BFF BANKING GROUP

PILLAR III
PUBLIC DISCLOSURE

2019

BFF BANKING GROUP

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BFF BANKING GROUP

Introduction

The Basel Accords ("Basel III") developed by the Basel Committee were transposed into EU law and came into effect on January 1, 2014. These regulations aim to improve the banks' ability to absorb shocks arising from financial and economic stress, improve risk management and governance, and strengthen banks' transparency and disclosures.
Basel III was implemented in the EU through two distinct legislative acts:
- Regulation (EU) 575/2013 of June 26, 2013 (so-called CRR) - Part eight "Disclosure by institutions" (Articles 431 to 455) and Part ten, Title I, Chapter 3 "Transitional provisions for disclosure of own funds" (Article 492) - governing entities subject to prudential supervision (Pillar I) and disclosure requirements (Pillar III).
- Directive 2013/36/EU of June 26, 2013 (so-called CRD IV), governing, among other, access to the activity of credit institutions, freedom of establishment and freedom to provide services, prudential supervision and additional own funds requirements.

The above-mentioned European legislative package was transposed into Italian law pursuant to Bank of Italy's Circular 285 "Supervisory provisions for banks" of December 17, 2013, as subsequently amended, which implemented the provisions of the CRR and the CRD IV.

The Committee has also maintained the Basel II approach based on three "Pillars", integrating it to improve the quantity and quality of intermediaries' capital.
In particular:

- **Pillar I** defines the capital requirements that banks are required to comply with in order to address the typical risks of banking activities: credit risk (which also includes counterparty risk), market risk and operational risk.
  This aspect has been strengthened by introducing higher and better-quality capital and additional capital requirements for capital conservation, through new rules on liquidity risk management, both in the short term (Liquidity Coverage Ratio, LCR) and in the long term (Net Stable Funding Ratio, NSFR), and through the introduction of a leverage cap.

- **Pillar II** requires banks to adopt strategies, control processes and instruments to determine, in addition to the risks of Pillar I, current and prospective capital adequacy, charging the Supervisory Authority with the task of verifying the reliability and consistency of relevant results and to adopt, where necessary, the appropriate corrective measures. The BFF Group annually submits the "ICAAP/ILAAP Report" to the Bank of Italy, thus providing an independent assessment—on a current and prospective basis—on the adequacy of capital and of the liquidity risk management and governance system with respect to the risk assumed and the corporate strategies.

- **Pillar III** establishes 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. Also this aspect has been reviewed and additional transparency requirements have been introduced as well as more detailed information on the composition of regulatory capital and on the calculation methods the Banking Group shall use to determine capital ratios.

In accordance with Article 433 of the CRR, banks shall publish the disclosures required by EU legislation at least once a year, together with their financial statements.

To this end, the Banca Farmafactoring S.p.A.'s Board of Directors approved a dedicated "Procedure for Public Disclosure (Pillar III)".
According to this procedure, the Public Disclosure shall be:
- approved by the Board of Directors before it is made public;
- published on the website **www.bffgroup.com** (Investor Relations section) at least once a year, within the deadline established for the publication of the financial statements, thus within thirty days of the date of approval of the financial statements by the Shareholders' Meeting.

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

Banca Farmafactoring S.p.A. complies with the disclosure requirements on behalf of the Banca Farmafactoring Banking Group and prepares this document on a consolidated basis in accordance with the above-mentioned regulations. In accordance with the CRR, the scope of consolidation used solely for prudential supervision purposes envisages that BFF Luxembourg S.à r.l. is the parent. The relevant tables will therefore include, besides the figures of the Banking Group pursuant to the Consolidated Law on Banking, also the key figures of the CRR Group as notified to the Bank of Italy.
For the purposes of preparing the financial statements and Pillar III disclosure, the Banking Group pursuant to the Consolidated Law on Banking will continue to be used as reference for the tables that do not refer to prudential supervision reporting.

It is worth noting that:
- information on the risks to which the Banking Group is exposed and on the risk management and control policies is also provided in Part E of the Notes to the Consolidated Financial Statements at December 31, 2019;
- information on own funds and banking regulatory ratios for both the CRR Group and the Banking Group pursuant to the Consolidated Law on Banking is also published in Part F of the Notes to the Consolidated Financial Statements for 2019;
- information on governance is also shown in the "Report on Corporate Governance and Ownership Structures", published in the "Governance" section of the Banking Group's website **www.bffgroup.com**;
- information relating to the Banking Group's remuneration and incentive policies is also indicated in the "Remuneration Report" published in the "Governance" section of the Banking Group's website.

The Public Disclosure (Pillar III) is also certified by the Financial Reporting Officer, pursuant to Article 154-bis of Legislative Decree 58/98 (Consolidated Law on Finance).
This document includes 18 sections, describing qualitative and quantitative information at December 31, 2019. The sections without information content are not published.

All amounts are stated in thousands of Euro, unless otherwise indicated.

A summary statement of the sections required by the reference legislation, with the indication of the relevant information published in this document, is provided below.

Section	Description/Reference to CRR Articles	Qualitative information	Quantitative information	Page
1	Risk management objectives and policies - Article 435	x	n.a. (*)	7
2	Scope of application - Article 436	x	n.a. (*)	33
3	Own funds - Article 437	x	x	36
4	Capital requirements - Article 438	x	x	42
5	Exposure to counterparty credit risk - Article 439	x	x	48
6	Capital buffers - Article 440	x	x	49
7	Credit risk adjustments - Article 442	x	x	51
8	Unencumbered assets - Article 443	x	x	62
9	Use of ECAIs - Article 444	x	x	65
10	Exposure to market risk - Article 445	x	x	68
11	Operational risk - Article 446	x	x	70
12	Exposures in equities not included in the trading book - Article 447	x	x	74
13	Exposure to interest rate risk on positions not included in the trading book - Article 448	x	x	75
14	Exposure to securitization positions - Article 449	x	x	78
15	Remuneration policy - Article 450	x	x	80
16	Leverage - Article 451	x	x	94
17	Use of credit risk mitigation techniques - Article 453	x	x	98
18	NPE disclosure (EBA guidelines)	x	x	99

(*) "n.a." = "not applicable"

Section 1 - Risk management objectives and policies (Article 435 CRR)

Qualitative information

Introduction

BFF Banking Group adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed.
These measures are part of the governance of the organization and of the internal control system, aimed at ensuring management practices grounded in efficiency, effectiveness and fairness, covering every type of business risk, consistently with the characteristics, dimensions and complexity of the business activities carried out by the Group.
With this in mind, the Group has formalized its risk management policies and periodically reviews them to ensure their effectiveness over time. It constantly monitors the functioning of the risk management and control processes.

Such policies define:

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

The corporate boards of Banca Farmafactoring S.p.A.—as BFF Banking Group's Parent Company—define the risk management and governance 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 boards 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 corporate boards of the subsidiaries in the decisions concerning risk management procedures and policies.

Internal Control System

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

First-level controls (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.

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

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

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

At the Group level, the Risk Management Function and the Compliance and AML Function are part of the Internal Control System, and they cooperate in the process of defining and implementing the risk governance policies through an adequate risk management process, based on their respective responsibilities. Heads of second-level control functions have an appropriate position in the hierarchical structure and are not involved in the operational activities that are asked to control; their duties and related responsibilities are governed by specific internal function regulations.

In addition to other tasks, the Risk Management Function is responsible for:
- cooperating with the corporate boards in defining the overall risk management system;
- ensuring that each subsidiary has an adequate risk management system in line with the Group's strategy and policy and with the relevant reference legislation;
- providing the correct assessment of the capital absorbed, the relevant regulatory indicators, by defining processes and procedures to meet every type of current and future risk, taking into account strategies and context changes;

- overseeing the implementation of the Risk Management Process, as defined in the Group Risk Management Policy, and ascertaining that it is being complied with;
- checking the adequacy and effectiveness of the actions taken to resolve weaknesses found in the risk management system;
- submitting periodical reports to the corporate boards on the activities carried out and providing them with consulting support on risk management issues;
- measuring risks, including market risks, relating to transactions with related parties; verifying that the limits assigned to the various corporate structures are being observed; checking that the operations of the individual units are consistent with the risk appetite levels defined in the RAF.

The Risk Management Function is also responsible for an overall view of all the risks undertaken by the Group, and ensures to have internally available the specific expertise required for managing different types of risks, while fostering the promotion of a risk culture at the corporate level. Specifically the Risk Management Function:

- is responsible for the definition and update of the methodologies and instruments aimed at the identification, measurement, assessment, control, management and mitigation of Pillar I and Pillar II Risks to which Group's companies are exposed;
- is involved in the definition of the RAF, of the risk governance policies and of the various phases of the Risk Management Process, as well as the set up of the operating limits applied to the undertaking of the various types of risks. Within this scope, it is also responsible for proposing the quantitative and qualitative parameters necessary for the RAF definition, taking also into account stress scenarios, and, in the event of changes made to the bank's internal or external operating structure, adjustment to any new parameters;
- defines and implements the annual plan of activities and informs, on an annual basis, the Board of Directors of the Parent Company on the progress of these activities;
- monitors constantly the actual risk undertaken by Group's companies and its consistency with the risk objectives, as well as compliance with the operating limits applied to the undertaking of the different types of risks while concurrently optimizing the processes for capital allocation;
- ensures the updating of the Contingency Funding Plan and oversees the monitoring of all related contingency indicators;
- verifies the adequacy of the RAF and the operating limits defined therein, as well as the adequacy of the Risk Management Process;
- defines common metrics for the assessment and control of operating risks, in line with the RAF and in coordination with the Compliance and AML Function, and with the ICT Operating Unit;
- defines the methods for the assessment and control of reputational risks, coordinating its actions with the Compliance and AML Function and with the Corporate Structures that are more exposed to said risks;
- assists the corporate boards in assessing the strategic risk, monitoring any significant variables;
- ensures the consistency of all the systems for risk measurement and control with the methods for assessing corporate activities, in coordination with the involved Corporate Structures;
- develops, applies and ensures the application of the indicators that can identify any anomalous and/or ineffective situations in the risk measurement and control systems;
- analyses the risks related to new products and services and those resulting from the entry into new business and market segments;
- monitors the diversification of the portfolio at the Group level in order to avoid any excessive concentration of exposures;

- formulates preliminary opinions in accordance with the RAF of the Most Relevant Transactions, by acquiring, if necessary and according to the nature of the transaction, the opinion of other Functions, Operating Units and/or Departments involved in the Risk Management Process;
- checks the adequacy and effectiveness of the actions taken to resolve weaknesses found in the Risk Management Process;
- carries out second level controls on the guarantees acquired for the protection of credit exposure;
- assesses the consistency applied to the classification of performing and non-performing receivables;
- calculates adjustments to the Group's performing receivables in accordance with the logics defined in IFRS 9;
- assesses the congruity of generic and specific value adjustments made by the Group, as well as the adequacy of the credit recovery process;
- proposes to the Chief Executive Officer the definition of qualitative and quantitative criteria for Stage Allocation and ensures their monitoring;
- carries out a trend analysis aimed at assessing the qualitative development of the credit risk of each portfolio of the Group, consistent with the criteria set forth in IFRS 9;
- oversees and participates, in its capacity as a second level control function—and therefore separately from the operating units—in the development of the process for the determination of the fund internal transfer pricing, in line with the requirements of the Supervisory Provisions in force and taking into account the operating characteristics of the Group;
- prepares adequate Information flows to the corporate boards and to the other Corporate Control Functions of the Parent Company; in particular, the Head of the Risk Management Function informs the Head of the Internal Audit Function about any deficiencies that may be of interest for auditing activities.

In addition, the Risk Management Function is responsible for the Internal Capital Adequacy Assessment Process, (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) and acts as a structure providing planning, directives and coordination of these processes. Within this context, the Risk Management Function is responsible for:

- risk identification (and related sources) to be submitted for assessment based on analyses carried out on the applicable legislation, the reference market, operations and business lines;
- constant monitoring of the actual risk undertaken by the Group and its consistency with the risk objectives, as well as of the compliance with the operating limits applied to the undertaking of the different types of risks;
- identification and documentation of the differences between the regulatory methodologies and the methodologies used within the scope of Pillar II Risks, every time they are either being developed or revised;
- definition and application of stress test methodologies;
- measurement of the Internal Capital against any risk, and determination of the overall Internal Capital;
- drawing up of reports to be sent to the Organizational Units involved in the process;
- reconciliation of the overall capital with Own Funds, identifying, among the capital items deemed as appropriate for covering the overall Internal Capital, the items under Own Funds;
- identification and documentation of the composition of the overall available capital against the Internal Capital requirements, and assessment of the related coverage;
- drawing up of the documentation regarding the methods and models adopted, to be approved by the Board of Directors of the Parent Company;

- drawing up of the ICAAP/ILAAP Report;
- self-assessment in the ICAAP/ILAAP Report;
- monitoring of the planned activities and the time frames for improving the areas identified as vulnerable during the ICAAP/ILAAP self-assessment; it is also responsible for their full implementation.

Finally, the Risk Management Function, within the scope of the Recovery Plan, is responsible for:
- proposing the definition and the update of the overall structure of the recovery framework and the Recovery Plan, with the support of the Operating Units involved according to their different capacities;
- overseeing the proposal phase for the definition of the Recovery Plan, with reference to:
  - recovery indicators and related calibration thresholds to be included in the Recovery Plan;
  - recovery scenarios (definition of the qualitative and quantitative metrics);
  - assessment of the capital and liquidity impacts of the recovery options to be included in the Recovery Plan, in coordination with the Parent Company's Finance and Administration Department;
- coordinating the operating phases for the preparation and formalization of the Recovery Plan;
- communicating with the Bank of Italy on this topic, in particular as regards any clarifications or additions;
- monitoring the recovery indicators;
- supporting the CEO or a Director of the Board in the assessment and monitoring of the correct management of a crisis situation.

In addition to other tasks, the Compliance and Anti-Money Laundering Function is responsible for:
- identifying, on an ongoing basis, legislation applicable to the Group and assessing and measuring its impact on company processes and procedures, pinpointing the relevant company functions and structures and informing them on these issues;
- ensuring the mitigation of non-compliance risk, in order to avoid incurring legal and administrative sanctions, significant financial losses or reputational damage as a result of violations of mandatory provisions (laws, regulations) or internal regulations (e.g., bylaws, codes of conduct, corporate governance codes);
- identifying the risks of non-compliance arising from the introduction of new regulations, assessing in advance their potential impact on processes and procedures; monitoring the adoption of organizational adjustments (structures, processes, procedures) required to prevent the risk of non-compliance and verifying their effectiveness;
- cooperating in defining policies and procedures aimed at mitigating legal and reputational risks related to non-compliance with internal and external regulations and, where necessary, identifying appropriate improvement/corrective measures and verifying their adequacy and correct application;
- verifying the existence and reliability, on an ongoing basis, of procedures and systems that are appropriate to ensure observance of all legal obligations and those established by internal regulations and conflicts of interest vis-à-vis related parties;
- providing consulting and assistance to corporate boards on all issues for which non-compliance risk is relevant;
- cooperating in training employees;
- promoting a corporate culture based on the principles of honesty, correctness and respect of regulations;
- supporting corporate structures in defining methods to assess the risks of non-compliance with rules.

The Risk Management Function and the Compliance and AML Function—organizationally and functionally independent and distinct—report to the Chief Executive Officer. They are independent of the Internal Audit Function, and subject to its monitoring.

Internal audit activities are carried out by the Group's Internal Audit Function, directly reporting to the Board of Directors.
The Internal Audit Function carries out independent controls, not only at the Parent Company and at foreign branches but also at the subsidiary BFF Finance Iberia S.A.U., under a specific servicing agreement which governs the provision of the audit service. Furthermore, the Group's Internal Audit Function is in charge of the management and coordination of BFF Polska S.A.'s Internal Audit function, whose head directly reports to the Head of the Group's Function.
The function regulation approved by the Board of Directors specifies that the Internal Audit Function, within the third-level controls, evaluates the overall functioning of the internal control system and brings to the attention of the corporate boards any possible improvements, with particular reference to the RAF (Risk Appetite Framework), the process for the management of risks, and the tools for their measurement and control.
The Head of the Internal Audit function has the necessary autonomy and is independent of the operating structures, in compliance with Bank of Italy's regulation on internal controls, the Corporate Governance Code and internal regulations. The Head is also responsible for providing corporate boards with a multi-year audit plan which includes the activities mandatorily required under applicable regulations (remuneration policies and practices, significant outsourced functions, ICAAP, ILAAP, ICT, etc.) as well as the measures identified using a risk-based logic. The audit plan is subject to annual review. Generally, a quarterly report of audit measures implemented is prepared.

The Bank has an Organization, Management and Control Model pursuant to Legislative Decree 231/2001, consisting of a General Part and Special Parts which detail the operations, audits, and reporting mechanisms of each organizational unit/corporate body—including foreign branches—and it has set up a **Supervisory Body** that periodically monitors the model's adequacy through planned testing activities.
During the year, the Model is updated as per the resolutions passed by the Board of Directors, following an analysis of the most recently introduced types of criminal offenses, as well as to account for the Bank's organizational changes.

The Spanish subsidiary BFF Finance Iberia S.A.U. adopted its own Organization Model in accordance with Article 31-bis of the Spanish Penal Code, similar to the Italian Organization, Management and Control Model, and identified a Supervisory Body similar to that provided for by Italian regulations.
With regard to the Polish subsidiary BFF Polska S.A., in accordance with local regulations, specific anti-corruption guidelines have been adopted, with the identification of a specific, single-person body, represented by the local Compliance and AML Function of BFF Polska S.A.
Foreign branches adopts their own Protocol approved by the Parent Company's Board of Directors, which takes account of local regulations, too.

The Group has approved a Code of Ethics: this document defines the set of ethical values embraced by the Group and that allow, among other things, to prevent the criminal offenses as per Italian Legislative Decree 231/01.

Furthermore, the Parent Company and its subsidiaries have implemented a whistle-blowing process, which has been formalized through an appropriate procedure approved by relevant Bodies.

The management policies adopted for each risk category of the Banking Group are described in detail in the relevant sections below.

CREDIT RISK

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.
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.

Credit risk management policies

1. Organizational issues

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's ability to repay.
The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on June 24, 2019, and by the "Credit Regulation" of subsidiaries. A further organizational measure tackling credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the aforementioned "Credit Regulation".
Credit risk is therefore monitored at various levels within the framework of the multiple operating processes.

2. 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 Group's core business consists, as mentioned above, in the purchase of receivables on a non-recourse basis[1] due from debtors belonging to public administration agencies.

Based on the above, in particular, credit risk is linked to the possibility that an unexpected change in the creditworthiness of a counterparty, to which the Company is exposed, generates a corresponding decrease in the value of the credit position. It can be broken down as follows:
- **credit risk in the strict sense:** the risk of default of counterparties to which the Group is exposed, which is fairly limited considering the nature of the Group's counterparties, the majority of which are not subject to bankruptcy proceedings or other procedures that could undermine their substantial solvency;
- **dilution risk:** the risk that the amounts owed by the assigned debtor are reduced due to allowances or offsets arising from returns and/or disputes concerning the quality of the product or service or any other issue;

[1] For the purposes of classifying factoring transactions as "non-recourse" or "recourse", regardless of the contractual form, transactions involving the full transfer of the risks and rewards associated with the assets involved, pursuant to IAS 39 and the new standard IFRS 9 (derecognition), are considered as "non-recourse" transactions.
On the other hand, transactions that do not involve the aforementioned transfer of risks and rewards are considered as "recourse" transactions.

- **factorability risk:** the risk related to the nature and characteristics of the commercial relationship subject to factoring/sale, affecting the ability of the receivable sold to self-liquidate (e.g., risk of direct payments from the debtor to the potentially insolvent assignor);
- **risk of late payment:** the risk of a delay in the collection times of the receivables sold compared to those expected by the Group.

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

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

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

In the "receivables management only" service, credit risk is minor 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.

The 2016 acquisition of BFF Polska S.A. significantly contributed to the growth of the Group, which extended its business to Poland, Slovakia and the Czech Republic and at the same time diversified its range of financial services offered.
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 sectors.

Also with regards to the specific types of instruments of BFF Polska S.A. and its subsidiaries, credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin and receivables portfolio value. As a general rule, the Banking Group's customers have a suitable credit standing and, if necessary, adequate guarantees are requested to mitigate the risk of financial losses arising from customers' non-performance.
Exposure to customer credit risk is constantly monitored. The credit quality of public sector entities is analyzed within the framework of the risk of delay in repaying liabilities.

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.

