets that do not meet the requirements for measurement at amortized cost or fair value through other comprehensive income. These are financial assets whose contractual terms do not exclusively provide for capital repayments and interest payments on the amount of capital to be repaid, or which are not held in connection with a "Hold-to-Collect" business model, or whose objective is a "Held-to-Collect-and-Sell" business model;
- ▶ financial assets carried at fair value, namely financial assets defined in this way at the time of initial recognition and where the requirements are met. In such cases, on recognition an entity can irrevocably designate a financial asset as being measured at fair value through profit or loss if and only if by so doing it would eliminate or significantly reduce an inconsistency in measurement.

This item therefore includes:

- ▶ debt instruments and loans that are included in an other/trading model (therefore not related to the "hold-to-collect" or "held-to-collect-and-sell" business models) or that fail the contractual characteristics test (SPPI test);
- ▶ equity instruments – which cannot be qualified as controlling or connected – for which the designation at fair value through other comprehensive income has not been made upon initial recognition;
- ▶ UCI units.

The item also includes derivatives, recognized among financial assets held for trading, which are represented as assets if the fair value is positive.

In accordance with the general rules in IFRS 9 regarding the reclassification of financial assets (except for equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets measured at fair value through profit or loss to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortized cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value measured at the reclassification date, and the effects of reclassification apply prospectively from said date. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of initial recognition, for credit risk stage assignment for impairment purposes.

Recognition criteria

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, on the date of disbursement for loans, and on the date of subscription for derivatives.

Financial assets at fair value through profit or loss are initially recorded at fair value, normally represented by the price of the transaction, without considering the costs or income of the transaction directly attributable to the instrument itself.

Measurement criteria

After initial recognition, financial assets measured at fair value through profit or loss are measured at fair value. The effects of applying this measurement criterion are charged to the income statement.

To determine the fair value of financial instruments listed on an active market, market prices are used. In the absence of an active market, commonly adopted estimation and valuation models are used. These take into account all the risk factors related to the instruments and are based on observable market data such as: the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, the recorded values of recent comparable transactions, etc.

For equity instruments and derivatives not quoted on an active market, the cost criterion is used to estimate the fair value only on a residual basis and in a limited number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate.

Derecognition criteria

Financial assets or parts of financial assets are derecognized if and only if disposal entails the substantial transfer of all the related risks and benefits.

Specifically, financial assets sold are derecognized when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

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

Classification criteria

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

- ▶ 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
- ▶ 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 particular, this item includes:

- ▶ debt instruments that are included in a Hold to Collect and Sell Business Model and that pass the contractual characteristics test (SPPI test);
- ▶ equity instruments, which cannot be qualified as controlling, associated or connected and which are not held for trading, for which the option for designation at fair value through other comprehensive income has been exercised.

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

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

HTC&S business model

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

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

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

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

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

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

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

Reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In such cases, which should be highly infrequent, 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 apply prospectively from said date with the following impacts:

- ▶ if a financial asset is reclassified to amortized cost, its fair value at the reclassification date is adjusted to reflect the accumulated gains (losses) recognized in the revaluation reserve.

- ▶ on the contrary, if a financial asset is reclassified to FVPL, the accumulated gains (losses) previously recognized in the revaluation reserve are reclassified from equity to profit (loss) for the period.

Recognition criteria

The initial recognition of financial assets takes place on the date of settlement for debt and equity instruments.

On initial recognition, the assets are measured at fair value, including transaction costs or income directly attributable to the instrument.

Measurement criteria

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity instruments are not subjected to the impairment process.

Derecognition criteria

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

3 - Financial assets measured at amortized cost

Classification criteria

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

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

On the basis of the accounting statements provided for by the Bank of Italy's Circular no. 262 of December 22, 2005, as amended, this financial statement item includes:

- ▶ receivables due from banks in the various technical forms;
- ▶ receivables due from customers, in the various technical forms, which also include debt securities classified in the HTC business model and that passed the SPPI test.

Receivables due from banks relate essentially to ordinary current accounts of the Group companies and loans with banking counterparties in the various technical forms.

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

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

HTC business model

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

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

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

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

Therefore, in the event of sales (consistently with the business model concerned), by virtue of common market practice, a percentage of significance for annual sales volumes has been defined, determined as the sum of the

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

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

Recognition criteria

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

Specifically, non-recourse receivables:

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

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

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

Measurement criteria

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

Specifically, non-recourse receivables purchased as part of the factoring activities carried out by Group companies are measured at amortized cost, determined based on the present value of estimated future cash

flows, with reference to both the principal and the late payment interest accruing as from the due date of the receivable and deemed recoverable.

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

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

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

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

As far as the receivables of the Parent BFF Bank and the subsidiary BFF Finance Iberia are concerned, the updating of the time series, which was undertaken considering the collections for 2020, confirmed the suitability of the existing collection percentage (45%).

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

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

The Group carries out the analysis of the receivable and HTC security portfolio to identify any impairment of its financial assets. IFRS 9 introduced the expected credit loss concept for the financial assets included in this financial statement item. Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. According to this concept, a loss does not necessarily have to occur before it is recognized in the financial statements; therefore, generally all financial assets will entail the recognition of a provision.

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

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

For assets classified in Stage 1, the loss allowance relating to each individual financial asset is determined on the basis of 12-month expected credit losses (contractual cash flow shortfalls estimated by taking into account potential default in the following 12 months), while for assets classified in Stages 2 and 3 calculations are based on lifetime expected credit losses (contractual cash flow shortfalls estimated by taking into account the potential default over the residual life of the financial instrument).

If there is objective evidence of impairment and the asset is classified in Stage 3, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate of the financial asset.

The amount of the loss is determined on the basis of an individual assessment and then individually attributed to each position, accounting for forward-looking information and potential alternative recovery scenarios. Impaired assets include financial instruments that have been given non-performing status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and European regulations. The expected cash flows take into account the expected recovery times and the presumed realization value of any guarantees.

When recognizing impairment, the carrying amount of the asset is reduced accordingly and the loss is recognized in the income statement under item 130 "Net losses/recoveries for credit risks associated with: a) financial assets measured at amortized cost".

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

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

Derecognition criteria

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

Receivables sold are derecognized only if all the risks and rewards relating to such receivables were transferred. On the other hand, if the risks and rewards are retained, the receivables sold will continue to be recognized in the financial statements, even though legal title to these assets is effectively transferred.

4 - Hedging operations

Recognition criteria

The Group has exercised the option under IFRS 9 to continue to apply the IAS 39 rules to hedging operations even after the introduction of IFRS 9.

"Hedging operations" involve designating a financial instrument capable of offsetting part or all of the gain or loss resulting from a change in the fair value or cash flows of the hedged instrument. The intent to hedge must be formally stated, must not be retroactive and must be consistent with the risk hedging strategy espoused by the BFF Banking Group's management. Pursuant to IAS 39, derivatives may only be accounted for as hedging instruments under certain conditions, i.e. when the hedging relationship is:

- ▶ clearly defined and documented;
- ▶ measurable;
- ▶ currently effective.

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

Hedging operations are intended to offset the potential losses associated with certain types of risks.

The possible types of hedges are:

- ▶ fair value hedges: these are designed to cover the exposure to the change in the fair value of a balance sheet item;
- ▶ cash flow hedges: these are designed to cover the exposure to changes in the future cash flows associated with certain balance sheet items;
- ▶ hedges of a net investment in a foreign operation.

Hedges may be undertaken using derivative contracts (including the purchase of options) and non-derivative financial instruments (to hedge foreign exchange risk only). In the balance sheet, hedging derivative instruments are classified to item 50 "Hedging derivatives" on the assets side and 40 "Hedging derivatives" on the liabilities side according to whether they have a positive or negative fair value on the annual or interim reporting date.

Measurement criteria

Hedging derivative financial instruments are measured at their fair value.

When a financial instrument is classified as a hedge, the Group, as set out above, formally documents the relationship between the hedging instrument and the hedged item, verifying both at the inception of the relationship and throughout its duration, that the hedging by the derivative is effective in offsetting changes in the fair value or cash flows of the hedged item. A hedge is considered effective if, both at inception and over its life, changes in the fair value or cash flows of the hedged item are offset by changes in the fair value of the hedging derivative.

Accordingly, effectiveness is assessed by comparing the aforementioned changes, taking account of the intent pursued by the entity when entering into the hedge. A hedge is effective (within the limits established by the interval of 80-125%) when the expected, effective changes in the fair value or cash flows of the hedging financial instrument offset changes in the hedged item almost entirely.

Effectiveness is assessed at each annual or interim reporting date using:

- ▶ prospective tests that justify the application of hedge accounting by proving the expectation of hedge effectiveness;
- ▶ retrospective tests that determine the degree of effectiveness of the hedge achieved during the period to which they refer, thus measuring the extent to which the actual results diverged from the perfect hedge.

The accounting treatment for gains and losses on fair value changes varies according to the type of hedge:

- ▶ fair value hedges: the change in the fair value of the hedged item attributable solely to the hedged risk is taken to the income statement, as is the change in the fair value of the hedging derivative instrument; the difference, if any, which represents the partial ineffectiveness of the hedge, thus determines the net effect on the income statement;
- ▶ cash flow hedges: changes in the fair value of the derivative are taken to equity, for the effective portion of the hedge, and are only taken to the income statement when, in reference to the hedged item, the change in the cash flows to be offset manifests, or for the portion of the hedge found to be ineffective;
- ▶ hedges of a net investment in a foreign operation: such hedges are accounted for according to the same method used for cash flow hedges.

The income components are allocated to the relevant items of the income statement as follows:

- ▶ differentials accrued on derivative instruments hedging interest-rate risk (in addition to the interest on the hedged positions) are allocated to item 10, "Interest and similar income" or item 20, "Interest payable and similar costs", depending on the sign of the differential, i.e. whether it is positive or negative;
- ▶ negative or positive changes in fair value resulting from the measurement of the fair value hedging derivative instruments or hedged positions are allocated to item 90, "Fair value adjustments in hedge accounting";
- ▶ positive or negative changes in fair value arising from the measurement of cash flow hedging derivative instruments are allocated, with regard to the effective portion, to a specific valuation reserve in equity, the "Cash flow hedge reserve", net of the deferred tax effect. With regard to the ineffective portion, such changes are taken to item 90 of the income statement, "Net hedging result".

Derecognition criteria

The accounting treatment of hedging operations is discontinued in the following cases: a) a hedge undertaken through a derivative ceases or is no longer highly effective; b) the hedged item has been sold or redeemed; c) the hedging operation is revoked in advance; or d) the derivative expires, is sold, terminated or exercised.

If hedge effectiveness is not confirmed, the portion of the derivative contract no longer designated a hedge ("over-hedging") is reclassified as held for trading. If discontinuation of the hedging relationship is due to the sale or termination of the hedging instrument, the hedged item ceases to be such and is once again measured according to the criteria that apply to the relevant portfolio.

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

5 - Equity investments

Recognition criteria

Investments in joint ventures and associates are recorded in the financial statements at cost, equal to the fair value of the consideration paid, adjusted for impairment.

This item includes interests in joint ventures and associates. Companies are considered joint ventures if control is shared between the Group and one or more other parties on a contractual basis or when the unanimous consent of all the parties who share control is necessary for decisions concerning significant activities. Companies in which the Bank holds 20% or more of the voting rights and companies for which the administrative, financial and management choices are considered to be subject to significant influence are considered to be associates due to the legal and factual links.

In establishing the existence of control over joint ventures and significant influence over associates, there are no situations to report where it was necessary to carry out particular assessments or make significant assumptions.

Measurement criteria

The Group uses the equity method to measure these investments, adjusting the initial value to reflect changes in the Group's significant net assets since the purchase date. At each balance sheet date or for interim financial statements, for equity investments the existence of objective evidence that the carrying amount of the assets may not be fully recoverable is verified. The impairment testing process requires checking for impairment indicators and determining the impairment loss, where applicable.

Impairment indicators may essentially be divided into two categories:

- ▶ qualitative indicators such as losses or a significant deviation from the budgeted targets or those of long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, or a rating downgrade of more than two notches by a specialized company;
- ▶ quantitative indicators, represented by a reduction in fair value below book value, by a book value of the equity investment in the separate financial statements that exceeds the book value in the consolidated financial statements of the net assets and goodwill of the subsidiary or by the distribution by a subsidiary of a dividend in excess of its total income.

The presence of impairment indicators implies the recognition of a write-down to the extent that the recoverable value is less than the carrying amount. The recoverable value is the greater of the fair value net of costs to sell and the value in use.

The value in use is the present value of the expected cash flows from the asset. It reflects the estimate of the expected cash flows from the asset, the estimate of possible changes in the amount and/or timing of the cash flows, the time value of money, the price to remunerate the risk of the asset and other factors that may influence market participants' valuation of the asset's expected cash flows.

Derecognition criteria

Equity investments are derecognized when the contractual rights to the cash flows deriving from the assets expire, or when the investment is sold with a substantial transfer of all the related risks and benefits.

6 - Tangible assets

Classification criteria

Tangible assets include land, instrumental properties, technical plants, furniture, furnishings and equipment of any type.

They also include rights of use acquired with leases and relating to the use of a tangible asset (for lessees), assets granted under an operating lease (for lessors), as well as improvements and incremental expenses incurred on owned assets and rights of use on tangible assets deriving from lease agreements.

Improvements and incremental expenses incurred on third-party assets deriving from lease agreements pursuant to IFRS 16 from which future benefits are expected are recognized:

- ▶ if independently identifiable and separable, in item "90. Tangible assets", in the most appropriate category;
- ▶ if not independently identifiable and separable, in item "90. Tangible assets", as an increase in the rights of use, recognized on the basis of the provisions of IFRS 16, to which they refer.

Improvements and incremental expenses incurred on third-party assets other than those mentioned above are recognized:

- ▶ if independently identifiable and separable, in item "90. Tangible assets", in the most appropriate category;
- ▶ if not independently identifiable and separable, in item "130. Other assets".

Instrumental properties are those owned properties (or properties held under a finance lease) used in production and the provision of services or for administrative purposes, with a useful life exceeding one year.

Recognition criteria

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

Costs incurred subsequently are added to the asset's carrying amount or recognized as a separate asset only

when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be measured reliably (e.g., extraordinary maintenance costs). Other expenses incurred subsequently (e.g., ordinary maintenance costs) are recognized, in the period incurred, in the income statement under item 190 b) "other administrative expenses," if they refer to assets used in the Group's business activities.

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

At the commencement date, the Group, as lessee, shall recognize the "right-of-use (RoU) asset" at cost, which shall comprise: a) the amount of the initial measurement of the lease liability; b) any lease payments made at or before the commencement date, less any lease incentives received; c) any initial direct costs incurred by the lessee, i.e., incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained, except for costs incurred by a manufacturer or dealer lessor in connection with a lease; and d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories".

The RoU asset referring to leases outstanding at the date of initial application of IFRS 16 was recognized under the "Modified Retrospective Approach".

The Group does not consider VAT as a component of lease payments for the purposes of calculating IFRS 16 measures (RoU Asset and Lease Liability, for which reference should be made to the line item Financial liabilities measured at amortized cost).

Measurement criteria

Subsequent to initial recognition, tangible assets are carried at cost, net of accumulated depreciation and impairment losses, if any.

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

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

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

The estimated useful life of tangible assets is reviewed at the end of each annual or interim 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.

Artistic assets are not depreciated as their useful life cannot be estimated and their value typically does not decrease over time.

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

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

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

At each annual or interim reporting date, the Group evaluates whether there is any indication of impairment of its tangible assets. If a loss is identified, the carrying amount is compared with the recoverable amount understood as the higher between fair value and value in use.

Tangible assets represented by the right of use of assets under lease contracts

Under IFRS 16, a lease is a contract or part of a contract that transfers the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A financial lease essentially transfers all the risks and rewards arising from ownership of the asset to the lessee (user). Otherwise, the contract is classified as an operating lease. The inception of a lease is the date from which the lessee is authorized to exercise its right to use the leased asset. It coincides with the date of initial recognition of the lease and even includes rent-free periods, i.e. contractual periods when the lessee uses the asset free of charge. At the inception of a contract, the lessee recognizes:

- ▶ an asset consisting of the right of use of the asset underlying the lease contract. The asset is recognized at cost, calculated as the sum of:
 - the lease liability;
 - lease payments made on or before the effective date of inception of the lease (net of lease incentives already received);
 - initial direct costs, and
 - any (estimated) costs to dispose of or restore the asset underlying the lease;
- ▶ a financial liability arising from the lease contract (lease liability) corresponding to the current value of payments due for the lease. The discount rate used is the implicit interest rate, if determinable; otherwise, the marginal financing interest rate of the lessee is used.

Where a lease contract contains "non-lease components" (e.g., the provision of services, such as routine maintenance, to be accounted for in accordance with IFRS 15), the lessee must separately account for "lease components" and "non-lease components" and distribute the contract price between the various components on the basis of their respective prices.

The lessee may choose to recognize lease payments:

- ▶ directly by expensing them to the income statement, on a straight-line basis throughout the term of the lease contract;
- ▶ according to another systematic method representative of the way in which the economic benefits are received, in the case of short-term leases (equal to or less than 12 months) that do not include an option for the lessee to purchase the leased asset and of leases where the underlying asset is of low value.

The lease term is determined taking into account:

- ▶ periods covered by an extension option, where the exercise of the extension option is reasonably certain;
- ▶ periods covered by an option to terminate the lease, if the exercise of the termination option is reasonably certain.

During the term of the lease contract, the lessee must:

- ▶ measure the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for in accordance with the provisions of IAS 36 - Impairment of Assets, adjusted to take account of any restatement of lease liabilities;
- ▶ increase the liability arising from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or alternatively at the marginal financing rate and reduce it for payments of principal and interest.

In the event of changes in lease payments, the liability must be restated; the impact of the restatement of the liability is accounted for with a contra-entry to the right of use asset.

Derecognition criteria

Tangible assets are derecognized when disposed of or when future economic benefits are no longer expected from their use or disposal.

The right of use deriving from lease contracts is derecognized at the end of the lease.

7 - Intangible assets

Classification criteria

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

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

Intangible assets mainly consist of software for long-term use and goodwill, resulting from contracts or new acquisitions.

Recognition criteria

Intangible assets are recognized in the annual or interim financial statements at acquisition cost, including direct costs incurred to bring the asset into use and increased with any costs incurred subsequently to increase initial economic functions, net of accumulated amortization and impairment losses, if any.

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

The goodwill recognized derives from the acquisition of BFF Polska in 2016 and IOS Finance in 2019, merged into BFF Iberia on December 31, 2019.

Measurement criteria

Intangible assets with a finite useful life are systematically amortized on a straight-line basis according to their estimated useful lives. Useful lives are normally estimated as follows for the entire Banking Group:

- ▶ software: maximum 4 years;
- ▶ other intangible assets: maximum 10 years.

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

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

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

Assets with an indefinite useful life, such as goodwill, are not systematically amortized but undergo a periodic impairment test when the annual or interim financial statements are drafted.

The Bank has a policy ("Goodwill Impairment Test") that defines the content of the test, in relation to what is prescribed by the accounting standard, also explaining so-called "trigger events", i.e. those indicators with an external/internal source of information that are monitored at least every six months and that trigger impairment tests on equity investments and goodwill. The impairment test may also be performed at the specific request of the Authorities in case of particularly exceptional events (e.g. the case of the COVID-19 pandemic).

Therefore, an impairment test is performed annually on goodwill (or whenever there is evidence of impairment). To this end, the cash-generating unit is identified to which goodwill is to be allocated.

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

On the basis of the outcomes of the annual impairment test performed to prepare the consolidated financial statements at December 31, 2021, the Group did not recognize any impairment loss on the amount of goodwill recorded in the financial statements relating to the allocation of the acquisition cost of the BFF Polska Group, BFF Iberia and two intangible assets deriving from the finalization of the PPA subsequent to the merger of the former DEPObank.

Derecognition criteria

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

9 - Current and deferred taxes

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

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

Current tax assets and liabilities include the net balance of the Group's tax positions in respect of the tax authorities. In particular, these items include the net balance of current tax liabilities for the year, calculated according to a prudential estimate of the tax charge due for the year, determined on the basis of the current tax code, and current tax assets represented by prepayments made in the course of the year. Current taxes correspond to the amount of income taxes due for the year.

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

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

Deferred tax assets are recorded under item 110 b) of assets. Deferred tax liabilities are recorded under item 60 b) of liabilities. Deferred tax assets and liabilities are constantly monitored and are recorded by applying the tax rates that it is expected will be applicable in the period in which the tax asset will be realized or the tax liability

will be extinguished, on the basis of the tax rates and the tax law established by provisions in force.

The accounting contra entry for both current and deferred tax assets and liabilities consists normally of the income statement item 300 "Income taxes on profit (loss) from continuing operations".

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

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

10 - Provisions for risks and charges

Registration/classification criteria

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

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

- ▶ a present obligation has arisen as a result of a past event;
- ▶ upon its manifestation, the obligation is onerous;
- ▶ a reliable estimate can be made of the amount of the obligation.

Provisions for risks and charges for commitments and guarantees provided

This item includes provisions for credit risk set aside for loan commitments and guarantees provided that fall within the scope of the impairment rules in IFRS 9. In this case the Group adopts the same methods for allocating items to the credit risk stages and calculating expected credit losses as the ones described for financial assets measured at amortized cost or at fair value through OCI.

Provisions for post-employment benefits and similar obligations

Provisions for post-employment benefits are formed in implementation of company agreements and are qualified as defined benefit plans. The liabilities relating to such plans and the relative current service cost are determined on the basis of actuarial assumptions by applying the Projected Unit Credit Method actuarial method, which involves projecting future outlays on the basis of statistical historical analyses and the demographic curve, as well as the financial discounting of such flows on the basis of a market interest rate. Contributions made in each year are considered to be separate units, recognized and valued individually in order to determine the final obligation. The discount rate is determined on the basis of market returns relating to the valuation dates of leading corporate bonds, taking into account the residual average duration of the liability. The present value of the obligation at the reporting date is also adjusted by the fair value of any assets serving the plan.

Actuarial gains and losses (or changes in the present value of the obligation deriving from changes in actuarial assumptions and adjustments based on past experience) are presented in the statement of comprehensive income.

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

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

Other provisions

Provisions for risks and charges are liabilities with an uncertain amount or maturity recognized in the financial statements as:

- ▶ there is a present obligation (legal or implicit) due to a past event;
- ▶ an outlay of financial resources is likely in order to meet the obligation;
- ▶ it is possible to reliably estimate the likely future outlay.

Such provisions include amounts set aside against presumed losses in legal proceedings against the company.

When the time element is relevant, the provisions are discounted using current market rates. The provision and increases due to the time factor are recognized in the income statement. In particular, when the present value of the provision has been recognized, the increase in the value of the provision recorded in the financial statements in each year to reflect the passing of time is recognized under interest expense.

The provisions recognized, as well as contingent liabilities, are reviewed at each annual or interim reporting date and adjusted to reflect the best current estimate. If the need to use resources to meet the obligation is no longer likely, the provision is reversed with a balancing entry in the income statement.

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

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

Derecognition criteria

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

11 - Financial liabilities measured at amortized cost

Classification criteria

An issued financial instrument is classified as a liability when, on the basis of the substance of the contractual agreement, there is a contractual obligation to provide money or another financial asset to another party.

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

In addition, the payables incurred by the Group as lessee under leases are also included.

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

Recognition criteria

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

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

Interest is recorded in income statement item 20 “Interest and similar expenses”.

Measurement criteria

Amounts due to banks and customers and debt securities issued are measured at amortized cost using the effective interest method.

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

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

Derecognition criteria

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

The derecognition of debt securities issued also occurs in the event of repurchase of securities previously issued, even if they are intended for subsequent resale. The gains or losses on the recognition of the repurchase as

an extinguishment are recognized in the income statement when the repurchase price of the bonds is higher or lower than their carrying amount. Subsequent disposals of own bonds on the market are treated as the placement of new debt.

12 - Financial liabilities held for trading

Recognition criteria

Recognition and measurement criteria are similar to those described for "Financial assets classified as held for trading".

Classification criteria

Financial liabilities held for trading include derivative contracts held for trading with negative values and liabilities related to technical overdrafts on securities.

All trading liabilities are valued at fair value with the allocation of the result of the measurement to the income statement.

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.

14 - Foreign currency transactions

Recognition criteria

Transactions in foreign currency are converted upon initial recognition into the functional currency by applying the exchange rate in force on the date of the transaction to the amount in foreign currency.

Measurement criteria

At each balance sheet closure, balance sheet items in foreign currency are valued as follows:

- ▶ monetary items are converted at the current exchange rate at the closing date;
- ▶ non-monetary items measured at historical cost are converted at the exchange rate on the transaction date;
- ▶ non-monetary items measured at fair value are converted using the exchange rate in effect on the date the fair value was determined.

The exchange differences deriving from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of the previous financial statements, are recognized in the Income Statement of the period in which they arise, while those relating to

non-monetary elements are recorded in the Shareholders' Equity or in the Income Statement in line with the method of recording the profits or losses that include this component.

Costs and revenues in foreign currencies are recognized at the exchange rate when they are accounted for, or, where in the process of accruing, at the exchange rate in effect at the reporting date.

16 - Other information

Treasury shares

The treasury shares held are deducted from equity at the value at which they were acquired in the market. Similarly, their original cost and the gains or losses from their subsequent sale shall be recognized as changes in equity.

At the time of assignment to employees or directors, the Treasury share reserve is reduced by an amount calculated at the average price for the acquisition of the various tranches, with a balancing entry in financial instrument reserves recognized in the financial statements based on variable remuneration agreements and the "share premium" reserve.

Employee severance pay

As a result of the legislative framework introduced by Law no. 296 of 2006, the employee severance benefits accrued up to December 31, 2021 (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, 2021, based on financial assumptions.

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

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

Revenue recognition criterion

The general criterion for the recognition of revenue components is the accrual basis, also taking into account the correlation between costs and revenues.

Revenues

Revenues are gross flows of economic benefits deriving from the performance of ordinary business activities, when such flows cause increases in shareholders' equity other than increases deriving from shareholder contributions.

Revenues deriving from contractual obligations with customers are recognized in the financial statements only if all of the following criteria are met:

- a) the parties to the contract have approved the contract and have undertaken to meet their respective obligations;
- b) the entity can identify the rights of each of the parties as regards the goods or services to be transferred;
- c) the entity can identify the conditions of payment of the goods or services to be transferred;
- d) the contract has commercial substance (or the risk, timing or amount of the future cash flows of the entity are destined to change following the contract);
- e) it is likely that the entity will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating the likelihood of receiving the amount of the consideration, the entity must take into account only the capacity and intention of the customer to pay the amount of the consideration when it will be due.

Interest income and expenses

Interest income and expenses and similar income and expenses relate to interest deriving from factoring activity, cash and cash equivalents and non-derivative financial assets and liabilities held for trading, measured at fair value through other comprehensive income and measured at amortized cost.

Interest income and expenses are recognized in the income statement for all instruments measured at amortized cost, using the effective interest rate method.

With respect to BFF Bank and BFF Finance Iberia, more specifically:

- ▶ fees and commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenues and are therefore part of the effective return on the receivable recognized at amortized cost.
- ▶ according to IFRS 15, revenue shall be recognized only when its amount can be reliably estimated when total "control" on the exchanged goods or services is transferred. In the case in question, consistently with the "Bank of Italy/Consob/Ivass Document no. 7 of November 9, 2016" on the "Treatment in the financial statements of late payment interest under Legislative Decree 231/2002 on non-recourse purchases of non-impaired receivables", BFF and BFF Finance Iberia also included the estimate of recoverable late payment interest, including that claimed from tax authorities. As a matter of fact, BFF and BFF Finance Iberia have time series of data concerning collection percentages and times—acquired through suitable analysis tools—enabling them to judge that the estimate of late payment interest included in the calculation of amortized cost is sufficiently reliable and complies with the recognition requirements established by IFRS 15. Such time

series are updated on an annual basis when the financial statements are prepared, in order to determine the collection percentages and times to be used to calculate late payment interest. The change in collections is then analyzed on a quarterly basis in order to monitor the relative trends and check the stability of the model.

With reference to the estimated total late payment interest that is expected to be collected by BFF and BFF Finance Iberia, the time series were updated with collection amounts for the year 2021. This confirmed the fairness of the weighted average collection percentage of 45% already used for the preparation of the financial statements for the year ended December 31, 2020, with average collection times at an estimated 1,800 days. With regard to late payment interest on tax receivables, given the particular nature of such interest and the counterparty, as well as the precise evidence obtained, it is believed that the conditions exist to recognize such interest in full.

As regards BFF Polska Group, with the exception only of BFF Central Europe s.r.o., despite the negligible importance of the component of late payment interest on total receivables, as part of the activities to complete the integration of Group processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the Group, late payment interest accrued on past-due trade receivables is primarily recognized when it is reasonably certain that it will be collected, on the basis of the agreements reached with the debtor counterparties or what has been agreed to in legal proceedings. As instead regards BFF Central Europe, please note that the amortized cost method is used, and the majority of the revenues recognized relate to commissions received. All additional revenue linked to late payment interest is recognized only in specific cases, for which there is reasonable certainty of recovery and for which a percentage of recovery has been defined based on experience.

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

Fees and commissions for receivables managed on behalf of assignors are recognized in two successive steps in relation to the timing and nature of the service rendered:

- ▶ when the receivables are entrusted for management (fees and commissions on acceptance, and handling expenses);
- ▶ when the receivables are collected (collection fees and commissions).

Fees and commissions

Fees and commissions, which primarily derive from the activities carried out by the Securities Services and Payments business units and debt collection management activities on behalf of third parties, are recognized when the service is provided. These are primarily revenues linked to periodic fees that could include the provision of multiple services, transaction fees and one-off revenues.

Fees and commissions considered in amortized cost in order to determine the effective interest rate are excluded, as they are recognized as interest.

