PILLAR III

Disclosure to the public

2023

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. In accordance with the CRR2 Regulation, banks publish the required information at least on an annual basis, and the Core Metrics on a semi-annual basis. Credit 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.

Based on Article 433 of the CRR, banks publish the public disclosures required by EU regulations at least on an annual basis and on a half-yearly basis the Principal Metrics, together with the balance sheet documents, as required by the Bank of Italy in application of the EBA Guidelines (EBA/GL/2020/07).
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.bff.com (section: https://investor.bff.com/it/pillar-iii) at least once a year and semi-annually with regard to the Principal Metrics by the deadlines set for the publication of the financial statements, and therefore within 30 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.

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, 2023;
- Information relating to Own funds and banking capital ratios, relating to the Group, is also published in Part F of the Notes to the 2023 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.

The Disclosure to the Public (Pillar III) is also subject to the certification of the Financial Reporting Officer pursuant to Article 154-bis of Italian 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, 2023. 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.

Section	Description/Reference to CRR Articles	Qualitative information	Quantitative information	Page
1	Risk management objectives and policies - Art. 435	X	N/A	8
2	Scope of application - Art. 436	X	N/A	34
3	Own funds - Art. 437	X	X	40
4	Capital requirements - Art. 438	X	X	53
5	Exposure to counterparty credit risk - Art. 439	X	X	60
6	Capital buffers - Art. 440	X	X	65
7	Credit risk adjustments - Art. 442	X	X	68
8	Unencumbered assets - Art. 443	X	X	84
9	Use of ECAIs - Art. 444	X	X	87
10	Exposure to market risk - Art. 445	X	X	93
11	Operational risk - Art. 446	X	X	96
12	Exposures in equities not included in the trading book - Art. 447	X	X	99
13	Exposure to interest rate risk on positions not included in the trading book - Art. 448	X	X	103
14	Exposure to securitization positions - Art. 449	N/A	N/A	107
15	Remuneration policy - Art. 450	X	X	109
16	Leverage - Art. 451	X	X	121
17	Use of credit risk mitigation techniques - Art. 453	X	X	127
18	Liquidity risk	X	X	129

(*) "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 - 12/31/2023
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		x	7
EU CR2a		x	7
EU CQ1		x	7
EU CQ2		x	7

(CONT'D)

Regulation (EU) 637/2021, EBA/GL/2020/07 and EBA/GL/2020/12			Pillar III - 12/31/2023
Tables	**Qualitative information**	**Quantitative information**	**Section**
EU CQ3		x	7
EU CQ4		x	7
EU CQ5		x	7
EU CQ6		x	7
EU CQ7		N/A	7
EU CQ8		N/A	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 CRD	x		9
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-IRRBBA	x		
EU-IRRBB1		x	13
EU-SEC1		N/A	14
EU-SEC2		N/A	14
EU-SEC3		N/A	14

(CONT'D)

Regulation (EU) 637/2021, EBA/GL/2020/07 and EBA/GL/2020/12			Pillar III - 12/31/2023
Tables	**Qualitative information**	**Quantitative information**	**Section**
EU-SEC4		N/A	14
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

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

- The governance of risks and the responsibilities of the Organizational Units involved in the management process;
- The mapping of the risks to which the Group is exposed, the measuring and stress testing methods, and the information flows that summarize the monitoring activities;
- The annual assessment process on the adequacy of internal capital 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's corporate governance bodies 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 governance bodies of the subsidiaries in the decisions concerning risk management procedures and policies.

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

The internal control system

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

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

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

Pursuant to the provisions of the Supervisory Authority, the organizational framework of the Group's internal control system is based on the following three control levels:

- **First-level controls** (line controls) aim to ensure that transactions are carried out correctly, and are performed by the same operating structures that execute the transactions, also with the support of IT procedures 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.
  In this regard, please note that on May 25, 2023 the Bank's Board of Directors established the ICT and Security Risk Control Function, which is responsible for managing and supervising ICT and security risks, as well as checking for the compliance of ICT operations with the ICT and security risk management system.
- **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 governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Group risks (Risk Appetite Framework);
- Ensuring that the Parent and each Group Company has an adequate risk management system, consistent with the Group's strategy and policy and with the Supervisory Provisions;
- Providing a proper assessment of the capital absorbed, also under stress conditions, and of the related present and prospective capital adequacy, by defining processes and procedures to meet every type of present and future risk, 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 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 & AML Function and with the ICT O.U.;
- Defines methods for the assessment and control of reputational risks, coordinating with the Compliance & 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, maintains, 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 one or more thresholds defined in the RAF are breached, including operating limits, as per the defined escalation procedures it evaluates the relative reasons and the effects on the company situation, including 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 and the related impact in terms of CRM;
- 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 documentation and 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 analyzed 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 the recovery indicators and applying the escalation procedures defined within the document itself in the event of one or more thresholds being exceeded;
- 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: *i)* 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 managers/local functions at its branches and/or subsidiaries as well as specialized entities – 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; *ii)* ensures a comprehensive and integrated view of the risks of non-compliance the Bank and Subsidiaries are exposed to, ensuring adequate reporting to the respective Corporate Bodies. The Function is also responsible for the controls required by anti-money laundering regulations for the prevention of the use of the financial system to launder the proceeds of criminal activity 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 mandatory 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 for the Parent Company, the foreign branches and the other Group companies with which servicing agreements are in place that govern the provision of the audit service. Moreover, the Parent Company'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 Parent Company 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, ICAAP/ILAAP, ICT) 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.

The Manager of the Internal Audit Function is also responsible for the whistleblowing system.

Other control functions and bodies

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

The Bank also has an Organization, Management and Control Model pursuant to Italian Legislative Decree No. 231/2001, drafted in compliance with the requirements of the Decree itself, as well as the guidelines of Assifact and ABI. The latest revision of the Model was approved by the Board of Directors on December 22, 2022.

The Model includes a General Part, which provides a summary description of the reference regulatory framework, the key characteristics and features of the Model identified within the operations defined as "sensitive" for the purposes of the Decree, the structure and composition of the Supervisory Body as well as the description of the system of sanctions to prevent violation of the provisions contained in the Model. It also includes Special Parts that explicate the activities, controls and reporting mechanisms for each organizational unit/corporate body including foreign branches, with a **Supervisory Body** overseeing its effectiveness through periodic reviews.

Updates to the Model are approved during the year by the Board of Directors following a process of analyzing the most recently introduced types of offense as well as to take into account organizational developments within the Bank.

The Italian subsidiaries BFF Immobiliare Srl and BFF Techlab Srl are have their own Organization, Management and Control Models in the start-up phase.

The Spanish subsidiary BFF Finance Iberia, S.A. adopted its own Organizational Model in accordance with Article 31-*bis* of the Spanish Penal Code, similar in its structure to the Bank's Model, and an independent, single-person 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 & 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 Group activities, respect for which makes it possible, among other things, to prevent the criminal offenses enumerated in Italian 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/debtor's ability to repay.
The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on December 21, 2023, 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 mainly consists, as mentioned above, of the purchase of non-recourse[1] trade receivables due from debtors belonging to Public Administration agencies, and that with regard to exposures related to the custodian bank operations, these are mainly towards banks.

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".

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 trade 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 trade 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 highly accurately 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.

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

In the "loans and 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.

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.

With specific reference to BFF Polska S.A., it should be noted that the company operates in Poland, and also in Slovakia and the Czech Republic through its subsidiaries.

BFF Polska S.A. mainly operates in three sectors:

- Financing the working capital of suppliers to the Public Administration;
- Financing current and future trade receivables in the public and healthcare sector;
- Direct financing for parties in the public and healthcare sector.

Also with regard to the specific types of investment by BFF Polska S.A. and its subsidiaries, Group credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin and loan 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.

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, as defined in the CRR II (equal to Tier 1 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 11 February 1991, as subsequently amended, "*Central Credit Register. Instructions for credit intermediaries*", the Bank reports monthly to the Central Credit Register, 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 loan portfolio, aimed at identifying any impairment of its assets, in line with the provisions of the applicable 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:

- *Exposures subject to generic adjustments ("collective impairment");*
- *Exposures subject to specific adjustments.*

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

The approach adopted by the Group is based on a prospective model that may require the recognition of expected credit losses over the lifetime of the exposure 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 credit losses are measured over a 12-month period. As for Stage 2 (including financial assets whose credit risk increased significantly since initial recognition), expected credit 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

Disclosure on the transaction with "TeamSystem S.p.A. – Invoice Trading PA."

Qualitative information

Strategies, processes and objectives

The Parent BFF has initiated a project with its partner TeamSystem S.p.A. to extend its operations to small and medium-sized enterprises through a digital invoice trading platform.

The Parent participated in the project by investing in an Alternative Investment Fund ("AIF" - FPAM1 Fund) reserved for the purchase of receivables due from the Public Administrations.
The Fund, established on March 6, 2023, managed by TeamSystem Capital at Work SGR S.p.A., aims to increase the value of its assets through investments made to acquire, subscribe and/or sell ABS securities issued by the "SPV Project 2214 S.r.l." securitization vehicle, the underlying assets of which are represented by PA/NHS receivables acquired from assignor companies.

The subscription of the shares of the fund in question, then reinvested in SPV Project 2214 is part of the new factoring operation to enable Italian SMEs to access the service of assigning non-recourse receivables through onboarding on digital platforms and with fast turnaround times (so-called "Digital Platform").

Transaction details

BFF subscribed units of the fund on July 11, 2023; subsequently, its operations began, with the acquisition of the first invoice and the issue of notes by the vehicle in early September 2023.

The securitization transaction was carried out through the vehicle established by Zenith Service S.p.A., which acquires trade receivables owed from PA and NHS entities and issues notes on the basis of Italian legislation, Italian Legislative Decree 130/99, in partly paid mode. TeamSystem Capital at Work SGR S.p.A. has taken on the role of Portfolio Manager in the transaction structure, and in particular has been made responsible for verifying the consistency between the Fund Investment Policy and the individual PA Receivables that will be acquired as part of the securitization transaction.

At consolidated level, the vehicle falls within the accounting scope of consolidation of BFF Banking Group, but not the prudential scope of consolidation, in accordance with the provisions of Article 19(1) CRR.

At December 31, 2023, the vehicle had no receivables in its portfolio.

Description of the risk profile

Investment in the Fund entails a degree of risk typical of investments in an AIF, primarily connected to possible changes in the value and profitability of the assets in which the Fund has invested.

To mitigate the risk connected to the investment, the fund's Investment Policy and the investment limits set forth in the Fund Regulation have been carefully assessed.

In particular, the main guidelines are set forth in brief below:

- the PA Receivables underlying the ABS securities in which the Fund Assets are invested must be certain, liquid and payable at the due date specified on the invoice;
- the Fund cannot invest in ABS Securities with PA Receivables as their underlying asset for which, at the moment of acquisition, the relative assigned debtors are in a proven state of insolvency and, in particular:
  - PA Receivables referring to debtors that are found to be subject to distress, pre-distress or in recovery, compulsory administrative liquidation or another applicable bankruptcy procedure;
  - PA Receivables that refer to credit exposures and/or debtors classified as in default pursuant to Art. 178 of Regulation (EU) 575/2013 of the European Parliament and the Council, as well as the implementing provisions and/or interpretative guidelines of such provision (past due, UTP, non-performing);

- the PA Receivables underlying the ABS Securities must also have the following characteristics:
  - minimum amount by individual invoice of €5,000;
  - performing receivable or receivable past due for no more than 30 days;
  - term not exceeding 90 days, where term refers to the payment terms of the invoice (to be calculated as the difference between the invoice issue date and the invoice due date);
  - being monetary receivables deriving from or relating to supply contracts and/or trade contracts governed by Italian law that have been signed/executed by an Assignor Company;
  - relating to services already provided excluding payments on account and/or receivables relating to the real estate sector and subject to the assessment of work in progress.

Quantitative information

Type of financial instruments held

In the course of 2023, BFF Banking Group had no exposures to securitizations.

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 prevents currency risk mainly by using 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. When possible, and in particular for less significant currencies for which transactions are limited, the Group operates through natural hedging.

Exposure to currency risk – determined on the basis of the net foreign exchange position using a method based on the supervisory regulations – is monitored in real time by the Finance and Administration Department and managed in compliance with the limits established by specific internal rules.

LIQUIDITY RISK

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

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

- Separation of processes for the management of liquidity and processes for the control of liquidity risk;
- Development of processes to manage and control liquidity risk, 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 deriving from funding, so that the liquidity indicators – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) – show values as at December 31, 2023 of 297.73% and 192.43%, respectively, well above the regulatory limits.

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

The operational risk assessment model adopted is of the "mixed" type, meaning a model based both on qualitative assessments - linked to process mapping, at-risk activities and the corresponding controls adopted - and on quantitative 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 financial position items of BFF Bank S.p.A., BFF Finance Iberia, BFF Polska Group, BFF Immobiliare Srl, the securitization vehicle SpV Project 2214 and BFF Techlab Srl (See Section 2 - **Template EU LI3**).
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 2023", 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/documenti-societari 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. The composition of the Board of Directors ensures: (i) the fulfillment by all Directors of the suitability requirements set forth by regulations in force[3]; (ii) the presence of the majority of Directors in possession of the independence requirements set forth 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 by regulations in force (at two-fifths); (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] and in the "*Policy for the evaluation of the requirements and criteria for eligibility to carry out the office of Corporate Representatives and Managers of the main Corporate Functions*", 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 in office as of December 31, 2023 was appointed by the Shareholders' Meeting (the "**Shareholders' Meeting**") on March 25, 2021 for a three-year period based on 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. The expiration of his term of office coincides with the approval by the Shareholders' Meeting of 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 Italian Legislative Decree No. 58/1998 (as amended; the "**TUF**"), as well as the provisions laid out in Article 26 of Italian 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://investor.bff.com/it/procedure-e-regolamenti.