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

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

In particular, BFF Banking Group applies the following weighting factors, for RWA calculation purposes:
- 0% for receivables due from government agencies and central banks with offices in a European Union member state and financed in the relevant local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish local entities and other local authorities as provided for by EBA lists "EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013" and "EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013";
- 2.94% for the pre-financing involving Cassa Compensazione e Garanzia's Guarantee Scheme (qualified counterparty) to secure repos;
- 20% for (i) exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the relevant 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 receivables due from private debtors (companies);
- 100% for property, plant and equipment, equity investments and other assets;
- 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% for deferred tax assets which have not been deducted from Own Funds.

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

Based on the method described above, the capital requirement for credit risk at December 31, 2019 is €160.6 million for BFF Banking Group.

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

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

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

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

3. 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 assessment");*
- *Receivables subject to specific adjustments.*

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

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

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

Receivables subject to generic adjustments ("collective impairment")

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

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modeling approach. Therefore, by analyzing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the 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;
- deterministic and stochastic EAD model, for which it is possible to define a multi-period distribution, as well as a 12-month horizon.

The risk parameters that are modeled to comply with the rationale of considering the full lifetime of the financial instrument are as follows:

- Multi-period PD;
- Multi-period LGD;
- Multi-period EAD.

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

Receivables subject to specific adjustments ("individual impairment")

As required by IAS 39 and in line with current supervisory provisions, the Group carried out a review of the assets classified as non-performing in order to identify any objective impairment of individual positions.

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

BFF Banking Group's impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €106.2 million—net of individual impairment—and are broken down as follows:

- €61.9 million NPLs;
- €9.5 million unlikely to pay exposures;
- €34.7 million impaired past due exposures.

As regards the impairment policies adopted, BFF Polska S.A. and BFF Finance Iberia S.A.U. 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.

4. Impaired financial assets

On July 24, 2014, the EBA published the "Final draft implementing technical standards on supervisory reporting on forbearance and non-performing exposures" (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for non-performing exposures and forbearance measures.

According to these definitions, adopted by the Bank of Italy with the seventh update to Circular no. 272 of January 20, 2015, impaired assets shall be classified as follows:
- Non-performing loans
- Unlikely to pay exposures
- Impaired past due exposures.

Non-performing loans

These are exposures to parties that are in a state of insolvency or in substantially similar situations, regardless of any loss projections recognized by the company.
At December 31, 2019, the total non-performing loans of BFF Banking Group, net of individual impairment, amounted to €61.9 million, of which €5.7 million purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial governments in financial distress amounted to €57.7 million, accounting for 93.0% of the total.
Gross non-performing loans amounted to €73.4 million; relevant impairment amounted to €11.5 million. Gross non-performing loans relating to BFF Polska Group amounted to €13.1 million; after impairment of €9.4 million, the net amount totaled €3.7 million. As far as BFF Finance Iberia S.A.U. is concerned, gross non-performing loans amounted to €117 thousand; after impairment of €89.9 thousand, the net amount totaled €27 thousand.

Unlikely to pay exposures

Unlikely to pay exposures reflect the judgment made by the Group about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments). Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor.
At December 31, 2019, gross exposures classified as unlikely to pay amounted to €11.8 million, of which €11.4 million attributable to BFF Polska Group, €201 thousand to Banca Farmafactoring S.p.A., and €450 thousand to BFF Finance Iberia. The total net amount was €9.5 million, mainly relating to BFF Polska Group.

Impaired past due exposures

These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. They were classified as impaired based on the Bank of Italy's Circular no. 272 of January 20, 2015.
More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to a Group company for more than 90 days. Measurement of such past due exposures is carried out at the portfolio level, since there are no objective indications of individual impairment.
At December 31, 2019, gross past due exposures relating to BFF Banking Group amounted to €34.8 million, after impairment of €0.1 million. Net past due exposures amounted to €34.7 million, of which 87.1% referring to public administration counterparties and public sector companies.
Banca Farmafactoring S.p.A.'s exposures totaled €30.6 million. Of such amount, €29.5 million (96.4%),

concerned Italian, Portuguese and Greek public administration agencies (largely local entities) and Italian public sector companies. For BFF Polska Group, net past due exposures amounted to €3.4 million. Net past due exposures of BFF Finance Iberia S.A.U. were 0.7 (entirely concerning public administration counterparties).

5. Securitization transactions

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

Information on the transaction with the vehicle BFF SPV S.r.l.

Strategies, processes and objectives

In July 2017, the private placement of a securitization transaction was concluded for €150 million—the maximum amount of the flexible senior note—with the aim of diversifying funding activities. It was renewed in December 2018.

Transaction details

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

The securitization structure provides for a revolving period during which sales of revolving receivables will be made against collections of the receivables in order to maintain the collateralization ratio provided for by the contract.

The revolving phase, started in September 2017 and originally valid through January 15, 2019, was renewed in December 2018: as a result, the revolving phase outstanding at December 31, 2018 is to end on February 17, 2020. On February 6, 2020, the revolving phase was once again renewed and it is to end on February 15, 2021.

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 Banking Group, the counterparty risk is marginal and generated by repurchase agreements with Cassa Compensazione e Garanzia as the counterparty. Counterparty risk is measured using the standardized method.

MARKET RISK

Market risk concerns 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 with reference to the regulatory trading portfolio. The Group measures market risk using the “Standardized” method.

INTEREST RATE RISK

For assessing interest rate risk, potentially linked to fluctuations in interest rates, the Group adopted the method used to determine internal capital set forth in Annex C of Bank of Italy’s Circular no. 285/2013 (Part I, Title III, Chapter I) and provided for by recent guidelines issued by the European Banking Authority (EBA)[2]. This method is applied monthly, in order to detect on a timely and ongoing basis any loss resulting from a market shock determined based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase) and ensuring that rates are not negative.

EXCHANGE RATE RISK

Exchange rate risk is represented by the Banking Group’s exposure to fluctuations in exchange rates, considering both positions in foreign currency and those including indexation clauses linked to changes in the exchange rate of a specific currency.

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

Therefore, the Group manages and monitors the risk associated with currency volatility. The Group has a specific internal regulation for the management of exchange risk referring to exposures arising from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency, and any other type of transaction in a currency other than the reference currency. Specifically, the Group operates under a natural hedging approach and has entered into hedging instruments to hedge exchange rate risk where the natural hedging strategy cannot be pursued and/or is not effective.

With regard to the acquisition of BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty was hedged by loan agreements secured with the Unicredit Group and the IntesaSanPaolo Group, so that the asset and liability positions offset each other and, consequently, there is an open currency position within the limits set by the Risk Appetite Framework approved by the Bank’s BoD.

[2] EBA/GL/2015/08: “Guidelines on the management of interest rate risk arising from non-trading activities”; EBA/CP/2017/19: “Consultation paper on the Draft Guidelines on the management of interest rate risk arising from non-trading book activities”.

The currency effect, recognized in the income statement, arising from the revaluation of the zloty loans payable, corresponds to a related effect with the opposite sign in consolidated equity (the so-called “Translation reserve”), which comes from the revaluation of the exchange rates applied to BFF Polska Group’s equity.

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

LIQUIDITY RISK

Liquidity risk is represented by the possibility that the Group may not be able to fulfill its payment obligations due to the inability to access funding in the financial markets, or because of restrictions on the disposal of assets. This risk is also represented by the inability to raise new financial resources adequate, in terms of amount and cost, to meet operating needs, which would force the Group to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profitability of its operations.

As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the Group adopted a Group Risk Management Policy and a Group Treasury and Finance Regulation, aimed at maintaining a high degree of diversification in order to reduce liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk. To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:
- separation of processes for the management of liquidity and processes for the control of liquidity risk;
- development of processes to manage and control liquidity risk, in line 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;
- consistency of liquidity risk management and monitoring processes with prudential supervisory requirements.

Liquidity risk stress tests were performed for assessing the potential impact of stress scenarios on the Group’s solvency conditions.
The LCR and NSFR of BFF Banking Group, at December 31, 2019, were equal to 476.9% and 106.6%, respectively.

MANAGEMENT OF ENCUMBERED ASSETS

BFF, in its capacity as the Parent Company, has adopted a specific policy for the management of encumbered assets of BFF Banking Group for the purpose of measuring and carrying out the necessary controls on said assets. Such policy governs the activities aimed at:
- defining the governance policies applicable to the liquidity risk resulting from the worsening of the credit quality of the encumbered assets;
- including in its own emergency plans (Contingency Funding and Recovery Plan) strategies aimed at managing the potential increase of the share of encumbered assets resulting from situations of high tensions, i.e. plausible, although unlikely, shocks, also taking into account, inter alia, the downgrading of the Bank's credit rating, the impairment of the pledged assets and the increase in margin requirements;

- ensuring that the corporate boards will receive timely information regarding, at least:
  - i) the level, development and nature of the encumbered assets and the sources of the encumbrance;
  - ii) the amount, the development and the credit quality of the unencumbered assets available for encumbrance, with an indication of the volume of assets available for encumbrance;
  - iii) the amount, the development and the nature of the encumbered assets resulting from the materialization of the stress scenarios (potential amount of encumbered assets).

BFF Banking Group monitors the so-called "Asset encumbrance ratio" (hereinafter also "AE ratio"), in order to observe the trend of exposure to the risk related to the amount of encumbered assets, which results from the non-availability of assets immediately transferable through sales, sales with repurchase agreement, collateralized loans or securitizations, determining:
- the share of unsecured assets available to creditors and depositors;
- the increase in the funding and liquidity risk, since the share of encumbered assets reduces the possibility of obtaining new secured deposits.

The AE ratio is defined as the ratio of the Group's encumbered receivables to total receivables.
Within the scope of the RAF, a specific operating limit has been set up, equal to 50%, defined as the maximum ratio of encumbered assets to total assets.

OPERATIONAL RISK

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.

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 behavior at all operational levels, as well as designing, implementing and managing an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted is of the "mixed" type, meaning a model based both on qualitative assessments—linked to process mapping, at-risk activities and the corresponding controls adopted—and on quantitative assessments.

Finally, for computing capital requirements for operational risk, the Banking Group uses the Basic Indicator Approach (BIA), according to which capital requirements are computed by applying a regulatory coefficient to an indicator of the volume of business activity (Relevant Indicator).

The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems, and mitigates the consequent operational risk that may arise through the preventive involvement of the Corporate Control Functions and the definition of specific policies and regulations on various subjects and topics.
In addition, in order to control the above mentioned risks, the Group adopts specific Organization Models for the management of the risks regarding money laundering, occupational health and safety, and information security.

OTHER COMPANIES' RISKS

The consolidated financial statements include the aggregated balance sheet items of Banca Farmafactoring S.p.A., BFF Finance Iberia S.A.U., the special purpose vehicle BFF SPV S.r.l., and BFF Polska Group.

The SPV, established for the securitization transactions structured by the Bank, was included in the scope of consolidation, pursuant to the requirements of IASs/IFRSs providing for the obligation to consolidate a special purpose entity when—absent an investment relationship—the company that prepares the financial statements substantially controls the special purpose entity.
These companies do not show further and relevant risk factors other than those mentioned in the preceding paragraphs.

Declaration and statement by the management body, pursuant to Article 435, paragraph 1, letters e) and f) of Regulation (EU) 575/2013

The Chief Executive Officer of Banca Farmafactoring S.p.A., Massimiliano Belingheri, as delegated by the Board of Directors, pursuant to Article 435, paragraph 1, letters e) and f) of Regulation (EU) 575/2013, declares that:

a) the risk management systems put in place by the Banca Farmafactoring Banking Group and described in this document "Pillar III – Public Disclosure – Year 2019" are adequate with regard to the profile and strategy of the bank;

b) in particular, this section "Risk management objectives and policies" succinctly describes the overall risk profile of the Banca Farmafactoring Banking Group.

Information on corporate governance (Article 435, paragraph 2, CRR)

1. BOARD OF DIRECTORS

A) Policy for the selection of Board of Directors' members and restrictions concerning the number of offices held at the same time

The Bylaws[3] state that the Bank is managed by a Board of Directors consisting of a number of members to be established by the Shareholders' Meeting at the time of appointment, which, in any case, shall be no less than 5 (five) and no more than 13 (thirteen). The Board of Directors' term of office lasts no more than 3 (three) years, as established at the time of appointment, and ends on the date of the Shareholders' Meeting convened to approve the financial statements relating to the last year of the Board's term of office; it may be re-elected.

The Board is composed of independent, executive and non-executive Directors.

In accordance with Article 15 of the Bylaws, the Board of Directors' members are appointed based on lists submitted by the shareholders; the composition of the Board of Directors ensures: *(i)* possession by all Directors of the requirements of integrity and professionalism provided for by current legislation; *(ii)* the presence of Independent Directors in a number at least equal to the minimum envisaged by regulations and legislation in force from time to time; *(iii)* the appointment of directors belonging to the less represented gender, at least to the minimum extent provided for by Law 120/2011; *(iv)* the presence of one Director from the minority list.

The meeting held on March 28, 2019 resolved, among other things, to approve the amendment to Article 15 of the Company Bylaws, in order to grant the outgoing Board of Directors the power to submit a list of candidates to appoint Board members.

In accordance with current legislation and regulations, the Board of Directors, supported by the Appointments Committee, both for the purpose of the appointment and the co-option of its members, defines—following the self-assessment process described below—the optimal qualitative and quantitative composition to effectively fulfill the tasks and responsibilities provided for by the law, the Supervisory Provisions and the Bylaws. In the "Regulation of the Board of Directors" (the **"Board Regulation"**)[4], the Board of Directors established the requirements to be met by BFF Directors, in addition to those provided for by current legislation[5], and expressed its opinion on the maximum number of offices the Directors may hold at other companies, in line with Article 91 of Directive 2013/36/EU of June 26, 2013.

Before the appointment of a new management body, the Board of Directors shall inform the Shareholders of its optimal composition in order to obtain a suitable Board composition in terms of expertise, experience, age, gender and internationalization. With the contribution of the Appointments Committee, for the purposes of the new appointment, the Board provides Shareholders with guidelines on selection of candidates for the position of Bank Director.

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[3] The Bank's Bylaws are available on the Bank's website at the following address: ***https://www.bffgroup.com/en/articles-of-association*** and include the composition of the Board of Directors under Article 14 et seq.

[4] The Board Regulation is available on the Bank's website at the following address: ***https://www.bffgroup.com/en/board-of-directors-regulation***.

[5] Reference is made to Article 147-ter, paragraph 4, and Article 148 of Legislative Decree 58/1998, as subsequently amended and supplemented (the **Consolidated Law on Finance**), and the provisions of Ministerial Decree no. 161 of March 18, 1998 (***"MD 161/1998"***) and Ministerial Decree no. 162 of March 30, 2000 ("DM 162/2000"), Article 36 of Decree-Law 201/2011 (the ***"Salva Italia" Decree*** establishing the prohibition of interlocking directorates), Article 26 of Legislative Decree 385/1993 (as subsequently amended and supplemented) and the Corporate Governance Code.

With a view to the appointment of the Bank's management body, which took place in 2018, the Board of Directors, with the support of the Appointments Committee and an external consultant, has identified the Board of Directors' optimal qualitative and quantitative composition and included this assessment in the "Guidelines on optimal qualitative and quantitative composition: information for Shareholders and the new Board of Directors" (the **"Guidelines for Shareholders"**)[6].

The term of office of the Board of Directors, appointed by the Shareholders' Meeting (the **"Shareholders' Meeting"**) on April 5, 2018, will last three years, ending on the date of the Meeting convened to approve the Financial Statements for the year 2020. From a quantitative standpoint, the Shareholders' Meeting followed the recommendations provided in the Guidelines for Shareholders, and reduced the number of Directors from ten to nine.

During the reporting period, and specifically on December 9, 2019, Luigi Sbrozzi resigned from his office as a Director and Vice Chairman.

On December 11, 2019, pursuant to Article 2386 of the Italian Civil Code, the Board of Directors co-opted Giorgia Rodigari to replace Mr. Sbrozzi. Federico Fornari Luswergh (Director) was appointed as Vice Chairman.

The current Board of Directors consists of the Directors listed below.

Salvatore Messina	Chairman
Federico Fornari Luswergh	Vice Chairman* - Independent Director
Massimiliano Belingheri	Chief Executive Officer
Isabel Aguilera	Independent Director
Gabriele Michaela Aumann	Independent Director
Ben Carlton Langworthy	Non-Executive Director
Carlo Paris**	Independent Director
Barbara Poggiali	Independent Director
Giorgia Rodigari***	Non-Executive Director

(*) He was appointed Vice Chairman of the Board of Directors on December 11, 2019 to replace Luigi Sbrozzi resigning from office (end of term of office on December 9, 2019).
(**) Director selected from the minority list.
(***) Director co-opted on December 11, 2019 to replace Luigi Sbrozzi resigning as Director (end of term of office on December 9, 2019); her appointment was confirmed by the Shareholders' Meeting held on April 2, 2020.

[6] The Guidelines for Shareholders are available on the Bank's website at the following address: ***http://investor.bffgroup.com/ita/documentazione-assembleare/assemblea-degli-azionisti-5-aprile-2018/***

For completeness purposes, it must be noted that some of the current members of the Board of Directors have already held the position of Board Directors at the Issuer before the afore-mentioned appointment. In particular: *(i)* Salvatore Messina, was appointed for the first time as a Director and Chairman of the Board of Directors of the Issuers on January 14, 2013; *(ii)* Massimiliano Belingheri was appointed for the first time as Non-Executive Director at the Issuer on December 19, 2006 and, on December 24, 2013, he was appointed Chief Operating Officer; *(iii)* Federico Fornari Luswergh was appointed for the first time as Director at the Issuer on April 24, 2010; *(iv)* Gabrielle Michaela Aumann was appointed for the first time as Board Director at the Issuer on December 21, 2015; *(v)* Ben Carlton Langworthy was appointed for the first time as Director at the Issuer on November 4, 2015.

As regards the qualitative aspect, at the time of appointment, the candidates to the Board of Directors, having acknowledged the instructions included in the Guidelines for Shareholder, also:
(i) declared that no reasons for ineligibility or incompatibility exist, and that they comply with the requirements provided for by application regulations and legislation;
(ii) provided comprehensive personal and professional information, also on their experience in the banking, financial and/or relevant sectors, as better indicated in the Guidelines for Shareholders and/or in the Board Regulation;
(iii) indicated any management and control positions held at other companies;
(iv) declared they could dedicate appropriate time needed for the complexity of the position.

On April 24, 2018, and with reference to Ms. Rodigari on December 11, 2019, the Board of Directors verified the correspondence between the optimal qualitative and quantitative composition and the one actually resulting from the appointment process. On this occasion, the Board of Directors also ascertained that each of its members, in addition to respecting the limits on the accumulation of offices, met the requirements of professionalism and integrity and did not hold positions at competing companies or groups of companies (also in compliance with Article 36 of Decree-Law 201/2011 establishing the prohibition of interlocking directorates). Possession of the independence requirements set forth in Articles 148 and 147-ter of the Consolidated Law on Finance and/or Article 3 of the Corporate Governance Code and concerning five Directors was also verified.

It should be noted that Salvatore Messina is qualified as an independent director pursuant to Articles 147-ter and 148 of the Consolidated Law on Finance. Gabriele Michaela Aumann, Barbara Poggiali, Isabel Aguilera, Federico Fornari Luswergh[7] and Carlo Paris declared to meet the independence requirements pursuant to Articles 147-ter and 148, paragraph 3, of the Consolidated Law on Finance and Article 3 of the Corporate Governance Code.

The composition of the current Board of Directors appointed on April 5, 2018 and integrated on December 11, 2019 - also with regard to the declarations made during candidacy - appears to comply with the applicable regulations and legislation on gender equality and independence. Subsequent to appointment, the existence of the aforementioned requirements is assessed on an annual basis by the Board of Directors as part of the self-assessment process regarding the size, composition and functioning of the Board, provided for by Circular no. 285 and the Corporate Governance Code, and governed by the "Regulations on the self-assessment process of the Board of Directors" adopted by the Bank (the ***"Self-Assessment Process"***).

[7] The Board concluded that the permanence in office of Mr. Fornari after 9 years does not affect his independence since he did not establish with the Company, or with any parties related to it, relationships that would impair his independent judgment, and concluded that all other criteria set forth in the Corporate Governance Code are met.

The Self-Assessment Process concerns aspects related to the composition and functioning of the Board and its internal Committees, taking into account, among other, the qualitative and quantitative composition, size, degree of diversity and professional expertise of its members, presence of non-executive and independent members, and the adequacy of the appointment process and selection criteria in order to identify any weaknesses, guarantee the most correct functioning over time and the consequent effectiveness of the body with strategic supervision function and the board committees, as well as to guarantee the effectiveness of governance that is duly based on the principles of sound and prudent management.