Starting from the end of 2020, when legal costs incurred for the collection of the receivables acquired without recourse are recognized, the Group recognizes revenue equal to their percentage of recovery based on time series developed internally. Indeed, the above-mentioned legal costs are in part recovered from customers either when bankruptcy proceedings are completed or when settlement agreements are finalized, and therefore they

do not fully impact the financial statements. Therefore, this accounting treatment results in a greater alignment between costs and revenues, on an accrual basis.

With respect to the “€40” by way of compensation for recovery expenses, please note that this item is justified by Italian Legislative Decree no. 231 of 10/9/2002, implementing Directive 2000/35/EC on combating late payment in commercial transactions, and is confirmed by recent Italian and Spanish court rulings.

In the course of 2019, the Bank initiated invoicing to debtors of amounts linked to that regulatory dictate, and also in the same year the Bank began to track the relative collections in order to develop a time series.

From the accounting perspective, the above-mentioned collections currently have contributed to business income on a cash basis pending the transition to accrual accounting, like what was already done for late payment interest, once the robustness of the time series is confirmed.

Dividends

Dividends are recognized in the income statement when their distribution is approved.

Costs and other comprehensive income

Costs are recognized when they are incurred in compliance with the criterion of correlation between costs and revenues deriving directly and jointly from the same transactions or events. Costs that cannot be associated with revenues are recognized immediately in the Income statement.

Costs directly linked to financial instruments measured at amortized cost and which may be determined from their origin, irrespective of when they are paid, are recognized in the Income statement with the application of the effective interest rate.

Impairment losses are recognized in the Income statement in the year in which they are identified.

Share-based payment arrangements

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

Any reduction in the number of financial instruments allocated shall be accounted for as cancellation of part of them. This derecognition will have no impact on the income statement, but will take place with a balancing entry in the retained earnings reserve.

“2016 Stock-Option Plan of the Banca Farmafactoring Banking Group”

On December 5, 2016, the Bank’s Ordinary Shareholders’ Meeting approved the adoption of a stock option plan for employees and members of the corporate boards. The plan has the following features:

- ▶ *purpose*: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe for newly issued ordinary shares of the Bank or shares that have already been issued and are included in the company portfolio when the option is exercised. At December 31, 2021 the number of stock options assigned and not exercised amounted to 2,534,684, of which 1,581,684 exercisable;
- ▶ *beneficiaries*: the identification of beneficiaries and the granting of options are decided by:
 - a) the Board of Directors, after consulting with the Remuneration Committee, with reference to directors, senior executives and executives directly reporting to the Chief Executive Officer;
 - b) the Chief Executive Officer, within the limits of his/her powers, with reference to other beneficiaries whose remuneration falls within his/her duties;
- ▶ *type of exercise*: ordinary or cashless exercise. On March 28, 2019 the Ordinary Shareholders’ Meeting approved the introduction of an alternative method for exercising options under the plan, in addition to the ordinary option (so-called cashless). According to the new exercise option, authorized beneficiaries who requested it can be allocated a number of shares determined based on the market value of the shares at the exercise date, with no obligation for them to pay the exercise price.

“2020 Stock-Option Plan of the Banca Farmafactoring Banking Group”

On April 2, 2020, the Ordinary Shareholders' Meeting approved a new Stock Option Plan (“2020 Plan”) for employees and directors holding executive positions in the Bank and/or its subsidiaries, having the following characteristics:

- ▶ *purpose*: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe for newly issued ordinary shares of the Bank or shares that have already been issued and are included in the Bank portfolio when the option is exercised. At December 31, 2021 the number of stock options assigned amounted to 8,615,000, of which none yet exercisable;
- ▶ *recipients*: the beneficiaries are identified by the Board of Directors and/or the CEO at their sole discretion – within the limits envisaged by the applicable legislation and the plan – among the employees and/or Directors with executive positions in the Company and/or its subsidiaries;
- ▶ *type of exercise*: ordinary or cashless exercise.

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

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

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

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

Authorization to purchase and dispose of treasury shares and revocation, for the part not yet executed, of the authorization granted by the Shareholders' Meeting on April 2, 2020

The Bank's Ordinary Shareholders' Meeting of March 25, 2021, after examining the relevant illustrative Report by the Board of Directors, decided to revoke the previous authorization, granted by the Shareholders' Meeting of April 2, 2020, for the part not yet executed, and to authorize the Board of Directors to proceed with the purchase of BFF ordinary shares, on one or more occasions and for a period of 18 months from the date of the Shareholders' Meeting, in pursuit of the purposes set out in the aforementioned illustrative Report; the maximum number of shares to be purchased is 8,561,523, representative of 5% of the Bank's capital (taking accounting of the treasury shares already in portfolio).

The Bank, in execution of the resolution of the Ordinary Shareholders' Meeting of March 25, 2021, announced on September 28, 2021 the initiation of the treasury share buyback program pursuant to Article 5 of EU Regulation no. 596/2014, which concluded on October 22, 2021, with a total acquisition of 750,000 ordinary shares of BFF Bank S.p.A.

Shareholders' resolutions of April 2, 2020, January 29, 2021 and October 7, 2021

The Extraordinary Shareholders' Meeting of April 2, 2020, having examined the relevant illustrative Report by the Board of Directors, among other things resolved:

- ▶ to increase share capital free of charge, on a divisible basis, to be executed in multiple tranches by December 31, 2028, by issuing a maximum of 6,824,108 ordinary shares, in the maximum total amount of €5,254,563.16, to be allocated solely to capital, through a corresponding amount drawn on the reserve for retained earnings, for needs associated with the Company's remuneration and incentive policies, including the “Banca Farmafactoring Banking Group Stock Option Plan - 2020 SOP”.

The Extraordinary Shareholders' Meeting of January 29, 2021 resolved to approve the project for the merger by incorporation of DEPObank in the manner set out in the project itself, and therefore among other things through an increase in the share capital of BFF, upon the purchase of DEPObank, for €10,813,652 to the selling shareholder Equinova through the issue of 14,043,704 shares with no expressed nominal value. The increase in the share capital was executed on March 2, 2021.

Most recently, on October 7, 2021, the Ordinary and Extraordinary Shareholders' Meeting of the Bank resolved to, among other things:

- ▶ set aside €165,275,418 for the distribution of dividends in favor of Shareholders. The corresponding amount per share, gross of legal withholdings and inclusive of the portion attributable to treasury shares held by the Company at the record date, was quantified as €0.8946 at the end of the day of the shareholders' meeting;
- ▶ pay the above-mentioned dividends as of October 13, 2021 (“payment date”) and, after receiving authorization from the Supervisory Authority, which resolved to approve the proposal by the Board of Directors to modify articles 9, 11, 14, 15, 16, 18, 19, 21 and 22 of the By-laws, as presented in the Illustrative report.

Use of estimates and assumptions in the preparation of financial reporting

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

The significant assessments of the Bank in the application of the Bank's accounting standards and the main sources of estimation uncertainty are unchanged from those already illustrated in the Bank's last annual financial statements.

In accordance with IFRS, the elaboration of estimates by management is a prerequisite for the preparation of the consolidated financial statements at December 31, 2021. This process involves the use of available information and subjective assessments, also based on historical experience, in order to formulate reasonable assumptions for the analysis of operations. These estimates and assumptions may vary from one period to the next, and therefore it cannot be ruled out that in subsequent periods, including in light of the current COVID-19 ("Coronavirus") emergency situation, the current values recognized in the financial statements at December 31, 2021 may differ – even significantly – owing to a change in the subjective assessments.

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

The risk of uncertainty in estimates is essentially related to:

- ▶ the degree of recoverability and estimated collection times for late payment interest accrued on non-recourse receivables due to BFF, based on an analysis of historical multi-year company data;
- ▶ impairment losses on receivables and other financial assets in general;
- ▶ the fair value of financial instruments used for financial disclosure purposes;
- ▶ the fair value of financial instruments not traded in active markets, determined with measurement models;
- ▶ expenses recorded on the basis of provisional values that are not definitive at the date on which these financial statements were prepared;
- ▶ employee benefit provisions based on actuarial assumptions, and provisions for risks and charges;
- ▶ the recoverability of deferred tax assets;
- ▶ any impairment of equity investments and goodwill recognized; in light of the results at December 31, 2021, there are no trigger events that could impact the valuation of equity investments and goodwill recorded in the financial statements.

Measurement of impairment losses on financial assets

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

The impairment model is characterized by:

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

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

Stage Allocation Criteria

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

Such assessment has the following consequences in terms of classification (or, more appropriately, staging) and measurement:

- ▶ if such an indication does not exist, the financial asset is classified in Stage 1. In this case, in accordance with international accounting standards and even in the absence of apparent impairment losses, the Group shall recognize 12-month expected credit losses on the specific financial instrument. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is an indication that credit risk has “increased significantly”;
- ▶ if such an indication exists, the financial asset is classified in Stage 2. In this case, in accordance with international accounting standards and even in the absence of apparent impairment losses, the Group shall recognize adjustments equal to lifetime expected credit losses. These adjustments shall be reviewed at each subsequent reporting date to regularly assess whether they are consistent with the constantly updated loss estimates as well as account for the change in the forecast horizon for expected credit losses in the event there is no longer an indication that credit risk has “increased significantly”;

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

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

- ▶ quantitative criterion: definition of a relative threshold and an absolute threshold;
- ▶ qualitative criterion: use of transfer logic triggers, i.e., identification of events triggering transfers between stages.

The **qualitative criterion** takes precedence over the quantitative criterion and establishes that positions with information about non-payment days exceeding 30, or in the presence of forbearance measures, i.e., extensions of payment terms granted to the counterparty in light of the deterioration in its financial situation, or present on the watchlist, shall be allocated to Stage 2. The standard specifies that a significant deterioration in credit risk can occur even before 30 days, which is therefore intended to serve as a backstop beyond which the transition to Stage 2 shall be made and lifetime expected credit losses shall be recognized. This presumption is defined as “rebuttable” by the standard. An entity can rebut this presumption if it has reasonable and supportable

information that demonstrates that the credit risk has not actually increased since initial recognition, even though the contractual payments are more than 30 days past due.

As far as the **quantitative criterion** is concerned:

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

Impairment Criteria

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

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

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

- ▶ probability of default (PD) models and assumptions about the forward distribution of default events, for the calculation of multi-period PDs used to determine the lifetime expected credit loss;

- ▶ a multi-period LGD model;
- ▶ a deterministic and stochastic EAD model allowing to define a multi-period distribution as well as a 12-month horizon.

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

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

Probability of Default (PD)

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

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

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

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

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

- ▶ **Public counterparties:** the credit rating is assigned according to the time series of external ratings provided by the ECAI employed and referring to sovereign and sub-sovereign counterparties. The rating is assigned based on an external assessment carried out on the counterparties associated with the exposure subject to impairment, at the various observation times (reporting date and transaction origin date).
- ▶ **Non-public counterparties (excluding Financial Institutions):** with reference to BFF S.p.A. and BFF Finance Iberia S.A.U. exposures, the Group considers the Bank of Italy's quarterly decay rate.²
- ▶ **For the Polska Group,** a risk sensitive approach is used, based on the application of external ratings of non-public counterparties (for which financial statements are available) in order to refine the current portfolio approach with respect to the attribution of PDs (ECL calculation) and the stage allocation. Indeed, on the basis of the availability of historical financial statements (obtained from an external info provider) it is possible to assign a rating differentiated over time and by counterparty on the basis of a rating model.

2) In accordance with the definition adopted by the Bank of Italy's Statistical Bulletin: “The decay rate in a given quarter is given by the ratio of two quantities. The denominator consists of the number of subjects registered in the Central Credit Register and not considered as “adjusted impairment” at the end of the previous quarter. The numerator is the number of persons who entered into adjusted impairment during the quarter of recognition. The denominator is net of any receivables assigned in the quarter to intermediaries not participating in the Central Credit Register. The denominator of the ratio, although referring to the end of the previous quarter, is conventionally reported with an accounting date in the quarter in which it is recognized (the same as the numerator and the decay rate)”.

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

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

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

- ▶ estimation of cumulative PD curves using homogeneous migration matrices;
- ▶ estimation of the probability of the migration matrix's cumulative migration using the "cohort method" over discrete time horizons.

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

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

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

In particular, the following statistical techniques were used:

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

Three scenarios were chosen to calculate PIT and FLI PD:

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

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

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

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

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

Loss Given Default (LGD)

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

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

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

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

Exposure at Default (EAD)

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

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

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

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

- ▶ type of exposure;
- ▶ due date.

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

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

With reference to the exposures with deterministic repayment plans, the lifetime EAD is defined using the repayment plan and its effective cash flows. Stochastic modelling is therefore not necessary for these transactions. If the repayment plan is not available at the reporting date (despite it being provided for by contract), the impairment is calculated by assuming a lifetime EAD for a bullet loan.

The entry into force of the new rules on default from January 1, 2021 did not have any negative effect in terms of the classification of non-performing credit exposures. In view of the unchanged credit quality of the portfolio, this result was made possible thanks to the credit strategies adopted by BFF Banking Group, strategies that BFF has promoted within the Banking Group by carefully following the credit assessment, management and recovery processes.

With regard to the application of the new definition of default, the Supervisory Authority issued specific guidance making it mandatory to use the invoice due date as the starting date for the calculation of the due date for non-recourse factoring exposures.

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

This approach, taken from December 31, 2020, led to considering the preferential weighting of 20% envisaged by Art. 116, paragraph 3, of the CRR for all exposures to public sector entities with an original expiry of less than three months. The effect of this change – until then, prudentially, not adopted by BFF Banking Group in contrast with other market operators – was a lower absorption of capital, with a consequent improvement in capital ratios. This amendment made it possible to align the calculation of RWAs with the approach adopted by the other intermediaries and to unlink the calculation of capital absorptions for exposures to public sector entities with an original duration of three months or less from the assessments made by the credit rating agencies of the countries that the Bank operates in.

IFRS 9 - Update to reflect the COVID-19 financial crisis

The annual update of the risk parameters (PD and LGD) allows taking into account the evolution of the effects of COVID-19 within the estimates of expected losses. The Baseline, High Growth and Mild Recession forecasts were updated in June 2021 and provide the forecasted default rates for the 20 quarters following the updating date. These scenarios, provided by the external info provider, are also basically aligned with the new scenarios published by such info provider in December. The analyses of the *Risk Management Function*, performed for the fourth quarter of the year, indeed highlight that in December 2021 macroeconomic estimates do not significantly differ from those of June 2021. Indeed, the economic recovery is confirmed, driven especially by the vaccination campaign, and estimated unemployment rates, in any event, are better than what was estimated in June 2021. Indeed, according to the analysis of the external info provider, "the unemployment rate is stagnant, while inflation is resuming due to base effects, pressures from the reopening of the economy and rising energy prices". The comparison between the macroeconomic scenarios of the external info provider and those provided by the European Central Bank in December 2021 also highlights a substantial alignment between the scenarios. However, the impacts of COVID-19 have not entailed, and are not expected to entail, changes to the model underlying the estimation of the IFRS 9 ECL.

IFRS 3 - Business combinations

The accounting standard for business combinations is IFRS 3 (revised).

The transfer of control of a business (or an integrated set of activities and assets, conducted and managed by the same party) constitutes a business combination.

In accordance with IFRS 3, each business combination requires the identification of an acquirer. The latter must be identified in the entity that obtains control of another entity or group of businesses.

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

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

In the transactions that provide for payment in cash (or when payment is expected by means of financial instruments similar to cash) the price is the agreed consideration, possibly discounted if an instalment payment is expected in a period longer than the short term. If the payment is made through an instrument other than cash, therefore through the issue of equity instruments, the price is equal to the fair value of the means of payment net of the costs directly attributable to the capital issue transaction.

Adjustments subject to future events are included in the consideration for the business combination at the acquisition date if envisaged by the agreements and only if they are probable, reliably determinable and realized within 12 months of the date of acquisition of control, while compensation for reduction in the value of the assets used is not considered as already considered either in the fair value of the equity instruments or as a reduction in the premium or increase in the discount on the initial issue in the case of issuance of debt instruments.

The costs related to the acquisition are the expenses incurred by the acquirer to complete the business combination.

The acquirer must account for the costs related to the acquisition as expenses in the periods in which these costs are incurred and the services are received, with the exception of the costs of issuing shares or debt instruments that must be recognized in accordance with IAS 32 and IFRS 9.

Business combinations are accounted for using the “acquisition method”, which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.

Moreover, for each business combination, any minority stake in the acquired company can be recognized at fair value (with a consequent increase in the consideration transferred) or in proportion to the share of the minority stake in net identifiable assets of the acquired companies.

The excess between the consideration transferred (represented by the fair value of the assets transferred, the liabilities incurred or the equity instruments issued by the acquirer), possibly supplemented by the value of the minority interests (determined as set out above) and the fair value of the interests already held by the acquirer, and the fair value of the assets and liabilities acquired must be recognized as goodwill. However, if the latter are higher than the sum of the consideration, minority interests and fair value of the shares already held, the difference must be charged to the income statement.

The accounting for a business combination can be made on a provisional basis by the end of the year in which the combination is effected, but must be perfected within 12 months of the acquisition date.

Transactions aimed at controlling one or more companies that do not constitute a business activity or temporary control or, finally, if the business combination is carried out for reorganization purposes, therefore between two or more companies or business activities that are already part of BFF, and which does not involve a change in the control structures regardless of the percentage of minority rights before and after the operation (so-called business combinations of companies under common control) do not constitute business combinations.

For more information refer to Part G “Business combinations” of the Explanatory Notes to these financial statements.

A.4 INFORMATION ON FAIR VALUE

Qualitative information

IASs/IFRSs require that financial instruments classified as “Financial assets at fair value through profit or loss”, “Financial assets at fair value through other comprehensive income” and “Financial liabilities held for trading” be measured at fair value.

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal transaction between market operators (in other words, not a forced liquidation or sale below cost) on the measurement date. The fair value is a market measurement criterion not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria in terms of the reliability of the fair value according to the degree of discretion applied by entities, giving priority to the use of observable market parameters that reflect the assumptions that market participants would use in valuing (pricing) an asset/liability. Three different input levels are identified:

- ▶ Level 1: inputs represented by (unmodified) quoted prices in active markets for identical assets or liabilities, which can be accessed on the measurement date;
- ▶ Level 2: inputs other than quoted prices included in Level 1 that are directly (as in the case of prices) or indirectly (i.e. as derived from prices) observable for the assets or liabilities to be measured;
- ▶ Level 3: unobservable inputs for the asset or liability.

The choice between the aforementioned methods is not optional since they must be applied in hierarchical order. Absolute priority is given to the official prices available in active markets for the assets and liabilities to be measured (Level 1) or for assets and liabilities measured using valuation techniques based on observable market parameters other than the prices of the financial instrument (Level 2), and lower priority is given to assets and liabilities whose fair value is calculated using valuation techniques based on parameters that are not observable in the market and are therefore more discretionary (Level 3).

In compliance with the rules described above, the market price recorded at the end of the reporting period is used for instruments quoted in active markets (Level 1). The fair value of financial instruments not listed on active markets has been determined by using valuation techniques based mainly on the discounting of cash flows. The valuation techniques used incorporate all the factors considered by the market when setting the price and are based mainly on observable market inputs (Level 2).

Specifically:

- ▶ bonds are measured by discounting the future cash flows envisaged in the contractual plan of the security, using the market rates adjusted for counterparty risk;
- ▶ derivative contracts, consisting of overnight interest rate swaps (OISs), are measured based on market valuation models using market rates as the prevailing parameters, adjusted for counterparty risk. Where relevant, this risk includes both changes in the counterparty's creditworthiness and changes in the issuer's creditworthiness (own credit risk);
- ▶ for equities, there is a hierarchy and an order of application of measurement methods that considers, first of all, any transactions in the security recorded over a sufficiently short period of time compared to the

valuation period, comparable transactions of companies operating in the same sector and the application of analytical financial, income-based and equity-based valuation methods. The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market or subjective conditions of the issuer of the financial instrument. The Bank does not hold any Level 3 financial instruments, except for those of an immaterial value.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

The valuation techniques used are adapted to the specific characteristics of the assets and liabilities being valued. The choice of inputs is aimed at maximising the use of those that can be observed directly on the market, minimising the use of internal estimates.

With regard to Level 2 financial instruments, mainly represented by SWAPS and loans to customers and to banks measured at amortized cost, the valuations as at December 31, 2021 were based on interest rates and volatility factors derived from the market. In view of the bank's limited dealings in the over-the-counter derivatives segment and its dealings mainly with the most relevant counterparties based on risk-mitigating collateralization agreements, the adjustments made to the measurement of Level 2 instruments to incorporate counterparty risk were not significant.

With regard to Level 2 UCI units, the value is determined using the official NAV.

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

A.4.2 Processes and sensitivity of valuations

At December 31, 2021, as mentioned above, the only instrument classified as Level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme. The most recent fair value estimate received by the Fund and prepared by a major consulting firm has been adopted.

A.4.3 Fair value hierarchy

At December 31, 2021, as in 2020, there were no transfers between Level 1, Level 2 and Level 3.

A.4.5 Fair value hierarchy

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

(Values in thousand euros)

Financial assets / liabilities measured at fair value	12.31.2021			12.31.2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	9	36,486	104			
a) financial assets held for trading	9	4,087	–			
b) financial assets carried at fair value	–	–	–			
c) other financial assets subject to mandatory fair-value valuation	–	32,399	104			
2. Financial assets measured at fair value through other comprehensive income	167	83,338	–	–	147	17
3. Hedging derivatives	–	13	–			
4. Tangible assets	–	–	–			
5. Intangible assets	–	–	–			
Total	176	119,837	104	–	147	17
1. Financial liabilities held for trading		2,725				
2. Financial Liabilities at fair value		–				
3. Hedging derivatives		4,814				
Total		7,539				

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(Values in thousand euros)

	Financial assets measured at fair value through profit or loss			Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets at fair value				
1. Opening balances				17			
2. Increases				154			
2.1 Purchases							
2.2 Profits charged to:							
2.2.1 Income Statement							
- of which gains							
2.2.2 Shareholders' equity		X	X	X			
2.3 Transfers from other levels							
2.4 Other increases				154			
3. Decreases				-67			
3.1 Sales							
3.2 Repayments							
3.3 Losses charged to:							
3.3.1 Income Statement							
- of which losses							
3.3.2 Shareholders' equity		X	X	X			
3.4 Transfers from other levels							
3.5 Other decreases				-67			
4. Closing balances				104			

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

(Values in thousand euros)

Assets and liabilities not valued at fair value or valued at fair value on a non-recurring basis	12.31.2021				12.31.2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortized cost	10,069,497	5,839,220	–	4,276,876	5,764,259	1,739,407	–	4,082,208
2. Tangible assets held for investment								
3. Non-current assets held for sale and discontinued operations								
Total	10,069,497	5,839,220	–	4,276,876	5,764,259	1,739,407	–	4,082,208
1. Financial liabilities measured at amortized cost	10,010,353	188,861	–	9,824,068	5,415,184	771,810	–	4,606,276
2. Liabilities linked to assets held for sale								
Total	10,010,353	188,861	–	9,824,068	5,415,184	771,810	–	4,606,276

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 INFORMATION ON THE “DAY ONE PROFIT/LOSS”

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

Part B - Information on the Consolidated Balance Sheet

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

ASSETS

Section 1 - Cash and cash equivalents – Item 10

€554,468 thousand

1.1 Cash and cash equivalents: breakdown

(Values in thousand euros)

	Total 12.31.2021	Total 12.31.2020
a) Cash	192	4
b) Current accounts and sight deposits at Central Banks	360,142	173,276
c) Current accounts and sight deposits at banks	194,134	16,321
Total	554,468	189,601

Starting from December 31, 2021, in line with what is set forth in the 7th update of Bank of Italy circular 262/2005, the item in question, aside from cash and sight deposits at Central Banks, with the exception of the compulsory reserve, also includes current accounts, as well as sight receivables (current accounts and sight deposits) from banks.

As of December 31, 2021, this item mainly includes unrestricted deposits with the Bank of Italy, amounting to €360 million, as well as current accounts held by the Bank and its subsidiaries at third-party banks at the end of 2021, amounting to €194 million. Specifically, "Current accounts and sight deposits at banks" mainly refer for €183,075 thousand to BFF Bank, for €9,623 thousand to BFF Polska Group and for €1,616 thousand to BFF Finance Iberia.

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

€36,598 thousand

This item is broken down as follows:

- ▶ Financial assets held for trading of €4,095 thousand, which primarily includes the positive fair value of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Group is exposed to;

- Other financial assets subject to mandatory fair-value valuation of €32,503 million, which mainly include the "UCI units" (equal to €32.4 million) managed for the most part by the "Italian SGR Investment Fund" and, to a lesser extent, by the "Atlas Fund". The value of these shares has been updated to the latest available NAV made available to these funds on June 30, 2021. Finally, the item also includes Banca Carige's holding in the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) as assessed in the last available fair value report (€104 thousand).

2.1 Financial assets held for trading: breakdown by type

(Values in thousand euros)

Items/values	Total 12.31.2021			Total 12.31.2020		
	L1	L2	L3	L1	L2	L3
A. On-balance-sheet assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities	8					
2. Equity securities	1					
3. UCI units						
4. Loans						
4.1 Repurchase agreements						
4.2 Others						
Total (A)	9	-	-	-	-	-
B. Derivatives						
1. Financial derivatives						
1.1 held for trading		4,086				
1.2 connected to the fair value option						
1.3 others						
2. Credit derivatives						
2.1 held for trading						
2.2 connected to the fair value option						
2.3 others						
Total (B)	-	4,086	-	-	-	-
Total (A+B)	9	4,086	-	-	-	-

Key:

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

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

(Values in thousand euros)

Items/values	Total 12.31.2021	Total 12.31.2020
A. On-balance-sheet assets		
1. Debt securities	8	
a) Central Banks		
b) Public administrations	4	
c) Banks	4	
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	1	
a) Banks		
b) Other financial companies:		
of which: insurance companies		
c) Non-financial companies	1	
d) Other issuers		
3. UCI units	–	–
4. Loans		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total (A)	9	–
B. Derivatives		
a) Central counterparties		
b) Others	4,086	
Total (B)	4,086	–
Total (A+B)	4,095	–

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

(Values in thousand euros)

Items/values	Total			Total		
	12.31.2021			12.31.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities			104			
3. UCI units		32,399				
4. Loans						
4.1 Repurchase agreements						
4.2 Others						
Total	–	32,399	104	–	–	–

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.6 Other financial assets subject to mandatory fair-value measurement: breakdown by borrower/ issuer

(Values in thousand euros)

Items/values	Total 12/31/2021	Total 12/31/2020
1. Equity securities		
of which: banks		
of which: other financial companies	104	
of which: other non-financial companies		
2. Debt securities		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
3. UCI units	32,399	–
4. Loans		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	32,503	–

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

€83,506 thousand

At December 31, 2021 this item included:

- ▶ the stake in the Bank of Italy of €80 million, purchased in March 2021;
- ▶ the shares relating to the Visa Class C security equal to €2,538 thousand, not listed, whose fair value is determined by the comparison with Visa Series A listed shares (according to the conversion plan defined in 2016 on the occasion of the integration with Visa Europe);
- ▶ other minor investments worth approximately €968 thousand.

At December 31, 2021, the amount attributed to BFF Bank relating to its participation in the Voluntary Scheme of FITD for the actions taken to support Cassa di Risparmio di Cesena was totally written off; this amount as at December 31, 2020 came to €147 thousand.

Also during the first half of the year, the shareholding in Nomisma S.p.A. -Società di Studi Economici was sold, both the share belonging to BFF and the shareholding from the merger with the former DEPObank, for a total amount of €67 thousand.

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

(Values in thousand euros)

Items/values	Total 12.31.2021			Total 12.31.2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities	167	83,339			147	17
3. Loans						
Total	167	83,339	–	–	147	17

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrower/issuer

(Values in thousand euros)

Items/values	Total 12.31.2021	Total 12.31.2020
1. Debt securities		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
2. Equity securities	83,506	164
a) Banks	80,374	
b) Other issuers:	3,132	
- other financial companies	2,844	147
of which: insurance companies		
- non-financial companies	288	17
- others		
3. Loans		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
f) Households		
Total	83,506	164

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

€10,069,497 thousand

This item is broken down as follows:

- ▶ receivables due from banks of €404,099 thousand;
- ▶ receivables due from customers of €9,665,398 thousand, which, based on the guidance in the new IFRS 9, from January 1, 2018 also includes the Held to Collect (HTC) securities portfolio of €5,792,627 thousand.

Receivables due from banks

€404,099 thousand

4.1 Financial assets measured at amortized cost: breakdown by type of amounts due from banks

(Values in thousand euros)

Type of operations/ Values	Total 12.31.2021						Total 12.31.2020						
	Book value			Fair value			Book value			Fair value			
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	
A. Receivables due from Central Banks	156,038				156,038		14,757					14,757	
1. Time deposits	153			X	X	X	14,757				X	X	X
2. Mandatory reserve	155,885			X	X	X					X	X	X
3. Repurchase agreements				X	X	X					X	X	X
4. Others				X	X	X					X	X	X
B. Receivables due from banks	248,061				248,061								
1. Loans	248,061												
1.1 Current accounts	–			X	X	X					X	X	X
1.2 Time deposits	2,643			X	X	X					X	X	X
1.3 Other loans:	245,418			X	X	X					X	X	X
- Reverse repurchase agreements	160,438			X	X	X					X	X	X
- Loans for leases	–			X	X	X					X	X	X
- Others	84,980			X	X	X					X	X	X
2. Debt securities	–												
2.1 Structured securities	–												
2.2 Other debt securities	–												
Total	404,099	–	–	–	–	404,099	14,757	–	–	–	–	–	14,757

Key:

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

As mentioned above, starting from December 31, 2021, in line with what is set forth in the 7th update of Bank of Italy Circular 262/205, all sight deposits at Central Banks, with the exception of the compulsory reserve, as well as current accounts and sight receivables (current accounts and sight deposits) from banks have been reclassified to Balance Sheet item 10 "Cash and cash equivalents".

Therefore, at December 31, 2021 "Receivables due from Banks - restricted deposits" consist of €2,643 thousand deposited with Banco de España as CRM (*Coeficiente de Reservas Mínimas*) for deposit-taking activities conducted by the Spanish branch of the Bank through Cuenta Facto, and €154 thousand deposited with the National Bank of Poland (Narodowy Bank Polski) for deposit-taking activities conducted by the Polish branch through Lokata Facto.

