PILLAR III

Disclosure to the public

2021

BFF

Contents

Introduction

The Basel Committee Accords ("Basel 3") aimed at strengthening banks' capacity to absorb shocks from financial and economic tensions, improving risk management and governance and strengthening banks' transparency and reporting, entered into force in European Union law on January 1, 2014.
This being said, at Community level, the contents of "Basel 3" were adopted with two distinct pieces of legislation:

- Regulation (EU) No. 575/2013 dated June 26, 2013 ("CRR") - Part eight "Disclosure by institutions" (Arts. 431 - 455) and Part ten, Title I, Chapter 3, "Transitional provisions for disclosure of own funds" (Art. 492) - which governs Pillar I prudential supervision mechanisms and public disclosure rules (Pillar III);
- Directive 2013/36/EU of June 26, 2013 ("CRD IV"), which concerns, inter alia, conditions for access to banking, freedom of establishment and freedom to provide services, the prudential supervision process and additional capital reserves.

The above-mentioned European regulation became applicable in the Italian legal system on the basis of Bank of Italy Circular No. 285 *"Supervisory Provisions for Banks"* of December 17, 2013 as subsequently amended, which implements the provisions of the CRR and the CRD IV.

With the publication of Regulation (EU) No. 876/2019, (CRR2), the EBA introduced a series of significant amendments to the regulatory framework, applicable as of June 28, 2021. These changes, regarding in particular Part Eight of the CRR, aim to standardize the periodic disclosure to be provided to the market.
In Implementing Regulation (EU) No. 637/2021, operators were provided with instructions for mapping between the information to be published starting from the reference date of June 30, 2021 and what is set forth in supervisory reporting. According to the CRR2 Regulation, banks publish the required information at least on an annual basis; institutions are responsible for evaluating the need to provide the required information more frequently, in light of the relevant characteristics of their activity and elements susceptible to rapid changes. The guidelines specify minimum content consistent with the significance of the reporting institution, particularly with reference to capital requirements, the breakdown and adequacy of capital, the leverage ratio, risk exposure and the general characteristics of systems in place to identify, measure and manage such risks.

The approach based on three "Pillars" was maintained.
Specifically:

- **Pillar I** defines the system of capital requirements that banks are required to meet to deal with typical banking risks: credit risk (which also includes counterparty risk), market risk and operational risk.
  This aspect has been strengthened by introducing a definition of higher quality capital and requiring additional capital conservation buffers, with the inclusion of rules on liquidity risk management, for both the short term (Liquidity Coverage Ratio - LCR) and the long term (Net Stable Funding Ratio - NSFR), and the introduction of a limit on leverage;
- **Pillar II** requires banks to set up strategies, control processes and tools for determining, in addition to Pillar I risks, the adequacy of current and future capital. It is the Supervisory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, to take appropriate corrective action. The BFF Group annually submits the "ICAAP/ILAAP Report" to the Bank of Italy, as an autonomous assessment of current and future capital adequacy and the liquidity risk governance and management system in relation to the risks assumed and company 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. This aspect has also been revised to introduce increased transparency requirements and more detailed information on the breakdown of regulatory capital and on how the Banking Group calculates its capital ratios.

Pursuant to Article 433 of the CRR, banks shall publish the disclosures required by EU regulations at least on an annual basis, in conjunction with the financial statements.
To this end, the Board of Directors of BFF Bank has approved a dedicated procedure named "Procedure for Disclosure to the Public (Pillar III)".
Pursuant to this procedure, the disclosure to the public should 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 by the deadline for the publication of the financial statements, and therefore within thirty days of the date of approval of the financial statements by the Shareholders' Meeting.

The BFF Bank Banking Group (also "BFF Banking Group" or the "Group") is the largest specialized finance operator in Italy, as well as one of the leaders in Europe in the management and non-recourse disposal of trade receivables due from Public Administrations, and in the area of securities services and payment services. The Group is active in Italy, Croatia, France, Greece and Portugal through BFF Bank, in Spain through BFF Finance Iberia S.A.U. ("BFF Finance Iberia") and in Poland, the Czech Republic and Slovakia through BFF Polska S.A. ("BFF Polska") and its associates (the "BFF Polska Group").

BFF Bank meets the obligation of disclosure to the public for the BFF Banking Group and drafts this document on a consolidated basis based on the above-mentioned regulatory provisions. In line with the provisions of the CRR.

Please note that:

- Information on the risks to which the Group is exposed and on risk management and control policies is also provided in Part E of the Notes to the Consolidated financial statements at December 31, 2021;
- Information relating to Own funds and banking capital ratios, relating to the Group, is also published in Part F of the Notes to the 2021 Consolidated financial statements;
- Information on governance is also provided in the "Report on Corporate Governance and Ownership Structure" published in the "Governance" section of the Group website www.bff.com;
- Information regarding the Group's remuneration and incentive policies is also provided in the "Report on Remuneration" published in the "Governance" section of the Banking Group website;
- With reference to the best practices identified by the EBA in the Report "on assessment of Institutions' Pillar 3 Disclosure" (EBA/Rep/2020/09) and the Bank of Italy in the Supervisory expectations on climate-related and environmental risks (April 2022), the disclosure in terms of financial sustainability and ESG risks (environmental, social and governance risks) is provided, on the basis of regulations in force, in the Sustainability section on the Group's website www.bff.com.

Please note that, following the elimination of BFF Luxembourg S.à r.l.'s shareholding in the Bank in February 2021, the Bank of Italy, via a notice dated February 23, 2021, removed the CRR Group with the Luxembourg holding company at the top from the register of banking groups and as a result registered the group headed by BFF Bank.

On March 1, 2021 the acquisition of DEPObank was finalized with the merger by incorporation into BFF Bank effective from March 5 of the same year.

The Disclosure to the Public (Pillar III) is also subject to the certification of the Financial Reporting Officer pursuant to Article 154-bis of Legislative Decree 58/98 (Consolidation Law on Finance, or "TUF").

This document is broken down into 18 sections, which provide qualitative and quantitative information referring to the date of December 31, 2021. The paragraphs for which there is no informational content are not published.

All amounts are stated in thousands of euros, when not specified otherwise.

The summary statement of the sections required by the reference regulation is laid out below, with an indication of the relevant information published in this document.

(*) "n.a"., i.e. "Not applicable".

Furthermore, references to the EBA requirements (Regulation (EU) 637/2021, EBA/GL/2020/07 and EBA/GL/2020/12) are provided.

Regulation (EU) 637/2021, EBA/GL/2020/07 and EBA/GL/2020/12			Pillar III - 12/31/2021
Tables	Qualitative information	Quantitative information	Section
EU OVA	x		1
EU OVB	x		1
EU LI1		x	2
EU LI2		x	2
EU LI3		x	2
EU LIA	x		2
EU LIB	x		2
EU CC1	x	x	3
EU CC2	x	x	3
EU CCA	x	x	3
EU OVC	x		4
EU KM1		x	4
IFRS9-FL		N/A	4
EU OV1		x	4
EU INS1		N/A	4
EU INS2		N/A	4
EU CCR1		x	5
EU CCR2		x	5
EU CCR3		x	5
EU CCR4		N/A	5
EU CCR5		x	5
EU CCR6		N/A	5
EU CCR7		N/A	5
EU CCR8		x	5
EU CCRA	x		5
EU CCyB1		x	6
EU CCyB2		x	6
EU CRA	x		7
EU CRB	x		7
EU CR1		x	7
EU CR1-A		x	7
EU CR2		N/A	7
EU CR2a (*)		N/A	7
EU CQ1		x	7
EU CQ2 (*)		N/A	7

(CONT'D)

Regulation (EU) 637/2021, EBA/GL/2020/07 and EBA/GL/2020/12			Pillar III - 12/31/2021
Tables	**Qualitative information**	**Quantitative information**	**Section**
EU CQ3		x	7
EU CQ4		x	7
EU CQ5		x	7
EU CQ6 (*)		N/A	7
EU CQ7		N/A	7
EU CQ8 (*)		N/A	7
COVID table 1		x	7
COVID table 2		x	7
EU CR10		N/A	7
EU CR6		N/A	7
EU CR6-A		N/A	7
EU CR7		N/A	7
EU CR7-A		N/A	7
EU CR8		N/A	7
EU CR9 - EU CR9.1		N/A	7
EU CRE	N/A		7
EU AE1		x	8
EU AE2		x	8
EU AE3		x	8
EU AE4	x		8
EU CR4		x	9
EU CR5		x	9
EU MR1		x	10
EU MRA	x		10
EU MRB	N/A		10
EU MR2-A		N/A	10
EU MR2-B		N/A	10
EU MR3		N/A	10
EU MR4		N/A	10
EU PV1		x	10
EU-OR1		x	11
EU ORA	x		11
			12
EU-IRRBB1		x	13
EU-SEC1		N/A	14
EU-SEC2		N/A	14
EU-SEC3		N/A	14
EU-SEC4		N/A	14

(CONT'D)

Regulation (EU) 637/2021, EBA/GL/2020/07 and EBA/GL/2020/12			Pillar III - 12/31/2021
Tables	**Qualitative information**	**Quantitative information**	**Section**
EU-SEC5		N/A	14
EU-SECA	N/A		14
EU REMA	x		15
EU REM1		x	15
EU REM2		x	15
EU REM3		x	15
EU REM4		x	15
EU REM5		x	15
EU LR1		x	16
EU LR2		x	16
EU LR3		x	16
EU LRA	x		16
EU CR3		x	17
EU CRC	x		17
EU LIQ1		x	18
EU LIQ2		x	18
EU LIQA	x		18
EU LIQB	x		18

(*) At December 31, 2021, not applicable for BFF Banking Group as the NPL ratio < 5%.

Section 1

Risk management objectives and policies (Art. 435 CRR)

Qualitative disclosure

Introduction

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

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

The corporate governance bodies of BFF Bank S.p.A. - as BFF Banking Group's Parent Company - define the risk governance and management model at Group level, taking into account the specific types of operations and the related risk profiles characterizing all of the Group's entities, with the aim of creating an integrated and consistent risk management policy. Within this framework, the Parent Company's corporate governance functions perform the activities 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 bodies of the subsidiaries in decisions concerning risk management procedures and policies.

The internal control system

The CEO is 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 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 and constant monitoring by the heads of such operating structures.

- **Second-level controls** aim to ensure the correct implementation of the risk management process and compliance with the regulatory framework, including the risk of money laundering and terrorist financing. The functions responsible for such controls are distinct from business functions and contribute to the definition of risk governance policies and the risk management process and are entrusted to the Risk Management Function and to the Compliance and Anti-Money Laundering Function. The Risk Management Function and the Compliance and AML Function - organizationally and functionally autonomous and distinct - report to the Chief Executive Officer and are independent of the internal audit function, as it performs audits on them. The duties and respective responsibilities are governed within the pertinent internal regulations of the functions.
- **Third-level controls** and **internal audit** activities are instead carried out by the Group's Internal Audit Function, reporting directly to the Board of Directors.

Focus on Control Functions

Risk Management

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

At Group level, the Risk Management Function is responsible for:

- Cooperating with the corporate bodies in defining the overall risk management system;
- Ensuring that each Subsidiary has an adequate risk management system, consistent with the Group's strategy and policy and with the relative reference regulations;
- Providing a proper assessment of the capital absorbed, of the relative adequacy and regulatory indicators, by defining processes and procedures to meet every type of present 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;
- Monitoring the adequacy and effectiveness of the actions taken to resolve weaknesses found in the risk management system;
- Submitting periodic reports to the corporate bodies on the activities carried out and providing them with consulting on risk management issues;
- Handling the measurement of risks, including market risks, underlying relationships with related parties, verifying compliance with the limits assigned to the various Company Structures, checking the consistency of the operations of each unit with the levels of risk propensity defined in the RAF.

The Risk Management Function is also responsible for the overall vision of all risks assumed by the Group and includes the specific skillsets relating to the management of the various types of risk, ensuring the promotion of a company-wide risk culture. In particular, the Risk Management Function:

- Is responsible for defining and updating the methodologies and tools for the identification, measurement, assessment, control, management and mitigation of the Pillar I and Pillar II Risks to which the Group Companies are exposed;

- Is involved in the definition of the RAF, the risk governance policies and the various phases of the Risk Management Process as well as the establishment of operational limits on the assumption of the various types of risk. In this regard, it also has the duty of proposing the quantitative and qualitative parameters necessary to define the RAF, which also refer to stress scenarios and, in the case of changes in the bank's internal and external operating context, the adjustment of such parameters;
- Defines and enacts the annual activity plan and informs the Parent Company's Board of Directors on an annual basis about the performance of its activities;
- Monitors the effective risk assumed by the Group Companies on an ongoing basis and its consistency with risk targets, as well as respect for the operating limits on the assumption of the various types of risk, as a result optimizing the capital allocation processes;
- Handles the updating of the "Contingency Funding Plan" and oversees the monitoring of the relative 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 shared metrics for the assessment and control of operational risks consistent with the RAF, coordinating with the Compliance and AML Function and with the ICT O.U.;
- Defines methods for the assessment and control of reputational risks, coordinating with the Compliance and AML Function and with the Company Structures that are most exposed;
- Supports the corporate bodies in the assessment of strategic risk, monitoring the significant variables;
- Ensures the consistency of the risk measurement and control systems with the processes and methodologies for the assessment of company activities by coordinating with the relevant Company Structures;
- Develops, applies and ensures the application of indicators capable of identifying anomalies and inefficiencies in risk measurement and control systems;
- Analyses risks linked to new products and services and those deriving from entry into new operating and market segments, assuming different risk scenarios and evaluating the bank's capacity to ensure effective risk management. It may ask for changes to be made to specific products or services to be screened beforehand by the corporate bodies in compliance with the new product approval process;
- Monitors portfolio diversification at Group level, in order to avoid excessive exposure concentration;
- Monitors operating limits and large exposures;
- Develops preventive opinions on the consistency with the RAF of Major Operations (MO), possibly by acquiring the opinion of other Functions, O.U.s and/or Departments involved in the Risk Management Process, depending on the nature of the transaction;
- If the RAF is violated, including operating limits, it evaluates the relative reasons and the effects on the company situation, also in terms of costs, informs the operating units involved as well as the corporate bodies and proposes corrective measures. Ensures that the body with strategic supervision functions is informed in the case of serious violations; the Risk Management Function plays an active role in ensuring that the recommended measures are adopted by the functions concerned and brought to the awareness of the Corporate Bodies;
- Monitors the adequacy and effectiveness of the actions taken to resolve weaknesses found in the Risk Management Process;
- Performs second-level controls on the guarantees acquired to secure credit exposures;
- Evaluates the consistency of the classification of performing and non-performing loans;
- Calculates value adjustments on the Group's performing loans consistent with the approaches defined by IFRS 9;

- Evaluates the consistency of generic and specific value adjustments applied by the Group and the adequacy of the debt collection process;
- Proposes to the CEO the definition of the qualitative and quantitative Stage Allocation criteria and monitors them;
- Performs a performance analysis to evaluate the qualitative evolution of the credit risk of each Group portfolio in line with IFRS 9 criteria;
- Oversees and contributes to the development, as the second-level control function - and therefore separate from the operating units - of the process of determining the internal funds transfer pricing system, in line with the requirements of the Supervisory Provisions in force and taking into account the specific operational characteristics of the Group;
- Prepares adequate information flows for the corporate bodies and the other Company Control Functions of the Parent Company; in particular, the Manager of the Risk Management Function informs the Manager of the Internal Audit Function of the weaknesses that may be of interest for audit activities;
- Verifies, within the scope of controls on the Depositary Bank, the consistency over time of the methodologies and policy adopted for measuring financial instruments and performs spot checks on the correct use of pricing models, the classification of illiquid/unlisted securities and their proper valuation, ex post with respect to the definitive NAV valuation;
- Monitors liquidity risk, also performing, inter alia, the calculation of the LCR - Liquidity Coverage Ratio and NSFR - Net Stable Funding Ratio liquidity indicators, and the internal Minimum Cumulative Balance indicator.

Furthermore, as already mentioned, the Risk Management Function is responsible for managing the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) and acts as the planning, guidance and coordination structure for such processes. In this context, the Risk Management Function is responsible for:

- Identifying the risks (and the relative sources) to be subjected to assessment on the basis of an analysis of the regulatory context, the reference market, operations and the business lines;
- Observing the effective risk assumed by the Group on an ongoing basis and its consistency with risk targets, as well as respect for the operating limits on the assumption of the various types of risk;
- Verifying that the risk measurement and control systems are subjected to periodic backtesting, that an appropriate number of scenarios are analysed and that conservative assumptions are used on dependencies and correlations; in risk measurement, generally taking into account model risk and any uncertainty in the evaluation of certain types of financial instruments;
- Identifying and documenting the differences between regulatory methodologies and the methodologies used for Pillar II Risks, any time they are developed/revised;
- Defining and applying valuation stress test methodologies, at least annually, on the robustness and effectiveness of the stress testing program and the need to update it;
- Measuring Internal Capital against each risk and determining total Internal Capital;
- Generating the reporting to be sent to the Organizational Units involved in the process;
- Reconciling total capital with Own Funds, identifying, amongst the capital elements deemed appropriate for the coverage of total Internal Capital, the items linked to Own Funds;
- Identifying and documenting the composition of total capital available against the total Internal Capital requirements and verifying the relative coverage;
- Preparing the documentation relating to the methodologies and models used, for the purpose of internal approval by the Parent Company's Board of Directors;
- Drafting the ICAAP/ILAAP Report;

- Performing the self-assessment within the ICAAP/ILAAP Report;
- Monitoring the activities planned and the realization timing relating to the areas for improvement identified during the ICAAP/ILAAP self-assessment and is also responsible for their full implementation.

Lastly, within the scope of the Recovery Plan, the Risk Management Function is responsible for:

- Preparing the definition and updating of the overall recovery framework structure and the Recovery Plan, with the support of the O.U.s involved in various bases;
- Handling the phase of proposing the definition of the Recovery Plan, with reference to:
  - Recovery indicators and the relative calibration thresholds to be included in the Recovery Plan;
  - Recovery scenarios (definition of quantitative and qualitative metrics);
  - Evaluation 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;
- Interacting with the Competent Authority on the matter, particularly with regard to any requests for clarification or additional information;
- Monitoring recovery indicators;
- Supporting the CEO or another Managing Director on the Board of Directors in the verification and monitoring of the proper management of the state of crisis.

Compliance and Anti-Money Laundering (AML)

Also within the scope of second-level controls, the Compliance and Anti-Money Laundering (AML) function supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory framework for the Bank and the Group - also through its reference persons/local functions at its 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 relevant Corporate Bodies. Furthermore, this function has the task of preventing and combating money laundering and terrorist financing, also by continuously identifying the applicable rules in this area, and verifying the consistency of processes with the objective of ensuring that the Bank and the Group conform to the law on anti-money laundering and counter-terrorist financing. The function is also responsible for the controls required by anti-money laundering regulations to prevent the use of the financial system for the purpose of laundering the proceeds of criminal activities and terrorist financing. At Group level, the Compliance and AML Function is responsible for:

- Identifying on an ongoing basis the rules applicable to the Group and evaluating and measuring their impact on company processes and procedures, identifying the company functions and structures concerned and informing them in that regard;
- Ensuring the mitigation of compliance risk, in order not to incur legal or 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 compliance risks deriving from the introduction of new regulations, preventively evaluating their potential impact on processes and procedures; monitoring the adoption of organizational adaptations (structures, processes and procedures) required to prevent compliance risk and verify their effectiveness;
- Collaborating in the definition of policies and procedures for mitigating legal and reputational risks linked to the failure to comply with internal and external regulations and, when necessary, identifying suitable improvements and/or corrections, and verifying their adequacy and proper application;

- Verifying the existence and reliability, on an ongoing basis, of suitable procedures and systems for ensuring respect for all legal obligations and those laid out by internal regulations;
- Providing consulting and assistance to the corporate bodies on all matters in which compliance risk plays a role;
- Collaborating in personnel training activities;
- Spreading a corporate culture inspired by principles of integrity, fairness and regulatory compliance;
- Supporting company structures for the definition of compliance risk assessment methodologies.

Internal Audit Function

The Internal Audit function carries out independent controls, not only at the Parent Company and the foreign branches, but also at the subsidiary BFF Finance Iberia, S.A., under a specific service agreement which governs the provision of the audit service. Moreover, the Group's Internal Audit Function performs management and coordination with respect to the Internal Audit Function of the subsidiary BFF Polska S.A., whose head functionally reports to the Head of the Group 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 bodies any possible improvements, with particular reference to the RAF (Risk Appetite Framework), the process for the management of risks and the tools for their measurement and control.

The Head of the Internal Audit function has the necessary autonomy and is independent of the operating structures, in compliance with Bank of Italy's regulation on Internal Controls, the Corporate Governance Code and internal regulations. He presents a long-term audit plan to the corporate bodies which includes the compulsory activities established by reference regulations (remuneration and incentive policies and practices, ICCAP, ILAAP, ICT, etc.) as well as the actions identified according to a risk-based approach; the audit plan is subject to annual review. Actual reporting on audit activities generally takes place on a quarterly basis.

Other control functions and bodies

Lastly, under the provisions and terms of the law, the **Financial Reporting Officer** evaluates the effectiveness of the oversight being provided by the Internal Control System with regard to Financial Reporting Risk. In particular, it performs assessments and monitoring at a Group level, evaluating the adequacy of the coverage of the potential risk by performing adequacy and effectiveness tests on key controls on an ongoing basis, identifying possible points of improvement in the Internal Control System in the accounting area. In this context, the Financial Reporting Officer and the Chief Executive Officer of the Parent Company together certify the following aspects through specific reports attached to the annual and consolidated financial statements, and interim reporting: the suitability of the accounting procedures used in preparing the annual, consolidated and interim financial statements; compliance of documentation with applicable international accounting standards endorsed by the European Union; whether accounting books and records are suitable for providing a true and fair view of the financial position, financial performance and cash flows of the Group on a consolidated level and of the individual subsidiaries included under the scope of the consolidation; and the reliability of content, in relation to specific aspects, of the Director's report on operations and interim reporting.

The Bank also has an Organization, Management and Control Model pursuant to Legislative Decree No. 231/2001, consisting of a General Part and Special Parts that lay out the activities, controls and reporting mechanisms for each organizational unit/company body, including the foreign branches, with a collegial **Supervisory Body** that oversees its adequacy through periodic audit activities.
Updates to the Model are approved during the year by the Board of Directors following a process of analysing the most recently introduced types of offence as well as to take into account organizational developments within the Bank.

The Spanish subsidiary BFF Finance Iberia, S.A. adopted its own Organizational Model in accordance with Article 31-*bis* of the Spanish Penal Code, analogous to the Italian Model, with the resulting identification of a "***Supervisory Board***" with functions similar to those of the Supervisory Body.

For the Polish subsidiary BFF Polska S.A., in compliance with local regulations, specific "anti-corruption" guidelines have been adopted, with the identification of a specific single-person body responsible for them, represented by BFF Polska S.A.'s local Compliance and AML function.
The foreign branches apply their own Protocol approved by the Parent Company's Board of Directors, which also takes into account local regulations.

The Group's Code of Ethics is the document defining the set of ethical values embraced by the Group, respect for which makes it possible, among other things, to prevent the criminal offences enumerated in Legislative Decree No. 231/01.

Furthermore, the Parent Company and the subsidiaries have a whistleblowing process in place formalized in a dedicated procedure approved by the competent bodies.

The management policies adopted for each category of risk of the Banking Group, described in more detail in the relative sections, are set forth 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. The Group mainly offers non-recourse factoring services with debtors belonging to the public administration, in addition to other lending products always with a focus on the public administration. From March 2021, with the integration of DEPObank, the Group began to provide credit as an instrumental activity in addition to specific treasury activities (managed through the granting of operating limits) and securities services (mainly managed through the granting of account overdraft facilities).
Moreover, for the purpose of diversifying its business and its geographical presence, the Banking Group operates in Eastern European countries through the BFF Polska Group and its subsidiaries (BFF MF, BFF CZ, BFF CEE, Medico Fund, Municipal Fund), which mostly provide financial services to companies operating in the healthcare sector and to public administration agencies and their suppliers in the countries in which they operate.

Credit risk management policies

1. Organizational aspects

The assessment of a transaction, for the different products offered by the Banking Group, is conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial relationship underlying the credit quality and the customer's ability to repay.

The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on June 30, 2021, and by the "Credit Regulation" of subsidiaries. A further organizational measure tackling credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the aforementioned "Credit Regulation".
Credit risk is therefore monitored at various levels within the framework of the multiple operating processes.

2. Management, measurement and control systems

The management, measurement and control system relating to credit risk has been created to ensure control over the main types of risks belonging to the credit risk category.
For this purpose, it must be noted that the core business carried out by the Group consists, as mentioned above, in the purchase of receivables on a non-recourse[1] basis due from debtors belonging to public administration agencies.

Based on the above, in particular, credit risk is linked to the possibility that an unexpected change in the creditworthiness of a counterparty to which the Company is exposed may generate a corresponding decrease in the value of the credit position. It can be broken down as follows:

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

In light of the risks detailed above, the Group has internal regulations that describe the phases that industry regulations identify as components of the credit process:

- Background check;
- Decision;
- Disbursement;
- Monitoring and review;
- Dispute.

Non-recourse factoring by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line application is carried out on the basis of what is set forth in the Credit Regulation, the Credit Line Granting and Review Methodologies and Criteria, the non-recourse customer screening procedure and the entity and borrower screening procedure. Furthermore, after the first loan is granted, both customers and borrowers are reviewed at least every year to evaluate their creditworthiness and are also monitored on an ongoing basis.

1) For the classification of factoring transactions as "non-recourse" and "recourse", irrespective of the contractual form, any transaction carried out with the full transfer to the Group of the risks and rewards connected with the assets subject to the transaction is considered "non-recourse", pursuant to IAS 39 and the new IFRS 9 ("derecognition").
On the other hand, transactions that do not result in the above-mentioned transfer of risks and rewards to the Group are considered "recourse".

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

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

Recourse factoring is a residual activity for BFF Banking Group.

With reference to the granting of credit to counterparties using the custodian bank service, credit risk is very low, as it is mainly concentrated on bank counterparties, asset management companies and Funds.

With regard to the allocation of operating limits and/or "intermediation" caps, there is no specific request from customers and the assessment is initiated at the initiative of the Finance and Treasury OU or the relevant organizational units.
As part of the management of counterparties providing retail intermediation services, specific operating limits have been established, aimed at monitoring and controlling the operations of these entities. In some cases, guarantees have been requested to mitigate the risk assumed for these activities. Exposure to the customers' credit risk is constantly monitored. The credit quality of public sector entities is analyzed within the framework of the risk of delay in repaying liabilities.