The Self-Assessment Process for the year 2019 generated an overall positive opinion and showed an evolution compared to 2018, with some recommendations for improvement, better specified in the "Report on Corporate Governance and Ownership Structure" for the year 2019[8], submitted to the Shareholders' Meeting convened to approve the financial statements for the year ended December 31, 2019.

The following table, updated at December 31, 2019, provides the number of offices held at other companies by the Board of Directors' members:

Director	Total number of offices held by Directors at other companies
Salvatore Messina	1 Non-Executive Office
Federico Fornari Luswergh	1 Executive Office
Massimiliano Belingheri	0
Isabel Aguilera	5 Non-Executive Offices[9]
Gabriele Michaela Aumann	0
Ben Carlton Langworthy	3 Non-Executive Offices
Carlo Paris	2 Non-Executive Offices
Barbara Poggiali	4 Non-Executive Offices
Giorgia Rodigari	2 Non-Executive Offices

B) CEO succession plan

On December 20, 2017, the Board of Directors approved the "CEO Succession Plan" (the **"Succession Plan"**), comprising: *(i)* the "Contingency Plan" aimed at identifying (a) the actions to be carried out immediately following permanent or temporary inability, and (b) the person appointed to temporarily replace the CEO, for the period necessary for the appointment of a new CEO in case of permanent inability, or until the end of the temporary inability; *(ii)* the "Succession Planning", which establishes the actions to be carried out for the identification and appointment of a new CEO in the event that permanent inability is ascertained.

[8] The "Report on Corporate Governance and Ownership Structure" for the year 2019 is available on the corporate website at the following address: ***https://it.bffgroup.com/en/shareholders-meeting-2-april-2020*** (the **"CG Report"**).

[9] Ms. Aguilera declared to be available to resign from the offices exceeding the number of offices provided for by regulations. However, the Board of Directors deemed as appropriate the number of assignments entrusted to Ms. Aguilera since *(i)* the companies where she is holding a non-executive director position operate in sectors related to her professional background and therefore do not require any additional work on her part in understanding their business; *(ii)* Making Science S.A. and HighTech Payment Systems S.A. - Morocco are planning a reduced number of Board meetings per year (respectively 4 and 2); *(iii)* Oryzon Genomics S.A. is qualifiable as a SME pursuant to the Recommendation (EU) 2003/361; *(iv)* her participation in the Board meetings of the companies, other than the Bank, in which she is a Board Director does not require any time-consuming travel.

The Appointments Committee verifies on an annual basis if it is necessary and/or appropriate to update the Succession Plan, and notifies the Board of Directors accordingly in order for the latter to pass the relevant resolutions.

On November 28, 2019, the Succession Plan was reviewed by the Board of Directors (after examination by the Appointments Committee), and no material amendments were made.

For more information, reference should be made to the CG Report.

C) Policy of diversity adopted in the selection of the Board of Directors' members, the relevant objectives and any targets established within the framework of such policy, and the extent to which such objectives and targets have been achieved

On September 28, 2018, the Board of Directors approved—based on the proposal by the Appointments Committee—the "Diversity Policy of the Board of Directors" (the "BoD Diversity Policy") and updated it on November 28, 2019.

Such Policy is subject to review and, if necessary, it is updated at least on an annual basis, including with the help of external professionals, based on the proposal of the Appointments Committee. Revisions comply with the outcome of the self-assessment process and are designed to reflect and introduce in advance changes in the Company, so that the identification of the Board composition requirements is consistent with the above outcome.

Reviews comply with the results of the Self-Assessment Process and aim at reflecting and anticipating company changes, so that the identification of the board composition requirements is in line with such results.

The BoD Diversity Policy defines the Board's optimal composition, in order for the latter to carry out its tasks effectively and take decisions based on qualified and diversified points of view.
In particular, the optimal Board composition shall meet at least the following criteria:

- (i) The number of Non-Executive and/or Independent Directors shall be adequate; in any case, the number of Independent Directors shall be equal to at least a quarter of the total number of members and a mixed composition shall be ensured within internal Committees.
- (ii) At least a third of Board members, both upon appointment and during the Board's term of office, shall belong to the less represented gender.
- (iii) Members' age shall be mixed, so that a variety of perspectives and managerial and professional experiences are covered.
- (iv) Members' seniority levels shall be balanced in order to have the right mix of continuity and "new blood" in management.
- (v) Because of the Group's international presence, at least a third of Directors shall have gained international experience (preferably, in the markets penetrated by the Group) in order to avoid the standardization of opinions and the "group thinking" phenomenon, among other things.

In general, Directors' profile at a managerial and/or professional and/or academic and/or institutional level should ensure a mix of diversified and complementary skills and experiences gained at least during a three-year period.

Notably, in relation to the Chairman of the Board of Directors and to the Chief Executive Officer, the BoD Diversity Policy establishes the requirements of professionalism that have to be gained during at least a five-year period.

Furthermore, as previously mentioned, in addition to the requirements of professionalism provided for by applicable provisions, Directors shall meet the requirements provided for by the Regulation of the Board of Directors.

In compliance with the provisions of the law and the Bylaws on the appointment of the Board of Directors and its Chairman by list submission, as well as with the Succession Plan, the BoD Diversity Policy is implemented in the following circumstances: *(i)* appointment of the Board of Directors, when the outgoing Board provides its guidelines on the Board optimal qualitative and quantitative composition; *(ii)* co-option; *(iii)* early termination of CEO's office; and *(iv)* appointment of the Chairman of the Board of Directors. The Self-Assessment Process is essential for the appointment of the Board of Directors and the co-option at points *(i)* and *(ii)* above.

Based on the Diversity Policy applicable to the Board of Directors and approved in the third quarter of 2018, subsequent to the renewal of the Board at the Shareholders' Meeting of April 5, 2018, the monitoring of the outcomes from its implementation has been carried out so far only as regards the appointment of a co-opted Director, Giorgia Rodigari, who meets all the diversity criteria and objectives set forth in the Diversity Policy of the Board of Directors. To this end and with regard to the composition of the Board of Directors, the following should be noted: *(i)* the number of Non-Executive and/or Independent Directors of the Board is unchanged; *(ii)* the number of Directors belonging to the less represented gender has been increased by one; *(iii)* the diversification in terms of age brackets within the Board of Directors is substantially unchanged as is the plurality of management and professional expertise, since the professional profile of Ms. Rodigari is comparable with that of the Director who resigned, also in terms of her experience at an international level.

The current Board of Directors includes:
(i) 5 (five) independent Directors, which constitute the majority of the Board of Directors;
(ii) 4 (four) female Directors and 5 (five) male Directors;
(iii) 5 (five) Directors residing abroad, of which 3 (three) Directors with non-Italian nationality representing one third of the Board of Directors' members.

On April 24, 2018, May 10, 2019, and on December 11, 2019 with reference to the co-opted Director, Giorgia Rodigari, the Board of Directors verified that Directors have at least one of the following skills:
a) adequate knowledge of the banking sector, its dynamics and of the economic and financial system, of banking and financial regulations and, above all, of the methodologies to manage and control risks, attained through several years of experience in administration, management and control in the financial sector;
b) experience gained in the management of operations aimed to facilitate the sale, management and collection of receivables, specifically involving entities providing healthcare services as well as public administration agencies;
c) entrepreneurial management and company organizational skills acquired through several years of experience in the administration, management or control of companies, or groups of significant size or in the public administration sector;

d) ability to read and interpret economic and financial data acquired through several years of experience in administration and control of companies or professional activities or university teaching jobs;
e) international experience and knowledge of foreign markets gained by carrying out entrepreneurial or professional activities at foreign institutions or entities, international companies or groups for several years.

The profiles of the candidates identified were reasonably complementary in terms of professional background and expertise, such as to ensure the development of internal dialog and the efficient functioning and overall suitability of the Board and the Board Committees for the fulfillment of relevant obligations.

2. CONTROL AND RISK COMMITTEE

A) Creation of a specific risk committee and number of meetings held

In accordance with the Supervisory Provisions and in line with the provisions of the Corporate Governance Code, the Board of Directors created a Control and Risk Committee (the **"CR Committee"**).

Pursuant to the "Regulations of the Control and Risk Committee", the CR Committee consists of 3 (three) members of the Board, all non-executive and most of them independent pursuant to the By-laws and the Board Regulation (i.e., pursuant to the Consolidated Law on Finance and the Corporate Governance Code). The CR Committee is chaired by an independent Director.

The CR Committee consisted of the independent Directors Gabriele Michaela Aumann (Chair) and Federico Fornari Luswergh and the non-executive Director Giorgia Rodigari, who replaced Luigi Sbrozzi after his resignation, as previously mentioned. Ms. Aumann (Chair) has adequate expertise in accounting and finance and/or risk management, as ascertained at the time of appointment by the Board of Directors.

The CR Committee submits proposals and provides advice to the Board of Directors in order to support, with adequate preliminary activities, the assessments and decisions of the Board of Directors regarding the Internal Control and risk management system (in relation to all activities necessary to correctly and effectively determine and apply the Risk Appetite Framework and risk governance policies) and periodic financial reporting.

The following parties are permanently invited to attend the meetings of the CR Committee:
- the Chairman of the Board of Directors, and
- the Chairman of the Board of Statutory Auditors, in order to ensure that at least one member of the control body is present.

The Chair of the CR Committee reports the outcome of each meeting to the Board of Directors at the first occasion.

The CR Committee met 16 times in 2019; the average duration of these meetings was 1 hour and 50 minutes.

For 2020, approximately 14 meetings have been scheduled, 4 of which have already been held on January 28, February 10 and 24, and March 24.

The information flow on risks addressed to the CR Committee is identified based on specific internal regulations and consists mainly of documents prepared by the Corporate Control Functions (i.e., the Internal Audit, Risk Management, Compliance and AML Functions) concerning the planning of activities and the related reporting (annual reports and quarterly dashboards, subsequently submitted to the Board and sent to the Bank of Italy), as well as other checks required by current legislation (reports on material risks assumed by the Bank and other Group companies, disclosure on checks concerning governance and risk management, report on important outsourced operating functions, the ICAAP Report, etc.).

B) Description of the information flow on risks addressed to the Board of Directors

The description of the information flow on risks addressed to the Board of Directors, subject to the Control and Risk Committee's assessment, is as follows:

Owner	Information flows	Frequency
Risk Management Function	Plan of activities	annual
	Report on activities	annual
	ICAAP/ILAAP	annual
	Risk Report Management	monthly
	Contingency Funding Plan	annual
	Recovery Plan	biennial
	Risk Management Function's Dashboard (Risk Report)	quarterly
Compliance Function	Plan of activities	annual
	Compliance Report	monthly
	Compliance Function's Dashboard	quarterly
	Disclosure concerning implementation of framework resolutions	quarterly
	Complaints Report	annual
	Annual Compliance Report	annual
AML Function	Report on checks*	semi-annual
	Report on activities	annual
Internal Audit Function	Plan of activities	annual/on multi-year basis
	Audit Report	on event basis
	Internal Audit Function's Dashboard	quarterly
	ICAAP/ILAAP Audit Report	annual
	Audit report on functions/important outsourced activities	annual
	Audit report on incentive and remuneration system**	annual
	Annual report on internal audit activities	annual
	Annual report on whistleblowing	annual
Supervisory Body	Report on activities	semi-annual
Board of Statutory Auditor	Statutory Auditor's opinions	on event basis
	Report on weaknesses found	on event basis

* This report is also submitted to the Chairman of the Board of Directors since he is responsible for monitoring suspicious transactions.
** The final recipient of this report is the Shareholders' Meeting.

Section 2 - Scope of application (Article 436 CRR)

Qualitative information

The disclosure requirements set out in this document, pursuant to Article 436 of the CRR, refer to the Banca Farmafactoring Banking Group, registered in the Register of Banking Groups, with Banca Farmafactoring S.p.A. as the Parent Company.
In accordance with the CRR, the scope of consolidation used solely for prudential supervision purposes envisages that BFF Luxembourg S.à r.l. is the parent. The relevant tables will therefore include both the key figures of the Banking Group pursuant to the Consolidated Law on Banking and those of the CRR Group as notified to the Bank of Italy.
For the purposes of preparing the financial statements and Pillar III disclosure, the Banking Group pursuant to the Consolidated Law on Banking (excluding BFF Luxembourg S.à r.l.) will continue to be used as reference for the tables that do not refer to prudential supervision.

The subsidiaries are companies controlled by the Group. The 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.
Group subsidiaries also include special purpose entities for which the Company is exposed to substantially all the risks and rewards deriving from their activities or those over which it exercises control. The existence of an equity investment in these special purpose entities is not relevant for this purpose.
All subsidiaries are consolidated on a line-by-line basis from the date on which control is transferred to the Group. Conversely, they are excluded from the scope of consolidation when such control ceases.
The financial statements and the notes of the companies which are consolidated on a line-by-line basis are prepared in compliance with the IASs/IFRSs used for the consolidated financial statements.

For the purposes of the financial statements, the scope of consolidation includes the aggregated figures from the balance sheet and income statement of Banca Farmafactoring S.p.A. (BFF), BFF Finance Iberia S.A.U. (a wholly-owned subsidiary of Banca Farmafactoring S.p.A.), the special purpose vehicle BFF SPV S.r.l., and the companies of BFF Polska Group, acquired on May 31, 2016.
The Banca Farmafactoring Banking Group is mainly engaged in the management and sale of receivables due to suppliers from the Public Administration and, more specifically, the national healthcare systems. The Group is active in Italy, Portugal, Greece, Croatia and France through Banca Farmafactoring S.p.A., in Spain through BFF Finance Iberia, and in Poland, the Czech Republic and Slovakia through BFF Polska and its associated companies.
Banca Farmafactoring S.p.A. also offers deposit products to its retail and corporate customers in Italy, Spain and Germany.
BFF Polska S.A. is an independent specialized operator, leader in the provision of financial services to companies operating in the healthcare sector in Poland, Slovakia and the Czech Republic.

BFF Polska mainly operates in three areas:

- financing the working capital of suppliers to the public administration;
- financing current and future receivables;
- financing investments in the public and healthcare sector.

Thanks to BFF Polska, the Banking Group operates in a position of leadership in the Polish alternative financing market (AFM) in the hospital area, where intermediaries compete with traditional bank service providers in financing healthcare entities. Other specialized operators are also active in this segment, and, in a limited manner, some traditional banks, too.
The acquisition of BFF Polska has made it possible to significantly develop the Group through exposure on growing markets and the creation of a platform functional to a possible gradual expansion into Eastern Europe and the acquisition of specific know-how for a potential expansion of the product portfolio and the range of services offered by the Group in the markets in which it operates.

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

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

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

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

Key information about the Group companies is provided in the following table.

Company name	Registered and operating office	Relation-ship type (1)	Investment relationship		Voting rights % (2)
			Investor	Invest.	
% Companies Consolidated line-by-line					
1. BFF Finance Iberia S.A.U.	Madrid - C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. BFF SPV S.r.l.	Milan - Via V. Betteloni 2	4	Banca Farmafactoring	0%	0%
3. BFF Polska S.A.	Łodz - Jana Kilińskiego, 66	1	Banca Farmafactoring	100%	100%
4. BFF Medfinance S.A.	Łodz - Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
5. BFF Česká republika s.r.o.	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o.	Bratislava - Mostova 2	1	BFF Polska S.A.	100%	100%
7. Debt-Rnt sp. Z O.O.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
8. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
9. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
10. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łodz - Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O.	99%	99%

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

Key:

(1) Relationship type:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = having a dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control
5 = centralized management as per Article 26, paragraph 1 of Italian Legislative Decree 87/92
6 = centralized management as per Article 26, paragraph 2 of Italian Legislative Decree 87/92

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

Quantitative information

All subsidiaries controlled by Banca Farmafactoring S.p.A. are included in the scope of consolidation.

Section 3 - Own funds (Article 437 CRR)

Qualitative information

Own Funds represent the first line of defense against risks associated with overall financial activities and constitute the main reference parameter for the assessment of the Group's capital adequacy.
The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum mandatory capitalization in relation to the risks assumed.
The Group constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and Risk Committee created within the Board of Directors.

Own Funds are the sum of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2) capital, net of items to be deducted and IAS/IFRS prudential filters.
The main components of the Group's Own Funds are computed in Common Equity Tier 1 (CET1), and are the following:

- paid-in share capital;
- reserves (legal reserve, extraordinary reserve, retained earnings reserve, stock option reserve, and financial instruments reserve);
- undistributed portion of profit for the year, if any;
- revaluation reserves (IAS/IFRS 9 transition reserve, reserve for actuarial gains/losses relating to defined benefit plans, and revaluation reserve for HTC&S securities);
- revaluation reserves: special revaluation laws;
- any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets, including goodwill, if any, are deducted from the above.

Additional Tier 1 (AT1) and Tier 2 (T2) capital include exclusively the non-controlling interests which can be recognized in consolidated Own Funds, in accordance with the CRR, Part 2, Title II "Minority interests and additional Tier 1 and Tier 2 instruments issued by subsidiaries".

The Own Funds of the Banking Group pursuant to the Consolidated Law on Banking, amounted to €399.8 million, net of the share of the profit of the year, allocated to dividends[10], in the amount of €12.4 million compared with €344.6 million at December 31, 2018.

The increase in BFF Banking Group's Own Funds, as compared to December 31, 2018, was mainly influenced by the allocation by the Bank of part of profit to Own Funds to the tune of €52.8 million, by

[10] As regards the distribution of the profit for the year 2019, during the Shareholders' Meeting of April 2, 2020 convened to resolve on this matter and transposing the resolution approved by the Board of Directors of the Bank on March 30, 2020 about aligning with the recommendation of the European Central Bank (ECB) and the Bank of Italy (addressed to all Italian banks) as regards the Health Emergency of COVID 19 – Coronavirus, and therefore not to undertake any irrevocable commitments for the payment of dividends for the years 2019 and 2020, the Chairman of the Board of Directors has suspended the discussion and the voting of this agenda item, deferring the presentation of the relevant proposal to the following Shareholders' Meeting that the Board of Director, on March 30, had already committed, in compliance with the conditions set forth by the banking regulator, to convene within a time frame that would ensure the distribution, downstream of the reassessment on the overcoming of this health emergency (therefore on the basis of the current indications of the ECB, indicatively October 2020).
It must be noted that at the same meeting of March 30, the Board of Directors of BFF, in order to maintain unchanged the policy of dividends and to preserve the possibility of distributing the Expected Total Dividend Payout for 2019 amounting to €70.9 million, had resolved to comply with the recommendation of the Bank of Italy by adopting the Option 1 indicated by the ECB. Therefore, the share of the individual net profit for the year 2019 allocated to distribution to the Shareholders in the form of dividends (equal to €12.4 million) will not be recognized under capital for regulatory purposes.

the HTC&S securities valuation reserves, which generated a positive impact of €4 million, after taxes (such reserve amounted to -4.1 million at December 31, 2018 and -3.1 million at June 30, 2019), by a €2.6 million increase in the reserves relating to the remuneration of employees and other staff in financial instruments, as well as by the €1.7 million increase in the translation reserve due to the change in the exchange rates applied to BFF Polska Group's equity in consolidated equity.

Such changes were offset by higher deductions from Own Funds due to the recognition of IOS Finance's goodwill of €8.7 million and further changes in reserves.

Quantitative information

Breakdown of Own Funds

Own Funds of the Banking Group pursuant to the Consolidated Law on Banking are presented below.

Items/Amounts	Total 12/31/2019	Total 12/31/2018
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	**336,910**	**272,795**
of which CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	336,910	272,795
D. Items to be deducted from CET1	**(35,351)**	**(26,405)**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**301,559**	**246,390**
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects		
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)		
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects		
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-)(+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions	98,224	98,224
P. Total Tier 2 (T2) capital (M - N +/- O)	98,224	98,224
Q. Total own funds (F + L + P)	**399,783**	**344,614**

Own Funds of the Banking Group pursuant to the CRR are shown below.

Items/Amounts	Total 12/31/2019	Total 12/31/2018
A. Common Equity Tier 1 (CET1) capital before the application of prudential filters	**415,759**	**377,176**
of which CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	415,759	377,176
D. Items to be deducted from CET1	**(110,485)**	**(131,386)**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) capital (C - D +/- E)	**305,275**	**245,790**
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects	**29,051**	**22,054**
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions	**0**	**0**
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	**29,051**	**22,054**
M.Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects	**71,187**	**74,422**
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-)(+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions		
P. Total Tier 2 (T2) capital (M - N +/- O)	**71,187**	**74,422**
Q. Total own funds (F + L + P)	**405,512**	**342,266**

Own Funds of the CRR Group amounted to €405.5 million, net of profit for the period, compared to €342.3 million at December 31, 2018.