The item "Receivables due from central banks - Minimum reserves", deriving from the financial statements of the former DEPObank, also includes the amounts deposited in compliance with the reserve requirement of the client banks, for which the parent company BFF provides the service on an indirect basis.

The item "Receivables due from banks – Repurchase agreements" refers to contracts governed by Global Master Repurchase Agreements (GMRAs) with other banks.

"Receivables due from banks – Other" consist mainly of operating receivables, i.e. receivables for transactions connected to the provision of services, and in particular of daily positions connected to the provision of payment card settlement services.

This item does not include any impaired assets.

Loans to customers

€9,665,398, including Held to Collect securities of €5,792,627 thousand

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

This item mainly includes loans to customers of €3,872.8 million (mainly receivables due from debtors in relation to factoring activities) and €5,792.6 million in debt securities in the HTC portfolio.

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

BFF Bank and BFF Finance Iberia's non-recourse receivables include both principal and late payment interest accruing as from the due date of the receivable. In order to compute amortized cost, including late payment interest recognized on an accrual basis, BFF Bank updates the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. However, a prudent decision was made to consider, also for 2021, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by Banca Farmafactoring.

With regard to the receivables purchased by BFF Finance Iberia, the average collection percentage for late payment interest tends to be equal to 100% and, on average, collection times are lower than those recorded for receivables due from the Italian National Healthcare System. However, a prudent decision was made to consider, also for 2021, the use of the same 45% collection percentage and the same collection time, 1,800 days, as used by BFF Bank.

As regards BFF Polska Group, with the exception only of BFF Central Europe s.r.o., despite the negligible importance of the component of late payment interest on total receivables, as part of the activities to complete

the integration of Group processes, which also include synchronizing the time series of data and the analysis instruments with those used by the Parent Company, the Group, late payment interest accrued on past-due trade receivables is primarily recognized when it is reasonably certain that it will be collected, on the basis of the agreements reached with the debtor counterparties or what has been agreed to in legal proceedings. As instead regards BFF Central Europe, please note that the amortized cost method is used, and the majority of the revenues recognized relate to commissions received. All additional revenue linked to late payment interest is recognized only in specific cases, for which there is reasonable certainty of recovery and for which a percentage of recovery has been defined based on experience.

The cumulative amount of late payment interest due to BFF Bank (including branches and countries managed in compliance with regulations on the freedom to provide services) and BFF Finance Iberia but not yet collected for non-recourse receivables (so-called Provision for late payment interest) amounted to €713 million, of which only €298 million were recognized in the income statement of the period and in previous periods.

The total net amount of impaired receivables for BFF Banking Group is €104.1 million. Of this amount, €72.2 million relates to non-performing loans (including €64.5 million relating to municipalities and provincial governments in financial distress, of which €5.3 million were purchased already impaired) and €12.4 million to unlikely-to-pay exposures. Past due exposures amounted to €19.4 million, of which 93% relating to public counterparties. Measurement of such exposures is carried out at the portfolio level since there are no objective indications of individual impairment.

Debt securities classified in the HTC portfolio, equal to €5,793 million, are measured at amortized cost. The relevant interest, calculated using the effective rate of return, is recognized in the income statement using the effective rate of return.

At December 31, 2021, 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 €5,707 million and fair value of €5,839 million, with a negative difference (before taxes) of around €46 million compared to the carrying amount on the same date, not recognized in the financial statements.

At December 31, 2021, the item also included the HTC portfolio from the merged company DEPObank, which led to a significant increase. At the time of the accounting merger, as required by the revised International Accounting Standard IFRS 3, the entire HTC portfolio recorded in the financial statements of DEPObank was revalued at its fair market value as at February 28, 2021 (at the end of the financial day). The new value of the securities was recorded in BFF Bank's financial statements as the initial recognition value and the new amortized cost was calculated on this basis. The difference between the securities' old value at amortized cost and the new fair value thereof resulted in a positive impact net of the deferred tax effect of approximately €36 million, recorded in the Income Statement as a counterpart to the badwill.

This effect would be reabsorbed through the amortized cost mechanism during the years following the closing with consequent lower revenues compared to the value of the amortized cost pre-deal until their maturity.

In reality, the Bank submitted a request and received a positive response from the Italian Revenue Agency with respect to the possibility to apply an exemption from ordinary rules which establish the tax neutrality of the Merger and the resulting need to neutralize the effects of the misalignment through the described increases, by applying the special provisions on realignment of the higher accounting values with respect to tax values, proceeding with the payment in 2022 of substitute tax relating to the Misalignment. For more details, see "Section 11 - Tax assets and liabilities".

4.2 Financial assets measured at amortized cost: breakdown by type of loans to customers

€3,872,771 thousand

(Values in thousand euros)

Type of operations/ values	Total 12.31.2021						Total 12.31.2020					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	Purchased or originated impaired	L1	L2	L3
1. Loans	3,768,695	98,788	5,287			3,872,777	3,942,822	124,629	5,655			4,067,451
1.1 Current accounts	20,498	1,141		X	X	X	3	1				X X X
1.2 Reverse repos	127,452			X	X	X						X X X
1.3 Mortgages				X	X	X						X X X
1.4 Credit cards and personal loans, including salary assignment loans	468			X	X	X						X X X
1.5 Finance leases	2,851			X	X	X	1,937					X X X
1.6 Factoring	2,418,616	77,352	5,287	X	X	X	2,896,863	98,593	5,655			X X X
1.7 Other loans	1,198,810	20,295		X	X	X	1,044,019	20,380				X X X
2. Debt securities	5,792,627					5,839,220	1,682,050					1,739,407
2.1 Structured securities												
2.2 Other debt securities	5,792,627					5,839,220	1,682,050					1,739,407
Total	9,561,322	98,788	5,287	5,839,220	-	3,872,777	5,624,872	118,974	5,655	1,739,407	-	4,067,451

This item breaks down as follows:

- ▶ performing factoring amounted to a total of €2,418,616 thousand for BFF Banking Group. This included non-recourse receivables purchased as performing, registered under the name of the assigned debtor, with the conditions for derecognition, and measured at amortized cost, worth a total of €1,985,606 thousand for BFF Bank and €306,660 thousand for the subsidiary BFF Finance Iberia. Non-recourse receivables are mainly purchased already past due, and their principal portion is deemed collectible. The right to accrued and accruing late payment interest is acquired upon purchase.

Receivables purchased below face value totalled €23,864 thousand.

Performing recourse and non-recourse factoring of BFF Polska Group totalled €126,350 thousand.

- ▶ Other performing loans due from customers amounted to €1,198,811 thousand. They mainly include:
 - receivables for accrued late payment interest of about €187,460 thousand, including €163,025 thousand relating to BFF Bank and €24,436 thousand relating to the Spanish subsidiary. This amount has already been recognized in the income statement in the current and prior years and refers only to late payment interest accrued on principal already collected. Therefore, of the €298.0 million late payment interest recognized in the income statement, and referring to the provision existing at December 31, 2021, €187.5 million refers to the item under review, while the remaining amount of €110.6 million was recognized under “factoring”;
 - security deposits of approximately €36.8 million for settlement activities related to the transactions typical of the Securities Services and Banking Payments business areas;
 - security deposits for transactions in place with Cassa Compensazione e Garanzia for €89.9 million;
 - financing activities of BFF Polska Group of €874,363 thousand.
- ▶ Reverse repurchase agreements amounting to €127,451 thousand. These are exposures arising from contracts with customers regulated by the Global Master Repurchase Agreement (GMRA).
- ▶ Current account credit facilities amounting to €20,498 thousand are for the use of lines of credit granted to funds and asset management companies using the custodian bank services (as part of the services offered by the Securities Services business unit) or by corporate customers to whom collection and payment services are provided (as part of the services provided by the Banking Payments Department).
- ▶ Performing finance leases of BFF Polska Group totalled €2,851 thousand.
- ▶ BFF Banking Group’s net impaired assets amounted to a total of €90,884 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, 2021, the overall total of the Banking Group’s non-performing loans, net of impairment, amounted to €72,233 thousand, of which €5,287 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €64,468 thousand, accounting for 89.2% of the total.
Gross non-performing loans amounted to €87,467 thousand. Relevant impairment totalled €15,234 thousand. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €1,269 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €88,736 thousand and relevant adjustments totalled €16,503 thousand.
With reference to the Bank, at December 31, 2021 total non-performing loans, net of any estimated impairment losses, amounted to €65,944 thousand, of which €64,468 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure. Specifically, the amount of €5,287 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions. The remaining positions referring to BFF Bank are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €18,006 thousand. After estimated impairment losses of €11,717 thousand, they amounted to €6,290 thousand (compared to €2,041 thousand at December 31, 2020). This increase is due to the change in status from unlikely-to-pay to non-performing of a position fully covered by a guarantee.

- ▶ BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgement made by the intermediary about the unlikelihood that – absent such actions as the enforcement of guarantees – the debtor will fully fulfil (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or instalments). At December 31, 2021, gross exposures classified as unlikely to pay amounted to €17,505 thousand, of which €15,448 thousand attributable to BFF Polska Group, €1,554 to the bank and €503 thousand to BFF Finance Iberia. The total net amount was €12,413 thousand, relating mainly to BFF Polska Group since the gross exposures of BFF Bank and BFF Finance Iberia were almost entirely impaired.
- ▶ Net past due exposures of BFF Banking Group amounted to €19,428 thousand. They refer to the bank for €17,779 thousand and to BFF Polska Group of €1,650 thousand. 93.3% of these exposures relate to public counterparties. These consist of exposures with entities for which the conditions for classification as impaired past due exposures are met by presenting one or more credit lines that meet the definition of "Non-performing exposures with forbearance measures" set out in Section V, Part 2, paragraph 262 of the ITS.

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted for a total amount of €2.1 million and are mainly represented by corporate clients (approximately 48%), public-sector entities (approximately 21%) and retail clients (approximately 31%). The main products affected are credit exposures deriving from amounts, accounting for approximately 66%, loans, 23% from loans (MEDLekarz - loans to medical practices), 7% from factoring operations and a residual 4% relating to financial lease operations. Compared to December 31, 2020 there was a decrease of about €800 thousand.

Fair value

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

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

4.3 Financial assets measured at amortized cost: breakdown by borrower/issuer of loans to customers

(Values in thousand euros)

Type of operations/Values	Total 12.31.2021			Total 12.31.2020		
	Stage one and Stage two	Stage three	Purchased or originated impaired	Stage one and Stage two	Stage three	Purchased or originated impaired
1. Debt securities	5,792,627			1,682,050		
a) Public authorities	5,792,627			1,682,050		
b) Other financial companies						
of which: insurance companies						
c) Non-financial companies						
2. Loans to:	3,768,696	98,789	5,287	3,942,821	119,015	5,614
a) Public authorities	3,347,055	77,501	5,287	3,583,101	98,382	5,614
b) Other financial companies	220,300	1,141		139,510		
of which: insurance companies						
c) Non-financial companies	165,660	19,767		190,155	20,178	
d) Households	35,681	380		30,055	455	
Total	9,561,323	98,789	5,287	5,624,872	119,015	5,614

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

(Values in thousand euros)

	Gross value					Total value adjustments				
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired	Total partial write-offs (*)
Debt securities	5,793,236	–	–	–	–	610	–	–	–	–
Loans	3,313,506	–	861,118	118,965	5,493	1,365	463	20,176	206	–
Total 12.31.2021	9,106,742	–	861,118	118,965	5,493	1,975	463	20,176	206	–
Total 12.31.2020	5,449,912	–	193,425	135,107	5,828	2,968	740	16,091	214	–

(*) Value provided for disclosure purposes.

4.4a Loans at amortized cost subject to COVID-19 support measures: gross value and total adjustments

(Values in thousand euros)

	Gross value				Total value adjustments				Total partial write-offs (*)
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	
1. Loans granted in accordance with GL	1,601		232	287					
2. Loans subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne									
3. Loans subject to other forbearance measures									
4. New funding									
Total 12.31.2021	1,601	–	232	287	–	–	–	–	–
Total 12.31.2020	2,425	–	457	41	–	–	–	–	–

(*) Value provided for disclosure purposes.

Section 5 - Hedging derivatives - Item 50

€13 thousand

5.1 Hedging derivatives: breakdown by hedge type and level

(Values in thousand euros)

	Fair value 12.31.2021			VN 12.31.2021	Fair Value 12.31.2020			NV 12.31.2020
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value								
2) Financial flows		13		17,403				
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Financial flows								
Total	-	13	-	17,403	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item includes the positive fair value at December 31, 2021 relating to currency swap hedges with notional in zloty defined with the aim of hedging the loans disbursed in zloty to Polish subsidiaries under current intercompany agreements.

5.2 Hedging derivatives: breakdown by portfolios hedged and hedge type

(Values in thousand euros)

Transactions/ Hedge type	Fair value						Financial flows		Foreign investments	
	Microhedge						Microhedge	Macrohedge		
	debt securities and interest rates	equity securities and stock indices	currency and gold	loans	commodities	others				
1. Financial assets measured at fair value through other comprehensive income					X	X	X		X	X
2. Financial assets measured at amortized cost		X			X	X	X	13	X	X
3. Portfolio	X	X	X	X	X	X		X		X
4. Other transactions							X		X	
Total assets								13		
1. Financial liabilities		X					X		X	X
2. Portfolio	X	X	X	X	X	X		X		X
Total liabilities								-		
1. Expected transactions	X	X	X	X	X	X	X		X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X		X		

Section 7 - Equity investments - Item 70

€13,484 thousand

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

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Type of relationship	Ownership relationship		Voting rights %
				Held by	Holding %	
A. Jointly controlled companies						
B. Companies over which significant influence is exercised						
1. Unione Fiduciaria	Milan (Italy)	Milan (Italy)	Voting right in the Shareholders' Meeting	BFF Bank S.p.A.	26.46%	26.46%
C. Exclusively controlled companies						
2. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódz (Poland)	Łódz (Poland)	Other forms of control	BFF Polska S.A.	99%	99%
3. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódz (Poland)	Łódz (Poland)	Other forms of control	Debt-Rnt sp. Z.O.O	99%	99%

7.4 Non-significant shareholdings: accounting information

(Values in thousand euros)

Name	Book value of equity investments	Total assets	Total liabilities	Total revenue	Profit (Loss) from current operations after tax	Profit (loss) from operations after tax	Profit (loss) for the period (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1) + (2)
A. Jointly controlled companies									
B. Companies over which significant influence is exercised									
1. Unione Fiduciaria S.p.A.	13,397	77,776	77,262	20,434	(513)		(514)		(514)
C. Exclusively controlled companies									
1. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	4	667	467	776	194	–	194	–	194
2. Restrukturyzacyjna Prawnicza Karnowski i Wspólnik sp.k.	83	137	4	71	50	–	50	–	50

7.5 Equity investments: annual changes

(Values in thousand euros)

	Total 12.31.2021	Total 12.31.2020
A. Opening balance	88	94
B. Increases	13,397	
B.1 Purchases		
B.2 Write-backs		
B.3 Revaluations	4,832	
B.4 Other changes	8,565	
C. Decreases	(1)	(6)
C.1 Sales		
C.2 Value adjustments		
C.3 Impairment		
C.4 Other changes	(1)	(6)
D. Closing balance	13,484	88
E. Total revaluations		
F. Total adjustments		

At December 31, 2021, the other increases of €13.4 million were due to the inclusion in the consolidated financial statements of the equity investment in Unione Fiduciaria, measured at equity and resulting from the merger with the former DEPObank.

Section 9 - Tangible assets - Item 90

€36,452 thousand

9.1 Tangible assets with functional use: breakdown of assets measured at cost

(Values in thousand euros)

Assets/Values	Total 12.31.2021	Total 12.31.2020
1. Proprietary assets	20,162	11,231
a) land	6,324	3,685
b) buildings	11,017	5,844
c) furniture	252	181
d) electronic systems	1,516	342
e) others	1,053	1,179
2. Lease rights of use	16,290	6,783
a) land		
b) buildings	15,290	5,982
c) furniture		
d) electronic systems		
e) others	1,000	801
Total	36,452	18,014
of which: obtained by enforcement of guarantees received	-	-

9.6 Tangible assets with functional use: yearly changes

(Values in thousand euros)

	Land	Buildings	Furnishings	Electronic system	Others	Total
A. Gross opening balances	3,685	24,838	2,740	8,393	5,873	45,529
A.1 Total net write-downs		(13,013)	(2,559)	(8,051)	(3,893)	(27,515)
A.2 Opening net balances	3,685	11,826	181	342	1,981	18,014
B. Increases:	2,640	17,764	198	2,044	1,070	23,714
B.1 Purchases		84	48	1,380	442	1,952
B.2 Capitalized expenditures on improvements						
B.3 Write-backs						
B.4 Increases in fair value attributed to:						
a) net equity						
b) income statement						
B.5 Positive exchange differences						
B.6 Transfers from properties held for investment			X	X	X	
B.7 Other changes	2,640	17,680	150	664	628	21,762
C. Decreases:		(3,282)	(127)	(870)	(998)	(5,276)
C.1 Sales					(67)	(67)
C.2 Depreciation		(3,272)	(126)	(857)	(878)	(5,132)
C.3 Write-downs charged to:						
a) net equity						
b) income statement						
C.4 Negative changes in fair value attributed to:						
a) net equity						
b) income statement						
C.5 Negative exchange differences						
C.6 Transfers to:						
a) tangible assets held for investment			X	X	X	
b) non-current assets and groups of assets held for disposal						
C.7 Other changes		(10)	(1)	(13)	(53)	(77)
D. Closing net balances	6,325	26,307	252	1,516	2,053	36,452
D.1 Total net write-downs		(8,625)	(2,629)	(9,822)	(4,815)	(25,892)
D.2 Closing Gross Amount	6,325	34,932	2,881	11,338	6,868	62,344
E. Measurement at cost	6,325	34,932	2,881	11,338	6,868	62,344

At December 31, 2021, the item “Tangible assets” amounted to a total of €36,452 thousand. Of this amount, €33,138 thousand related to BFF Bank, €2,041 thousand to BFF Polska Group and €1,273 thousand to BFF Finance Iberia. At December 31, 2021 the item relating to BFF Bank was mainly composed of:

- ▶ Land of €6,325 thousand, inclusive of the property resulting from the former DEPObank and which represents the figure set forth in the financial statements at December 31, 2020 of the two Banks which have now merged;
- ▶ Buildings (including capitalized extraordinary maintenance) of €11,017 thousand including the Rome property at Via Elio Chianesi 110/d owned by the former DEPObank, compared to €5,844 thousand at December 31, 2020 relating only to BFF Bank;
- ▶ Right-of-use assets relating to the application of IFRS 16 on leases of €16,290 thousand, of which €15,290 thousand relating to assets leased by the Parent Company and its subsidiaries. For further information on this topic, please refer to section M of the Notes.

Upon IFRS first-time adoption (January 1, 2005), the buildings owned by BFF and used in its business activities (Milan and Rome) were measured at fair value, which became the new carrying amount of the assets as of that date. Such amount is depreciated at the end of each reporting period based on the assets’ estimated useful life.

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

In the financial statements, with regard to the scope of BFF, the land and building owned in Milan (Via Domenichino 5) were recognized separately based on an appraisal conducted by the same company that determined their value. The land on which the Rome building sits was not separated because BFF is not the owner of the entire building.

Section 10 - Intangible assets - Item 100

€67,547 thousand (of which €30,874 thousand relating to goodwill)

10.1 Intangible assets: breakdown by type of asset

(Values in thousand euros)

Assets/Values	Total 12.31.2021		Total 12.31.2020	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	X	30,874	X	30,874
A.2 Other intangible assets	36,673		5,801	
<i>of which: software</i>	7,593		4,723	
A.2.1 Assets measured at cost:				
a) Intangible assets created internally				
b) Other assets	36,673		5,801	
A.2.2 Assets measured at fair value:				
a) Intangible assets created internally				
b) Other assets				
Total	36,673	30,874	5,801	30,874

The line item largely consists of the goodwill arising from BFF's acquisition of BFF Polska Group in 2016 and the former IOS Finance (now merged into BFF Finance Iberia) in 2019, totalling respectively €22,146 thousand and €8,728 thousand, as well as the Customer Contracts equal to €25,740 thousand (intangible assets with a finite useful life, arising following the finalization of the Purchase Price Allocation on the acquisition of the former DEPObank). For more information refer to Part G "Business combinations" of the Explanatory Notes.

With respect to goodwill with an infinite useful life recognized in the financial statements and in line with what is described in IAS 36, an impairment test was performed in 2021 on goodwill recognized in the financial statements, concerning BFF Polska Group and BFF Iberia (formerly IOS Finance) in order to determine the recoverable amount.

The estimated value in use is based on expected cash flows for a period of 2 years plus the terminal value. The management has formulated a budget for 2022 without however updating the projections for the year 2023 of last year's plan (last year, the company approved a plan until 2023). The estimation process requires the appropriate analyses to be performed on the difference between the preliminary figures and the budget to understand the reason underlying these differences. The forecast flows were used for the assessments, once their reasonableness was verified. This reasonableness is checked by analyzing and verifying:

- a) the nature of the variances between the budget and the forecast (used for the preparation of the budget) and the incorporation of (permanent) variances in the projections made;
- b) that the consolidated projections are in the range expressed by equity analysts.

In particular, with respect to the two items of goodwill in question which were generated following the acquisition of BFF Polska Group and BFF Finance Iberia, in the course of 2021 the Dividend Discount Model method and assessment formula was adopted, based on which the value in use of each company CGU is equal to the present value of the dividends expected in the explicit forecast period (equal to 2 years) and the terminal value obtained by projecting in perpetuity at the capitalization rate (coe-g) the sustainable dividend beyond the explicit forecast period.

In order to estimate the opportunity cost of equity (cost of equity - "coe") the Capital Asset Pricing Model was used, adjusted to consider the reduced size of BFF Banking Group and its CGUs, based on which:

- ▶ $Coe = Risk\ Free_t + \beta \times (Equity\ Risk\ Premium) + Size\ Premium;$
- ▶ $Risk\ Free_t$ = yield to maturity of the ten-year government rate of the country in which the CGU operates, corresponding to the average at 1 year at the date of December 31, 2021 of the yields to maturity of the benchmark on ten-year government securities from the source Datastream;
- ▶ β = coefficient expressing the risk of a security, estimated for the CGUs as equal to 1.22x and based on monthly historical yields at 5 years of the securities of comparable companies and the respective local market indexes. The comparable companies are the European companies surveyed by the provider RBICS FactSet as operating in the sub-sector to which BFF Banking Group belongs and corresponding to the Collection Agencies and Loan Factoring Services sub-sector. The companies considered were only those with revenues in the sub-sector exceeding 20% of the entire Equity Risk Premium market risk premium turnover that incorporates the country risk of Poland and Spain. Reference was made to the figure published by Prof. Fernandez and Prof. Damodaran;
- ▶ Size Premium = risk premium for reduced size and aligned with the premium for historical risk surveyed by the academics Fama and French since 1970. This estimate at December 31, 2021 is equal to 1.9%.

The "g" growth rate was prudently assumed to be equal to 0%.

This being stated, with respect to the BFF Polska CGU, the estimated value in use which emerged is €266.3 million at December 31, 2021 against a carrying amount of €159.78 million.

Therefore, no impairment losses were identified.

Furthermore, pursuant to IAS 36, a sensitivity analysis was performed to identify the change in key variables (cost of equity, net margins as captured by the ratio between net profit and the intermediation margin, growth rate of income in the terminal value, intermediation margin), which makes the recoverable amount equal to the carrying amount in the consolidated financial statements of the different CGUs. This analysis shows that in relation to the Poland CGU an upward change in costs such so as to decrease margins (= net profit/intermediation margin) by 25.58%, an increase in the cost of equity of 9.49% (to the value of 19.79%), a growth rate of income in the terminal value at -11.22% and lastly a lowering of the intermediation margin of 47.47% would result in the alignment of the recoverable amount with the carrying amount.

With respect to the BFF Finance Iberia CGU, the relative estimated value in use which emerged is €149.7 million at December 31, 2021 against a carrying amount of €30.92 million.

Also in this case, therefore, no impairment losses were identified.

The sensitivity analysis performed in order to make the recoverable amount equal to the carrying amount showed that an upward change in costs such so as to decrease margins (= net profit/intermediation margin) by 46.32% and a decline in the intermediation margin of 84.10% would result in the alignment of the recoverable amount with the carrying amount. The increases in the cost of equity and the lowering of the income growth rate necessary to identify a value aligned with the carrying amount were not significant.

With respect to the Customer Contracts emerging during the PPA, following the cancellation received from the customer Arca (effective as of the end of 2022 / start of 2023) which constitutes a trigger event for the purposes of the international accounting standards, an impairment test was performed on that relating to the Securities Services BU.

With respect to the assessment performed during the PPA, at December 31, 2021:

- a) a rate was used which no longer considers the risk deriving from high concentration;
- b) new forecast revenues were considered in light of the cancellation of the customer Arca and an attrition rate of 10.34%, corresponding to the estimated attrition rate at the date of the PPA (9.52%) adjusted upward to take into account the time that has passed since the PPA date;
- c) a residual life has been used equal to that of the PPA reduced by the time that has passed since the valuation date;
- d) the same margin from customer relationships assumed for the PPA was considered;
- e) an estimate of the opportunity cost of equity equal to 7.27% was used, estimated with a method in continuity with that used during the PPA, with the exception of the estimated beta, which in the assessment at December 31, 2021 excludes concentration risk.

This being stated, the estimated value in use was aligned with what emerged during the PPA and therefore the stability of the value of the intangibles recognized in the Financial Statements is confirmed.

As regards other intangible assets with a finite life, they refer to investments in new multi-year software, amortized on a straight-line basis over their estimated useful lives (not exceeding 4 years for the entire Banking Group).

10.2 Intangible assets: annual changes

(Values in thousand euros)

	Goodwill	Other intangible assets: generated internally		Other intangible assets: others		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	30,874			8,773		39,647
A.1 Total net adjustments	–			(2,972)		(2,972)
A.2 Opening net balances	30,874			5,801		36,675
B. Increases				36,541		36,541
B.1 Purchases				8,445		8,445
B.2 Increases in internal intangible assets	X					
B.3 Write-backs	X					
B.4 Increases in fair value						
- to net equity	X					
- to income statement	X					
B.5 Positive foreign exchange differences						
B.6 Other changes				28,096		28,096
C. Decreases				(5,669)		(5,669)
C.1 Sales						
C.2 Value adjustments						
– Amortization	X			(4,952)		(4,952)
– Impairment						
+ shareholders' equity	X					
+ income statement						
C.3 Decreases in fair value						
– to net equity	X					
– to income statement	X					
C.4 Transfers to non-current assets held for sale						
C.5 Negative foreign exchange differences						
C.6 Other changes				(717)		(717)
D. Closing net balances	30,874			36,673		67,547
D.1 Total net adjustments				(5,935)		(5,935)
E. Closing gross balances	30,874			42,608		73,482
F. Valuation at cost	30,874			42,608		73,482

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

As at December 31, 2021, current tax assets and liabilities amount to €41,389 thousand and €5,028 thousand, respectively, and include the net balance of the Group's tax positions with respect to tax authorities, in accordance with the provisions of IAS 12. In particular, these items include the net balance of current tax liabilities for the year, calculated according to a prudential estimate of the tax charge due for the year, determined on the basis of the current tax code, and current tax assets represented by prepayments made in the course of the year. Current taxes correspond to the amount of income taxes due for the year.

In the first half of 2021, furthermore, the agreement on the "Patent box" was also concluded with the Revenue Agency with positive results. In essence, the Bank will be able to make use of the benefit relating to the 2017, 2018, 2019 and 2020 tax periods in the "2021 Tax Return for 2020 income" for a total amount of €963 thousand.

Furthermore, the Bank may also benefit from the positive tax effect described above for the 2021 financial year for an annual amount of €195 thousand.

11.1 Deferred tax assets: breakdown

€59,129 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.

During 2021, relying on the option permitted by Decree-Law no. 104 of August 14, 2020, the tax value and book value relating to Banking Payments goodwill deriving from the former DEPObank were aligned (see the discussion in the specific Asset item 100 "Intangible Assets" of the Balance Sheet) which generated increased deferred tax assets for approximately €26.1 million. This realignment required the payment of substitute tax equal to €2.4 million, resulting in a net positive effect on the income statement of €23.7 million on income taxes for the year.

Lastly, with reference to the special provisions on the realignment of the higher accounting values with respect to tax values pursuant to Art. 15, paragraph 11 of Decree-Law no. 185 of November 29, 2008 (hereinafter, the "Realignment") and following the outcome of the request made concerning the applicability of that regulation to the higher value recognized on the HTC securities portfolio deriving from the portfolio of the former DEPObank, in 2022 the Bank will pay substitute tax on the higher value at December 31, 2021 by way of exemption from the ordinary rules that establish the tax neutrality of the Merger and the resulting need to neutralize the effects of the Misalignment between the statutory value and the tax value by recognizing deferred tax liabilities. The effect of this transaction, recognized in the 2021 Financial Statements, led to a tax benefit of roughly €3.7 million.