5) Available on the website at: https://investor.bff.com/it/Assemblea-degli-Azionisti-25-marzo-2021

The Board of Directors in office at December 31, 2023 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. Anna Kunkl**	Non-Executive Independent Director
Ms. Monica Magrì***	Non-Executive Independent Director
Mr. Piotr Henryk Stępniak	Non-Executive Director
Ms. Giovanna Villa*	Non-Executive Independent Director

(*) Director taken from the minority shareholders' list.

(**) Director co-opted by the Board of Directors on March 1, 2022 to replace Ms. Amelié Scaramozzino, who resigned, whose appointment was confirmed by the Shareholders' Meeting of March 31, 2022.

(***) Director co-opted by the Board of Directors on February 10, 2022 to replace Ms. Barbara Poggiali, who resigned, whose appointment was confirmed by the Shareholders' Meeting of March 31, 2022.

For the sake of comprehensiveness, several 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 fulfillment 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.

After its appointment by the Shareholders' Meeting, on April 23, 2021 and, for Ms. Magrì and Ms. Kunkl on March 1, 2022 and March 31, 2022, respectively, the Board of Directors 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 fulfillment of the requirements of professionalism and integrity, the fulfillment 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 judgment, set forth in Article 15 of the Fit & Proper Decree, and the fulfillment 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, Mr. Domenico Gammaldi and Ms. Giovanna Villa, 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 later supplemented following co-opting on February 10, 2022 and March 1, 2022, as confirmed by the Shareholders' Meeting 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 fulfillment 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 2023 (the "**2023 Self-Assessment**") brought to light an overall positive judgment, with several points for improvement, also in the spirit of providing an indication to the shareholders on the composition of the Board of Directors, with a view to the renewal of the Board of Directors by the Shareholders' Meeting convened for April 18, 2024.

The summary statement of the number of offices held in other companies by members of the Board of Directors in office at December 31, 2023 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	1 non-executive
Anna Kunkl	0
Gabriele Michaela Aumann	0
Piotr Henryk Stępniak	3 non-executive
Domenico Gammaldi	1 non-executive
Monica Magrì	0
Giovanna Villa	2 non-executive

B) Succession plan for the Chair and Chief Executive Officer

On December 20, 2017, the Board of Directors approved the "Succession plan of the Chief Executive Officer," subsequently updated in December 2018, November 2019, 2020, and 2021, 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.

In light of the 35th update of the Bank of Italy Circular no. 285 of December 17, 2013 – which among other things established that in large or more complex banks plans must be put in place to ensure the orderly succession of senior positions in the event of termination due to expiration of the mandate or for any other reason – on May 25, 2023, on the proposal of the Appointments Committee, the Board of Directors approved the "Succession Plan of the Chair" and the update of the "Succession Plan of the Chief Executive Officer," merged into a single document "Succession Plan of the Chair and the Chief Executive Officer" (the "**Succession Plan**"), including their respective profiles.

On October 26, 2023, the Succession Plan was revised by the Board of Directors – after being reviewed by the Appointments Committee – in order to update the profiles of the Chair and the Chief Executive Officer, taking into account what emerged from the Self-Assessment Process.

For more information, refer to the Corporate Governance Report relating to the year 2023.

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 on the procedure for assessing the suitability of representatives of banks, financial intermediaries, electronic money institutions, payment institutions and depositor guarantee system" 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 above-mentioned 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, the number of Independent directors must be equal at least to the majority of the members of the Board of Directors, 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 the 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/procedure-e-regolamenti.

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, the monitoring of the results of its implementation was carried out during the appointment of the new Board of Directors by the Shareholders' Meeting on March 25, 2021 and subsequently during the appointment of the co-opted Directors. 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.

Considering the renewal of the Board of Directors by the Shareholders' Meeting on April 18, 2024, the new Board of Directors will monitor the implementation of the BoD Diversity Policy. The results of this monitoring will be disclosed in the Corporate Governance Report relating to the year 2024.

The Board of Directors in office at December 31, 2023, consisted of:

(i) 5 (five) 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 Directors' profiles are reasonably complementary in terms of professional background and expertise, so as to guarantee the development of internal dialog, efficient functioning and the overall suitability of the Board and the Board Committees to fulfill 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, 2023 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 members of the Board of Statutory Auditors are also permanently invited to attend the meetings of the CR Committee, to ensure 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 2023, the CR Committee met 15 times; the average duration of these meetings was roughly 2 hour and 17 minutes.

In the course of 2024, 15 meetings are indicatively planned, of which 3 were held on January 29, February 7, March 5, March 26, and April 3. 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:

Owner	Information flows generated	Frequency	BoD/Risk Committee
Risk Management Function	Activity Plan	annual	√
	Report on activities performed	annual	√
	ICAAP/ILAAP	annual	√
	Contingency Funding Plan	annual	√
	Recovery Plan	annual	√
	Tableau de bord of the Risk Management Function (Risk Report)	quarterly	√
	Resolution Framework	annual	√
	Risk Opinion / OMR	by event	√
	Risk Self-Assessment	annual	on demand
	RAF	annual	√
ICT and security risk control function	Summary report on the ICT and security risk situation	annual	on demand
	Report on the findings of the analysis of operational and security risks related to payment services	annual	√
	Audit reports	by event	on demand
	Communication of serious operational and security incidents	by event	√
Compliance Function	Activity Plan*	annual	√
	Compliance & AML reports - Regulatory monitoring and corrective actions*	monthly	by event
	Tableau de bord of the Compliance & AML Function	quarterly	√
	BFF Complaints Report	annual	√
	Report on Compliance activities	annual	√
	Compliance Risk Self-Assessment	annual	√
	Outcome of Level II controls on investment services**	annual	√
AML Function	Activity Plan*	annual	√
	Tableau de bord of the Compliance & AML Function*	quarterly	√
	Compliance & AML reports - Regulatory monitoring and corrective actions*	monthly	by event
	AML Risk Self-Assessment	annual	√
	Semiannual report of AML controls	half-yearly	-
	Report on AML activities	annual	√
Internal Audit Function	Activity Plan	annual	√
	Audit Report	by event	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	√

* Joint document for Compliance and AML
** Report included in the Report on Compliance activities
*** 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").

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

The accounting 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.), the companies of the BFF Polska Group, BFF Immobiliare Srl, BFF Techlab Srl and the securitization vehicle SPV Project 2214, invested in via the subscription of units of the FPAM1 closed-end investment fund.

BFF Bank also offers deposit products to retail and corporate customers in Italy, Spain, Poland, 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.

This company, 100% owned by BFF Bank S.p.A., was established with a view to finalizing the Casa BFF operation, which involved the purchase of a buildable area and the subsequent development of an office building which will become the new registered office of the BFF Group and will house all of the Bank's personnel present in the city of Milan, who are currently divided between three different buildings.

BFF Techlab S.r.l. carries out operations aimed at the vertical integration of all development activities linked to the management and evolution of the Group's information system, favoring cost synergies and boosting operational efficiency.

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	257,208	256,898	256,898				
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	166,023	166,623	165,456	1,140		27	
	a) financial assets held for trading	1,167	1,167		1,140		27	
	b) financial assets carried at fair value							
	c) other financial assets subject to mandatory fair value measurement	164,856	165,456	165,456				
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	137,520	137,520	137,520				
40.	FINANCIAL ASSETS MEASURED AT AMORTIZED COST	10,805,826	10,805,826	10,452,533	352,200			1,093
	a) loans and receivables with banks	593,561	593,561	293,785	299,776			
	b) loans and receivables with customers	10,212,265	10,212,265	10,158,748	52,424			1,093
50.	HEDGING DERIVATIVES							
60.	VALUE ADJUSTMENT OF MACROHEDGED FINANCIAL ASSETS							
70.	EQUITY INVESTMENTS	13,160	13,160	13,160				
80.	TECHNICAL PROVISIONS CEDED TO REINSURERS							
90.	TANGIBLE ASSETS	60,690	60,690	60,690				
100.	INTANGIBLE ASSETS	74,742	74,739	9,916				64,824
	of which: - goodwill	30,957	30,957					30,957
110.	TAX ASSETS	113,658	113,658	113,658				
	A) Current	57,414	57,414	57,414				
	B) Deferred	56,244	56,244	56,080				164
120.	NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	8,046	8,046	8,046			59,925	316
130.	OTHER ASSETS	655,393	655,394	595,152				
	TOTAL ASSETS	**12,292,266**	**12,292,554**	**11,813,029**	**353,340**		**59,952**	**66,232**

		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	10,814,197	10,814,351					
	A) DUE TO BANKS	2,269,074	2,269,074					
	B) DUE TO CUSTOMERS	8,545,110	8,545,277					
	C) SECURITIES ISSUED	14						
20.	FINANCIAL LIABILITIES HELD FOR TRADING	1,215	1,215					1,215
30.	FINANCIAL LIABILITIES CARRIED AT FAIR VALUE							
40.	HEDGING DERIVATIVES							
50.	VALUE ADJUSTMENT OF MACROHEDGED FINANCIAL LIABILITIES							
60.	TAX LIABILITIES	123,790	123,790					
	A) CURRENT	2,472	2,472					
	B) DEFERRED	121,318	121,318					
70.	LIABILITIES LINKED TO ASSETS HELD FOR SALE							
80.	OTHER LIABILITIES	555,354	555,337					
90.	EMPLOYEE SEVERANCE PAY	3,033	3,033					
100.	PROVISIONS FOR RISKS AND CHARGES	35,864	35,864					
	A) COMMITMENTS AND GUARANTEES GIVEN	530	530					
	B) POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS	7,009	7,009					
	C) OTHER PROVISIONS FOR RISKS AND CHARGES	28,325	28,325					
110.	TECHNICAL PROVISIONS							
120.	VALUATION RESERVES	7,993	7,993					
130.	REDEEMABLE SHARES							
140.	EQUITY INSTRUMENTS	150,000	150,000					
150.	RESERVES	277,762	277,762					
155.	INTERIM DIVIDEND	-54,451	-54,451					
160.	SHARE PREMIUM RESERVE	66,277	66,277					
170.	SHARE CAPITAL	143,947	143,947					
180.	TREASURY SHARES	-4,377	-4,377					
190.	MINORITY INTERESTS							
200.	PROFIT FOR THE YEAR	171,662	171,814					
	TOTAL CONSOLIDATED LIABILITIES AND SHAREHOLDERS' EQUITY	**12,292,266**	**12,292,554**					**1,215**

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

		a	b	c	d	e
				Items subject to		
		Total	Credit risk framework	Securitization framework	Subject to the CCR framework	Market risk framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	**12,226,322**	**11,813,029**		**353,340**	**59,952**
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**	12,226,322	11,813,029		353,340	59,952
4	Off-balance-sheet amounts	527,275	527,275			
5	Differences in valuations	-319	-319			
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 (CRM) techniques					
9	Differences due to credit conversion factors	-446,434	-446,434			
10	Differences due to Securitization with risk transfer					
11	Other differences	1,689,126			1,689,126	
12	**Exposure amounts considered for regulatory purposes**	**13,995,970**	**11,893,551**		**2,042,466**	**59,952**

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 IMMOBILIARE SRL	Full consolidation	x					Financial companies other than credit institutions
030	BFF TECHLAB SRL	Full consolidation	x					Financial companies other than credit institutions
040	SPV Project 2214	Full consolidation	x					Financial companies other than credit institutions
050	BFF Finance Iberia, S.A.	Full consolidation	x					Financial companies other than credit institutions
060	BFF Polska S.A.	Full consolidation	x					Financial companies other than credit institutions
070	BFF Medfinance S.A.	Full consolidation	x					Financial companies other than credit institutions
080	BFF Česká republika s.r.o.	Full consolidation	x					Financial companies other than credit institutions
090	BFF Central Europe s.r.o.	Full consolidation	x					Financial companies other than credit institutions
100	Debt-Rnt sp. Z O.O.	Full consolidation	x					Financial companies other than credit institutions
110	Komunalny Fundusz Inwestycyjng Zamknięty	Full consolidation	x					Financial companies other than credit institutions
120	MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Full consolidation	x					Financial companies other than credit institutions
130	Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Consolidation at equity			x			Non-financial companies
140	Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Consolidation at equity			x			Non-financial companies

Section 3

Own funds (Art. 437 CRR)

Qualitative disclosure

Own funds represent the first line of defense 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 and the effects of calendar provisioning.

Additional Tier 1 (AT1) capital includes Tier 1 instruments issued during the previous year.

In 2023 Own funds were influenced primarily by:

- the distribution of the Group's consolidated normalized profit, which was higher than the net profit for the year by around €11 million;
- the payment of coupons relating to the Additional Tier 1 issue for €8.8 million.