Specifically with reference to the acquisition of BFF Polska S.A. in 2016, please note that this resulted in significant growth for the Group, making it possible to expand the Group's operations in Poland, Slovakia and the Czech Republic, while also diversifying the 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;
- Direct financing for parties in the public and healthcare sector.

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

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending.
With this in mind, the Group uses the "standardized" approach to measure credit risk, as governed by Regulation (EU) No. 575/2013 (CRR) and adopted by the Bank of Italy Circular No. 285 *"Supervisory provisions for banks"* and Circular No. 286 *"Instructions for the preparation of supervisory reporting by banks and securities intermediaries"*, both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes ("portfolios"), depending on the type of counterparty, and the application of diversified weighting ratios, set forth in detail in Section 4 of this document, to each portfolio.

BFF Banking Group constantly maintains, as a capital requirement for credit risk, an amount of Own funds equal to at least 8% of the risk weighted exposures (RWA - "Risk Weighted Assets"). For details on the weighting ratios, please refer to section 4.

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

Specifically:

- "Large exposure" means any risk position equal to or greater than 10% of the eligible capital, as defined in CRR II (equal to Tier 1 capital);
- As a banking group, the group is required to limit each risk position to within the limit of 25% of the eligible capital at both individual and consolidated level.

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, in accordance with Bank of Italy Circular No. 139 of February 11, 1991, as subsequently amended, "*Risk centre.Instructions for credit intermediaries*", the Bank reports monthly to the Risk Centre, providing information on the dynamics of the debtor's financial debt over time and on the ratio granted/used (which expresses the company's financial commitment and the margins of indebtedness to the system). This compliance also allows the visibility of the financial position of the subjects reported by the Bank, in order to better monitor the performance of the receivable.

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 impairment");*
- *Receivables subject to specific adjustments.*

Note that the IFRS 9 accounting principle entered into force on January 1, 2018. This standard replaces the concept of incurred losses, envisaged by IAS 39, with that of expected losses.

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

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

Additional information on credit risk is provided in section 7.

4. Securitization transactions

This section provides both "qualitative" and "quantitative" information on securitization transactions and asset disposals carried out by the Bank and by BFF Banking Group.

Information on the transaction with BAYERISCHE LANDESBANK - BFF SPV S.r.l. vehicle company

Strategies, processes and objectives

The private placement of a securitization transaction with the Bayerische Landesbank (BayernLB) Group for the maximum amount of the flexible senior note of €150 million, activated in July 2017, was closed in February 2021 through the repurchase of the receivables sold and outstanding and the repayment of the Notes.

The vehicle BFF SPV srl was removed from the company register on November 8, 2021.

COUNTERPARTY RISK

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.

For BFF, counterparty risk can be generated by repurchase agreements and derivatives. Counterparty risk is measured using the original exposure method.

MARKET RISK

Market risk relates to positions held for trading, that is, positions intentionally held for sale in the short term, acquired in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.

The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio. The Group measures market risk using the "Standardized" approach.

INTEREST RATE RISK

For assessing the interest rate risk potentially linked to fluctuations in interest rates, the Group has adopted the method used to determine internal capital set forth in the 32nd update of Bank of Italy Circular No. 285/2013, including the adoption of the stress scenarios laid out in the EBA Guidelines (EBA/GL/2018/02). This method is applied based on the annual changes in interest rates on a daily basis, recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase), as laid out in Circular 285. Internal capital is determined by the worst-case result obtained between the two 1st/99th percentile scenarios.

The Bank also measures the exposure to interest rate risk using additional interest rate shock scenarios. Specifically:

- the parallel ± 200 bps scenarios, for the determination of the risk index, given by the "interest rate risk exposure/own funds" ratio (regulatory limit 20%, CRD IV Art. 98 par. 5);
- the six interest rate shock scenarios required by the EBA Guidelines, used to calculate internal capital under stress and to determine the operating limit defined by the "interest rate risk exposure/Tier 1" ratio. To respect the limit, the scenario with the worst result is considered (threshold 15%, Circular 285 and EBA Guidelines).

EXCHANGE RISK

Exchange rate risk is represented by the Banking Group's exposure to fluctuations in currency exchange rates, considering positions in foreign currency as well as those with indexation clauses linked to the exchange rate trends of a given currency.

The Group manages and monitors the risk of fluctuations in 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 mitigates foreign exchange risk primarily by using derivative instruments. When possible, and in particular for less significant currencies for which transactions are limited, the Group operates through natural hedging.

LIQUIDITY RISK

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

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

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

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

The documents governing the matter are the "Group Liquidity Risk Management Policy", approved by the Board of Directors, with the aim of defining the guidelines for liquidity management and the documents to be adopted in a state of liquidity crisis (Contingency Funding and Recovery Plan), transposing the latest regulatory updates (see Bank of Italy Circular 285/2013). As part of the Risk Appetite Framework specific liquidity metrics have been defined, both regulatory, Liquidity Coverage Ratio - LCR and Net Stable Funding Ratio - NSFR, and internal, "minimum cumulative balance on total assets", calculated as the lowest weekly value in the quarter of reference of the ratio of the minimum cumulative balance recorded in the time periods within one month to the total assets of the last available group, in order to better represent the Group’s operational reality.

Liquidity risk also includes the intraday risk deriving from the temporal mismatch between outflows (settled at daily cut-offs or when orders are received from customers) and inflows (settled at different intraday cut-offs), which may render it impossible for the Bank to discharge its payment obligations when they are called in due to a temporary lack of funds. To hedge intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities necessary to meet requirements for intraday and periodic refinancing from central banks.

The Group's liquidity position, which is healthy and constantly monitored, has always remained solid thanks to the extensive availability of liquid reserves and the stability of funding, so that the liquidity indicators – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) – show values as at December 31, 2021 of 274.066% and 203.857%, respectively, well above the regulatory limits. To handle any additional liquidity requirements and/or adverse conditions that may constitute an increased risk profile in that area, BFF - also with a view to limiting leverage - streamlined its traditional liquidity reserves (prior to DEPObank), while maintaining active internal infrastructure on sources, consisting of deposit account funding channels, usable as needed by the Group.

ENCUMBERED ASSET MANAGEMENT PROCESS

As the Parent Company, BFF has adopted a specific policy for the management of the BFF Banking Group’s encumbered assets, for the measurement and relative controls to be performed on them, which governs activities intended to:

- Outline the liquidity risk governance policies deriving from a deterioration in the credit quality of encumbered assets;
- Include in its emergency plans (Contingency Funding and Recovery Plan) strategies geared towards managing any potential increase in the share of encumbered assets deriving from situations of significant tension, or plausible, albeit unlikely, shocks, with regard, inter alia, to a rating downgrade for the Bank, the impairment of pledged assets and an increase in margin requirements;
- Ensure that the corporate bodies receive prompt information, at least with regard to:

  (i) The level, evolution and nature of the encumbered assets and sources constituting the encumbrance;

(ii) The amount, evolution and credit quality of unencumbered assets that may be encumbered, with an indication of the volume of assets that may potentially be encumbered;

(iii) The amount, evolution and nature of the encumbered assets resulting from the materialization of stress scenarios (potential share of encumbered assets).

BFF Banking Group monitors the "Asset encumbrance ratio" (hereinafter also the "AE ratio"), in order to observe the risk exposure trend linked to the share of encumbered assets, which derives from the unavailability of assets that may be readily liquidated through sale, sale with repurchase agreement, collateral assignment or securitization, resulting in:

- A reduction in the share of assets available to creditors and depositors not guaranteed;
- An increase in funding and liquidity risk, as the share of encumbered assets reduces the possibility of obtaining new secured funding.

The AE ratio is defined as the ratio between the total carrying amount of encumbered assets and the reused guarantees received, and the total assets in the financial statements and collateral received.
Within the RAF document, a specific operating limit is established, which is monitored on an ongoing basis.

OPERATIONAL RISK

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

With regard to the Banking Group, exposure to this category of risk is generated predominantly by failure in work processes, in organization, governance - human errors, computer software malfunctions, inadequate organization and control measures - as well as by any loss of human resources in key corporate management positions. Exposure to operational risks deriving from external sources appears to be of negligible importance, partly due to the mitigation tools adopted to address such adverse events (such as, by way of example: the business continuity plan, data storage processes, back up tools, insurance policies, etc.).

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

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

Lastly, to calculate the capital requirements against operational risk, the Banking Group uses the Basic Indicator Approach (BIA) whereby the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statement items of the last three years, in accordance with Regulation (EU) No. 575/2013. Moreover, for a better assessment of risk exposure, the Bank has implemented a quantitative operational risk assessment process (OpVaR) that monitors the Group's operational risk calculated to the 99.9th percentile.

The 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 Company 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.

RISKS OF THE OTHER COMPANIES

The consolidated financial statements include the aggregated balance sheet items of BFF Bank S.p.A., BFF Finance Iberia and BFF Polska Group.

These companies do not show further and relevant risk factors other than those mentioned in the preceding paragraphs.

Declaration of the management body, pursuant to Article 435(1)(e) and (f) of EU Regulation No. 575/2013

The Chief Executive Officer of BFF Bank S.p.A., Massimiliano Belingheri, based on the mandate of the Board of Directors, declares pursuant to Article 435(1)(e) and (f) of EU Regulation No. 575/2013 that:

a) The risk management systems put into place in the BFF Banking Group, and described in the document "Pillar III - Disclosure to the public - Year 2021" are aligned with the entity's profile and strategy;
b) In particular, this section, "Risk management objectives and policies", of the above-mentioned document describes in brief the overall risk profile of the Group.

Information relating to governance arrangements (Art. 435(2) CRR)

1. BOARD OF DIRECTORS

A) Engagement policy for the selection of members of the Board of Directors and limit on assignments

The Bylaws[2] establish that the Bank is managed by a Board of Directors consisting of a number of members established by the Shareholders' Meeting on appointment which, in any event, may be no lower than 5 (five) and no higher than 13 (thirteen). The members of the Board of Directors have a term of office for a period not to exceed 3 (three) years, established on appointment, ending on the date of the Shareholders' Meeting convened to approve the financial statements for the final year of their term, and they may be re-elected.

The Board consists of Independent directors, Executive directors and Non-executive directors.

The appointment of Directors of BFF takes place, as set forth in Article 15 of the Bylaws, with the list voting mechanism, on the basis of lists submitted by the outgoing Board of Directors (the "BoD List") and/or by the Shareholders.

2) The Bank's Bylaws are available on its website (the "**Website**") at the following address: https://investor.bff.com/it/statuto and address the composition of the Board of Directors in Articles 14 et seq.

Each list contains a number of candidates not exceeding the number of members to be elected, listed with a progressive number, and the composition of the Board of Directors ensures: (i) the fulfilment by all Directors of the requirements laid out by regulations in force[3]; (ii) the presence of Independent directors, at least in the minimum number established by regulations and legislation in force over time; (iii) the appointment of Directors belonging to the least represented gender, at least to the minimum extent set forth in Law No. 120/2011; (iv) the presence of one Director from the list that received the second highest number of votes.

In the Bank's "*Board of Directors' Regulations*" (the "**BoD Regulations**")[4], the Board of Directors established the requirements that BFF Directors must meet in addition to those laid out by regulations in force, and expressed its orientation regarding the maximum number of offices they may hold in other companies, in keeping with the provisions of Article 17 of the Fit & Proper Decree.

In compliance with regulatory and legislative provisions in force, the Board of Directors, with the support of the Appointments Committee and in coordination with the Chairman of the Board of Directors, for the purposes of the appointment and co-opting of its members, defines, taking into account the results of the annual self-assessment process (the "**Self-Assessment Process**", described below), its qualitative and quantitative composition considered optimal for the effective performance of the duties and responsibilities assigned to the management body by law, Supervisory Provisions and the bylaws, identifying and justifying the theoretical profile of the candidates (including the characteristics of professionalism and independence, if applicable) deemed appropriate for these purposes.

Specifically, on renewal of the entire management body, the Board of Directors, on the basis of the results of the Self-Assessment Process, makes its guidance available to the Shareholders on the optimal qualitative/ quantitative composition (in terms, inter alia, of skills, experience, age, gender and international background), with regard to the characteristics and goals of the Bank.

The Board of Directors, appointed by the Shareholders' Meeting (the "**Shareholders' Meeting**") on March 25, 2021 on the basis of the Guidelines to Shareholders on the qualitative/quantitative composition of the Board of Directors and for the preparation of the Board of Directors list (the "**Guidelines")**[5] prepared by the outgoing Board of Directors, will remain in office for three years, until the Shareholders' Meeting convened to approve the financial statements for the year 2023. In quantitative terms, the Shareholders' Meeting adopted the guidance expressed in the Guidelines to Shareholders, inter alia, by confirming the number of Directors at nine.

On March 31, 2022, the Shareholders' Meeting confirmed the appointment of Ms. Monica Magrì and Ms. Anna Kunkl, co-opted on February 10, 2022 following the resignation from office of Ms. Barbara Poggiali, and on March 1, 2022, following the resignation from office of Ms. Amélie Scaramozzino, respectively.

3) Reference is made to Articles 147-*ter*(4) and 148 of Legislative Decree No. 58/1998 (as amended; the "**TUF**"), as well as the provisions laid out in Article 26 of Legislative Decree No. 385/1993 (as amended; the "**TUB**"), Decree No. 169/20 "*Regulation on the requirements and criteria of suitability for the performance of the role of corporate officers of banks, financial intermediaries, credit guarantee consortia, electronic money institutions, payment institutions and depositary guarantee systems*", which entered into force on December 30, 2020 (the "**Fit & Proper Decree**"), applicable at the first renewal of the bodies subsequent to its entry into force), Article 36 of Decree-Law No. 201/2011 ("**Salva Italia Decree**" which establishes an interlocking prohibition) and the Corporate Governance Code for listed companies approved by the Corporate Governance Committee established by the business associations (ABI, ANIA, Assonime, Confindustria), Borsa Italiana S.p.A. and the association of professional investors (Assogestioni) in January 2020 (the "**Corporate Governance Code**").

4) The BoD Regulations are available on the Bank's website at the following address: https://www.bffgroup.com/it/regolamento-consiglio-di-amministrazione.

5) Available on the Website at the address: https://investor.bff.com/documents/20152/0/BFF-Orientamenti+per+gli+Azionisti-ITA.pdf/7d2a0ae2-af65-73b5-0d49-24f19ceb7273

The Board of Directors in office at December 31, 2021 consists of the Directors listed below.

Mr. Salvatore Messina	Chairman
Mr. Federico Fornari Luswergh	Deputy Chairman - Non-Executive Director
Mr. Massimiliano Belingheri	Chief Executive Officer
Ms. Gabriele Michaela Aumann	Non-Executive Independent Director
Mr. Domenico Gammaldi	Non-Executive Independent Director
Ms. Barbara Poggiali (**)	Non-Executive Independent Director
Ms. Amelié Scaramozzino (***)	Non-Executive Independent Director
Mr. Piotr Henryk Stepniak	Non-Executive Director
Ms. Giovanna Villa (*)	Non-Executive Independent Director

(*) Director taken from the minority shareholders' list.
(**) Director who left office on February 3, 2022 and was replaced by co-opting by Ms. Monica Magrì, whose appointment was confirmed by the Shareholders' Meeting on March 31, 2022.
(***) Director who left office on February 24, 2022 and was replaced by co-opting by Ms. Anna Kunkl, whose appointment was confirmed by the Shareholders' Meeting on March 31, 2022.

For the sake of comprehensiveness, several of the current members of the Board of Directors already held the role of Director of the Issuer prior to the above-mentioned appointment. In particular, the following were appointed for the first time: (i) Mr. Salvatore Messina, as Director and Chairman of the Board of Directors, on January 14, 2013; (ii) Mr. Massimiliano Belingheri, as Non-Executive Director, on December 19, 2006 and, as of December 24, 2013, as Chief Executive Officer; (iii) Mr. Federico Fornari Luswergh, as Director, on April 29, 2010; (iv) Ms. Gabriele Michaela Aumann, as Director, on December 21, 2015. Following the Shareholders' Meeting resolution of March 31, 2022, the Board of Directors will remain in office in its current composition until the approval of the financial statements at December 31, 2023.

As concerns the qualitative aspect, at the time of appointment, the candidates for member of the Board of Directors, taking into account the indications set forth in the Guidelines, inter alia:

(i) Declared the non-existence of reasons for ineligibility and incompatibility, as well as the fulfilment of the requirements laid out by regulations and legislation in force;

(ii) Provided an exhaustive disclosure on their personal and professional characteristics, as well as on the skills gained in the banking, financial and/or other relevant fields as specified in more detail in the Guidelines and/or the BoD Regulations;

(iii) Indicated the management and control offices held in other companies;

(iv) Declared that they could dedicate adequate time to the office in light of its complexity.

The Board of Directors, on April 23, 2021 and, with respect to Ms. Magrì and Ms. Kunkl on March 1, 2022 and March 31, 2022, respectively, verified the compliance between the qualitative/quantitative composition deemed optimal and that actually resulting from the appointment process. At those times, the Board of Directors also verified, for each of its members, compliance with the limit on the number of assignments set forth in Articles 17, 18 and 19 of the *Fit & Proper* Decree, the availability of adequate time for carrying out the duties of office, taking into account, inter alia, participation in the board committees set forth in Article 16 of the *Fit & Proper* Decree, the fulfilment of the requirements of professionalism and integrity, the fulfilment of criteria of fairness and skill, the absence of offices in competing companies or groups of companies (also for the purposes of the interlocking directorship prohibition pursuant to Article 36 of Decree-Law No. 201/2011), the existence of independent judgement, set forth in Article 15 of the *Fit & Proper* Decree, and the fulfilment of the independence requirements pursuant to Article 148 (3) of the TUF and as referred to in Art. 147-ter (4) of the TUF and/or Article 2, recommendation 7 of the Corporate Governance Code of listed companies, and Article 13 of the *Fit & Proper* Decree for five Directors.

It should be noted that Mr. Salvatore Messina was qualified as independent pursuant to Articles 147-*ter* and 148(3) of the TUF and, despite the verification that the Chairman met the independence requirements on appointment, he is not currently classified as an Independent director as he has been part of the Bank's Board of Directors for more than nine years (since he was appointed for the first time on January 14, 2013). Ms. Gabriele Michaela Aumann, Ms. Barbara Poggiali, Ms. Amélie Scaramozzino, Mr. Domenico Gammaldi and Ms. Giovanna Villa, as well as Ms. Monica Magrì and Ms. Anna Kunkl - first co-opted by the Board of Directors and subsequently appointed by the Shareholders' Meeting on March 31, 2022, as specified above - declared that they meet the independence requirements pursuant to Article 148 (3) of the TUF and as referred to in Article 147-ter (4) of the TUF and Article 2, recommendation 7 of the Corporate Governance Code of listed companies.

The composition of the Board of Directors appointed on March 25, 2021, as supplemented on February 10 and March 1, 2022 and confirmed on March 31, 2022 - also with regard to the statements provided during the candidacy phase - is therefore compliant with applicable legislative and regulatory provisions regarding gender balance and the independence requirement. Subsequent to appointment, the continuing fulfilment of the above-mentioned requirements is confirmed on an annual basis by the Board of Directors, also as part of the Self-Assessment Process performed in keeping with the Supervisory Provisions and the Corporate Governance Code, as incorporated within the "*Board of Directors self-assessment process regulation*" adopted by the Bank.

In more detail, the Self-Assessment Process concerns aspects related to the qualitative/quantitative composition and functioning of the Board of Directors and its internal Committees, taking into account, amongst other items, the size, degree of diversity in terms of age, gender, experience and professional expertise, etc., of its members, the presence of non-executive and independent members and the adequacy of the appointment process and selection criteria in order to identify any points of weakness and 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 2021 (the "**2021 Self-Assessment**") brought to light an overall positive judgement, with several points for improvement, also in the spirit of integrating newly appointed members.

The summary statement of the number of offices held in other companies by members of the Board of Directors in office at December 31, 2021 is provided below, which takes into account the mechanisms of aggregation and exemption of the offices set forth in the *Regulation on the requirements and criteria of suitability for the performance of the role of corporate officers of banks, financial intermediaries, credit guarantee consortia, electronic money institutions, payment institutions and depositary guarantee systems* (the "Fit & Proper Decree"):

Director	Total number of offices held in other companies
Salvatore Messina	0
Federico Fornari Luswergh	1 executive
Massimiliano Belingheri	0
Amélie Scaramozzino	0
Gabriele Michaela Aumann	0
Piotr Henryk Stepniak	3
Domenico Gammaldi	2 non-executive
Barbara Poggiali	3 non-executive
Giovanna Villa	3 non-executive

B) Succession plan of the Chief Executive Officer

On December 20, 2017, the Board of Directors approved the "*Succession plan of the Chief Executive Officer*" (the "**Succession Plan**"), consisting of: *(i)* the "Contingency Plan" identifying *(a)* the steps to be taken immediately following the occurrence of a definitive or temporary impediment, and *(b)* the party responsible for taking over the role of Chief Executive Officer on a temporary basis, for the period of time required to appoint a new Chief Executive Officer in cases of definitive impediment, or until the state of impediment is over, in cases of temporary impediment; *(ii)* the "Succession Planning" which establishes the actions to be taken to identify and appoint a new Chief Executive Officer if a definitive impediment is confirmed.

The Appointments Committee annually checks the need and/or opportunity to update the Succession Plan, providing pertinent information to the Board of Directors so it may pass the relative resolutions.

On November 26, 2021, the Succession Plan was revised by the Board of Directors - after being reviewed by the Appointments Committee - and it was updated in order to incorporate in particular the references to the Fit & Proper Decree.

For more information, refer to the Corporate Governance Report relating to the year 2021.

C) Policy on diversity adopted with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved

On September 28, 2018, the Board of Directors approved, at the proposal of the Appointments Committee, the "*Board of Directors diversity policy*", updated on December 22, 2020 in order to incorporate, inter alia, (i) the amendment of the provision on the gender composition of the Board of Directors, based on which two-fifths of the elected directors (rounding up to the next whole number) must belong to the least represented gender for at least six consecutive terms of office as of the first appointment of the Board of Directors subsequent to January 1, 2020, (ii) the results of the Self-Assessment, (iii) the reference to Sustainable Success, and which was most recently updated on July 29, 2021, in order to incorporate the provisions introduced by: (i) the *Fit & Proper*

Decree, (ii) the Supervisory Provisions and (iii) the 35th update, of July 2, 2021, of Bank of Italy circular No. 285 of December 17, 2013 (the "**BoD Diversity Policy**").

Such Policy is subject to review and, if necessary, 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 anticipate changes in the Company, so that the identification of the requirements for Board composition is consistent with the abovementioned outcome.

The BoD Diversity Policy describes the optimal characteristics of the composition of the management body, so that it may exercise its duties in the most effective way, making decisions on the basis of a plurality of qualified and diverse points of view.

In particular, it is deemed that the optimal composition of the Board of Directors should be geared towards meeting at least the following criteria:

(i) The presence of a consistent number of Non-executive and/or independent directors other than the Chairman of the Board of Directors. In any event, in compliance with regulations in force over time and, unless the Bylaws call for a higher number of Directors, there must be at least two Independent directors, other than the Chairman of the Board of Directors, if the Board has seven members, at least three if it has up to twelve members, and at least four if it has more, and if the Bank decides to submit the BoD List, at least half of the candidates on it must meet the independence requirements set forth by law, the Bylaws and Board of Directors Regulations. The number of Non-executive and/or independent directors must also guarantee a diverse composition of the Internal committees;

(ii) The maintenance of at least a share of two-fifths, rounded up, of the members of the Board of Directors, at the time of appointment and during the term of office, belonging to the least represented gender;

(iii) Diversity in terms of age, so as to allow for a plurality of perspectives and management and professional experiences;

(iv) The balancing of different periods of seniority in office, in an attempt to strike a balance between continuity requirements and management renewal;

(v) Considering the Group's international scope, the presence of one-third of directors who have gained adequate experience in international contexts (preferably in the Group's markets and particularly in Eastern Europe, i.e. Poland, Czech Republic, Slovakia and Croatia) in order, inter alia, to prevent the endorsement of opinions and the phenomenon of "group thinking", and in the specific business of depositary bank, payment and accessory services.

In general, the Directors should have a management and/or professional and/or academic and/or institutional profile such so as to achieve a diverse and complementary mix of skills and experience, gained for at least three years.

Specifically with regard to the Chairman of the Board of Directors and the Chief Executive Officer, the BoD Diversity Policy lays out the requirements of professionalism that they must have respectively gained for at least five years in compliance, inter alia, with what is set forth in the *Fit & Proper* Decree.

As noted previously, aside from the requirements of professionalism set forth by regulations, the Directors must meet the further requirements set forth in the BoD Regulations available on the Bank's website, which should be referred to for further details: https://investor.bff.com/it/regolamento-consiglio-di-amministrazione.

The BoD Diversity Policy is primarily implemented - in compliance with provisions of law and the bylaws on the appointment of the Board of Directors and its Chairman with the list voting mechanism, as well as the Succession Plan - during *(i)* the appointment of Board of Directors, through the formulation by the outgoing Board of Directors, with the contribution of the Appointments Committee and the Chairman, of the Guidelines for Shareholders, as well as any formation and presentation to the Shareholders of the BoD List; *(ii)* co-opting; *(iii)* early departure from office of the Chief Executive Officer, and *(iv)* the appointment of the Chairman of the Board of Directors. For the appointment of the Board of Directors and for the co-opting pursuant, respectively, to points *(i)* and *(ii)*, the Self-assessment process is fundamental.

Considering the approval of the BoD Diversity Policy in the third quarter of 2018, subsequent to the appointment of Board of Directors by the Shareholders' Meeting on March 25, 2021, monitoring of the results of its implementation has to date been carried out only in relation to the appointment of the co-opted Directors Ms. Monica Magrì and Ms. Anna Kunkl, who meet all of the diversity criteria and objectives set forth in the BoD Diversity Policy. In this regard, it was found that in relation to the composition of the Board of Directors: *(i)* the number of Non-executive and/or independent directors has remained unchanged; *(ii)* the number of Directors belonging to the least represented gender has remained unchanged; *(iii)* the diversification of age brackets within the Board of Directors has basically remained the same and the range of management and professional experience has been maintained, with the profiles of Ms. Magrì and Ms. Kunkl deemed in many respects analogous to those of the former Directors they replaced, also in terms of adequate international experience.

The results of the monitoring of the BoD Diversity Policy, in its most recent version, will be disclosed in the Corporate Governance Report relating to the year 2022.

The Board of Directors in office at December 31, 2021, consisted of:

(i) 6 (six) Independent Directors, constituting the majority of the Board of Directors;

(ii) 4 (four) female Directors and 5 (five) male Directors;

(iii) 3 (three) Directors resident abroad, of whom 2 (two) non-Italian Directors and 1 (one) with dual nationality, representing one-third of the members of the Board of Directors.