11.2 Deferred tax liabilities: composition

€95,657 thousand

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

11.3 Changes in deferred tax assets (through profit or loss)

€58,678 thousand

(Values in thousand euros)

	Total 12.31.2021	Total 12.31.2020
1. Initial amount	10,657	10,944
2. Increases		
2.1 Prepaid taxes recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) value write-backs		
d) others	32,310	1,614
2.2 New taxes or increases in tax rates		
2.3 Other increases	36,072	
3. Decreases		
3.1 Prepaid taxes cancelled during the year		
a) reversals	(19,808)	(1,217)
b) impairment of non-recoverable items		(629)
c) changes in accounting criteria		–
d) others	(553)	(53)
3.2 Reductions in tax rates		
3.3 Other reductions		
a) transformation into tax credits, Italian Law 214/2011		
b) other		
4. Final amount	58,678	10,657

11.4 Changes in deferred tax assets pursuant to Law n. 214/2011

€17,400 thousand

(Values in thousand euros)

	Total 12.31.2021	Total 12.31.2020
1. Initial amount	496	591
2. Increases	18,918	
3. Decreases		
3.1 Reversals	(2,014)	(94)
3.2 Transformation into tax credits		
a) deriving from losses for the year		
b) deriving from tax losses		
3.3 Other reductions		
4. Final amount	17,400	497

11.5 Changes in deferred tax liabilities (through profit or loss)

€96,256 thousand

(Values in thousand euros)

	Total 12.31.2021	Total 12.31.2020
1. Initial amount	78,341	69,943
2. Increases		
2.1 Deferred taxes recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others	30,487	9,871
2.2 New taxes or increases in tax rates		
2.3 Other increases	5,019	
3. Decreases		
3.1 Deferred taxes cancelled during the year		
a) reversals	(17,591)	(1,473)
b) due to changes in accounting criteria		
c) others		
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	96,256	78,341

11.6 Changes in deferred tax assets (recorded in equity)

€451 thousand

(Values in thousand euros)

	Total 12.31.2021	Total 12.31.2020
1. Initial amount	586	622
2. Increases		
2.1 Prepaid taxes recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others		
2.2 New taxes or increases in tax rates		
2.3 Other increases	657	
3. Decreases		
3.1 Prepaid taxes cancelled during the year		
a) reversals		(36)
b) impairment of non-recoverable items		
c) due to changes in accounting criteria		
d) others	(792)	
3.2 Reductions in tax rates		
3.3 Other reductions		
4. Final amount	451	586

11.7 Changes in deferred tax liabilities (recorded in equity)

-€600 thousand

(Values in thousand euros)

	Total 12.31.2021	Total 12.31.2020
1. Initial amount	(468)	173
2. Increases		
2.1 Deferred taxes recognized during the year		
a) relating to previous years		
b) due to changes in accounting criteria		
c) others	17,726	
2.2 New taxes or increases in tax rates		
2.3 Other increases	120	
3. Decreases		
3.1 Deferred taxes cancelled during the year		
a) reversals		
b) due to changes in accounting criteria		
c) others	(17,710)	
3.2 Reductions in tax rates		
3.3 Other reductions	(268)	(641)
4. Final amount	(600)	(468)

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

€214,614 thousand

(Values in thousand euros)

Breakdown	12.31.2021	12.31.2020
Security deposits	3,883	110
Invoices issued and to be issued	16,046	
Payment flows to be credited	110,638	
Other receivables	39,051	23,475
Accrued income and prepaid expenses	27,318	3,595
Ecobonus credits	17,678	
Total	214,614	27,180

The "Payment flows to be credited" refer to suspense accounts with a debit balance that fall within the scope of bank payment intermediation and include settlements that were suspended in the first business days after the reporting date of these consolidated financial statements.

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

Other receivables refer primarily to non-trade receivables due from sundry debtors, pending items, and legal fees to be recovered.

Ecobonus credits relate to receivables acquired with non-recourse factoring transactions and resulting from existing tax incentives. As set forth by tax regulations in force, the credits in question are used to offset the payment of taxes and contributions and are classified in Asset item 130 "Other assets" in line with what has been defined by the Bank of Italy.

LIABILITIES

Section 1 - Financial liabilities measured at amortized cost - Item 10

€10,010,353 thousand

Starting from January 1, 2018 (and based on guidance provided in IFRS 9), this item is broken down as follows:

- ▶ payables due to banks of €795,053 thousand;
- ▶ payables due to customers of €9,029,014 thousand;
- ▶ debt securities issued of €186,285 thousand.

Amounts due to banks

€795,053 thousand

1.1 Financial liabilities measured at amortized cost: breakdown by type of payables due to banks

(Values in thousand euros)

Type of operations/Values	Total 12.31.2021				Total 12.31.2020			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	3,888	X	X	X	–	X	X	X
2. Amounts due to banks	791,165	X	X	X	1,034,655	X	X	X
2.1 Current accounts and sight deposits	639,788	X	X	X	44,007	X	X	X
2.2 Time deposits	150,832	X	X	X	990,648	X	X	X
2.3 Loans		X	X	X		X	X	X
2.3.1 Repurchase agreements - payable		X	X	X		X	X	X
2.3.2 Others		X	X	X		X	X	X
2.4 Debts for commitments to repurchase equity instruments		X	X	X		X	X	X
2.5 Payables for leases		X	X	X		X	X	X
2.6 Other Payables	545	X	X	X		X	X	X
Total	795,053				1,034,655			

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item mainly consists of "current accounts and demand deposits" for €639,788, primarily deriving from custodian bank operations, and includes the balances of accounts of bank customers.

The item also includes "Time deposits", which are mainly related to deposits required for the services rendered to client banks, such as indirect compliance with compulsory reserve requirements, an activity deriving from the former DEPObank.

Following the acquisition of and merger with the former DEPObank and in order to achieve funding synergies, already during the first half of 2021 the parent company BFF Bank reimbursed all the loans representing the funding requested from third-party banks to support the core business by the parent company and its subsidiaries. In particular, the loan agreements in zloty used to acquire BFF Polska Group, which were partially entered into with the Unicredit Group, for PLN 185 million and partially with the Intesa Sanpaolo Group, for PLN 170 million, were also repaid.

Payables due to customers

€9,029,014 thousand

1.2 Financial liabilities measured at amortized cost: breakdown by type of amounts due to customers

(Values in thousand euros)

Type of operations/Values	Total 12/31/2021			Total 12.31.2020				
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and sight deposits	6,839,795	X	X	X	97,882	X	X	X
2. Time deposits	154,942	X	X	X	1,555,281	X	X	X
3. Loans	1,294,867	X	X	X	1,867,778	X	X	X
3.1 repurchase agreements - payable	1,118,527	X	X	X	1,674,754	X	X	X
3.2 others	176,340	X	X	X	193,024	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments		X	X	X		X	X	X
5. Payables for leases	17,001	X	X	X	7,444	X	X	X
6. Other payables	722,409	X	X	X	43,236	X	X	X
Total	9,029,014				3,571,621			

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

As at December 31, 2021, following the extraordinary merger transaction with the former DEPObank, the item mainly consisted of "current accounts and demand deposits" for an amount of €6,840 million relating to balances on operational accounts, i.e. accounts opened for the reference corporate customers (e.g. funds, asset management companies, corporate customers and other institutions) related to the custodian bank core business.

The item includes €230 million for online deposit accounts (“conto facto”) offered in Italy, Spain and Germany, the Netherlands, Ireland and Poland (restricted deposits and current accounts), compared to €1,654 million at December 31, 2020.

As mentioned above, following the acquisition of and merger with the former DEPObank and in order to achieve funding synergies, during the first half of 2021 all debt relationships relating to collaborations with the other factoring companies were closed, which at the end of 2020 amounted to €189 million.

Other payables mainly refer to collections of managed receivables due to clients, as well as outstanding cashier's cheques issued as part of the service that allows affiliated banks to make available credit instruments issued by BFF Bank as a custodian bank to their customers on the basis of a mandate agreement.

Lease payables, totalling €17 million at group level, refer to the recognition of lease liabilities arising from right-of-use assets, included under line item 90 “Tangible assets” in the balance sheet, following the application of the new IFRS 16 effective January 1, 2019.

The amount mainly includes the effect of the application of the standard on the rents of the properties leased by the Group, and the lease contracts have a duration between 3 and 6 years. For more information see Part M - “Lease reporting” of the Explanatory Notes.

Securities issued

€186,285 thousand

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

(Values in thousand euros)

Type of securities/ Values	Total 12.31.2021			Total 12.31.2020				
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	186,285	188,861		808,908	771,810		50,013	
1.1 structured								
1.2 others	186,285	188,861		808,908	771,810		50,013	
2. Other securities								
2.1 structured								
2.2 others								
Total	186,285	188,861	–	–	808,908	771,810	–	50,013

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Debt securities issued consist of bonds issued by the Bank, with a total face value of €181.8 million (€800 million at December 31, 2020), recognized in the financial statements in the amount of €186.3 million at amortized cost using the effective interest rate method.

The significant decrease compared to December 31, 2020 is attributable to the following main changes during the first half of 2021:

- ▶ repayment at maturity of €150 million senior unsecured and unrated bonds (ISIN XS1435298275) issued by BFF Bank in June 2016, due in June 2021.
- ▶ cash buyback, completed on June 25, 2021, which allowed the early repayment of a nominal €154.7 million for the senior preferred unsecured bond (ISIN XS1639097747) maturing in June 2022, and a nominal €261 million for the senior preferred unsecured bond (ISIN XS2068241400) maturing in May 2023.
- ▶ repayment of the €50 million flexible senior notes issued by the vehicle BFF SPV S.r.l., now in liquidation, created together with the Bayerische Landesbank Group (Bayern LB).

As a result of the above, as of December 31, 2021 the item includes:

- ▶ €100 million subordinated unsecured and unrated Tier 2 bond (ISIN XS1572408380) issued by BFF Bank in March 2017. The 10-year bonds due March 2027 have the right to an issuer call date (one-off) in the fifth year (in March 2022). The bonds pay an annual coupon of 5.875%. BFF Bank sent the Bank of Italy a request for authorization to exercise the Tier II call option, planned for March 2022, and obtained such authorization on February 11, 2022;
- ▶ €42.8 million remaining on senior unsecured and unrated bonds (ISIN XS1639097747) issued by BFF Bank in June 2017, due in June 2022. The bonds pay an annual coupon of 2%;
- ▶ €39 million remaining on senior unsecured bonds (ISIN XS2068241400) with Moody's Ba1 rating issued by BFF Bank in October 2019, due in May 2023. The bonds pay an annual coupon of 1.75%.

Section 2 - Financial liabilities held for trading - Item 20

€2,725 thousand

2.1 Financial liabilities held for trading: breakdown by type

(Values in thousand euros)

Type of operations/Values	Total 12.31.2021				Total 12.31.2020			
	NV L1	Fair value		Fair value (*)	NV L1	Fair value		Fair value (*)
		L2	L3			L2	L3	
A. On-balance sheet liabilities								
1. Amounts due to banks								
2. Payables due to customers								
3. Debt securities								
3.1. Bonds								
3.1.1 Structured				X				X
3.1.2 Other bonds				X				X
3.2. Other securities								
3.2.1 Structured				X				X
3.2.2 Others				X				X
Total (A)	-	-	-	-	-	-	-	-
B. Derivatives								
1. Financial derivatives								
1.1 Held for trading	X	2,725		X	X			X
1.2 Connected to the fair value option	X			X	X			X
1.3 Others	X			X	X			X
2. Credit derivatives								
2.1 Held for trading	X			X	X			X
2.2 Connected to the fair value option	X			X	X			X
2.3 Others	X			X	X			X
Total (B)	X	2,725		X	X			X
Total (A+B)	X	2,725		X	X			X

Key:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item includes the negative fair value at December 31, 2021 of derivative instruments classified as trading assets but used for the operational hedges of interest rate risk that the Group is exposed to.

Section 4 - Hedging derivatives - Item 40

€4,814 thousand

4.1 Hedging derivatives: breakdown by hedge type and level

(Values in thousand euros)

	FV 12.31.2021			NV 12.31.2021			FV 12.31.2020			NV 12.31.2020		
	L1	L2	L3	L1	L2	L3	L1	L2	L3	L1	L2	L3
A. Financial derivatives		4,814		671,505								
1) Fair value												
2) Financial flows		4,814		671,505								
3) Foreign investments												
B. Credit derivatives												
1) Fair value												
2) Financial flows												
Total	-	4,814	-	671,505	-	-	-	-	-	-	-	-

The item includes the negative fair value at December 31, 2021 relating to interest rate swap hedges with notional in zloty defined with the aim of hedging the loans disbursed in zloty to Polish subsidiaries under current intercompany agreements.

4.2 Hedging derivatives: breakdown by portfolios hedged and hedge type

(Values in thousand euros)

Transactions/Hedge type	Fair value						Financial flows		Foreign investments	
	Microhedge			Macrohedge			Microhedge	Macrohedge		
	debt securities and interest rates	equity securities and stock indices	currency and gold	loans	commodities	others				
1. Financial assets measured at fair value through other comprehensive income					X	X	X		X	X
2. Financial assets measured at amortized cost		X			X	X	X	4,814	X	X
3. Portfolio	X	X	X	X	X	X		X	X	X
4. Other transactions							X		X	
Total assets	–	–	–	–	–	–	–	4,814	X	–
1. Financial liabilities		X					X	–	X	X
2. Portfolio	X	X	X	X	X	X		X		X
Total liabilities	–	–	–	–	–	–	–	–	–	–
1. Expected transactions	X	X	X	X	X	X	X		X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X		X		

Section 6 - Tax liabilities - Item 60

€100,684 thousand

See "Section 11 - Tax assets and liabilities - Item 110" of the consolidated balance sheet assets.

See "Section 11 - Tax assets and liabilities" of the consolidated balance sheet assets.

Section 8 - Other liabilities - Item 80

€460,856 thousand

8.1 Other liabilities: breakdown

(Values in thousand euros)

Breakdown	Total 12.31.2021	Total 12.31.2020
Trade payables	18,499	2,908
Invoices to be received	20,647	13,693
Payables to tax authorities	5,654	13,172
Payables to social security and welfare bodies	2,351	793
Payables to employees	28,115	7,936
Collections pending allocation	77,911	36,477
Payment flows received to be charged	202,697	
Other payables	96,969	5,028
Accrued expenses and deferred income	8,013	2,798
Total	460,856	82,805

"Trade payables" and "invoices to be received" refer to payables for purchases of goods and services. The latter were up largely because of the greater costs recognized in 2021 with respect to the one-off transactions carried out by BFF Banking Group.

"Collections pending allocation" refer to payments received by December 31, 2021 but still outstanding since they had not been cleared and recorded by that date.

"Other payables" include portions of collections to be transferred, stamp duties to be paid, payables to directors and other pending items.

The "Payment flows to be debited" refer to suspense accounts with a credit balance that fall within the scope of bank payment intermediation, deriving from the core business of the former DEPObank, and include settlements that were suspended in the first business days after the reporting date of these consolidated financial statements.

Section 9 - Employee severance pay - Item 90

€3,710 thousand

9.1 Employee severance pay: annual changes

(Values in thousand euros)

	Total 12.31.2021	Total 12.31.2020
A. Opening balance	667	843
B. Increases	4,899	743
B.1 Provision for the year	1,601	618
B.2 Other changes	3,298	125
C. Decreases	(1,856)	(919)
C.1 Payments made	(280)	(27)
C.2 Other changes	(1,576)	(892)
D. Closing balance	3,710	667
Total	3,710	667

The liability recorded in the financial statements at December 31, 2021 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 increases relate to the balance deriving from the former DEPObank at the merger date.

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, 2021 are shown below.

Actuarial assumptions

Annual discount rate

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

Annual increase rate of employee severance benefits

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

The demographic assumptions used are as follows:

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

Annual frequency of turnover and advances

Executives: 1% advance frequency and 0.50% turnover frequency.

Managers: 2.5% advance frequency and 3.0% turnover frequency.

Employees 2.5% advance frequency and 3.0% turnover frequency.

Section 10 – Allowances for risks and charges – Item 100

€21,960 thousand

10.1 Provisions for risks and charges: breakdown

(Values in thousand euros)

Items/Components	Total 12.31.2021	Total 12.31.2020
1. Allowances for credit risk relating to Commitments and financial guarantees given	294	527
2. Provisions for other commitments and guarantees issued		
3. Post-employment benefits and similar commitments	6,133	4,777
4. Other provisions for risks and charges		
4.1 Legal and tax disputes		
4.2 Personnel costs		
4.3 Others	15,533	1,078
Total	21,960	6,382

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

10.2 Provisions for risks and charges: annual changes

(Values in thousand euros)

	Provisions for other commitments and guarantees issued	Pension/retirement funds	Other provisions for risks and charges	Total
A. Opening balance	527	4,777	1,078	6,382
B. Increases	521	2,732	29,169	32,422
B.1 Provision for the year	521	2,441	304	3,265
B.2 Changes due to the passage of time				
B.3 Changes due to variations in the discount rate				
B.4 Other changes		292	28,865	29,157
C. Decreases	(754)	(1,376)	(14,713)	(16,843)
C.1 Utilization for the year	(33)	(875)	(12,535)	(13,444)
C.2 Changes due to variations in the discount rate		(123)		(123)
C.3 Other changes	(721)	(378)	(2,178)	(3,276)
D. Closing balance	294	6,133	15,533	21,960

10.3 Allowances for credit risk relating to commitments and financial guarantees given

(Values in thousand euros)

	Allowances for credit risk relating to commitments and financial guarantees given				Total
	Stage one	Stage two	Stage three	Purchased or originated impaired	
Commitments to disburse funds	291				291
Financial guarantees issued	3				3
Total	294	–	–	–	294

10.5 Defined-benefit pension funds

The pension fund refers mainly to the non-compete agreement entered into with BFF Banking Group's managers, amounting to €3.2 million (including the portion allocated to the Bank's shareholders' equity reserve) and the provisions relating to the incentive and deferred payment retention scheme envisaged for specific BFF Bank employees, amounting to €2.8 million. Both obligations to personnel are shown at their current value estimated by an independent actuary based on demographic and economic assumptions.

As of December 31, 2021, the provision in question also includes the provision for the commitment made by the former DEPObank to some employees who have left the company, amounting to €268 thousand.

Specifically, the system involving deferral of a portion of the annual bonuses envisages, for risk takers, medium-term restrictions, according to which 30% of the annual bonus will be paid after three years, provided that the Bank achieves specific targets relating to its profitability, regulatory capital requirements established by existing regulations, and the employee's continued employment at the company. In accordance with the provisions of IAS 19, accruals were quantified based on an actuarial calculation performed externally by a specialized firm. The Bank's obligations were computed using the "Projected Unit Credit Method", which treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to compute the final obligation, in accordance with paragraphs 67-69 of IAS 19. This actuarial method entails valuation aimed at determining the average present value of the Bank's obligations.

The technical demographic assumptions used are illustrated below.

10.6 Provisions for risks and charges - Other provisions

Other provisions of €15.5 million refer mainly to:

- ▶ litigation liabilities for which the Bank has estimated a probable risk of loss for approximately €13.2 million;
- ▶ approximately €1.3 million in cashier's cheques, which are now time barred and for which a refund may be requested.

The main assumptions made by the external firm when discounting are as follows:

Non-compete agreement

The annual discounting rate used to determine the current value of the obligation is taken, in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate AA index with a duration of 10+ as recorded at December 31, 2021 and equal to 0.98%. The yield with a comparable duration to that of the collective being valued was chosen for this purpose.

Death	RG48 mortality tables published by the State General Accounting Office
Retirement	100% on reaching the AGO requirements
Frequency of voluntary resignation	4.00%
Clawback frequency	0.00%
Withdrawal frequency (where envisaged)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual remuneration for Executives	2.00%
Increase in annual remuneration for Supervisors	2.00%
Contribution rate	27.40%
Inflation rate	1.75%

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 -0.17%.

Mortality and disability

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

Frequency of resignations and dismissals

Equal to 3%.

Section 13 - Group shareholders' equity - Items 120, 130, 140, 150, 160, 170 and 180

€571,596 thousand

13.1 "Capital" and "Treasury shares": breakdown

(Values in thousand euros)

Type	12.31.2021	12.31.2020
1. Share capital	142,691	131,401
1.1 Ordinary shares	142,691	131,401
2. Treasury shares	(7,132)	(3,517)

As regards the purchase of treasury shares and the disclosure pursuant to Article 78, paragraph 1-*bis* of the Issuers' Regulation, reference is made to the information given in the Report on Operations, under the section on "Treasury Shares".

13.2 Capital - Number of parent company shares: annual changes

(Values in units)

Items/Type	Ordinary	Others
A. Shares as of the beginning of the year	170,650,642	
- fully paid-in	170,650,642	
- not fully paid-in		
A.1 Treasury shares (-)	(675,768)	
A.2 Shares outstanding: initial balance	169,974,874	
B. Increases	15,113,355	
B.1 New issues		
- for consideration:		
- operations of business combinations		
- conversion of bonds		
- exercise of warrants		
- others	48,520	
- without consideration:		
- to employees	569,824	
- to directors		
- others	14,043,704	
B.2 Sales of treasury shares		
B.3 Other changes	451,307	
C. Decreases	(750,000)	
C.1 Cancellation		
C.2 Purchase of treasury shares	(750,000)	
C.3 Disposal of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	184,338,229	
D.1 Treasury shares (+)	(974,461)	
D.2 Shares existing at the end of the year		
- fully paid-in	185,312,690	
- not fully paid-in		

13.4 Profit reserves: other information

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

(Values in thousand euros)

	12.31.2021	Possibility of use (a)	Portion available	Summary of use in the last three years (*)	
				To cover losses	For other reasons
Share capital	142,691				
Reserves	166,904				
- Legal reserve (**)	27,417	B			
- Extraordinary reserve	88	A, B, C	89		
- Retained earnings reserve (***)	127,542	A, B, C	97,340		189,388
- Stock option and financial instrument reserves	8,480	A			
- Other reserves	3,377				
Valuation reserves	5,269				
- HTCS securities	211				
- Others	5,058				
Treasury share reserve	(7,132)				
Share premium reserve	66,492	A, B, C	66,492		
Total share capital and reserves	374,224		163,921		189,388

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

(*) The amounts used during the last three years, totalling €189,388 thousand, include €2,118 thousand used in the wake of the capital increases carried out in 2019, 2020 and 2021 for the stock options exercised by certain beneficiaries as well as the stock grant plan, and the amounts used during the last three years relating to the payment of dividends distributed as per resolutions of shareholders' meetings.

(**) Of which subject to tax suspension pursuant to art. 110 of Decree-Law 104/2020 €26,196 thousand.

(***) Of which subject to tax suspension pursuant to art. 110 of Decree-Law 104/2020 for €50,387 thousand.

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

(Values in thousand euros)

	Legal reserve	Retained earnings	Others	Total
A. Opening balance	27,417	206,553	7,503	241,473
B. Increases		86,264	6,434	92,698
B.1 Appropriation of profits		85,109		85,109
B.2 Other changes		1,155	6,434	7,589
C. Decreases		(165,275)	(1,992)	(167,267)
C.1 Uses				
- coverage of losses				
- distribution		(165,275)		(165,275)
- transfer to share capital				
C.2 Other changes			(1,992)	(1,992)
D. Closing balance	27,417	127,542	11,945	166,904

Retained earnings reserve

The increase of €86 million is mainly due to the allocation of the consolidated profit of the previous year, net of €3.2 million distributed in March 2021. The decrease of €165 million in the reserve in question relates to the distribution of the total dividends ("2019-2020 Total Dividends") which the parent company BFF Bank distributed to the shareholders in October 2021.

Other reserves

The changes largely refer to the following events that occurred during the year 2021:

- ▶ The granting of €1.7 million worth of option rights related to the 2020 stock option plan during 2021, recognized in accordance with IFRS 2 through profit or loss with a corresponding increase in equity, relating to the 2020 stock option plan;
- ▶ Appropriation for €1.2 million relative to the variable remuneration portions of the so-called "Key Personnel" (Risk Takers), in compliance with the provisions as set out in the First Part, Title IV, Chapter 2, Section III, paragraph 2.1, 3 of Bank of Italy Circular 285/2013, as subsequently updated, according to which a portion must be paid in financial instruments;
- ▶ Decrease for years or cancellations related to the 2016 stock option plan for approximately €1.9 million.

Tax suspension restriction

As noted previously, the Bank took advantage of the facilitation provided under Art. 110 of Decree-Law no. 104 of August 14, 2020 and proceeded with the realignment between the carrying and tax amounts of the item goodwill present in the financial statements at December 31, 2019 and 2020 of the former DEPObank, which was merged into BFF Bank on March 5, 2021. This transaction, which was approved by the Bank's Board of Directors on June 30, 2021, entails (i) the realignment of the item goodwill equal to roughly €79 million, (ii) the resulting payment of substitute tax equal to €2.4 million and (iii) the need to place a tax suspension restriction on the reserves of €76.6 million, equal to the difference between the realigned amount and the substitute tax, as set forth in paragraph 8 of Art. 110 of Decree-Law 104/2020.

Considering that the transaction was carried out subsequent to the approval of the financial statements for the year at December 31, 2020 of the former DEPObank and its merger into BFF Bank, the tax suspension restriction is placed as a "Restricted share pursuant to paragraph 8 of Art. 110 of Decree-Law 104/2020" on the following reserves:

- ▶ "Retained earnings reserve" for €50,387 thousand;
- ▶ "Legal reserve" for €26,196 thousand.

Other information

1. Commitments and financial guarantees issued

(Values in thousand euros)

	Nominal value on commitments and financial guarantees issued				Total 12.31.2021	Total 12.31.2020
	Stage one	Stage two	Stage three	Purchased or originated impaired		
1. Commitments to disburse funds	1,404,667	230	592		1,405,488	212,889
a) Central Banks						
b) Public administrations	54,231				54,231	82,119
c) Banks	-					
d) Other financial companies	1,190,638				1,190,638	1,026
e) Non-financial companies	159,796	230	592		160,618	129,060
f) Households	2				2	
2. Financial guarantees	49				49	5,200
a) Central Banks						
b) Public administrations						
c) Banks						5,200
d) Other financial companies	49				49	
e) Non-financial companies						
f) Households						

3. Assets given as collateral for own liabilities and commitments

(Values in thousand euros)

Portfolios	Amount	Amount
	12.31.2021	12.31.2020
1. Financial assets measured at fair value through profit or loss		
2. Financial assets measured at fair value through other comprehensive income		
3. Financial assets measured at amortized cost	1,232,860	2,141,210
4. Tangible assets		
of which: Tangible assets held as inventories		

"Financial assets measured at amortized cost" consist of government securities used as collateral in operations with the ECB and repos.

4. Administration and brokerage for third parties

(Values in thousand euros)

Type of services	Amount
1. Execution of orders for customers	
a) Purchases	
1. settled	
2. not settled	
b) Sales	
1. settled	
2. not settled	
2. Portfolio management	
a) individual	
b) collective	
3. Custody and administration of securities	273,548,730
a) third-party securities deposited: relating to depositary bank activities (excluding portfolio management)	43,179,045
1. securities issued by consolidated companies	8,833
2. Other securities	43,170,212
b) third-party securities deposited (excluding portfolio management): others	93,289,604
1. securities issued by consolidated companies	23,768
2. Other securities	93,265,836
c) third party securities deposited with third parties	131,309,849
d) proprietary securities deposited with third parties	5,770,232
4. Other transactions	

Part C - Consolidated Income Statement

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

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar income: breakdown

€230,315 thousand (of which interest income calculated using the effective interest rate method: €201,787 thousand)

(Values in thousand euros)

Items/Technical forms	Debt securities	Loans	Other transactions	Total 12.31.2021	Total 12.31.2020
1. Financial assets measured at fair value through profit or loss:					
1.1. Financial assets held for trading	1			1	
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 other comprehensive income			X		114
3. Financial assets measured at amortized cost:					
3.1 Loans to banks		6,147	X	6,147	4,910
3.2 Loans to customers	10,267	195,890	X	206,157	240,223
4. Hedging derivatives	X	X			
5. Other assets	X	X	417	417	6
6. Financial liabilities	X	X	X	17,593	-
Total	10,268	202,037	417	230,315	245,253
of which: interest income on impaired assets					
of which: interest income on financial leases	X	154	X	154	213

1.2 Interest income and similar revenues: other information

Interest income relating to "Financial assets measured at fair value through other comprehensive income" related to transactions in government securities purchased by BFF Bank to hedge liquidity risk and to optimize the cost of money, according to the HTC&S business model. The valuation was carried out at fair value, recording interest calculated according to the effective rate of return in the income statement. As of the end of 2020 the Bank does not own government securities classified in the portfolio in question.

Interest income relating to "Receivables due from banks" mainly refers to temporary credit balances in the

account of the Parent Company and its subsidiaries, income accruing on the amount of bank drafts issued on behalf of banking customers and interest income on the average negative deposits of reciprocal current accounts held by banking customers.

Interest income on receivables "Due from customers" for loans amounted to €195,890 thousand and mostly consists of maturity commissions charged to the assignors for the purchase of non-recourse receivables, and late payment interest for the year, relating to BFF Bank and BFF Finance Iberia.

BFF Bank and BFF Finance Iberia update the time series of data regarding the late payment interest collection percentages and times on an annual basis, when the financial statements are prepared. The outcome of this analysis has confirmed also for 2021, on the basis of the time series analysis, the recoverability rate of 45% for late payment interest and 1,800 days for collection times.

The amount also includes interest income calculated at amortized cost, generated by BFF Polska Group's portfolio, for a total amount of €57 million.

Interest income on debt securities linked to receivables due from customers and totalling approximately €10.3 million derive from government securities purchased by BFF Bank and resulting from the merger with the former DEPObank, to hedge liquidity risk and to optimize the cost of money relating to the HTC (Held to Collect) portfolio.

The item lastly includes interest income accrued on financial liabilities for €17.6 million, due to the negative interest rates in the market.

1.3 Interest expense and similar expenses: breakdown

€34,999 thousand

(Values in thousand euros)

Items/Technical forms	Debt	Securities	Other transactions	Total 12.31.2021	Total 12.31.2020
1. Financial liabilities measured at amortized cost					46,777
1.1 Payables due to central banks	3,277	X	X	3,277	
1.2 Payables due to banks	5,135	X	X	5,135	15,967
1.3 Payables due to customers	8,132	X	X	8,132	11,182
1.4 Securities issued	X	13,667	X	13,667	19,628
2. Financial liabilities held for trading					93
3. Financial liabilities carried at fair value					-
4. Other liabilities and provisions	X	X	8	8	3
5. Hedging derivatives	X	X			
6. Financial assets	X	X	X	4,780	-
Total	16,544	13,667	8	34,999	46,873
of which: interest expense relative to lease liabilities	472	X	X	472	162

Interest expense increased from €46.8 million for all of 2020 to €34.9 million in the current year. The decrease is attributable to the closure of loans payable to third-party banks following the creation of post-merger funding synergies. Please refer to what has already been noted in item 10 of the Liabilities of the Balance Sheet relating to financial liabilities measured at amortized cost.