Quantitative disclosure

Template EU CC1: Composition of regulatory own funds

		12/31/2023	12/31/2022	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	210,224	209,148	160. Share premium reserve 170. Share capital
	Of which ordinary shares	210,224	209,148	160. Share premium reserve 170. Share capital
	Of which: instrument type 2			
	Of which: instrument type 3			
2	Retained earnings	162,013	219,540	150. Reserves
3	Accumulated other comprehensive income (and other reserves)	70,426	17,272	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	65,059	86,018	200. Profit for the year
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	507,721	531,977	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(319)	(234)	
8	Intangible assets (net of related tax liability) (negative amount)	(64,824)	(62,770)	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)	(164)	0	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)

		12/31/2023	12/31/2022	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)	(4,377)	(6,684)	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)

		12/31/2023	12/31/2022	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	(1,093)	(389)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(70,776)	(70,077)	
29	**Common Equity Tier 1 (CET1) capital**	436,946	461,900	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	150,000	150,000	
31	of which: classified as equity under applicable accounting standards	150,000	150,000	
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)

		12/31/2023	12/31/2022	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**	150,000	150,000	
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**	**150,000**	**150,000**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**586,946**	**611,900**	
Tier 2 (T2) capital: instruments				
46	Capital instruments and the related share premium accounts			
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)

		12/31/2023	12/31/2022	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**			
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**	0	0	

(CONT'D)

		12/31/2023	12/31/2022	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		a)		b)
59	**Total capital (TC = T1 + T2)**	**586,946**	**611,900**	
60	**Total Risk exposure amount**	**3,076,507**	**2,739,701**	
Capital ratios and buffers				
61	Common Equity Tier 1	14.203%	16.859%	
62	Tier 1 capital	19.078%	22.335%	
63	Total capital	19.078%	22.335%	
64	Institution CET1 overall capital requirement	9.007%	9.000%	
65	of which: capital conservation buffer requirement	2.500%	2.500%	
66	Of which: countercyclical buffer requirement	0.00697%	0.00003%	
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	2.000%	2.000%	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**7.703%**	**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)	18,372	1,811	
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)	13,068	13,570	
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)	5,206	10,703	

(CONT'D)

		12/31/2023	12/31/2022	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	257,208	256,898	
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	166,023	166,623	
	a) financial assets held for trading	1,167	1,167	
	b) financial assets carried at fair value	0	0	
	c) other financial assets subject to mandatory fair value measurement	164,856	165,456	
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	137,520	137,520	
40.	FINANCIAL ASSETS MEASURED AT AMORTIZED COST	10,805,826	10,805,826	
	a) loans and receivables with banks	593,561	593,561	
	b) loans and receivables with customers	10,212,265	10,212,265	
50.	HEDGING DERIVATIVES	0	0	
60.	VALUE ADJUSTMENT OF MACROHEDGED FINANCIAL ASSETS	0	0	
70.	EQUITY INVESTMENTS	13,160	13,160	
80.	TECHNICAL PROVISIONS CEDED TO REINSURERS	0	0	
90.	TANGIBLE ASSETS	60,690	60,690	
100.	INTANGIBLE ASSETS	74,742	74,739	8
	of which: - goodwill	30,957	30,957	
110.	TAX ASSETS	113,658	113,658	
	A) Current	57,414	57,414	
	B) Deferred	56,244	56,244	10
120.	NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	8,046	8,046	
130.	OTHER ASSETS	655,393	655,394	
	TOTAL ASSETS	**12,292,266**	**12,292,554**	

(CONT'D)

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	10,814,197	10,814,351	
	A) Due to banks	2,269,074	2,269,074	
	B) Due to customers	8,545,110	8,545,277	
	C) Securities issued	14	0	
20.	FINANCIAL LIABILITIES HELD FOR TRADING	1,215	1,215	
30.	FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	0	0	
40.	HEDGING DERIVATIVES	0	0	
50.	VALUE ADJUSTMENT OF MACROHEDGED FINANCIAL LIABILITIES	0	0	
60.	TAX LIABILITIES	123,790	123,790	
	A) Current	2,472	2,472	
	B) Deferred	121,318	121,318	10
70.	LIABILITIES LINKED TO ASSETS HELD FOR SALE	0	0	
80.	OTHER LIABILITIES	555,354	555,337	
90.	EMPLOYEE SEVERANCE PAY	3,033	3,033	
100.	PROVISIONS FOR RISKS AND CHARGES	35,864	35,864	
	A) Commitments and guarantees given	530	530	
	B) Post-employment benefits and similar obligations	7,009	7,009	
	C) Other provisions for risks and charges	28,325	28,325	
110.	TECHNICAL PROVISIONS	0	0	
120.	VALUATION RESERVES	7,993	7,993	3
130.	REDEEMABLE SHARES	0	0	
140.	EQUITY INSTRUMENTS	150,000	150,000	30
150.	RESERVES	277,762	277,762	2, 3
155.	INTERIM DIVIDEND	-54,451	-54,451	
160.	SHARE PREMIUM RESERVE	66,277	66,277	1
170.	SHARE CAPITAL	143,947	143,947	1
180.	TREASURY SHARES	-4,377	-4,377	16
190.	MINORITY INTERESTS	0	0	
200.	PROFIT FOR THE YEAR	171,662	171,814	EU-5a
	TOTAL CONSOLIDATED LIABILITIES AND SHAREHOLDERS' EQUITY	**12,292,266**	**12,292,554**	

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

Amounts in euro units

Row		Common Equity Tier 1	Tier 1 equity instruments
		a	b
1	Issuer	BFF BANK SPA	BFF BANK SPA
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	IT0005244402	XS2404266848
2a	Public or private placement	Public	Public
3	Governing law(s) of the instrument	Entire instrument - Italian law	Entire instrument - Italian law
3a	Contractual recognition of write down and conversion powers of resolution authorities		Yes
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 1 capital	Additional Tier 1 capital
5	Post-transitional CRR rules	Tier 1 capital	Additional Tier 1 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	Additional Tier 1 capital of the Issuer in accordance with Article 52 of the CRR and Part II, Chapter 1 of Circular No. 285
8	Amount recognized in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	205,846,811	150,000,000
9	Nominal amount of instrument	N/A	150,000,000
EU-9a	Issue price	N/A	100% of nominal amount
EU-9b	Redemption price	N/A	100% of nominal amount
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	N/A	01/19/2022
12	Perpetual or dated	N/A	Perpetual
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	N/A	yes
15	Optional call date, contingent call dates and redemption amount	N/A	Option at the discretion of the Issuer: at par from 01/19/2027 to 07/19/2027; Option for tax events: at par, with no time limits when a Tax Event occurs; Option for regulatory events: at par, with no time limits when a Regulatory Event occurs.

(CONT'D)

Amounts in euro units

Row		Common Equity Tier 1	Tier 1 equity instruments
		a	b
16	Subsequent call dates, if applicable	N/A	every interest payment date starting from 01/19/2028
	Coupons/dividends	N/A	
17	Fixed or floating dividend/coupon	N/A	Half-yearly fixed rate with reset (i) 5.5 years after the issue date (first reset date 07/19/2027) and (ii) subsequently every 5 years from the previous reset date
18	Coupon rate and any related index	N/A	5.875% until 07/19/2027. For the subsequent interest periods, the coupon will be recalculated by adding the fixed margin at the issue date (5.856%) at the 5-year mid-swap rate at the recalculation date.
19	Existence of a dividend stopper	No	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	fully discretionary
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	fully discretionary
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	N/A	Noncumulative
23	Convertible or non-convertible	N/A	NON-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	Yes
31	If write-down, write-down trigger(s)	N/A	if CET1 (on a consolidated or standalone basis) <5.125%
32	If write-down, full or partial	N/A	full or partial
33	If write-down, permanent or temporary	N/A	temporary

(CONT'D)

Amounts in euro units

Row		Common Equity Tier 1	Tier 1 equity instruments
		a	b
34	If temporary write-down, description of write-up mechanism	N/A	In the case of net profit (consolidated or standalone), the issuer may, at its full discretion and subject to the Maximum Distributable Amount, increase the nominal amount outstanding of the instrument up to the maximum of the Initial Principal Amount pro rata with similar AT1 instruments
34a	Type of subordination (only for eligible liabilities)	N/A	N/A
EU-34b	Ranking of the instrument in normal insolvency proceedings	N/A	2
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	*T2 and other pari passu subordinated instruments*
36	Non-compliant transitioned features	N/A	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	https://investor.bff.com/en/Shareholder-structure	Bonds (bff.com)

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, 2023, 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 14.2% and the Tier 1 Capital Ratio and the Total Capital Ratio are 19.1%.

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 cited above, BFF Banking Group applies the following main 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*";
- 20% *(i)* for 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 Portuguese, Polish and Slovakian public sector;
- 100% *(i)* for exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy and Greece); *(ii)* for 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 exposures to private debtors (i.e., businesses), Funds, and asset management companies; for rated private debtors, different weights are applied on the basis of the credit ratings issued by S&P Global Ratings;
- 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 adjustments are 20% or more than the non-collateralized portion, before any adjustments;
- 250% to deferred tax assets not deducted from own funds.

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

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

Thanks to the credit management processes established by the BFF Group, as of December 31, 2023 the impact on CET 1 deriving from the application of calendar provisioning was roughly €1.1 million, compared to December 31, 2022 when it amounted to €389 thousand. This prudential deduction from CET1, considering that the actual credit risk profile assumed by the BFF Group is limited, as it has been assumed with respect to public bodies, could result in significant distortions in the representation of the group's accounting, prudential and capital strength information. This is also corroborated by the very limited credit losses recorded.
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 September 23, 2022 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. Therefore, at consolidated level and starting from the reporting date of September 30, 2022, the Bank aligned its interpretation criteria on the basis of the clarifications published by the Bank of Italy.

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

Lastly, note that in 2023 BFF conducted a series of careful assessments and analyses with regard to the possibility of adopting the internal rating based (IRB) method for credit risk, in which the Risk Management Function is involved with regard to a number of topics. For 2024, activities have already been planned to undertake the process of adopting the IRB model, a method that, especially with respect to exposures to the Public Administration, would allow i) a more adequate representation of the BFF Group's low actual risk profile, since, beyond the definition of default – and probability of default (PD) – that can be adopted, the BFF Group's recovery processes would show Loss Given Default (i.e. LGD), which is known to be substantially nil, as well as ii) to adopt approaches that are more representative of the actual risk in the context of credit activities arising from the purchase of trade receivables, such as the adoption of the Facility Level Approach (FLA), which to date has only been permitted for banks and groups using internal models. This could avoid a contagion of defaults of exposures for which there is no actual credit risk, reducing the amount of receivables classified as past due; this with an unchanged underlying credit risk profile. The benefit of such an approach was also described by the Bank to the various reference trade associations, also in order to highlight the distortion in terms of the representation of the risk profile of the counterparty classification approach in the most appropriate fora and in working groups with the supervisory authorities.
BFF Banking Group constantly maintains, as a capital requirement for credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposures for credit risk. The Risk Weighted Amount is determined by the sum of the risk weighted assets of the various classes. Based on the method described above, the capital requirement for credit and counterparty risk at December 31, 2023 is €182.8 million for BFF Banking Group.

Counterparty risk

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.
For BFF Bank, counterparty risk can be generated by repurchase agreements and derivatives. Counterparty risk is measured using the original exposure method.

Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.
Operational risk, therefore, refers to various types of events that would not be significant unless analyzed together and quantified for the entire risk category.
The Group measures operational risk using the "Basic" approach: the capital requirement is 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.

Continuing the Operational Risk Management framework applied, at the consolidated level the Bank uses an internal statistical management model for quantifying exposure to operational risk. This was done for the purpose of verifying that the method used for regulatory purposes did value capital adequately against assumed and assumable risk. The operational risk results obtained from the forward-looking assessment process were also used for quantifying internal capital against operational risk for ICAAP purposes. The assessments carried out in this area have led to the conclusion that the capital requirement for operational risk is higher than the internal capital calculated at the operational level in the ICAAP process.

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 April 27, 2023. The Report has been prepared in compliance with the requirements established by Circular No. 285.

In relation to the "Supervisory Review and Evaluation Process" (SREP), the Group must comply with a CET1 Ratio of 9.00%, a Tier 1 Ratio of 10.50% and a Total Capital Ratio of 12.50%.