On April 24, 2021, on March 1, 2022 with respect to the co-opted Director Ms. Monica Magrì and on March 31, 2022 with respect to the co-opted Director Ms. Anna Kunkl, the Board of Directors verified that the Directors have at least one of the following skills:

a) Adequate knowledge of the banking industry, trends and the economic and financial system, banking and financial regulation and, especially, risk management and control methodologies, acquired through long-term experience in administration, management and control roles in the financial sector;

b) Experience in business management and company organization acquired through long-term activity in administration, management or control roles in companies, or groups of significant economic size or in the public administration;

c) Capacity to read and interpret economic and financial data, acquired through long-term experience in administration and control roles in companies or the exercise of professional activity or university instruction;

d) International experience and knowledge of foreign markets acquired by performing long-term business or professional activities at foreign institutions or internationally focused entities, businesses or groups.

The profiles of these candidates are reasonably complementary in terms of professional background and expertise, so as to guarantee the development of internal dialogue, efficient functioning and the overall suitability of the Board and the Board Committees to fulfil their obligations.

2) CONTROL AND RISKS COMMITTEE

A) Establishment of a separate risk committee and the number of times it has met

In compliance with the Supervisory Provisions, and in line with the provisions of the Corporate Governance Code, the Board of Directors has established a Control and Risks Committee (the "**CR Committee**").

Pursuant to the "*Control and Risks Committee Regulation*", the CR Committee consists of 3 (three) Board members, all non-executive and the majority independent pursuant to the Bylaws and the BoD Regulations (i.e. TUF and Corporate Governance Code). An Independent director chairs the CR Committee.

The CR Committee in office at December 31, 2021 consists of the Independent Directors Ms. Gabriele Michaela Aumann (Chairman), Mr. Domenico Gammaldi and Non-Executive Director Mr. Federico Fornari Luswergh. Ms. Aumann (Chairman) has adequate accounting, financial and risk management expertise, as confirmed when she was appointed by the Board of Directors.

The CR Committee performs recommendation and advisory functions for the Board of Directors, in order to support, with adequate investigation activity, the assessments and decisions of the Board of Directors with respect to the Internal control and risk management system (relating to all activities supporting the proper and effective determination and application of the Risk Appetite Framework and the risk governance policies) and periodic financial reporting.

The following also have a standing invitation to CR Committee meetings:

- the Chairman of the Board of Directors and
- the Chairman of the Board of Statutory Auditors, to guarantee the presence of at least one member of the control body.

The Chairman of the CR Committee reports on each of its meetings at the next meeting of the Board of Directors.

In 2021, the CR Committee met 17 times; the average duration of these meetings was roughly 2 hour and 13 minutes.

In the course of 2022, 15 meetings are indicatively planned, of which 5 were held on January 26, February 9, February 25, February 28 and March 28. The information flow on risks sent to the CR Committee is identified by a specific internal regulation and consists primarily of the documents prepared by the Company Control Functions (*i.e.* by the Internal Audit Function, the Risk Management Function and the Compliance and AML Function) concerning the planning of activities and the related reporting (annual reports and quarterly *Tableau de Bord*, also submitted subsequently to the Board and transmitted to the Bank of Italy), as well as other verifications required by regulations in force (reporting on material risks assumed by the Bank and other Group companies, disclosure on controls concerning risk governance and management, report on outsourced important operating functions, report on the Internal Capital Adequacy Assessment Process, etc.).

B) Description of the information flow on risk to the Board of Directors

The information flow on risk addressed to the Board of Directors after assessment by the CR Committee is set forth below:

INFORMATION FLOWS

Owner	Information flows generated	Frequency
Risk Management Function	Activity Plan	annual
	Report on activities performed	annual
	ICAAP/ILAAP	annual
	Risk Report Management	monthly
	Contingency Funding Plan	annual
	Recovery Plan	bi-annual
	Tableau de bord of the Risk Management Function (Risk Report)	quarterly
Compliance Function	Activity Plan	annual
	Compliance Report	monthly
	Tableau de bord of the Compliance Function	quarterly
	Disclosure relating to the implementation of framework resolutions	quarterly
	Complaints Report	annual
	Annual Report on Compliance activity	annual
AML Function	Audit Report (*)	half-yearly
	Report on activities performed	annual
Internal Audit Function	Activity Plan	annual/multi-year
	Audit Report	by event
	Tableau de bord of the Internal Audit Function	quarterly
	ICAAP/ILAAP Audit Report	annual
	Audit Report on outsourced important functions/activities	annual
	Audit Report on the Incentive and remuneration system (**)	annual
	Annual Report of Internal Audit activities	annual
	Annual Whistleblowing Report	annual
Supervisory Body	Report on activities performed	half-yearly
Board of Statutory Auditors	Opinions of the Board of Statutory Auditors	by event
	Reporting on gaps identified	by event

(*) This report is also sent to the Chairman of the Board of Directors in his capacity as party responsible for suspicious transactions.

(**) The Shareholders' Meeting is the final recipient of the report.

Section 2

Scope of application (Art. 436 CRR)

Qualitative disclosure

The disclosure requirements pursuant to this document, as set forth pursuant to Article 436 of the CRR, refer to the BFF Bank Banking Group, enrolled in the Register of Banking Groups, of which BFF Bank is Parent Company.

BFF Banking Group is the largest specialized finance operator in Italy, as well as one of the leaders in Europe, in the management and non-recourse disposal of trade receivables due from Public Administrations, and in the area of securities services and payment services. The Group is active in Italy, Croatia, France, Greece and Portugal through BFF Bank, in Spain through BFF Finance Iberia and in Poland, the Czech Republic and Slovakia through BFF Polska and its associates (the "BFF Polska Group").

Please note that, following the elimination of BFF Luxembourg Sarl's shareholding in the Bank in February 2021, the Bank of Italy, via a notice dated February 23, 2021 removed the CRR Group headed by the Luxembourg-based company from the register of banking groups and therefore registered the Group headed by BFF Bank.

On March 1, 2021 Banca Farmafactoring S.p.A. completed the closing of the acquisition transaction. ("BFF") of DEPObank – Banca Depositaria Italiana S.p.A. ("DEPObank") and subsequent merger by incorporation of DEPObank. On March 5, 2021 the Bank also changed its name to BFF Bank S.p.A.

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

The scope of consolidation relevant for the purposes of the financial statements reflects the aggregation of balance sheet and income statement items of BFF Bank S.p.A. (BFF), BFF Finance Iberia S.A. (wholly owned subsidiary of BFF Bank S.p.A.) and the companies of the BFF Polska Group, acquired on May 31, 2016.

BFF Bank also offers deposit products to retail and corporate customers in Italy, Spain, Germany, Ireland and the Netherlands.

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

BFF Polska Group 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 Group mainly operates in three areas:

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

Through BFF Polska Group, the Banking Group operates in a leadership position in the Polish alternative financing market (AFM) for hospitals, in which intermediaries offer forms of financing competing with traditional banking services to healthcare facilities. Other specialized operators and, to a much less significant extent, some traditional banks, are also active in this segment.

Note that the Issuer qualifies as "SME" pursuant to article 1, paragraph 1, letter w-*quater*.1) of the TUF – as shown by the list of SMEs published on the Consob website - on the basis only of the consolidated turnover criterion, as the capitalization value is higher than the regulatory threshold of €500 million[6].

6) Pursuant to article 1, paragraph 1, letter w-quater.1) of the TUF, small and medium enterprises that are issuers of listed shares and have a market capitalization of less than €500 million are considered "SMEs". Issuers of listed shares that have exceeded that limit for three consecutive years are not considered SMEs. Paragraph 2 of article 44-bis of Italian Legislative Decree No. 76/2020, coordinated with conversion law No. 120/2020, provides that: "Issuers that at the date of entry into force of the law converting this decree assume the status of SMEs on the basis of turnover criteria alone shall continue to maintain this status for two years following the current one".
Please note that Art. 44-bis, paragraph 2, of Law No. 120/2020 converted with amendments Decree Law No. 76/2020, on "Urgent measures for simplification and digital innovation" (the "Simplifications Decree") and was adopted in order to implement, inter alia, "simplification measures on business activity, the environment and the green economy, in order to deal with the economic consequences of the COVID-19 epidemiological emergency". Amongst the corporate and financial market simplifications, Art. 44-bis of the above-mentioned Decree introduced several measures for the simplification of the criteria for the qualification of "Listed SMEs". In particular, "in order to simplify the criteria for determining the list of listed SMEs also with a view to achieving an overall simplification of the regime applicable to listed companies", the legislature abrogated the turnover criterion, maintaining only the market capitalization factor. Art. 44-bis, paragraph 2 also establishes that "issuers that at the date of entry into force of the law converting this decree assume the status of SMEs on the basis of turnover criteria alone shall continue to maintain this status for two years following the current one".

Quantitative disclosure

Template EU LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
Assets							
10. CASH AND CASH EQUIVALENTS	554,468	554,468	554,468				
20. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	36,598	36,598	32,504	4,094		1	37
a) financial assets held for trading	4,095	4,095		4,094		1	4
b) financial assets carried at fair value	0	0	0				
c) other financial assets subject to mandatory fair value measurement	32,504	32,504	32,504				33
30. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	83,506	83,506	83,506				84
40. FINANCIAL ASSETS MEASURED AT AMORTIZED COST	10,069,497	10,069,497	9,781,501	287,889			106
a) due from banks	404,099	404,099	243,661	160,438			
b) loans to customers	9,665,398	9,665,398	9,537,946	127,451			106
50. HEDGING DERIVATIVES	13	13		13			0
60. VALUE ADJUSTMENT OF MACROHEDGED FINANCIAL ASSETS	0	0	0				
70. EQUITY INVESTMENTS	13,484	13,484	13,484				
80. TECHNICAL PROVISIONS CEDED TO REINSURERS	0	0	0				
90. TANGIBLE ASSETS	36,452	36,452	36,452				
100. INTANGIBLE ASSETS	67,547	67,547	5,040				62,508
of which: - goodwill	30,874	30,874					30,874
110. TAX ASSETS	100,519	100,519	100,519				741
A) Current	41,389	41,389	41,389				
B) Deferred	59,129	59,129	59,129				741
120. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	0	0	0				
130. OTHER ASSETS	214,614	214,614	214,614				
TOTAL ASSETS	**11,176,697**	**11,176,697**	**10,822,193**	**291,996**		**1**	**63,359**

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
Liabilities							
10. FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST	10,010,353	10,010,353					
A) DUE TO BANKS	795,053	795,053					
B) DUE TO CUSTOMERS	9,029,014	9,029,014					
C) SECURITIES ISSUED	186,285	186,285					
20. FINANCIAL LIABILITIES HELD FOR TRADING	2,725	2,725					3
30. FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	0	0					
40. HEDGING DERIVATIVES	4,814	4,814					5
50. VALUE ADJUSTMENT OF MACROHEDGED FINANCIAL LIABILITIES	0	0					
60. TAX LIABILITIES	100,684	100,684					
A) CURRENT	5,028	5,028					
B) DEFERRED	95,657	95,657					
70. LIABILITIES LINKED TO ASSETS HELD FOR SALE	0	0					
80. OTHER LIABILITIES	460,856	460,856					
90. EMPLOYEE SEVERANCE PAY	3,710	3,710					
100. PROVISIONS FOR RISKS AND CHARGES	21,960	21,960					
A) COMMITMENTS AND GUARANTEES GIVEN	294	294					
B) POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS	6,133	6,133					
C) OTHER PROVISIONS FOR RISKS AND CHARGES	15,533	15,533					
110. TECHNICAL PROVISIONS	0	0					
120. VALUATION RESERVES	5,269	5,269					
130. REDEEMABLE SHARES	0	0					
140. EQUITY INSTRUMENTS	0	0					
150. RESERVES	166,904	166,904					
160. SHARE PREMIUM RESERVE	66,493	66,493					
170. SHARE CAPITAL	142,691	142,691					
180. TREASURY SHARES	(7,132)	(7,132)					
190. MINORITY INTERESTS	0	0					
200. PROFIT FOR THE YEAR	197,372	197,372					
TOTAL CONSOLIDATED LIABILITIES AND SHAREHOLDERS' EQUITY	**11,176,697**	**11,176,697**	**0**	**0**	**0**	**0**	**8**

Template EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Items subject to			
			Credit risk framework	Securitization framework	CCR framework	Market risk framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	**11,114,190**	**10,822,193**	**0**	**291,996**	**1**
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)**					
3	**Total net amount under the regulatory scope of consolidation**	**11,114,190**	**10,822,193**	**0**	**291,996**	**1**
4	Off-balance-sheet amounts	1,409,352	1,409,352	0	0	14,982
5	Differences in valuations	(127,656)	-	-	-	(127,656)
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to the use of credit risk mitigation techniques (CRMs)	-	-	-	-	-
9	Differences due to credit conversion factors	(1,350,183)	(1,350,183)	-	-	-
10	Differences due to Securitization with risk transfer	0	0	0	0	0
11	Other differences	1,204,219	0	0	1,204,219	0
12	**Exposure amounts considered for regulatory purposes**	**12,377,450**	**10,881,362**	**0**	**1,496,215**	**14,856**

Template EU LI3: Outline of the differences in the scopes of consolidation (entity by entity)

Row	a	b	c	d	e	f	g	h
	Name of the entity	Method of accounting consolidation	Method of regulatory consolidation					Description of the entity
			Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
010	BFF BANK SPA	Parent company						Credit institution
020	BFF Finance Iberia, S.A.	Full consolidation	x					Financial companies other than credit institutions
030	BFF Polska S.A.	Full consolidation	x					Financial companies other than credit institutions
040	BFF Medfinance S.A.	Full consolidation	x					Financial companies other than credit institutions
050	BFF Česká republika s.r.o.	Full consolidation	x					Financial companies other than credit institutions
060	BFF Central Europe s.r.o.	Full consolidation	x					Financial companies other than credit institutions
070	Debt-Rnt sp. Z O.O.	Full consolidation	x					Financial companies other than credit institutions
080	Komunalny Fundusz Inwestycyjng Zamknięty	Full consolidation	x					Financial companies other than credit institutions
090	MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Full consolidation	x					Financial companies other than credit institutions
100	Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Consolidation at equity			x			Non-financial companies
110	Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Consolidation at equity			x			Non-financial companies

BFF Bank holds no unconsolidated subsidiaries.

Section 3
Own funds (Art. 437 CRR)

Qualitative disclosure

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

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

- Paid-in share capital;
- Reserves (legal reserve, extraordinary reserve, retained earnings reserve, stock option reserve and financial instruments reserve);
- Any undistributed portion of profit for the period;
- Revaluation reserves (IASs/IFRS 9 transition reserve, reserve for actuarial gains/losses relating to defined benefit plans, and revaluation reserve for HTC&S securities);
- Any non-controlling interests eligible for inclusion in the computation of CET1.

Intangible assets, including any goodwill, as well as certain categories of tax assets should be deducted from these items in accordance with the requirements of CRR II.

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

The Own funds of BFF Banking Group pursuant to the TUB amount to €481.1 million. The increase compared to December 31, 2020 was mainly influenced by the acquisition and merger into BFF Bank of DEPObank SpA through the recognition in own funds of the profit for the period referring to the badwill generated, the net effect of the tax relief on goodwill of the Payments BU net of expenses incurred for Liability Management activities and the share of profit for the period necessary to distribute an amount of dividends equal to the total adjusted profit realized by the Group, in compliance with the Policy.

Quantitative disclosure

Template EU CC1: Composition of regulatory own funds

		12/31/2021	09/30/2021	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		a)		b)
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	209,184	209,158	160. Share premium reserve 170. Share capital
	Of which ordinary shares	209,184	209,158	160. Share premium reserve 170. Share capital
	Of which: instrument type 2			
	Of which: instrument type 3			
2	Retained earnings	158,260	158,575	150. Reserves
3	Accumulated other comprehensive income (and other reserves)	13,912	12,415	120. Valuation reserves 150. Reserves
EU-3a	Funds for general banking risk			
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1			
5	Minority interests (amount allowed in consolidated CET1)			
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	72,092	177,643	200. Profit for the year
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	453,448	557,790	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(128)	(133)	
8	Intangible assets (net of related tax liability) (negative amount)	(62,508)	(124,768)	100. Intangible assets
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(741)	(13,726)	110. Tax assets
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value			
12	Negative amounts resulting from the calculation of expected loss amounts			

(CONT'D)

		12/31/2021	09/30/2021	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		a)		b)
13	Any increase in equity that results from securitized assets (negative amount)			
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing			
15	Defined-benefit pension fund assets (negative amount)			
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	(7,132)	(7,217)	180. Treasury shares
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
20	Empty set in the EU			
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative			
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)			
EU-20c	of which: securitization positions (negative amount)			
EU-20d	of which: free deliveries (negative amount)			
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)			
22	Amount exceeding the 17.65% threshold (negative amount)			

(CONT'D)

		12/31/2021	09/30/2021	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		a)		b)
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities			
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary differences			
EU-25a	Losses for the current financial year (negative amount)			
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)			
26	Empty set in the EU			
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)			
27a	Other regulatory adjustments	(106)		
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(234)**	**(145,843)**	
29	**Common Equity Tier 1 (CET1) capital**	**382,833**	**411,947**	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts			
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1			
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1			
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1			
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties			

(CONT'D)

		12/31/2021	09/30/2021	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		a)		b)
35	of which: instruments issued by subsidiaries subject to phase out			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)			
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)			
41	Empty set in the EU			
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)			
42a	Other regulatory adjustments to AT1 capital			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**			
44	**Additional Tier 1 (AT1) capital**			
45	**Tier 1 capital (T1 = CET1 + AT1)**	**382,833**	**411,947**	
Tier 2 (T2) capital: instruments				
46	Capital instruments and the related share premium accounts	98,224	98,224	10. Financial liabilities measured at amortized cost
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR			
EU-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2			

(CONT'D)

		12/31/2021	09/30/2021	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		a)		b)
EU-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2			
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 and held by third parties			
49	of which: instruments issued by subsidiaries subject to phase out			
50	Credit risk adjustments			
51	**Tier 2 (T2) capital before regulatory adjustments**	**98,224**	**98,224**	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)			
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
54a	Empty set in the EU			
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)			
56	Empty set in the EU			
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)			
EU-56b	Other regulatory adjustments to T2 capital			
57	**Total regulatory adjustments to Tier 2 (T2) capital**			
58	**Tier 2 (T2) capital**	**98,224**	**98,224**	
59	**Total capital (TC = T1 + T2)**	**481,057**	**510,171**	
60	**Total Risk exposure amount**	**2,171,134**	**2,227,844**	

(CONT'D)

		12/31/2021	09/30/2021	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		a)		b)
Capital ratios and buffers				
61	Common Equity Tier 1	17.633%	18.491%	
62	Tier 1 capital	17.633%	18.491%	
63	Total capital	22.157%	22.900%	
64	Institution CET1 overall capital requirement	7.850%	7.853%	
65	of which: capital conservation buffer requirement	2.500%	2.500%	
66	of which: countercyclical buffer requirement	0.00014%	0.00252%	
67	of which: systemic risk buffer requirement			
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer			
EU-67b	of which: additional own funds requirements to cover risks other than excessive leverage risk	0.850%	0.850%	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**5.350%**	**5.350%**	
69	Empty set in the EU			
70	Empty set in the EU			
71	Empty set in the EU			
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)			
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	13,397	13,296	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	2,808	3,688	

(CONT'D)

		12/31/2021	09/30/2021	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		a)		b)
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)			
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach			
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)			
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach			
Capital instruments subject to phase-out arrangements (only applicable between Jan 1, 2014 and Jan 1, 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements			
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
82	Current cap on AT1 instruments subject to phase out arrangements			
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84	Current cap on T2 instruments subject to phase out arrangements			
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

Template EU CC2: reconciliation of regulatory own funds to balance sheet in the audited financial statements

Row		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to table EU CC1
		As at period end	As at period end	
***Assets** - Breakdown by asset classes according to the balance sheet in the published financial statements*				
10.	CASH AND CASH EQUIVALENTS	554,468	554,468	
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	36,598	36,598	
	a) financial assets held for trading	4,095	4,095	
	b) financial assets carried at fair value	0	0	
	c) other financial assets subject to mandatory fair value measurement	32,504	32,504	
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	83,506	83,506	
40.	FINANCIAL ASSETS MEASURED AT AMORTIZED COST	10,069,497	10,069,497	
	a) due from banks	404,099	404,099	
	b) loans to customers	9,665,398	9,665,398	
50.	HEDGING DERIVATIVES	13	13	
60.	VALUE ADJUSTMENT OF MACROHEDGED FINANCIAL ASSETS	0	0	
70.	EQUITY INVESTMENTS	13,484	13,484	
80.	TECHNICAL PROVISIONS CEDED TO REINSURERS	0	0	
90.	TANGIBLE ASSETS	36,452	36,452	
100.	INTANGIBLE ASSETS	67,547	67,547	8
	of which: - goodwill	30,874	30,874	
110.	TAX ASSETS	100,519	100,519	
	A) Current	41,389	41,389	
	B) Deferred	59,129	59,129	10
120.	NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	0	0	
130.	OTHER ASSETS	214,614	214,614	
	TOTAL ASSETS	**11,176,697**	**11,176,697**	

Row		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to table EU CC1
		As at period end	As at period end	
***Liabilities** - Breakdown by liability classes according to the balance sheet in the published financial statements*				
10.	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST	10,010,353	10,010,353	
	A) Due to banks	795,053	795,053	
	B) Due to customers	9,029,014	9,029,014	
	C) Securities issued	186,285	186,285	46
20.	FINANCIAL LIABILITIES HELD FOR TRADING	2,725	2,725	
30.	FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	0	0	
40.	HEDGING DERIVATIVES	4,814	4,814	
50.	VALUE ADJUSTMENT OF MACROHEDGED FINANCIAL LIABILITIES	0	0	
60.	TAX LIABILITIES	100,684	100,684	
	A) Current	5,028	5,028	
	B) Deferred	95,657	95,657	10
70.	LIABILITIES LINKED TO ASSETS HELD FOR SALE	0	0	
80.	OTHER LIABILITIES	460,856	460,856	
90.	EMPLOYEE SEVERANCE PAY	3,710	3,710	
100.	PROVISIONS FOR RISKS AND CHARGES	21,960	21,960	
	A) Commitments and guarantees given	294	294	
	B) Post-employment benefits and similar obligations	6,133	6,133	
	C) Other provisions for risks and charges	15,533	15,533	
110.	TECHNICAL PROVISIONS	0	0	
120.	VALUATION RESERVES	5,269	5,269	3
130.	REDEEMABLE SHARES	0	0	
140.	EQUITY INSTRUMENTS	0	0	
150.	RESERVES	166,904	166,904	2, 3
160.	SHARE PREMIUM RESERVE	66,493	66,493	1
170.	SHARE CAPITAL	142,691	142,691	1
180.	TREASURY SHARES	(7,132)	(7,132)	16
190.	MINORITY INTERESTS	0	0	
200.	PROFIT FOR THE YEAR	197,372	197,372	EU-5a
	TOTAL CONSOLIDATED LIABILITIES AND SHAREHOLDERS' EQUITY	**11,176,697**	**11,176,697**	

Template EU CCA: Main features of regulatory own funds instruments and eligible liabilities instruments

Amounts in euro units

Row		Common Equity Tier 1	Tier 2 equity instruments
		a	b
1	Issuer	BFF BANK SPA	BFF BANK SPA
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	IT0005244402	XS1572408380
2a	Public or private placement	Public	Private
3	Governing law(s) of the instrument	Entire instrument - Italian law	UK Law, except for subordination clauses governed by Italian law
3a	Contractual recognition of write down and conversion powers of resolution authorities		
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 1 capital	Tier 2 capital
5	Post-transitional CRR rules	Tier 1 capital	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares - Art.28 CRR	Tier 2 capital instrument Art. 63 CRR
8	Amount recognized in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	202,051,334	98,224,000
9	Nominal amount of instrument	N/A	100,000,000
EU-9a	Issue price	N/A	98.224
EU-9b	Redemption price	N/A	100
10	Accounting classification	Shareholders' equity	Liability - amortized cost
11	Original date of issuance	N/A	03/02/2017
12	Perpetual or dated	N/A	dated
13	Original maturity date	N/A	03/02/2027
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	call option at 02/03/2022 - redemption at 100
16	Subsequent call dates, if applicable	N/A	No
	Coupons/dividends	*N/A*	
17	Fixed or floating dividend/coupon	N/A	Annual fixed rate with reset 5 years after date of issuance
18	Coupon rate and any related index	N/A	6%

(CONT'D)

Amounts in euro units

Row		Common Equity Tier 1	Tier 2 equity instruments
		a	b
19	Existence of a dividend stopper	No	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	N/A	No
23	Convertible or non-convertible	N/A	non-convertible
24	If convertible, conversion trigger(s)	N/A	
25	If convertible, fully or partially	N/A	
26	If convertible, conversion rate	N/A	
27	If convertible, mandatory or optional conversion	N/A	
28	If convertible, specify instrument type convertible into	N/A	
29	If convertible, specify issuer of instrument it converts into	N/A	
30	Write-down features	N/A	Yes
31	If write-down, write-down trigger(s)	N/A	BAIL-IN - Banking Union-Bank Recovery and Resolution Directive (BRRD) and Single Resolution Mechanism (SRM) Regulation
32	If write-down, full or partial	N/A	full or partial
33	If write-down, permanent or temporary	N/A	permanent
34	If temporary write-down, description of write-up mechanism	N/A	
34a	Type of subordination (only for eligible liabilities)	N/A	
EU-34b	Ranking of the instrument in normal insolvency proceedings	N/A	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Senior Preferred
36	Non-compliant transitioned features	N/A	No
37	If yes, specify non-compliant features	N/A	
37a	Link to the full term and conditions of the instrument (signposting)	N/A	

Section 4

Capital requirements (Art. 438 CRR)

Qualitative disclosure

The Group constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, in order to ensure that its capital is consistent with its risk appetite and regulatory requirements. To do this, the Group also relies on a Control and Risks 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 corporate bodies.

The CET1 Capital Ratio is the ratio of Common Equity Tier 1 capital to Risk-Weighted Assets.
The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to Risk-Weighted Assets.
The Total Capital Ratio is the ratio of Total Own Funds to Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).
The total exposure to risks at December 31, 2021, in relation to its business, is adequate according to the level of capitalization and the risk profile identified.
With regard to the Banking Group, the CET1 Capital Ratio is 17.6%, the Tier 1 Capital Ratio is 17.6% and the Total Capital Ratio is 22.2%.