Interest expense on "Payables due to central banks" refers to the interest accrued on the amounts deposited in the account with the Bank of Italy.

Interest expense on "Payables due to banks" referred to the charges that accrued on the funding requested from third-party banks to support the business of the Parent and its subsidiaries, including interest on the loan agreements in zloty used to acquire BFF Polska Group, which were in part stipulated with the Unicredit Group and in part with the Intesa Sanpaolo Group. Compared to the same period of the previous year, there was a decrease following the aforementioned closure thereof.

The interest expense on "Payables due to customers" mainly refers to interest expense relating to the online deposit accounts of BFF Bank: specifically, €714 thousand for Conto Facto, offered in Italy, €6.5 million for Cuenta Facto, offered in Spain by the Spanish branch of BFF Bank, and around €1.5 million for the deposit account offered in Poland.

Finally, the item also includes interest expense for "Securities issued" amounting to approximately €13.7 million. For more details on issues of outstanding bonds, please refer to item 10 c) of the Balance Sheet Liabilities "Financial liabilities measured at amortized cost".

Section 2 - Fees and commissions - Items 40 and 50

2.1 Fee and commission income: breakdown

€109,277 thousand

(Values in thousand euros)

Type of service/Amounts	Total 12.31.2021	Total 12.31.2020
a) Financial instruments		
1. Placement of securities		
1.1 With firm commitment and/or on the basis of an irrevocable commitment		
1.2 Without irrevocable commitment		
2. Receipt and transmission of orders and execution of orders for customers		
2.1 Receipt and transmission of orders of one or more financial instruments		
2.2 Execution of orders for customers		
3. Other commissions connected to activities linked to financial instruments		
<i>of which: dealing on own account</i>		
<i>of which: individual portfolio management</i>		
b) Corporate Finance		
1. Mergers and acquisitions consulting		
2. Treasury services		
3. Others commissions connected to corporate finance services		
c) Consulting activities related to investments	59	
d) Clearing and settlement	-	
e) Collective portfolio management	-	
f) Custody and administration	45,224	
1. Custodian bank	36,895	
2. Other commissions linked to custody and administration activities	8,329	
g) Central administrative services for collective portfolio management	-	
h) Fiduciary activities	-	
i) Payment services	57,986	5,988
1. Current accounts	120	4
2. Credit cards	1,806	
3. Debit cards and other payment cards	5,704	
4. Bank transfers and other payment orders	15,779	
5. Other commissions linked to payment services	34,577	5,984
j) Distribution of third-party services		
1. Collective portfolio management		
2. Insurance products		
3. Other products		
<i>of which: individual portfolio management</i>		
k) Structured finance		
l) Servicing activities for securitization transactions		
m) Commitments to disburse funds		
n) Financial guarantees given	606	301
<i>of which: credit derivatives</i>		
o) Lending transactions		
<i>of which: for factoring transactions</i>		
p) Currency trading		
q) Commodities		
r) Other fee and commission income	5,402	44
<i>of which: for management of multilateral trading systems</i>		
<i>of which: for management of organized trading systems</i>		
Total	109,277	6,333

The item mainly includes fees and commissions relating to the mandates for the management and collection of receivables deriving from the business of BFF Bank, as well as fees and commissions for custodian banking and payment services, deriving from the merger with the former DEPObank.

2.2 Fee and commission expense: breakdown

€28,498 thousand

(Values in thousand euros)

Service/Values	Total 12.31.2021	Total 12.31.2020
a) Financial instruments		
of which: trading in financial instruments		
of which: placement of financial instruments		
of which: individual portfolio management		
Own		
Delegated to third parties		
b) Clearing and settlement	1,613	
c) Custody and administration	4,561	
d) Collection and payment services	19,661	
of which: credit cards, debit cards and other payment cards	4,046	
e) Servicing activities for securitization transactions		
f) Commitments to receive funds		
g) Financial guarantees received	34	374
of which: credit derivatives		
h) Off-site offer of financial instruments, products and services		
i) Currency trading	3	
j) Other fee and commission expense	2,626	1,349
Total	28,498	1,723

The item mainly includes the custody and administration fees for the custodian bank business and those paid to outsourcers for the use of infrastructure related to payment services.

Section 3 - Dividend income and similar revenue - item 70

3.1 Dividends and similar income: breakdown

€3,676 thousand

(Values in thousand euros)

Items/Income	Total 12.31.2021		Total 12.31.2020	
	Dividends	Similar revenue	Dividends	Similar revenue
A. Financial assets held for trading	5			
B. Other financial assets subject to mandatory fair-value measurement				
C. Financial assets measured at fair value through other comprehensive income	3,671			
D. Equity investments				
Total	3,676	–	–	–

At December 31, 2021, the item includes primarily the dividends received in March 2021 from the Bank of Italy, the stake in which subscribed by the Parent Company BFF Bank is classified in Asset item 30 "Financial assets measured at fair value through other comprehensive income".

Section 4 - Net trading result - Item 80

4.1 Profits (losses) on trading: composition

-€490 thousand

(Values in thousand euros)

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading	63	1,486	75	2	1,472
1.1 Debt securities	63	1,486	75	1	1,473
1.2 Equity securities					
1.3 UCI units				1	(1)
1.4 Loans					
1.5 Others					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Payables					
2.3 Others					
3. Financial assets and liabilities: exchange differences	X	X	X	X	(1,962)
4. Derivatives					
3.1 Financial derivatives:					
- On debt securities and interest rates					
- On equity securities and stock indices					
- On currency and gold	X	X	X	X	
- Others					
3.2 Receivable derivatives					
of which: natural hedging related to the fair value option	X	X	X	X	
Total	63	1,486	75	2	(490)

Gains (losses) on trading mainly arise from the net exchange effect recorded in the income statement, deriving from the valuation at exchange rates for the period of loans payable in Polish zloty for the acquisition of BFF Polska Group, fully repaid in April 2021, as well as exchange differences relating to trading in currencies functional to treasury management, especially bank and customer funding in foreign currency.

Section 5 - Net hedging result - Item 90

5.1 Profits (losses) from hedging: breakdown €2,577 thousand

(Values in thousand euros)

Income items/Values	Total 12/31/2021	Total 12/31/2020
A. Income related to:		
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		
A.5 Assets and liabilities denominated in currency	42,395	
Total income from hedging (A)	42,395	
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		
B.5 Assets and liabilities denominated in currency	(39,818)	
Total charges from hedging (B)	(39,818)	
C. Profits (losses) on hedging (A-B)	2,577	-
of which: result of hedging of net positions	-	

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

-€12,650 thousand

6.1 Gains (Losses) on disposals/repurchases: breakdown

(Values in thousand euros)

Items/Income items	Total 12.31.2021			Total 12.31.2020		
	Profits	Loss	Net profit/ loss	Profits	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortized cost						
1.1 Loans to banks						
1.2 Loans to customers						
2. Financial assets measured at fair value through other comprehensive income						
2.1 Debt securities				464	(102)	363
2.2 Loans						
Total assets (A)	-	-	-	464	(102)	363
Financial liabilities measured at amortized cost						
1. Amounts due to banks						
2. Payables due to customers						
3. Securities issued		(12,650)	(12,650)	56		56
Total liabilities (B)	-	(12,650)	(12,650)	56	-	56

The loss on securities issued was recorded as a result of the cash buyback transaction executed at the end of June 2021. For more details please refer to item 10 c) of the Balance Sheet liabilities "Financial liabilities measured at amortized cost".

The significant decrease compared to December 31, 2020 is attributable to the following main changes during the first half of 2021:

- ▶ Repayment at maturity of €150 million senior unsecured and unrated bonds (ISIN XS1435298275) issued by BFF Bank in June 2016, due in June 2021.
- ▶ Cash Buyback, completed on June 25, 2021, which allowed the early repayment of a nominal €154.7 million for the senior preferred unsecured bond (ISIN XS1639097747) maturing in June 2022, and a nominal €261 million for the senior preferred unsecured bond (ISIN XS2068241400) maturing in May 2023.
- ▶ Repayment of the €50 million flexible senior notes issued by the vehicle BFF SPV S.r.l., now in liquidation, created together with the Bayerische Landesbank Group (Bayern LB).

Section 7 - Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss - Item 110

€2,734 thousand

7.2 Net change of value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets and liabilities mandatorily measured at fair value

(Values in thousand euros)

Transaction/Income items	Capital gains	Realized gains	Capital losses	Losses on disposal	Net profit/loss
	(A)	(B)	(C)	(D)	[(A+B)-(C+D)]
1. Financial assets	2,734				2,734
1.1 Debt securities					
1.2 Equity securities					
1.3 UCI units	2,734				2,734
1.4 Loans					
2. Financial assets in foreign currency: foreign exchange differences	X	X	X	X	
Total	2,734	-	-	-	2,734

The item refers to the revaluation of the UCI units held by the Bank at the last NAV made available by the relevant investment funds.

Section 8 - Net write-downs/write-backs for impairment - Item 130

€197 thousand

8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortized cost: breakdown

(Values in thousand euros)

Transaction/ Income items	Write-downs/write-backs				Write-backs				Total 12.31.2021	Total 12.31.2020	
	Stage one	Stage two	Stage three		Purchased or originated impaired	Stage one	Stage two	Stage three			Purchased or originated impaired
			Write- offs	Others		Write- offs	Others				
A. Receivables due from banks		(1)				7				6	2
- Loans		(1)				7				6	2
- Debt securities										-	-
B. Receivables due from customers			(35)	(2,238)		2,218	277	108	8	338	(3,153)
- Loans			(35)	(2,238)		1,028	277	108	8	(852)	(3,079)
- Debt securities						1,190				1,190	(74)
Total	-	(1)	(35)	(2,238)	-	2,225	277	108	8	343	(3,150)

Stage 3 adjustments of impairment largely refer to changes in specific positions of BFF Polska Group.

8.1a Net adjustments for credit risk relating to loans measured at amortized cost subject to COVID-19 support measures: breakdown

Transaction/Income items	Write-downs/write-backs						Total 12.31.2021	Total 12.31.2020
	Stage one	Stage two	Stage three		Purchased or originated impaired			
			Write- offs	Others	Write- offs	Others		
1. Loans granted in accordance with GL								54
2. Loans subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne								
3. Loans subject to other forbearance measures								
4. New funding								
Total 12.31.2021								
Total 12.31.2020								54

8.2 Net losses/recoveries for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

(Values in thousand euros)

Transaction/Income items	Write-downs (1)			Write-backs (2)		Total 12.31.2021	Total 12.31.2020
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Debt securities		(147)				(147)	11
B. Loans							
- To customers							
- To banks							
of which: purchased or originated impaired financial assets							
Total		(147)				(147)	11

Section 12 - Administrative expenses- item 190

€168,377 thousand

12.1 Personnel costs: breakdown

€71,245 thousand

(Values in thousand euros)

Type of expense/Sectors	Total 12.31.2021	Total 12.31.2020
1) Employees	67,381	38,451
a) wages and salaries	47,590	27,068
b) social security contributions	12,099	6,925
c) provision for employee severance pay	29	
d) pension costs	8	
e) provision for employee severance pay	1,424	618
f) provision for retirements and similar provisions:		
- with defined contribution	231	
- with defined benefits		
g) payments to external complementary pension funds:		
- with defined contribution		
- with defined benefits	328	203
h) costs related to share-based payments	225	199
i) other employee benefits	5,447	3,438
2) Other personnel in service	219	253
3) Directors and statutory auditors	3,645	2,649
4) Early retirement costs		
Total	71,245	41,353

The increase in this item can mainly be traced to an increased number of employees and to higher costs associated with the merger of the former DEPObank.

The amount also includes expenses for stock options for certain employees of the Group, for the current year, equal to approximately €1.7 million before taxes, offset by the related equity reserve, as well as the cost incurred by the bank during the year for the cashless payment of withholding taxes on financial years. For more information refer to Part I of the Explanatory Notes.

12.2 Average number of employees broken down by category

Categories	Average number 2021	Average number 2020
<i>Senior Executives/Executives</i>	28	25
<i>Managers/Middle Managers/Professionals</i>	284	101
<i>Specialists</i>	478	383
Total	790	509

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

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

12.4 Other employee benefits

The amount in question of €5,447 thousand mainly refers to costs of stock options granted to some employees, expenses incurred for training, insurance for staff, meal tickets and donations to employees.

12.5 Other administrative expenses: breakdown

€97,132 thousand

(Values in thousand euros)

Breakdown	Total 12.31.2021	Total 12.31.2020
Legal fees	2,684	3,404
Data processing services	16,189	2,203
External credit management services	771	1,006
Supervisory Body fees	42	42
Legal fees for receivables under management	228	213
Notary fees	527	605
Notary fees to be recovered	963	959
Entertainment expenses and donations	2,347	1,900
Maintenance expenses	5,807	2,375
Non-deductible VAT	9,021	4,202
Other taxes	6,986	1,133
Consulting services	16,013	13,957
Head office operating expenses	2,412	922
Resolution Fund and FITD	12,970	4,881
Other expenses	20,172	7,259
Total	97,132	45,061

Other administrative expenses at December 31, 2021 amounted to €97.1 million, up significantly from the figure recorded at the end of the previous year; the considerable increase is linked to rising costs following the merger with the former DEPObank.

Furthermore, with regard to contributions to the Deposit Guarantee Scheme, a cost of about €13.0 million before taxes was recorded at December 31, 2021. This cost was made up of:

- ▶ €8.6 million as ordinary annual contribution to the Resolution Fund, and €2.9 million as extraordinary contribution for 2019 (paid in June and July of 2021);
- ▶ €1.5 million as contribution to the FITD, for the annual contribution paid in December 2021.

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".

"Other administrative expenses" mainly include services outsourced in 2021, which are listed below.

(Values in thousand euros)

Breakdown	Total 12.31.2021
Fees paid to external company for support to Internal Audit	148
Fees paid to external companies for Data Processing	2,316
Fees paid to external companies for Credit Checks	771

Section 13 - Net allocations to provisions for risks and charges - item 200

-€277 thousand

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

-€234 thousand

(Values in thousand euros)

Breakdown	Total 12.31.2021	Total 12.31.2020
Provision for risk on commitments and guarantees	(234)	(42)
Total	(234)	(42)

13.3 Net provisions for risks and charges: breakdown

-€43 thousand

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

(Values in thousand euros)

Breakdown	Total 12.31.2021	Total 12.31.2020
Provision for post-employment benefits and similar obligations	1,985	1,594
Other provisions	(2,028)	(563)
Total	(43)	1,031

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

Section 14 - Net write-downs/write-backs on tangible assets - Item 210

€5,132 thousand

14.1 Net write-downs/write-backs on tangible assets: composition*(Values in thousand euros)*

Asset/Income items	Depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
A. Tangible assets				
1. Used in the business	5,132			5,132
- Owned	3,264			3,264
- Lease rights of use	1,868			1,868
2. Held for investment				0
- Owned				0
- Lease rights of use				0
3. Inventories	x			0
Total	5,132	-	-	5,132

As of 2019, following the application of International Accounting Standard IFRS 16, the item "Value adjustments on tangible assets" also includes the depreciation of right-of-use assets amounting to €1,868 thousand, the counterpart of which is recognized under tangible assets.

Section 15 - Net write-downs /write-backs on intangible assets – Item 220

€4,950 thousand

15.1 Net adjustments to intangible assets: breakdown

(Values in thousand euros)

Asset/Income items	Amortization (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned				
- Generated internally by the company				
- Others	4,950			4,950
A.2 Lease rights of use				
Total	4,950	–	–	4,950

The item refers to amortization for the period relating to intangible assets with finite useful lives, which include the “Customer Contracts” emerging following the finalization of the Purchase Price Allocation of the acquisition of the former DEPObank. For more information refer to Part G “Business combinations” of the Explanatory Notes.

Section 16 - Other net operating income - Item 230

€102,508 thousand

16.1 Other operating expenses: breakdown

-€3,008 thousand

(Values in thousand euros)

Breakdown	Total 12.31.2021	Total 12.31.2020
Contingent expenses	(2,656)	(283)
Rounding off and allowance expenses	(8)	(14)
Other charges	(24)	(1,626)
Deposit guarantee scheme expenses		
Registry tax expenses	(318)	(70)
Total	(3,008)	(1,993)

16.2 Other operating income: breakdown

€105,516 thousand

(Values in thousand euros)

Breakdown	Total 12.31.2021	Total 12.31.2020
Recovery of legal fees for purchases of non-recourse receivables	1,198	1,426
Recovery of operational legal fees	218	220
Other recoveries	1,385	
Contingent assets	9,314	3,272
Recovery of assignor notary expenses	977	1,075
Other income	92,424	6,436
Total	105,516	12,429

On December 31, 2021, this item included the definitive badwill amount of €76.9 million resulting from the merger transaction with the former DEPObank. At the date of the approval of these consolidated financial statements, the purchase price allocation (PPA) process had been completed, as required by IFRS 3 revised. For more information refer to Part G "Business combinations" below of the Explanatory Notes.

Section 21 – Income taxes on current operations - item 300

-€714 thousand

21.1 Income taxes for the year on current operations: breakdown*(Values in thousand euros)*

Income items/Sectors	Total 12.31.2021	Total 12.31.2020
1. Current taxes (-)	20,606	24,018
2. Adjustment to current tax of prior years (+/-)		
3. Reduction of current tax for the year (+)		
3.bis Reduction of current taxes for the year for tax credits pursuant to Italian Law no. 214/2011 (+)		
4. Change in prepaid taxes (+/-)	(12,566)	225
5. Change in deferred taxes (+/-)	(8,754)	8,398
6. Taxes for the year (-) (-1+/-2+3+ 3 bis +/-4+/-5)	(714)	32,641

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

(Values in units)

Breakdown	Total 12.31.2021	Total 12.31.2020
Average number of shares outstanding	185,312,690	170,648,346
Average number of potentially dilutive shares	10,175,223	5,944,232
Average number of diluted shares	195,487,913	176,592,578

25.2 Other information

(Amounts in units, unless otherwise stated)

Breakdown	Total 12.31.2021	Total 12.31.2020
Consolidated net profit for the period (in euros)	197,372,423	91,072,581
Average number of shares outstanding	185,312,690	170,648,346
Average number of potentially dilutive shares	10,175,223	5,944,232
Average number of diluted shares	195,487,913	176,592,578
Basic earnings per share (in euro units)	1.06	0.52
Diluted earnings per share (in euro units)	1.01	0.52

Part D - Consolidated Comprehensive Income

Statement of Consolidated Comprehensive Income

(Values in euro units)

Items	12.31.2021	12.31.2020
10. Profit (loss) for the period	197,372,423	91,072,581
Other income components not transferred to the income statement		
20. Equity instruments carried at fair value through other comprehensive income:		
a) fair value changes		
b) transfers to other net equity items		
30. Financial liabilities carried at fair value through profit or loss (changes in creditworthiness):		
a) fair value changes		
b) transfers to other net equity items		
40. Hedging of equity instruments carried at fair value through other comprehensive income:		
a) fair value changes (hedged instrument)		
b) fair value changes (hedging instrument)		
50. Tangible assets		
60. Intangible assets		
70. Defined-benefit plans	(47,353)	10,086
80. Non-current assets held for sale and discontinued operations		
90. Share of valuation reserves connected with investments carried at equity		
100. Income taxes on other comprehensive income without reclassification to the income statement	13,022	(2,774)
Other income components with reclassification to the income statement		
110. Hedging of foreign investments:		
a) fair value changes		
b) reclassification through income statement		
c) other changes		
120. Foreign exchange differences:		
a) changes in value		
b) reclassification through income statement		
c) other changes	(1,406,716)	(7,657,576)

(CONT'D)

(Values in euro units)

Items	12.31.2021	12.31.2020
130. Cash flow hedges:		
a) fair value changes		
b) reclassification through income statement		
c) other changes		
of which: result of net positions		
140. Hedging instruments (undesignated elements):		
a) changes in value		
b) reclassification through income statement		
c) other changes		
150. Financial assets (other than equity instruments) measured at fair value through other comprehensive income:		
a) fair value changes	315,589	119,390
b) reclassification through income statement		
- adjustments for credit risk		
- profits/losses on disposals		
c) other changes		
160. Non-current assets and asset groups held for sale:		
a) fair value changes		
b) reclassification through income statement		
c) other changes		
170. Share of valuation reserves for equity investments measured at equity:		
a) fair value changes	7,220,193	
b) reclassification through income statement		
- adjustments due to impairment		
- profits/losses on disposals		
c) other changes		
180. Income taxes relating to other income components with reclassification to the income statement	(2,281,985)	2,417,180
190. Total other income components	3,812,750	(5,113,694)
200. Comprehensive income (Items 10+190)	201,185,173	85,958,886
210. Consolidated comprehensive income attributable to minority interests		
220. Consolidated comprehensive income attributable to the Parent Company	201,185,173	85,958,886

Part E - Information on risks and related hedging policies

Introduction

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

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

Such policies define:

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

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

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

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

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

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

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

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

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Impaired and non-impaired credit exposures: amounts, value adjustments, trends and economic distribution

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

(Values in thousand euros)

Portfolios/quality	Non-performing loans	Unlikely-to-pay positions	Impaired past due exposures	Other impaired exposures	Performing exposures	Total
1. Financial assets measured at amortized cost	72,233	12,413	19,428	1,714,944	8,250,479	10,069,497
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets held for sale						
Total 12.31.2021	72,233	12,413	19,428	1,714,944	8,250,479	10,069,497
Total 12.31.2020	66,821	15,703	42,105	1,934,420	3,705,210	5,764,259

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

(Values in thousand euros)

Portfolios/quality	Impaired				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs (*)	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortized cost	124,458	20,383	104,075		9,967,860	2,439	9,965,422	10,069,497
2. Financial assets measured at fair value through other comprehensive income								
3. Financial assets designated at fair value					X	X		
4. Other financial assets mandatorily measured at fair value					X	X		
5. Financial assets held for sale								
Total 12.31.2021	124,458	20,383	104,075	–	9,967,860	2,439	9,965,422	10,069,497
Total 12.31.2020	140,935	16,305	124,629	–	5,643,337	3,708	5,639,630	5,764,259

(Values in thousand euros)

Portfolios/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading			4,094
2. Hedging derivatives			13
Total 12.31.2021	–	–	4,107
Total 12.31.2020	–	–	–

(*) Value for disclosure purposes.

B. Disclosure on structured entities (other than securitization companies)

B.2 Structured entities not consolidated for accounting purposes

(Values in thousand euros)

Financial statement items/ Type of structured entity	Asset accounting portfolio	Total assets	Liability accounting portfolio	Total liabilities (B)	Net carrying amount	Maximum exposure to risk of loss	Difference between exposure to risk of loss and carrying amount
		(A)			(C = B-A)	(D)	(E = D-C)
UCI	Financial assets measured at fair value through profit or loss	32,399	–	–	32,399	70,000	10,033

Section 2 - Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

The main activity of the Banking Group is factoring, which is governed, in Italy, by the Italian Civil Code (Book IV - Title I, Chapter V, Articles 1260-1267) and Law No. 52 of February 21, 1991 and subsequent amendments, and which consists of a plurality of financial services that can be structured in various ways, mainly through the sale of trade receivables. The Group mainly offers non-recourse factoring services with debtors belonging to the public administration, in addition to other lending products always with a focus on the public administration. From March 2021, with the integration of DEPObank, the Group began to provide credit as an instrumental activity in addition to specific treasury activities (managed through the granting of operating limits) and securities services (mainly managed through the granting of account overdraft facilities).

Moreover, for the purpose of diversifying its business and its geographical presence, the Banking Group comprises the companies of BFF Polska Group, which mostly provide financial services to companies operating in the healthcare sector and to public administration agencies in the countries in which they operate.

At this time, non-recourse factoring represents approximately 65% of all the exposures to customers of the Group excluding the securities component.

With regard to the measures in response to COVID-19, the Group follows the applicable provisions contained in the EBA Guidelines ("Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis – EBA/GL/2020/07").

Impacts of the COVID-19 pandemic

In light of the BFF Banking Group's business model and the nature of its counterparties, the COVID-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

Impacts of the Ukraine-Russia crisis

Following the crisis between Russia and Ukraine, which culminated in the military intervention initiated by Russia on February 24, and the resulting countermeasures undertaken by the international community and parties in the international financial sector (e.g. sanctions against Russian natural persons or legal entities, limitations on transactions with Russian parties and/or regarding financial instruments issued by Russian parties and/or denominated in Russian currency), the BFF Group is monitoring the situation and proceeding with a verification of risk positions and transactions, which could be impacted by the above-mentioned limits on transactions, intervening - in addition - to ensure that transactions are not carried out which are not permitted in light of recent regulatory provisions and/or which could be considered at risk.

2. Credit risk management policies

2.1 Organizational aspects

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

The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on June 30, 2021, and by the "Credit Regulation" of subsidiaries. A further organizational measure tackling credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the aforementioned "Credit Regulation".

Credit risk is therefore monitored at various levels within the framework of the multiple operating processes.

2.2 Management, measurement and control systems

The management, measurement and control system relating to credit risk has been created to ensure control over the main types of risks belonging to the credit risk category.

For this purpose, it must be noted that the core business carried out by the Group consists, as mentioned above, in the purchase of receivables on a non-recourse basis due from debtors belonging to public administration agencies, and that with regard to exposures related to the custodian bank operations, these are mainly towards banks.

Based on the above, in particular, credit risk is linked to the possibility that an unexpected change in the creditworthiness of a counterparty to which the Company is exposed may generate a corresponding decrease in the value of the credit position. It can be broken down as follows:

- ▶ credit risk in the strict sense: the risk of default of counterparties to which the Group is exposed, which is fairly limited considering the nature of the Group's counterparties, the majority of which are not subject to bankruptcy proceedings or other procedures that could undermine their substantial solvency;

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

In light of the risks detailed above, the Group has internal regulations that describe the phases that industry regulations identify as components of the credit process:

- ▶ background check;
- ▶ decision;
- ▶ disbursement;
- ▶ monitoring and review;
- ▶ dispute.

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

With regard to the granting of credit to counterparties using the custodian bank service, credit risk is very low, as it is mainly concentrated on bank counterparties, SGRs and funds.

The Group also marginally offers the following two types of services: “receivables management only” and “recourse factoring”.

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

Recourse factoring is a marginal activity for BFF Banking Group, since this type of factoring is only included in BFF Polska S.A.’s product portfolio.

With specific reference to BFF Polska, it should be noted that the company operates in Poland, and also in Slovakia and the Czech Republic through its subsidiaries.

BFF Polska S.A. mainly operates in three sectors:

- ▶ financing the working capital of suppliers to the public administration;
- ▶ financing current and future receivables in the public and healthcare sector;
- ▶ financing investments in the public and healthcare sector.

Also with regards to the specific types of investment by BFF Polska S.A. and its subsidiaries, Group credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin and receivables portfolio value. As a general rule, the Banking Group’s customers have a suitable credit standing and, if necessary, adequate guarantees are requested to mitigate the risk of financial losses arising from customers’ non-performance.

With regard to the allocation of operating limits and/or “intermediation” caps, there is no specific request from customers and the assessment is initiated at the initiative of the Finance and Treasury OU or the relevant organizational units.

As part of the management of counterparties providing retail intermediation services, specific operating limits have been established, aimed at monitoring and controlling the operations of these entities. In some cases, guarantees have been requested to mitigate the risk assumed for these activities. Exposure to the customers’ credit risk is constantly monitored. The credit quality of public sector entities is analyzed within the framework of the risk of delay in repaying liabilities.

The assessment of credit risk is part of an overall analysis of the adequacy of the Group’s capital in relation to the risks connected with lending.

With this in mind, the Group uses the “standardized” approach to measure credit risk, as governed by Regulation (EU) No. 575/2013 (CRR) and adopted by the Bank of Italy Circular No. 285 “Supervisory provisions for banks” and Circular No. 286 “Instructions for the preparation of supervisory reporting by banks and securities intermediaries,” both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes (“portfolios”), depending on the type of counterparty, and the application of diversified weighted ratios to each portfolio.

In particular, BFF Banking Group applies the following main weighting factors, envisaged by the CRR:

- ▶ 0% for exposures to government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish public sector entities and other local authorities as provided for by EBA lists “*EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013*” and “*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013*”;
- ▶ 20% for (i) exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the local currency, (ii) exposures to public sector entities of countries with Credit Quality Step 1, (iii) exposures to public sector entities and supervised intermediaries with an original duration of three months or less;
- ▶ 50% for exposures to the public administration agencies of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector;
- ▶ 100% for (i) exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy, Portugal and Greece—please note that on May 3, 2019 DBRS upgraded Greece from BH to BBL, thus improving the credit quality step from 5 to 4, but leaving the capital absorption percentage unchanged at 100%) and (ii) exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Czech Republic and Croatia);
- ▶ 50% or 100% for 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), Funds, and SGRs;
- ▶ 100% for tangible assets, equity investments, collective investment undertakings and other;

- ▶ 150% for non-performing exposures, if the specific value adjustments are 20% less than the non-collateralized portion, before any adjustments;
- ▶ 100% for non-performing exposures, if the specific value adjustments are 20% or more than the non-collateralized portion, before any adjustments;
- ▶ 250% to deferred tax assets not deducted from own funds.

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

Based on the method described above, the capital requirement for credit and counterparty risk at December 31, 2021 is €122.0 million for BFF Banking Group.

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

Specifically:

- ▶ “Large exposure” means any risk position equal to or greater than 10% of the eligible capital, as defined in CRR II (equal to Tier 1 capital);
- ▶ for banking groups, each risk position must not be greater than 25% of the eligible capital.

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

Credit quality assessment

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

This assessment is based on the distinction between these two categories of exposures:

- ▶ *Receivables subject to generic adjustments (“collective impairment”).*
- ▶ *Receivables subject to specific adjustments.*

Note that the IFRS 9 accounting principle entered into force on January 1, 2018. This standard replaces the concept of incurred losses, envisaged by IAS 39, with that of expected losses.