In addition to what has already been reported for the Group pursuant to the Consolidated Law on Banking, the change in the CRR Group's own funds was also affected by the sale, on March 29, 2019, of 22 million BFF shares—i.e. 12.9% of the Bank's share capital at that date—by BFF Luxembourg S.à r.l. (Centerbridge), through an accelerated bookbuilding procedure.

Subsequent to the transaction, the stake held in BFF Group by BFF Luxembourg S.à r.l. decreased from 45.792% to 32.859%. After the share capital increases which took place during the reporting period, the stake held by BFF Luxembourg S.à r.l. was equal to 32.773% at December 31, 2019.

Above mentioned own funds do not take account of the accelerated bookbuilding procedure which took place on January 14, 2020. As a result of this procedure, the stake held by BFF Luxembourg S.à r.l. in BFF Group was equal to 21.80%.

At CRR Group level, minority equity interests cannot be recognized in entirety under own funds, and should only be shown proportional to the risk borne.

Model for disclosure of own funds

The following table shows information on own funds of the CRR Group, as notified to the Bank of Italy.

	Disclosure of own funds	(A) Amount at the reporting date	(B) Relevant Article in Regulation (EU) 575/2013	(C) Amounts subject to pre-Regulation (EU) 575/2013 treatment
1	Equity instruments and related share premium reserves	117,720	26, paragraph 1, 27, 28, 29	
2	Retained earnings	151,726	26, paragraph 1, letter c)	
3	Accumulated other comprehensive income and other reserves	0	26, paragraph 1, letters d), e)	
5	Minority interests (amount allowed in consolidated Tier 1 capital)	146,313	84, 479, 480	
5a	Profit for the period verified by independent experts net of all estimated charges or dividends	0	26, paragraph 2	
6	**Common Equity Tier 1 before regulatory adjustments**	**415,759**		
	Common Equity Tier 1 (CET1): regulatory adjustments			
8	Intangible assets (net of related tax liabilities)	(110,485)	36, paragraph 1, letter b), 37, 472	
16	Common Equity Tier 1 instruments held directly or indirectly by the entity	0	36, paragraph 1, letter f), 42	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(110,485)**		
29	**Common Equity Tier 1 (CET1)**	**305,275**		
	Additional Tier 1 (AT1) capital: instruments			
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries or held by third parties	29,051	85,86,480	
44	**Additional Tier 1 (AT1) capital**	**29,051**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**334,326**		
	Tier 2 capital (T2): instruments and provisions			
46	Equity instruments and related share premium reserves	32,191	62, 63	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries or held by third parties	38,996	87, 88, 480	
58	**Tier 2 capital (T2)**	**71,187**		
59	**Total capital (TC = T1 + T2)**	**405,512**		
60	**Total risk-weighted assets**	**2,444,990**		
61	Common Equity Tier 1	12,5%	92, paragraph 2, letter a), 465	
62	Tier 1 capital	13,7%	92, paragraph 2, letter b), 465	
63	Total capital	16,6%	92, paragraph 2, letter c)	
	Institution-specific capital buffer requirement (CET1 requirement pursuant to Article 92 paragraph 1, letter a), requirements relating to capital conservation buffer, countercyclical capital buffer, systemic risk buffer and the systemically important institutions' capital buffer	2,52%	CRD Article 128, 129, 130, 131, 133	
65	of which: capital conservation buffer requirement	2,50%		
66	of which: countercyclical capital buffer requirement	0,02%		
68	Common Equity Tier 1 available to meet buffer requirement	6,57%		

The following table provides the reconciliation of Equity of the Banking Group pursuant to the Consolidated Law on Banking and own funds of the same Banking Group, as disclosed in Part F of the consolidated financial statements.

Equity items	Total
Equity items	131,326
Share capital	693
Share premium	147,269
Reserves	
Equity instruments	
(Treasury shares)	(1,763)
Revaluation reserves:	
- Equity securities designated at fair value through OCI	
- Hedging of equity securities designated at fair value through OCI	
- Financial assets (other than equity securities) measured at fair value through OCI	(80)
- Property, plant and equipment	
- Intangible assets	
- Foreign investment hedges	
- Cash flow hedges	
- Exchange differences	2,678
- Non-current assets held for sale	
- Actuarial gains (losses) relating to defined benefit plans	(163)
- Portion of revaluation reserves relating to equity investments measured using the equity method:	
- Special revaluation laws	4,135
- Profit (Loss) for the year (+/-) attributable to the group and non-controlling interests	93,157
Equity	**377,252**
Dividends	(12,411)
Subsidiaries' retained earnings	(27,931)
Portion of non-controlling interests not eligible	
CET1 before application of prudential filters, transitional adjustments and deductions	336,910
Prudential filters	
Commitment to repurchase CET1 instruments	0
Deductions	(35,351)
CET1	**301,559**
Tier 2 subordinated bonds	98,224
Own funds of the Banking Group	**399,783**

Model for the main characteristics of equity instruments

Tier 1 capital

Amounts in euros

	Currency	Original amount	Contribution to Own Funds (*)
Paid-in capital	EUR	131,326,409	129,563,653

(*) The amount shown in the column "Contribution to Own Funds" is net of the treasury shares.

Tier 2 capital

		Farmafact Tf 5.875% MZ27 Sub TIER2 Call
1	Issuer	BANCA FARMAFACTORING spa
2	Isin code	XS1572408380
3	Reference legislation	British law, except for subordination clauses regulated by the Italian law
	Applicable regulations	
4	CRR transitional provisions	Tier 2 capital
5	Provisions after CRR transitional period	Tier 2 capital
6	Eligible at the level of individual entity/(sub)consolidation/ of individual entity and (sub)consolidation	Individual and consolidated
7	type of instrument	Tier 2 capital pursuant to Article 63 of the CRR
8	amount recognized under regulatory capital (in euros)	98,224,000.00
9	nominal amount of the instrument (in euros)	100,000,000.00
9a	issuing price	98,224
9b	repayment price	100.00
10	accounting classification	Liabilities - amortized cost
11	original issuing date	3/2/2017
12	non-repayable or at the due date	at the due date
13	original due date	3/2/2027
14	early repayment at the discretion of the issuer subject to prior approval by the supervisory authority	YES
15	date of the optional early repayment, dates of the early repayment, if any, and repayment amount	call option at March 2, 2022 - repayment at 100
16	subsequent repayment dates, if necessary	NO
	coupons/dividends	
17	fixed or variable dividends/coupons	Annual fixed rate with reset after 5 years from issuing date
18	coupon rate and related index	5.875%
19	presence of a dividend stopper mechanism	NO
20a	fully discretionary, partially discretionary or mandatory (in terms of time)	mandatory
20b	fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	presence of a step up or other incentive for the repayment	NO
22	non-cumulative or cumulative	NO
23	convertible or non-convertible	NON-CONVERTIBLE
24	if convertible, event that determines the conversion	
25	if convertible, in full or partially	
26	if convertible, conversion rate	
27	if convertible, mandatory or optional conversion	
28	If convertibles, specify the type of instrument into which the conversion is possible	
29	If convertibles, specify the issuer of the instrument into which it is converted	
30	Write-down mechanisms	Yes
31	In the case of a write-down mechanism, events that determine it	BAIL-IN - Banking Union-Bank Recovery and Resolution Directive (BRRD) and Single Resolution Mechanism (SRM) Regulation
32	In the case of a write-down, total or partial write-down	total or partial
33	In the case of a write-down, permanent or temporary write-down	permanent
34	In the case of a temporary write-down, description of the revaluation mechanism	
35	Position in the subordination hierarchy in case of a settlement	Senior preferred
	(specify the type of instrument at the next higher level [senior])	NO
36	Non-compliant characteristics of the instruments that benefit from transitional provisions	
37	If this is the case, specify the non-compliant characteristics	

Section 4 - Capital requirements (Article 438 CRR)

Qualitative information

The 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. 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.

Compliance with capital adequacy limits for the CET1 Capital Ratio, Tier 1 Capital Ratio, and Total Capital Ratio is constantly monitored by the relevant company bodies.

The CET1 Capital Ratio is the ratio of Common Equity Tier 1 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 total exposure to risks at December 31, 2019, in relation to the business, is adequate according to the level of capitalization and the risk profile identified.
With regard to the Banking Group, the CET1 Capital Ratio is 12.5%, the Tier 1 Capital Ratio is 12.5% and the Total Capital Ratio is 16.6%.
With regard to the CRR Group, the CET1 Capital Ratio is 12.5%, the Tier 1 Capital Ratio is 13.7%, and the Total Capital Ratio is 16.6%.

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

Pillar I – Capital adequacy to address 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

The assessment of credit risk is part of an overall analysis of the capital adequacy of the Banking Group and the CRR Group 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) 575/2013 (CRR) and adopted by the Bank of Italy Circular no. 285 *"Supervisory provisions for banks"* and Circular no. 286 *"Instructions for the preparation of supervisory reporting by banks and securities intermediaries"*, both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes ("portfolios"), depending on the type of counterparty, and the application of diversified risk weights to each portfolio.

In particular, in compliance with the above-mentioned Regulation, the Banking Group and CRR Group apply the following weights:

- 0% for receivables due from government agencies and central banks with offices in a European Union member state and financed in the relevant local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish local entities and other local authorities as provided for by EBA lists *"EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013"* and "*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013"*;
- 2.94% for the pre-financing involving Cassa Compensazione e Garanzia's Guarantee Scheme (qualified counterparty) to secure repos;
- 20% for *(i)* exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the relevant 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 receivables due from private debtors (companies);
- 100% for property, plant and equipment, equity investments and other assets;
- 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% for deferred tax assets not deducted from Own Funds.

Banca Farmafactoring S.p.A. adopted the Dominion Bond Rating Service (DBRS) as reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS on July 13, 2018 was "BBB high". Exposures to the Italian public administration, which include those to entities belonging to the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%.

The exposures of the Banking Group are mainly represented by exposures to counterparties of the public administration or healthcare entities of the countries in which the Group operates.

Based on the method described above, the capital requirement for credit risk at December 31, 2019 is €160.6 million for the Banking Group.

Counterparty risk

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

Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.
Operational risk, therefore, refers to various types of events that would not be significant unless analyzed together and quantified for the entire risk category.
The Group measures operational risk using the "Basic" approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statement items of the last three years, in accordance with Regulation (EU) 575/2013.

Market risk

Market risk concerns positions held for trading, that is, positions intentionally held for sale in the short term, acquired in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.
The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio. The Group measures market risk using the "Standardized" method.

Pillar II – The ICAAP/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 management and governance 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 April 19, 2019. 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 management and governance systems ("ILAAP" - Internal Liquidity Adequacy Assessment Process), *(ii)* new content in the area of internal processes for determining capital adequacy ("ICAAP" - Internal Capital Adequacy Assessment Process) and *(iii)* different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy. These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) 468/2014, which include BFF Banking Group.

Furthermore, on June 24, 2019, BFF Banking Group approved a new "Recovery plan," in line with the update timeframe pursuant to the reference provisions and the commitments assumed with the Bank of Italy.

In relation to the "Supervisory Review and Evaluation Process" (SREP), on June 28, 2019, the Bank of Italy informed the Group that it decided not to adopt new capital decisions for 2019, and apply only the increase in the Capital Conservation Buffer (2.5% for 2019, as compared to 1.875% forecast for 2018). Therefore, the Overall Capital Ratios with which BFF Banking Group must comply are the CET1 Ratio of 7.80%, the Tier 1 Ratio of 9.60%, and the Total Capital Ratio of 12.00%.

Quantitative information

Capital requirements in relation to credit risk and counterparty risk – Banking Group

Portfolios/Exposures	CCF	Weights	Credit risk			Counterparty risk		
			Non-weighted exposures	Weighted exposures	Capital require-ment	Non-weighted exposures	Weighted exposures	Capital require-ment
Exposures to government agencies and central banks	100%	0%	1,848,599	-	-			
	100%	250%	11,607	29,019	**2,321**			
Exposures to local entities	100%	0%	564,574	-	-			
	100%	20%	691,792	138,358	**11,069**			
Exposures to public sector entities	0%	20%	691	-	-			
	20%	20%	653	26	**2**			
	100%	20%	199,517	39,903	**3,192**			
	20%	50%	21,273	2,127	**170**			
	50%	50%	26,954	6,739	**539**			
	100%	50%	555,463	277,731	**22,219**			
	100%	100%	1,011,346	1,011,346	**80,908**			
Exposures to supervised intermediaries	100%	0%	1,030,661	-	-			
	100%	2.94%	25,220	741	**59**			
	100%	20%	116,293	23,259	**1,861**	71	14	**1**
Exposures to companies and other parties	0%	100%	2,536	-	-			
	20%	100%	41,917	8,383	**671**			
	50%	100%	58,422	29,211	**2,337**			
	100%	100%	223,895	223,895	**17,912**			
Past due exposures	100%	100%	4,423	4,423	**354**			
	0%	150%	55	-	-			
	20%	150%	1,175	352	**28**			
	50%	150%	641	481	**38**			
	100%	150%	101,737	152,606	**12,208**			
Equity instruments	100%	100%	258	258	**21**			
Other exposures	100%	0%	3	-	-			
	100%	100%	19,205	19,205	**1,536**			
Retail exposures	0%	75%	742	-	-			
	20%	75%	26,158	3,924	**314**			
	50%	75%	2,679	1,004	**80**			
	100%	75%	46,521	34,891	**2,791**			
Total			**6,635,008**	**2,007,883**	**160,631**	**71**	**14**	**1**

Other capital requirements – Banking Group

	Weighted exposures – RWA	Capital requirement
Credit valuation adjustment (CVA) risk	0	0
Market risk	0	0
Operational risk	405,661	32,453

Capital ratios—Banking Group and CRR Group

Items/Amounts	Total 12/31/2019
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) (%)	**12.5%**
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio) (%)	**12.5%**
Total own funds/ Risk-weighted assets (Total capital ratio) (%)	**16.6%**

Capital ratios relating to the scope of consolidation of the CRR Group, with BFF Luxembourg S.à r.l. as the parent, are provided below.

Items/Amounts	Total 12/31/2019
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) (%)	**12.5%**
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio) (%)	**13.7%**
Total own funds/ Risk-weighted assets (Total capital ratio) (%)	**16.6%**

Section 5 - Exposure to counterparty credit risk (Article 439 CRR)

Qualitative information

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.
This requirement arises when the value of transactions carried out with certain counterparties is positive. In the event that a part of the exposure is secured by collateral, the institution shall assign a weight equal to the one assigned to the instrument used as collateral.

For Banca Farmafactoring S.p.A., the counterparty risk can be generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the standardized method.

At December 31, 2019, repurchase transactions are outstanding with the counterparty Cassa Compensazione e Garanzia, from which the fair value of the securities used as collateral is deducted; the capital requirement, as indicated in the following table, is calculated on this value, if positive.

The reduced exposure to the counterparty risk does not require the use of additional control instruments to those already used in ordinary operations.

Quantitative information

Repurchase agreements:

Regulatory portfolio	Exposure without credit risk mitigation	Financial collaterals – simple method	Guarantees	Exposure after credit risk mitigation
Securities financing transactions (SFTs)	991,610	991,539		71
Total	991,610	991,539		71

At the end of the reporting period, the capital requirement relating to repurchase agreements amounted to approximately €6 thousand.

Section 6 - Capital buffers (Article 440 CRR)

Qualitative information

The disclosure relating to the “Countercyclical capital buffer” is shown below, prepared on the basis of the rates applicable at December 31, 2019 and of the Commission Delegated Regulation (EU) 2015/1555 of May 28, 2015, supplementing the CRR with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement of a countercyclical capital buffer in accordance with Article 440 of the CRR. As established by Article 140, paragraph 1, of Directive 2013/36/EU (so-called CRD IV), the institution-specific countercyclical capital buffer rate consists of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located.

CRD IV requires the national designated authorities to create an operational framework for the definition of the countercyclical capital buffer (CCyB) rates starting from January 1, 2016.

The rate is subject to review on a quarterly basis. European provisions were transposed into Italian Law through the Bank of Italy’s Circular no. 285, which contains specific rules regarding CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical capital buffer rate (for exposures to Italian counterparties) at 0% for the second quarter of 2020, too.

The relevant credit exposures include all exposure classes other than those referred to in Article 112, letters a) to f) of Regulation (EU) 575/2013. The following exposures are therefore excluded: exposures to central governments or central banks; exposures to regional governments or local authorities; exposures to public sector entities; exposures to multilateral development banks; exposures to international organizations; exposures to institutions.

Quantitative information

With reference to December 31, 2019:

- countercyclical capital buffer rates for individual countries, established as briefly explained above, were generally equal to 0%. Some of the countries, with a rate other than zero, to which the Group is exposed are: Czech Republic (1.50%), Slovakia (1.50%) and France (0.25%);
- at a consolidated level, the institution-specific countercyclical capital buffer rate of the Banking Group was equal to 0.0208%.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	Generic non-performing exposures		Trading book exposures		Exposure to securitization - Own Funds requirements		Own Funds requirements					
	Exposure value for the SA method	Exposure value for the IRB method	Sum of the long and short positions of the negotiation portfolio	Value of the exposure in the negotiation portfolio for the internal models	Exposure value for the SA method	Exposure value for the IRB method	Of which: Generic non-performing exposures	Of which: Trading book exposures	Of which: Exposure to securitization	Total	Weighting factors of Own Funds requirements	Countercyclical ratio
	010	020	030	040	050	060	070	080	090	100	110	120
Breakdown by country	**339,729,169.59**						**27,178,333.57**			**27,178,333.57**	**0.0208%**	
Belgium	2,507.57						200.61			200.61	0.0000%	0.0000%
Czech Rep.	1,242,635.73						99,410.86			99,410.86	0.0055%	1.5000%
France	16,531.66						1,322.53			1,322.53	0.0000%	0.2500%
Greece	25,843,466.92						2,067,477.35			2,067,477.35	0.0000%	0.0000%
Italy	70,007,854.33						5,600,628.35			5,600,628.35	0.0000%	0.0000%
The Netherlands	27.51						2.20			2.20	0.0000%	0.0000%
Poland	214,063,625.33						17,125,090.03			17,125,090.03	0.0000%	0.0000%
Portugal	94,456.10						7,556.49			7,556.49	0.0000%	0.0000%
Slovakia	3,471,530.38						277,722.43			277,722.43	0.0153%	1.5000%
Spain	24,983,947.38						1,998,715.79			1,998,715.79	0.0000%	0.0000%
Switzerland	2,586.68						206.93			206.93	0.0000%	0.0000%

Amount of the institution-specific countercyclical capital buffer

Amount of the countercyclical capital buffer	**(€/000)**
Total risk exposure amount	2,444,990
Institution-specific countercyclical capital buffer rate	0.0208%
Institution-specific countercyclical capital buffer requirement	509

It should be noted that the requirement shown in the table above mainly refers to exposures to private sector entities based in Czech Republic and Slovakia.

Section 7 - Credit risk adjustments (Article 442 CRR)

Qualitative information

Receivables subject to generic adjustments ("collective impairment")

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.

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

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

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

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

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

Receivables subject to specific adjustments ("individual impairment")

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

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

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.

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

- Non-performing loans
- Unlikely to pay exposures
- Impaired past due exposures.

• Past due exposures: These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due. They were classified as impaired based on the Bank of Italy's Circular no. 272 of January 20, 2015.
  More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to a Group company for more than 90 days. Measurement of such past due exposures is carried out at the portfolio level, since there are no objective indications of individual impairment.
  At December 31, 2019, net past due exposures of BFF Banking Group totaled €34,691 thousand, of which €30,226 thousand (87.1%) attributable to public administration counterparties and public sector companies in the various countries where BFF Banking Group operates.
  Banca Farmafactoring S.p.A.'s overall amount of net past due exposures at December 31, 2019 was equal to €30,592 thousand. Of this amount, €29,483 thousand (equal to 96.4%) concerned Italian

public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €3,438 thousand. The remaining past due exposures, for a net amount of €661 thousand, refer to BFF Finance Iberia and entirely concerned public administration counterparties.

- Unlikely to pay exposures: Unlikely to pay exposures reflect the judgment made by the Group about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments). Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor.
  At December 31, 2019, gross exposures classified as unlikely to pay amounted to €11,836 thousand, of which €11,386 thousand attributable to BFF Polska Group and €450 thousand to BFF Finance Iberia. The total net amount was €9,526 thousand, relating mainly to BFF Polska Group, since the gross exposures of Banca Farmafactoring S.p.A. and BFF Finance Iberia were almost entirely impaired.