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

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

- "Standardized approach" for credit risk;
- "Original exposure 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 "standardized" approach is used to measure credit risk, as governed by Regulation (EU) No. 575/2013 (CRR) and adopted by the Bank of Italy Circular No. 285 "*Supervisory provisions for banks*" and Circular No. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*," both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes ("portfolios"), depending on the type of counterparty, and the application of diversified weighted ratios to each portfolio.

In particular, in relation to the Regulation mentioned above, the Banking Group and the CRR Group apply the following weighting factors:

- 0% for exposures to government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish public sector entities and other local authorities as provided for by EBA lists "*EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013*" and "*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013*";
- 2.69% and 2% respectively for the prefunded contributions to the Cassa Compensazione e Garanzia guarantee fund (qualified counterparty) for repurchase and derivative transactions;
- 20% for *(i)* exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the local currency, *(ii)* exposures to public sector entities of countries with Credit Quality Step 1 (including France), *(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 loans to retail and SME counterparties;
- 100% for loans to private debtors (i.e., businesses), Funds and asset management companies;
- 100% for tangible assets, equity investments, collective investment undertakings and other;
- 150% for non-performing exposures, if the specific value adjustments are less than 20% of the non-collateralized portion, before any adjustments;
- 100% for non-performing exposures, if the specific value adjustments are 20% or more than the non-collateralized portion, before any adjustments;
- 250% to deferred tax assets not deducted from own funds;
- with respect to exposures to UCI units, the Group has adopted the look-through approach.

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

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

Given the above, with a view to adhering to the new definition of default and in line with the clarifications provided by the Bank of Italy on October 15, 2020, starting from December 31, 2020 the Group adopted as starting date the expiry of the invoice from which the credit exposure for the non-recourse factoring product originates.

This approach led to considering – for all exposures to public sector entities with an original expiry of less than three months – the preferential weighting of 20% envisaged by art. 116, paragraph 3 of the CRR instead of the weighting envisaged by the previous paragraphs of the same article, which provides that the coefficient to be applied depends on the rating issued by the ECAI used by the Bank on the debtor's country of residence, adopted until the end of 2020. The effect of this change was a lower absorption of capital, with a consequent improvement in capital ratios. BFF Bank has adopted Dominion Bond Rating Service (DBRS) as its reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS on July 13, 2018 was "BBB high". Exposures to Italian public sector entities, including receivables due from the National Healthcare Service and Local Healthcare Entities, fall within the Credit Quality Step 3 with a weighting of 100%.
Based on the method described above, the capital requirement for credit and counterparty risk at December 31, 2021 is €122.0 million for BFF Banking Group.

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 Bank, counterparty risk can be generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the original exposure method.

Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.
Operational risk, therefore, refers to various types of events that would not be significant unless analyzed together and quantified for the entire risk category.
The Group measures operational risk using the "Basic" approach: the capital requirement is deter- mined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statement items of the last three years, in accordance with Regulation (EU) No. 575/2013.

Market risk

Market risk relates to positions held for trading, that is, positions intentionally held for sale in the short term, acquired in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.

The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio. The Group measures market risk using the "Standardized" approach.

Pillar II – The ICAAP/ILAAP Report

The supervisory regulations require intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Supervisory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, to take appropriate corrective action.

BFF Banking Group annually submits the "ICAAP/ILAAP Report" to the Bank of Italy, thus providing an update on the internal processes for determining adequacy of capital and of liquidity risk governance and management systems of the Group. In accordance with prudential supervisory provisions, the Group has prepared the "ICAAP/ILAAP Report" approved by the BFF Board of Directors on June 30, 2021. The Report has been prepared in compliance with the new requirements introduced in 2018 by Circular No. 285. In particular, the updates involve, among other, regulatory changes in regards to "Prudential supervision" (Part I, Title III, Chapter 1), which are mainly linked to the introduction of (i) an internal process for determining the adequacy of the liquidity risk governance and management systems ("ILAAP" - Internal Liquidity Adequacy Assessment Process), (ii) new content in the area of internal processes for determining capital adequacy ("ICAAP" - Internal Capital Adequacy Assessment Process) and (iii) different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy. These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) No. 468/2014, which include BFF Banking Group.

In relation to the "Supervisory Review and Evaluation Process" (SREP), the Group must comply with a CET1 Ratio of 7.85%, a Tier 1 Ratio of 9.65% and a Total Capital Ratio of 12.05%.

Quantitative disclosure

Template EU KM1: Key metrics template

Row		a	b	c	d	e
		12/31/2021	09/30/2021	06/30/2021	03/31/2021	12/31/2020
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	382,833	411,947	410,450	390,485	503,946
2	Tier 1 capital	382,833	411,947	410,450	390,485	530,392
3	Total capital	481,057	510,171	508,674	488,709	578,818
	Risk-weighted exposure amounts					
4	Total Risk exposure amount	2,171,134	2,227,844	2,209,979	2,252,857	1,807,955
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	17.63%	18.49%	18.57%	17.33%	9.55%
6	Tier 1 ratio (%)	17.63%	18.49%	18.57%	17.33%	5.35%
7	Total capital ratio (%)	22.16%	22.90%	23.02%	21.69%	7.15%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements based on SREP (%)	1.55%	1.55%	1.55%	1.55%	1.55%
EU 7b	Additional CET1 SREP requirements (%)	0.85%	0.85%	0.85%	0.85%	0.85%
EU 7c	Additional AT1 SREP requirements (%)	1.15%	1.15%	1.15%	1.15%	1.15%
EU 7d	Total SREP own funds requirements (%)	9.55%	9.55%	9.55%	9.55%	9.55%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.5000%	2.5000%	2.5000%	2.5000%	2.5000%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.0001%	0.0025%	0.0027%	0.0010%	0.0077%
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	-	-	-	-	-
11	Combined buffer requirement (%)	2.5001%	2.5025%	2.5027%	2.5010%	2.5077%
EU 11a	Overall capital requirements (%)	12.0501%	12.0525%	12.0527%	12.0510%	12.0507%
12	CET1 available after meeting the total SREP own funds requirements (%)	116,156	119,189	118,234	120,528	96,726

(CONT'D)

Row		a	b	c	d	e
		12/31/2021	09/30/2021	06/30/2021	03/31/2021	12/31/2020
	Leverage ratio					
13	Leverage ratio total exposure measure	10,934,519	10,814,312	10,312,879	10,300,733	6,451,441
14	Leverage ratio (%)	3.501%	3.809%	3.980%	3.791%	8.221%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
EU 14a	Additional own funds requirements to address risks of excessive leverage (%)	-	-	-	-	-
EU 14b	of which consisting of CET1 capital (%)	-	-	-	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3.002%	3.002%	3.002%	3.002%	3.002%
	Leverage ratio buffer and total leverage ratio requirement (as a percentage of leverage ratio total exposure amount)					
EU 14d	Leverage ratio buffer requirement (%)	0.000%	0.000%	0.000%	0.000%	0.000%
EU 14e	Overall leverage ratio requirements (%)	3.002%	3.002%	3.002%	3.002%	3.002%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	5,036,890	4,623,178	5,964,096	8,567,285	234,422
EU 16a	Cash outflows - Total weighted value	3,006,281	2,838,371	3,036,995	3,441,856	147,580
EU 16b	Cash inflows - Total weighted value	1,168,443	1,165,440	1,134,918	1,153,215	1,497,857
16	Total net cash outflows (adjusted value)	1,837,838	1,672,932	1,902,078	2,288,641	36,895
17	Liquidity coverage ratio (%)	274.07%	276.35%	313.56%	374.34%	635.37%
	Net Stable Funding Ratio					
18	Total available stable funding	4,825,255	4,784,081	5,759,009	6,484,453	3,010,234
19	Total required stable funding	2,366,982	2,525,755	2,434,616	3,372,644	2,651,285
20	NSFR ratio (%)	203.86%	189.41%	236.55%	192.27%	113.54%

Template EU OV1: Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		12/31/2021	**09/30/2021**	**12/31/2021**
1	Credit risk (excluding CCR)	1,519,423	1,545,072	121,554
2	Of which the standardized approach	1,519,423	1,545,072	121,554
3	Of which the foundation IRB (FIRB) approach			0
4	Of which: slotting approach			0
EU 4a	Of which: equities under the simple risk weighted approach			0
5	Of which the advanced IRB (AIRB) approach			0
6	Counterparty credit risk - CCR	20,952	23,442	1,676
7	Of which the standardized approach			0
8	Of which internal model method (IMM)			0
EU 8a	Of which exposures to a CCP			0
EU 8b	Of which credit valuation adjustment - CVA	15,083	20,306	1,207
9	Of which other CCR	5,869	3,135	470
15	Settlement risks			0
16	Securitization exposures in the non-trading book (after the cap)			0
17	Of which SEC-IRBA approach			0
18	Of which SEC-ERBA (including IAA)			0
19	Of which SEC-SA approach			0
EU 19a	Of which 1250%/ deduction			0
20	Position, foreign exchange and commodities risks (Market risk)	3,279	9,961	262
21	Of which the standardized approach	3,279	9,961	262
22	Of which IMA			0
EU 22a	Large exposures			0
23	Operational risk	627,480	649,369	50,198
EU 23a	Of which basic indicator approach	627,480	649,369	50,198
EU 23b	Of which the standardized approach			0
EU 23c	Of which advanced measurement approach			0
24	**Amount below deduction thresholds (subject to 250% risk weighting factor)**	**40,511**	**42,461**	**3,241**
29	**Total**	**2,171,134**	**2,227,844**	**173,691**

Section 5

Exposure to counterparty credit risk (Art. 439 CRR)

Qualitative disclosure

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.

If the transactions with a certain counterparty have a positive value, this requirement is generated. If part of the exposure is collateralized, it will be attributed a weighting factor corresponding to the weighting factor assigned to the instrument used as collateral.

For BFF Bank, counterparty risk can be generated by repurchase agreements (SFTs, Securities Financing Transactions) and transactions in derivatives. Counterparty risk is measured using the original exposure method (governed by Art. 282 CRR) based on the calculation of the "current replacement cost" and the "future exposure", as regards transactions in derivatives and the "Financial Collateral Comprehensive Method" (governed by CRR Articles 223-228) as regards repurchase transactions.

At December 31, 2021, there are payable repurchase transactions in place with Cassa Compensazione e Garanzia as the counterparty, receivable repurchase transactions with market counterparties and foreign currency swaps.

With respect to transactions in derivatives (at December 31 exclusively foreign currency swaps), BFF Bank also calculates theCVA (Credit Value Adjustment), which quantifies the risk of a value adjustment in the credit component relating to transactions in OTC derivatives. The calculation is performed based on the "Standardized Approach", governed by Art. 384 CRR.

Quantitative disclosure

Template EU CCR1 - Analysis of CRR exposure by approach

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU1	EU - Original Exposure Method (for derivatives)	4,099	64,985		1.4	96,718	96,718	96,718	21,983
EU2	EU - Simplified SA-CCR (for derivatives)				1.4				
1	SA-CCR (for derivatives)				1.4				
2	IMM (for derivatives and SFTs)								
2a	Of which securities financing transactions netting sets								
2b	Of which derivatives and long settlement transactions netting sets								
2c	Of which from contractual cross-product netting sets								
3	Financial collateral simple method (for SFTs)								
4	Financial collateral comprehensive method (for SFTs)					287,889	287,889	287,889	4,042
5	VaR for SFTs								
6	**Total at 12/31/2021**					**384,607**	**384,607**	**384,607**	**26,025**

Template EEU CCR2: Transactions subject to own funds requirements for CVA risk

		a	b
		Exposure value	RWEA
1	Total transactions subject to the Advanced method		
2	i) VaR component (including the 3× multiplier)		
3	ii) stressed VaR component (including the 3× multiplier)		
4	Transactions subject to the Standardized method	99,243	15,083
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)		
5	**Total transactions subject to own funds requirements for CVA risk**	**99,243**	**15,083**

Template EU CCR3 – Standardized approach: CCR exposures by regulatory exposure class and risk weights

	Exposure classes	Risk weight					
		a	b	c	d	e	f
		0%	2%	4%	10%	20%	50%
1	Central governments or central banks	275,375					
2	Regional government or local authorities						
3	Public sector entities						
4	Multilateral development banks						
5	International organizations						
6	Institutions					104,008	
7	Corporates						
8	Retail						
9	Institutions and corporates with a short-term credit assessment						
10	Other exposures	1,111,608					
11	**Total exposure value at 12/31/2021**	**1,386,983**	**0**	**0**	**0**	**104,008**	**0**

	Exposure classes	Risk weight					
		g	h	i	j	k	l
		70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks						275,375
2	Regional government or local authorities						0
3	Public sector entities						0
4	Multilateral development banks						0
5	International organizations						0
6	Institutions			2,063			106,071
7	Corporates			3,161			3,161
8	Retail						0
9	Institutions and corporates with a short-term credit assessment						0
10	Other exposures						1,111,608
11	**Total exposure value at 12/31/2021**	**0**	**0**	**5,224**	**0**		**1,496,215**

Template EU CCR5: Composition of collateral for CCR exposures

	Collateral type	a	b	c	d	e	f	g	h
		Collateral used in derivative transactions				Collateral used in SFTs			
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
		Segregated	Un-segregated	Segregated	Un-segregated	Segregated	Un-segregated	Segregated	Un-segregated
1	Cash – domestic currency		42,338						
2	Cash – other currencies								
3	Domestic sovereign debt						275,375		1,111,608
4	Other sovereign debt								
5	Government agency debt								
6	Corporate bonds								
7	Equity securities								
8	Other collateral						9,991		
9	**Total at 12/31/2021**		**42,338**				**285,366**		**1,111,608**

Template EU CCR8: Exposures to CCPs

		a	b
		Exposure value	RWEA
1	**Exposures to QCCPs (total)**		
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which		
3	(i) OTC derivatives		
4	(ii) Exchange-traded derivatives		
5	(iii) SFTs	1,111,608	0
6	(iv) Netting sets where cross-product netting has been approved		
7	Segregated initial margin		
8	Non-segregated initial margin		
9	Prefunded default fund contributions	89,862	1,827
10	Unfunded default fund contributions		
11	**Exposures to non-QCCPs (total)**		
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which		
13	(i) OTC derivatives		
14	(ii) Exchange-traded derivatives		
15	(iii) SFTs		
16	(iv) Netting sets where cross-product netting has been approved		
17	Segregated initial margin		
18	Non-segregated initial margin		
19	Prefunded default fund contributions		
20	Unfunded default fund contributions		

Section 6

Capital buffers (Art. 440 CRR)

Qualitative disclosure

Information is provided below relating to the "Countercyclical capital buffer", prepared on the basis of the applicable ratios at December 31, 2021 and 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 for a countercyclical capital buffer in accordance with Article 440 of the CRR. As established by Article 140(1) of Directive 2013/36/EU ("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.

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

The rate is subject to quarterly review. The European regulation was implemented in Italy with Bank of Italy Circular No. 285, containing dedicated rules on the CCyB. On the basis of the analysis of the reference indicators, the Bank of Italy has decided to set the countercyclical rate (relating to exposures to Italian counterparties) at 0% again for the first quarter of 2022.

The relevant credit exposures include all classes of exposures other than those pursuant to Article 112(a) to (f) of Regulation (EU) No. 575/2013. The following portfolios are 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 disclosure

With reference to December 31, 2021:

- The countercyclical capital rates at individual country level have generally been established, with the methods succinctly described above, as 0%. The countries with a rate other than zero for which the Group has exposures include: the Czech Republic (0.50%) and Slovakia (1.00%);
- At consolidated level, the specific countercyclical rate of the CRR Banking Group is 0.0001376%.

Template EU CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Breakdown by country:		General credit exposures		Relevant credit exposures – Market risk		Securitization exposures Exposure value for non-trading book	Total exposure value
		Exposure value under the standardized approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models		
		a	b	c	d	e	f
0010	BELGIUM	287	0	0	0	0	**287**
0020	CAMEROON	207	0	0	0	0	**207**
0030	CZECH REPUBLIC	292	0	0	0	0	**292**
0040	SPAIN	16,302	0	0	0	0	**16,302**
0050	FRANCE	121	0	0	0	0	**121**
0060	UNITED KINGDOM	2,627	0	0	0	0	**2,627**
0070	GREECE	1,685	0	0	0	0	**1,685**
0080	CROATIA	0	0	0	0	0	**0**
0090	ITALY	384,338	0	1	0	0	**384,339**
0100	NETHERLANDS	3,963	0	0	0	0	**3,963**
0110	POLAND	99,762	0	0	0	0	**99,762**
0120	PORTUGAL	281	0	0	0	0	**281**
0130	SLOVAKIA	6,999	0	0	0	0	**6,999**
0140	UNITED STATES	2,538	0	0	0	0	**2,538**
0150	**Total**	**519,404**	**0**	**1**	**0**	**0**	**519,405**

Breakdown by country:		Own funds requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
		Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitization positions in the non-trading book	Total			
		g	h	i	j	k	l	m
0010	BELGIUM	23	0	0	23	**287**	0.06%	-
0020	CAMEROON	17	0	0	17	**207**	0.04%	-
0030	CZECH REPUBLIC	23	0	0	23	**292**	0.06%	0.50%
0040	SPAIN	1,304	0	0	1,304	**16,302**	3.14%	-
0050	FRANCE	10	0	0	10	**121**	0.02%	-
0060	UNITED KINGDOM	210	0	0	210	**2,627**	0.51%	-
0070	GREECE	135	0	0	135	**1,685**	0.32%	-
0080	CROATIA	0	0	0	0	**0**	0.00%	-
0090	ITALY	30,747	0	0	30,747	**384,340**	74.00%	-
0100	NETHERLANDS	317	0	0	317	**3,963**	0.76%	-
0110	POLAND	7,981	0	0	7,981	**99,762**	19.21%	-
0120	PORTUGAL	23	0	0	23	**281**	0.05%	-
0130	SLOVAKIA	560	0	0	560	**6,999**	1.35%	1.00%
0140	UNITED STATES	203	0	0	203	**2,538**	0.49%	-
0150	**Total**	**41,553**	**0**	**0**	**41,553**	**519,406**	**100.00%**	

Template EU CCyB2: Amount of institution-specific countercyclical capital buffer

		a
1	Total Risk exposure amount	2,171,133,559.64
2	Institution specific countercyclical capital buffer rate	0.0001376%
3	Institution specific countercyclical capital buffer requirement	2,986.72

Section 7

Credit risk adjustments (Art. 442 CRR)

Qualitative disclosure

Receivables subject to generic adjustments ("collective impairment")

On the basis of IFRS 9, financial assets not measured at fair value must be subjected to the impairment model based on expected losses. The calculation of expected losses required by IFRS 9 indeed takes place based on the product of PD, LGD and EAD, taking into account the significant increase in credit risk or objective signs of impairment of the exposures/counterparties.

In detail, 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 modelling approach. Therefore, by analysing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Group's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.

The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous accounting standards are as follows:

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

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

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

The risk parameters that should be modelled to comply with the rationale of considering the full life- time of the financial instrument are as follows:

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

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

Receivables subject to specific adjustments ("specific impairment")

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

It should be noted that, with reference to past due receivables, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures referred to in this section were carried out. This decision is supported by the fact that, in consideration of the Group's core business, impaired past due positions, identified according to objective criteria, do not necessarily represent actual deterioration. However, this approach does not provide an exemption to the competent functions from performing a precise/analytical assessment ("case-by-case assessment") of positions classified as past due if the value adjustment calculated is not adequate.
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 nonperforming exposures" (EBA/ITS /2013/03/rev1 24/7/2014): this document introduces new definitions concerning non-performing exposures and forbearance measures.
These definitions were adopted with the 7th update of Bank of Italy Circular No. 272 of January 20, 2015, and call for the breakdown of impaired assets into:

- Non-performing loans. These are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.At December 31, 2021, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €72,233 thousand, of which €5,287 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €64,468 thousand, accounting for 89.2% of the total.

  Gross non-performing loans amounted to €87,467 thousand. Relevant impairment totalled €15,234 thousand. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €1,269 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €88,736 thousand and relevant adjustments totalled €16,503 thousand.

  With reference to the Bank, at December 31, 2021 total non-performing loans, net of any estimated impairment losses, amounted to €65,944 thousand, of which €64,468 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non- performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure. Specifically, the amount of €5,287 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions. The remaining positions referring to BFF Bank are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €18,006 thousand. After estimated impairment losses of €11,717 thousand they amounted to €6,290.

- Unlikely to pay. Unlikely to pay exposures reflect the judgement made by the Group about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully meet (for principal and/ or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or instalments). Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g., failure to repay) when there are factors that signal a default risk situation for the debtor. At December 31, 2021, gross exposures classified as unlikely to pay amounted to €17,505 thousand, of which €15,448 thousand attributable to BFF Polska Group and €503 thousand to BFF Finance Iberia. The total net amount was €12,413 thousand, relating mainly to BFF Polska Group since the gross exposures of BFF Bank and BFF Finance Iberia were almost entirely impaired.
- Impaired past-due exposures. Impaired past due exposures consist of positions vis-à-vis entities for which the conditions for classification as past due impaired exposures are met by presenting one or more credit lines that meet the definition of "Non-performing exposures with forbearance measures" set out in Section V, Part 2, paragraph 262 of the ITS. At December 31, 2021, Net past due exposures of BFF Banking Group totalled €19,428 thousand, of which €18,126 thousand (93.3%) attributable to public administration counterparties and public sector companies in the various countries where BFF Banking Group operates. BFF Bank’s overall amount of net past due exposures at December 31, 2021 was equal to €17,779 thousand. Of this amount, €17,676 thousand (equal to 99.4%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned, net past due exposures amounted to €1,650 thousand.

Amendments due to COVID-19

Assessment of the significant increase in credit risk (SICR)

In light of the BFF Group's business model and the nature of its risk counterparties, the Covid-19 epidemic did not entail changes to the model of the significant increase in credit risk (SICR). However, also in line with the EBA guidelines of December 2, 2020 “*Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis*”, the Group has granted some of its counterparties based in Poland moratoria of a strictly voluntary character. For more details on the amount granted and the type of counterparties involved, refer to the COVID tables in this section.

Measuring expected losses

The model for determining risk parameters was also unchanged following the spread of COVID-19.

However, the annual update of the risk parameters (PD and LGD) allows taking into account the evolution of the effects of COVID-19 within the estimates of expected losses.

To this end, as at June 30, 2021 the Bank updated the macroeconomic scenarios provided by the external rating agency. These scenarios are constructed considering the evolution of the unemployment rate and the High Yield Spread in a context where the COVID-19 pandemic continues to show its effects over the next few years, reaching a situation of normality or a pre-COVID-19 situation not before the middle of the decade.

These scenarios, provided by the external info provider, are also basically aligned with the new scenarios published by such info provider in December. At December 31, 2021, in order to quantify the impact of COVID-19, the Bank carried out a sensitivity analysis of the Expected Credit Loss calculation using the PD and LGD curves that take into account the effects of the pandemic, and the PD and LGD curves reported at December 31, 2019 and therefore not affected by it. Unlike what was highlighted in the analysis performed in 2020, which pointed to a potential impact in terms of higher value adjustments, equal to roughly €428 thousand, the analysis for 2021 showed, to the contrary, a potential write-back of roughly €380 thousand. The effect of this analysis for 2021 was due in the first place to an increase in GDP, which in 2021 marked +6.5% (preliminary ISTAT figure) after a drastic decline in 2020 and, in the second place, on the basis of the studies performed by the external info provider, an improvement in default rates in the Corporate sector, which after a sharp rise in 2020 began falling again in 2021. However, this analysis does not take into account the impact on the specific corrections as, by their nature, it is difficult to estimate the quantification of the greater impact due to the pandemic.