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

More specifically, according to IFRS 9, impairment of receivables is recognized in three stages, each with different methods for calculating the losses to be recorded.

As for Stage 1, expected losses are measured over a 12-month period. As for Stage 2 (including financial assets whose credit risk increased significantly since initial recognition), expected losses are measured over the full lifetime of the instrument (lifetime expected losses). Stage 3 includes all financial assets that show objective impairment at the reporting date (non-performing exposures).

2.3 Methods of measuring expected losses

Receivables subject to generic adjustments (“collective impairment”)

The impairment model is characterized by:

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

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modelling approach. Therefore, by analysing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Group's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.

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

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

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

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

The risk parameters that should be modelled to comply with the rationale of considering the full life- time of the financial instrument are as follows:

- ▶ Multi-period PD;
- ▶ Multi-period LGD;
- ▶ Multi-period EAD.

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

Receivables subject to specific adjustments (“specific impairment”)

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

It should be noted that, with reference to past due receivables, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures referred to in this section were carried out. This decision is supported by the fact that, in consideration of the Group’s core business, impaired past due positions, identified according to objective criteria, do not necessarily represent actual deterioration. However, this approach does not provide an exemption to the competent functions from performing a precise/analytical assessment (“case-by-case assessment”) of positions classified as past due if the value adjustment calculated is not adequate.

BFF Banking Group’s impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €104,076 thousand – net of individual impairment – and are broken down as follows:

- ▶ non-performing loans of €72,233 thousand (gross exposure in the financial statements of €87,467 thousand with an adjustment of €15,234 thousand);
- ▶ unlikely-to-pay positions amounting to €12,413 thousand (gross exposure in the financial statements equal to €17,505 thousand with adjustments equal to €5,092 thousand);
- ▶ impaired past due exposures of €19,428 thousand (gross exposure in the financial statements of €19,486 thousand with an adjustment of €57.6 thousand).

As regards the impairment policies adopted, BFF Polska Group and BFF Finance Iberia submit specific periodic reports to the Parent Company, so that the corresponding functions of the parent can report on the activities conducted in this area and check the correctness of the conclusions.

Changes due to COVID-19

Assessment of the significant increase in credit risk (SICR)

In light of the BFF Group's business model and the nature of its risk counterparties, the COVID-19 epidemic did not entail changes to the model of the significant increase in credit risk (SICR). However, also in line with the EBA guidelines of December 2, 2020 "Guidelines amending EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID-19 crisis", the Group has granted some of its counterparties based in Poland moratoria of a strictly voluntary character. For more details on the amount granted and the type of counterparties involved, refer to paragraph 4 "Financial assets subject to commercial negotiations and forbore exposures".

Measuring expected losses

The model for determining risk parameters was also unchanged following the spread of COVID-19.

However, the annual update of the risk parameters (PD and LGD) allows taking into account the evolution of the effects of COVID-19 within the estimates of expected losses.

To this end, as at June 30, 2021 the Bank updated the macroeconomic scenarios provided by the external rating agency. These scenarios are constructed considering the evolution of the unemployment rate and the High Yield Spread in a context where the COVID-19 pandemic continues to show its effects over the next few years, reaching a situation of normality or a pre-COVID-19 situation not before the middle of the decade.

These scenarios, provided by the external info provider, are basically also aligned with the new scenarios published by the same info provider in December. At December 31, 2021, in order to quantify the impact of COVID-19, the Bank carried out a sensitivity analysis of the Expected Credit Loss calculation using the PD and LGD curves that take into account the effects of the pandemic, and the PD and LGD curves reported at December 31, 2019 and therefore not affected by it. Unlike what was highlighted in the analysis performed in 2020, which pointed to a potential impact in terms of higher value adjustments, equal to roughly €428 thousand, the analysis for 2021 showed, to the contrary, a potential write-back of roughly €380 thousand.

The effect of this analysis for 2021 was due in the first place to an increase in GDP, which in 2021 marked +6.5% (preliminary ISTAT figure) after a drastic decline in 2020 and, in the second place, on the basis of the studies performed by the external info provider, an improvement in default rates in the Corporate sector, which after a sharp rise in 2020 began falling again in 2021.

However, this analysis does not take into account the impact on the specific corrections as, by their nature, it is difficult to estimate the quantification of the greater impact due to the pandemic.

2.4 Credit risk mitigation techniques

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

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

3. Impaired credit exposures

In compliance with Bank of Italy Circular no. 272, BFF Banking Group's net "Impaired assets" amounted to a total of €104,076 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, 2021, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €72,233 thousand, of which €5,287 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €64,468 thousand, accounting for 89.2% of the total.

Gross non-performing loans amounted to €87,467 thousand. Relevant impairment totalled €15,234 thousand. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €1,269 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €88,736 thousand and relevant adjustments totalled €16,503 thousand.

With reference to the Bank, at December 31, 2021 total non-performing loans, net of any estimated impairment losses, amounted to €65,944 thousand, of which €64,468 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.

Specifically, the amount of €5,287 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.

The remaining positions referring to BFF Bank are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €18,006 thousand. After estimated impairment losses of €11,717 thousand, they amounted to €6,290 thousand compared to €2,041 thousand at December 31, 2020. This increase is due to the change in status from unlikely-to-pay to non-performing of a position fully covered by a guarantee.

- ▶ BFF Banking Group's **unlikely to pay exposures** mainly refer to BFF Polska Group's positions. These exposures reflect the judgement made by the intermediary about the unlikelihood that – absent such actions as the enforcement of guarantees – the debtor will fully fulfil (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or instalments).

At December 31, 2021, gross exposures classified as unlikely to pay amounted to €17,505 thousand, of which €15,448 thousand attributable to BFF Polska Group, €1,554 to the bank and €503 thousand to BFF Finance Iberia. The total net amount was €12,413 thousand, relating mainly to BFF Polska Group since the gross exposures of BFF Bank and BFF Finance Iberia were almost entirely impaired.

- ▶ Net **past due exposures** of BFF Banking Group amounted to €19,428 thousand. They refer to the bank for €17,779 thousand and to BFF Polska Group of €1,650 thousand. 93.3% of these exposures relate to public counterparties. These consist of exposures with entities for which the conditions for classification as impaired past due exposures are met by presenting one or more credit lines that meet the definition of "Non-performing exposures with forbearance measures" set out in Section V, Part 2, paragraph 262 of the ITS.

4. Financial assets subject to commercial negotiations and forbore exposures

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

With regard to the activities of the BFF Polska Group, voluntary moratoria were granted for a total amount of €2.1 million and are mainly represented by corporate clients (approximately 48%), public-sector entities (approximately 21%) and retail clients (approximately 31%). The main products affected are credit exposures deriving from amounts, accounting for approximately 66%, loans, 23% from loans (MEDLekarz - loans to medical practices), 7% from factoring operations and a residual 4% relating to financial lease operations. Compared to December 31, 2020 there was a decrease of about €800 thousand.

Quantitative information

A. Credit quality

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

A.1.1 Consolidated accounts for prudential supervision - Financial assets broken down by past due amounts

(Values in thousand euros)

Portfolios/risk stages	Stage one			Stage two			Stage three			Purchased or originated impaired		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortized cost	260,397	133,584	489,832	10	15,583	815,538	81	431	85,351			5,287
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale												
Total 12.31.2021	260,397	133,584	489,832	10	15,583	815,538	81	431	85,351	-	-	5,287
Total 12.31.2020	419,903	111,950	1,223,669	-	5,320	173,577	325	606	105,086	-	-	5,614

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: trend in total value

Description/risk stages	Total value adjustments											
	Assets in stage one			Assets in stage two								
	Receivables due from banks and Central Banks on demand	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Receivables due from banks and Central Banks on demand	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Opening total adjustments	10	4,328				4,328		740				740
Increases in purchased or originated financial assets												
Derecognitions other than write-offs												
Net value adjustments/write-backs for credit risk (+/-)	62	(2,353)				(2,281)		(277)				(277)
Contractual amendments without derecognitions												
Changes in estimate methodology												
Write-offs not recognized directly in the income statement												
Other changes												
Total final adjustments	72	1,975				2,047		463				463
Recoveries from receipts on written-off financial assets												
Write-offs recognized directly on the income statement												

Adjustments and total provisions

(Values in thousand euros)

Receivables due from banks and Central Banks on demand	Total value adjustments					Total provisions on commitments to disburse funds and financial guarantees issued				Total			
	Assets in stage three			Purchased or originated impaired financial assets		Stage one	Stage two	Stage three	commitments to disburse funds and financial guarantees issued purchased or originated impaired				
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs			
	16,091			16,091		214		214			523	4	21,911
													-
	4,085			4,085		(8)		(8)			(230)	(4)	1,276
													-
													-
	20,176			20,176		206		206			294	-	23,187
													-
	35			35									35

A.1.3 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees provided: transfers among the various credit risk stages (gross amounts and face values)

(Values in thousand euros)

Portfolios/risk stages	Gross values /nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortized cost	4,310	23,143	21,420	3,512	9,407	11,367
2. Financial assets measured at fair value through other comprehensive income						
3. Financial assets held for sale						
4. Commitments to disburse funds and financial guarantees issued	46				592	
Total (12/31/2021)	4,356	23,143	21,420	3,512	9,999	11,367
Total (12/31/2020)	41,136	41,303	5,869	6,229	21,814	4,750

A.1.4 Prudential consolidation – On- and off-balance-sheet credit exposures to banks: gross and net

(Values in thousand euros)

Type of exposures/ values	Gross exposure				Total adjustments/recoveries and total provisions				Net exposure	Total partial write-offs (*)	
	Stage one	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired			
A. On-balance sheet credit exposures											
A.1 On demand	554,348	554,348			72	72				554,276	
a) Impaired		X				X					
b) Performing	554,348	554,348		X	72	72		X		554,276	
A.2 Others	404,123	403,921	202		23	23	1			404,099	
a) Non-performing loans		X				X					
- of which: forborne exposures		X				X					
b) Unlikely-to-pay positions		X				X					
- of which: forborne exposures		X				X					
c) Impaired past due exposures		X				X					
- of which: forborne exposures		X				X					
d) Past due performing exposures	202		202	X	1		1	X		201	
- of which: forborne exposures				X				X			
e) Other performing exposures	403,921	403,921		X	23	23		X		403,902	
- of which: forborne exposures				X				X			
Total (A)	958,471	958,269	202	-	-	95	94	1	-	958,375	-
B. Off-Balance Sheet exposures											
a) Impaired		X				X					
b) Others	4,099	4,099		X				X		4,099	
Total (B)	4,099	4,099	-	-	-	-	-	-	-	4,099	-
Total (A+B)	962,570	962,368	202	-	-	95	94	1	-	962,475	-

A.1.5 Prudential consolidation – On- and off-balance-sheet credit exposures to customers: gross and net

(Values in thousand euros)

Type of exposures/values	Gross exposure				Total adjustments/recoveries and total provisions				Net exposure	Total partial write-offs (*)		
	Stage one	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired				
A. On-balance sheet credit exposures												
a) Non-performing loans	87,467	X	81,974	5,493	15,234	X	15,027	206	72,233			
- of which: forborne exposures	1,903	X	1,903		905	X	905		998			
b) Unlikely-to-pay positions	17,505	X	17,505		5,092	X	5,092		12,413			
- of which: forborne exposures	10,115	X	10,115		917	X	917		9,199			
c) Impaired past due exposures	19,486	X	19,486		58	X	58		19,428			
- of which: forborne exposures	455	X	455		23	X	23		433			
d) Past due performing exposures	1,715,273	884,144	831,129	X	530	330	199	X	1,714,743			
- of which: forborne exposures			X					X		-		
e) Other performing exposures	7,848,465	7,818,678	29,787	X	1,886	1,623	263	X	7,846,580			
- of which: forborne exposures	786		786	X	28		28	X	758			
Total (A)	9,688,196	8,702,822	860,916	118,965	5,493	22,798	1,953	462	20,176	206	9,665,398	-
B. Off-Balance Sheet exposures												
a) Impaired	592	X				X			592			
b) Performing	1,404,945	1,404,715	230	X	294	294		X	1,404,651			
Total (B)	1,405,537	1,404,715	230	-	-	294	294	-	-	-	1,405,243	-
Total (A+B)	11,093,733	10,107,537	861,146	118,965	5,493	23,092	2,247	462	20,176	206	11,070,641	-

(*) Value for disclosure purposes.

A.1.5a Loans subject to COVID-19 support measures: transfers between the various credit risk stages (gross values)

(Values in thousand euros)

Portfolios/risk stages	Gross values /nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
A. Loans measured at amortized cost	101	63	223	-	31	2
A.1 subject to forbearance in accordance with GL	101	63	223	-	31	2
A.2 subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne						
A.3 subject to other forbearance measures						
A.4 new loans						
B. Loans measured at fair value through other comprehensive income						
B.1 subject to forbearance in accordance with GL						
B.2 subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne						
B.3 subject to other forbearance measures						
B.4 new loans						
Total 12.31.2021	101	63	223	-	31	2
Total 12.31.2020	342	361	-	-	36	-

A.1.7 Prudential consolidation – On-balance sheet credit exposures to customers: trend in gross non-performing exposures

(Values in thousand euros)

Descriptions/Categories	Non-performing loans	Unlikely-to-pay positions	Impaired past due exposures
A. Starting gross exposure	79,960	18,743	42,232
- of which: assets sold but not derecognized			40
B. Increases	16,147	4,947	16,027
B.1 inflows from performing exposures	9,290	4,947	16,002
B.2 transfers from purchased or originated impaired financial assets			
B.3 transfers from other impaired exposures	5,564		
B.4 contractual amendments without derecognitions			
B.5 other increases	1,294		24
C. Decreases	-8,640	-6,185	-38,773
C.1 outflows to performing exposures	-2,680		-36,002
C.2 write-offs			
C.3 collections	-5,960	-576	-1,921
C.4 collections from disposals			
C.5 losses on disposal			
C.6 transfers to other impaired exposures		-4713	-850
C.7 contractual amendments without derecognitions			
C.8 other decreases		-895	
D. Final gross exposure	87,467	17,505	19,486
- of which: assets sold but not derecognized			

A.1.7a On-balance sheet credit exposures to customers subject to COVID-19 support measures: gross and net values

(Values in thousand euros)

Type of exposures/values	Gross exposure				Total value adjustments				Net exposure	Total partial write-offs (*)
	Stage one	Stage two	Stage three	Purchased or originated impaired	Stage one	Stage two	Stage three	Purchased or originated impaired		
A. Non-performing loans:	194		194							
a) Subject to forbearance in accordance with GL	194		194							
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne										
c) Subject to other forbearance measures										
d) New loans										
B. Loans unlikely to pay:	81		81							
a) Subject to forbearance in accordance with GL	81		81							
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne										
c) Subject to other forbearance measures										
d) New loans										
C. Impaired past due loans:	13		13							
a) Subject to forbearance in accordance with GL	13		13							
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne										
c) Subject to other forbearance measures										
d) New loans										
D. Past due performing loans:	303	303								
a) Subject to forbearance in accordance with GL	303	303								
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne										
c) Subject to other forbearance measures										
d) New loans										
E. Other past due performing loans:	1,530	1,298	232							
a) Subject to forbearance in accordance with GL	1,530	1,298	232							
b) Subject to moratorium measures in place no longer in compliance with the GL and not evaluated as forborne										
c) Subject to other forbearance measures										
d) New loans										
Total (A+B+C+D+E)	2,121	1,601	232	287	-	-	-	-	-	-

(*) Value provided for disclosure purposes.

*A.1.7 bis Consolidated accounts for prudential supervision – On-balance sheet exposures to customers:
changes in gross forborne exposures broken down by credit quality*

(Values in thousand euros)

Descriptions/Quality	Forborne exposures: non- performing	Forborne exposures: performing
A. Starting gross exposure	1,941	2,451
- of which: assets sold but not derecognized		
B. Increases	10,533	-1,258
B.1 inflows from performing, non forborne exposures		
B.2 inflows from performing, forborne exposures		X
B.3 inflows from non-performing forborne exposures	X	
B.4 inflows from performing, non forborne exposures		
B.5 other increases	10,533	-1,258
C. Decreases	–	-407
C.1 transfers to performing exposures not subject to forbearance measures	X	
C.2 outflows towards forborne performing exposures		X
C.3 outflows towards non-performing forborne exposures	X	
C.4 write-offs		
C.5 collections		-407
C.6 collections from disposals		
C.7 losses on disposal		
C.8 other decreases		
D. Final gross exposure	12,473	786
- of which: assets sold but not derecognized		

A.1.9 Prudential consolidation - On-balance sheet non-performing credit exposures to Customers: trend of the total value adjustments

(Values in thousand euros)

Descriptions/Categories	Non-performing loans		Unlikely-to-pay positions		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	13,139	75	3,040	880	127	15
- of which: assets sold but not derecognized						
B. Increases	3,312	885	2,208	532	40	8
B.1 value adjustments to purchased or originated credit impaired assets		X		X		X
B.2 other value adjustments	2,774	885				5
B.3 losses on disposal	-					
B.4 transfers from other categories of impaired exposures	184				37	
B.5 contractual amendments without derecognition					-	
B.6 other increases	354		2,208	532	3	3
C. Decreases	-1,217	-55	-156	-495	-109	
C.1 write-backs from valuation						
C.2 write-backs from collection	-187	-5			-1	
C.3 gains on disposal						
C.4 write-offs						
C.5 transfers to other categories of impaired exposures	-1,030	-50			-54	
C.6 contractual amendments without derecognition						
C.7 other decreases			-156	-495	-55	
D. Total final adjustments	15,234	905	5,092	917	58	23
- of which: assets sold but not derecognized						

A.2 Classification of exposures based on internal and external ratings

A.2.1 Consolidated accounts for prudential supervision – Credit exposures, commitments to disburse funds and financial guarantees provided broken down by external rating classes (gross amounts)

(Values in thousand euros)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost	147,645	1,254,876	8,154,580	68,640	–	–	466,578	10,092,318
- Stage one	146,703	1,112,023	7,392,076	41,175			414,765	9,106,742
- Stage two	942	142,408	679,716	27,465			10,587	861,118
- Stage three		445	77,492				41,028	118,965
- Purchased or originated impaired			5,296				197	5,493
B. Financial assets measured at fair value through other comprehensive income								
- Stage one								
- Stage two								
- Stage three								
- Purchased or originated impaired								
C. Financial assets held for sale								
- Stage one								
- Stage two								
- Stage three								
- Purchased or originated impaired								
Total (A+B+C)	147,645	1,254,876	8,154,580	68,640	–	–	466,578	10,092,318
D. Commitments to disburse funds and financial guarantees issued	–	54,231	–	–	–	–	1,351,306	1,405,537
- Stage one		54,231					1,350,484	1,404,715
- Stage two							230	230
- Stage three							592	592
- Purchased or originated impaired								
Total (D)	–	54,231	–	–	–	–	1,351,306	1,405,537
Total (A+B+C+D)	147,645	1,309,107	8,154,580	68,640	–	–	1,817,884	11,497,855

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

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

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Prudential consolidation - Guaranteed on- and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)			
			Real estate - mortgages	Finance lease properties	Securities	Other collateral
1. Guaranteed On-Balance-sheet credit exposures:	160,438	160,438			159,839	
1.1 totally secured	160,438	160,438			159,839	
- of which impaired						
1.2 partially secured						
- of which impaired						
2. Guaranteed "Off-Balance Sheet" credit exposures:						
2.1 totally secured						
- of which impaired						
2.2 partially secured						
- of which impaired						

(Values in thousand euros)

Personal guarantees (2)							Total (1)+(2)
Credit derivatives				Endorsement credits			
Credit link notes	Other derivatives			Public administrations	Banks	Other financial companies	
	Central counterparties	Banks	Other financial companies	Other entities			
							159,839
							159,839
							-
							-
							-
							-
							-
							-
							-
							-

A.3.2 Prudential consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)			
			Real estate - mortgages	Finance lease properties	Securities	Other collateral
1. Guaranteed "On-Balance-sheet" credit exposures:	139,263	139,060	153		125,527	11,453
1.1 totally secured	139,263	139,060	153		125,527	11,453
- of which impaired	278	154	153			
1.2 partially secured						
- of which impaired						
2. Guaranteed "Off-Balance Sheet" credit exposures:	1,324	1,304				198
2.1 totally secured						
- of which impaired						
2.2 partially secured	1,324	1,304				198
- of which impaired						

(Values in thousand euros)

Personal guarantees (2)							Total (1)+(2)	
Credit derivatives				Endorsement credits				
Credit link notes	Other derivatives			Public administrations	Banks	Other financial companies		Other entities
	Central counterparties	Banks	Other financial companies				Other entities	
							1	137,134
							1	137,134
							1	154
								-
								-
								198
								198
								-

B. Breakdown and concentration of credit exposures

B.1 Prudential consolidation - Sector breakdown of on- and "off-balance sheet" credit exposures to customers

(Values in thousand euros)

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	64,666	426	745	1,214			6,443	12,464	380	1,130
- of which: forborne exposures							998	905		
A.2 Unlikely to pay			396	533			12,017	4,559		
- of which: forborne exposures			396	533			8,802	384		
A.3 Impaired past due exposures	18,121	20					1,307	38		
- of which: forborne exposures							433	23		
A.4 Performing exposures	9,139,682	1,008	220,300	212			165,660	1,050	35,681	144
- of which: forborne exposures	14						744	27		
Total (A)	9,222,469	1,454	221,441	1,959			185,427	18,111	36,061	1,274
B. Off-balance sheet credit exposures										
B.1 Impaired exposures							592			
B.2 Performing exposures	54,231		1,190,665	19			159,754	274	2	
Total (B)	54,231	-	1,190,665	19	-	-	160,346	274	2	-
Total (A+B) 12/31/2021	9,276,700	1,455	1,412,106	1,978	-	-	345,773	18,385	36,062	1,274
Total (A+B) 12/31/2020	5,451,266	1,548	140,536	47	-	-	338,869	17,378	30,510	1,561

B.2 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to customers

(Values in thousand euros)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures										
A.1 Non-performing loans	65,944	3,285	6,290	11,949						
A.2 Unlikely to pay	860	695	11,554	4,397						
A.3 Impaired past due exposures	17,778	19	1,650	38						
A.4 Performing exposures	7,804,158	1,169	1,624,748	1,214	132,417	32				
Total (A)	7,888,739	5,168	1,644,242	17,598	132,417	32				
B. Off-balance sheet credit exposures										
B.1 Impaired exposures			592							
B.2 Performing exposures	1,205,869	20	198,785	272						
Total (B)	1,205,869	20	199,377	272						
Total (A+B) 12/31/2021	9,094,608	5,187	1,843,619	17,870	132,417	32				
Total (A+B) 12/31/2020	3,984,059	3,216	1,977,122	17,318						

(Values in thousand euros)

Exposures/Geographic areas	Northwest Italy		Northeast Italy		Central Italy		Southern Italy and Islands		
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	
A. On-Balance-sheet credit exposures									
A.1 Non-performing loans		1,282	1,819	196	31	2,142	1,155	62,325	280
A.2 Unlikely to pay		396	533	1		371	113	90	48
A.3 Impaired past due exposures		73		7		1,113	1	16,585	18
A.4 Performing exposures		167,630	99	135,364	12	6,576,954	881	924,210	175
Total (A)		169,381	2,451	135,568	43	6,580,580	2,151	1,003,209	523
B. Off-balance sheet credit exposures									
B.1 Impaired exposures									
B.2 Performing exposures		1,099,872		18,000		87,997	20		
Total (B)		1,099,872		18,000		87,997	20		
Total (A+B) 12/31/2021		1,269,253	2,451	153,568	43	6,668,577	2,170	1,003,209	523
Total (A+B) 12/31/2020		205,097	627	120,936	186	2,666,476	1,861	991,550	542,171

B.3 Prudential consolidation - Territorial distribution of on- and off-balance sheet credit exposures to banks

(Values in thousand euros)

Exposures/ Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay										
A.3 Impaired past due exposures										
A.4 Performing exposures	794,160	30	153,238	63	10,466	2	512			
Total (A)	794,160	30	153,238	63	10,466	2	512	-	-	-
B. Off-Balance Sheet exposures										
B.1 Impaired exposures										
B.2 Performing exposures	153		3,946							
Total (B)	153	-	3,946	-	-	-	-	-	-	-
Total (A+B) 12/31/2021	794,313	30	157,184	63	10,466	2	512	-	-	-
Total (A+B) 12/31/2020	13,222	3	21,953	6	-	-	-	-	-	-

(Values in thousand euros)

Exposures/Geographic areas	Northwest Italy		Northeast Italy		Central Italy		Southern Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet credit exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay								
A.3 Impaired past due exposures								
A.4 Performing exposures	97,996	9	38,577	4	644,573	14	13,012	3
Total (A)	97,996	9	38,577	4	644,573	14	13,012	3
B. Off-Balance Sheet exposures								
B.1 Impaired exposures								
B.2 Performing exposures	154							
Total (B)	154	-	-	-	-	-	-	-
Total (A+B) 12/31/2021	98,150	9	38,577	4	644,573	14	13,012	3
Total (A+B) 12/31/2020	7,122	2	318	-	5,782	1	-	-

B.4 Large exposures

At December 31, 2021 there were 27 "large exposures", i.e. exposures equal to or higher than 10% of eligible capital.

The nominal unweighted amount of these positions was €9,504,856 thousand, while the weighted amount was €485,400 thousand.

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

C. Securitization transactions

INFORMATION ON THE TRANSACTION WITH "BAYERISCHE LANDESBANK - BFF SPV S.R.L."

Qualitative information

Description of the closing of the securitization transaction

The private placement of a securitization transaction with the Bayerische Landesbank (BayernLB) Group for the maximum amount of the flexible senior note of €150 million, activated in July 2017, was closed in February 2021 through the repurchase of the receivables sold and outstanding and the repayment of the Notes.

The vehicle BFF SPV srl was removed from the company register on November 8, 2021.

D. Disposal transactions

Quantitative information

D.1 Prudential consolidation - Financial assets sold and fully recognized and associated financial liabilities: book values

(Values in thousand euros)

	Financial assets sold and fully recognized				Associated financial liabilities		
	Book value	of which: subject to securitization transactions	of which: subject to sale agreements with repurchase clause	of which impaired	Book value	of which: subject to securitization transactions	of which: subject to sale agreements with repurchase clause
A. Financial assets held for trading							
1. Debt securities				X			
2. Equity securities				X			
3. Loans				X			
4. Derivatives				X			
B. Other financial assets subject to mandatory fair-value measurement							
1. Debt securities							
2. Equity securities				X			
3. Loans							
C. Financial assets at fair value							
1. Debt securities							
2. Loans							
D. Financial assets measured at fair value through other comprehensive income							
1. Debt securities							
2. Equity securities				X			
3. Loans							
E. Financial assets measured at amortized cost							
1. Debt securities	1,070,465		1,070,465		1,070,721		1,070,721
2. Loans	10,494						
Total (12/31/2021)	1,080,959	–	1,070,465	–	1,070,721	–	1,070,721
Total (12/31/2020)	2,141,210	91,473	1,669,164	40	2,055,805	28,506	1,674,754

E. Prudential consolidation - credit risk assessment models

1.2 Market risk

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

1. Regulatory trading portfolio: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets		-1			2	4		
1.1 Debt securities		-1			2	-4		
- with option of advance repayment								
- others		-1			2	4		
1.2 Other assets								
2. On-balance sheet liabilities								
2.1 Repurchase agreements - payable								
2.2 Other liabilities								
3. Financial derivatives		14,985			14,982			
3.1 With underlying security		14,985			14,982			
- Options								
+ long positions								
+ short positions								
- Other derivatives		14,985			14,982			
+ long positions		14,985						
+ short positions					14,982			
3.2 Without underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								

2. Regulatory trading portfolio: distribution of exposures to equity securities and stock indices by the main listing market countries

(Values in thousand euros)

Transaction type/Listing index	Listed		Unlisted
	Italy	Others	
A. Equity securities	1	–	–
- long positions	1		
- short positions			
B. Sales not yet settled on equity securities			
- long positions			
- short positions			
C. Other derivatives on equity securities			–
- long positions			
- short positions			
D. Derivatives on stock indices			
- long positions			
- short positions			

Qualitative information

A. General aspects

Impacts of the COVID-19 pandemic

In light of the BFF Banking Group's business model and the nature of its counterparties, the COVID-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

1.2.2 Interest rate risk and price risk – banking portfolio

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Banking portfolio interest rate risk is the risk of a decrease in the value of the banking portfolio due to potential changes in interest rates. The main source of this type of interest rate risk is repricing risk, i.e. the risk deriving from time mismatches between the maturity and repricing of assets and liabilities, the main aspects of which are:

- ▶ yield curve risk, the risk deriving from the exposure of the Bank's positions to changes in the slopes and shape of the yield curve;

- ▶ basis risk, risk deriving from the imperfect correlation in changes in the rates payable and receivable on different instruments that may also have similar repricing characteristics.

In the interest rate risk management model adopted by the Bank, the centrality of the following risk measures is important:

- ▶ sensitivity of the economic value;
- ▶ sensitivity of the interest margin.

The sensitivity analysis of the economic value makes it possible to assess the impact of yield curve shifts (shocks) on the value of shareholders' equity. The method applied is the one established by the 32nd update of Circular 285/2013, including the adoption of the stress scenarios mentioned in the EBA Guidelines (EBA/GL/2018/02).

Exposure to interest rate risk expressed in terms of economic value sensitivity is measured with respect to the banking portfolio assets and liabilities (this therefore excludes positions in the trading portfolio - Other).

This method is applied based on the annual changes in interest rates on a daily basis, recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase), as laid out in Circular 285. Internal capital is determined by the worst-case result obtained between the two 1st/99th percentile scenarios.

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

- ▶ the parallel \pm 200 bps scenarios, for the determination of the risk index, given by the "interest rate risk exposure/own funds" ratio (regulatory limit 20%, CRD IV Art. 98 par. 5);
- ▶ the six interest rate shock scenarios required by the EBA Guidelines, used to calculate internal capital under stress and to determine the operating limit defined by the "interest rate risk exposure/Tier 1" ratio. To respect the limit, the scenario with the worst result is considered (threshold 15%, Circular 285 and EBA Guidelines).