Quantitative disclosure

EU KM1 template: Key metrics template

Row		a	b	c	d	e
		12/31/2023	09/30/2023	06/30/2023	03/31/2023	12/31/2022
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	436,946	443,234	453,065	458,406	461,900
2	Tier 1 capital	586,946	593,234	603,065	608,406	611,900
3	Total capital	586,946	593,234	603,065	608,406	611,900
	Risk-weighted exposure amounts					
4	Total Risk exposure amount	3,076,507	2,852,945	2,895,652	2,692,292	2,739,701
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	14.20%	15.54%	15.65%	17.03%	16.86%
6	Tier 1 ratio (%)	19.08%	20.79%	20.83%	22.60%	22.33%
7	Total capital ratio (%)	19.08%	20.79%	20.83%	22.60%	22.33%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements based on SREP (%)	2.00%	2.00%	2.00%	2.00%	2.00%
EU 7b	of which consisting of CET1 capital (%)	2.00%	2.00%	2.00%	2.00%	2.00%
EU 7c	Additional AT1 SREP requirements (%)	2.00%	2.00%	2.00%	2.00%	2.00%
EU 7d	Total SREP own funds requirements (%)	10.00%	10.00%	10.00%	10.00%	10.00%
	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 (%)	0.0070%	0.0079%	0.0062%	0.0000%	0.0000%
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	-	-	-	-	-
11	Combined buffer requirement (%)	2.5070%	2.5079%	2.5062%	2.5000%	2.5000%
EU 11a	Overall capital requirements (%)	12.5070%	12.5079%	12.5062%	12.5000%	12.5000%
12	CET1 available after meeting the total SREP own funds requirements (%)	236,973	257,793	264,847	283,407	283,819

(CONT'D)

Row		a	b	c	d	e
		12/31/2023	09/30/2023	06/30/2023	03/31/2023	12/31/2022
	Leverage ratio					
13	Leverage ratio total exposure measure	12,260,487	12,528,105	12,004,926	11,744,694	13,330,671
14	Leverage ratio (%)	4.787%	4.735%	5.023%	5.180%	4.590%
	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 (%)	3.00%	3.00%	3.00%	3.00%	3.000%
	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 (%)	3.000%	3.000%	3.000%	3.000%	3.000%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	3,663,490	1,824,432	2,024,240	1,599,023	1,769,740
EU 16a	Cash outflows - Total weighted value	1,885,362	1,639,959	2,208,680	2,380,051	2,226,233
EU 16b	Cash inflows - Total weighted value	654,921	610,357	1,560,441	1,561,292	1,632,054
16	Total net cash outflows (adjusted value)	1,230,441	1,029,602	648,239	818,759	594,180
17	Liquidity coverage ratio (%)	297.74%	177.20%	312.27%	195.30%	297.85%
	Net Stable Funding Ratio					
18	Total available stable funding	6,376,277	5,331,652	4,833,892	4,384,260	4,597,700
19	Total required stable funding	3,313,550	3,101,588	3,038,719	2,872,416	2,853,185
20	NSFR ratio (%)	192.43%	171.90%	159.08%	152.63%	161.14%

Template EU OV1: Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		12/31/2023	09/30/2023	12/31/2023
1	Credit risk (excluding CCR)	2,269,879	2,102,396	181,590
2	Of which the standardized approach	2,269,879	2,102,396	181,590
3	Of which the foundation IRB (FIRB) approach			-
4	Of which: slotting approach			-
EU 4a	Of which: equities under the simple risk weighted approach			-
5	Of which the advanced IRB (AIRB) approach			-
6	Counterparty credit risk - CCR	15,100	13,876	1,208
7	Of which the standardized approach			-
8	Of which internal model method (IMM)			-
EU 8a	Of which exposures to a CCP	4,013	10,567	321
EU 8b	Of which credit valuation adjustment - CVA	264	273	21
9	Of which other CCR	10,823	3,036	866
15	Settlement risks			-
16	Securitization exposures in the non-trading book (after the cap)			-
17	Of which SEC-IRBA approach			-
18	Of which SEC-ERBA (including IAA)			-
19	Of which SEC-SA approach			-
EU 19a	Of which 1250%/deduction			-
20	Position, foreign exchange and commodities risks (Market risk)	7,102	5	568
21	Of which the standardized approach	7,102	5	568
22	Of which IMA			-
EU 22a	Large exposures			-
23	Operational risk	784,426	736,668	62,754
EU 23a	Of which basic indicator approach	784,426	736,668	62,754
EU 23b	Of which the standardized approach			-
EU 23c	Of which advanced measurement approach			-
24	**Amount below deduction thresholds (subject to 250% risk weighting factor)**	**45,685**	**54,692**	**3,655**
29	**Total**	**3,076,507**	**2,852,945**	**246,121**

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 is mainly 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, 2023, 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 the CVA (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.

Moreover, in Q4 2023 the Bank initiated a purchase and resale of tax credits, included in the trading portfolio governed by the Bank of Italy's clarification note of July 24, 2023. This activity generally involves the Bank purchasing Tax Credits from third parties for the purpose of resale to an already identified purchasing company with which it has previously entered into a special framework agreement for the sale of such tax credits.
Consistent with the above note, the assignment commitments agreed in the master agreement with the assignee were treated as derivative contracts to offset the related underlying tax credit recorded in the trading book. Specifically, as of December 31, 2023, the Bank had only irrevocable sales commitments outstanding, which are comparable to unlisted forward derivatives, resulting in the generation of counterparty risk calculated in accordance with Art. 282 CRR ("original exposure" method). Finally, the calculation of the CVA component was performed consistently with other OTC derivative instruments by application of the so-called "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)	1,140	28,240		1.4	41,132	41,132	41,132	8,231
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)					1,434,880	1,434,880	1,434,880	5,528
5	VaR for SFTs								
6	**Total at 12/31/2023**					**1,476,012**	**1,476,013**	**1,476,012**	**13,759**

Template EU 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	42,686	264
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)		
5	**Total transactions subject to own funds requirements for CVA risk**	**42,686**	**264**

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	298,425			52,269		
2	Regional government or local authorities						
3	Public sector entities					155	
4	Multilateral development banks						
5	International organizations						
6	Institutions					42,477	
7	Corporates						
8	Retail						
9	Institutions and corporates with a short-term credit assessment						
10	Other exposures						
11	**Total exposure value at 12/31/2023**	**298,425**			**52,269**	**42,632**	

	Exposure classes	Risk weight					
		g	h	i	j	k	l
		70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks						350,695
2	Regional government or local authorities						
3	Public sector entities						155
4	Multilateral development banks						
5	International organizations						
6	Institutions			5			42,483
7	Corporates			1,077			1,077
8	Retail						
9	Institutions and corporates with a short-term credit assessment						
10	Other exposures						
11	**Total exposure value at 12/31/2023**			**1,082**			**394,409**

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	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency		80,004		3,718		8,739		131,957
2	Cash – other currencies								
3	Domestic sovereign debt						350,695		1,648,057
4	Other sovereign debt								
5	Government agency debt								
6	Corporate bonds								
7	Equity securities								
8	Other collateral								
9	**Total at 12/31/2023**		**80,004**		**3,718**		**359,434**		**1,780,014**

Template EU CCR8: Exposures to CCPs

		a	b
		Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**4,013**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	565,377	
3	i) OTC derivatives		
4	ii) Exchange-traded derivatives		
5	iii) SFTs	565,377	
6	iv) Netting sets where cross-product netting has been approved		
7	Segregated initial margin		
8	Non-segregated initial margin	127,075	2,542
9	Prefunded default fund contributions	70,521	1,471
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, 2023 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 second quarter of 2024.
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, 2023:

- 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 and the United Kingdom (2.00%), Slovakia (1.50%); the Netherlands (1.00%) and France (0.50%).
- At consolidated level, the specific countercyclical rate of the CRR Banking Group is 0.0069649%.

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

	Breakdown by country:	Generic 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					287
0020	CAMEROON	207					207
0030	CZECH REPUBLIC	22					22
0040	SPAIN	49,968					49,968
0050	FRANCE	6					6
0060	UNITED KINGDOM	1,070					1,070
0070	GREECE	21,722					21,722
0080	CROATIA	0.24					0.24
0090	ITALY	1,245,353		4,995			1,250,348
0100	LUXEMBOURG	0.04					0.04
0110	MALTA	1,368					1,368
0120	NETHERLANDS	4,208					4,208
0130	POLAND	64,849					64,849
0140	PORTUGAL	29,007					29,007
0150	SLOVAKIA	2,339					2,339
0160	SAN MARINO	0.03					0.03
0170	UNITED STATES	1,659					1,659
	TOTAL	**1,422,066**		**4,995**			**1,427,061**

	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			23	287	0.02%	0.00%
0020	CAMEROON	17			17	207	0.01%	0.00%
0030	CZECH REPUBLIC	2			2	22	0.00%	2.00%
0040	SPAIN	3,997			3,997	49,968	3.51%	0.00%
0050	FRANCE	1			1	6	0.00%	0.50%
0060	UNITED KINGDOM	86			86	1,070	0.08%	2.00%
0070	GREECE	1,738			1,738	21,722	1.53%	0.00%
0080	CROATIA	0.24			0.02	0.24	0.00%	1.00%
0090	ITALY	99,628	0.09		99,628	1,245,354	87.57%	0.00%
0100	LUXEMBOURG	0.04			0	0.04	0.00%	0.50%
0110	MALTA	109			109	1,368	0.10%	0.00%
0120	NETHERLANDS	337			337	4,208	0.30%	1.00%
0130	POLAND	5,188			5,188	64,849	4.56%	0.00%
0140	PORTUGAL	2,321			2,321	29,007	2.04%	0.00%
0150	SLOVAKIA	187			187	2,339	0.16%	1.50%
0160	SAN MARINO	0.03			0	0.03	0.00%	0.00%
0170	UNITED STATES	133			133	1,659	0.12%	0.00%
	TOTAL	113,765	0		113,765	1,422,067	100.00%	

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

		a
1	Total Risk exposure amount	3,076,507
2	Institution specific countercyclical capital buffer rate	0.0069649%
3	Institution specific countercyclical capital buffer requirement	214.28

Section 7

Credit risk adjustments (Art. 442 CRR)

Qualitative disclosure

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

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

- A forward-looking model, allowing the immediate recognition of all expected credit losses over the life of the exposure, 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 modeled to comply with the rationale of considering the full life-time of the financial instrument are as follows:

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

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

Receivables subject to specific adjustments ("specific impairment")

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

It should be noted that, with reference to past due exposures, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures 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, 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
- Unlikely-to-pay positions
- Past-due impaired exposures

BFF Banking Group's net impaired assets amounted to a total of €333,414 thousand, compared to €283,762 thousand as of December 31, 2022. The increase was caused primarily by impaired past due exposures (+€35 million compared to the previous year). They include:

- Non-performing loans are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections made by the parent.
  At December 31, 2023, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €99,806 thousand, of which €5,584 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €92,644 thousand, accounting for 92.8% of the total.
  Gross non-performing loans amounted to €120,923 thousand (€104,663 thousand in 2022). The related impairment totaled €21,117 thousand (€18,290 thousand in 2022). The portion of the allowance for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €1 million, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €121,926 thousand and relevant adjustments totaled €22,120 thousand.

With reference to the parent, at December 31, 2023 total non-performing loans, net of any estimated impairment losses, amounted to €93,228 thousand, of which €92,644 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.
In this regard, the Parent asked the Bank of Italy for an interpretative clarification concerning the requirement for automatic classification - or without an intermediary's autonomous assessment - of receivables in financial distress as non-performing, as the Parent expects such credit exposures to be fully repaid. Specifically, the amount of €5,584 thousand refers to loans and 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 €23,239 thousand. After estimated impairment losses of €18,076 thousand they amounted to €5,163 thousand.

- BFF Banking Group's unlikely to pay exposures mainly refer to BFF Polska Group's positions. These exposures reflect the judgment made by the intermediary about the unlikelihood that – excluding such actions as the enforcement of guarantees – the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments).
As of December 31, 2023, gross exposures classified as unlikely to pay amounted to €19,125 thousand (€16,374 million in 2022), of which €15,840 thousand attributable to BFF Polska Group (€14,439 thousand in 2022), €3,087 thousand to the Parent (€1,593 thousand in 2022) and €198 thousand to BFF Finance Iberia (€342 thousand in 2022). The total net value is €13,718 thousand (€12,132 thousand in 2022), referring primarily to BFF Polska Group.
- Net past due exposures of BFF Banking Group amounted to €219,891 thousand. They refer to the parent for €206,520 thousand, to the Spanish subsidiary for €12,720 thousand and to BFF Polska Group for €651 thousand. 93.9% of these exposures relate to public counterparties.

Please recall that impaired assets are classified in keeping with the prudential definition of default (i.e. past due, unlikely to pay and non-performing), which assumes that there is an effective state of deterioration of the credit quality of the exposure, not providing for any discretion and not ensuring that certain cases not representative of a worsening of credit risk (as for most Group exposures) are treated differently. The actual credit risk profile assumed by the BFF Group is limited, as it has been assumed with respect to public bodies, and the classification described above could result in significant distortions in the representation of the group's accounting, prudential and capital strength information. This is also corroborated by the very limited credit losses recorded.

Measurement of impairment losses on financial assets

At each annual or interim reporting date, in accordance with IFRS 9, financial assets other than those measured at fair value through profit or loss are tested to assess whether there is evidence that the carrying amount of the assets may not be fully recoverable. A similar analysis is conducted also for loan commitments and guarantees provided that fall within the scope subject to impairment in accordance with IFRS 9. If such evidence exists (so-called "evidence of impairment"), the financial assets concerned – consistently with any remaining assets of the same counterparty – are considered to be impaired and classified in Stage 3. The Group shall recognize adjustments equal to lifetime expected credit losses for these exposures, consisting in financial assets classified as bad loans, unlikely to pay, and exposures past due and/or in arrears as per the Bank of Italy's Circular no. 262/2005.

The impairment model is characterized by:

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

In the fourth quarter of 2023, the Parent - at consolidated level - revised the methodological set-up of the staging allocation, establishing criteria more representative of the deterioration of credit risk with respect to the Group's business and the methodology of forward-looking and point in time components relating to Probability of Default, which is more aligned with market best practices and the specific nature of the business.

Changes due to Russian-Ukrainian and Israeli-Palestinian conflicts

In light of the Parent's business model and the nature of its risk counterparties, the Russia/Ukraine conflict did not entail changes to the model for determining expected losses. However, with the annual update of the macroeconomic scenarios, the Risk Management Function developed a new forward-looking model for the conditioning of PDs, replacing the previous one which depended on the assumptions of the external infoprovider. The new model is based on the macroeconomic scenarios published by the EBA (European Banking Authority) during the 2023 stress test.

In continuity with the previous scenarios provided by the other infoprovider, these scenarios are characterized by an exacerbation of financial conditions and a considerable deterioration of economic outlooks caused by the high inflation generated, inter alia, by the Russia-Ukraine conflict. Furthermore, these scenarios also reflect an inversion in the real estate market trend in the presence of a decrease in household debt service capacity triggered by high interest rates.