Quantitative disclosure

Template EU CR1: Performing and non-performing exposures and related provisions

Row		a	b	c	d	e	f
		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
005	Cash balances at central banks and other demand deposits	710,233	710,233	0	0	0	0
010	Loans and advances	4,018,739	3,157,621	861,118	124,458	0	124,458
020	*Central banks*	154	154	0	0	0	0
030	*General governments*	3,347,455	2,496,053	851,401	83,233	0	83,233
040	*Credit institutions*	248,084	247,882	202	0	0	0
050	*Other financial corporations*	220,512	220,512	0	2,888	0	2,888
060	*Non-financial companies*	166,710	158,340	8,370	36,828	0	36,828
070	*Of which SMEs*	17,590	15,284	2,305	12,192	0	12,192
080	*Households*	35,825	34,681	1,145	1,510	0	1,510
090	Debt securities	5,793,236	5,793,236	0	0	0	0
100	*Central banks*	0	0	0	0	0	0
110	*General governments*	5,793,236	5,793,236	0	0	0	0
120	*Credit institutions*	0	0	0	0	0	0
130	*Other financial corporations*	0	0	0	0	0	0
140	*Non-financial companies*	0	0	0	0	0	0
150	Off-balance-sheet exposures	1,404,945	1,404,715	230	592	0	592
160	*Central banks*	0	0	0	0	0	0
170	*General governments*	54,231	54,231	0	0	0	0
180	*Credit institutions*	0	0	0	0	0	0
190	*Other financial corporations*	1,190,687	1,190,687	0	0	0	0
200	*Non-financial companies*	160,025	159,796	230	592	0	592
210	*Households*	2	2	0	0	0	0
220	**Total**	**11,927,153**	**11,065,806**	**861,348**	**125,050**	**0**	**125,050**

Row		g	h	i	j	k	l
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures – accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
005	Cash balances at central banks and other demand deposits	(72)	(72)	0	0	0	0
010	Loans and advances	(1,829)	(1,365)	(463)	(20,383)	0	(20,383)
020	*Central banks*	(0)	(0)	0	0	0	0
030	*General governments*	(400)	(263)	(137)	(445)	0	(445)
040	*Credit institutions*	(23)	(22)	(1)	0	0	0
050	*Other financial corporations*	(212)	(212)	0	(1,747)	0	(1,747)
060	*Non-financial companies*	(1,050)	(733)	(318)	(17,061)	0	(17,061)
070	*Of which SMEs*	(375)	(241)	(134)	(8,001)	0	(8,001)
080	*Households*	(144)	(137)	(8)	(1,130)	0	(1,130)
090	Debt securities	(610)	(610)	0	0	0	0
100	*Central banks*	0	0	0	0	0	0
110	*General governments*	(610)	(610)	0	0	0	0
120	*Credit institutions*	0	0	0	0	0	0
130	*Other financial corporations*	0	0	0	0	0	0
140	*Non-financial companies*	0	0	0	0	0	0
150	Off-balance-sheet exposures	0	294	0	0	0	0
160	*Central banks*	0	0	0	0	0	0
170	*General governments*	0	0	0	0	0	0
180	*Credit institutions*	0	0	0	0	0	0
190	*Other financial corporations*	0	22	0	0	0	0
200	*Non-financial companies*	0	271	0	0	0	0
210	*Households*	0	0	0	0	0	0
220	**Total**	**(2,511)**	**(1,754)**	**(463)**	**(20,383)**	**0**	**(20,383)**

Row		m	n	o
		Accumulated partial write-off	Collateral and financial guarantees received	
			On performing exposures	On non-performing exposures
005	Cash balances at central banks and other demand deposits	0	0	0
010	Loans and advances	0	296,820	153
020	*Central banks*	0	0	0
030	*General governments*	0	2,154	0
040	*Credit institutions*	0	159,839	0
050	*Other financial corporations*	0	75,770	0
060	*Non-financial companies*	0	59,057	153
070	*Of which SMEs*	0	151	0
080	*Households*	0	0	0
090	Debt securities	0	0	0
100	*Central banks*	0	0	0
110	*General governments*	0	0	0
120	*Credit institutions*	0	0	0
130	*Other financial corporations*	0	0	0
140	*Non-financial companies*	0	0	0
150	Off-balance-sheet exposures		0	0
160	*Central banks*		0	0
170	*General governments*		0	0
180	*Credit institutions*		0	0
190	*Other financial corporations*		0	0
200	*Non-financial companies*		0	0
210	*Households*		0	0
220	**Total**	**0**	**296,820**	**153**

Template EU CR1-A: Maturity of exposures

Row		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	2,424,625	951,028	201,671	543,661		4,120,985
2	Debt securities	0	1,867,654	2,805,129	1,119,843	0	5,792,627
3	**Total**	**2,424,625**	**2,818,683**	**3,006,800**	**1,663,504**	**0**	**9,913,612**

Template EU CQ1: Credit quality of forborne exposures

Row		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals 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				
		a	b	c	d	e	f	g	h
005	Cash balances at central banks and other demand deposits	0	0	0	0	0	0	0	0
010	Loans and advances	786	12,473	12,473	12,473	(1,872)	(1,845)	0	0
020	*Central banks*	0	0	0	0	0	0	0	0
030	*General governments*	15	0	0	0	(0)	0	0	0
040	*Credit institutions*	0	0	0	0	0	0	0	0
050	*Other financial corporations*	0	929	929	929	(533)	(533)	0	0
060	*Non-financial companies*	771	11,544	11,544	11,544	(1,339)	(1,312)	0	0
070	*Households*	0	0	0	0	0	0	0	0
080	Debt securities	0	0	0	0	0	0	0	0
090	Loan commitments given	0	0	0	0	0	0	0	0
100	**Total**	**786**	**12,473**	**12,473**	**12,473**	**(1,872)**	**(1,845)**	**0**	**0**

Template EU CQ3: Credit quality of performing and non-performing exposures by past due days

Row		Gross carrying amount/nominal amount		
		Performing exposures		
			Not past due or past due <= 30 days	Past due > 30 days <= 90 days
		a	b	c
005	Cash balances at central banks and other demand deposits	710,233	710,233	
010	Loans and advances	4,018,739	2,563,793	1,454,946
020	*Central banks*	154	154	0
030	*General governments*	3,347,455	1,932,513	1,414,941
040	*Credit institutions*	248,084	247,882	202
050	*Other financial corporations*	220,512	216,523	3,989
060	*Non-financial companies*	166,710	158,557	8,153
070	*Of which SMEs*	17,590	17,285	305
080	*Households*	35,825	8,165	27,660
090	Debt securities	5,793,236	5,793,236	0
100	*Central banks*	0	0	0
110	*General governments*	5,793,236	5,793,236	0
120	*Credit institutions*	0	0	0
130	*Other financial corporations*	0	0	0
140	*Non-financial companies*	0	0	0
150	Off-balance-sheet exposures	1,404,945		
160	*Central banks*	0		
170	*General governments*	54,231		
180	*Credit institutions*	0		
190	*Other financial corporations*	1,190,638		
200	*Non-financial companies*	160,025		
210	*Households*	2		
220	**Total**	**11,927,153**	**9,067,263**	**1,454,946**

Row										
		Gross carrying amount/nominal amount								
		Non-performing exposures								
			Unlikely to pay that are not past-due or 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
		d	e	f	g	h	i	j	K	l
005	Cash balances at central banks and other demand deposits	0	0	0	0	0	0	0	0	0
010	Loans and advances	124,458	16,665	1,105	1,184	1,729	61,259	40,425	2,092	124,458
020	*Central banks*	0	0	0	0	0	0	0	0	0
030	*General governments*	83,233	1,179	3	502	337	42,787	37,467	958	83,233
040	*Credit institutions*	0	0	0	0	0	0	0	0	0
050	*Other financial corporations*	2,888	929	0	0	0	1,959	0	0	2,888
060	*Non-financial companies*	36,828	14,557	1,101	682	1,393	15,988	2,957	150	36,828
070	*Of which SMEs*	12,192	3,480	113	625	1,185	6,005	669	115	12,192
080	*Households*	1,510	0	0	0	0	526	0	984	1,510
090	Debt securities	0	0	0	0	0	0	0	0	0
100	*Central banks*	0	0	0	0	0	0	0	0	0
110	*General governments*	0	0	0	0	0	0	0	0	0
120	*Credit institutions*	0	0	0	0	0	0	0	0	0
130	*Other financial corporations*	0	0	0	0	0	0	0	0	0
140	*Non-financial companies*	0	0	0	0	0	0	0	0	0
150	Off-balance-sheet exposures	592								592
160	*Central banks*	0								0
170	*General governments*	0								0
180	*Credit institutions*	0								0
190	*Other financial corporations*	0								0
200	*Non-financial companies*	592								592
210	*Households*	0								0
220	**Total**	**125,050**	**16,665**	**1,105**	**1,184**	**1,729**	**61,259**	**40,425**	**2,092**	**125,050**

Template EU CQ4: Quality of non-performing exposures by geography

		a	b	c	d	e	f	g
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			of which non-performing		of which subject to impairment			
				of which defaulted				
010	On balance sheet exposures	(4,143,197)	(124,458)	(124,458)	(4,143,197)	(22,212)		
020	ARGENTINA	(0)						
030	CZECH REPUBLIC	(1,678)	(125)	(125)	(1,678)	(110)		
040	GERMANY	(2,000)			(2,000)	(0)		
050	SPAIN	(333,113)	(735)	(735)	(333,113)	(878)		
060	FRANCE	(13,317)			(13,317)	(0)		
070	UNITED KINGDOM	(0)			(0)	(0)		
080	GREECE	(69,576)			(69,576)	(50)		
090	CROATIA	(834)			(834)	(1)		
100	ITALY	(2,473,308)	(88,580)	(88,580)	(2,473,308)	(4,612)		
110	NETHERLANDS	(3,989)			(3,989)	(26)		
120	POLAND	(804,570)	(32,312)	(32,312)	(804,570)	(14,297)		
130	PORTUGAL	(206,823)	(1)	(1)	(206,823)	(9)		
140	SWEDEN	(0)			(0)			
150	SLOVAKIA	(233,801)	(2,706)	(2,706)	(233,801)	(2,229)		
160	SAN MARINO	(22)			(22)			
161	VATICAN	(165)			(165)			
162	**Off-balance-sheet exposures**	**(1,405,537)**	**(592)**	**(592)**			**(294)**	
163	CZECH REPUBLIC	(279)					(0)	
164	ITALY	(1,205,888)					(20)	
165	POLAND	(167,267)	(592)	(592)			(266)	
166	SLOVAKIA	(32,102)					(8)	
167	**Total**	**(5,548,734)**	**(125,050)**	**(125,050)**	**(4,143,197)**	**(22,212)**	**(294)**	**(0)**

Template EU CQ5: Credit quality of loans and advances by industry

Row		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
		a	b	c	d	e	f
010	Agriculture, forestry and fishing	0	0	0	0	0	0
020	Mining and quarrying	0	0	0	0	0	0
030	Manufacturing	4,308	742	742	4,308	(551)	0
040	Electricity, gas, steam and air conditioning supply	2,110	162	162	2,110	(6)	0
050	Water supply	5,590	34	34	5,590	(95)	0
060	Construction	3,172	2,854	2,854	3,172	(2,212)	0
070	Wholesale and retail trade	71,616	8,689	8,689	71,616	(6,148)	0
080	Transport and storage	16,259	939	939	16,259	(999)	0
090	Accommodation and food service activities	108	0	0	108	(0)	0
100	Information and communication	1,830	0	0	1,830	(3)	0
110	Financial and insurance activities	1,348	0	0	1,348	(9)	0
120	Real estate activities	9,388	9,388	9,388	9,388	(787)	0
130	Professional, scientific and technical activities	2,028	759	759	2,028	(592)	0
140	Administrative and support service activities	7,639	471	471	7,639	(31)	0
150	Public administration and defense, compulsory social security	0	0	0	0	0	0
160	Education	48	0	0	48	(1)	0
170	Human health services and social work activities	53,256	11,488	11,488	53,256	(5,837)	0
180	Arts, entertainment and recreation	47	0	0	47	(0)	0
190	Other services	24,791	1,302	1,302	24,791	(840)	0
200	**Total**	**203,538**	**36,828**	**36,828**	**203,538**	**(18,111)**	**0**

COVID Table: Information on loans and advances subject to legislative and non-legislative moratoria

	Gross carrying amount								
		Performing				Impaired			
			Of which: grace period for principal and interest	Of which: forborne exposures	Of which: instruments with significant increase in credit risk after initial recognition but which are not non-performing (Stage 2)		Of which: grace period for principal and interest	Of which: forborne exposures	Of which: unlikely to pay that are not past-due or past due for no more than 90 days
Loans and advances subject to moratoria	2,061	1,833			232	227			
of which: households									
of which: collateralized by residential immovable property									
of which: non-financial companies	1,622	1,395			232	227			
of which: small and medium-sized enterprises									
of which: collateralized by commercial immovable property									

	Accumulated impairment, accumulated negative changes in fair value due to credit risk								
		Performing				Impaired			
			Of which: grace period for principal and interest	Of which: forborne exposures	Of which: instruments with significant increase in credit risk after initial recognition but which are not non-performing (Stage 2)		Of which: grace period for principal and interest	Of which: forborne exposures	Of which: unlikely to pay that are not past-due or past due for no more than 90 days
Loans and advances subject to moratoria	(0)	(0)			(0)	(0)			
of which: households									
of which: collateralized by residential immovable property									
of which: non-financial companies	(0)	(0)			(0)	(0)			
of which: to SMEs									
of which: collateralized by commercial immovable property									

COVID Table: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

	Number of borrowers		Gross carrying amount					Residual duration of moratoria					
		Of which: granted		Of which: granted				<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 12 months <= 18 months	> 18 months
					Of which: legislative moratoria	Of which: moratoria extended	Of which: expired						
Loans and advances subject to moratoria	0	0	2,121	2,121			60	818	4	57	25	82	1,075
of which: households				0									
of which: collateralized by residential immovable property				0									
of which: non-financial companies				1,682			60	727	4	57	25	82	727
of which: to SMEs				0									
of which: collateralized by commercial immovable property				0									

Section 8

Unencumbered assets (Art. 443 CRR)

Qualitative disclosure

Bank of Italy Circular No. 285 requires banks to publish information on encumbered and unencumbered assets, with the methods laid out in the European Banking Authority guidelines.
Specifically, the required information is meant to evaluate recourse by institutions to forms of secured funding (for example, covered bank bonds, repurchase agreements, central bank credit lines).

Institutions publish information on encumbered and unencumbered assets at consolidated level by product, also taking into account the specific instructions in Annex XVII of European Union Commission Implementing Regulation 2015/79.
Prudential regulations define Asset Encumbrance as assets pledged to secure financial transactions (securitizations, secured funding, repos, etc.) or, otherwise, assets reserved to provide forms of hedging, guarantee or credit enhancement to financial transactions from which such assets cannot be freely withdrawn.

The Bank, as Parent Company, has adopted a specific Group encumbered assets management policy defining the areas of operation of the Bank and its Subsidiaries in the asset encumbrance process, describing the process for the identification, management and monitoring of encumbered assets and the correlated risks and defining the roles and responsibilities of the bodies and functions involved.

The degree of asset encumbrance is monitored in order to observe the risk exposure trend linked to the share of encumbered assets, which derives from the unavailability of assets that may be readily liquidated through sale, sale with repurchase agreement, collateral assignment or securitization, resulting in:

- A reduction in the share of assets available to creditors and depositors not guaranteed;
- An increase in funding and liquidity risk, as the share of encumbered assets reduces the possibility of obtaining new secured funding.

Specifically, the degree of asset encumbrance is monitored through the Asset Encumbrance ratio (or the "AE ratio"), calculated in line with regulatory requirements[7] as the ratio between the total carrying amount of encumbered assets and the reused guarantees received, and the total assets in the financial statements and collateral received. A specific operating limit is attributed to this ratio within the RAF, which is monitored on an ongoing basis.

The types of transaction that entailed asset encumbrance were:

- Government securities are pledged to secure transactions linked to various services (e.g., cashier's cheques) and Repurchase Agreement transactions; with respect to the latter, several transactions were carried out using the securities deriving from receivable repurchase agreements as collateral.
- Amounts "Due from customers" are pledged to secure financing transactions with other financial intermediaries, particularly for the business of BFF Polska.

7) Implementing Regulation (EU) No. 2021/451 of December 17, 2020 - Annex XVII.

Quantitative disclosure

Template EU AE1: Encumbered and unencumbered assets

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	1,562,932	1,420,225			9,613,765	4,372,409		
030	Equity instruments					116,011			
040	Debt securities	1,420,225	1,420,225	1,421,434	1,421,434	4,372,409	4,372,409	4,417,794	4,417,794
050	of which: covered bonds								
060	of which: securitizations								
070	of which: issued by general governments	1,420,225	1,420,225	1,421,434	1,421,434	4,372,405	4,372,409	4,417,790	4,417,790
080	of which: issued by financial corporations					4		4	
090	of which: issued by non-financial companies								
120	Other assets	142,707				5,125,346			

Template EU AE2: Collateral received and own debt securities issued

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	47,287	24,754	239,098	26,742
140	Loans on demand				
150	Equity instruments				
160	Debt securities	47,287	24,754	239,098	26,742
170	of which: covered bonds				
180	of which: securitizations				
190	of which: issued by general governments	47,287	24,754	229,108	26,742
200	of which: issued by financial corporations			9,991	
210	of which: issued by non-financial companies				
220	Loans and advances other than loans on demand				
230	Other collateral received				
240	**Own debt securities issued other than own covered bonds or securitizations**				
241	**Own covered bonds and asset-backed securities issued and not yet pledged**				
250	**Total assets, collateral received and own debt securities issued at 12/31/2021**	1,610,219			

Template EU AE3: Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitizations encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	1,786,235	1,280,147

Section 9

Use of ECAIs (Art. 444 CRR)

Qualitative disclosure

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending.
With this in mind, the Group uses the "standardized" approach to measure credit risk, as governed by Regulation (EU) No. 575/2013 (CRR) and adopted by the Bank of Italy Circular No. 285 "Supervisory provisions for banks" and Circular No. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries," both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes ("portfolios"), depending on the type of counterparty, and the application of diversified weighted ratios to each portfolio.
In particular, for the "Governments and central banks" portfolio, weighting depends on the rating attributed by the ECAIs or the ECAs of the individual countries; for the "Supervised intermediaries" portfolio, weighting is based on the rating of the country where the supervised intermediary is located; for the "Public sector entities" portfolio, the weighting rules are the same as those established for supervised intermediaries.
BFF Bank has adopted Dominion Bond Rating Service (DBRS) as its reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS was "BBB high". Exposures to the Italian Public Administration, including receivables due from the National Healthcare Service and Local Healthcare Entities, fall within the Credit Quality Step 3 with a weighting of 100%.

A reconciliation between the credit rating classes and the ratings supplied by DBRS is provided below.

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

The Banking Group's exposures are represented primarily by exposures with counterparties belonging to the Public Administration or with healthcare companies of the countries in which the Group operates.
For easy reference, the rating classes relating to the countries in which the Banking Group companies operate at December 31, 2021 are provided below.

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

Quantitative disclosure

Template EU CR4 – standardized approach: Credit risk exposure and CRM effects

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	6,773,002	0	6,773,002	0	44,412	**0.66%**
2	Regional government or local authorities	939,212	1,132	939,212	226	132,011	**14.05%**
3	Public sector entities	1,904,079	53,099	1,904,079	15,502	522,902	**27.24%**
4	Multilateral development banks	0	0	0	0	0	
5	International organizations	0	0	0	0	0	
6	Institutions	467,006	0	467,006	0	61,433	**13.15%**
7	Corporates	172,070	1,312,276	172,070	27,783	183,160	**91.65%**
8	Retail	15,601	28,114	15,601	6,239	16,380	**75.00%**
9	Secured by mortgages on immovable properties	0	0	0	0	0	
10	Exposures in default	104,075	592	104,075	296	153,948	**147.50%**
11	Exposures associated with particularly high risk	0	0	0	0	0	
12	Covered bonds	0	0	0	0	0	
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	
14	Collective investment undertakings	32,399	10,033	32,399	5,016	37,944	**101.41%**
15	Equity instruments	97,094	0	97,094	0	117,648	**121.17%**
16	Other items	1,339,400	0	227,792	0	227,601	**99.92%**
17	**TOTAL**	**11,843,939**	**1,405,246**	**10,732,331**	**55,062**	**1,497,440**	**13.88%**

Template EU CR5: standardized approach

	Exposure classes	Risk weight					
		0%	2%	4%	10%	20%	35%
		a	b	c	d	e	f
1	Central governments or central banks	6,634,055			115,536		
2	Regional government or local authorities	279,383				660,055	
3	Public sector entities	200,400				1,126,404	
4	Multilateral development banks						
5	International organizations						
6	Institutions	159,839				307,167	
7	Corporates	8,701				9,991	
8	Retail						
9	Exposures secured by mortgages on immovable property						
10	Exposures in default						
11	Exposures associated with particularly high risk						
12	Covered bonds						
13	Exposures to institutions and corporates with a short-term credit assessment						
14	Units or shares in collective investment undertakings						
15	Equity exposures						
16	Other items	192					
17	**Total at 12/31/2021**	**7,282,569**	**0**	**0**	**115,536**	**2,103,617**	**0**

Exposure classes		Risk weight					
		50%	70%	75%	100%	150%	250%
		g	h	i	j	k	l
1	Central governments or central banks				17,113		6,298
2	Regional government or local authorities						
3	Public sector entities	590,311			2,466		
4	Multilateral development banks						
5	International organizations						
6	Institutions						
7	Corporates				181,162		
8	Retail			21,840			
9	Exposures secured by mortgages on immovable property						
10	Exposures in default				5,217	99,154	
11	Exposures associated with particularly high risk						
12	Covered bonds						
13	Exposures to institutions and corporates with a short-term credit assessment						
14	Units or shares in collective investment undertakings						
15	Equity exposures				83,391		13,703
16	Other items				227,601		
17	**Total at 12/31/2021**	**590,311**	**0**	**21,840**	**516,948**	**99,154**	**20,001**

Exposure classes		Risk weight			Total	of which unrated
		370%	1250%	Others		
		m	n	o	p	q
1	Central governments or central banks				6,773,002	
2	Regional government or local authorities				939,438	1,429
3	Public sector entities				1,919,580	874
4	Multilateral development banks				0	
5	International organizations				0	
6	Institutions				467,006	731
7	Corporates				199,853	199,853
8	Retail				21,840	21,840
9	Exposures secured by mortgages on immovable property				0	
10	Exposures in default				104,371	21,584
11	Exposures associated with particularly high risk				0	
12	Covered bonds				0	
13	Exposures to institutions and corporates with a short-term credit assessment				0	
14	Units or shares in collective investment undertakings			37,416	37,416	37,416
15	Equity exposures				97,094	17,094
16	Other items				227,792	227,792
17	**Total at 12/31/2021**	**0**	**0**	**37,416**	**10,787,393**	**528,612**

Section 10

Exposure to market risk (Art. 445 CRR)

MARKET RISKS

Qualitative disclosure

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

Quantitative disclosure

At December 31, 2021, there were no positions generating requirements relating to market risks.

EXCHANGE RISK

Qualitative disclosure

Exchange rate risk is represented by the Banking Group's exposure to fluctuations in currency exchange rates, considering positions in foreign currency as well as those with indexation clauses linked to the exchange rate trends of a given currency.
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 mitigates foreign exchange risk primarily by using derivative instruments, forex swaps. When possible, and in particular for less significant currencies for which transactions are limited, the Group operates through natural hedging.

Exposure to exchange rate risk – determined on the basis of the net foreign exchange position using a method based on the supervisory regulations, and permitted exclusively within very restricted total maximum exposure and VaR limits – is monitored in real time by the Finance and Administration Department and managed in compliance with the limits established by specific internal rules.

Exchange rate risk is mitigated by making recourse to linear derivative instruments lacking optional components, such as currency swaps, which allow the Group to perform optimized management of its equity investments and loans provided in currencies other than the euro in which the Group operates, also through its subsidiaries.

Quantitative disclosure

The portfolio of Group assets is also expressed in currencies other than the euro; as a result a methodology for the measurement and management of this risk has been adopted. Exchange risk is monitored by the Risk Management Function, in line with the requirements of European regulations (EU Regulation No. 575/2013 - CRR).

Template EU MR1: Market risk under the standardized approach

		a
		RWEAs
	Outright products	
1	Interest rate risk (general and specific)	3,276
2	Equity risk (general and specific)	3
3	Exchange risk	
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus approach	
7	Scenario approach	
8	**Securitization (specific risk)**	
9	**Total**	**3,279**

Template EU PV1: Prudent valuation adjustments (PVA)

Category level AVA		a	b	c	d	e
		Risk category				
		Equity instruments	interest rates	foreign exchange	credit	commodities
1	Market price uncertainty					
3	Close-out cost					
4	Concentrated positions					
5	Early termination					
6	Model risk					
7	Operational risk					
10	Future administrative costs					
12	**Total Additional Valuation Adjustments (AVAs)**	-	-	-	-	-

	Category level AVA	EU e1	EU e2	f	g	h
		Category level AVA - Valuation uncertainty		Total category level post-diversification	Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
		Unearned credit spreads AVA	Investment and funding costs AVA			
1	Market price uncertainty					
3	Close-out cost					
4	Concentrated positions					
5	Early termination					
6	Model risk					
7	Operational risk					
10	Future administrative costs					
12	**Total Additional Valuation Adjustments (AVAs)**	-	-	128		

Section 11

Operational risk (Art. 446 CRR)

Qualitative disclosure

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

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

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

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

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

With respect to the RSA process, with reference to the Group scope, the Group performs an annual overall assessment of the level of exposure to Operational Risks using the RSA process. The Risk Self Assessment (RSA) is an annual self-assessment of the prospective exposure to the operational risk inherent in business processes, aimed at enhancing the perception of risk by the key figures (Business Experts) who govern the execution of these processes, taking into account the expected evolution of the business and the organizational and control measures already in place.
The Risk Self Assessment approach is particularly relevant with reference to the numerical assessment of the components of frequency and impact of forward-looking risk. In particular, these components are:

- Expected frequency of occurrence of events potentially generating operational losses;
- "Typical" impact of the loss, representing an estimate of the potential losses deriving from the occurrence of the individual risk event in normal operating conditions;

- "Worst-case" impact, representing the economic impact resulting from the occurrence of the individual loss event, assuming a scenario of extreme but plausible severity in light of operating context factors and the effectiveness of the internal control system.

Operational risks are identified on the basis of company processes, considering the classification of the loss events ("Event Type" or "ET") defined by supervisory provisions. In particular, to identify operational risks, reference is made to the specific taxonomies adopted by the Group relating to:

- The types of risk events that may generate operational losses;
- The organizational processes exposed to operational risk events;
- Risk factors inside or outside the Group, at the origin of the occurrence of the harmful event, direct or indirect;
- The business lines defined by the Supervisory Authority in which the operational loss event may take place.

Both the catalogue of operational risk events and that of organizational processes were defined at Group level in compliance with supervisory provisions.

Following the identification of the main risks within company processes, the process owner analyses and evaluates them through a quantitative estimate of the frequency and relative economic loss (typical and worst-case), taking a potential approach.
The formulation of estimates for each scenario evaluated by the assessors is supported by numerical scales provided by the Risk Management Function and built on the basis of benchmark data. In particular, the following have been provided:

- A scale supporting the estimate of expected frequency values, expressed in "number of annual events";
- "Custom" monetary scales based on second-level Event Type supporting typical and worst-case potential loss estimates.

The estimates take into account internal context factors, particularly the potential causes triggering the risk ("Risk Factors"), the reference company processes and the internal control system and the relative developments already planned. In this sense, the process leads to an estimate of "residual risk".

The operational risk results obtained from the forward-looking assessment process have also been used for quantifying internal capital against operational risk by developing a scenario-based Loss Distribution Approach ("LDA"). This approach, inspired by sector best practices, taking into consideration the expected frequency and typical and worst-case impact estimates, models the statistical characteristics of the frequency and scenario components.

Loss Data Collection represents the activity of collecting operational losses or 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 relationship between different entities, or risk event, risk factor and economic effect. Each operating loss is therefore classified based on event type, underlying risk factor(s) and the resulting economic effect.

Furthermore, within the framework of the measures adopted regarding the exposure to operational risk, the Group also monitors the following specific risks, considered to be operational risks or pillar II risks.

- The risk of money laundering and terrorist financing, or the current or forward-looking risk of losses deriving from the repercussions, including reputational, of money laundering and terrorist financing activities. For the Group, this means primarily the risk that the Bank's financial and commercial counterparties, suppliers, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities.

- Compliance risk, concerning the risk of legal and administrative penalties, significant financial losses or reputational damage due to failure to comply not only with laws and regulations but also with internal and conduct standards applicable to corporate activities. For this type of risk, a periodic update of the relevant assessment methodology is performed. Such methodology is developed for all activities falling within the Bank's regulatory framework, in accordance with a risk-based approach. More specifically, as for the relevant provisions that do not envisage the establishment of specialized control measures (i.e., privacy and occupational health and safety), the Compliance Function provides consulting support to the Bank's functions (ex ante) and assesses the adequacy of the organizational measures and control activities adopted (ex post). As for laws and regulations monitored by specialized functions, the Compliance Function carries out an indirect control by cooperating with the specialized functions in defining compliance risk assessment methods in addition to mapping risks and the corresponding control measures (Compliance Risk Control Matrix).
- Conduct risk, or the current or forward-looking risk of losses due to the inappropriate offer of financial services and the ensuing procedural costs, including cases of intentionally inappropriate or negligent conduct.
  Within the operational risk management framework, the Group monitors and oversees the current or forward-looking risk of losses due to the inappropriate offer of financial services and the ensuing procedural costs, including cases of intentionally inappropriate or negligent conduct (e.g. internal fraud).
  The Group's processes and internal regulations are drafted to discourage, *inter alia*, improper business practices, avoid market abuse and insider trading or internal offences by employees.
  The design of new products or entry into new markets is overseen within the RAF by a dedicated process involving the company 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, information security and payment services.