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

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

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

Interest rate risk exposure expressed in terms of interest margin sensitivity quantifies the impact of an interest rate curve shock on the short-term (12 months) and medium-term (3 years) interest margin. This measurement shows the effect of rate changes on the portfolio being measured, excluding possible future changes to the asset/liability mix. The shocks applied are the same as the economic value.

The assumption of the Group's interest rate risk, the role of the functions involved and the related monitoring takes place in compliance with the internal reference document "Interest Rate Risk Management Policy of the Group's banking portfolio".

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency of denomination: EUROS

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	2,164,237	1,363,181	2,954,474	831,635	1,341,584	484,495	1,887	-
1.1 Debt securities		235,863	2,908,176	788,036	1,313,170	414,966		
- with option of advance repayment								
- others		235,863	2,908,176	788,036	1,313,170	414,965		
1.2 Loans to banks	8,547	395,552						
1.3 Loans to customers	2,155,689	731,766	46,298	43,599	28,414	69,529	1,887	
- current account	17,827					745		
- other loans	2,137,862	731,766	46,298	43,599	28,414	68,784	1,887	
- with option of advance repayment		80	69	120	200			
- others	2,137,862	731,687	46,229	43,479	28,214	68,784	1,887	
2. On-balance sheet liabilities	6,666,173	1,389,658	65,536	29,626	78,788	-	-	-
2.1 Payables due to customers	6,115,557	1,151,770	22,421	29,626	39,406			
- current account	5,857,020	33,243	22,421	29,626	39,406			
- other payables	258,537	1,118,527						
- with option of advance repayment								
- others	258,537	1,118,527						
2.2 Payables due to banks	550,617	134,101						
- current account	532,794							
- other payables	17,823	134,101						
2.3 Debt securities		103,787	43,115		39,382			
- with option of advance repayment		103,787						
- others			43,115		39,382			
2.4 Other liabilities								
- with option of advance repayment								
- others								

(CONT'D)

Currency of denomination: EUROS

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
3. Financial derivatives	-	1,724,046	-	-	14,982	-	-	-
3.1 With underlying security		14,984			14,982			
- Options								
+ long positions								
+ short positions								
- Other derivatives		14,984			14,982			
+ long positions					14,982			
+ short positions		14,984						
3.2 Without underlying security		1,709,062						
- Options								
+ long positions								
+ short positions								
- Other derivatives		1,709,062						
+ long positions		795,259						
+ short positions		913,802						
4. Other off-balance sheet transactions	3,941,570	3,941,570	-	-	-	-	-	-
+ long positions	3,941,570							
+ short positions		3,941,570						

Currency of denomination: OTHERS

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
1. On-balance sheet assets	283,764	522,113	53,819	1,702	17,228	38,945	10,435	-
1.1 Debt securities		132,417						
- with option of advance repayment								
- others		132,417						
1.2 Loans to banks								
1.3 Loans to customers	283,764	389,696	53,819	1,702	17,228	38,945	10,435	
- current account	3,067							
- other loans	280,696	389,696	53,819	1,702	17,228	38,945	10,435	
- with option of advance repayment								
- others	280,696	389,696	53,819	1,702	17,228	38,945	10,435	
2. On-balance sheet liabilities	1,094,038	6,247	4,558	5,147	13,367	-	-	-
2.1 Payables due to customers	984,367	5,582	4,558	5,147	13,367			
- current account	984,366	5,582	4,558	5,147	13,367			
- other payables	1							
- with option of advance repayment								
- others	1							
2.2 Payables due to banks	109,671	665						
- current account	96,577							
- other payables	13,094	665						
2.3 Debt securities								
- with option of advance repayment								
- others								
2.4 Other liabilities								
- with option of advance repayment								
- others								

(CONT'D)

Currency of denomination: OTHERS

(Values in thousand euros)

Type/Unexpired term	On demand	Up to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 year to 10 years	More than 10 years	Indefinite duration
3. Financial derivatives	-	1,717,581	-	-	-	-	-	-
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		1,717,581						
- Options								
+ long positions								
+ short positions								
- Other derivatives		1,717,581						
+ long positions		915,769						
+ short positions		801,812						
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ long positions								
+ short positions								

1.2.3 Exchange risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

Exposure to exchange rate risk – determined on the basis of the net foreign exchange position using a method based on the supervisory regulations – is monitored in real time by the Finance and Administration Department and managed in compliance with the limits established by specific internal rules.

Positions exposed to exchange rate risk may only be maintained within very limited limits of maximum overall exposure, as well as for single currency and RA.

At December 31, 2021, hedging assets and liabilities realized through derivative instruments amounted to €13 thousand and €4.8 million, respectively, relating to the main currencies in which the Group's funding and lending are expressed and which include transactions aimed at hedging the stake in Polish zloty held in BFF Polska Group.

B. Exchange rate risk hedging

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

Quantitative information

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

The year 2021 was characterized by an average high level of available liquidity, attributable to the balances held in accounts with the Bank by bank customers and by clients of the Custodian Bank service.

Liquidity in currencies other than the euro was mainly used through Currency Swaps, and to a lesser extent through interbank deposits.

1. Breakdown by currency of assets, liabilities and derivatives

(Values in thousand euros)

Items	Currencies					
	US Dollar	Pounds	Yen	Canadian Dollar	Swiss francs	Other currencies
A. Financial assets	-137,089	-164	-	-	-	-793,496
A.1 Debt instruments	-132,417					-
A.2 Equity instruments	-2,538					-207
A.3 Loans to banks						
A.4 Loans to customers	-2,134	-164				-793,289
A.5 Other financial assets						
B. Other assets	-19,921	-10,077	-2,818	-4,478	-9667	-26,580
C. Financial liabilities	511,854	158,984	124,275	49,647	58,086	220,510
C.1 Amounts due to banks	53,684	9,002	750	4,784	8,514	33,602
C.2 Deposits from customers	458,171	149,982	123,525	44,863	49,572	186,908
C.3 Debt instruments						
C.4 Other financial assets						
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	-356,176	-172,752	-121,881	-45,161	-48,437	-973,174
- Options						
+ long positions						
+ short positions						
- Other derivatives	-356,176	-172,752	-121,881	-45,161	-48,437	-973,174
+ long positions	-355,553	-160,744	-121,667	-45,161	-48,437	-184,207
+ short positions	-623	-12,008	-214			-788,967
Total assets	-512,563	-170,985	-124,485	-49,639	-58,104	-1,004,283
Total liabilities	512,478	170,992	124,489	49,647	58,086	1,009,477
Difference (+/-)	-85	7	4	8	-18	5,194

1.3 Derivative instruments and hedging policies

1.3.1 Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: notional end-of-period values

FX transactions essentially regard trading activities carried out on behalf of customers and transactions in derivative instruments on exchange rates (currency swaps) carried out by the Bank to optimize the management of available liquidity and functional to Group activities, as well as for hedging the equity investment in Polish zloty held in BFF Polska Group. Note that BFF Bank does not hold innovative or complex financial products, so the Group makes recourse to linear instruments lacking optional components such as currency swaps.

(Values in thousand euros)

	12.31.2021			12.31.2020		
	Over the counter		Organized markets	Over the counter		Organized markets
	Central counterparties	Without central counterparties		Central counterparties	Without central counterparties	
		With netting agreements	Without netting agreements		With netting agreements	Without netting agreements
1. Debt securities and interest rates						
a) Options						
b) Swaps						
c) Forwards						
d) Futures						
e) Others						
2. Equity securities and stock indices			12		–	
a) Options			12			
b) Swaps						
c) Forwards						
d) Futures						
e) Others						
3. Currency and gold			935,711		–	
a) Options						
b) Swaps						
c) Forwards			935,711			
d) Futures						
e) Others						
4. Commodities						
5. Others						
Total			935,723		–	

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

(Values in thousand euros)

	12.31.2021			12.31.2020		
	Over the counter		Organized markets	Over the counter		Organized markets
	Central counterparties	Without central counterparties		Central counterparties	Without central counterparties	
		With netting agreements	Without netting agreements		With netting agreements	Without netting agreements
1. Positive fair value						
a) Options						
b) Interest rate swaps						
c) Cross currency swaps						
d) Equity swaps						
e) Forwards			4,086			
f) Futures						
g) Others						
Total			4,086			–
2. Negative fair value						
a) Options						
b) Interest rate swaps						
c) Cross currency swaps						
d) Equity swaps						
e) Forwards			2,725			
f) Futures						
g) Others						
Total			2,725			–

A.3 OTC financial derivatives - notional values, positive and negative gross fair value by counterparties

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not falling under netting agreements				
1) Debt securities and interest rates				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
2) Equity securities and stock indices				
- notional value	X			12
- positive fair value	X			12
- negative fair value	X			
3) Currency and gold				
- notional value	X	942,522		
- positive fair value	X	935,711		
- negative fair value	X	4,086		
		2,725		
4) Commodities				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
Contracts falling under netting agreements				

(CONT'D)

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
1) Debt securities and interest rates				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
2) Equity securities and stock indices				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
3) Currency and gold				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
4) Commodities				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional value	X			
- positive fair value	X			
- negative fair value	X			

A.4 Residual life of OTC financial derivatives: notional values

(Values in thousand euros)

Underlying asset/Residual Life	Up to 1 year	More than 1 year to 5 years	More than 5 years	Total
A. Regulatory trading portfolio				
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and stock indices		12		12
A.3 Financial derivatives on exchange rates and gold	935,711			935,711
A.4 Financial derivatives on commodities				
A.5 Other financial derivatives				
Total 12.31.2021	935,723			935,723
Total 12.31.2020	–			–

1.3.2 Accounting hedges

Qualitative information

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

Quantitative information**Financial derivatives held for hedging****A.1 Financial derivatives held for hedging: notional end-of-period values***(Values in thousand euros)*

	Total 12.31.2021			Total 12.31.2020		
	Over the counter		Organized markets	Over the counter		Organized markets
	Central counterparties	Without central counterparties		Central counterparties	Without central counterparties	
		With netting agreements	Without netting agreements		With netting agreements	Without netting agreements
1. Debt securities and interest rates						
a) Options						
b) Swaps						
c) Forwards						
d) Futures						
e) Others						
2. Equity securities and stock indices						
a) Options						
b) Swaps						
c) Forwards						
d) Futures						
e) Others						
3. Currency and gold		688,908				
a) Options						
b) Swaps						
c) Forwards		688,908				
d) Futures						
e) Others						
4. Commodities						
5. Others						
Total		688,908				–

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

(Values in thousand euros)

	Total 12.31.2021			Total 12.31.2020		
	Over the counter		Organized markets	Over the counter		Organized markets
	Central counterparties	Without central counterparties		Central counterparties	Without central counterparties	
		With netting agreements	Without netting agreements		With netting agreements	Without netting agreements
1. Positive fair value						
a) Options						
b) Interest rate swaps						
c) Cross currency swaps						
d) Equity swaps						
e) Forwards			13			
f) Futures						
g) Others						
Total			13			–
2. Negative fair value						
a) Options						
b) Interest rate swaps						
c) Cross currency swaps						
d) Equity swaps						
e) Forwards			4,814			
f) Futures						
g) Others						
Total			4,814			–

A.3 OTC financial derivatives: notional values, positive and negative gross fair value by counterparties

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not falling under netting agreements				
1) Debt securities and interest rates				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
2) Equity securities and stock indices				
- notional value	X	688,908		
- positive fair value	X	13		
- negative fair value	X	4,814		
3) Currency and gold				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
4) Commodities				
- notional value	X			
- positive fair value	X			
- negative fair value	X			
5) Others				
- notional value	X			
- positive fair value	X			
- negative fair value	X			

(CONT'D)

(Values in thousand euros)

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts falling under netting agreements				
1) Debt securities and interest rates				
- notional value				
- positive fair value				
- negative fair value				
2) Equity securities and stock indices				
- notional value				
- positive fair value				
- negative fair value				
3) Currency and gold				
- notional value				
- positive fair value				
- negative fair value				
4) Commodities				
- notional value				
- positive fair value				
- negative fair value				
5) Others				
- notional value				
- positive fair value				
- negative fair value				

A.4 Residual life of OTC hedging financial derivatives: notional values

(Values in thousand euros)

Underlying asset/Residual Life	Up to 1 year	More than 1 year to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equity securities and stock indices				
A.3 Financial derivatives on currencies and gold	688,908			688,908
A.4 Financial derivatives on commodities				
A.5 Other financial derivatives				
Total 12.31.2021	688,908			688,908
Total 12.31.2020	–			–

1.4 Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is defined as the risk that the Group will be unable to meet its obligations at maturity and/or that it will have to bear non-market financing costs in relation to an unbalanced net financial position due to the inability to raise funds (funding liquidity risk) or due to the presence of limits on the disposal of assets (market liquidity risk), forcing the Group to slow or halt the development of its business, or sustain excessive funding costs to meet its obligations, with significant negative impacts on the profitability of its activities.

As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the Group adopted a Group Risk Management Policy and a Group Treasury and Finance Regulation, with a view to monitoring liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.

To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

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

Liquidity risk stress tests are performed to assess the potential impact of stress scenarios on the Group's solvency conditions.

The documents governing the matter are the "Group Liquidity Risk Management Policy", approved by the Board of Directors, with the aim of defining the guidelines for liquidity management and the documents to be adopted in a state of liquidity crisis (Contingency Funding and Recovery Plan), transposing the latest regulatory updates (see Bank of Italy Circular 285/2013). As part of the Risk Appetite Framework specific liquidity metrics have been defined, both regulatory, Liquidity Coverage Ratio - LCR and Net Stable Funding Ratio - NSFR, and internal, "minimum cumulative balance on total assets", calculated as the lowest weekly value in the quarter of reference of the ratio of the minimum cumulative balance recorded in the time periods within one month to the total assets of the last available group, in order to better represent the Group's operational reality.

Liquidity monitoring, which is carried out in accordance with the maximum risk tolerance threshold, and therefore also with the nature, objectives and operational complexity of the Group, aims to ensure the ability to meet expected or unforeseen cash payment commitments.

Liquidity risk also includes the intraday risk deriving from the temporal mismatch between outflows (settled at daily cut-offs or when orders are received from customers) and inflows (settled at different intraday cut-offs), which may render it impossible for the Bank to discharge its payment obligations when they are called in due to a temporary lack of funds. To hedge intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities necessary to meet requirements for intraday and periodic refinancing from central banks.

The Group's liquidity position, which is healthy and constantly monitored, has always remained solid thanks to the extensive availability of liquid reserves and the stability of funding, so that the liquidity indicators – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) – show values as at December 31, 2021 of 274.066% and 203.857%, respectively, well above the regulatory limits.

Impacts of the COVID-19 pandemic

In light of the business model, the COVID-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

Quantitative information

1. Time breakdown by contractual residual maturity of financial assets and liabilities

Currency of denomination: EUROS

(Values in thousand euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
On-balance sheet assets										
A.1 Government Securities	9		460		166,824	456,803	1,274,636	2,639,502	1,110,002	
A.2 Other debt securities				1				4,500	3	
A.3 Units of UCIs	32,399									
A.4 Loans	2,092,338	96,040	171,780	331,609	303,535	47,659	47,164	91,336	96,309	155,885
- banks	8,553	42,616	79,250	47,848	69,975					155,885
- customers	2,083,785	53,424	92,530	283,761	233,560	47,659	47,164	91,336	96,309	
On-balance sheet liabilities										
B.1 Deposits and current accounts	6,390,818	154,401	2,488	8,157	18,824	23,090	30,832	39,406		
- banks	534,018	150,155								
- customers	5,856,800	4,247	2,488	8,157	18,824	23,090	30,832	39,406		
B.2 Debt instruments					105,812	44,337		38,969		
B.3 Other liabilities	916,295	1,067,204		51,323						
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- long positions		112,377	188,537	503,279	6,051			15,000		
- short positions		101,823	82,980	737,932	6,051			15,000		
C.2 Financial derivatives without exchange of capital										
- long positions										
- short positions										
C.3 Deposits and loans to be collected										
- long positions	3,941,570									
- short positions		3,941,570								

(CONT'D)

Currency of denomination: EUROS

(Values in thousand euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
C.4 Commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees issued								49		
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

Currency of denomination: OTHER CURRENCIES

(Values in thousand euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
On-balance sheet assets										
A.1 Government Securities				29		29	58	132,439		-
A.2 Other debt securities										
A.3 Units of UCIs										
A.4 Loans	85,634	37	158	1,166	7,167	32,954	31,745	111,026	534,277	-
- banks										
- customers	85,634	37	158	1,166	7,167	32,954	31,745	111,026	534,277	-
On-balance sheet liabilities										
B.1 Deposits and current accounts	1,093,776	43	161	501	5,571	4,618	5,363	13,367		-
- banks	109,671		119		546					-
- customers	984,104	43	41	501	5,026	4,618	5,363	13,367		-
B.2 Debt instruments										-
B.3 Other liabilities	1									-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										-
- long positions		86,804	83,621	739,292	6,051					-
- short positions		98,151	189,659	507,951	6,051					-
C.2 Financial derivatives without exchange of capital										
- long positions										
- short positions										
C.3 Deposits and loans to be collected										
- long positions										
- short positions										

(CONT'D)

Currency of denomination: OTHER CURRENCIES

(Values in thousand euros)

Items/Time bands	On demand	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year to 5 years	More than 5 years	Indefinite duration
C.4 Commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with exchange of capital										
- long positions										
- short positions										
C.8 Credit derivatives without exchange of capital										
- long positions										
- short positions										

1.5 Operational risks

Qualitative information

A. General aspects, management processes and methods used to measure operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.

With regard to the Banking Group, exposure to this category of risk is generated predominantly by failure in work processes, in organization, governance - human errors, computer software malfunctions, inadequate organization and control measures - as well as by any loss of human resources in key corporate management positions. Exposure to operational risks deriving from external sources appears to be of negligible importance, partly due to the mitigation tools adopted to address such adverse events (such as, by way of example: the business continuity plan, data storage processes, back up tools, insurance policies, etc.).

The process adopted by the Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives with the aim of fostering the adoption of professional and responsible behaviour at all operational levels, as well as designing, implementing and managing an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted by the Group consists of five stages: (i) identification, (ii) measurement, (iii) monitoring, (iv) management and (v) reporting.

The stage of identifying operational risks involves collecting operational risk information through the consistent, coordinated treatment of all relevant sources of information. The goal is to establish a complete information base. The necessary information is internal loss data accompanied by all information relevant for management purposes and subjective assessments acquired through risk self-assessment and control processes. This information is collected based on specific classification models, designed to ensure a uniform representation of the data. The Identification stage consists of the following processes:

- ▶ identification of operational risks within company procedures (operational risk map for controls): this activity consists in identifying operational risk through an in-depth analysis of company organizational processes and the mapping of potential risks. The assessment approach is expressed by the process/activity owner – specified within the procedures – through a predominantly qualitative analysis, which allows the identification of the activities at risk, the controls, the level of risk associated with each activity at risk mapped in the operating procedures, and thus the actions to be taken in order to make the process as closely monitored as possible;
- ▶ Loss Data Collection (LDC): the operational risk measurement and management system defined by the Parent Company's Risk Management Function also allows the Group to have a database of operational losses generated by risk events (Event Type), useful for identifying risk factors, mitigation actions and retention and transfer strategies, as well as for the possible development over time of internal operational risk measurement systems;
- ▶ Risk Self Assessment (RSA): the Group performs an annual overall assessment of the level of exposure to Operational Risks using the RSA process. The Risk Self Assessment (RSA) is an annual self-assessment of the prospective exposure to the operational risk inherent in business processes, aimed at enhancing the perception of risk by the key figures (Business Experts) who govern the execution of these processes, taking into account the expected evolution of the business and the organizational and control measures already in place;
- ▶ identification of operational risks related to IT risk: furthermore, on an annual basis, in order to determine the exposure to ICT risk, the Bank has defined a specific model for the evaluation of IT risk that is in accordance with national and European legislation that responds to the needs for the identification of the specific risks inherent in the ICT sphere, internal or dependent on the outsourcers, and for the better qualification of operational risks through the evaluation of the specific elements involved in the automatic processing of information;
- ▶ identification of operational risks in connection with the introduction of relevant new products, activities, processes and systems. The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems, and mitigates the consequent operational risk that may arise through the preventive involvement of the corporate Control Functions and the definition of specific policies and regulations on various subjects and topics.
- ▶ identification of operational risks associated with Major Transactions (MT): the risk resulting from an MT is assessed by assessing the consistency of the MT's risk profile with the risk appetite defined in the RAF.

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

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

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

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

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

Impacts of the COVID-19 pandemic

In light of the business model, the COVID-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

Section 4 - Risks of the other companies

Qualitative information

The consolidated financial statements include the aggregated balance sheet items of BFF Bank S.p.A., BFF Finance Iberia and BFF Polska Group.

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

Part F - Information on Consolidated Equity

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

Section 1 - Consolidated shareholders' equity

A. Qualitative information

The equity of the Banking Group includes the aggregated share capital, reserves, revaluation reserves and profit for the period of the companies in the Group.

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by type of enterprise

(Values in thousand euros)

Items in shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	142,691				142,691
2. Share premium reserve	66,492				66,423
3. Reserves	166,904				166,904
4. Equity instruments					
5. (Treasury shares)	(7,132)				(7,132)
6. Valuation reserves:	5,269				5,269
- Equity instruments measured at fair value through other comprehensive income					
- Hedging of equity instruments measured at fair value through other comprehensive income					
- Financial assets (other than equity instruments) at fair value through other comprehensive income	211				211
- Tangible assets					
- Intangible assets					
- Hedging of foreign investments					
- Cash flow hedges	-				-
- Hedging instruments [undesignated elements]					
- Foreign exchange differences	(3,720)				(3,720)
- Non-current assets held for sale and discontinued operations					
- Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)					
- Actuarial gains (losses) relating to defined benefit plans	(190)				(190)
- Share of valuation reserves for equity investments measured at equity					
- Special revaluation laws	8,968				8,968
7. Profit (Loss) (+/-) for the period attributable to the Group and minority interests	197,372				197,372
Total	571,596				571,596

B.2 Valuation reserves of the financial assets measured at fair value through profit or loss: breakdown

(Values in thousand euros)

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Eliminations and adjustments from consolidation		Total 12/31/2021	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities										-
2. Equity securities	211								211	-
3. Loans										-
Total	211	-	-	-	-	-	-	-	211	-
Total 12.31.2020										-

Financial assets measured at fair value through OCI (HTC&S) are recognized at fair value. At the end of the year, the carrying amount of securities must be compared with the previous year's fair value changes, and any difference is recognized in the revaluation reserves of the balance sheet. At December 31, 2021 the Group no longer owned government bonds accounted for in the HTC&S portfolio. Indeed, the reserve refers to shares held by the Parent Company and measured at fair value in certain financial and non-financial companies for a total amount of roughly €3.5 million. For more details, please refer to the specific table in part B of the Balance Sheet Asset Item 30 "Financial assets measured at fair value through other comprehensive income".

B.3 Valuation reserves of the financial assets measured at fair value through other comprehensive income: annual changes

(Values in thousand euros)

	Debt securities	Equity securities	Loans
1. Opening balances	-	-	-
2. Positive changes			
2.1 Increases in fair value		211	
2.2 Value adjustments for credit risk		X	
2.3 Transfer to income statement of negative reserves following disposal		X	
2.4 Transfers to other equity items (equity securities)			
2.5 Other changes			
3. Negative changes			
3.1 Decreases in fair value			
3.2 Adjustments in value for credit risk			
3.3 Reclassification through profit or loss of positive reserves: on disposal		X	
3.4 Transfers to other net equity items (equity securities)			
3.5 Other changes			
4. Closing balances	-	211	-

B.4 Revaluation reserves on defined benefit plans: annual changes

IAS 19 envisages the booking of actuarial gains and losses on the statement of comprehensive income for the year of competence.

The results of the actuarial valuation reflect the impact of the provisions of Law 296/2006 and the computation, for IAS 19 purposes, refers solely to accrued employee severance benefits not transferred to supplementary pension funds or to the INPS Treasury Fund.

At December 31, 2021, this revaluation reserve is negative for €190 thousand.

Section 2 - Own funds and regulatory ratios

Scope of application of the regulation

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

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

In accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), the scope of consolidation at December 31, 2021 envisages that BFF Bank S.p.A. is the parent.

Own funds

Qualitative information

Own funds represent the first line of defence against risks associated with the complexity of financial activities and constitute the main reference parameter for the assessment of the Group's capital adequacy.

The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum mandatory capitalization in relation to the risks assumed.

The Group constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and Risk Committee created within the Board of Directors.

Own funds are the sum of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) capital, net of items to be deducted and IAS/IFRS prudential filters.

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

- ▶ paid-in share capital;
- ▶ reserves (legal reserve, extraordinary reserve, retained earnings reserve, stock option reserve, and financial instruments reserve);
- ▶ any undistributed portion of profit for the period;
- ▶ revaluation reserves (IASs/IFRS 9 transition reserve, reserve for actuarial gains/losses relating to defined benefit plans, and revaluation reserve for HTC&S securities);
- ▶ any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets, including any goodwill, as well as certain categories of tax assets should be deducted from these items in accordance with the requirements of CRR II.

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

The increase in BFF Banking Group's own funds compared to December 31, 2020 was mainly influenced by the acquisition and merger of DEPObank SpA into BFF Bank through the recognition in own funds of the profit for the period referring to the badwill generated, the net effect of the tax relief on goodwill of the Payments BU net of expenses incurred for Liability Management activities and the share of profit for the period necessary to distribute an amount of dividends equal to the total adjusted profit realized by the Group, in compliance with the Policy.

Quantitative information

Own funds of the Banking Group pursuant to the Consolidated Law on Banking are presented as follows.

(Values in thousand euros)

ITEMS/VALUES	Total 12/31/2021	Total 12/31/2020
A. Common Equity Tier 1 (CET1) pre-application of prudential filters	446,316	287,817
of which CET1 instruments subject to transitional provisions		
B. Prudential CET1 filters (+/-)		
C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)	446,316	287,817
D. Elements to be deducted from CET1	(63,483)	(36,675)
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	382,833	251,142
G. Tier 1 (Additional Tier 1 - AT1) inclusive of elements to be deducted and effects of transitional rules		
of which AT1 instruments subject to transitional provisions		
H. Elements to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier 1 (AT1) (G - H +/- I)		
M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules	98,224	98,224
of which T2 instruments subject to transitional provisions		
N. Elements to be deducted from T2		
O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions		
P. Total Tier 2 (T2) capital (M - N +/- O)	98,224	98,224
Q. Total Own Funds (F+L+P)	481,057	349,366

2.3 Capital adequacy

A. Qualitative information

Compliance with Group capital adequacy limits for the CET1 Capital Ratio, Tier 1 Capital Ratio, and Total Capital Ratio is constantly monitored by the relevant corporate bodies.

The CET1 Capital Ratio is the ratio of Common Equity Tier 1 capital to Risk-Weighted Assets.

The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to Risk-Weighted Assets.

The Total Capital Ratio is the ratio of Total Own Funds to Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005 "Banks' financial statements: layout and preparation", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).

The Group's total exposure to risks at December 31, 2021, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.

With regard to the Banking Group, the CET1 and Tier 1 Capital Ratio are 17.6% and the Total Capital Ratio is 22.2%.

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

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

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

Credit risk

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

Counterparty risk

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.

For BFF, counterparty risk can be generated by repurchase agreements and derivatives. Counterparty risk is measured using the original exposure method.

Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, losses caused by

fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.

Operational risk, therefore, refers to various types of events that would not be significant unless analyzed together and quantified for the entire risk category.

The Group measures operational risk using the “Basic” approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statement items of the last three years, in accordance with Regulation (EU) No. 575/2013.

Continuing the developmental path of the Group’s Operational Risk Management framework that was launched in recent years, in 2018 BFF Banking Group focused attention on strengthening the identification and forward-looking assessment components, along with introducing an internal statistical management model for quantifying exposure to operational risk. This was done for the purpose of verifying that the method used for regulatory purposes did value capital adequately against assumed and assumable risk. Actions carried out in regards to the scope of BFF, BFF Finance Iberia, and BFF Polska Group (and of its subsidiaries) focused on the methodological evolution of the Risk Self Assessment process, in order to use the output from this process to quantify the exposure to operational risk in economic and capital terms. The operational risk results obtained from the forward-looking assessment process have also been used for quantifying the adequacy of internal capital against operational risk for ICAAP purposes. Operating losses referring to 2021 were significantly lower than the capital requirement for operational risk and the requirement calculated at operational level in the 2020 ICAAP.

Market risk

Market risk is the risk relating to positions held for trading, that is, positions intentionally held for sale in the short term, acquired in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.

The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio. The Group measures market risk using the “Standardized” approach.

Pillar II – The ICAAP/ILAAP Report

The supervisory regulations require intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Supervisory Authority’s responsibility to verify the reliability and accuracy of the results generated and, where necessary, to take appropriate corrective action.

BFF Banking Group annually submits the “ICAAP/ILAAP Report” to the Bank of Italy, thus providing an update on the internal processes for determining adequacy of capital and of liquidity risk governance and management systems of the Group. In accordance with prudential supervisory provisions, the Group has prepared the “ICAAP/ILAAP Report” approved by the BFF Board of Directors on June 30, 2021. The Report has been prepared in compliance with the new requirements introduced in 2018 by Circular No. 285. In particular, the updates involve, among other, regulatory changes in regards to “Prudential supervision” (Part I, Title III, Chapter 1), which are mainly linked to the introduction of (i) an internal process for determining the adequacy of the liquidity risk governance and management systems (“ILAAP” - Internal Liquidity Adequacy Assessment Process), (ii) new content in the area of internal processes for determining capital adequacy (“ICAAP” - Internal Capital Adequacy Assessment Process) and (iii) different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy.

These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) No. 468/2014, which include BFF Banking Group.