- Non-performing loans: These are exposures to parties that are in a state of insolvency or in substantially similar situations, regardless of any loss projections recognized by the company.
  At December 31, 2019, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €61,943 thousand, of which €5,655 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial governments in financial distress amounted to €57,659 thousand, accounting for 93.0% of the total.

Gross non-performing loans amounted to €73,376 thousand. Relevant impairment totaled €11,433 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 €1,568 thousand, entirely impaired. Taking account of this amount too, gross non-performing loans amounted to €74,944 thousand and relevant adjustments totaled €13,001 thousand.

With reference to the Bank, at December 31, 2019 total non-performing loans, net of any estimated impairment losses, amounted to €58,210 thousand, of which €57,659 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 €5,655 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.
The remaining positions referring to Banca Farmafactoring S.p.A. are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €13,090 thousand; after estimated impairment losses of €9,385 thousand, the net amount totaled €3,705 thousand.

Quantitative information

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

Amounts in € thousands

Portfolios/Quality	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures	Other past due but not impaired exposures	Not impaired exposures	Total
1. Financial assets measured at amortized cost	61,943	9,526	34,691	684,637	4,459,919	5,250,717
2. Financial assets measured at fair value through OCI					82,748	82,748
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value						
5. Financial assets held for sale						
Total 12/31/2019	**61,943**	**9,526**	**34,691**	**684,637**	**4,542,667**	**5,333,465**
Total 12/31/2018	**40,344**	**6,774**	**72,572**	**596,718**	**4,037,954**	**4,754,362**

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

Amounts in € thousands

Portfolios/Quality	Impaired				Not impaired			Total (net exposure)
	Gross exposure	Total adjustments	Net exposure	Total partial write-offs	Gross exposure	Total adjustments	Net exposure	
1. Financial assets measured at amortized cost	119,992	13,832	106,160		5,148,456	3,900	5,144,557	5,250,717
2. Financial assets measured at fair value through OCI					82,759	11	82,748	82,748
3. Financial assets designated at fair value					X	X		
4. Other financial assets mandatorily measured at fair value					X	X		
5. Financial assets held for sale								
Total 12/31/2019	**119,992**	**13,832**	**106,160**	**0**	**5,231,216**	**3,911**	**5,227,305**	**5,333,465**
Total 12/31/2018	**135,949**	**16,258**	**119,690**	**0**	**4,637,423**	**2,749**	**4,634,674**	**4,754,362**

Breakdown by significant geographical area of exposures to banks—by main types of exposure

Amounts in € thousands

Exposures/ Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay exposures										
A.3 Impaired past due exposures										
A.4 Not impaired exposures	77,349	4	38,943	7						
Total A	**77,349**	**4**	**38,943**	**7**						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures										
B.2 Not impaired exposures	4,197	3								
Total B	**4,197**	**3**	**0**	**0**						
Total (A+B) 12/31/2019	**81,546**	**7**	**38,943**	**7**						
Total (A+B) 12/31/2018	**43,252**	**17**	**13,498**	**1**						

Breakdown by significant geographical area of exposures to Italian banks—by main types of exposure

Amounts in € thousands

Exposures/ Geographical areas	Italy - Northwest		Italy - Northeast		Italy - Central part		Italy - South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures								
A.4 Not impaired exposures	4,646	3			72,697		6	
Total A	**4,646**	**3**			**72,697**		**6**	
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures					4,197	3		
Total B					**4,197**	**3**		
Total (A+B) 12/31/2019	**4,646**	**3**	**0**		**76,894**	**3**	**6**	
Total (A+B) 12/31/2018	**5,490**	**4**	**190**		**37,480**	**13**	**105**	

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Breakdown by significant geographical area of exposures to customers—by main types of exposure

Amounts in € thousands

Exposures/ Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	58,210	1,958	3,732	9,475						
A.2 Unlikely to pay exposures			9,526	2,310						
A.3 Impaired past due exposures	30,575	40	4,116	49						
A.4 Not impaired exposures	3,428,265	716	1,662,360	3,184						
Total A	**3,517,051**	**2,714**	**1,679,734**	**15,018**						
B. Off-balance sheet credit exposures										
B.1 Impaired exposures			1,851	21						
B.2 Not impaired exposures			182,008	557						
Total B			183,859	577						
Total (A+B) 12/31/2019	**3,517,051**	**2,714**	**1,863,594**	**15,596**						
Total (A+B) 12/31/2018	**3,453,735**	**6,187**	**1,327,004**	**13,001**						

Breakdown by significant geographical area of exposures to Italian customers—by main types of exposure

Amounts in € thousands

Exposures/ Geographical areas	Italy – Northwest		Italy – Northeast		Italy – Central part		Italy – South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures								
A.1 Non-performing loans	393	324	161	60	1,692	1,214	55,964	361
A.2 Unlikely to pay exposures								
A.3 Impaired past exposures	3,704	13	1,351	1	5,486	5	20,035	21
A.4 Not impaired exposures	212,363	192	110,629	8	2,065,362	354	1,039,911	162
Total A	**216,460**	**528**	**112,141**	**68**	**2,072,540**	**1,573**	**1,115,909**	**545**
B. Off-balance sheet credit exposures								
B.1 Impaired exposures								
B.2 Not impaired exposures								
Total B								
Total (A+B) 12/31/2019	**216,460**	**528**	**112,141**	**68**	**2,072,540**	**1,573**	**1,115,909**	**545**
Total (A+B) 12/31/2018	**229,389**	**565**	**115,324**	**48**	**2,096,957**	**1,605**	**1,012,064**	**3,969**

Breakdown by industry or counterparty type of exposures to customers—by type of exposure (carrying amount)

Amounts in € thousands

Exposures/Counterparties	Public administration agencies		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	57,825	532					3,732	9,759	385	1,142
- of which: forborne exposures							78	102		
A.2 Unlikely to pay exposures							9,526	2,310		
- of which: forborne exposures							168	915		
A.3 Impaired past due exposures	30,226	31					4,116	52	350	5
- of which: forborne exposures							230	1		
A.4 Not impaired exposures	4,769,535	928	64,363	44			240,806	2,810	15,922	118
- of which: forborne exposures	1,138	1					14,935	744		
Total A	**4,857,586**	**1,491**	**64,363**	**44**			**258,180**	**14,931**	**16,657**	**1,265**
B. Off balance sheet exposures										
B.1 Impaired exposures							1,851	21		
B.2 Not impaired exposures	49,571	1					132,437	556		
Total B	**49,571**	**1,346**					**134,289**	**576**		
Total (A+B) 12/31/2019	**4,907,157**	**1,493**	**64,363**	**44**			**392,468**	**15,507**	**16,657**	**1,265**
Total (A+B) 12/31/2018	**4,430,646**	**4,819**	**64,725**	**47**			**273,730**	**13,092**	**11,638**	**1,230**

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Financial assets, commitments to disburse funds and financial guarantees provided: change in total adjustments and allocations

Amounts in € thousands

Sources/ Risk Stages	Total adjustments													Total allocations for commitments to disburse funds and financial guarantees provided			Total
	Stage 1 assets				Stage 2 assets				Stage 3 assets				Of which: impaired financial assets acquired or internally generated				
	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment	of which: collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment	of which: collective impairment	Financial assets measured at amortized cost	Financial assets measured at fair value through OCI	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance	**1,942**			**1,942**	**804**			**804**	**16,258**		**16,258**		**2,699**	**177**		**21**	**19,203**
Increase of financial assets acquired or internally generated																	
Derecognition other than write-off																	
Net adjustments/ reversals of impairment for credit risk (+/-)	514	11		514	642			642	1,089		1,089			383			2,638
Contractual changes without derecognition																	
Change in estimate methods																	
Write-off																	
Other changes									(3,516)				(2,475)				(3,516)
Closing balance	**2,456**	**11**		**2,456**	**1,446**			**1,446**	**13,832**		**17,348**		**224**	**560**		**21**	**18,325**
Collections of financial assets subject to write-off																	
Write-off directly recognized in profit or loss																	

On-balance sheet credit exposures to customers: changes in total adjustments

Amounts in € thousands

Sources/Categories	Non-performing loans		Unlikely to pay exposures		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total adjustments	**13.080**		**1.906**	**1.475**	**1.273**	
- of which: exposures sold but not derecognized	1.757				14	
B. Increase	**2.457**		**964**		**98**	
B.1 adjustments from impaired financial assets acquired or internally generated						
B.2 other adjustments	728					
B.3 losses on disposal						
B.4 transfers from other categories of impaired exposures	384		565			
B.5 contractual changes without derecognition						
B.6 other increases	1.345		399		98	
C. Decrease	**4.104**		**560**		**1.282**	
C.1 reversals of impairment from revaluations						
C.2 reversals of impairment from collections	243				28	
C.3 gains on disposal						
C.4 write-off	345				949	
C.5 transfers to other categories of impaired exposures						
C.6 contractual changes without derecognition						
C.7 other decreases	3.516		560		305	
D. Closing total adjustments	**11.433**		**2.310**	**1.475**	**88**	
- of which: exposures sold but not derecognized	1				4	

Section 8 - Unencumbered assets (Article 443 CRR)

Qualitative information

The disclosure of encumbered and unencumbered assets is required by Bank of Italy's Circular no. 285, in compliance with the methods provided for by the European Banking Authority's guidelines of June 27, 2014.
In particular, the required disclosure aims to assess the institutions' recourse to secured funding (for example, guaranteed bank bonds, repurchase agreements, credit lines from central banks).

The institutions disclose information on encumbered and unencumbered assets on a consolidated basis by product, taking into account the instructions specified in Appendix XVII of the Commission Implementing Regulation (EU) 2015/79 issued by the European Commission.
Encumbered assets are those used as collateral, subject to limitations on withdrawal or otherwise reserved to provide credit enhancement.
The scope of such disclosure is that of the CRR Group.

Quantitative information

Template A – Disclosure on encumbered assets recognized in the financial statements

	Encumbered assets		Unencumbered assets	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Total assets of the Banking Group	**1,871,921**	**X**	**3,033,693**	**X**
1. Equity instruments	0	0	164	164
2. Debt securities	1,017,729	1,015,927	59,956	59,948
3. Loans	854,170	0	2,885,459	0
4. Other assets	23	0	88,115	0

Template B – Collateral received by the reporting institution

Disclosure of collateral received is detailed in the following table. Such collateral is not relevant for the purposes of the Credit Risk Mitigation.

Amounts in € thousands

			Collateral (1)					Guarantees (2)									
								Credit derivatives					Endorsement credits				
									Other derivatives								
	Gross exposure	Net exposure	Mortgaged property	Property - lease financing activities	Property under finance leases	Securities	Other collateral	CLN	Clearing house	Banks	Other financial companies	Other	Public administration agencies	Banks	Other financial companies	Other	**Total (1)+(2)**
1. Guaranteed on-balance sheet credit exposures:	**3,139**	**3,138**					**3,092**								**46**	**3,138**	**6,276**
1.1 totally guaranteed	3,139	3,138					3,092								46	3,138	6,276
- of which impaired																	
1.2 partially guaranteed																	
- of which impaired																	
2. Guaranteed off-balance sheet credit exposures:																	
2.1 totally guaranteed																	
- of which impaired																	
2.2 partially guaranteed																	
- of which impaired																	

Template C – Encumbered assets/collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS
Liabilities associated with encumbered assets, collateral received or encumbered own securities	**1,682,751**	**1,899,387**

BFF Banking Group manages the following types of encumbered assets:

- high credit quality debt securities issued by the Italian State, encumbered as part of secured funding (repurchase agreements);
- deposit guarantee schemes and initial margins placed at clearing systems, central counterparties or direct participants;
- trade receivables (purchased on a non-recourse basis) used as underlying for medium-/long-term funding, typically to guarantee securitization transactions or factoring companies' financing (sold but not derecognized);
- mandatory reserve.

The types of assets that can be used by BFF Banking Group as collateral for credit facilities with the European Central Bank (ECB) are indicated below.

- ECB eligible trade receivables (purchased on non-recourse basis) and securities held in the ECB pooling account for refinancing operations through open market transactions and use for intraday transactions.

About 54.4% of the entire amount of encumbered assets is composed of owned government securities used as collateral in repurchase transactions and for refinancing operations with the Eurosystem.

Section 9 - Use of ECAIs (Article 444 CRR)

Qualitative information

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) 575/2013 (CRR) and adopted by the Bank of Italy Circular no. 285 "Supervisory provisions for banks" and Circular no. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries", both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes ("portfolios"), depending on the type of counterparty, and the application of diversified risk weights to each portfolio.

More specifically, for the "Government agencies and central banks" portfolio, the weight depends on the rating assigned by the ECAIs or ECAs to the individual countries. For the "Supervised intermediaries" portfolio, the weight depends on the rating of the country where the supervised intermediary has its headquarters. For the "Public sector entities" portfolio, the rules for weighting are the same as those for supervised intermediaries.

Banca Farmafactoring S.p.A. adopted the Dominion Bond Rating Service (DBRS) as reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS was "BBB high". Exposures to the Italian public administration, which include those to entities belonging to the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%.

A reconciliation between the credit quality steps and the ratings supplied by DBRS is provided below.

	ECAI
Credit Quality Step	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

The exposures of the Banking Group are mainly represented by exposures to counterparties of the public administration or healthcare entities of the countries in which the Group operates.
The credit quality steps of the countries in which the Banking Group's companies operate at December 31, 2019 are provided below.

Step 1: France
Step 2: Spain, Poland and Slovakia
Step 3: Italy and Portugal
Step 4: Greece

Quantitative information

Below is the breakdown of the Banking Group's exposures subject to credit and counterparty risk, under the standardized method, by credit quality step and by regulatory asset class.

Portfolios/Exposures	CFF	Weights	Credit risk			Counterparty risk		
			Non-weighted exposures	Weighted exposures	Capital requirement	Non-weighted exposures	Weighted exposures	Capital requirement
Exposures to government agencies and central banks			0	0	-	0	0	0
Credit quality step: 1	100%	0%	136	-	-	0	0	0
Credit quality step: 2			25,249	-	-	0	0	0
Credit quality step: 3			1,736,053	-	-	0	0	0
Credit quality step: 4			8,855	-	-	0	0	0
Credit quality step: unrated			78,306	-	-	0	0	0
Credit quality step: 2	100%	250%	516	1,289.76	103.18	0	0	0
Credit quality step: 3			11,092	27,728.94	2,218.31	0	0	0
Exposures to local entities			0	0	-	0	0	0
Credit quality step: 2	100%	0%	563,289	-	-	0	0	0
Credit quality step: 3			1,284	-	-	0	0	0
Credit quality step: 2	100%	20%	80,125	16,024.97	1,282.00	0	0	0
Credit quality step: 3			611,106	122,221.26	9,777.70	0	0	0
Credit quality step: 4			30	6.00	0.48	0	0	0
Credit quality step: unrated			531	106.16	8.49	0	0	0
Exposures to public sector entities			-	0	-	0	0	0
Credit quality step: 1	100%	20%	679.08	136	10.87	0	0	0
Credit quality step: 2	0%		691.23	0	-	0	0	0
Credit quality step: 2	20%		653.04	26	2.09	0	0	0
Credit quality step: 2	100%		60,963.28	12,193	975.41	0	0	0
Credit quality step: 3			136,344.45	27,269	2,181.51	0	0	0
Credit quality step: 4			251.98	50	4.03	0	0	0
Credit quality step: unrated			1,277.80	256	20.44	0	0	0
Credit quality step: 2	20%	50%	21,273	2,127	170.18	0	0	0
Credit quality step: 2	50%		26,954	6,739	539.08	0	0	0
Credit quality step: 2	100%		555,463	277,731	22,218.51	0	0	0
Credit quality step: 2	100%	100%	1,344	1,344	107.48	0	0	0
Credit quality step: 3			985,777	985,777	78,862.15	0	0	0
Credit quality step: 4			20,347	20,347	1,627.77	0	0	0
Credit quality step: unrated			3,878	3,878	310.24	0	0	0
Exposures to supervised intermediaries			0	0	-	0	0	0
Credit quality step: unrated	100%	0%	1,030,661	-	-	0	0	0
Credit quality step: unrated		2.94%	25,220	741.46	59.32	0	0	0
Credit quality step: 2		20%	38,307	7,661.40	612.91	0	0	0
Credit quality step: 3			77,350	15,470.02	1,237.60	71	14.14	1.13
Credit quality step: 4			383	76.63	6.13	0	0	0
Credit quality step: unrated			252	50.45	4.04	0	0	0
Exposures to companies and other parties			0	0	-	0	0	0
Credit quality step: unrated	0%	100%	2,536	0	-	0	0	0
Credit quality step: unrated	20%		41,917	8,383	670.68	0	0	0
Credit quality step: unrated	50%		58,422	29,211	2,336.89	0	0	0
Credit quality step: unrated	100%		223,895	223,895	17,911.57	0	0	0
Past due exposures			0	0	-	0	0	0
Credit quality step: 3	100%	100%	163	163	13.05	0	0	0
Credit quality step: unrated			4,260	4,260	340.77	0	0	0
Credit quality step: 2	100%	150%	743	1,114	89.13	0	0	0
Credit quality step: 3			87,129	130,693	10,455.43	0	0	0
Credit quality step: unrated	0%		55	0	-	0	0	0
Credit quality step: unrated	20%		1,175	352	28.20	0	0	0
Credit quality step: unrated	50%		641	481	38.49	0	0	0
Credit quality step: 4	100%		16	25	1.98	0	0	0
Credit quality step: unrated			13,850	20,774	1,661.95	0	0	0
Equity instruments			0	0	-	0	0	0
Credit quality step: unrated	100%	100%	258	258	20.67	0	0	0
Other exposures			0	0	-	0	0	0
Credit quality step: unrated	100%	0%	3	-	-	0	0	0
Credit quality step: 2		100%	83	82.91	6.63	0	0	0
Credit quality step: 3			12,900	12,900.20	1,032.02	0	0	0
Credit quality step: unrated			6,222	6,221.91	497.75	0	0	0
Retail exposures			0	0	-	0	0	0
Credit quality step: unrated	0%	75%	742	0	-	0	0	0
Credit quality step: unrated	20%		26,158	3,924	313.90	0	0	0
Credit quality step: unrated	50%		2,679	1,004	80.36	0	0	0
Credit quality step: unrated	100%		46,521	34,891	2,791.26	0	0	0
Total			**6,635,008**	**2,007,883**	**160,631**	**71**	**14**	**1**

Section 10 - Exposure to market risk (Article 445 CRR)

Market risk

Qualitative information

Market risk is the risk relating to positions held for trading, i.e., positions intentionally held for sale in the short term, acquired in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.
The regulation identifies and regulates the treatment of the various types of market risk in reference to the trading portfolio for supervisory purposes. The Group measures market risk using the "Standardized" method.

Quantitative information

At December 31, 2019, there are no positions generating requirements in relation to market risk.

Exchange rate risk

Qualitative information

Exchange rate risk is represented by the Banking Group's exposure to fluctuations in exchange rates, considering both positions in foreign currency and those including indexation clauses linked to changes in the exchange rate of a specific currency.

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

The Group thus manages and monitors the risk of fluctuations in such exchange rates. The Group has a specific internal regulation for the management of exchange risk referring to exposures arising from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency, and any other type of transaction in a currency other than the reference currency. Specifically, the Group operates under a natural hedging approach and has entered into hedging instruments to hedge exchange rate risk where the natural hedging strategy cannot be pursued and/or is not effective.

With regard to the acquisition of BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty was hedged by loan agreements, so that the asset and liability positions offset each other and, consequently, there is an open position in currency within the limits set by the Risk Appetite Framework approved by the Bank's BoD.

The currency effect, recognized in the income statement, arising from the revaluation of the zloty loan payable, corresponds to a related effect with the opposite sign in consolidated equity (the so-called "Translation reserve"), which comes from the revaluation of the exchange rates applied to the equity of BFF Polska Group.

At December 31, 2019, BFF Banking Group did not hold any forex swap derivative instruments.

Quantitative information

The Group's asset portfolio is also denominated in currencies other than the Euro. Consequently, a method has been adopted to measure and manage this risk. The exchange rate risk is monitored by the Risk Management Function in accordance with European regulation guidelines (Regulation (EU) 575/2013, CRR).

Breakdown of assets, liabilities and derivative instruments by currency

	Currencies					
Items	US dollar	British pound	Japanese yen	Canadian dollar	Swiss franc	Other currencies (*)
A. Financial assets						**707,628**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						7,124
A.4 Loans to customers						700,504
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities						**(705,355)**
C.1 Due to banks						(638,313)
C.2 Due to customers						(67,042)
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ *long positions*						
+ *short positions*						
- Other derivatives						
+ *long positions*						
+ *short positions*						
Total assets						**707,628**
Total liabilities						**(705,355)**
Difference (+/-)						**2,273**

(*) "Other currencies" include Polish zloty, Czech koruna and Croatian kuna.