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 disclosure

Template EU OR1: Operational risk own funds requirements and risk-weighted exposure amounts

Banking activities		a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		T-3	T-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	354,513	338,983	310,471	50,198	627,480
2	Banking activities subject to standardized (TSA) / alternative standardized (ASA) approaches					
3	*Subject to TSA*					
4	*Subject to ASA*					
5	Banking activities subject to advanced measurement approaches AMA					

Based on the method described above, the capital requirement for operational risk at December 31, 2021 is €50,198 thousand for the Group.

Section 12

Exposures in equities not included in the trading book (Art. 447 CRR)

Qualitative information

At December 31, 2021, BFF Bank holds equity exposures in the following portfolios:

Financial assets subject to obligatory measurement at fair value through other comprehensive income

Financial assets with obligatory fair value measurement are represented by the financial assets that do not meet the requirements for measurement at amortized cost or fair value through other comprehensive income. These are financial assets whose contractual terms do not exclusively provide for capital repayments and interest payments on the amount of capital to be repaid, or which are not held in connection with a "Hold-to-Collect" business model, or whose objective is a "Held-to-Collect-and-Sell" business model.

Financial assets subject to obligatory measurement at fair value through profit or loss are initially recorded at fair value, normally represented by the price of the transaction, without considering the costs or income of the transaction directly attributable to the instrument itself.
Subsequent to initial recognition, they are always measured at fair value. The effects of applying this measurement criterion are charged to the income statement.
Lastly, they are derecognized if and only if disposal entails the substantial transfer of all the related risks and benefits.

This portfolio includes UCI units (equal to €32.4 million) managed for the most part by the "Italian SGR Investment Fund" and, to a lesser extent, by the "Atlante Fund". The value of these shares has been updated to the latest available NAV made available to these funds on June 30, 2021.

With respect to the Italian investment fund, please note that they are closed funds reserved to professional investors. The establishment of this type of fund family by the asset management company derives from the desire to develop the venture capital market in Italy, a segment experiencing constant growth, except in 2020, following a downturn due to the COVID emergency.
The funds, qualified as funds of funds, invest in target UCIs with investment policies focusing on venture capital transactions, in addition to target UCIs specialized in technology transfer and in early stage phases and target UCIs operating in low-mid-caps in companies with significant growth potential in biotech, pharma, chemical and home automation sectors.

Finally, the item also includes Banca Carige's holding in the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) as assessed in the last available fair value report (€104 thousand).

Financial assets measured at fair value through other comprehensive income

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

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

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

In particular, this item includes:

- debt instruments that are included in a Hold to Collect and Sell Business Model and that pass the contractual characteristics test (SPPI test);
- equity instruments, which cannot be qualified as controlling, associated or connected and which are not held for trading, for which the option for designation at fair value through other comprehensive income has been exercised.

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

The initial recognition of these financial assets takes place on the date of settlement for debt and equity instruments.
On initial recognition, the assets are measured at fair value, including transaction costs or income directly attributable to the instrument.

With regard to debt securities, these assets are subsequently measured at fair value, with the interest recognized at amortized cost in the income statement under item 10 "Interest and similar income". Gains and losses arising from changes in fair value are recognized in equity under item 120 "Revaluation reserves" except for impairment, which is recognized under item 130 "Net adjustments to/reversals of impairment of: b) financial assets measured at fair value through OCI".
Gains and losses are recognized in Revaluation reserves until the financial asset is disposed of, when the accumulated gains or losses are recognized in the income statement under item 100 "Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through OCI".

Fair value changes recognized under item 120 "Revaluation reserves" are also reported in the consolidated statement of comprehensive income.
Equity instruments (shares) not traded in an active market, whose fair value cannot be determined reliably due to the lack or unreliability of the information needed for fair value measurement, are measured at their last reliably measured fair value.

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

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

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

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

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

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

Financial assets measured at fair value through other comprehensive income include:

- the stake in the Bank of Italy of €80 million, purchased in March 2021, acquired as it has all of the characteristics of solidity and profitability consistent with the bank's long-term investment strategy;
- the shares relating to the Visa Class C security equal to €2,538 thousand, not listed, whose fair value is determined by the comparison with Visa Series A listed shares (according to the conversion plan defined in 2016 on the occasion of the integration with Visa Europe);
- other minor investments worth approximately €968 thousand.

At December 31, 2021, the amount attributed to BFF Bank relating to its participation in the Voluntary Scheme of FITD for the actions taken to support Cassa di Risparmio di Cesena was totally written off; this amount as at December 31, 2020 came to €147 thousand.
Also during the first half of the year, the shareholding in Nomisma S.p.A. -Società di Studi Economici was sold, both the share belonging to BFF and the shareholding from the merger with the former DEPObank, for a total amount of €67 thousand.

Equity investments

Investments in joint ventures and associates are recorded in the financial statements at cost, equal to the fair value of the consideration paid, adjusted for impairment.

This item includes interests in joint ventures and associates. Companies are considered joint ventures if control is shared between the Group and one or more other parties on a contractual basis or when the unanimous consent of all the parties who share control is necessary for decisions concerning significant activities. Companies in which the Bank holds 20% or more of the voting rights and companies for which the administrative, financial and management choices are considered to be subject to significant influence are considered to be associates due to the legal and factual links.
In establishing the existence of control over joint ventures and significant influence over associates, there are no situations to report where it was necessary to carry out particular assessments or make significant assumptions.

The Group uses the equity method to measure these investments, adjusting the initial value to reflect changes in the Group's significant net assets since the purchase date. At each balance sheet date or for interim financial statements, for equity investments the existence of objective evidence that the carrying amount of the assets may not be fully recoverable is verified. The impairment testing process requires checking for impairment indicators and determining the impairment loss, where applicable.

The presence of impairment indicators implies the recognition of a write-down to the extent that the recoverable value is less than the carrying amount. The recoverable value is the greater of the fair value net of costs to sell and the value in use.

Equity investments are derecognized when the contractual rights to the cash flows deriving from the assets expire, or when the investment is sold with a substantial transfer of all the related risks and benefits.

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

Quantitative information

Items	Figures at December 31, 2021				Impairment
	Book value		*Fair value*		
	Level 1	Level 2/3	Level 1	Level 2/3	
20c Financial assets mandatorily measured at fair value		32,504		32,504	
30 Financial assets measured at fair value through other comprehensive income	167	83,339	167	83,339	
70 Equity investments		13,484		13,484	

Items	Figures at December 31, 2021					
	Realized profits/ losses and impairment		Unrealized capital gains/ losses recognized in profit and loss		Unrealized capital gains/ losses included in Tier 1/ Additional Tier 1 capital	
	Profits	Loss	Capital gains	Capital losses	Capital gains	Capital losses
20c Financial assets mandatorily measured at fair value			2,734			
30 Financial assets measured at fair value through other comprehensive income						
70 Equity investments						

Section 13

Exposure to interest rate risk on positions not included in the trading book (Art. 448 CRR)

Qualitative disclosure

General aspects, management procedures and measurement methods for interest rate and price risk

Banking portfolio interest rate risk is the risk of a decrease in the value of the portfolio due to potential changes in interest rates. The main source of this type of interest rate risk is repricing risk, i.e. the risk deriving from time mismatches between the maturity and repricing of assets and liabilities, the main aspects of which are:

- yield curve risk, the risk deriving from the exposure of the Group's positions to changes in the slopes and shape of the yield curve;
- basis risk, risk deriving from the imperfect correlation in changes in the rates payable and receivable on different instruments that may also have similar repricing characteristics.

Exposure to interest rate risk is expressed from two different perspectives: volatility of economic value and volatility of profits (and, in particular, the interest margin).
Measurement from both of the above-mentioned perspectives is appropriate to comprehensively manage interest rate risk. Specifically:

- measurement in terms of economic value makes it possible to quantify the long-term effects of changes in interest rates. Indeed, this measurement fully expresses the effects of the above-mentioned change on items sensitive to shifts in interest rates and, therefore, provides indications functional to the strategic decisions and levels of capitalization deemed adequate over a long-term time horizon;
- measurement in terms of profits makes it possible to quantify the short-term effects on the bank's interest margin deriving from changes in interest rates and, as a result, on capital adequacy.

The Bank performs the following measurements:

a) shift sensitivity by classifying items sensitive to the changes in interest rates in time bands, on the basis of repricing dates for items at an index-linked rate and the maturity date for fixed-rate items. In order to quantify the exposure to interest rate risk, receivable and payable positions are multiplied by weighting factors, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period. This measurement is performed at least quarterly. Through shift sensitivity, an estimate is determined of the change in the present value of capital in simplified form, by adopting the methodology established by the provisions. In this regard, it is specified that this measurement is referred to for the monitoring of internal capital to be held to cover interest rate risk;

b) The change in the interest rate over a time span equal to the subsequent 12 months and 3 years, respectively, following an assumed change in the interest rate curve (the shocks applied are the same as those used for the change in economic value). This measurement is performed at least quarterly, adopting the simplified methodology established by the provisions, with the exception of the treatment of on demand items, which are measured with a more complex methodology that takes into account the actual repricing of the individual items.

Exposure to interest rate risk expressed in terms of economic value sensitivity is measured with respect to the banking portfolio assets and liabilities (this therefore excludes positions in the trading portfolio - Other).
This method is applied based on the annual changes in interest rates on a daily basis, recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase), as laid out in Circular 285. Internal capital is determined by the worst-case result obtained between the two 1st/99th percentile scenarios.
The Bank also measures the exposure to interest rate risk using additional interest rate shock scenarios. Specifically:

- the parallel ± 200 bps scenarios, for the determination of the risk index, given by the "interest rate risk exposure/own funds" ratio;
- the six interest rate shock scenarios required by the EBA Guidelines, used to calculate internal capital under stress and to determine the operating limit defined by the "interest rate risk exposure/Tier 1" ratio. To respect the limit, the scenario with the worst result is considered.

Interest rate risk exposure expressed in terms of interest margin sensitivity quantifies the impact of an interest rate curve shock on the short-term (12 months) and medium-term (3 years) interest margin. This measurement shows the effect of rate changes on the portfolio being measured, excluding possible future changes to the asset/liability mix. The shocks applied are the same as the economic value.

The Bank relies on the right provided by Circular 285 with respect to the refinement of the simplified methodologies as regards payable on demand items resulting from Transaction Services activities acquired through the merger by incorporation of DEPObank S.p.A. into BFF S.p.A. in March 2021, while for receivable on demand items, what is set forth in regulations is applied (therefore, they are all classified in the "on demand" segment). The behavioural models used take into account the identification of the core share of funding, or the amount that could represent a stable source of funding despite the short contractual duration, even in the presence of significant changes in the interest rate context. As regards factoring, a forecast collection curve is applied.
Therefore, with respect to the calculation methodology used in the previous disclosures, the following were applied to the monitoring at December 31, 2021:

- updating of the behavioural model for on demand funding, for greater consistency with the distribution of the items;
- use of the forecast collection curve, which guarantees greater consistency with the credit collection expectations defined in the theoretical collection curves and incorporates the late payment interest component sensitive to any changes in interest rates.

The average repricing maturity of the on demand funding portfolio is 0.88 years, while the longest maturity is 5 years.

Fair value hedging activities

At December 31, 2021, BFF Banking Group has no forex swap contracts in place, as the Group mitigates interest rate risk through natural hedges.

Cash flow hedging activity

At December 31, 2021, BFF Banking Group had no derivative contract intended to offset the potential losses associated with certain types of risks.

Quantitative information

The situation deriving from the application of the interest rate risk management framework at December 31, 2020, shown below, identifies a potential loss in the present value of cash flows equal to €1.5 million, equivalent to a risk index of 0.25%.

Template EU IRRBB1 - Interest rate risks of non-trading book activities

Supervisory shock scenarios		a	b	c	d
		Changes of the economic value of equity		Changes of the net interest income	
		12/31/2021	09/30/2021	12/31/2021	09/30/2021
1	Parallel up	59,979	60,240	0	21,370
2	Parallel down	-	-	(4,455)	(11,453)
3	Steepener	8,168	10,996		
4	Flattener	18,644	-		
5	Short rates up	35,136	9,834		
6	Short rates down	-	-		

The Parent Company's Risk Management Function monitors this type of risk through a regulatory framework that considers the actual breakdown of assets between fixed and floating rates implicit in the Group's core activities (interest for consideration and late payment interest).

Section 14

Exposure to securitization positions (Art. 449 CRR)

INFORMATION ON THE TRANSACTION WITH THE VEHICLE BFF SPV S.R.L.

Qualitative information

The private placement of a securitization transaction with the Bayerische Landesbank (BayernLB) Group for the maximum amount of the flexible senior note of €150 million, activated in July 2017, was closed in February 2021 through the repurchase of the receivables sold and outstanding and the repayment of the Notes.
The vehicle BFF SPV srl was removed from the company register on November 8, 2021.

Section 15

Remuneration policy (Art. 450 CRR)

Qualitative disclosure

Definition of the Remuneration policy

The remuneration and incentive policies of the BFF Banking Group in force in 2021 were approved by the Shareholders' Meeting on April 2, 2020. The Shareholders' Meeting held on March 25, 2021 did not approve the new version of the remuneration policies proposed by the Board of Directors for the year 2021 and amended the provisions of the remuneration policies for the year 2020 in sub-point (B) of paragraph 8.2.6.4 (Amounts recognized under an agreement for the settlement of an existing or potential dispute). In particular, the Shareholders' Meeting of March 25, 2021 approved the predefined formulas for determining the amounts recognized in the context of agreements with employees, wherever reached, for the settlement of current or potential disputes and, currently on the basis of such formulas, the maximum limit of 24 months of Overall Remuneration referring to the last year of the report and the maximum amount of:

- €1,100,000.00 for Employees;
- €4,500,000.00 for Personnel other than employees.

The remuneration were defined with the ultimate goal of developing remuneration systems, in the interests of stakeholders, aligned with long-term business values, strategies and objectives, linked to the proper company results to take into account the risks assumed by the Group and, in particular, with the levels of capital and liquidity required for the activities undertaken, so as to avoid skewed incentives that could result in regulatory breaches or excessive risk assumption for the Group.
In defining its remuneration and incentive policies, the Bank relied on the support of the *Gattai, Minoli, Partners* Law Firm.
In this document, the definitions set forth in the remuneration and incentive policies approved by the Shareholders' Meeting on April 2, 2020 and available on the Bank's website shall apply.
With reference to the process of defining the remuneration policy, please take note of the following:

i) the Shareholders' Meeting
   Aside from the responsibilities laid out by law, the BFF Bank Bylaws, with reference to remuneration policies, establish that the Ordinary Shareholders' Meeting:
   - determines the amount of compensation to be paid to the Directors, the Statutory Auditors and the Independent Auditors responsible for auditing the accounts;
   - approves the Policy;
   - approves any securities-based remuneration plans;
   - approves the criteria for determining the compensation to be granted in the event of early termination of the employment relationship or of the office, including the limits imposed on said compensation in terms of the annual Fixed Remuneration and the maximum amount deriving from their application;
   - views, at least once a year, a disclosure on the remuneration and incentive policies adopted by the Bank, and on their implementation in the manner defined by the Remuneration Supervisory Provisions. This disclosure contains the same information regarding remuneration and incentive systems and practices provided to the public, in compliance with the provisions of the Remuneration Supervisory Provisions.

- approves raising the ceiling of the Variable Remuneration to Fixed Remuneration ratio from 1:1 to 2:1 for Risk Takers. This capacity was implemented by way of the Shareholders' Meeting resolution of December 5, 2016, approving the Board of Directors' proposal to raise the ceiling of the Variable Remuneration to Fixed Remuneration ratio from 1:1 to a maximum of 2:1, with the exception of Personnel belonging to the Company Control Functions.

The shareholders' resolution approving the remuneration policies was adopted:

a) in compliance with the qualified majorities provided for by the Remuneration Supervisory Provisions[8];

b) following prior notification to the Supervisory Authority provided for by the regulations referred to in the Remuneration Supervisory Provisions[9].

ii) the Board of Directors:

- prepares the Policy, submits it to the Shareholders' Meeting, reviews it at least once a year and is responsible for its implementation, ensuring that it is adequately documented and accessible to Personnel;
- approves, in line with the Policy, the remuneration and incentive systems for the BoD's Personnel. In particular, it approves the entire remuneration package of the CEO, including any allocation of stock options to said officer;
- is entrusted with the administration of Stock Option Plan by, among other things:
  - determining the maximum number of stock options to be allocated overall to beneficiaries in relation to each tranche;
  - identifying the beneficiaries of each tranche from among the BoD's Personnel;
  - ensures that the remuneration and incentive systems are consistent with the Bank's overall choices in terms of risk-taking, strategies, long-term objectives, corporate governance structure and internal controls.

iii) the Remuneration Committee;
The Remuneration Committee makes suggestions and recommendations to the Board of Directors regarding Personnel remuneration and incentive policies. The Committee, consisting of five non-executive members of the Board of Directors, four of whom are independent, is responsible for proposing the salaries for personnel whose pay and bonuses are decided by the Board of Directors, and provides advice on determining the criteria for the compensation of all Key Personnel.
The Remuneration Committee met 13 times in 2021. The main activities carried out concerned:

- Reporting of 2020 performance results relating to the roles of Chief Executive Officer, Senior Executives, Executives reporting directly to the Chief Executive Officer, and Heads of the Group's Control Functions for the definition of the MBOs for which they are responsible;
- Definition of the 2021 quantitative targets relating to the roles of the Chief Executive Officer, Senior Executives, Executives reporting directly to the Chief Executive Officer and the Heads of the Group's Control Functions;

8) The Remuneration Supervisory Provisions provide that Shareholders' Meeting approval requires the favourable vote of at least two thirds of the share capital represented at the meeting, when it is constituted with at least half of the share capital, or, when this does not happen, the favourable vote of at least three quarters of the share capital represented, whatever that may be.

9) The procedure provides for the transmission to the Bank of Italy or the European Central Bank, at least 60 days before the date on which the shareholders' vote is scheduled, of the proposal to be submitted to the Shareholders' Meeting, with the relative indications and evidence to demonstrate that the higher limit or limits, for the most important personnel or for some categories of them, do not affect compliance with prudential regulations, especially those concerning own-funds requirements.

- Definition of the Report;
- Analysis and approval of remuneration packages for the hiring of new and Senior Executives;
- Analysis of shareholders' meeting votes and update of the Remuneration and Incentive Policy for the members of the strategic supervision, management and control bodies and the staff of the Banca Farmafactoring Banking Group;
- Identification of the beneficiaries of stock options in the categories for which the Board of Directors is responsible;
- Analysis of new regulatory requests and adaptation of the pay package for the Chief Executive Officer.

iv) the Control and Risks Committee:
One of the functions of the Risks Committee is to ensure that the incentives underlying the Group's remuneration system are consistent with the RAF.
At least once a year, the Human Resources and Organizational Development Function, based on an analysis of the labour market, organizational developments or strategic guidelines of the Group, verifies the need to review the remuneration and incentive policies. The Human Resources and Organizational Development Function also checks the incentive system, in terms of instruments, methods, operating mechanisms and parameters adopted by the Group, in order to implement the provisions of the Policy.
The Parent Company adopts the Policy containing the remuneration policies for the entire Group through the following process, which takes place at least once a year.

- The Human Resources and Organizational Development Function prepares a draft of the Policy involving the competent functions, including the General Counsel Function, the Risk Management Function, the Planning and Control OU and the Compliance and AML Function.
- The Human Resources and Organizational Development Function submits the draft update of the Policy to the Chief Executive Officer.
- The Chief Executive Officer submits the Policy to the Board of Directors for its approval, together with the specific opinion of the Compliance and AML Function.
- The Board of Directors, after consulting with the Remuneration Committee and the Control and Risks Committee, resolves to approve the Policy and submit it for approval by the Shareholders' Meeting.
- The Shareholders' Meeting resolves on the adoption of the Policy.

Identification of the "most significant personnel"

The Policy is based on a system of classification of company roles consistent with the definition of Key Personnel established by the Group. In particular, the Group identifies the Key Personnel through an annual assessment process - entrusted to the Human Resources and Organizational Development Function in collaboration with the Rules and Processes O.U. and with the Risk Management Function – carried out on the basis of the qualitative and quantitative criteria provided for in Regulation (EU) No. 607/14, the Group's internal regulations, company procedures, job descriptions and individual powers of attorney. Therefore, taking into account the levels of autonomy between the different roles and their impact on the business, the Board of Directors identifies the Key Personnel by way of a specific resolution after evaluation by the Human Resources and Organizational Development Function with the support of the Risk Management and Compliance and AML Functions, having consulted with the Remuneration Committee.
In addition, whenever the Bank establishes a new employment relationship and/or partnership, the Human Resources and Organizational Development Function carries out an assessment to check whether the person or entity in question belongs to the Key Personnel category.

Remuneration components

Through adequate remuneration and incentive mechanisms, the BFF Group intends to favour business competitiveness, in compliance with the principle of sound and prudent management, and strengthen corporate governance, guaranteeing that decisions are taken in an independent, informed and prompt manner, at the appropriate level, so as to avoid conflicts of interest and guarantee proper reporting according to the provisions of the competent authorities.

In summary, the remuneration policies adopted by the Group in 2020, also valid for 2021 with the modification specified in the introductory paragraph, are as follows:

All Directors:

i. receive the compensation set by the Shareholders' Meeting, a reimbursement of costs incurred during the performance of their duties and, where applicable, compensation for any roles held in Board committees;

ii. who are Committee chairs or members may receive additional compensation determined by the Board of Directors pursuant to Article 2389, paragraph 3 of the Italian Civil Code;

iii. have a civil liability insurance policy, the cost of which is paid by the Bank.

Except in the case of the Chief Executive Officer (and any executive directors), Directors are never entitled to Variable Remuneration.

The Chairman of the Board of Directors receives a Fixed Remuneration established by the Board of Directors in accordance with Article 2389, paragraph 3 of the Italian Civil Code determined ex ante and consistent with the role assigned.

The Chief Executive Officer receives:

i. a Fixed Remuneration, consisting of a salary established by the Board of Directors pursuant to Article 2389, paragraph 3, and a Benefits package;

ii. a Variable Remuneration, subject to the general principles[10] described in the Policy, which includes:

iii. an MBO whose maximum opportunity is equal to 100% of the Fixed Remuneration (excluding Benefits), linked to the achievement of the Target EBTDA RA and conditional upon the:

   a) exceeding the gates linked to the liquidity, equity and profitability indicators provided for in i., ii. and iii of sub-point (C) of paragraph 10.2.3.1 (Verification of the achievement of company objectives) of the Policy, as well as to the

   b) achievement of an EBTDA RA/Target EBTDA RA ratio of at least 1:1, unless otherwise decided by the Board of Directors in compliance with the criteria and conditions set out to allow the disbursement of the MBO of Senior Executives, Executives and other Bank managers, as provided for in i. of point (D) of paragraph 10.2.3.1 (Application of multipliers) of the Policy;

10) In particular, the CEO is subject to the general principles relating to:
   (i) the Variable Remuneration to Fixed Remuneration ratio referred to in point 10.2.2 (Variable Remuneration to Fixed Remuneration ratio);
   (ii) Variable Remuneration disbursement methods (i.e. deferral period, balance between cash and securities, retention period, rules for "particularly high" Variable Remuneration) referred to in point 10.2.2.1 (Variable Remuneration disbursement methods);
   (iii) ex-post correction mechanisms (Malus and Clawback) referred to in point 10.2.2.2 (Ex-post correction mechanisms (Malus and Clawback));
   (iv) the procedure for activating the Malus and Clawback mechanisms referred to in point 10.2.2.3 (Procedure for activating the Malus and Clawback mechanisms).

   The CEO is not required to still be employed by the Bank and/or its Subsidiaries, to not have submitted their notice to leave and to not have pending disciplinary proceedings, since there is no salaried employment contract between the CEO and the Bank.

iv. stock options that may be assigned by the Board of Directors pursuant to the stock option plans in force;

v. a retention bonus[11],

vi. a golden parachute potentially payable to the CEO upon termination of office, with a value equal to the highest of:

   a) 1.8 times the sum of the Fixed Remuneration (excluding Benefits) and the target MBO[12];

   b) the amount of €2,301,000.00;

vii. a non-compete agreement.

Different and/or additional forms of Fixed Remuneration and Variable Remuneration may be provided upon the occurrence of certain requirements, which are periodically assessed, partly on the basis of the extent of the powers awarded. Any additional forms of Fixed Remuneration and Variable Remuneration may be awarded within the limits of applicable laws and regulations, and the provisions of the Policy.
The following apply to the above-mentioned variable component:

- the limits established in Circular No. 285 in terms of the ratio between the fixed component and the variable component and the balance between cash and financial instruments;
- the malus and clawback mechanisms.

Statutory Auditors:

The Statutory Auditors:

- receive remuneration established by the Shareholders' Meeting;
- do not receive any variable remuneration component or pay linked to the results of the Bank or the Group;
- have a "civil liability" insurance policy, the cost of which is paid by the Bank.

Furthermore, the Chairman of the Board of Statutory Auditors receives an additional compensation established by the Shareholders' Meeting.

Supervisory Body:

The members of the Supervisory Body who are not Employees receive a Fixed Remuneration established by the Board of Directors, on the basis of market conditions and the responsibilities assumed, to guarantee the independence and autonomy of the function and the diligent performance of the role.
For the members of the Supervisory Body who are also Group Employees, however, there is no compensation for the position.
Members of the Supervisory Body cannot receive a variable remuneration linked to Group results in any case.

11) On January 14, 2020 the event linked to the activation of the retention bonus set forth in the contract in force with the CEO took place, i.e., the reduction of the stake held by BFF Luxembourg S.à.r.l in the Bank to less than 25% of the Bank's share capital. As a result of this event, the CEO became entitled to receive from the Company a total amount of €2,301,000 (3 times the fixed remuneration), subject to the applicable rules on variable remuneration described in this Policy. For the purposes of calculating the ratio of Fixed Remuneration to Variable Remuneration, the amount of the retention bonus was allocated pro-rata for each year of the stability period and therefore from the year in which the retention bonus was agreed (2017) until the event occurred. The up-front portion of €1,610,700 was paid on February 27, 2020 with regard, respectively, to the cash part and the part in financial instruments, the acceptance of which was disclosed to the market in compliance with the regulations on internal dealing pursuant to Art. 19 of Reg. (EU) No. 596/2014 (MAR).

12) "Target MBO" means the minimum value other than zero attributable to the Chief Executive Officer as MBO in the relevant year.