As regards the Israel/Palestine conflict that began in late 2023, considering the results of the analyses performed by the Parent, at the moment no critical elements have been identified that would require the implementation of additional activities to monitor the risks of the above-mentioned conflict.

Starting from the next quarters, the Risk Management Function will monitor the evolution of the macroeconomic variables used in the forward looking model in order to understand any impact on the determination of the expected losses and to identify any significant changes with respect to the values assumed by the same when updating the model.

Quantitative disclosure

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

Row		a	b	c	d	e	f
		Gross carrying/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	**445,924**	**441,411**	**4,512**			
010	Loans and advances	**5,327,720**	**4,750,610**	**577,110**	**361,283**		**355,498**
020	*Central banks*	14,758	14,758				
030	*General governments*	4,388,779	3,824,029	564,750	299,865		294,276
040	*Credit institutions*	389,611	389,611				
050	*Other financial corporations*	223,817	223,513	304	978		978
060	*Non-financial companies*	257,643	245,765	11,879	46,662		46,662
070	*Of which SMEs*	6,922	5,902	1,020	5,714		5,714
080	*Households*	53,111	52,933	177	13,777		13,581
090	Debt securities	**4,959,156**	**4,959,156**				
100	*Central banks*						
110	*General governments*	4,951,840	4,951,840				
120	*Credit institutions*						
130	*Other financial corporations*	7,316	7,316				
140	*Non-financial companies*						
150	Off-balance-sheet exposures	**515,776**	**482,476**		**17,020**		**14,320**
160	*Central banks*						
170	*General governments*	42,809	42,809				
180	*Credit institutions*	4,994	4,994				
190	*Other financial corporations*	400,743	400,743				
200	*Non-financial companies*	67,230	33,930		17,020		14,320
210	*Households*						
220	**Total**	**11,248,576**	**10,633,654**	**581,622**	**378,303**		**369,818**

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	**(24)**	**(22)**	**(2)**			
010	Loans and advances	**(1,697)**	**(1,211)**	**(485)**	**(27,869)**		**(27,668)**
020	*Central banks*	(2)	(2)				
030	*General governments*	(521)	(238)	(283)	(710)		(704)
040	*Credit institutions*	(13)	(13)				
050	*Other financial corporations*	(215)	(215)	(0)	(531)		(531)
060	*Non-financial companies*	(850)	(658)	(192)	(20,010)		(20,010)
070	*Of which SMEs*	(47)	(30)	(17)	(4,220)		(4,220)
080	*Households*	(97)	(86)	(11)	(6,619)		(6,423)
090	Debt securities	**(1,974)**	**(1,974)**				
100	*Central banks*						
110	*General governments*	(1,797)	(1,797)				
120	*Credit institutions*						
130	*Other financial corporations*	(177)	(177)				
140	*Non-financial companies*						
150	Off-balance-sheet exposures	**(357)**	**(357)**		**(173)**		**(173)**
160	*Central banks*						
170	*General governments*	(1)	(1)				
180	*Credit institutions*						
190	*Other financial corporations*	(250)	(250)				
200	*Non-financial companies*	(106)	(106)		(173)		(173)
210	*Households*						
220	**Total**	**(4,052)**	**(3,565)**	**(487)**	**(28,042)**		**(27,840)**

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			
010	Loans and advances		351,215	89
020	*Central banks*			
030	*General governments*		52,758	
040	*Credit institutions*		298,425	
050	*Other financial corporations*			
060	*Non-financial companies*		31	89
070	Of which SMEs			
080	*Households*			
090	Debt securities			
100	*Central banks*			
110	*General governments*			
120	*Credit institutions*			
130	*Other financial corporations*			
140	*Non-financial companies*			
150	Off-balance-sheet exposures			
160	*Central banks*			
170	*General governments*			
180	*Credit institutions*			
190	*Other financial corporations*			
200	*Non-financial companies*			
210	*Households*			
220	**Total**		**351,215**	**89**

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	665,332	4,013,196	383,995	596,915	0	5,659,438
2	Debt securities	7,140	462,339	1,028,716	3,458,987	0	4,957,182
3	**Total**	**672,471**	**4,475,535**	**1,412,711**	**4,055,902**	**0**	**10,616,620**

Template EU CR2: Changes in the stock of non-performing loans and advances

Row		a
		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**307,008**
020	Inflows to non-performing portfolios	143,818
030	Outflows from non-performing portfolios	(89,543)
040	Outflow due to cancellations	0
050	Outflow due to other situations	(89,543)
060	**Final stock of non-performing loans and advances**	**361,283**

Template EU CR2a: Changes in the stock of non-performing loans and advances and related accumulated recoveries

Row		a	b
		Gross carrying amount	Relative net accumulated recoveries
010	**Initial stock of non-performing loans and advances**	**307,008**	
020	Inflows to non-performing portfolios	143,818	
030	Outflows from non-performing portfolios	(89,543)	
040	Outflow to performing portfolio	(3,850)	
050	Outflow due to partial or total repayment of the loan	(84,492)	
060	Outflow due to liquidations of collateral		
070	Outflow due to taking possession of collateral		
080	Outflow due to the sale of instruments		
090	Outflow due to risk transfers		
100	Outflow due to cancellations		
110	Outflow due to other situations	(1,200)	
120	Outflow due to reclassification to held for sale		
130	**Final stock of non-performing loans and advances**	**361,283**	

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								
010	Loans and advances	28,387	12,363	12,363	12,363	(93)	(1,619)		
020	*Central banks*								
030	*General governments*	22,459				(6)			
040	*Credit institutions*								
050	*Other financial corporations*		978	978	978		(531)		
060	*Non-financial companies*	5,882	10,980	10,980	10,980	(82)	(807)		
070	*Households*	46	405	405	405	(5)	(282)		
080	Debt securities								
090	Loan commitments given								
100	**Total**	**28,387**	**12,363**	**12,363**	**12,363**	**(93)**	**(1,619)**		

Template EU CQ2: Quality of the concession

Row		a
		Gross carrying amount
010	Loans and advances that have been the subject of forbearance measures more than twice	0
020	Forborne non-performing loans and advances that have failed to meet the criteria for exclusion from the "non-performing" category	978

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

Row		Gross carrying/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	445,924	434,734	11,189
010	*Loans and advances*	5,327,720	3,288,847	2,038,873
020	*Central banks*	14,758	14,758	
030	*General governments*	4,388,779	2,420,871	1,967,908
040	*Credit institutions*	389,611	389,611	
050	*Other financial corporations*	223,817	223,026	791
060	*Non-financial companies*	257,643	223,285	34,359
070	*Of which SMEs*	6,922	6,710	212
080	*Households*	53,111	17,296	35,815
090	Debt securities	4,959,156	4,959,156	
100	*Central banks*			
110	*General governments*	4,951,840	4,951,840	
120	*Credit institutions*			
130	*Other financial corporations*	7,316	7,316	
140	*Non-financial companies*			
150	Off-balance-sheet exposures	515,776		
160	*Central banks*			
170	*General governments*	42,809		
180	*Credit institutions*	4,994		
190	*Other financial corporations*	400,743		
200	*Non-financial companies*	67,230		
210	*Households*			
220	**Total**	**11,248,576**	**8,682,738**	**2,050,062**

Row		Gross carrying/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									
010	Loans and advances	361,283	74,085	6,399	14,947	29,790	71,261	79,680	85,123	361,283
020	*Central banks*									
030	*General governments*	299,865	50,335	5,440	12,539	26,351	46,322	77,882	80,996	299,865
040	*Credit institutions*									
050	*Other financial corporations*	978					978			978
060	*Non-financial companies*	46,662	17,962	69	1,870	3,011	18,703	1,548	3,500	46,662
070	*Of which SMEs*	5,714	2,080	12	17	96	3,393		116	5,714
080	*Households*	13,777	5,788	889	538	429	5,257	249	627	13,777
090	Debt securities									
100	*Central banks*									
110	*General governments*									
120	*Credit institutions*									
130	*Other financial corporations*									
140	*Non-financial companies*									
150	Off-balance-sheet exposures	17,020								17,020
160	*Central banks*									
170	*General governments*									
180	*Credit institutions*									
190	*Other financial corporations*									
200	*Non-financial companies*	17,020								17,020
210	*Households*									
220	**Total**	**378,303**	**74,085**	**6,399**	**14,947**	**29,790**	**71,261**	**79,680**	**85,123**	**378,303**

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**	**10,648,160**	**361,283**	**361,283**	**10,648,160**	**(31,540)**		
020	ARGENTINA							
030	BELGIUM							
040	CZECH REPUBLIC	2,705	116	116	2,705	(100)		
050	GERMANY	1,240			1,240	(0)		
060	SPAIN	615,574	15,127	15,127	615,574	(863)		
070	FRANCE	14,765			14,765	(0)		
080	UNITED KINGDOM	0.04			0.04			
090	GREECE	166,362	12	12	166,362	(14)		
100	CROATIA	263			263	(0)		
110	ITALY	8,416,158	292,580	292,580	8,416,158	(7,462)		
120	LUXEMBOURG	0.03			0.03			
130	MALTA	1,378			1,378	(10)		
140	NETHERLANDS	4,230			4,230	(21)		
150	POLAND	953,816	37,007	37,007	953,816	(19,839)		
160	PORTUGAL	222,631	13,263	13,263	222,631	(29)		
170	SWEDEN							
180	SLOVAKIA	248,638	3,178	3,178	248,638	(3,201)		
190	SAN MARINO	36			36			
200	VATICAN	365			365	(0)		
210	**Off-balance-sheet exposures**	**532,796**	**17,020**	**17,020**			**530**	
220	GREECE	25,000					94	
230	ITALY	461,519	17,020	17,020			429	
240	POLAND	46,277					8	
250	**Total**	**11,180,956**	**378,303**	**378,303**	**10,648,160**	**(31,540)**	**530**	

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	1			1		
020	Mining and quarrying						
030	Manufacturing	9,717	5,161	5,161	9,717	(646)	
040	Electricity, gas, steam and air conditioning supply	3,604	2,166	2,166	3,604	(68)	
050	Water supply	5,300	1,913	1,913	5,300	(82)	
060	Construction	10,362	4,839	4,839	10,362	(3,985)	
070	Wholesale and retail trade	63,113	8,991	8,991	63,113	(7,993)	
080	Transport and storage	10,724			10,724	(2)	
090	Accommodation and food service activities	153	131	131	153	(85)	
100	Information and communication	85,640	2,596	2,596	85,640	(1,823)	
110	Financial and insurance activities	244			244	(0)	
120	Real estate activities	9,726	8,873	8,873	9,726	(923)	
130	Professional, scientific and technical activities	903	339	339	903	(310)	
140	Administrative and support service activities	23,388	100	100	23,388	(151)	
150	Public administration and defense, compulsory social security	1			1	(1)	
160	Education	889	188	188	889	(1)	
170	Human health services and social work activities	36,135	8,624	8,624	36,135	(3,861)	
180	Arts, entertainment and recreation						
190	Other services	44,406	2,741	2,741	44,406	(928)	
200	**Total**	**203,538**	**36,828**	**36,828**	**203,538**	**(18,111)**	

Template EU CQ6: Credit quality of loans and advances by industry

		a	b	c
		Loans and advances		
			Performing	
				Of which past due > 30 days ≤ 90 days
010	Gross carrying amount	5,689,003	5,327,720	2,038,873
020	Of which guaranteed	353,066	352,721	
030	*Of which secured by real estate*	229		
040	*Of which instruments with LTV ratio greater than 60% and less than or equal to 80%*			
050	*Of which instruments with LTV ratio greater than 80% and less than or equal to 100%*			
060	*Of which instruments with LTV greater than 100%*	229		
070	Accumulated impairment for secured assets	(270)	(1)	
080	Collateral			
090	*Of which value limited to the exposure value*	351,293	351,215	
100	*Of which real estate*			
110	*Of which value over the limit*	9,388	4,466	
120	*Of which real estate*	5,000		
130	Financial guarantees received	10		
140	Accumulated partial write-off			

		d	e
		Loans and Advances	
		Impaired	
			Unlikely to pay that are not past-due or past due <= 90 days
010	Gross carrying amount	361,283	74,085
020	Of which guaranteed	345	
030	*Of which secured by real estate*	229	
040	*Of which instruments with LTV ratio greater than 60% and less than or equal to 80%*		
050	*Of which instruments with LTV ratio greater than 80% and less than or equal to 100%*		
060	*Of which instruments with LTV greater than 100%*	229	
070	Accumulated impairment for secured assets	(269)	
080	Collateral		
090	*Of which value limited to the exposure value*	79	
100	*Of which real estate*		
110	*Of which value over the limit*	4,921	
120	*Of which real estate*	5,000	
130	Financial guarantees received	10	
140	Accumulated partial write-off		

		f	g	h	i	j	k	l
		Impaired						
		Past due >90 days						
			Of which past due > 90 days ≤ 180 days	Of which past due > 180 days ≤ 1 year	Of which past due > 1 year ≤ 2 years	Of which past due > 2 years ≤ 5 years	Of which past due > 5 years ≤ 7 years	Of which past due > 7 years
010	Gross carrying amount	287,199	6,399	14,947	29,790	71,261	79,680	85,123
020	Of which guaranteed	345			10	335		
030	*Of which secured by real estate*	229				229		
040	*Of which instruments with LTV ratio greater than 60% and less than or equal to 80%*							
050	*Of which instruments with LTV ratio greater than 80% and less than or equal to 100%*							
060	*Of which instruments with LTV greater than 100%*	229						
070	Accumulated impairment for secured assets	(269)			(0)	(269)		
080	Collateral							
090	*Of which value limited to the exposure value*	79				79		
100	*Of which real estate*							
110	*Of which value over the limit*	4,921						
120	*Of which real estate*	5,000						
130	Financial guarantees received	10			10			
140	Accumulated partial write-off							

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 (EBA) 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 Encumbered Assets 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 further 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[6] 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 a monthly basis.