Section 11 - Operational risk (Article 446 CRR)

Qualitative information

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.

Operational risk, therefore, refers to various types of events that would not be significant unless analyzed together and quantified for the entire risk category.
With regard to BFF Banking Group, exposure to this category of risk is generated predominantly by failure in work processes, in organization and governance—human errors, computer software malfunctions, inadequate organization and control measures—as well as by any loss of human resources in key corporate management positions. Exposure to operational risks deriving from external sources appears to be of negligible importance, partly due to the mitigation tools adopted to address such adverse events (such as, by way of example: the business continuity plan, data storage processes, back up tools, insurance policies, etc.).

The process adopted by the Group to manage and control operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the appropriate standards and incentives with the aim of fostering the adoption of professional and responsible behavior at all operational levels, as well as designing, implementing and managing an integrated system for operational risk management that is adequate in relation to the nature, activities, size and risk profile.

The operational risk assessment model adopted is of the "mixed" type, meaning a model based both on qualitative assessments—linked to process mapping, at-risk activities and the corresponding controls adopted—and on quantitative assessments, using the methodologies specified by banking regulations and the industry best practices.

With reference to the quantitative assessment/measurement of the operating risk, BFF Banking Group adopts a risk management framework based on two main processes: Risk Self-Assessment ("RSA") and Loss Data Collection ("LDC").

As for the RSA process, at the Group level, the Parent Company carries out an annual campaign of Risk Self-Assessment—involving all the Operating Units/Corporate Functions exposed to potential operating risk—also in order to use the related outputs for the quantification, in economic terms, of the exposure to operating risk.

The approach of the Risk Self-Assessment is particularly relevant as regards the numeric value of the frequency and impact components of the prospective risk. In particular, these components are:
- expected frequency of the occurrence of the events that may potentially generate operating losses;
- "typical" loss impact which represents an estimate of the potential losses following the occurrence of the single risk event under normal operating conditions;

- worst case impact which represents the economic impact following the occurrence of the single loss event, assuming an extremely serious scenario, although plausible, given the operating context factors and other factors related to the efficacy of the internal control system.

The identification of operational risks is based on corporate processes, taking account of the event type (ET) classification defined by supervisory provisions. In particular, for the purpose of identifying operating risks, reference should be made to specific taxonomies adopted by the Group and related to:

- the types of risk events that may generate operating losses;
- the organizational processes exposed to risk events of an operating nature;
- the risk factors, internal or external to the Group, and the origin of the occurrence of the damaging event, either direct or indirect;
- the business lines, i.e. all business areas, as defined by the Supervisory Authority, where the operating loss may occur.

Both the catalog of operating risk events and the catalog of the organizational processes have been defined at the Group level in compliance with the supervisory provisions.

Subsequently to the identification of the main risks within the corporate processes, the process owner analyses and assesses them through a quantitative estimate of the frequency and of the related potential economic loss (typical and worst case).
The formulation of the estimates for each scenario, subject to measurement by assessors, is supported by numerical scales provided by the Risk Management Function and built on the basis of benchmark data. In particular, the following was provided:

- a scale in support of the estimate of the expected frequency values, expressed in "number of annual events";
- customized monetary scales according to a second-level Event Type in support of the estimates of a typical or worst case potential loss.

The estimates take into consideration internal context factors, in particular potential causes that may trigger the risk ("Risk Factors"), reference corporate processes, internal control systems and any already planned developments. This process thus leads to an estimate of "residual risk".

The results obtained from a process with a prospective assessment of operating risks are then used to quantify the internal capital against the operating risks through the development of a scenario-based Loss Distribution Approach (LDA). This approach, inspired by the best industry practices and taking into consideration the estimates of expected frequency, typical and worst case impact, models the statistical characteristics of the components of frequency and severity.

As for Loss Data Collection, this represents the collection of operating losses, i.e. the amount of the economic effect generated by an operating event, caused by one or more risk factors. The information collected is part of a ratio among different elements, i.e. risk events, risk factor and economic effect. Therefore, each operating loss is classified based on the type of event, the underlying risk factor(s) and the economic effect that has been generated.

In addition, within the framework of the measures adopted regarding the exposure to operational risk, the Group also monitors the specific risks mentioned below, considered as part of operating risks or as second pillar risks.

- **The risk of money laundering and terrorist financing**: the current or prospective risk of losses resulting from the repercussions, also of a reputational nature, caused by money laundering and terrorist financing.
  For the Group, this is the risk that the Bank's financial and commercial counterparties, suppliers, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities.

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

- **Information technology risk**: the risk of current or potential losses due to the inadequacy or failure in the hardware or software of technical infrastructures susceptible to compromising the availability, integrity, accessibility and security of these infrastructures and data.
  In order to ensure constant compliance with law provisions and corporate privacy and security policies, the Parent Company requires that an annual risk analysis of the company's information system be conducted to assess—depending on regulatory, organizational and system changes as well as technological advances—the level of residual risk of company data and assets.
  The Group has adopted the same risk analysis methodology for all the legal entities of the Group.
  The purpose of risk analysis activities is, most notably, to identify and consider possible events that could lead to business process disruption. These events are identified starting from the risk scenarios defined in Bank of Italy's Circular no. 285.
  The purpose of the risk analysis is also to identify the current vulnerabilities, so as to be able to formulate solutions capable of reducing the impact deriving from the occurrence of these events. The elimination or reduction of the impact and/or probability of occurrence of threats is accomplished by setting up and adopting adequate counter-measures and procedures, in terms of protection and prevention.
  Therefore, risk analysis is focused on the identification of the existing counter-measures for the mitigation of risks and on the identification, if necessary, of any areas needing improvement.
  According to the results of these activities, the competent corporate functions make the appropriate decisions about corporate policies, aimed at the considerable reduction of risk (by implementing new counter-measures or controls in order to reduce the system vulnerability), at the undertaking of the risk (risks with a low probability and low impact level), at the transfer of risk through insurance forms (if the results of the analysis indicate risks of low probability with potential high impact effects), or at maintaining the status quo (risk level reduced to a minimum and therefore acceptable).
  Risk analysis includes risks of destruction or even of an accidental loss (qualified as a risk related to Availability), unauthorized access (qualified as a risk involving Confidentiality), prohibited processing or processing not compliant with the purpose of the data collection (qualified as a risk related to Integrity).

Furthermore, the Group meets the requirements set forth in the General Data Protection Regulation, GDPR, and in the Payment Services Directive, PSD2, through adequate controls applied to documentation and procedures.

- **The conduct risk**: the current or prospective risk of losses following an inappropriate offer of financial services and the resulting legal costs, including cases of a conduct intentionally inadequate or negligent.
  The Group, within the framework of the management of operating risks, monitors and oversees the current or prospective risk of losses following an inappropriate offer of financial services and the resulting legal costs, including cases of a conduct intentionally inadequate or negligent (e.g., internal fraud).
  The processes and internal regulations of the Group aim at discouraging, inter alia, improper business practices, avoiding situations of market abuse and insider trading or internal unlawful acts performed by the employees.
  The design of new products or the penetration into a new market is controlled, within the RAF, by an appropriate process involving corporate control functions.

In addition, in order to control the above mentioned risks, the Group adopts specific Organization Models for the management of the risks regarding money laundering, occupational health and safety, and information security.

For computing capital requirements for operational risk, the Banking Group uses the Basic Indicator Approach (BIA), according to which capital requirements are computed by applying a regulatory coefficient to an indicator of the volume of business activity (Relevant Indicator).

Quantitative information

Based on the method described above, the capital requirement for operational risk was equal to €32,453 thousand at December 31, 2019.

Section 12 - Exposure in equities not included in the trading book (Article 447 CRR)

Qualitative information

The Group does not have significant exposures in equities included in the banking book. The only exposures of this type, included in "Available-for-sale financial assets", are:

- the equity investment of €17 thousand in Nomisma S.p.A. - Società di Studi Economici, accounted for at cost, in the absence of other measurement inputs. The equity investment was unchanged compared to the previous year;
- the amount charged to Banca Farmafactoring S.p.A. as part of its contributions to the Voluntary Scheme established by FITD in relation to the actions taken to support Cassa di Risparmio di Cesena for a total of €147 thousand, equal to the fair value communicated directly by FITD in January 2018. It should be noted that the Bank has already announced its withdrawal from the Voluntary Scheme on September 17, 2017. For this reason, the Bank will no longer be forced to make any additional payments to the aforesaid Voluntary Scheme.

It should also be noted that, as regards the valuation of equity securities, as envisaged by the new IFRS 9, any changes in the value of equities (with the exception of dividends) will directly impact shareholders' equity, without being recognized the Income Statement, with an indication on the Statement of Comprehensive Income.

Quantitative information

Key information on the equity investment in Nomisma is provided below:

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal Value per share (€/cent)	Percentage of equity investment
Nomisma S.p.A.	17,335.18	72,667	0.239	0.25%

Registered office	Bologna - Strada Maggiore no. 44
Share capital	€6,963,500 fully paid in

In euros, at 12/31/2018

Equity	8,512,263
Profit (loss) for the period	667,811

Section 13 - Exposure to interest rate risk on positions not included in the trading book (Article 448 CRR)

Qualitative information

General information, operational processes and methods for measuring interest rate risk and price risk

For assessing interest rate risk, potentially linked to fluctuations in interest rates, the Group adopted the method used to determine internal capital set forth in Annex C of Bank of Italy's Circular no. 285/2013 (Part I, Title III, Chapter I) and provided for by recent guidelines issued by the European Banking Authority (EBA)[11]. This method is applied monthly, in order to detect on a timely and ongoing basis any loss resulting from a market shock determined based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase) and ensuring that rates are not negative.

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

- Classification of the assets and liabilities into different periods: the allocation to different periods is made, for fixed-rate assets and liabilities, based on their residual lives, while for variable-rate assets and liabilities, based on the interest rate renegotiation date. To this end, it should be noted that the Group has developed a methodology on the asset core business, that represents the actual exposure to this type of risk relative to the regulatory approach.
- Weighting of net exposures within each period: assets and liabilities are offset, thus obtaining a net position. Each net position, for each period, is multiplied by the weighs, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period.
- Sum of weighted exposures of different periods: weighted exposures of different periods are summed to yield a total weighted exposure.

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

Furthermore, in accordance with the Bank of Italy Circular no. 285/2013, BFF Banking Group assesses the potential impact of changes in interest rates in terms of earnings. In line with the best market practices, the approach used to measure the impact on the net interest margin is the Repricing Gap Approach.

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

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

[11] EBA/GL/2015/08: "Guidelines on the management of interest rate risk arising from non-trading activities"; EBA/CP/2017/19: "Consultation paper on the Draft Guidelines on the management of interest rate risk arising from non-trading book activities".

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

Fair value hedging activities

At December 31, 2019, BFF Banking Group did not hold any forex swap aimed at hedging intragroup loans (between the Parent Banca Farmafactoring S.p.A. and its subsidiaries belonging to BFF Polska Group).

Cash flow hedging activities

At December 31, 2019, BFF Banking Group did not hold any derivative contract aimed at offsetting potential losses attributable to specific types of risks.

Quantitative information

The situation arising from the application of the interest rate management framework at December 31, 2019, as reported below, shows a potential loss in the present value of cash flows, equal to €9.02 million, equivalent to 2.23% on the risk index.

Consolidated interest rate risk (CRR Group) at December 31, 2019
[€/000]

Maturity	Assets	Liabilities	Delta	Market shock	Weighted value
Demand and revocable	1,359.8	255.3	1,104.5	0.00%	-
up to 1 month	205.7	1,734.6	(1,528.9)	0.01%	(0.1)
1 to 3 months	398.1	897.5	(499.4)	0.02%	(0.1)
3 to 6 months	1,269.3	532.8	736.5	0.04%	0.3
6 to 12 months	573.3	406.5	166.8	0.07%	0.1
12 to 24 months	450.3	374.5	75.8	0.14%	0.1
2 to 3 years	273.2	263.3	9.9	0.51%	0.1
3 to 4 years	305.1	337.4	(32.2)	1.01%	(0.3)
4 to 5 years	142.0	36.8	105.2	1.61%	1.7
5 to 7 years	208.7	-	208.7	2.76%	5.8
7 to 10 years	111.3	103.5	7.8	4.24%	0.3
10 to 15 years	13.0	-	13.0	6.43%	0.8
15 to 20 years	2.0	-	2.0	8.72%	0.2
over 20 years	1.2	-	1.2	10.94%	0.1

TOTAL WEIGHTED AMOUNT (TWA)	**9.02**
OWN FUNDS	**405.5**
RISK INDEX (TWA/OWN FUNDS)	**2.23%**

Impact of Consolidated Interest Rate Risk on income component at December 31, 2019
[€/000]

Maturity	Assets	Liabilities	Delta	Weight	Weighted value
Demand and revocable	1,359.8	255.3	1.104.5	99.72%	1,101.4
up to 1 month	205.7	1,734.6	(1,528.9)	95.69%	(1,463.1)
1 to 3 months	398.1	897.5	(499.4)	83.33%	(416.2)
3 to 6 months	1,269.3	532.8	736.5	62.50%	460.3
6 to 12 months	573.3	406.5	166.8	25.00%	41.7
			Shock parallelo	0.12%	(0.34)

TOTAL WEIGHTED AMOUNT (TWA)	**(0.34)**
NET INTEREST MARGIN	**200.5**
RISK INDEX (TWA/OWN FUNDS)	**(0.17%)**

In addition to calculating the interest rate risk according to the regulatory framework approach, and in order to take due account of the Group's business model, the Risk Management Function of the Parent Company has also monitored this type of risk through a management framework that envisages a division between the fixed and variable rates implicit in the Group's core business (interest on payments and late payments). Compared to the above-mentioned framework, at December 31, 2019, this management approach showed lower values in terms of internal capital, both with reference to market and regulatory shock, as well as an improvement in the risk ratio.

Section 14 - Exposure to securitization positions (Article 449 CRR)

Information on the transaction with the vehicle BFF SPV S.r.l.

Qualitative information

Strategies, processes and objectives

In July 2017, the private placement of a securitization transaction was concluded for €150 million—the maximum amount of the flexible senior note—with the aim of diversifying funding activities. It was renewed in December 2018.

Transaction details

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

The securitization structure provides for a revolving period during which sales of revolving receivables will be made against collections of the receivables in order to maintain the collateralization ratio provided for by the contract.
The revolving phase, started in September 2017 and originally valid through January 15, 2019, was renewed in December 2018: as a result, the revolving phase outstanding at December 31, 2018 is to end on February 17, 2020. On February 6, 2020, the revolving phase was once again renewed and it is to end on February 15, 2021.

Description of the risk profile

Banca Farmafactoring S.p.A., as the originator, maintains a role in the securitization transaction, even though it sells receivables on a non-recourse basis.
This transaction includes a credit enhancement mechanism through an overcollateralization ratio (at December 31, 2019, equal to 138.05% of the amount of the securities issued) and a subordinated loan by Banca Farmafactoring S.p.A..

At the end of the revolving period, there will be an amortization period of up to one year related to the receivables collection performance, until full repayment of securities.
Through the exercise of a put option, the vehicle may also transfer back to Banca Farmafactoring S.p.A. any receivables outstanding after the 12 months set as the maximum limit for the amortization period.
Based on the above, all of the risks and rewards of the transaction were not transferred to the assignee but remain with Banca Farmafactoring S.p.A.. Consequently, the securitization risk is included in the credit risk.
Banca Farmafactoring S.p.A. does not hold any financial instruments issued by the vehicle as part of the transaction and, as collection agent, takes care of the recovery and collection of receivables on behalf of the servicer Zenith Service S.p.A.

Quantitative information

Type of financial instruments held

Banca Farmafactoring S.p.A. does not hold any financial instruments connected with the above-mentioned transaction.

Sub-servicer activity

Banca Farmafactoring S.p.A., in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A.
Following the sales of receivables during the revolving phase of the transaction, the face amount of total outstanding receivables totaled €219 million at December 31, 2019.

Banking Group—Exposure arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

Amounts in € thousands

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

Section 15 - Remuneration policy (Article 450 CRR)

Qualitative information

Remuneration policy definition

The Banca Farmafactoring Banking Group's remuneration and incentive policies, as approved by the Shareholders' Meeting on March 28, 2019, aim at achieving, in the interests of the stakeholders, remuneration schemes that are in line with the corporate values, strategies and goals over the long term. These schemes are linked to the company results—adjusted to take into account the risks assumed by the Group—and, more specifically, to the levels of capital and liquidity necessary to manage business activities, such as to avoid distorted incentives that may lead to violations of laws or the excessive assumption of risks for the Group.

In defining its remuneration policies and incentives, the Bank is supported by the Legal Firm Gattai, Minoli, Agostinelli, Partners.

With reference to the process for defining the remuneration policy, the following should be taken into account:

i) The shareholders' meeting

Besides its legal responsibilities, as regards the remuneration policies, Banca Farmafactoring S.p.A.'s Bylaws state that the Ordinary Shareholders' Meeting shall:

- decide the remuneration to be paid to Directors, Statutory Auditors and the Independent Auditors responsible for auditing the accounts;
- approve the Policy;
- approve any remuneration plans based on Financial Instruments;
- approve the criteria for determining remuneration in the case of early termination of employment or early resignation from the role held, including the remuneration limits in terms of annual Fixed Remuneration, and the maximum amount arising from their application;
- examine, at least annually, the disclosure on the remuneration and incentive policies adopted by the Bank, and on their implementation in compliance with Supervisory Provisions on Remuneration. Such disclosure contains the same information on the Remuneration and incentive practices provided to the public, in compliance with the Supervisory Provisions on Remuneration;
- approve the increase in the ratio between Risk Takers' Variable and Fixed Remuneration from 1:1 up to a maximum of 2:1. This power was exercised through the resolution of the Shareholders' Meeting of December 5, 2016, which approved the proposal of the Board of Directors to raise the ratio between Variable and Fixed Remuneration from 1:1 to the maximum of 2:1, except for Personnel belonging to Corporate Control Functions.

The above-mentioned resolution of the Shareholders' Meeting was adopted:

a) in compliance with the qualified majorities required by the Supervisory Provisions on Remuneration[12];
b) after prior notice to the Supervisory Authority provided for by the Supervisory Provisions on Remuneration[13].

ii) The Board of Directors shall:

- draft, submit to the Shareholders' Meeting and review, at least once a year, the Policy; it shall oversee its proper implementation, ensuring that it is adequately documented and can be accessed by the Personnel;
- approve the remuneration and incentive schemes for Personnel belonging to the BoD field of competence. In particular, it approves the entire remuneration package of the Chief Executive Officer, including any stock options;
- manage the Stock Option Plan, and it is responsible, among other things, for:
- determining the maximum number of stock options that can be allocated overall to beneficiaries in relation to each tranche;
- identifying the beneficiaries of each tranche, as far as the Personnel belonging to the BoD field of competence is concerned;
- ensuring that the remuneration and incentive schemes are consistent with the overall decisions of the Bank, in terms of the assumption of risks, strategies, long-term objectives, corporate governance structure and internal controls.

iii) The Remuneration Committee

The Remuneration Committee is responsible for providing advisory and proposals to the Board of Directors for staff remuneration and incentive policy issues. Composed of three non-executive members, two of whom are independent, the Committee is charged with formulating proposals for staff compensation, whose remuneration and incentive schemes are decided by the Board of Directors, and has a consulting role for determining the remuneration criteria for Risk Takers.

In 2019, the Remuneration Committee held 10 meetings. Its main activities included:

- reporting the 2018 performance results concerning the Chief Executive Officer, the Senior Executives and Executives directly reporting to the Chief Executive Officer, and the Heads of the Control Functions of the Group for the definition of the relevant MBO;
- defining the 2019 quantitative objectives for the Chief Executive Officer, the Senior Executives, the Executives directly reporting to the Chief Executive Officer and the Heads of the Control Functions of the Group;
- defining the Report;
- analyzing and approving the remuneration packages for hiring new Executives and Senior Executives;
- updating the remuneration and incentive policies for the strategic supervision, management and control bodies, and also for the Banca Farmafactoring Banking Group's staff;

[12] According to the Supervisory Provisions on Remuneration, resolutions of the Shareholders' Meeting shall be considered as approved through a vote in favor by at least two-thirds of the share capital represented at the Shareholders' Meeting (where the meeting is duly constituted with at least half the share capital being represented). Alternatively, the provisions are to be approved by a vote in favor by at least three quarters of the share capital represented at the Shareholders' Meeting, irrespective of the amount of share capital being represented.
[13] As required by procedure, the proposal which is to be submitted to the Shareholders' Meeting shall be sent to the Bank of Italy or the European Central Bank at least 60 days prior to the date on which it is scheduled for a decision before shareholders. The proposal must include all associated information and records aimed at demonstrating that the topmost limit(s) for Risk Takers—or particular categories of the latter—do not compromise compliance with prudential regulations and, in particular, that they do not compromise compliance with own funds requirements.