Remaining employees:

The remuneration is established, depending on the case, by the Board of Directors (with reference to Senior Executives, Executives reporting directly to the CEO and the Heads of the Control Functions), the CEO or his or her delegates, in compliance with the *Group remuneration and incentive policy* and applicable contractual regulations (particularly on the basis of the collective labour agreement for middle management and for professional area employees of credit, financial and instrumental companies, and the collective labour agreement for executive employees of credit, financial and instrumental companies, and the analogous collective labour agreements abroad).

Fixed Remuneration

Fixed Remuneration is related to the experience and professional skills of the people working in the company, and is also based on the roles held.
Fixed Remuneration includes the Benefits. Each Group company is allowed to establish its own Benefit packages, in compliance with local regulations, based on the importance and complexity of the roles held, according to principles of fairness and alignment with the local labour market, and, in any case, in compliance with the Group's guidelines as per the principles of the Policy.
The fixed remuneration component is calculated based on some principles that are consistent with the Code of Ethics adopted and can be summarized as follows:

- fairness, understood as the attribution or recognition of what is due to the individual in question, in terms of professional growth, based on possession of the required characteristics, roles and responsibilities, without any discrimination, giving everyone the same career opportunities;
- competitiveness, understood as an analysis of how the salary awarded to each position compares to specific market benchmarks;
- meritocracy, which is expressed in how individuals are valued based on merit;
- consistency over time, with reference to medium- and long-term objectives and risk management policies.

Variable Remuneration

General principles

The recognition of Variable Remuneration and the correlation between risk and performance is achieved through a process that aims to remunerate Personnel in compliance with the risk profile defined by the Risk Appetite Framework (RAF), and with a view to business continuity and sustainability of long-term results.
In particular, Variable Remuneration is paid subject to the following conditions: (i) liquidity coverage ratio (LCR), (ii) total capital ratio, at least equal to the level of "risk tolerance" approved by the Board of Directors, and defined within the RAF in force at the end of the year to which the incentive system refers, and (iii) risk-adjusted and cost-of-capital-adjusted positive return (Risk-Adjusted EBTDA, or EBTDA RA).
Variable Remuneration is also linked to several parameters consistent with the function of the specific instrument used to pay the Variable Remuneration (e.g. individual and/or Bank performance, however measured, length of service, etc.). No forms of guaranteed Variable Remuneration are permitted except in exceptional cases, for the hiring of new Personnel and limited to the first year of employment or office (e.g. entry bonus). These forms of guaranteed Variable Remuneration:

i. may not be paid more than once to the same person;

ii. are not subject to the rules on the structure of Variable Remuneration (i.e. rules on balancing cash and securities, deferral and retention);

iii. contribute to determining the limit of the ratio of Fixed Remuneration to Variable Remuneration for the first year, unless they are paid in a lump sum at the time of recruitment.

The payment of Variable Remuneration, whether upfront or deferred, with the exception of the golden parachutes, is subject

i. for Employees, as at the payment date, to being employed by the Bank and/or its Subsidiaries, not having submitted notice to leave and not pending disciplinary proceedings that might conclude with dismissal;

ii. for Personnel, to compliance with parameters pertaining to results, assets and liabilities and cash flows.

Regarding the requirement to still be employed by the Bank and/or its Subsidiaries, there may be exceptional and properly justified exemptions (so-called good leaver provisions), in which, although said condition is no longer met, the Variable Remuneration in question may be paid in whole, in part or *pro rata temporis* depending on when during the year the relationship with the Bank and/or the Subsidiaries is terminated. These exemptions must be approved by the CEO, except in relation to Personnel for whom the Board of Directors is responsible, when Board approval is required.
In this regard, with a view to avoiding possible regulatory and Policy circumvention, the Bank ensures that Group Personnel are not remunerated and do not receive payments or other benefits through vehicles, instruments or methods that are in any way circumventive, including with regard to Subsidiaries. In this regard, the Bank may ask the Group's Risk Takers to disclose any opening of custody and administration accounts with other intermediaries, and any financial transactions or investments made, which could affect the Group's risk alignment mechanisms.
The variable remuneration component is divided into various components, including:

Management By Objective ("MBO")

The MBO is a formalized incentive system that provides for the payment of an annual bonus based on annual gross remuneration, subject to company and individual qualitative and quantitative objectives being achieved. The mix of quantitative and qualitative objectives is appropriately balanced according to the roles and responsibilities of the eligible personnel.
Within the first quarter of each year, according to the guidelines provided by the CEO, and through a process aimed at full alignment and wider sharing, all heads of Organizational Units/Functions/Departments communicate to their employees their respective qualitative/quantitative objectives, on the basis of which, at the end of the year, individual performance will be evaluated and the associated MBO variable remuneration component will be determined. With regard to Senior Executives and Executives reporting directly to the Chief Executive Officer, the MBO objectives are discussed with the CEO and then submitted for approval by the Board of Directors, in compliance with the provisions of the regulations and this Policy, also with reference to the heads of the Company Control Functions. For other employees, the MBO objectives are determined by the Chief Executive Officer.
As regards the determination of the MBO, there is an initial phase during which, based on the achievement of individual objectives, the base amount of the bonus is determined; subsequently, to confirm whether the MBO can actually be paid out, the gates are checked: financial, equity, liquidity and positive profitability, adjusted for risk and the cost of capital (Risk Adjusted EBTDA or RA EBTDA).
Once the 3 gates have been respected, the MBO of the Bank's Employees is then also calculated on the basis of two different multiplier mechanisms.
The first multiplier is the RA EBITDA / Target RA EBITDA. This multiplier can increase the MBO by up to 40% for middle managers, Senior Executives, Executives and other senior managers of the Bank, and up to 30% for non-managerial staff. This multiplier can also be decremental and still allow the MBO to be paid out to the middle manager and non-managerial categories, even if the Target RA EBTDA has not been reached.

The objective and multiplier related to the RA *EBTDA / Target RA EBTDA* ratio do not apply to:

a) Company Control Functions;

b) the CFO;

c) Human Resources and Organizational Development.

A second multiplier is linked to Customer Satisfaction. This business performance indicator is formulated on the basis of a survey conducted by the Commercial O.U., and can increase the MBO by up to 9%. This indicator applies as a multiplier only incrementally.

When the profitability gates are checked, the incremental costs deriving from the application of these mechanisms are deducted from the results achieved to always ensure full self-financing of the MBO incentive system. In any event, the final amount of the M may always be paid out in compliance with the restrictions and limits laid out in the Policy.
As specifically concerns Senior Executives and Executives reporting directly to the CEO and the Heads of the Parent Company's Company Control Functions, the objectives assigned and the relative assessment are subject to the approval of the Board of Directors, which relies on the support and contribution of the Remuneration Committee and the Risk Management Function to check the achievement of targets and gates relating to the possibility to pay out the MBO in compliance with the RAF.
The MBO provides for a focus on annual objectives and retention mechanisms (e.g. payment subject to the beneficiary still being employed or holding office).
With respect to the annual objectives, 3 gates are applied in the vesting year, linked to the achievement of the financial objective budgeted for the same year adjusted for risk, as provided for in the Risk Appetite Framework, associated with compliance with capital and liquidity limits:

1. the Group's liquidity indicator adopted as the gate is the Liquidity Coverage Ratio (LCR), at least equal to the level of "risk tolerance" approved by the Board of Directors, and defined within the RAF in force on the closing date of the financial year to which the MBO refers, and, in any case, compliant with the requirements of supervisory remuneration legislation;

2. the Group's equity indicator adopted as a gate is the Total Capital Ratio at least equal to the level of risk tolerance approved by the Board of Directors, and defined within the RAF in force on the closing date of the financial year to which the MBO refers, and, in any case, compliant with the requirements of supervisory remuneration legislation;

3. the Group's profitability indicator adopted as a gate is a positive RA EBTDA, indicating EBTDA adjusted according to a correction mechanism that takes into account the risks assumed by the Group, consistent with the capital targets established in the Risk Appetite Framework (RAF) defined on the basis of the approved budget/strategic plan at the beginning of the reference year according to the following formula: EBTDA RA = EBTDA – (RWA^{M} * Target TCR * Ke)[13].

Where:
EBTDA: pre-tax profit from continuing operations (Item 290) excluding net value adjustments to property, plant and equipment (Item 210), net value adjustments to intangible assets (Item 220) and income statement items that are offset by corresponding changes in shareholders' equity (e.g. foreign exchange losses and costs related to the Stock Option Plan);
RWA^{M}: average in the year of the total, final and Group risk-weighted assets determined with respect to the average of the month-end RWAs, calculated by the Planning, Administration and Control Department on the basis of the monthly accounting closures and through the replication of the mandatory prudential accounting activities for quarterly supervisory reports;

13)

Target TCR: in the absence of eligible Tier 2 subordinate debt, this consists of the risk appetite threshold defined for the Total Capital Ratio in the RAF. If there is eligible Tier 2 debt, the Target TCR value to be applied in the formula is equal to the difference between 15% and the weighting of Tier 2 on the Group's Target TCR);
Ke: the Group's cost of equity, set at 10%.
Additional gates relating to the profitability of the individual companies may be provided for the Subsidiaries.
To guarantee long-term sustainability, for Risk Takers and certain parties covering management positions and/or positions with significant professional requirements, any MBO accrued may be paid out as follows:

- 70% after approval of the financial statements by the Shareholders' Meeting;
- 30% with a deferral of two years[14] from maturity. For example, for the year ending on December 31, 2021, the deferred MBO is subject to an additional gate, consisting of achievement in the year prior to the period of payment (which will take place in 2024), i.e. in the year ending on December 31, 2023, of positive profitability net of risk, associated with respect for the minimum regulatory capital and liquidity limits;
- for employees in particular, presence in the Group is typically required at the time of payment along with service seniority of at least 6 months in the reference year;

Company bonus

For Parent Company employees subject to the credit collective labour agreement applicable in Italy, with the exception of executives, a company bonus ("VAP") may be provided on the basis of the national collective labour agreement applied, which provides a financial recognition when specific Bank performance targets are achieved.
The company bonus may be provided in cash or through corporate welfare goods and services on the basis of relevant agreements.

Stock Option Plan

As part of its incentive policies, the Bank, in compliance with applicable legislation, adopts stock option plans based on the allocation of options that entitle the beneficiary to receive ordinary shares of the Bank. These plans aim to:

a) encourage the integration of employees and managers, making them share in the company's results;

b) make employees more aware about creating value for the Group and for shareholders;

c) increase the retention capacity by making valued staffers less likely to quit the Group;

d) improve the Group's competitiveness in the labour market, making it more attractive to the best talents with the professionalism and skills that the Group needs;

e) promote the sustainability of the Bank in the medium and long term, and ensure that Variable Remuneration is based on the results actually achieved.

The value of the options attributed to beneficiaries:

a) is determined on the basis of fair market value using common valuation methodologies and parameters recognized by the financial community (the valuation is performed using the Black-Scholes formula), as proposed by the Risk Management Function and approved by the Board of Directors;

14) Considering that the Bank is classified, for the purpose of remuneration policy rules, as an Intermediate Bank, it would be possible to apply a deferral period of between one-and-a-half and two years. The Bank considered adopting a more conservative approach by implementing a longer deferral period than required by the Remuneration Supervisory Provisions for Intermediate Banks.

b) constitutes Variable Remuneration on a par with the MBO, with which it contributes to determining the 2:1 limits and the 50/50 split (between cash and Securities), where applicable, in the year of stock option vesting.

Stock options are also subject to ex-post adjustment mechanisms (Malus and Clawback), which can result in the stock options being reduced, significantly reduced or even eliminated. Specifically, during the exercise right accrual period for stock options, certain "gates" linked, respectively, to the achievement of a positive Group return net of risk and compliance with capital and liquidity risk tolerance levels are applied, pertaining to the year prior to the date on which it becomes possible to exercise the options.

Other components

There are additional components of Variable Remuneration beyond the MBO bonuses, within the limits of the Policy and regulations in force over time, including Sales Bonuses.
Sales Bonuses provide compensation for the achievement of annual company and individual qualitative and quantitative objectives, which are intended to support the achievement of the Bank's commercial, results and asset-based objectives, taking into account customers' needs and in line with their risk profile.

Golden parachutes

The golden parachutes are approved by the Board of Directors for Personnel for whom the BoD is responsible, and by the Chief Executive Officer for the rest of the Personnel. The following are golden parachutes[15]:

i. the amounts recognized under a non-competition agreement;

ii. the amounts recognized under an agreement for the settlement of an existing or potential dispute relating (or with a view) to termination of the employment relationship or office, regardless of the location in which it is reached;

iii. the indemnity for failure to give notice, in excess of the amount established by law.

In this regard, the Bank has agreed on amounts on demand or on the occasion of the early termination of the employment relationship or office with two Risk Takers:

i. the Chief Executive Officer;

ii. one Risk Taker categorized as Employee.

Discretionary pension benefits

To date, there are no discretionary pension benefits for Personnel. However, the Group companies, subject to the approval of the Board of Directors for the Personnel for whom the BoD is responsible, and the Chief Executive Officer for the rest of the Personnel, have the right to grant discretionary pension benefits, as defined and provided for in the Remuneration Supervisory Provisions. In this case, when applying the provisions on Variable Remuneration to discretionary pension benefits, the following criteria are observed[16]:

i. if the member of Personnel terminates their employment, partnership or office before they have accrued the pension right, the discretionary pension benefits are invested in Securities, held in custody by the Bank for a period of five years, during which they accrue interest and/or dividends, and are subject to *ex-post* adjustment mechanisms in accordance with point 10.2.1.3 (*Ex-post* adjustment mechanisms – Malus and

15) Note 16, of the Supervisory Provisions on Remuneration, Section III specifies that, for the purposes of the same, "golden parachutes" are not only the golden parachutes commonly intended (i.e. amounts recognized under an agreement for the settlement of a current or potential dispute, whatever the forum in which it is achieved) but also the payments under non-competition clauses and the indemnity of non-notice to the extent that this may exceed the amount established by law.

16) See Section III of the Remuneration Supervisory Provisions.

Clawback);

ii. if the employment, partnership or office ceases after the pension entitlement has accrued, the discretionary pension benefits are granted to the employee in the form of Securities and subject to a retention period of five years, during which the Securities accrue interest and/or dividends;

iii. discretionary pension benefits are included in the calculation of the Variable Remuneration to Fixed Remuneration 2:1 ratio limit.

Early termination of the relationship

The course of action to be taken in the event of the employment relationship being terminated is the one indicated by the relevant industry contracts. The Parent Company's Board of Directors may determine golden parachutes for Key Personnel in the event of early termination of employment or departure from office, in compliance with the conditions provided for by applicable regulations and the criteria approved by the Shareholders' Meeting.
To determine these fees, qualitative and quantitative indicators are applied which reflect the performance achieved and the risks assumed by the individual and the Bank, and *ex post* correction mechanisms (*Malus* and *Claw Back*), within the limits allowed by collective agreements applicable to the employment relationship, as provided for in the Supervisory Provisions for Banks and, in any case, in compliance with the limits and requirements of the relevant legislation.

Non-compete agreements

If the employee signs a "non-compete agreement" which requires him or her not to professionally engage with specific companies for a specific period of time starting from the date of termination of the employment relationship, the applicable Group company will pay him or her a sum to be determined based on the gross annual fixed remuneration received in the last year.
The non-compete agreement fee is subject to ex post correction mechanisms (Malus and Claw Back), within the limits allowed by collective agreements applicable to the employment relationship, as provided for in regulatory provisions and, in any case, in compliance with the limits and requirements of the relevant legislation.
The payment for the non-competition agreement is made after the termination of the relationship. For Risk Takers, this fee is included in the calculation of the Variable Remuneration to Fixed Remuneration ratio limit.
The portion of the total consideration of the agreement that exceeds the last annual Fixed Remuneration (excluding Benefits) is subject to the additional limits provided for Variable Remuneration, namely:

i. quantification based on performance indicators measured net of risks, determined by the achievement of a positive risk-adjusted Group return, associated with compliance with the target equity (TCR) and liquidity (LCR) limits, defined in the RAF, in force at the end of the year preceding the payment of the deferred Variable Remuneration;

ii. balance between cash and Securities;

iii. upfront and deferred.

Ex-post adjustment mechanisms (Malus and Clawback)

Variable Remuneration, including golden parachutes, is subject to ex-post adjustment mechanisms (Malus and Clawback), which can result in the Variable Remuneration being reduced, significantly reduced or even eliminated. The correction mechanisms must be identified within the limits allowed by law and by collective agreements applicable to employment relationships. They must reflect performance levels net of the risks actually assumed or achieved and capital levels, as well as take into account individual conduct. Using the company functions pursuant to paragraph 10.2.2.3 (Procedure for activating the Malus or Clawback mechanisms) of the Policy, the Parent Company's Board of Directors ascertains the assumptions that determine the activation of the ex-post correction mechanisms with reference to the Personnel for whom the BoD is responsible, and resolves to apply them in accordance with the procedures provided for in the Policy. For the remaining Personnel, the CEO is responsible, relying on the support of the competent corporate functions and, where necessary, the corporate bodies of the Subsidiaries.

For the purposes of recognizing deferred Variable Remuneration, given all other legal and contractual conditions, the application of a certain "gate" linked to the Group achieving a positive return net of risk, associated with compliance with the equity (TCR) and liquidity (LCR) risk tolerance levels as defined in the RAF in force at the end of the year preceding the settlement of the deferred Variable Remuneration (the "*Malus*" condition), is envisaged during the period of accrual of the right to payment.

The variable part of remuneration is not paid or, if already paid, must be returned in the presence of individual behaviour of the person concerned, enacted within the scope of the Bank's activity or in any case of the professional activity of the person in question, that is attributable to one or more of the following (the "***Clawback***" conditions):

i. behaviours resulting in a significant loss for the Group, the Bank, the Subsidiaries or customers; in this regard, it is specified that the Parent Company's Board of Directors determined by resolution of March 2, 2015 a minimum threshold of €1 million for this loss corresponding to the "medium" risk indicated in the "Group Risk Management Policy";

ii. the loss of one or more of the requirements of professionalism, integrity and independence referred to in Article 26 of the TUB for members of Personnel performing administrative, management and control functions;

iii. breach of the obligations provided for in Article 53, paragraph 4 et seq. of the TUB by the parties indicated therein, regarding the Group's assumption of risk activities vis-à-vis those who may directly or indirectly influence the management of the Bank or the Group and parties connected to them, as well as in situations of conflict of interest and/or in violation of the conditions and limits identified by the Bank of Italy pursuant to the aforementioned Article 53 of the TUB;

iv. violation of the obligations and provisions of the Remuneration Supervisory Provisions (Section III, e.g. undue receipt of remuneration, violation of the retention period);

v. specific behaviours committed with wilful misconduct or gross negligence, which have resulted in financial or non-financial damage, including reputational damage, to the Group, the Bank or Group companies, regardless of whether such damage is fully quantifiable, including, but not limited to:

   a) breach of confidentiality and non-competition obligations during the contractual relationship with the Bank;

   b) breach of any post-contractual confidentiality and non-compete obligations, such as non-competition agreements that may or may not be pursuant to Article 2125 of the Italian Civil Code;

vi. violation, with wilful misconduct or gross negligence, of the obligations under Legislative Decree 231/2001 or the Code of Ethics;

vii. fraudulent conduct or other conduct committed with wilful misconduct or gross negligence to the detriment of the Group, the Bank, customers or Group companies.

If a Clawback condition occurs, in the less serious cases the Board of Directors may determine a proportional reduction, rather than the full elimination, of the Variable Remuneration concerned, provided such a decision is justified. The amount may be offset against Remuneration and/or severance pay.

The Malus and Clawback mechanisms are triggered when the Bank uses the procedure indicated in paragraph 10.2.1.4 (*Procedure for activating the Malus and Clawback mechanisms*) to determine that Malus and Clawback should apply.

In addition to compensation for any damages, from the moment the Clawback conditions are ascertained, the Group companies have the right to recover all or part of the Variable Remuneration already paid, this right being exercisable within five years of each payment.
Furthermore, the termination of the employment relationship and/or the office does not prevent the activation of Clawback mechanisms, which still take into account the legal, social security and tax aspects, as well as the time limits provided for by local regulations.
With reference to stock option plans, if the Internal Audit function, at the request of the Board of Directors for the Personnel for whom the BoD is responsible, and the Chief Executive Officer for the remaining Personnel, ascertains one or more Malus conditions before the vesting date, the beneficiary loses all options allotted and not yet matured.
Options accrued and not yet exercised are subject to Clawback if the related conditions are ascertained by the Internal Audit Function after the vesting date and before the exercise of the accrued options.
If a Clawback condition is ascertained after the exercise of the options, within the limits of applicable rules, the beneficiary will be required to pay the Bank an amount equal to the value of the options as determined at the time of allocation, without prejudice to the Bank's right to compensation for any greater damage.

Quantitative information

Template EU REM1: Remuneration awarded for the financial year

Row			MB Supervisory function	MB Management function	Other senior management	Other identified staff
			a	b	c	d
1	Fixed Remuneration	Number of identified staff	8	1	6	28
2		Total fixed remuneration	453	1,195	1,073	3,449
3		Of which: cash-based	453	1,117	1,002	3,178
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
EU-5x		Of which: other instruments				
6		(Not applicable in the EU)				
7		Of which: other forms		78	72	272
8		(Not applicable in the EU)				
9	Variable Remuneration	Number of identified staff	8	1	6	28
10		Total variable remuneration		1,531	643	1,627
11		Of which: cash-based		754	327	770
12		Of which: deferred		226	98	231
EU-13a		Of which: shares or equivalent ownership interests		754	287	770
EU-14a		Of which: deferred		226	86	231
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments		23	30	87
EU-14b		Of which: deferred				
EU-14x		Of which: other instruments				
EU-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
17	Total remuneration (2 + 10)		453	2,726	1,717	5,076

Template EU REM2: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Row		MB Supervisory function	MB Management function	Other senior management	Other identified staff
		a	b	c	d
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	1	-
2	Guaranteed variable remuneration awards -Total amount	-	-	40 (*)	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	-	-	1
7	Severance payments awarded during the financial year - Total amount	-	-	-	230
8	Of which paid during the financial year	-	-	-	161
9	Of which deferred	-	-	-	69
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	-	-

(*) Identified as DIRS in 2021.

Template EU REM3: deferred remuneration

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
		a	b	c	d	e	f	EU-g	EU-h
1	MB Supervisory function								
2	Cash-based								
3	Shares or equivalent ownership interests								
4	Share-linked instruments or equivalent non-cash instruments								
5	Other instruments								
6	Other forms								
7	MB Management function	633	213	420					
8	Cash-based	610	190	420					
9	Shares or equivalent ownership interests								
10	Share-linked instruments or equivalent non-cash instruments	23	23						
11	Other instruments								
12	Other forms								
13	Other senior management	330	167	163				81	
14	Cash-based	300	136	163				81	
15	Shares or equivalent ownership interests								
16	Share-linked instruments or equivalent non-cash instruments	30	30						
17	Other instruments								
18	Other forms								
19	Other identified staff	776	437	338				251	
20	Cash-based	689	350	338				251	
21	Shares or equivalent ownership interests								
22	Share-linked instruments or equivalent non-cash instruments	87	87						
23	Other instruments								
24	Other forms								
25	Total amount	1,739	817	922	0	0	0	332	0

Template EU REM4: Remuneration of 1 million EUR or more per year

Row	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
		a
1	1 000 000 to below 1 500 000	
2	1 500 000 to below 2 000 000	
3	2 000 000 to below 2 500 000	
4	2 500 000 to below 3 000 000	1
5	3 000 000 to below 3 500 000	
6	3 500 000 to below 4 000 000	
7	4 000 000 to below 4 500 000	
8	4 500 000 to below 5 000 000	
9	5 000 000 to below 6 000 000	
10	6 000 000 to below 7 000 000	
11	7 000 000 to below 8 000 000	
x	To be extended as appropriate, if further payment bands are needed.	

Template EU REM5: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Row		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff	8	1	9				13	5	16	34
2	Of which: members of the MB	8	1	9							-
3	Of which: other senior management										-
4	Of which: other identified staff							13	5	16	34
5	Total remuneration of identified staff	453	2,726	3,179				2,781	732	3,280	6,793
6	Of which: variable remuneration	0	1,531	1,531				1,180	137	954	2,270
7	Of which: fixed remuneration	453	1,195	1,649				1,601	595	2,326	4,523

The "Report on Remuneration" includes all information required by Article 450 of the CRR concerning remuneration policies and practices, relating to the categories of personnel whose professional activity has a significant impact on the bank's risk profile.

Section 16

Leverage (Art. 451 CRR)

Qualitative disclosure

The Leverage ratio - introduced by 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"*, both dated December 17, 2013, which adopted Regulation (EU) No. 575/2013 (CRR - Capital Requirement Regulation) as amended, relating to the new harmonized regulations for banks and investment companies, became an integral part of the Disclosure that Institutions are required to provide pursuant to Article 451 of the CRR.

The European Implementing Regulation No. 200/2016 defined the implementing technical standards of Article 451, making it applicable as of January 1, 2015 and providing the relative specifications.

Description of the processes used to manage the risk of over-leverage

Over-leverage risk is defined as the "risk that a particularly high level of debt with respect to own funds may make the bank vulnerable, making the adoption of corrective measures to the business plan necessary, including the sale of assets with the recognition of losses that could entail value adjustments, including on the remaining assets".
As concerns over-leverage risk, the Group proceeds with the periodic calculation of the leverage ratio, defined as the ratio between Tier 1 capital and total financial statement assets and off-balance sheet items, the latter weighted according to specific factors defined by Supervisory Provisions.
Current and forward-looking first-level monitoring of the leverage ratio is the responsibility of the Finance and Administration Department, with the support of the Company Structures directly reporting to it.
The Risk Management Function, as the second-level Company Control Function, performs an evaluation of the leverage ratio as part of the overall forward-looking capital adequacy assessment. As part of the ICAAP and in strategic planning processes, the Risk Management Function verifies the level of the forward-looking and stressed leverage ratio indicator, as calculated by the Finance and Administration Department.
The leverage ratio is also monitored in the RAF.

Description of the factors impacting the leverage ratio during the period to which the published leverage ratio refers

The leverage ratio shown in the tables was calculated by applying the exemptions established by BI Communication of 06/30/2021 (after the CRR "Quick fix").
The same indicator calculated without exemption would in any event have been higher than regulatory thresholds and the Risk Appetite.

Furthermore, thanks to the ATI bond issue of €150 million in January 2022, the leverage ratio is expected to strengthen.