The main types of transaction that entailed asset encumbrance were:

- Repurchase Agreements payable carried out either by means of securities in the portfolio held, or by using securities from Repurchase Agreements receivable (Reverse Repos), thus available to the Bank though not part of its portfolio.

6) 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**	2,199,157	1,987,331			10,093,397	2,962,712		
030	Equity instruments					302,977		303,367	
040	Debt securities	1,987,331	1,987,331	1,950,596	1,950,596	2,969,856	2,962,712	2,938,835	2,932,071
050	of which: covered bonds								
060	of which: securitizations								
070	of which: issued by general governments	1,987,331	1,987,331	1,950,596	1,950,596	2,962,714	2,962,712	2,932,071	2,932,071
080	of which: issued by financial corporations					7,142		6,763	
090	of which: issued by non-financial companies								
120	Other assets	211,826				6,820,564			

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**	59,467	59,467	295,695	295,695
140	Loans on demand				
150	Equity instruments				
160	Debt securities	59,467	59,467	295,695	295,695
170	of which: covered bonds				
180	of which: securitizations				
190	of which: issued by general governments	59,467	59,467	295,695	295,695
200	of which: issued by financial corporations				
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 12/31/2023**	**59,467**	**59,467**		

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	4,320,143	2,047,566

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, BFF Banking Group applies the following main weighting factors, envisaged by the CRR:

- 0% for exposures to government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish public sector entities and other local authorities as provided for by EBA lists "*EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013*" and "*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013*";
- 20% *(i)* for 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 Portuguese, Polish and Slovakian public sector;
- 100% *(i)* for exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy and Greece); *(ii)* for 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 exposures to private debtors (i.e., businesses), Funds, and asset management companies; for rated private debtors, different weights are applied on the basis of the credit ratings issued by S&P Global Ratings;
- 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 adjustments are 20% or more than the non-collateralized portion, before any adjustments;
- 250% to deferred tax assets not deducted from own funds.

BFF Bank has adopted Dominion Bond Rating Service (DBRS) as its reference ECAI for public counterparties.

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

Credit assessment	Credit quality step
AAA	1
AA	1
A	2
BBB	3
BB	4
B	5
CCC	6
CC	6
C	6
D	6

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, 2023 are provided below.

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

With respect to the corporate portfolio, the Bank relies on the credit ratings issued by S&P Global Ratings. A reconciliation between the credit rating classes and the ratings supplied by DBRS is provided below.

Credit assessment	*Credit quality step*
AAA	1
AA	1
A	2
BBB	3
BB	4
B	5
CCC	6
CC	6
R	6
SD/D	6

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 RWA 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	6,653,933		6,653,933		32,744	0.49%
2	Regional government or local authorities	1,155,018		1,155,018		124,310	10.76%
3	Public sector entities	2,309,829	42,808	2,309,829	10,292	647,628	27.91%
4	Multilateral development banks						
5	International organizations						
6	Institutions	328,053		328,053		42,738	13.03%
7	Corporates	370,992	397,327	370,992	20,614	379,464	96.90%
8	Retail	7,613	853	7,613	542	6,034	73.99%
9	Secured by mortgages on immovable properties						
10	Exposures in default	332,322	16,847	332,322	14,673	515,179	148.47%
11	Exposures associated with particularly high risk						
12	Covered bonds						
13	Institutions and corporates with a short-term credit assessment						
14	Collective investment undertakings	165,456	69,439	165,456	34,719	81,581	40.75%
15	Equity instruments	157,820		157,820		177,421	112.42%
16	Other items	217,611		261,512		261,308	99.92%
17	**TOTAL**	**11,698,647**	**527,275**	**11,742,548**	**80,841**	**2,268,408**	**19.19%**

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	6,633,269					
2	Regional government or local authorities	533,466				621,552	
3	Public sector entities	210,690				1,364,548	
4	Multilateral development banks						
5	International organizations						
6	Institutions		127,071			200,982	
7	Corporates					24,435	
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	82,250				31,479	
15	Equity exposures						
16	Other items	205					
17	**Total at 12/31/2022**	**7,459,879**	**127,071**			**2,242,996**	

Exposure classes		Risk weight					
		50%	70%	75%	100%	150%	250%
		g	h	i	j	k	l
1	Central governments or central banks				12,611		8,053
2	Regional government or local authorities						
3	Public sector entities	740,330			4,553		
4	Multilateral development banks						
5	International organizations						
6	Institutions						
7	Corporates				352,346	14,825	
8	Retail			8,155			
9	Exposures secured by mortgages on immovable property						
10	Exposures in default				10,627	336,368	
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			25,203	13,559	12,811	
15	Equity exposures				144,752		13,068
16	Other items				261,308		
17	**Total at 12/31/2022**	**740,330**		**33,358**	**799,755**	**364,004**	**21,121**

	Exposure classes	Risk weight			Total	of which unrated
		370%	1250%	Others		
		m	n	o	p	q
1	Central governments or central banks				6,653,933	316
2	Regional government or local authorities				1,155,018	1,606
3	Public sector entities				2,320,121	1,325
4	Multilateral development banks					
5	International organizations					
6	Institutions				328,053	328,053
7	Corporates				391,606	321,728
8	Retail				8,155	8,155
9	Exposures secured by mortgages on immovable property					
10	Exposures in default				346,995	76,264
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		155	34,719	200,176	
15	Equity exposures				157,820	32,669
16	Other items				261,512	210,535
17	**Total at 12/31/2022**		**155**	**34,719**	**11,823,388**	**16,186,898**

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 in accordance with Part Three, Title IV, Chapter 2 of the CRR.

During the fourth quarter of 2023, the Bank initiated a purchase and resale of tax credits, included in the trading portfolio governed by the Bank of Italy's clarification note of July 24, 2023. This activity generally involves the Bank purchasing Tax Credits from third parties for the purpose of resale to an already identified purchasing company with which it has previously entered into a special framework agreement for the sale of such tax credits.
For the positions not yet sold and thus present in the Bank's trading book, capital absorptions for market risk were calculated consistently with the "Standard" method, which were partially offset by the related transfer agreements, where present, which were treated as OTC derivative contracts (for details see Section 5 – Exposure to counterparty credit risk).

Quantitative disclosure

As of December 31, 2023, there are market risk-generating positions mainly arising from the trading in tax credits described above, amounting to market risk absorption of approximately 0.6 million euros.

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.

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.

Currency 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 funding and loans provided in currencies other than the euro in which the Group operates, also through its Subsidiaries, financed by intra-group finance solutions in currencies such as Zloty and Czech koruna. Note that BFF Bank does not hold innovative or complex financial products.

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)	7,100
2	Equity risk (general and specific)	2
3	Exchange risk	
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus approach	
7	Scenario approach	
8	**Securitization (specific risk)**	
9	**Total**	**7,102**

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		
	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
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)			**319**		

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

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

In this regard, BFF Banking Group adopts an operational risk management framework founded on the following 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 in accordance with the relevant 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";
- An economic scale consisting of seven loss ranges, 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").

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 parent'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 (e.g. internal fraud).
  Within the operational risk management framework, the Group monitors and oversees conduct risk, evaluating it as part of the RSA process.
  The Group's processes and internal regulations are drafted to discourage, inter alia, improper business practices, avoid market abuse and insider trading or internal offenses 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 and information and payment service security.

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

Quantitative 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)	310,471	529,214	415,396	62,754	784,426
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 as of December 31, 2023 is €62,754 thousand for the Group.

Section 12

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

Qualitative information

At December 31, 2023, 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, in the conservative consolidation, includes €165.5 million in closed UCI units reserved to professional investors. The value of these shares has been updated to the latest available NAV made available to these funds.

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.

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 €125 million acquired as it has all of the characteristics of solidity and profitability consistent with the bank's long-term investment strategy;
- in 2023 the Parent Company purchased a share of the company "General Finance S.p.A." for €7 million, measured at fair value at December 31, 2023 at €9 million;
- the shares relating to the Visa Class C security equal to €1,659 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 €1,821 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. Note that the aforementioned investments are consolidated using the equity method (and not in full).

Quantitative information

Items	Figures at December 31, 2023				*Impairment*
	Carrying amount		*Fair value*		
	Level 1	Level 2/3	Level 1	Level 2/3	
20c Financial assets subject to mandatory fair value measurement		165,456		165,456	
30 Financial assets measured at fair value through other comprehensive income:	9,366	128,153	9,366	128,153	
70 Equity investments		13,160		13,160	

Items	Figures at December 31, 2023					
	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 subject to mandatory fair value measurement			1,843			
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 slope and shape of the yield curve;
- basis risk, risk deriving from the imperfect correlation in changes in lending and borrowing rates, but with similar repricing characteristics. As interest rates change, these differences can lead to unexpected changes in cash flows and yield differentials between assets and liabilities with similar maturities or rate revision frequencies.

Exposure to interest rate risk is expressed from two different perspectives: volatility of economic value and volatility of profits (and, in particular, net interest income).
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 net interest income deriving from changes in interest rates and, as a result, on capital adequacy.

The measurement of interest rate risk in terms of economic value is based on the use of "static" type models, which, borrowing the simplified approaches of regulatory origin in their measurement methods, do not take into account assumptions regarding the projection of cash flows. In compliance with the "ongoing balance" principle, to measure the change in net interest income, maturing items are instead replaced with the same amounts without therefore envisaging any increase or decrease in volumes.

The Group 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, assets and liabilities 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 supervisory regulations. 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 Bank of Italy Circular 285/2013 as updated. Internal capital is determined by the worst-case result obtained between the two 1st/99th percentile scenarios.
The Group 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, regarding which Circ. 285 of the Bank of Italy sets a warning threshold of 20% of Own Funds;
- 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, regarding which Circ. 285 establishes an "early warning" level equal to 15% of Tier 1 Capital. To respect this limit, the scenario with the worst result is considered.

In line with the provisions of Circular No. 285/2013, the Group therefore evaluates the potential impact of changes in interest rates according to the income dimension. In keeping with the main market practice, a Repricing Gap approach is used to quantify the impact on the net interest income.

The Group relies on the option provided by the regulatory updates to Circular 285/2013 with respect to the refinement of the simplified methodologies as regards payable on demand items resulting from Transaction Services activities, 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 behavioral 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 loans, on the other hand, a forecast collection curve is applied.

Furthermore, following the publication of the new EBA guidelines (EBA GL 2022 14) and their subsequent transposition by the Bank of Italy through the 44th update of Circ. No.285/1013, the Bank performed an initial analysis to assess the impact of Credit Spread Risk in the Banking Book (CSRBB) as of December 31, 2023. In fact, the regulations required banks to identify their exposures affected by the risk of credit spreads involving assets not in the trading book for regulatory purposes (CSRBB) and to assess the extent to which this risk impacts both the economic value of equity capital ("Economic Value of Equity" or "EVE") and the interest margin ("Net interest income" or "NII"). In this regard, Circular No. 285/13 makes full reference to the aforementioned EBA Guidelines both for the aspects concerning the internal control system (governance and strategy for the CSRBB, CSRBB risk assessment framework and responsibilities, policies, processes and risk controls for the CSRBB) and for those related to the measurement expectations (scope of the CSRBB, monitoring of the CSRBB).

The CSRBB basically considers the combination of two elements:

- changes in the "market credit spread" or "market price of credit risk" (separate from the idiosyncratic credit spread), representing the credit risk premium requested by market operators for a specific credit quality;
- changes in the "market liquidity spread", which represents the liquidity premium that stimulates the market propensity to invest and the presence of willing buyers and sellers.

The CSRBB does not include the effect of changes in credit quality during the observation period (e.g., downgrade/increase in the rating category of a specific counterparty or instrument, considered as migration risk), as deterioration in an institution's credit quality is not expected to have any positive impact on the credit spread risk measure, and excludes impaired exposures.
The regulations stipulate that no type of instrument in the banking portfolio should be excluded beforehand from the scope of asset and liability items to be included for CSRBB valuation, regardless of its accounting treatment. Any potential exclusion of instruments from the relevant scope should be adequately documented and justified.
Conversely, the definition of the size and form of the various differential shocks to be used for internal CSRBB calculations is the responsibility of the Bank, based on the characteristics of its banking book assets and liabilities.

Fair value hedging activities

At December 31, 2023, BFF Banking Group has no forex swap contracts in place, as the Group mitigates exchange rate risk through natural hedges.

Cash flow hedging activity

At December 31, 2023, BFF Banking Group had no derivative contract intended to offset the potential losses associated with certain types of risks.

Quantitative information

The table below shows the interest rate risk exposure of the BFF Group, considering the shocks defined by the EBA, at June 30 and December 31, 2023.

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	
		12/31/2023	06/30/2023	12/31/2023	06/30/2023
1	*Parallel up*	37,736	52,717	(25,390)	(33,073)
2	*Parallel down*	-	-	24,340	31,716
3	*Steepener*	-	-		
4	*Flattener*	12,175	15,347		
5	*Short rates up*	22,507	30,036		
6	*Short rates down*	-	-		

As of December 31, 2023 the greatest impact in relation to Tier 1 is obtained by applying the parallel up shock, with a value that reaches 6.43%, still remaining below the Early Warning threshold of 15%.