- identifying the beneficiaries of the Stock Options within the categories of competence of the Board of Directors.

iv) The Control and Risk Committee

The Risk Committee is responsible for, among other, ascertaining that the incentives in the Group remuneration scheme are consistent with the RAF.

Based on an analysis of the labor market, changes in the organization or in the strategic guidelines of the Group, at least once a year, the Human Resources and Organizational Development Function verifies whether the remuneration and incentive policies need to be revised. The Human Resources and Organizational Development Function also reviews the incentive scheme from the standpoint of instruments, conditions, operational mechanisms and parameters adopted by the Group so as to implement the provisions of the Policy.

The Parent Company adopts the Policy that includes the remuneration policies for the entire Group based on the following process, which is carried out at least once a year.

The Human Resources and Organizational Development Function prepares the text of the Policy. The Policy drafting process also involves the following parties:
- the Risk Management Function: it supports the identification of Risk Takers, by providing indications relating to the current and prospective risk profile in line with the RAF, also on a consolidated basis. In addition, it puts forward proposals on incentive scheme parameters and monitors the variable component access gates;
- the Regulations and Processes Organizational Unit: it contributes to the identification of Risk Takers, by providing indications on the current and prospective risk profile, in line with the regulations on the responsibilities of corporate structures and corporate procedures.

Once the Policy has been drafted, the Compliance and AML Function verifies the same and makes any observations. In this case, the Human Resources and Organizational Development Function implements the observations of the Compliance and AML Function, and consequently updates the text of the Policy before resubmitting it to the Compliance and AML Function, which after further verification, if there are no further findings, certifies compliance with the applicable legislation by issuing a compliance note.

The Human Resources and Organizational Development Function then submits the Policy, together with the compliance note, to the Remuneration Committee.

The Remuneration Committee examines the Policy and makes any observations. In this case, the Policy is sent back to the Human Resources and Organizational Development Function, which, supported by the Compliance and AML Function, implements the observations of the Remuneration Committee, and updates the Policy, which is then resubmitted to the Remuneration Committee. The Policy is verified, to the extent of its competence, by the Internal Audit Function, which issues a specific report. If there are not further observations, the Remuneration Committee submits the Policy to the Board of Directors for approval.

The Board of Directors in turn resolves to submit the Policy for approval by the Shareholders' Meeting.

The Shareholders' Meeting then resolves to approve the Policy.

Identification of "Risk Takers"

The Policy is based on a corporate role classification system consistent with the definition of "Risk Takers" as set out by the Group. In particular, the Group identifies the Risk Takers through an annual assessment process carried out by the Human Resources and Organizational Development Function, in cooperation with the Regulations and Processes Organizational Unit and the Risk Management Function, based on the qualitative and quantitative criteria provided for by Regulation (EU) 607/14, the internal regulations of the Group, corporate procedures, role descriptions and individual powers of attorney. Therefore, taking into account the level of independence between the different roles and their impact on business, the Board of Directors identifies, with a specific resolution, the Risks Takers following assessment by the Human Resources and Organizational Development Function with the support of the Risk Management and Compliance and AML Functions, after consulting the Remuneration Committee.

In addition, whenever the Bank establishes a new working and/or cooperation relationship, the Human Resources and Organizational Development Function carries out an assessment for the identification of personnel to verify if he or she should be classified as Risk Taker.

Remuneration components

The BFF Group, using adequate remuneration and incentive mechanisms, intends to encourage corporate competitiveness while promoting sound and prudent management, and strengthen the management of the company, by guaranteeing that independent, informed and timely decisions are taken at an appropriate level, so as to avoid conflicts of interest and ensuring proper disclosure as required by the competent authorities.

In brief, the remuneration policies adopted by the Group, in 2020, are as follows:

All Directors:
i. receive the remuneration established by the Shareholders' Meeting in addition to the reimbursement of expenses incurred to perform their functions and, if approved, compensation relating to any roles held within Board Committees;
ii. for Committee Chairs and members, an additional compensation under Article 2389, third paragraph, of the Italian Civil Code may be decided by the Board of Directors;
iii. have an insurance policy for "civil liability", whose cost is borne by the Bank.

With the exception of the Chief Executive Officer (and any Executive Directors), Directors shall never receive any Variable Remuneration.

The Chairman of the Board of Directors is paid a Fixed Remuneration component established by the Board of Directors pursuant to Article 2389, third paragraph, of the Italian Civil Code, determined ex ante and consistent with his role.

The Chief Executive Officer is paid:

i. a Fixed Remuneration component established by the Board of Directors pursuant to Article 2389, third paragraph, of the Italian Civil Code, and a benefits package;
ii. a Variable Remuneration component, subject to the general principles[15] described in the Policy, and including:
iii. an MBO, whose maximum amount is 100% of the Fixed Remuneration (excluding Benefits), related to the achievement of Target EBTDA RA and subject to
a) exceeding gates relating to liquidity, capital and profitability ratios as per points i), ii) and iii) of section (C) of paragraph 10.2.3.1 (Monitoring over achievement of corporate objectives), as well as
b) achieving an EBTDA RA / Target EBTDA RA ratio at least equal to 100%, unless otherwise resolved upon by the Board of Directors in relation to criteria and conditions for MBO payment in favor of Senior Executives, Executives and other Bank's managers, according to point i) of section (D) of paragraph 10.2.3.1 (Implementation of multipliers);
iv. any stock option allocated by the Board of Directors pursuant to the Stock Option Plan currently in force;
v. a retention bonus[16];
vi. a golden parachute potentially to be disbursed to the Chief Executive Officer at the time of termination of his office, in an amount equal to the higher of:
a) 1.8 times the amount between the Fixed Remuneration (excluding the Benefits) and the target MBO[17];
b) €2,301,000.00
vii. a non-compete agreement.

The above-mentioned variable component is subject to:

- limitations pursuant to Circular no. 825, in terms of the ratio between the fixed and variable component, and of the balance between cash and financial instruments;
- malus and clawback mechanisms.

Statutory Auditors

The Statutory Auditors:

- receive a fee as established by the Shareholders' Meeting;
- do not receive any variable remuneration component or any compensation linked to the results of the Bank or the Group;
- have an insurance policy for "civil liability", whose cost is borne by the Bank.

[15] In particular, the following general principles shall apply to the Chief Executive Officer's remuneration:
(i) atio between Variable and Fixed Remuneration as per point 10.2.2 (Ratio between Variable and Fixed Remuneration);
(ii) payment methods concerning Variable Remuneration (i.e. deferral period, balance between cash and financial instruments, retention period, rules concerning "particularly significant" Variable Remuneration) as per point 10.2.2.1 (Payments methods concerning Variable Remuneration);
(iii) ex post adjustment mechanisms (Malus and Clawback) as per point 10.2.2.2 (Ex post adjustment mechanisms (Malus and Clawback));
(iv) activation procedure for Malus and Clawback mechanisms as per point 10.2.2.3 (Activation procedure for Malus and Clawback mechanisms).
Since the Chief Executive Officer is not employed by the Bank under a staff employment contract, the criteria of staying at the Bank, not having submitted a notice of resignation, and not having any disciplinary proceedings pending shall not apply.

[16] On January 14, 2020, the event related to the activation of the retention bonus set forth in the contract with the Chief Executive Officer, i.e. the investment held by the BFF Luxembourg S.à r.l. in the Bank, was reduced to less than 25% of the Bank's share capital. Due to this event, the amount of €2,301,000 was due, on that date, by the Company to the Chief Executive Officer (amount equal to three times his fixed remuneration), subject to the rules applicable in terms of variable remuneration described in this Policy. For the purpose of calculating the ratio of the Fixed Remuneration to the Variable Remuneration, the amount of the retention bonus is allocated pro-rata for each year of the stability period and therefore starting from the year when the retention bonus was agreed upon (2017) until the time of occurrence of the event. The up-front amount of €1,610,700 was paid on February 27, 2020 and consisted, respectively, of the cash amount and of the amount in financial instruments, the acceptance of which was subject to communication to the market in compliance with the regulations on internal dealing pursuant to art. 19 of Regulation (EU) 596/2014, the so-called MAR.

[17] Target MBO is the minimum amount, other than zero, attributable as MBO to the Chief Executive Officer in the reference period.

Furthermore, the Chairman of the Statutory Auditors is granted an additional fee, as established by the Shareholders' Meeting.

Supervisory Body
The members of the Supervisory Body who are not Employees receive the Fixed Remuneration established by the Board of Directors, on the basis of market conditions and the responsibilities assumed, in order to guarantee the independence and autonomy of their functions and the diligent performance of their duties.

Instead, the members of the Supervisory Body who are employed by the Group are not paid any fees for their assignment.

The members of the Supervisory Body shall never receive any variable remuneration component linked to the results of the Group.

Remaining staff
Compensation for the remaining staff is decided either by the Board of Directors (for Senior Executives, Executives directly reporting to the Chief Executive Officer and Heads of Control Functions) or by the Chief Executive Officer or any persons authorized by the CEO, in accordance with the Group Remuneration and Incentive Policy and with applicable contract law (in particular, based on the Italian Collective Labor Agreement for management staff and for personnel in professional areas of the credit, financial and instrumental undertakings, and based on the Italian Collective Labor Agreement for Executives of credit, financial and instrumental undertakings, as well as similar collective labor agreements in force in countries other than Italy).

Fixed Remuneration

The fixed remuneration is related to the experience and professional skills of the company personnel, also on the basis of the positions held.

Fixed Remuneration also include Benefits, as per the relevant definition. Each company of the Group may at its discretion offer benefits packages, consistently with the provisions of local law, according to the importance and complexity of the positions held, and considering the principles of equality and alignment to the local labor market and, in any case, following the guidelines of the Group, in compliance with the Policy.

The fixed remuneration component is determined based on certain principles in line with the Code of Ethics adopted, which can be summarized as follows:
- Fairness: attribution or recognition of what the individual employee is entitled to, in terms of professional growth, based on the skills required, and the roles and responsibilities held, without any discrimination, giving everyone the same career opportunities.
- Competitiveness: analysis of the remuneration level of each role in relation to specific market benchmarks.
- Meritocracy: rewarding and recognizing individuals based on their merit.
- Consistency over time: consistent behavior with reference to medium-long term objectives and the risk management policies pursued.

Variable Remuneration

General principles.
The recognition of the Variable Remuneration and the correlation between risks and performance is achieved through a process aimed at remunerating personnel in compliance with the risk profile defined in the Risk Appetite Framework (RAF) and with a view to on-going concern and sustainability of the results in the long term.

In particular, the disbursement of the variable remuneration occurs in the presence of the following conditions: *(i)* liquidity (Liquidity Coverage Ratio, LCR), *(ii)* capital (Total Capital Ratio) equal at least to the risk tolerance level approved by the Board of Directors and defined within the RAF in effect at the end of the period to which the incentive system refers, and *(iii)* positive profitability adjusted based on risk and cost of capital (EBTDA Risk Adjusted, EBTDA RA).

Furthermore, Variable Remuneration is linked to various parameters which are consistent with the function of the specific instrument adopted to pay the Variable Remuneration (e.g., individual and/or Bank performance, however measured, years of employment, etc.). No forms of guaranteed Variable Remuneration are allowed except in special cases when new Persons are hired and only for the first year of employment or office (i.e. entry bonus).

Such guaranteed Variable Remuneration components:
i. shall not be paid more than once to the same person;
ii. are not subject to provisions on Variable Remuneration structure (i.e. rules on balance between cash and financial instruments, deferral and retention);
iii. contribute to determine the ratio between Fixed and Variable Remuneration for the first year of employment, unless a one-off payment is provided at the time of staff hiring.

Payment of Variable Remuneration (both up-front and deferred components except for golden parachutes) is subject to:
i. staying with the Bank and/or Subsidiaries—no notice of resignation must have been submitted and no pending disciplinary proceedings must have ended with dismissal at the payment date, as far as Employees are concerned;[18]
ii. compliance with income, capital and liquidity parameters, as far as Employees are concerned.

With reference to the requirement of staying at the Bank and/or any Subsidiary, exceptions may be made at times where there are exceptional circumstances which can be appropriately justified (the so-called good leaver provisions). In such situations, despite the ongoing employment condition not being fulfilled, the Variable Remuneration in question may still be dispensed in whole or in part, or on a pro rata basis depending on the time of year in which the relationship with the Bank and/or any Subsidiary is confirmed to have been concluded. Such exceptions must be approved by the Chief Executive Officer, unless they are in relation to Personnel belonging to the BoD field of competence, in which case they must be approved by the Board of Directors itself.

As regards this subject, and in order to avoid any circumvention of legislation or the Policy, the Bank ensures that Group Employees are not remunerated (and do not receive payments or other benefits) through vehicles, instruments or methods which are in any way evasive. This also applies to Subsidiaries. To this end, the Bank may request the Group's Risk Takers to communicate the opening of any

[18] As for the general principles applying to the Chief Executive Officer's Variable Remuneration, reference should be made to note 15.

deposit and management account with other intermediaries, and any transactions or financial investments carried out which may affect the Group's mechanisms for risk alignment.

The Variable Remuneration component consists of various elements, including:

Management By Objective ("MBO")

MBO is a formalized incentive system that includes a potential annual incentive payment based on gross annual remuneration, if the corporate objectives and individual qualitative and quantitative targets are achieved. The mix of quantitative and qualitative objectives is suitably balanced according to the roles and responsibilities of the entitled personnel.

In the first quarter of each year, based on the guidelines provided by the Chief Executive Officer and on a process aimed at complete alignment and the widest sharing, all Heads of the Organizational Units/Functions/Departments inform their employees of the qualitative and quantitative objectives on the basis of which, at year end, individual performance will be assessed and the MBO variable remuneration component will be calculated. Senior Executives and Executives directly reporting to the Chief Executive Officer discuss their MBO objectives with the Chief Executive Officer. Then, they are submitted for approval by the Board of Directors, in accordance with the provisions of law and the relevant Policy, and with reference to the Heads of the Corporate Control Functions. The MBO objectives of the other employees are determined by the Chief Executive Officer.

As regards the MBO, during the initial phase the bonus basic amount is calculated based on the achievement of the individual objectives. Subsequently, in order to verify that the MBO can be paid, the income, capital, liquidity, and profit gates, net of risk and cost of capital, also defined "EBTDA Risk Adjusted (or $EBTDA^{RA}$)", are also checked.

Once the 3 gates have been met, calculation of the Bank Employees MBO is based on two different multiplier mechanisms.

The first multiplier is the $EBTDA^{RA}$/Target $EBTDA^{RA}$ ratio. This multiplier may increase the MBO by up to 40% for supervisors, Senior Executives, Executives and other Bank managers, and up to 30% for the rest of staff. This multiplier may also produce a decrement, if results are below the Target $EBTDA^{RA}$. In any case, the MBO bonus is paid to supervisors and the rest of staff—even if the targeted $EBTDA^{RA}$ has not been reached.

The objective and multiplier linked to the $EBTDA^{RA}$/Target $EBTDA^{RA}$ ratio do not apply to:

a. Corporate Control Functions;
b. Reporting Officer;
c. Human Resources and Organizational Development Function.

The second multiplier is linked to Customer Satisfaction. This business performance indicator is put together on the basis of a survey conducted by the Sales Organizational Unit, and may increase the MBO by up to a maximum of 9%. This indicator is only used as an incremental multiplier.

Once the profitability gates are verified, the incremental costs arising from the application of these mechanisms are deducted from the results achieved in order to ensure the MBO self-financing. In any case, the final amount of the MBO is always paid in compliance with the Policy restrictions and limits.

In particular, with regard to Senior Executives and Executives directly reporting to the Chief Executive Officer and the Heads of the Corporate Control Functions of the Parent Company, the objectives assigned along with the relevant assessment are submitted for approval by the Board of Directors, which relies on the support and contribution of the Remuneration Committee and the Risk Management Function to verify the actual achievement of the objectives and gates for the payment of the MBO in accordance with the RAF.

The MBO is focused on annual objectives and retention mechanisms (e.g., payment subject to years of employment or position) for all personnel.

As regards the annual objectives, three "gates" are applied during the year in which entitlement to payment is accrued, linked to the achievement of the economic objective established in the budget for such year, adjusted for risk as provided for in the Risk Appetite Framework, associated with compliance with capital and liquidity requirements:

1. The liquidity indicator adopted as a gate by the Group is a Liquidity Coverage Ratio (LCR) which is at least equal to the level of "risk tolerance" approved by the Board of Directors, as defined in the RAF in force at the end of the year to which the MBO refers. In any case, the LCR must also comply with requirements provided for by supervisory policies on remuneration.

2. The capital indicator adopted as a gate by the Group corresponds to a Total Capital Ratio level which is at least equal to the level of "risk tolerance" approved by the Board of Directors, as defined in the RAF in force at the end of the year to which the MBO refers. In any case, the TCR must comply with requirements provided for by supervisory policies on remuneration.

3. The profitability indicator adopted as a gate by the Group corresponds to a positive EBTDA Risk Adjusted (or $EBTDA^{RA}$). This indicator reflects an EBTDA adjusted on the basis of a correction mechanism which takes into account risks assumed by the Group, in line with capital targets defined in the RAF and as defined on the basis of the strategic plan / budget approved at the beginning of the applicable year. It is based on the following formula: $EBTDA^{RA} = EBTDA - (RWA^{M} * TCR\ Target * Ke)$[19].

For subsidiaries, there are additional gates linked to the profitability of the individual companies.

In order to ensure sustainability in the long term, the MBO of Risk Takers and personnel with managerial roles and/or highly professional positions shall be paid as follows:

- 70% after the approval of the financial statements by the Shareholders' Meeting;
- 30% deferred two years[20] after accruing. For example, for the year ending December 31, 2019, the deferred MBO is subject to an additional "gate", determined by achievement in the year prior to payment (scheduled for 2021), that is in the year ending December 31, 2021, of profits, net of risk, together with compliance with the minimum capital and liquidity requirements;

[19] Where:
EBTDA: earnings before tax (Item 290) excluding net adjustments to property, plant and equipment (Item 210) and intangible assets (item 220), and income statement items offset by relevant changes in equity (for example, foreign exchange losses or expenses relating to the Stock Option Plan).
RWA^{M}: overall final and Group annual average RWA compared to the monthly average RWA, determined by the Planning, Administration and Control Department on the basis of monthly accounting and by replicating the mandatory prudential accounting activities for quarterly supervisory reports.
TCR Target: in the absence of an eligible subordinated Tier 2, the TCR Target is formed by the Total Capital Ratio risk appetite threshold defined in the RAF. In case of eligible subordinated Tier 2, the TCR Target to be applied in the formula is equal to the difference between 15% and the Tier 2 percentage of the Group TCR Target).
Ke: cost of the Group's own capital equal to 10%.

[20] Considering that the Bank is classified, for the purposes of remuneration policies, as an intermediate-size bank, a shorter deferral period could apply—up to one year and a half. The Bank decided to follow a more conservative approach by adopting a longer deferral period than that required by Supervisory Provisions for intermediate-size banks.

- for employees, in particular, at least 6 months of employment in the reference year and staying at the Group at the time of payment are generally required.

Company Bonus

For Parent Company's employees subject to the Italian collective labor agreement for the banking sector, with the exception of executives, a company bonus ("VAP") is envisaged, on the basis of the relevant national collective agreement, providing for compensation following the achievement of specific performance objectives by the Bank.

The company bonus may only be paid in cash or through corporate welfare goods and services, on the basis of the relevant supplementary agreements.

Stock Option Plan

On December 5, 2016, the Shareholders' Meeting approved a Stock Option Plan.
The Stock Option Plan is based on the allocation of options giving entitlement to subscribe for or purchase the Bank's ordinary shares.

This Plan aims to:
a) encourage the integration of employees and managers, by allowing them to benefit from company results;
b) increase employee awareness of value creation for the Group and for shareholders;
c) increase the retention of key resources, decreasing resignations from the Group by valued professionals;
d) improve the Group's competitiveness on the labor market, making it more attractive for the most talented people with skills and expertise suited to the Group's needs.

The value of the options granted to the beneficiaries is one of the variable remuneration components for the relevant year, like the MBO. Together, they determine the 2:1 ratio and the 50/50 ratio (between cash and financial instruments), where applicable.