In relation to the "Supervisory Review and Evaluation Process" (SREP), the Group must comply with a CET1 Ratio of 7.85%, a Tier 1 Ratio of 9.65% and a Total Capital Ratio of 12.05%.

Quantitative information

The following table provides the capital requirements, at the reporting date, relative to the scope of consolidation of the Banking Group pursuant to the Consolidated Law on Banking. Note that at December 31, 2020 the coefficients shown below are pro forma as the CRR Group had BFF Luxembourg S.à r.l. in the top position.

(Values in thousand euros)

Categories/values	Non-weighted amounts		Weighted amounts / requirements	
	12.31.2021	12.31.2020	12.31.2021	12.31.2020
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized methodology	11,261,862	6,092,559	1,525,292	1,208,030
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			122,023	96,642
B.2 Credit valuation adjustment risk			1,207	
B.3 Settlement risks				
B.4 Market risks				
1. Standard methodology			262	
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			50,199	32,613
2. Standardized methodology				
3. Advanced method				
B.6 Other calculation factors				
B.7 Total prudential requirements			173,691	129,256
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk-weighted assets			2,171,134	1,615,694
C.2 CET 1/Risk-weighted assets (CET1 capital ratio) (%)			17.63%	15.54%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)			17.63%	15.54%
C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) (%)			22.16%	21.62%

Part G - Business combinations of companies or business units

Section 1 - Transactions completed during the year

On May 13, 2020 BFF signed a binding agreement governing the acquisition from Equinova UK Holdco Limited³ ("Equinova") of control of DEPObank and the subsequent merger by incorporation of the latter into BFF Bank S.p.A. (the "Operation").

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

On January 28, 2021, the Shareholders' Meeting met and, in an extraordinary session, approved the proposed merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. into Banca Farmafactoring S.p.A., then completed on March 5. On March 5, 2021 the merger by incorporation of DEPObank – Banca Depositaria Italiana S.p.A. into Banca Farmafactoring S.p.A. was completed and Banca Farmafactoring changed its name to BFF Bank S.p.A. To ensure full continuity and efficiency, in addition to the high quality of service that characterizes the history of both companies, DEPObank's business has been merged into an independent division within BFF called Transaction Services.

From an accounting point of view, in accordance with the provisions of IFRS 3 revised ("Business Combinations"), following the merger transaction described above, the Purchase Price Allocation of DEPObank (PPA) was carried out in light of the investigations performed both in the preliminary phase conducted prior to the acquisition and based on the further assessments performed following the acquisition of the Bank. Specifically, the recognition of business combinations is governed by the international accounting standards IAS/IFRS issued by the IASB and endorsed by the European Commission, and specifically by IFRS 3 Business Combinations.

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

In accordance with IFRS 3, each business combination requires the identification of an acquirer. The latter must be identified in the entity that obtains control of another entity or group of businesses. The acquisition, and therefore the first-time consolidation of the acquiree, is accounted for on the date in which the acquirer obtains effective control of the business or the assets acquired. When the acquisition occurs through a single exchange transaction, the exchange date generally coincides with the acquisition date. However, it is always necessary to verify the existence of any agreements between the parties which could involve a transfer of control before the exchange date. The consideration transferred in a business combination is measured as the sum of the fair value, at the exchange date, of the assets sold, the liabilities incurred or assumed, and the equity instruments issued by the acquirer in exchange for control.

Business combinations are accounted for using the “acquisition method”, which requires identifiable assets acquired (including any intangible assets not previously recognized by the acquiree) and liabilities assumed (including contingent liabilities) to be measured at their fair values at the acquisition date.

The accounting for a business combination can be made on a provisional basis by the end of the year in which the combination is effected, but must be perfected within 12 months of the acquisition date.

As defined above, as a general rule IFRS 3 requires business combinations to be accounted for using the acquisition method. To apply this method, BFF Bank worked through the following stages:

- ▶ identification of the acquirer;
- ▶ determination of the acquisition date;
- ▶ recognition and measurement at fair value of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- ▶ determination of the consideration for the business combination;
- ▶ recognition and measurement of goodwill or a gain from a favorable deal.

Since the conclusion of the PPA process carried out, it was found that against a fair value of the assets acquired of €379.1 million, the Bank recognized a price of €293.9 million, to which €8.3 million should be added to account for the earn-out considered certain, the relative payment of which is expected for the years 2027-2039, when the savings will actually be realized.

In carrying out the PPA:

- ▶ several specific items were derecognized, such as intangible assets and the relative associated deferred tax liabilities;
- ▶ no contingent liabilities were identified;
- ▶ a category of intangibles was identified relating to customer relationships in the two DEPObank operating segments (Securities Services and Payments);
- ▶ assets linked to receivables (Financial assets measured at amortized cost) were restated at fair value; as part of the restatement at fair value of the receivables portfolio, the fair value of the receivables was assumed to be that expressed in the explanatory notes to the financial statements;
- ▶ the carrying amount of the equity investment in Unione Fiduciaria was confirmed on the basis of an estimated fair value which led to the confirmation of the previous carrying amount;
- ▶ the other balance sheet items at the acquisition date were not adjusted, as they are represented by cash and equivalents and working capital assets / liabilities, whose carrying amount already constitutes a measure of fair value (as they are short-term items);
- ▶ tax liabilities (DTL) were recognized linked to the new intangibles recognized and latent capital gains on the receivables portfolio, considering the marginal tax rate (IRES + IRAP) of 33.07%.

The acquisition of DEPObank thus generated a negative surplus (Badwill) equal to €76.9 million recorded in the Financial Statements under the item "230 Other operating expenses and income". This value derives from the lower price paid for the purchase of DEPObank's equity investment than the Net Equity expressed at fair value at the time of closing.

For more information, refer to the following table:

(Values in thousand euros)

Shareholders' equity post account closing	421.7
Reversal Intangible Assets net of tax effects	(97.0)
New Intangible Assets (Customer List) net of tax effects	18.8
HTC fair value adjustment net of tax effects	35.6
Fair Value Assets Acquired	379.1
Acquisition price including earn-out	(302.2)
Badwill	76.9

The Bank also made use of the option permitted by Italian Decree-Law no. 104 of August 14, 2020, which provides for the possibility for IAS/IFRS subjects to realign the tax values of the assets that are recorded in the 2019 and 2020 financial statements to their higher book value, with the payment of a substitute tax at a rate of 3%.

With regard to this latter aspect, note that the Bank proceeded with the tax realignment of the value of the goodwill of the Payments cash generating unit, amounting to €81.0 million present in the Financial Statements of the former DEPObank. This transaction resulted in a net tax benefit of €23.7 million. At the same time, as set forth by regulations, part of the equity reserves were subject to a tax suspension restriction, in an amount equal to the higher realigned value (net of the relative tax of 3%), or for €76.6 million.

Lastly, with reference to the special provisions on the realignment of the higher accounting values with respect to tax values pursuant to art. 15, paragraph 11 of Decree-Law no. 185 of November 29, 2008 (hereinafter, the "Realignment") and following the outcome of the request made concerning the applicability of that regulation to the higher value recognized on the HTC securities portfolio acquired following the merger with DEPObank, in 2022 the Bank will pay substitute tax on the higher value at December 31, 2021 by way of exemption from the ordinary rules that establish the tax neutrality of the Merger and the resulting need to neutralize the effects of the Misalignment between the statutory value and the tax value by recognizing deferred tax liabilities. The effect of this transaction, recognized in the 2021 Financial Statements, led to a tax benefit of roughly €3.7 million.

Finally, note that to implement this merger the Group allocated approximately €35 million in transaction and integration costs, of which approximately €24 million were already committed at December 31, 2021, equal to 69%.

Part H - Transactions with related parties

Related parties, as defined by IAS 24, include:

- ▶ The parent company;
- ▶ Subsidiaries;
- ▶ Directors and executives with key management responsibilities and their close family.

The following table provides the income and balance sheet amounts arising from related party transactions performed by the Group at December 31, 2021, broken down by type of related party pursuant to IAS 24, and the percentage to their respective financial statement item.

(Values in thousand euros)

	Parent company	Directors and Executives with key management responsibilities ¹	Other related parties	Total related parties	Balance sheet item	% of financial statement item	Cash flow statement item	% of cash flow statement item
Impact of transactions on the consolidated balance sheet								
<i>Equity investments</i>								
At 12/31/2021			8,564	8,564	13,484	63.5%	(13,397)	63.9%
<i>Payables due to customers</i>								
At 12/31/2021		(1,916)		(1,916)	(9,029,014)	0.0%	4,596,116	0.0%
<i>Provision for risks and charges:</i>								
<i>a) pension and similar obligations</i>								
At 12/31/2021		(1,149)		(1,149)	(6,133)	18.7%	435,840	0.3%
<i>Other liabilities</i>								
At 12/31/2021		(986)		(986)	(460,856)	0.2%	435,840	0.2%
<i>Reserves</i>								
At 12/31/2021		(3,756)		(3,756)	(166,904)	2.3%	435,840	0.9%
Impact of transactions on the consolidated income statement								
<i>Interest expenses and similar charges</i>								
At 12/31/2021		(6)		(6)	(34,999)	0.0%	–	
<i>Administrative expenses:</i>								
<i>a) personnel expenses</i>								
At 12/31/2021		(7,641)		(7,641)	(71,245)	10.7%	–	
<i>Net provisions for risks and charges</i>								
At 12/31/2021		(679)		(679)	(277)	245.3%	(277)	245.3%

1) Including members of the Board of Directors.

At December 31, 2021 the option rights relating to the outstanding stock option plans were equal to 11,149,684 options awarded: if the price of the shares doubles (for example up to €15), the dilution would be 2.03%.

Specifically, at December 31, 2021, with regard to the 2016 stock option plan (according to which a total of 8,358,640 option rights had been assigned), the number of options assigned and not exercised amounted to 2,534,684 (6,830,198 at December 31, 2020). The vesting period has matured for 1,581,684 of these (3,626,068 at December 31, 2020).

With regard to the 2020 stock option plan, 8,615,000 options were assigned as of December 31, 2021 (compared to 6,620,000 options assigned as of December 31, 2020), none of which is yet exercisable.

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, 2021 are as follows:

BFF Finance Iberia (through the Spanish branch of BFF Bank): €161.4 million.

- ▶ BFF Polska: PLN 2,927 million, of which PLN 17 million through the Polish branch of BFF Bank and €500 thousand.
- ▶ BFF Central Europe: €178.4 million.
- ▶ BFF MedFinance: PLN 283 million, of which PLN 33 million through the Polish branch of BFF Bank.
- ▶ BFF Ceska Republika: CZK 37 million.

BFF Bank and BFF Finance Iberia have entered into a licence agreement. Such agreement allows the use, under license, of the software, organizational methods and communication lines of BFF Bank (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at December 31, 2021 amounted to about €1 million.

Moreover, as of 2021 BFF Bank has the following licence agreements in place:

- ▶ with BFF Central Europe, which allows the use, under licence, of the software, organizational methods and communication lines of BFF (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at December 31, 2021 amounted to about €241 thousand.
- ▶ with BFF Ceska Republika, which allows the use, under licence, of the software, organizational methods and communication lines of BFF (IT rights), as well as the assistance, maintenance and monitoring of such rights. The consideration is based on royalties, which at December 31, 2021 amounted to about €2 thousand.

There is an Intragroup Service and cost sharing agreement in place which focuses on service provision and optimal cost sharing between all Group companies and the branches of the Parent Company, between BFF Bank and:

- ▶ its foreign branches for a total of €359 thousand;
- ▶ BFF Polska S.A. for €479 thousand;
- ▶ BFF Finance Iberia S.A.U. for €252 thousand;
- ▶ BFF MEDFINANCE S.A. for €65 thousand;
- ▶ Kancelaria Karnowski for €57 thousand;
- ▶ BFF Central Europe s.r.o. for €69 thousand;
- ▶ Bff Ceska Republika s.r.o. for €16 thousand.

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

It should be noted that BFF Banks provides the following:

- ▶ Risk management activities for the subsidiary BFF Finance Iberia, for €12,000 per year;
- ▶ Internal audit activities for the subsidiary BFF Finance Iberia, for €6,400 per year;
- ▶ Administrative support services for Fondazione Farmafactoring, for consideration of €15 thousand per year.

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 Payments

A. Qualitative information

2016 Stock Option Plan

On December 5, 2016, the Bank's Ordinary Shareholders' Meeting approved the adoption of a stock option plan for employees and members of the corporate boards. The plan has the following features:

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

In line with current regulations, the options granted under the 2016 Plan contribute to the determination of the variable remuneration paid through the use of financial instruments; therefore, the plan is subject to all the restrictions established under the remuneration and incentive policy for members of the key supervision, management and control bodies, and personnel of the Banking Group, and in accordance with the law.

The vesting conditions of the options included in the plan are as follows:

- ▶ the options awarded in each tranche will vest starting from the twelfth month following the award, which is subject to a series of conditions detailed in the plan, and assuming:
 - (a) continuation of employment relationship with the Group and/or of the office held in the Board of Directors; and
 - (b) levels of capital and liquidity resources suitable to cover the activities undertaken and compliance with other parameters, also of a regulatory nature.

Note that the plan is subject to malus and clawback conditions: options are subject to ex post correction mechanisms (malus and/or clawback) which, when the pre-set circumstances arise, result in the loss and/or the restitution of the rights attributed by the plan.

At December 31, 2021 the number of stock options assigned and not exercised amounted to 2,534,684. The vesting period has matured for 1,581,684 of these, which are thus exercisable.

Furthermore, in 2021, 5,367,014 options were exercised in cash-less mode and 411,482 options exercised in ordinary mode, equivalent to 1,290,274 shares of the bank (of which 886,015 newly issued).

2020 Stock Option Plan

On April 2, 2020, the Ordinary Shareholders' Meeting approved a new Stock Option Plan ("2020 Plan") for employees and directors holding executive positions in the Company and/or its subsidiaries, having the following characteristics:

- ▶ *purpose*: the plan involves the award of a maximum of 8,960,000 options in three tranches; each one provides the beneficiary with the right to subscribe for newly issued ordinary shares of the Bank or shares that have already been issued and are included in the company portfolio when the option is exercised;
- ▶ *recipients*: the beneficiaries are identified by the Board of Directors and/or the CEO at their sole discretion – within the limits envisaged by the applicable legislation and the plan – among the employees and/or Directors with executive positions in the Company and/or its subsidiaries;
- ▶ *type of exercise*: ordinary or cashless exercise.

The options assigned within each tranche accrue upon completion of the vesting period, i.e. after 3 years from the relative assignment date. Vesting is subject to the following conditions being met: (i) The continuation of the employment relationship with the Group and/or of the office held in the Board of Directors and absence of notice due to resignation or dismissal; and (ii) Levels of capital and liquidity resources necessary to cover the activities undertaken and compliance with other parameters, also of a regulatory nature.

At December 31, 2021, 8,615,000 options were assigned under the 2020 Plan, none of which are exercisable.

Part L - Segment reporting

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

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

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

Factoring & Lending BU

Volumes and Loans to customers	FY'20	FY'21
Volumes	5,786	5,781
Italy	3,031	3,015
Spain	1,661	1,616
Poland	739	687
Slovakia	24	29
Portugal	248	304
Greece	65	91
France	15	35
Croatia	1	2
Czech Republic	3	2
Receivables due from customers	4,067	3,745
Italy	2,302	2,104
Spain	589	330
Poland	693	790
Slovakia	205	231
Portugal	217	207
Greece	54	70
France	4	10
Croatia	1	1
Czech Republic	2	2
Income Statement	FY'20	FY'21
Total net revenues	166.4	161.9
Direct costs	(33.9)	(37.4)
Net write-downs/write-backs on tangible/intangible assets	(0.7)	(1.4)
Net value adjustments/write-backs for credit risk	(3.2)	(0.7)
Net provisions for risks and charges	-	0.4
Profit (loss) before tax from continuing operations	139.1	122.8

Securities Services BU

Amounts managed, customers served, transactions executed and deposits	FY'20	FY'21
Custodian Bank (AuD, €m)	75,659	83,573
Fund Accounting (AuM, €m)	47,892	53,522
Transfer Agent (no. customers, #k)	2,147	2,175
Global Custody (AuC, €m)	144,592	172,625
Settlements (no. transactions, #k)	2,318	2,711
Deposits - Final Balance (€m)	7,614	6,092
Income Statement	FY'20	FY'21
Total net revenues	54.2	57.8
Direct costs	(28.6)	(28.6)
Net write-downs/write-backs on tangible/intangible assets	(1.4)	(0.2)
Net provisions for risks and charges	(0.6)	-
Profit (loss) before tax from continuing operations	23.6	29.0

Payments BU

Transactions executed and deposits	FY'20	FY'21
Interbank processing (no. trans. millions)	282	312
Settlements (no. transactions #m)	188	191
Cheques and bills (no. transactions #m)	36	26
Corporate payments (no. transactions #m)	56	61
Deposits - Final Balance (€m)	2,136	2,408
Income Statement	FY'20	FY'21
Total net revenues	50.0	62.1
Direct costs	(29.0)	(30.8)
Net write-downs/write-backs on tangible/intangible assets	(1.2)	(0.2)
Net provisions for risks and charges	(0.1)	-
Profit (loss) before tax from continuing operations	19.8	31.1

Part M - Lease Reporting

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

Based on this accounting model, the “right of use” is recognized in the balance sheet as an asset, and future payments relating to the same leased asset shall be entered as a liability. Any depreciation relating to the right-of-use asset, and any relevant interest expenses, shall be recognized in the income statement.

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

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

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

Section 1 - Lessee

Qualitative information

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

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

Quantitative information

BFF Banking Group's right-of-use assets accounted for as "Tangible assets" at first-time adoption and at December 31, 2021 are shown below.

(Values in thousand euros)

	Right of use 12/31/2021	Right of use 12/31/2020
BFF	13,793	4,089
BFF Finance Iberia	1,011	1,211
BFF Polska Group	1,486	1,483
Total BFF Banking Group	16,290	6,783

For more details on the accounting impacts related to Tangible assets and Financial liabilities measured at amortized cost, please refer to the specific section of Part B of the Explanatory Notes.

Section 2 - Lessor

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

Quantitative information

(Values in thousand euros)

Time periods	Total 12/31/2021	Total 12/31/2020
	Lease payments to be received	Lease payments to be received
Up to 1 year	312	421
More than 1 year to 2 years	312	244
More than 2 year to 3 years	286	228
More than 3 year to 4 years	264	209
More than 4 year to 5 years	209	185
Over 5 years	114	235
Total lease payments to be received	1,497	1,522
RECONCILIATION WITH FINANCING ACTIVITIES		
Financial gains not yet accrued (-)		
Unguaranteed residual value (-)		
Loans for leases	2,851	1,937

Other information

Audit fees to the independent auditors and other companies in their network.

The following table, prepared in accordance with Article 149-*duodecies* of the CONSOB Issuers' Regulation (resolution no. 11971 of May 14, 1999, as subsequently amended and supplemented), shows the fees pertaining to the year 2021 for audit and non-audit services provided by the audit firm and other companies in its network. Such fees represent the costs incurred and recorded in the consolidated financial statements, net of the reimbursement of expenses and non-deductible VAT and the CONSOB contribution.

(Values in thousand euros)

Type of services	BFF Bank S.p.A.						Companies of the Group					
	PwC S.p.A.		PwC Network		KPMG S.p.A.		KPMG Network		KPMG S.p.A.		KPMG Network	
	Italy	Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy	Italy	Outside Italy		
Accounting audit			176	102					195			
Certification services (*)			92									
Tax consultancy services									1			
Other services (**)	15	185	65		23	8						
Total	15	185	333	102	23	9			195			

(*) The amounts refer to the comfort letter issued for purposes of issuing the bond loans and the certifications regarding the Non-Financial Statement.

(**) The amounts refer to agreed audit procedures and due diligence activities and methodological support and assurance activities for the Regulator.





03

Certification
by the Financial
Reporting Officer

Report on Operations

Consolidated Financial
Statements



**Certification by the
Financial Reporting Officer**

Report of the
Independent Auditors

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

1. The undersigned

- ▶ Massimiliano Belingheri, in his capacity as Chief Executive Officer,
- ▶ Claudio Rosi, as Financial Reporting Officer of BFF Bank S.p.A.,

hereby certify, having taken into account the provisions of art. 154-bis, paragraphs 3 e 4, of legislative decree no. 58 of 24 February 1998:

- the suitability as regards the characteristics of the company, and
- the effective implementation of the administrative and accounting procedures employed to draw up the 2021 Consolidated Financial Statement.

2. The suitability and effective application of the administrative and accounting process employed to draw up the 2021 Consolidated Financial Statements was verified based on internally defined method adopted by BFF Bank S.p.A., in accordance with the *Internal Control – Integrated Framework model issued by Committee of Sponsoring Organizations of Tradeway Commission (COSO)* of the reference standards for the internal audit system generally accepted on an international level.

3. Moreover, the undersigned hereby certify that:

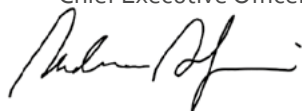
3.1 the Consolidated Financial Statement:

- a) was drafted in accordance with the applicable international accounting standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) corresponds to the results of the accounting books and records;
- c) is suitable for providing a true and fair view of the financial position of the issuer and all the companies included in the scope of consolidation.

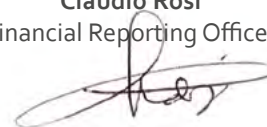
3.2 The report on operations includes a reliable analysis of the important events and their impact on the Consolidated Financial Statement, together with a description of the main risks and uncertainties to which they are exposed. The report on operations, moreover, a reliable analysis of the information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

Milan, 1 March 2022

Massimiliano Belingheri
Chief Executive Officer



Claudio Rosi
Financial Reporting Officer



04

Report
of the
Independent
Auditors







(The accompanying translated consolidated financial statements of the BFF Banking Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

BFF Banking Group

Consolidated financial statements as at and for the year ended 31 December 2021

(with independent auditors' report thereon)

KPMG S.p.A.
10 March 2022



KPMG S.p.A.
 Revisione e organizzazione contabile
 Via Vittor Pisani, 25
 20124 MILANO MI
 Telefono +39 02 6763.1
 Email it-fmauditaly@kpmg.it
 PEC kpmgspa@pec.kpmg.it

(The accompanying translated consolidated financial statements of the BFF Banking Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the BFF Banking Group (the "group"), which comprise the statement of financial position as at 31 December 2021, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the BFF Banking Group as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing 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 "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of BFF Bank S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

Ancona Bari Bergamo
 Bologna Bolzano Brescia
 Catania Como Firenze Genova
 Lecce Milano Napoli Novara
 Padova Palermo Parma Perugia
 Pescara Roma Torino Treviso
 Trieste Varese Verona

Società per azioni
 Capitale sociale
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 20124 Milano MI ITALIA



BFF Banking Group
Independent auditors' report
31 December 2021

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of late payment interest on performing loans and receivables acquired without recourse

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.16 "Other information - Revenue recognition criterion"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets measured at amortised cost"

Notes to the consolidated financial statements "Part C - Income statement: paragraph 1.2 "Interest income and similar revenue: other information"

Notes to the consolidated financial statements "Part E - Information on risks and related hedging policies ": paragraph 2.1.1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
<p>When measuring loans and receivables with customers acquired without recourse, the group includes the estimated late payment interest that is deemed to be recoverable, in line with Document no. 7 on the treatment of late payment interest under Legislative decree no. 231/2002 on performing loans and receivables acquired without recourse issued jointly by Bank of Italy, Consob (the Italian Commission for listed companies and the stock exchange) and IVASS (the Italian supervisory body for private insurance) on 9 November 2016.</p> <p>We focused on this issue because:</p> <ul style="list-style-type: none"> — the carrying amount of uncollected late payment interest is significant; — the parameters used to estimate such interest income require the use of statistically-reliable historical figures, based on cash flows and collection times observed at the reporting date; — it requires judgement by the directors. <p>For the above reasons, we believe that the recognition of late payment interest on performing loans and receivables acquired without recourse is a key audit matter.</p>	<p>Our audit procedures principally included:</p> <ul style="list-style-type: none"> — gaining an understanding of the parent's processes and IT environment in relation to the estimation of default interest; — analysing the late payment interest estimation models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures about late payment interest.



BFF Banking Group
Independent auditors' report
31 December 2021

Recognition of the business combination of DEPObank S.p.A. and purchase price allocation

Notes to the consolidated financial statements "Part A - Accounting policies":
paragraph A.1.5 "Other issues- Acquisition of DEPObank – Banca Depositaria Italiana S.p.A. - Merger into BFF Bank S.p.A."

Notes to the consolidated financial statements "Part A - Accounting policies":
paragraph A.2.16 "Other information – IFRS 3 – Business combinations"

Notes to the consolidated financial statements "Part G - Business combinations":
section G.1 "Transactions completed during the year"

Key audit matter	Audit procedures addressing the key audit matter
<p>In 2021, the group acquired DEPObank S.p.A. for €293.9 million (the "transaction") which was concurrently merged into the parent, BFF Bank S.p.A..</p> <p>Since this is a business combination, the parent's directors accounted for it in accordance with IFRS 3 and, therefore, they identified the acquisition date, calculated the purchase price and allocated it (purchase price allocation, or "PPA").</p> <p>The PPA procedure gave rise to a gain from a bargain purchase (negative goodwill) of €76.9 million, i.e., the difference between the consideration transferred in the business combination and the fair value of the assets acquired and liabilities assumed, which is recognised in the 2021 income statement.</p> <p>Due to the materiality of the transaction and considering that the PPA procedure required a high level of judgement of the directors, we believe that the recognition of the above business combination is a key audit matter.</p>	<p>Our audit procedures principally included:</p> <ul style="list-style-type: none"> — analysing the contract documents relating to the transaction; — checking the consistency of the accounting treatment applied by the group to the transaction with the IFRS; — checking, on a sample basis, the accuracy of the accounting records; — analysing the valuation approach, assumptions and methods used to measure the acquisition-date fair value of the assets acquired and liabilities assumed, with specific reference to loans and receivables with customers and banks, outstanding securities, amounts due to customers, deferred tax assets and identifiable intangible assets (customer contracts). We carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures about the above business combination.

Measurement of intangible assets with finite and indefinite useful lives

Notes to the consolidated financial statements "Part A - Accounting policies":
paragraph A.2.7 "Intangible assets"

Notes to the consolidated financial statements "Part A - Accounting policies":
paragraph A.2.16 "Other information – IFRS 3 – Business combinations"



BFF Banking Group
Independent auditors' report
31 December 2021

Notes to the consolidated financial statements "Part B - Notes to the statement of financial position - Assets": Section 10 "Intangible assets"

Notes to the consolidated financial statements "Part C - Notes to the income statement": section 15 "Amortisation and net impairment losses on intangible assets"

Notes to the consolidated financial statements "Part G - Business combinations": section G.1 "Transactions completed during the year"

Key audit matter	Audit procedures addressing the key audit matter
<p>As a result of certain business combinations carried out in previous years, the consolidated financial statements at 31 December 2021 include intangible assets with an indefinite useful life of €30.8 million, which mostly comprise goodwill of €22.1 million and €8.7 million arising from the acquisitions of BFF Polska Group and former IOS Finance (now merged into BFF Finance Iberia), respectively.</p> <p>Moreover, during 2021, further to the business combination with DEPOBank S.p.A. and the completion of the PPA procedure, the group recognised an intangible asset with a finite useful life of €25.7 million relating to customer relationships (customer contracts).</p> <p>Amortisation and net impairment losses relating to intangible assets with a finite useful life recognised in profit or loss during the year total €2.4 million and solely comprise amortisation charges.</p> <p>As disclosed in the notes, in accordance with IFRS 3, the directors allocated the intangible assets with finite and indefinite useful lives to certain cash-generating units ("CGUs") they identified.</p> <p>The directors tested the reporting-date carrying amount of goodwill for impairment by comparing the carrying amount of the CGUs to which the intangible assets with finite and indefinite useful lives were allocated to their recoverable amount.</p> <p>They estimated the recoverable amount based on value in use calculated using the discounted cash flow model.</p> <p>Impairment testing requires complex valuations and a high level of judgement, especially in relation to:</p> <ul style="list-style-type: none"> — the CGUs' expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of group's sector and the directors' forecasts about its future performance; 	<p>Our audit procedures principally included:</p> <ul style="list-style-type: none"> — understanding the process adopted to prepare the impairment tests approved by the parent's directors; — gaining an understanding of the process used to draft the group's long-term plan approved by the parent's directors; — checking any discrepancies between the previous year historical and business plan figures, in order to check the accuracy of the forecasting process; — analysing the criteria used to identify the CGUs and tracing the carrying amounts of the assets and liabilities allocated thereto to the consolidated financial statements; — assessing the main assumptions used by the directors to determine the CGUs' value in use. Our assessment included checking the consistency of the method adopted with that used in previous years and comparing the main assumptions used to the information acquired externally, where available; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for testing goodwill for impairment; — assessing the appropriateness of the disclosures about intangible assets with finite and indefinite useful lives and the related impairment tests.



BFF Banking Group
Independent auditors' report
 31 December 2021

Key audit matter

Audit procedures addressing the key audit matter

— the financial parameters to be used to discount the cash flows.

For the above reasons, we believe that the measurement of intangible assets with finite and indefinite useful lives is a key audit matter.

Other matters

Comparative figures

The group's 2020 consolidated financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 4 March 2021.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.



BFF Banking Group
Independent auditors' report
31 December 2021

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;



BFF Banking Group
Independent auditors' report
 31 December 2021

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level 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 identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate 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 determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 2 April 2020, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2021 to 31 December 2029.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The parent's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the consolidated financial statements to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the consolidated financial statements with Commission Delegated Regulation (EU) 2019/815.



BFF Banking Group
Independent auditors' report
31 December 2021

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all material respects, in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's reports on operations and on corporate governance and ownership structure at 31 December 2021 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the report on operations and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2021 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the report on operations and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2021 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of BFF Bank S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16.

We have checked that the directors had approved such consolidated non-financial statement.

In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Milan, 10 March 2022

KPMG S.p.A.

(signed on the original)

Roberto Spiller
Director of Audit

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