Section 14

Exposure to securitization positions (Art. 449 CRR)

Disclosure on the transaction with "TeamSystem S.p.A. – Invoice Trading PA."

Qualitative information

Strategies, processes and objectives

The Parent BFF has initiated a project with its partner TeamSystem S.p.A. to extend its operations to small and medium-sized enterprises through a digital invoice trading platform.
The Parent participated in the project by investing in an Alternative Investment Fund ("AIF" - FPAM1 Fund) reserved for the purchase of receivables due from the Public Administrations.
The Fund, established on March 6, 2023, managed by TeamSystem Capital at Work SGR S.p.A., aims to increase the value of its assets through investments made to acquire, subscribe and/or sell ABS securities issued by the "SPV Project 2214 S.r.l." securitization vehicle, the underlying assets of which are represented by PA/NHS receivables acquired from assignor companies.

Transaction details

BFF subscribed units of the fund on July 11, 2023; subsequently, its operations began, with the acquisition of the first invoice and the issue of notes by the vehicle in early September 2023.
The securitization transaction was carried out through the vehicle established by Zenith Service S.p.A., which acquires trade receivables owed from PA and NHS entities and issues notes on the basis of Italian legislation, Italian Legislative Decree 130/99, in partly paid mode. TeamSystem Capital at Work SGR S.p.A. has taken on the role of Portfolio Manager in the transaction structure, and in particular has been made responsible for verifying the consistency between the Fund Investment Policy and the individual PA Receivables that will be acquired as part of the securitization transaction.
At consolidated level, the vehicle falls within the accounting scope of consolidation of BFF Banking Group, but not the prudential scope of consolidation.
At December 31, 2023, the vehicle had no receivables in its portfolio.

Description of the risk profile

Investment in the Fund entails a degree of risk typical of investments in an AIF, primarily connected to possible changes in the value and profitability of the assets in which the Fund has invested.
To mitigate the risk connected to the investment, the fund's Investment Policy and the investment limits set forth in the Fund Regulation have been carefully assessed.
In particular, the main guidelines are set forth in brief below:

- the PA Receivables underlying the ABS securities in which the Fund Assets are invested must be certain, liquid and payable at the due date specified on the invoice;

- the Fund cannot invest in ABS Securities with PA Receivables as their underlying asset for which, at the moment of acquisition, the relative assigned debtors are in a proven state of insolvency and, in particular:
  - PA Receivables referring to debtors that are found to be subject to distress, pre-distress or in recovery, compulsory administrative liquidation or another applicable bankruptcy procedure;
  - PA Receivables that refer to credit exposures and/or debtors classified as in default pursuant to Art. 178 of Regulation (EU) 575/2013 of the European Parliament and the Council, as well as the implementing provisions and/or interpretative guidelines of such provision (past due, UTP, non-performing);
- the PA Receivables underlying the ABS Securities must also have the following characteristics:
  - minimum amount by individual invoice of €5,000;
  - performing receivable or receivable past due for no more than 30 days;
  - term not exceeding 90 days, where term refers to the payment terms of the invoice (to be calculated as the difference between the invoice issue date and the invoice due date);
  - being monetary receivables deriving from or relating to supply contracts and/or trade contracts governed by Italian law that have been signed/executed by an Assignor Company;
  - relating to services already provided excluding payments on account and/or receivables relating to the real estate sector and subject to the assessment of work in progress.

Quantitative information

In the course of 2023, BFF Banking Group had no exposures to securitizations.

Section 15

Remuneration policy (Art. 450 CRR)

Qualitative disclosure

Definition of the Remuneration Policy

The Remuneration and Incentive Policy (also the "Policy") of the BFF Banking Group in force in the year 2023 was approved by the Shareholders' Meeting (also the "Shareholders' Meeting") on April 13, 2023.
The Remuneration Policy was defined and implemented with the ultimate goal of having 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 Policy, the Bank relied on the support of the PedersoliGattai, Mercer and DLA Piper Law Firm.

In this document, the definitions set forth in the 2023 Remuneration and Incentive Policy approved by the Shareholders' Meeting on April 13, 2023 and available on the Bank's website apply.

The Group has developed a governance process concerning the definition, implementation and management of the pay policy. This process calls for the involvement, at different levels and based on the applicable areas, of multiple control bodies and Company functions: every year, the Report on Remuneration Policy and Compensation Paid (also the "Report") is approved by the Shareholders' Meeting, after being approved by the Board of Directors and consulting with the Remuneration Committee.
The details are shown in paragraph 1 of the Policy ("Governance of the remuneration and incentive system"), and there is also a specific reference in Section II of the Report.

The shareholders' resolution approving the remuneration policies was adopted:

a) in compliance with the qualified majorities provided for by the Remuneration Supervisory Provisions[7];

b) following prior notification to the Supervisory Authority provided for by the regulations referred to in the Remuneration Supervisory Provisions[8].

7) The Remuneration Supervisory Provisions provide that Shareholders' Meeting approval requires the favorable 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 favorable vote of at least three quarters of the share capital represented, whatever that may be.

8) 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.

- 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, both short and medium-long term, for the BoD's Personnel. Furthermore, at the proposal of the Remuneration Committee, it approves the entire remuneration package of the CEO, including any allocation of stock options to said officer or other long-term incentive instruments.
Ensures that the remuneration and incentive systems are consistent with the Group's overall choices in terms of risk-taking, strategies, long-term objectives, corporate governance structure and internal controls;

- The Remuneration Committee:

Provides instructions and advice and makes recommendations to the Board of Directors on matters concerning Personnel remuneration and incentives, as well as the monitoring of areas within its remit. It comprises three non-executive members of the Board of Directors, at least two of whom are independent.
For a detailed description of the functions assigned, please refer to paragraph 1.4 of the Remuneration Policy.
For a detailed description of the functions carried out in the course of 2023 and the relative breakdown, please refer to paragraph 2.8 of the Report on compensation paid for 2023.

- The Control and Risks Committee:

One of the functions is to ensure that the incentives underlying the Group's remuneration system are consistent with the maximum levels of risk that the Group intends to assume. In coordination with the Remuneration Committee, it examines whether the incentive systems are consistent with the RAF, as well as with the support of the Risk Management Function.

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 Identified Staff through an at least annual assessment process - entrusted to the Board of Directors, with the support of the Human Resources and Organizational Development Function and the Rules and Processes O.U., and the Risk Management Function – carried out on the basis of the criteria provided for by the Supervisory Provisions. 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 and having consulted with the Remuneration Committee.

In addition, whenever the Bank or one of the Subsidiaries 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 Risk Taker category.

Remuneration components

Through adequate remuneration and incentive mechanisms, the BFF Group intends to favor 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.

The remuneration policies are differentiated by type of recipient, in order to take into account the specific characteristics of each party and specific regulatory provisions.

All Directors:

i. receive the compensation set by the Shareholders' Meeting as well as a reimbursement of costs incurred during the performance of their duties;

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 size and organizational complexity of the Bank and market practices and benchmarks.

The Chief Executive Officer receives:

- a Fixed Remuneration, consisting of a salary pursuant to Article 2389, paragraph 3, and a Benefits package, established by the Board of Directors.
- a short-term Variable Remuneration ("MBO") whose maximum opportunity is equal to 100% of the Fixed Remuneration (excluding Benefits) (see par. 6.1 MBO), linked in part to the punctual achievement or surpassing of the Target Risk Adjusted EBTDA defined from year to year and an additional set of non-financial objectives determined from year to year by the Board of Directors.
  The payment of short-term Variable Remuneration is subject to the achievement of certain entry gates:
  a) Liquidity Coverage Ratio (LCR) ≥ risk tolerance
  b) Total Capital Ratio (TCR) ≥ risk tolerance
  c) EBTDA ^{RA} (risk- and cost-of-capital-adjusted return): Positive

  The Short-term Variable Remuneration for the Chief Executive Officer is also conditional on achieving an EBTDARA / Target EBTDARA ratio of at least 100%.
  For the details, see par. 6.1 of the 2023 Remuneration policy.
- a medium-to-long term Variable Remuneration (so-called long-term incentive plan) (see par. 6.2 *Variable medium/long-term system (LTI)*).
  This plan is subject to the achievement of objectives in terms of value creation as a whole and also having regard to non-financial objectives, determined consistently with best market practices in the relevant sector. The maximum allocation to that plan is equal to the difference between (i) double the Fixed Remuneration and (ii) the annual value of the MBO received by the Chief Executive Officer, the maximum amount of which is equal to 100% of Fixed Remuneration.
- a golden parachute potentially payable to the CEO upon termination of office. The details in this regard are provided Par. 7.2.2.8 of the Remuneration Policy ("Golden Parachute").
- a non-competition agreement stipulated to safeguard the Bank's competitiveness and its interests and those of its stakeholders over the medium-to-long term.

The Chief Executive Officer may be the recipient of additional elements of Variable Compensation if they are related to performance with respect to objectives defined beforehand. The following apply to the aforementioned 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;
- *ex-post adjustment mechanisms (Malus and Clawback)*

Board of Statutory Auditors:

Members of the Board of Statutory Auditors:

- receive a fee set by the Shareholders' Meeting as well as a reimbursement of costs incurred during the performance of their duties;
- 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 a higher compensation than that paid to the Statutory Auditors, also established by the Shareholders' Meeting.

Supervisory Body:

The members of the Supervisory Body who are not Employees receive a Fixed Fee established by the Board of Directors. The amount of the Fixed Fee is established on the basis of market conditions and responsibilities assumed, guaranteeing the independence and autonomy of the function, and the diligent performance of the task. These members cannot receive any Variable Remuneration but receive D&O insurance cover and reimbursement of the expenses actually incurred in the performance of their duties.

For the members of the Supervisory Body who are also Employees, however, there is no compensation for the position, but only D&O insurance coverage and a reimbursement of expenses incurred to carry out their official duties.

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 Policy and applicable contractual regulations (particularly on the basis of the collective labor agreement for middle management and for professional area employees of credit, financial and instrumental companies, and the collective labor agreement for executive employees of credit, financial and instrumental companies, and the analogous collective labor agreements abroad).

Fixed Remuneration

The 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 and includes, as per the definition, the Benefits as well. The fixed component of remuneration is determined on the basis of principles of equity, competitiveness, meritocracy and consistency over time.

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 (TCR), 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/Group 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).

The variable remuneration component is divided into various components, including:

Short-term Variable Remuneration ("MBO")

The Employee MBO is a formalized incentive system that provides for the payment – based on the annual gross remuneration – of a bonus subject to company and individual qualitative and quantitative objectives being achieved. The mix between quantitative and qualitative objectives is appropriately balanced according to the roles and responsibilities of the entitled Employees. The MBO provides for retention mechanisms for all Employees, namely payment subject to the beneficiary still being employed by the Group.
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 EBTDA RA).
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) Corporate 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.

The deferred portion and the deferral periods:

For the CEO and the remaining Risk Takers the time horizon and percentage of the stock component is determined as follows:

i) the percentages of deferral are 40% and 60% in the case of particularly high Variable Remuneration, for the CEO and the remaining members of the Senior Management (see Paragraph 6.2.1.2. and 6.2.1.3.);

ii) the deferral periods are 4 years (5 years for particularly high Variable Remuneration), linear pro-rata (i.e. 10% at one year from the payment of the up-front portion, 10% in the second year, 10% in the third year, 10% in the fourth year). For beneficiaries of particularly high amounts of Variable Remuneration, the deferral is 5 years, linear pro-rata (i.e., 12% at one year from the payment of the up-front portion, 12% in the second year, 12% in the third year, 12% in the fourth year, 12% in the fifth year). The disbursement of deferred amounts to Employees is subject to the beneficiary remaining on staff at the payment date, without prejudice to the fact that, after three years of deferral have passed, beneficiaries will accrue the right to the payment of the subsequent deferred amounts as well, irrespective of whether they still work for the bank.

When annual Variable Remuneration does not exceed €50,000 and does not represent more than one-third of the annual total Remuneration (limited remuneration), the bonus is subject to:

i) for Risk Takers and for Employees with a minimum qualification of QD3 (third level executive), regardless of their qualification as Risk Takers, a deferral period of two years for 30% of the Variable Remuneration.

ii) for Risk Takers, a share in financial instruments equal to 50% with a 6-month retention period.

For all matters not expressly envisaged, the same rules envisaged for the Variable Remuneration shall also apply to the Low Variable Remuneration, including the ex post adjustment mechanisms (Malus and Clawback).

The disbursement of deferred amounts to Employees is subject to the beneficiary remaining on staff at the payment date, without prejudice to the fact that, after three years of deferral have passed, beneficiaries will accrue the right to the payment of the subsequent deferred amounts as well, irrespective of whether they still work for the bank.

Company bonus

For employees of the Parent Company subject to the National Collective Bargaining Agreement for managers and personnel in professional areas employed by credit, financial and instrumental enterprises, with the exception of executives, a company bonus ("VAP") has been drawn up that provides economic benefits based on the achievement of specific Group performance objectives.
The company bonus may be provided in cash, through corporate welfare goods and services on the basis of relevant agreements or through financial instruments.