Other components

Additional components of the Variable Remuneration are provided for, compared with the MBO bonus, within the limits of the Policy and the regulations in force from time to time, including the Sales Bonuses.

The Sales Bonuses provide for the disbursement of an amount at the achievement of the annual qualitative-quantitative objectives, set up both at an individual or corporate level, for the purpose of supporting the achievement of the business and profit/equity objectives of the Bank, taking into account the actual requirements of the customers and in line with their risk profile.

Golden parachute

Golden parachutes are approved by the Board of Directors as far as the Personnel belonging to the BoD field of competence is concerned, and by the Chief Executive Officer as for the rest of Personnel.

Golden parachutes include[21]:
i. amounts pertaining to non-competition agreements;
ii. amounts to be paid under a specific agreement to settle any dispute or potential dispute, concerning the (potential) end of employment or office, regardless of where it is reached;
iii. the indemnity for not submitting the relevant notice of resignation, as for the portion exceeding the amount provided for by the law.

It should be noted that, except for the agreement involving the Chief Executive Officer, there are no other golden parachutes within BFF Banking Group.

Discretionary pension benefits

No discretionary pension benefits have been implemented so far in favor of Personnel. However, following prior approval by the Board of Directors for Personnel belonging to the BoD field of competence, or by the Chief Executive Officer for the rest of staff, Group companies have the power to award discretionary pension benefits, as defined and set out under the Supervisory Provisions on Remuneration. In this case, for the purposes of applying the provisions on the Variable Remuneration to discretionary pension benefits, the following criteria are complied with[22]:
i. if the Personnel terminates the employment relationship or office before accruing the right to retirement, the discretionary pension benefits are invested in Financial Instruments, held by the Bank for a period of five years (during which interest and/or dividends continue to accrue) and are subject to ex post adjustment mechanisms in accordance with the provisions of point 10.2.1.3 (Ex post adjustment mechanisms (Malus and Clawback));
ii. if the employment relationship or office ends after accruing the right to retirement, the discretionary pension benefits are provided to the employee in the form of Financial Instruments and are subject to a retention period of five years, during which interest and/or dividends continue to accrue;
iii. the discretionary pension benefits are not included in the calculation of the 2:1 ratio between Variable and Fixed Remuneration.

Early termination of the employment relationship

The treatment applied in the event of the termination of the employment relationship is that provided for by the relevant employment contract. The Board of Directors of the Parent Company may offer golden parachutes for Risk Takers in the event of early termination of the employment relationship or in the case of end of term of office, according to the conditions provided for by existing regulations and criteria approved by the Shareholders' Meeting.

[21] Note 16 of Section III of the Supervisory Provisions on Remuneration specifies that, for the purposes of the Supervisory Provisions on Remuneration, "golden parachutes" include not only the golden parachutes as commonly known (i.e. amounts to be paid under a specific agreement to settle any dispute or potential dispute, regardless of where it is reached), but also the amounts pertaining to non-competition agreements and the indemnity for not submitting the relevant notice of resignation, as for the portion which may exceed the amount provided for by the law.
[22] Reference should be made to Section III of Supervisory Provisions on Remuneration.

In order to determine such compensation, qualitative and quantitative indicators are applied which reflect the performance level and risks assumed by the person and by the Bank, in addition to ex post (malus and clawback) adjustment mechanisms, within the limits permitted by the applicable collective labor agreement, as established by the Supervisory Provisions for Banks and, in any case, in accordance with the limits and provisions of applicable legislation.

Non-competition agreement

In the event that an employee signs a “non-competition agreement” preventing him/her from working for specific companies for a set period of time following the date of termination of the employment relationship, the Group company which employed him/her will pay compensation calculated based on the gross annual fixed remuneration received in the last year of employment.

The compensation provided for by the non-competition agreement is subject to ex post (malus and clawback) adjustment mechanisms, within the limits permitted by the applicable collective labor agreement, as established by the relevant regulatory provisions and, in any case, in accordance with the limits and provisions of applicable legislation.

The payment of compensation for the non-competition agreement takes place after termination of the relationship. For Risk Takers, such compensation is subject to the rules on deferral and financial instrument balancing applying to the variable remuneration component.

Ex post adjustment mechanisms (Malus and Clawback)

The Variable Remuneration, including golden parachutes, is subject to ex post (malus and clawback) adjustment mechanisms, which may result in a reduction, even significant, or elimination of the Variable Component. The adjustment mechanisms shall be identified within the limits permitted by the law and the collective agreements applicable to employment relationships, suitable to reflect performance levels, net of the risks actually assumed or taken, and capital levels, as well as individual conduct.

For the purposes of recognizing deferred Variable Remuneration, and if all other legal and contractual conditions apply, it is expected that a pre-determined gate shall be applied for the period in which the right to payment falls due. This gate is linked to the Group achieving positive returns on a risk-adjusted basis, along with compliance with risk tolerance levels for capital (TCR) and liquidity (LCR) as defined in the RAF in force at the end of the previous year, including settlement of any deferred Variable Remuneration (the “Malus” condition).

The Variable Remuneration component is denied or, if already paid, shall be reimbursed in the event that the conduct of the beneficiary—while working for the Bank or in any case when carrying out his/her professional activities—falls within one of these categories (the “Clawback” conditions):

i. conduct resulting in a significant loss for the Group, the Bank or for Subsidiaries or for customers; in this regard it should be noted that the Parent Company’s Board of Directors has established, through a resolution dated March 2, 2015, a minimum threshold for such loss, corresponding to the “average” risk indicated in the Group Risk Management Policy adopted by the Group, equal to €1 million;
ii. loss of one or more of professionalism, good standing and independence requirements by staff members who carry out administration, management or control functions as per Article 26 of the Consolidated Law on Banking;

iii. violation by the relevant persons of the obligations set forth in Article 53, paragraph 4 et seq., of the Consolidated Law on Banking about risk taken by the Group in relation to anyone who may directly or indirectly influence the management of the Bank or the Group as well as any associated party, as well as situations of conflict of interest and/or violation of the conditions and limits identified by the Bank of Italy pursuant to the aforementioned Article 53 of the Consolidated Law on Banking;
iv. breach of duties or expectations included in the Supervisory Provisions on Remuneration (Section III, e.g., receipt of undue remuneration, or breach of the retention period);
v. specific intentional fault or serious misconduct which may cause capital damage or otherwise, including damage to the reputation of the Bank or Group companies. This applies even if the damage is not fully quantifiable, including by way of example and not limited to:
vi. breach of confidentiality or non-competition obligations while under a contractual relationship with the Bank;
vii. post-contractual breach of any confidentiality or non-competition obligations, including non-competition agreements under Article 2125 of the Italian Civil Code;
viii. intentional fault or serious misconduct resulting in the violation of the obligations provided for by Legislative Decree 231/2001 or by the Code of Ethics;
ix. intentional fault or other serious misconduct resulting in frauds to the detriment of the Group, the Bank or the Group companies.

If one of these Clawback conditions is met, the Board of Directors, in less serious cases, may decide to proportionally reduce, instead of completely eliminate, the relevant Variable Remuneration, by providing adequate reasons. The amount may be deducted, for offsetting purposes, from the beneficiary's Remuneration and/or termination benefits.

The Malus and Clawback mechanisms apply from the moment the Bank verifies the case involving the Malus and Clawback conditions, following the procedure indicated in point 10.2.1.4 (Activation procedure for Malus and Clawback mechanisms).

In addition to compensation for any damages, Group companies may also claw back all or part of any Variable Remuneration previously paid. This applies from the time when it is confirmed that Clawback conditions exist, and they may exercise this right within five years of each payment.

In addition, the termination of the employment relationship and/or end of term of office does not prevent the activation of Clawback mechanisms, which in any case take into account the relevant legal, contribution and tax profiles, and the time limits established by applicable local regulations.

Quantitative information

Fixed and Variable Remuneration paid by the Group in 2018 to the various categories of beneficiaries is as follows:

Business line	Recipients (a) (b)	Fixed remuneration (c) €K	Variable remuneration accrued in 2019 €K	Of which deferred portion (cash+financial instruments) €K	Deferred portion paid in 2019 €K
Executive directors or directors with specific powers (d)	1	845	720	216	157
Chair of the body with strategic supervisory functions (d)	1	245	-	-	-
Other non-executive directors (e)	7	334	-	-	-
Statutory Auditors	3	215	-	-	-
Heads of the main Line and Staff structures	21	2,843	1,076	321	136
Heads of Control Functions	3	536	168	50	23
Total	**36**	**5,018**	**1,964**	**587**	**316**

(a) Persons holding two offices are counted only once.
(b) Figures include also those holding office for part of the year.
(c) Fixed remuneration includes benefits.
(d) The fixed remuneration also includes remuneration for the position of Director.
(e) BFF's Chairman and Chief Executive Officer are not taken into account, since their remuneration for the position of Director is included in fixed remuneration. Two Non-Executive Directors waived their right to the relevant compensation and therefore, they are not included among recipients.

The "Remuneration Report" includes all the information required by Article 450 of the CRR concerning the remuneration policy and practices for those categories of staff whose professional activities have a material impact on the Bank's risk profile.

Section 16 - Leverage (Article 451 CRR)

Qualitative information

The leverage ratio has been introduced by Bank of Italy's 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, implementing Regulation (EU) 575/2013 (CRR, Capital Requirement Regulation), as subsequently amended, relating to new harmonized measures for banks and investment firms. It has then become an integral part of the Disclosure which institutions must provide, in accordance with Article 451 of the CRR.

Commission Implementing Regulation (EU) 2016/200 laid down implementing technical standards with regard to Article 451, making it applicable from January 1, 2015 and providing the relevant specific instructions.

Description of the processes used to manage the risk of excessive leverage

In compliance with the Commission Delegated Regulation (EU) 2015/62, the Group calculates the leverage ratio at the end of every quarter on a consolidated basis. This ratio is calculated as the ratio of Tier 1 capital and a denominator based on non-risk weighted assets outstanding. Exposures should be recorded net of any regulatory adjustments necessary to determine Common Equity Tier 1, in order to avoid accounting for these assets twice.

The risk of excessive leverage is treated consistently with the rationale adopted for the RAF, through a current and prospective assessment of the values of the indicator, included in the set of indicators used by the Group to determine its capitalization policy correlated to the level of asset growth.

Description of the factors that had an impact on the leverage ratio during the period to which the published leverage ratio refers

The change in the leverage ratio at December 31, 2019, compared with the one at December 31, 2018, is the result of changes to Tier 1 and to non-weighted assets.

With reference to Tier 1:
- The increase relating to BFF Banking Group, as compared to December 31, 2018, was mainly influenced by the allocation of part of profit to the tune of €52.8 million, by the HTC&S securities valuation reserves, which generated a positive impact of €4 million, after taxes (such reserve amounted to -4.1 million at December 31, 2018 and -3.1 million at June 30, 2019), by a €2.6 million increase in the reserves relating to the remuneration of employees and other staff in financial instruments, as well as by the €1.7 million increase in the translation reserve due to the change in the exchange rates applied to BFF Polska Group's equity in consolidated equity. Such changes were offset by higher deductions from own funds due to the recognition of IOS Finance's goodwill of €8.7 million and further changes in reserves.

- In addition to the above-mentioned factors, the change relating to the CRR Group was also affected by the sale, on March 29, 2019, of 22 million BFF shares—i.e. 12.9% of Banca Farmafactoring S.p.A.'s share capital at that date—by BFF Luxembourg S.à r.l. (Centerbridge), through an accelerated bookbuilding procedure.

With reference to non-weighted assets, the increase is rather due to the growth of the Group. In particular, receivables due from customers of BFF Banking Group, which amounted to €4,118 million at December 31, 2019, showed an increase of 15% compared to €3,583 million at December 31, 2018, broken down by product line. The 2019 amount also includes receivables due from IOS Finance's customers of €137 million. Net of IOS Finance's merger, such amount increased by 11%. IOS Finance's receivables increased 40% year on year. Including IOS Finance, Group's growth reached 12% year on year.

Quantitative information

Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable amounts
1	Total assets as per published financial statements	5,742,013
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(20,392)
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure according to Article 429, paragraph 13, of Regulation (EU) 575/2013)	
4	Adjustments for derivative financial instruments	0
5	Adjustments for securities financing transactions (SFTs)	71
6	Adjustment for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures)	188,093
UE-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429, paragraph 7, of Regulation (EU) 575/2013)	
UE-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429, paragraph 14 of Regulation (EU) 575/2013)	
7	Other adjustments	(110,434)
8	**Total leverage ratio exposure**	**5,799,351**

Leverage ratio common disclosure

		CRR leverage ratio exposure
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	5,721,621
2	(Asset amounts deducted in determining Tier 1 capital)	(110,434)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**5,611,187.6**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	
5	Add-on amounts for potential future exposures associated with all derivatives transactions (mark-to-market method)	
UE-5°	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**0**
	Securities financing transactions exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
UE-14°	Derogation for SFTs: Counterparty credit risk exposure under Article 429(b), paragraph 4, and Article 222 of Regulation (EU) 575/2013	71
15	Agent transaction exposures	
UE-15°	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**71**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	309,003
18	(Adjustments for conversion to credit equivalent amounts)	120,910
19	**Total Other off-balance sheet exposures (sum of lines 17 to 18)**	**188,093**
	(Exempted exposures in accordance with Article 429, paragraphs 7 and 14, of Regulation (EU) 575/2013 (on- and off-balance sheet exposures))	
UE-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429, paragraph 7, of Regulation (EU) 575/2013 (on-and off- balance sheet))	
UE-19b	(Exposures exempted in accordance with Article 429, paragraph 14, of Regulation (EU) 575/2013 (on- and off- balance sheet))	
	Capital and total exposures	
20	Tier 1 capital	334,326
21	Total leverage ratio exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	5,799,351
	Leverage ratio	
22	Leverage ratio	5.765%
	Choice on transitional arrangements and amount of derecognized fiduciary items	
UE-23	Choice on transitional arrangements for the definition of the capital measure	
UE-24	Amount of derecognized fiduciary items in accordance with Article 429, paragraph 11, of Regulation (EU) 575/2013	

Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposure
UE-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) of which:	5,611,188
UE-2	Trading book exposures	
UE-3	Banking book exposures, of which:	5,611,188
UE-4	Covered bonds	
UE-5	Exposures treated as sovereigns	1,860,206
UE-6	Exposures to regional governments, multilateral development banks, international organizations and public sector entities not treated as sovereigns	3,022,690
UE-7	Institutions	336,108
UE-8	Secured by mortgages of immovable properties	
UE-9	Retail exposures	46,521
UE-10	Corporate	219,698
UE-11	Exposures in default	106,160
UE-12	Other exposures (e.g., equity, securitizations, and other non-credit obligation assets)	19,804

Section 17 - Use of credit risk mitigation techniques (Article 453 CRR)

BFF Banking Group has Credit Risk Mitigation framework. The objective of the framework is, first of all, to ensure a better process for the management of the guarantees available to the Group for mitigating the undertaken risk position, and second, to assess any possible effects and benefits in terms of capital requirements.

Exposure to this type of risk can be broken down into two main areas of assessment and control:
- verification of the enforceability and efficacy of the guarantees in terms of recovery of the problematic exposure, which provides for the analysis of the main characteristics of the mitigation and control instruments with a particular focus on the process for the acquisition and administrative management of the guarantees, according to the internal regulations of the Group and of the individual companies of the Group;
- measurement of the exposure to the risk that the credit risk mitigation techniques may be found less effective or may not involve the benefits expected in terms of RWA reduction; this measurement is carried out by the Risk Management Function within the scope of the ICAAP.

With regards to the above, it must be noted that at December 31, 2019, the Group had not adopted any techniques for risk mitigation involving benefits in terms of capital requirements.

Section 18 - NPE disclosure (EBA guidelines)

Template 1: Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Loans and advances	16,818	1,495	1,495	1,495	(745)	(1,019)		
Central banks	0	0				0		
General governments	1,139	0			(1)	0		
Credit institutions	0	0				0		
Other financial corporations	0	0				0		
Non-financial corporations	15,679	1,495	1,495	1,495	(744)	(1,019)		
Households								
Debt Securities								
Loan commitments given								
Total	**16,818**	**1,495**	**1,495**	**1,495**	**(745)**	**(1,019)**	**0**	

Exposure classified as forborne at December 31, 2019 is entirely referred to BFF Polska S.A. and its subsidiaries and is substantially associable to 4 counterparties (96% of the overall gross forborne exposure). Compared with December 31, 2018, the amount was considerably lower due to the collection of the exposure referring to a counterparty classified as a performing forborne.

Template 3: Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	4,210,223	3,566,104	644,119	119,992	19,075	2,660	7,556	71,230	17,934	543	993	119,992
Central banks	78,302	78,302		0								
General governments	3,691,556	3,060,654	630,902	88,614	11,394	1,631	6,327	54,660	14,236	35	330	88,614
Credit institutions	116,303	116,303		0								
Other financial corporations	64,407	64,407		0								
Non-financial corporations	243,615	230,691	12,924	29,496	7,402	1,014	1,229	16,200	3,424	205	22	29,496
Of which SMEs	46,768	45,918	850	12,144	3,520	945	1,094	6,392		192		12,144
Households	16,039	15,746	294	1,882	279	14		371	274	303	641	1,882
Debt securities	1,078,918	1,078,918	0	0	0	0	0	0	0	0	0	
Central banks												
General governments	1,078,918	1,078,918										
Credit institutions												
Other financial corporations												
Non-financial corporations												
Off-balance-sheet exposures	186,765			1,872								1,872
Central banks												
General governments	49,572											
Credit institutions	4,200											
Other financial corporations	0											
Non-financial corporations	132,993			1,872								1,872
Households												
Total	**5,475,907**	**4,645,022**	**644,119**	**121,864**	**19,075**	**2,660**	**7,556**	**71,230**	**17,934**	**543**	**993**	**121,864**

Reference should be made to Section 7 for details on the classification of exposures. As far as the past due exposure is concerned, it refers primarily to public counterparties and the classification under non-performing exposures does not entail, per se, an actual increase in the level of risk.

Template 4: Performing and non-performing exposures and related provisions.

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumu-lated partial write-off	Collateral and financial guarantees received	
	Non-performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On perform-ing exposures	On non perform-ing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	4,024,915	3,867,786	157,129	119,992		119,992	(3,764)	(2,318)	(1,446)	(13,832)		(13,832)	0	0	0
Central banks															
General governments	3,691,556	3,576,372	115,184	88,614		88,614	(791)	(771)	(20)	(563)		(563)			
Credit institutions	9,297	9,297					(2)	(2)							
Other financial corporations	64,407	64,407					(44)	(44)							
Non-financial corporations	243,615	201,946	41,670	29,496		29,496	(2,810)	(1,386)	(1,423)	(12,122)		(12,122)			
Of which SMEs	46,768	46,768		12,144		12,144	(247)	(247)		(5,036)		(5,036)			
Households	16,039	15,764	276	1,882		1,882	(118)	(115)	(3)	(1,147)		(1,147)			
Debt securities	996,159	996,159					(138)	(138)							
Central banks															
General governments	996,159	996,159					(138)	(138)							
Credit institutions															
Other financial corporations															
Non-financial corporations															
Off-balance-sheet exposures	186,765	186,765	0	1,872	0	1,872	(561)	(561)	0	(21)	0	(21)		0	0
Central banks															
General governments	49,572	49,572					(1)	(1)							
Credit institutions	4,200	4,200					(3)	(3)							
Other financial corporations	0	0													
Non-financial corporations	132,993	132,993		1,872		1,872	(557)	(557)		(21)		(21)			
Households															
Total	**5,207,839**	**5,050,710**	**157,129**	**121,864**	**0**	**121,864**	**(4,463)**	**(3,017)**	**(1,446)**	**(13,852)**	**0**	**(13,852)**	**0**	**0**	**0**

Compared with the figures at December 31, 2018, a contraction of approximately €15 million in gross NPE was recognized (an increase of approximately €11 million for the public counterparties and a decrease of approximately €27 million for the private counterparties). This contraction was accompanied by a decrease in value adjustments of €2.5 million.

As regards also Stage 2 exposures, these are subject to a decrease by €53 million (decrease by approximately €72 million for the public counterparties and increase of approximately €18 million for the private counterparties).

Certification by the Financial Reporting Officer

Pursuant to Article 154-bis, paragraph 2 of the Consolidated Law on Finance, Mr. Carlo Zanni, in his capacity as Financial Reporting Officer, hereby states that disclosure included in this document is consistent with the entries in accounting books and records.

Carlo Zanni
Financial Reporting Officer

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