Quantitative disclosure

Template EU LR1 - LRSum: summary reconciliation of accounting assets and leverage ratio exposures

		Applicable amount
		a
1	Total assets as per published financial statements	11,176,697
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for securitized exposures that meet the operational requirements for the recognition of risk transference)	0
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	(463,436)
5	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with point (i) of point (i) of Article 429a(1) CRR)	0
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	0
7	Adjustment for eligible cash pooling transactions	0
8	Adjustments for derivative financial instruments	92,618
9	Adjustment for securities financing transactions (SFTs)	2,523
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	189,493
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	0
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	0
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	0
12	Other adjustments	**(63,377)**
13	**Leverage ratio total exposure measure**	**10,934,519**

Template EU LR2 - LRCom: leverage ratio common disclosure

Rows		CRR leverage ratio exposures	
		12/31/2021	09/30/2021
On-balance sheet exposures (excluding derivatives and SFTs)		**10**	**20**
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	10,899,691	10,572,869
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	0
4	(Adjustment for securities received under securities financing transactions that are recognized as an asset)	0	0
5	(General credit risk adjustments to on-balance sheet items)	0	0
6	(Asset amounts deducted in determining Tier 1 capital)	-63,377	-142,229
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**10,836,314**	**10,430,640**
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	0	0
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardized approach	0	0
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	0	0
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardized approach	0	0
EU-9b	Exposure determined under Original Exposure Method	96,718	104,776
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	0	0
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardized approach)	0	0
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original exposure method)	0	0
11	Adjusted effective notional amount of written credit derivatives	0	0
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
13	**Total derivatives exposures**	**96,718**	**104,776**
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	287,889	494,471
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
16	Counterparty credit risk exposure for SFT assets	2,523	2,328
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	0	0
17	Agent transaction exposures	0	0

(CONT'D)

Rows		CRR leverage ratio exposures	
		12/31/2021	09/30/2021
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	0	0
18	**Total securities financing transaction exposures**	**290,413**	**496,799**
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	1,405,246	1,513,637
20	(Adjustments for conversion to credit equivalent amounts)	-1,230,735	-1,269,398
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0
22	**Off-balance-sheet exposures**	**174,511**	**244,239**
Excluded exposures			
EU-22a	(Exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-	-
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off balance sheet))	-	-
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	-	-
EU-22d	(Excluded promotional loans of public development banks (or units) - Promotional loans)	-	-
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-	-
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	-	-
EU-22g	(Excluded excess collateral deposited at triparty agents)	-	-
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)		
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	-	-
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	-	-
(*)	(Adjustment for temporary exemption of exposures to central bank (if applicable)) - Art. 429 bis, par. 1, letter n	-463,436	-462,144
EU-22k	**(Total exempted exposures)**	**-463,436**	**-462,144**
Capital and total exposure measure			
23	**Tier 1 capital**	**382,833**	**411,947**
24	**Leverage ratio total exposure measure**	**10,934,519**	**10,814,312**
Leverage ratio			
25	**Leverage ratio (%)**	**3.50%**	**3.81%**
EU-25	Leverage ratio (without the adjustment due to excluded exposures of public development banks - Public sector investments) (%)	3.50%	3.81%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	3.36%	3.36%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%

(CONT'D)

Rows		CRR leverage ratio exposures	
		12/31/2021	09/30/2021
EU-26a	Additional own funds requirements to address risks of excessive leverage (%)	0.00%	0.00%
EU-26b	Of which consisting of CET1	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirements (%)	3.00%	3.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	-	-
Disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	0	0
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	287,889	494,471
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	10,646,630	10,319,840
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	11,110,066	10,319,840
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	3.60%	3.99%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	3.45%	3.99%

(*) The row relating to the exemption of exposures to central banks was included in order to adapt the template to the other templates (LR1) as well as the Supervisory reporting.

Template EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Rows		CRR leverage ratio exposures
		a
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**13,694,502**
EU-2	Trading book exposures	14,991
EU-3	Banking book exposures, of which:	13,679,512
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	7,092,790
EU-6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	3,490,611
EU-7	Institutions	632,836
EU-8	Exposures secured by mortgages on immovable property	0
EU-9	Retail exposures	27,302
EU-10	Corporate	331,395
EU-11	Exposures in default	257,579
EU-12	Other exposures (eg equity, securitizations, and other non-credit obligation assets)	1,846,999

Section 17

Use of credit risk mitigation techniques (Art. 453 CRR)

BFF Banking Group has a Credit Risk Mitigation framework. The goal of the framework is in the first place to guarantee a better process for the management of the collateral held by the Group to mitigate the risk positions assumed, and in the second place to evaluate the possible effects and benefits in terms of capital requirements.

The exposure to this type of risk is broken down into two main evaluation and oversight areas:

- Verification of the enforceability and effectiveness of collateral in terms of recovery of the problematic exposure, which requires an analysis of the main characteristics of the attenuation and control tools, with reference primarily to the collateral acquisition and administrative management process, according to what is set forth in the internal regulations of the Group and the individual Group companies in that regard;
- Measurement of exposure to risk for which credit risk mitigation techniques are found to be less effective or may not have the expected benefit in terms of reducing RWAs; this measurement is performed by the Risk Management Function as part of the ICAAP.

In particular the adequacy of collateral is evaluated according to different criteria based on collateral type:

- mortgage collateral: the value of the asset is estimated based on a dedicated appraisal performed by an expert/appraisal firm which respects the independence and professional requirements established by regulations in force;
- personal guarantee: the value of the surety is determined based on the estimated assets of the guarantor (overall amount of enforceable assets), highlighting any encumbrances/restrictions in place on such assets;
- financial guarantee: the value of the financial asset/instrument subject to the guarantee is estimated based on the value expressed by the reference market in which the asset subject to the guarantee is traded.

The Group verifies the quantitative and qualitative adequacy of the guarantees given by the various counterparties and, in the case of confirmed total or partial deficiency, it promptly requests that the guarantee be supplemented. Lacking such adjustment, the risk position is immediately reviewed, in order to pass the proper resolution in line with the emerging risks. The guarantees acquired should not present particular encumbrances that may undermine their legal validity. Furthermore, in order to mitigate credit risk, BFF enters into netting (ISDA) and collateral management (CSA) agreements consistent with EMIR regulations.

Therefore, on December 31, 2021, the Group does not make use of any guarantees granted by counterparties in order to attenuate the impact on internal capital of credit risk ("Credit Risk Mitigation").

For repurchase agreements for which the Bank has signed specific GMRA contracts, credit risk is transferred from the counterparty to the issuer of the underlying security.

Quantitative information

Template EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	4,556,458	296,973	296,972	1	0
2	Debt securities	5,793,236	0	0	0	
3	**Total**	**10,349,694**	**296,973**	**296,972**	**1**	**0**
4	*of which non-performing exposures*	124,305	153	153	0	0
EU-5	*of which defaulted*	0	0	0	0	0

Section 18
Liquidity risk

Qualitative disclosure

Liquidity risk is defined as the risk that the Group will be unable to meet its obligations at maturity and/or that it will have to bear non-market financing costs in relation to an unbalanced net financial position due to the inability to raise funds (funding liquidity risk) or due to the presence of limits on the disposal of assets (market liquidity risk), forcing the Group to slow or halt the development of its business, or sustain excessive funding costs to meet its obligations, with significant negative impacts on the profitability of its activities.
In defining liquidity risk, a distinction is drawn between short-term ("liquidity risk") and long-term ("funding risk" or "structural liquidity risk") risks:

- "liquidity risk", the current or potential risk that the entity is incapable of effectively managing its liquidity requirements in the short term;
- "funding risk", the risk that the entity does not have stable sources of funds in the medium and long term, with the resulting current or potential risk of not being able to meet its financial obligations, without an excessive increase in funding costs.

Operational and funding liquidity risks may be generated by a number of internal and external factors. Although risk factors may be simultaneous and correlated, they are broken down into the following categories:

- internal, deriving from specific negative events of the Group, such as a downgrade of creditworthiness, entailing a loss of trust by the market. In turn, these sources of risk may translate into a reduction in market access and an increase in procurement costs, a reduction or cancellation of credit lines, the loss of customers and/or a reduction or withdrawal of deposits;
- external, deriving from negative events caused by market shocks not directly controllable by the Bank and the Group. The main sources of risk originate from political or financial crises, catastrophic events, market crises which result in difficulties in the renewal of loans in the market and difficulties in accessing certain markets or sudden withdrawals by depositors.

The main sources of funding of BFF Banking Group include funding in euros or in other currencies from Transaction Services, representing the main source of the Group's structural funding, thanks to its stability in relation to the "operational" nature of a consistent part of it, the liquidity deriving from direct funding through Deposit Account activities, bond issues, financing transactions via securities (repos) and any recourse to wholesale banking lines.
In light of the new funding structure, after the DEPObank acquisition, although with reduced needs, the Group maintained the entire infrastructure of direct funding from deposit accounts, continuing to offer an online deposit account on the Italian market ("Conto Facto"), aimed at retail and corporate customers and guaranteed by the Interbank Deposit Protection Fund. Furthermore, BFF's Spanish and Polish branches continued to offer a similar online deposit account in their respective markets (Cuenta Facto and Lokata Facto), also aimed at retail and corporate customers and guaranteed by the Interbank Deposit Protection Fund. The collection of deposits issued by the Spanish branch of BFF, reserved exclusively for retail savers through the online Weltsparen platform remained active in Germany, the Netherlands and Ireland, in compliance with regulations on the freedom to provide services.
As required by the provisions of the prudential supervision regulation issued by the Bank of Italy, the Group adopted a Group Risk Management Policy and a Group Treasury and Finance Regulation, with a view to monitoring liquidity risk, and identifying the governance and control principles and the organizational units responsible for the operational and structural management of liquidity risk.

The governance policy, described in the Group Liquidity risk management policy, is defined by the Board of Directors, in line with the risk/return objectives defined in the Risk Appetite Framework and the Group's strategic objectives. What is set forth in the above-mentioned Policy is consistent with what is laid out in the Group risk management policy, in which the scopes and responsibilities of the company structures are set forth in detail at global level for all risks, including Liquidity Risk.

To ensure the implementation of the liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

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

The liquidity management process (liquidity management and control of the relevant risks) of the BFF Group is centralized in the Parent Company. In this governance model, the Parent Company defines the Group strategy and the guidelines that must be applied to the subsidiaries, at the same time ensuring the management and control of the liquidity position at consolidated level. The subsidiaries participate in liquidity management and risk control with the local functions, each taking into account the specific nature of its core business, but always in compliance with the guidelines defined by the Parent Company. The operational and structural liquidity risk governance and management system is based on the general principles that all Group companies must pursue, and is aligned with the indications of the Supervisory Authority, such as:

- the strategic policies and Liquidity Risk governance policies are defined and approved by the Board of Directors and represent, at Group level, the reference framework and restrictions for the operations of the structures responsible for operational and structural liquidity risk management;
- the policies are updated in relation to the evolution of company activities, the risk profile and the external context, and are clearly documented and communicated within the Group;
- the roles and responsibilities of the units and functions operating within the liquidity management and governance process are clearly defined and documented;
- the operating structures governing liquidity act within well established and documented limits, and the control structure operates autonomously and independently with respect to the former;
- the Liquidity Risk management and control process is set up in a manner consistent with the Group's organizational structure, and includes a periodic review process in order to ensure its effectiveness over time;
- there are two types of metrics used: regulatory and operational. Regulatory metrics are updated punctually with respect to regulatory developments and also used for operational purposes for risk governance; operational ones are based on the projection of cash inflows and outflows for all financial statement and off-balance sheet items using a prudential approach;
- risk management is performed from a current and forward-looking perspective, and calls for the application of different scenarios;
- the Group needs to maintain a sufficient amount of liquid instruments over time, consistent with the Liquidity Risk tolerance threshold defined at Group level, and which cannot ever be lower than the minimum level imposed at regulatory level;
- the action plan containing intervention strategies is clearly and punctually defined in the event of liquidity tensions in order to obtain sources of funds (the Contingency Funding Plan). To this end, the Contingency Funding Plan defines the liquidity tension statuses, identifies the responsibilities and duties of the Company

Bodies and Structures in emergency situations, identifies the pre-alarm indicators of the individual states of crisis identified, governs the indicator monitoring process, defines the process of declaring the state of emergency and its management, establishing the responsibilities and powers of the Corporate Bodies, Committees and Company structures which must be authorized to take prompt actions to resolve the state of emergency, and the main corrective actions that make it possible to obtain, over a brief period of time, sources of liquidity and the activation of periodic processes for their quantification;

- commercial, credit and financial policies are coordinated in order to maintain a balanced Group structural liquidity profile and take into account multiple risk elements;
- information flows within the individual companies and within the Group are adapted from a qualitative, quantitative and frequency perspective so as to allow for an adequate Liquidity Risk measurement and monitoring process in light of the Group's complexity;
- Liquidity risk also includes the intraday risk deriving from the temporal mismatch between outflows (settled at daily cut-offs or when orders are received from customers) and inflows (settled at different intraday cut-offs), which may render it impossible for the Bank to discharge its payment obligations when they are called in due to a temporary lack of funds. To hedge intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities necessary to meet requirements for intraday and periodic refinancing from central banks.

The Bank has internal regulatory references governing liquidity risk management:

- Risk Appetite Framework: this is a set of metrics, processes and systems supporting the proper management of the level and type of risk, which the BFF Group is willing to assume consistent with its strategic objectives;
- Group encumbered asset management policy: this policy defines the governance of Asset Encumbrance, or assets pledged to secure financial transactions (securitizations, repos, etc.) or, otherwise, assets reserved to provide forms of hedging, guarantee or credit enhancement to financial transactions from which such assets cannot be freely withdrawn;
- Funding Plan: the document aims to represent the Financial Plan of the BFF Group, highlighting the liquidity position and currency exposure;
- Contingency Funding Plan: sets forth objectives and describes the intervention processes and strategies included in the emergency plan of the BFF Group against adverse situations in obtaining funds.

As regards external regulatory references, the provisions introduced on liquidity by the European Union since June 2013 and subsequently updated establish that banks should: (i) respect the minimum short-term liquidity coverage requirement (Liquidity Coverage Ratio - LCR), as set forth in Art. 38 of Delegated Regulation (EU) 2015/61 as amended (minimum regulatory level of 100%), equal to the ratio between the liquidity buffer and the net weighted cash outflows identified over a stress period of 30 days, through the application of a financial stress scenario pre-established by the supervisory authority; (ii) respect the minimum structural liquidity requirement (Net Stable Funding Ratio - NSFR) of 100%, the last update of which entered into force on June 2021, following the final approval and subsequent publication in the Official Gazette, in May 2019, of the package of banking reforms containing Directive (EU) 2019/878 (CRD V) and Regulation 2019/876 (CRR II). This indicator measures the Group's capacity to hold qualitatively and quantitatively sufficient funding to cover lending exposures over a time horizon in excess of one year, and under specific stress conditions required by regulations. The indicator is calculated as the ratio between stable funding available at one year and the amount of assets existing over the same time horizon; (iii) monitor the additional liquidity metrics (Additional Liquidity Monitoring Metrics – ALMM), introduced by circular No. 286/2013, published in March 2016, in implementation of the EBA's Implementing Technical Standards (ITS). These metrics were introduced in order to provide the Supervisory Authority with an exhaustive view of the liquidity risk profile of banks, through additional informational details different from those provided by the LCR and NSFR indicators.

Liquidity risk stress tests are performed to assess the potential impact of stress scenarios on the Group's solvency conditions.

The Risk Management Function identifies the scenarios that may impact the Group's current or forward-looking Liquidity Risk profile. By way of example, the following different drivers are described, which are taken into consideration in the definition of stress scenarios.

- Market/systemic scenarios (market driven), refer to stress events outside the Group, such as situations of uncertainty in the financial markets and/or political uncertainty which result in market access difficulties, such as: slowdown in factoring collections (extension of average payment times), reduction in the market value of specific securities or increase in the haircuts applied to them, reduction in the availability of institutional funding (especially unsecured), unexpected outflows by retail customers (when contractually possible), non-renewal of deposits for 6 months and absence of new customers, outflows of liquidity from current accounts, operational and non-operational, increased use of the credit lines granted, reduced access to the interbank market and impossibility of renewing funding transactions at all or under the same conditions.
- Idiosyncratic scenarios (bank specific), which regard stress events internal to the Group, typically connected to reputational damage with a possible deterioration of the company's creditworthiness, which generates: an increase in the cost of funding, with an impact on the Group's results, increase in the haircuts applied to their issues used in "collateralized" funding transactions, outflows of liquidity from current accounts, operational and non-operational, activation of contractual clauses which require additional expenses in the case of a rating reduction ("downgrade triggers");
- Combined scenarios, or the market and idiosyncratic scenarios developed in a single framework to evaluate the overall effect of stress on the Group;
- In light of the business model, the COVID-19 epidemic did not entail a change to the objectives and management strategy or to the systems for measuring and controlling risks.

In the course of 2021, LCR indicator trends were impacted by the acquisition of DEPObank S.p.A. in March, which generated robust funding to be used in the Group's lending activities, particularly characterized by the liquidity deriving from custodian and payment activities.
There were no changes in the calculation of the LCR indicator due to any reclassifications of items. The integration of DEPObank entailed the incorporation of new operations, which until the month of February were not present in the previous former BFF scope. The new Group lending and funding structure, with respect to the past, generated monthly weighted inflows lower than 75% of the weighted outflows.
The main sources of funds of BFF Banking Group include: (i) funding in euros or in other currencies from Transaction Services, representing the main source of the Group's structural funding, thanks to its stability in relation to the "operational" nature of a consistent part of it, (ii) liquidity deriving from direct funding through Deposit Account activities, (iii) bond issues, (iv) financing transactions via securities (repos) and (v) recourse to wholesale banking lines.
The liquidity buffer essentially consists of excess reserves deposited at the Central Bank and unencumbered government securities, representing roughly 6% and 94% of the buffer, respectively, at December 31, 2021. The minimal remainder consists of cash.
BFF Bank enters into derivative contracts with banking counterparties for the coverage of exchange rate risk, through currency swap instruments, in addition to forms of lending and funding in natural hedging, required for currencies other than the euro, in order to limit exposure to currency risks. These operations do not call for the payment of guarantees in the form of cash or other liquid collateral.
The regulations require the monitoring and reporting of the LCR indicator in foreign currency when the relative aggregate liabilities are "significant", or equal to or higher than 5% of the total liabilities held by the entity. For the first part of the year, the relevant currency was the Zloty (PLN). Subsequently, the new financial structure,

after the acquisition of DEPObank, resulted in the elimination of that obligation.
The BFF Bank Group operates primarily in euros. At December 31, 2021, the relevant currency at consolidated level is confirmed as the euro (EUR), the currency that nearly the entire HQLA buffer is composed of.
Liquidity risk also includes the intraday risk deriving from the temporal mismatch between outflows (settled at daily cut-offs or when orders are received from customers) and inflows (settled at different intraday cut-offs), which may render it impossible for the Bank to discharge its payment obligations when they are called in due to a temporary lack of funds. To hedge intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities necessary to meet requirements for intraday and periodic refinancing from central banks.

Quantitative disclosure

Template EU LIQ1: Quantitative information of LCR

Row		a	b	c	d
		Total unweighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	12/31/2021	09/30/2021	06/30/2021	03/31/2021
EU 1b	Number of data points used in the calculation of averages	-	-	-	-
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)				
CASH - OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	260,108	477,944	875,012	1,248,758
3	*Stable deposits*	26	36	59	21
4	*Less stable deposits*	128,818	258,926	384,811	349,380
5	*Unsecured wholesale funding*	7,539,568	7,240,461	8,962,305	3,270,069
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	7,307,645	7,034,936	8,776,895	2,897,754
7	*Non-operational deposits (all counterparties)*	231,923	205,525	183,660	353,682
8	*Unsecured debt*	0	0	53,692	20,591
9	*Secured wholesale funding*				
10	Additional requirements	1,266	989	528	120
11	*Outflows related to derivative exposures and other collateral requirements*	0	0	0	0
12	*Outflows related to loss of funding on debt products*	0	0	0	0
13	*Credit and liquidity facilities*	1,266	989	528	120
14	Other contractual funding obligations	936,839	841,387	876,813	342,263
15	Other contingent funding obligations	0	0	0	0
16	TOTAL CASH OUTFLOWS				
CASH - INFLOWS					
17	Secured lending (e.g. reverse repos)	312,130	319,838	506,435	219,370
18	Inflows from fully performing exposures	2,904,626	2,893,322	3,101,629	2,407,455
19	Other cash inflows	56	6	5,398	13
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)				
EU-19b	(Excess inflows from a related specialized credit institution)				
20	TOTAL CASH INFLOWS	3,216,811	3,213,166	3,613,462	2,626,838
EU-20a	*Fully exempt inflows*	0	0	0	0
EU-20b	*Inflows subject to 90% cap*	0	0	0	0
EU-20c	*Inflows subject to 75% cap*	3,216,812	3,213,166	3,613,462	2,626,838
TOTAL ADJUSTED VALUE					
EU-21	LIQUIDITY BUFFER				
22	TOTAL NET CASH OUTFLOWS				
23	LIQUIDITY COVERAGE RATIO				

Row		e	f	g	h
		Total weighted value (average)			
EU 1a	**Quarter ending on (DD Month YYY)**	**12/31/2021**	**09/30/2021**	**06/30/2021**	**03/31/2021**
EU 1b	Number of data points used in the calculation of averages	-	-	-	-
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)	4,663,513	4,617,683	7,393,302	3,090,961
CASH - OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	14,195	27,894	43,386	41,965
3	*Stable deposits*	1	2	3	1
4	*Less stable deposits*	14,194	27,893	43,383	41,964
5	Unsecured wholesale funding	2,017,929	1,949,804	2,420,011	1,019,317
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	1,826,911	1,758,734	2,194,224	724,438
7	*Non-operational deposits (all counterparties)*	191,018	191,069	172,096	274,288
8	*Unsecured debt*	0	0	53,692	20,591
9	*Secured wholesale funding*	0	0	0	0
10	Additional requirements	127	99	53	12
11	*Outflows related to derivative exposures and other collateral requirements*	0	0	0	0
12	*Outflows related to loss of funding on debt products*	0	0	0	0
13	*Credit and liquidity facilities*	127	99	53	12
14	Other contractual funding obligations	936,839	841,387	876,813	342,263
15	Other contingent funding obligations	0	0	0	0
16	TOTAL CASH OUTFLOWS	2,969,090	2,819,184	3,340,262	1,403,558
CASH - INFLOWS					
17	Secured lending (e.g. reverse repos)	0	3,467	0	3,429
18	Inflows from fully performing exposures	1,181,337	1,141,591	1,221,436	1,191,992
19	Other cash inflows	8,297	1	1,659	10
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	0	0	0	0
EU-19b	(Excess inflows from a related specialized credit institution)	0	0	0	0
20	TOTAL CASH INFLOWS	1,181,348	1,145,060	1,223,095	1,195,432
EU-20a	*Fully exempt inflows*	0	0	0	0
EU-20b	*Inflows subject to 90% cap*	0	0	0	0
EU-20c	*Inflows subject to 75% cap*	1,181,348	1,145,060	1,223,095	1,195,432
TOTAL ADJUSTED VALUE					
EU-21	LIQUIDITY BUFFER	4,663,513	4,617,683	7,393,302	3,090,961
22	TOTAL NET CASH OUTFLOWS	1,787,742	1,674,125	2,117,167	826,948
23	LIQUIDITY COVERAGE RATIO	260.7%	275.9%	347.5%	391.7%

Template EU LIQ2: Net Stable Funding Ratio

Row	(in currency amount)	Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
	Available stable funding (ASF) Items	a	b	c	d	e
1	Capital items and instruments	446,316	125,280	0	98,224	544,540
2	*Own funds*	446,316	0	0	98,224	544,540
3	*Other capital instruments*		125,280	0	0	0
4	Retail deposits		161,896	29,604	39,190	211,541
5	*Stable deposits*		23	0	0	22
6	*Less stable deposits*		161,873	29,604	39,190	211,519
7	Wholesale funding:		9,531,423	4,316	140,248	3,942,820
8	*Operational deposits*		7,313,754	0	0	3,548,260
9	*Other wholesale funding*		2,217,669	4,316	140,248	394,560
10	Interdependent liabilities		0	0	0	0
11	Other liabilities:	3,431	466,308	0	126,353	126,353
12	*NSFR derivative liabilities*	3,431				
13	*All other liabilities and capital instruments not included in the above categories*		466,308	0	126,353	126,353
14	**Total available stable funding (ASF)**					**4,825,255**

Template EU LIQ2: Net Stable Funding Ratio

Row	(in currency amount)	Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
	Required stable funding (RSF) Items	a	b	c	d	e
15	Total high-quality liquid assets (HQLA)					346,372
EU-15a	Assets encumbered for more than 12m in cover pool		0	0	0	0
16	Deposits held at other financial institutions for operational purposes		199,539	0	136,474	236,244
17	Performing loans and securities:		2,821,049	100,033	1,062,134	1,342,702
18	*Performing securities financing transactions with financial customers collateralized by Level 1 HQLA subject to 0% haircut*		228,685	0	0	0
19	*Performing securities financing transactions with financial customer collateralized by other assets and loans and advances to financial institutions*		96,221	0	2,999	12,621
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		276,903	53,588	889,116	920,994
21	*With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk*		0	0	0	0
22	*Performing residential mortgages, of which:*		0	0	0	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk*		0	0	0	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		2,219,240	46,445	170,019	409,086
25	Interdependent assets		0	0	0	0
26	Other assets:	**0**	**396,425**	**3,549**	**225,272**	**441,596**
27	*Physical traded commodities*				0	0
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		0	0	0	0
29	*NSFR derivative assets*		0			0
30	*NSFR derivative liabilities before deduction of variation margin posted*		7,539			377
31	*All other assets not included in the above categories*		388,886	3,549	225,272	441,219
32	Off-balance sheet items		1,367	0	0	68
33	**Total RSF**					**2,366,982**
34	Net Stable Funding Ratio (%)					**203.86%**

Certification by the financial reporting officer

The manager responsible for preparing the company's financial reports, Claudio Rosi, declares, pursuant to paragraph 2, Article 154-bis of the Consolidated Finance Act, that the accounting information contained in this document corresponds to the contents of accounting documents, books and records.

Claudio Rosi
Financial Reporting Officer

Certification compliant with Article 431 (3) of the CRR (Regulation (EU) No. 575/2013 as updated) on disclosure requirements pursuant to Part Eight of the CRR

The undersigned Massimiliano Belingheri, in his capacity as Chief Executive Officer, and Piergiorgio Luca Bicci, in his capacity as Chief Financial Officer

CERTIFY

that, compliant with the provisions of Article 431 (3) of the CRR (Regulation (EU) No. 575/2013 as updated) on disclosure requirements pursuant to Part Eight of the CRR, the information provided pursuant to the above-mentioned Part Eight has been drafted in compliance with the formal policy and internal processes, systems and controls.

Massimiliano Belingheri

Piergiorgio Luca Bicci

BFF