Incentive Plans with Financial Instruments

As part of its incentive policy and in compliance with applicable law, the Group adopts Incentive Plans in Financial Instruments (including “phantom” plans, based on options and shares of the Bank and Stock Option Plans based on the allocation of options that entitle the beneficiary to receive ordinary shares of the Bank).
These plans aim to:

- encourage Personnel integration, making them share in the company's results;
- make Personnel more aware about creating value for the Group and for shareholders;
- increase the retention capacity by making valued staffers less likely to quit the Group;
- improve the Group's competitiveness in the labor market, making it more attractive to the best talents with the professionalism and skills that the Group needs;
- promote the sustainability of the Group in the medium and long term, and ensure that Variable Remuneration is based on the results actually achieved.

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.
Forms of Variable Remuneration linked to the retention of Personnel until a certain date or a certain event (retention bonus) may be envisaged if there are justified, documented reasons, in situations where it is important for the Bank to ensure the stability of the relationship.
Specifically, when assessing the award of a retention bonus, the following are analyzed:

1) the possible risks to the company in the event of termination of the employment relationship or office of a given member of the Personnel;
2) the reasons why it is important for the company to retain the member of the Personnel in question;
3) if the amount of the retention bonus granted is necessary and proportionate to retain the member of the Personnel concerned.

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[9]:

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.

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. For the details, see Par. 7.2.2.7 of the Remuneration Policy.

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.

9) 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.

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 Clawback), 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 Clawback), 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.

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, the Parent Company's Board of Directors ascertains the assumptions that determine the activation of the ex-post adjustment 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 company functions and, where necessary, the corporate bodies of the Subsidiaries.
For the details, see Par. 7.2.3 of the Remuneration Policy ("Ex-post adjustment mechanisms (Malus and Clawback)").

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	7	1	4	28
2		Total fixed remuneration	547	1,323	860	3,784
3		Of which: cash-based	547	1,234	810	3,550
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	0	89	50	233
8		(Not applicable in the EU)				
9	Variable Remuneration	Number of identified staff	7	1	4	28
10		Total variable remuneration	0	4,490	841	1,361
11		Of which: cash-based	--	1,372	-	106
12		Of which: deferred	--	823	-	43
EU-13a		Of which: shares or equivalent ownership interests	--	3,118	841	1,254
EU-14a		Of which: deferred	--	857	-	37
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments				
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)		547	5,812	1,702	5,144

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	-	-		-
2	Guaranteed variable remuneration awards -Total amount	-	-		-
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	-	-	-	
7	Severance payments awarded during the financial year - Total amount	-	-	-	
8	Of which paid during the financial year	-	-	-	
9	Of which deferred	-	-	-	
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	-	-	-	-

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	2,672	791	1,880	-	-	-	2,026	1,024
8	Cash-based	1,312	391	921	-	-	-	1,002	-
9	Shares or equivalent ownership interests	1,359	400	959	-	-	-	1,024	1,024
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	319	278	41	-	-	-	167	-
14	Cash-based	166	145	20	-	-	-	167	-
15	Shares or equivalent ownership interests	153	133	20	-	-	-	52	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	Other identified staff	1,311	648	663	-	-	-	297	-
20	Cash-based	734	359	375	-	-	-	172	-
21	Shares or equivalent ownership interests	577	289	288	-	-	-	125	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	**Total amount**	**4,302**	**1,717**	**2,584**	**-**	**-**	**-**	**2,491**	**-**

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	
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	1
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	Company functions	Independent internal control functions	All other	Total
1	Total number of identified staff	7	1	8				8	3	21	32
2	Of which: members of the MB	7	1	8							
3	Of which: other senior management										
4	Of which: other identified staff							8	3	21	32
5	Total remuneration of identified staff	547	5,812	6,359	--	--	--	1,299	1,055	3,651	6,005
6	Of which: variable remuneration	-	4,490	4,490	--	--	--	77	475	809	1,361
7	Of which: fixed remuneration	547	1,323	1,869	--	--	--	1,222	580	2,842	4,644

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

In order to continuously comply with the current regulatory leverage limits, and in accordance with the Group's Funding Plan, there was a successful reduction in the portfolio of securities held and the use of repurchase transactions payable with respect to the close of fiscal year 2022, with the aim of maintaining total assets at congruous levels as well as registering positive impacts on leverage.

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	12,292,266
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	288
3	(Adjustment for securitized exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	-
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)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	41,048
9	Adjustment for securities financing transactions (SFTs)	-
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	119,447
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-
12	Other adjustments	(192,562)
13	**Leverage ratio total exposure measure**	**12,260,487**

Template EU LR2 - LRCom: leverage ratio common disclosure

Rows		CRR leverage ratio exposures	
		12/31/2023	12/31/2022
On-balance sheet exposures (excluding derivatives and SFTs)		**10**	**20**
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	11,818,023	13,026,259
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework		
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
4	(Adjustment for securities received under securities financing transactions that are recognized as an asset)		
5	(General credit risk adjustments to on-balance sheet items)		
6	(Asset amounts deducted in determining Tier 1 capital)	(66,398)	(63,393)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**11,751,625**	**12,962,865**
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)		
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardized approach		
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions		
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardized approach		
EU-9b	Exposure determined under Original Exposure Method	42,209	36,420
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)		
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardized approach)		
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original exposure method)		
11	Adjusted effective notional amount of written credit derivatives		
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
13	**Total derivatives exposures**	**42,209**	**36,420**
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	352,200	251,891
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)		3,826
16	Counterparty credit risk exposure for SFT assets		
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR		
17	Agent transaction exposures		

(CONT'D)

Rows		CRR leverage ratio exposures	
		12/31/2023	12/31/2022
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)		
18	**Total securities financing transaction exposures**	**352,200**	**255,716**
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	527,285	431,210
20	(Adjustments for conversion to credit equivalent amounts)	412,822	355,540
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)		
22	**Off-balance-sheet exposures**	**114,453**	**75,670**
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)		
EU-22k	**(Total exempted exposures)**	-	-
Capital and total exposure measure			
23	**Tier 1 capital**	**586,946**	**611,900**
24	**Leverage ratio total exposure measure**	**12,260,487**	**13,330,671**
Leverage ratio			
25	Leverage ratio (%)	4.790%	4.590%
EU-25	Leverage ratio (without the adjustment due to excluded exposures of public development banks - Public sector investments) (%)	4.790%	4.590%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	4.790%	4.590%
26	Regulatory minimum leverage ratio requirement (%)	3.000%	3.000%
EU-26a	Additional own funds requirements to address risks of excessive leverage (%)		

(CONT'D)

Rows		CRR leverage ratio exposures	
		12/31/2023	12/31/2022
EU-26b	Of which consisting of CET1		
27	Leverage ratio buffer requirement (%)		
EU-27a	Overall leverage ratio requirements (%)	3.000%	3.000%
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		
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	352,200	255,716
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)	11,908,287	13,074,955
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)	11,908,287	13,074,955
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)	4.929%	4.680%
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)	4.929%	4.680%

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:**	**11,818,023**
EU-2	Trading book exposures	4,994
EU-3	Banking book exposures, of which:	11,813,029
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	6,654,001
EU-6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	3,464,847
EU-7	Institutions	398,534
EU-8	Exposures secured by mortgages on immovable property	-
EU-9	Retail exposures	7,613
EU-10	Corporate	370,992
EU-11	Exposures in default	332,322
EU-12	Other exposures (eg equity, securitizations, and other non-credit obligation assets)	584,721

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;
- insurance guarantee: issued by a leading insurance company and aimed at guaranteeing private debtor solvency;
- 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, with counterparties to which treasury and security services are offered.

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.

Please note that in December 2022, at consolidated level, the Bank decided to rely on the use of ratings issued by the ECAI S&P in order to calculate RWAs with companies, instead of weighting exposures to companies, consistent with the options provided by the CRR, with a coefficient of 100%. This modification was made to benefit from favorable weighting with an insurance company (20%) used to mitigate actual credit risk to companies, and will allow for a more specific calculation of capital requirements ("Capital Relief" policy).[10]

10) The Capital relief project calls for the non-recourse purchase of receivables due to assignors from private debtors, through factoring and reverse factoring transactions, backed by an insurance guarantee issued by leading insurance companies.

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	5,783,623	351,304	351,136	10	-
2	Debt securities	4,959,156				
3	**Total**	**10,742,779**	**351,304**	**351,136**	**10**	**-**
4	*of which non-performing exposures*	361,194	89	79	10	-
EU-5	*of which defaulted*	-	-	-	-	-

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 factors, at times simultaneous and correlated with each other:

- "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, 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. 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.

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 Finance and Treasury 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" and which incorporates the latest regulatory updates (see Bank of Italy Circular 285/2013), was approved by resolution of the Parent Company's Board of Directors at the proposal of the Parent Company's Chief Executive Officer, supported by the Parent Company's Risk Management Function, and after consulting the Parent Company's Compliance and AML Function for the relevant matters, the contents of which were subsequently implemented by the Subsidiaries.
It was defined in a manner consistent with:

- the risk/reward objectives defined in the Risk Appetite Framework;
- the Group's strategic objectives;
- the monitoring processes and strategies to be adopted in the event of a state of tension or liquidity crisis, as defined in the Group "Contingency Funding Plan" document.

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 Group's liquidity management process, with regard to liquidity management and control of the relevant risks, is centralized in the Parent. In this governance model, the Parent 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.
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, defined and approved by the Board of Directors, which 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, updated in relation to the evolution of company activities, the risk profile and the external context, and clearly documented and communicated within the Group;
- the roles and responsibilities of the units and functions operating within the liquidity management and governance process, clearly defined and documented;
- the operating structures governing liquidity, which act within well established and documented limits, and the control structure which operates autonomously and independently with respect to the former;
- the liquidity risk management and control process, set up in a manner consistent with the Group's organizational structure, which includes a periodic review process in order to ensure its effectiveness over time;
- the metrics used: regulatory and operational. Regulatory metrics are updated punctually with respect to regulatory developments and also used for operational purposes for risk governance, while operational ones are based on the projection of cash inflows and outflows for all of the various financial statement items using a prudential approach;
- risk management, performed from a current and forward-looking perspective, with the application of different scenarios;
- the maintenance of a sufficient amount of liquid instruments over time, consistent with the liquidity risk tolerance threshold defined at the Group level, and in compliance with the minimum regulatory levels;
- the clear and precise definition of an action plan containing intervention strategies in the event of liquidity tensions in order to obtain sources of funds: the Contingency Funding Plan, defined at the Group level. 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. The "Contingency Funding Plan" is approved by the Board of Directors of the Parent Company, and is updated at least annually;

- commercial, credit and financial policies, coordinated in order to maintain a balanced Group structural liquidity profile, taking into account multiple risk elements;
- information flows within the individual companies and within the Group, 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.

The Bank therefore has internal regulatory references governing liquidity risk management:

- Risk Appetite Framework (RAF), which is a set of metrics, processes and systems supporting the proper management of the level and type of risk, which the Group is willing to assume consistent with its strategic objectives;
- "Group encumbered asset management policy", which defines the governance of Encumbered Assets, 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, which aims to represent the Financial Plan of the Group, highlighting the liquidity position and currency exposure;
- "Contingency Funding Plan" ("CFP"), which, as described above, reports the objectives and describes the processes and strategies of the Group's contingency plan in response to adverse funding situations in order to initiate the appropriate escalation and decision actions and processes, with the aim of preventing and managing a possible liquidity crunch. In 2023 the document was updated in January.

As regards external regulatory references, the provisions introduced on liquidity by the European Union since June 2013 and subsequently updated establish that banks should:

- comply with the minimum short-term liquidity coverage requirement – the Liquidity Coverage Ratio ("LCR") – of 100% as stipulated in Art. 38 of Delegated Regulation (EU) 2015/61 and its supplements/amendments, calculated as the ratio between the liquidity buffer ("Liquidity Buffer") and the weighted net cash outflows recorded over a stress period of 30 days, through the application of a financial stress scenario predetermined by the supervisory authority;
- comply with the minimum structural liquidity requirement – Net Stable Funding Ratio ("NSFR") – of 100%, the latest update of which came into effect as of June 2021 following the final approval and subsequent publication in the Official Gazette in May 2019 of the banking reform package containing Directive (EU) 2019/878 (so-called CRD V) and Regulation 2019/876 (CRR II). This indicator measures the Group's capacity to hold a 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 Available Stable Funding (ASF), represented by liabilities weighted by stability resulting from the type of counterparty/maturity/product, and Required Stable Funding (RSF), represented by assets and off-balance sheet items weighted by the amount of stable liabilities required for the renewal of operations;
- monitor the 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.

Furthermore, the Group's liquidity position is monitored on a weekly basis, the reporting forms of which are sent to the Bank of Italy.

The Group's main sources of funding include:

- funding in euros or in other currencies from Transaction Services, which represents the main source of the Group’s structural funding, thanks to its stability in relation to the operational nature of nearly all of it;
- direct funding through Deposit Account activities in the markets in which the Group is present (directly or under the freedom to provide services);
- bond issues;
- refinancing transactions via securities (repos);
- any recourse to wholesale banking/financial lines.

Specifically with regard to direct deposits through Deposit Accounts, the contribution was up sharply during 2023, with the contribution as of December 31 more than doubling from the previous year-end. The Group has maintained its entire infrastructure, in Italy offering the online Conto Facto deposit account aimed at retail and corporate customers, and similarly offering the online Cuenta Facto and Lokata Facto deposit accounts through the Spanish and Polish branches in their respective markets. The taking of deposits in Germany, the Netherlands, and Ireland is also active through BFF's Spanish branch on a freedom of service basis, restricted to retail savers only, with the help of Raisin's online platforms. Deposits are guaranteed by the Interbank Deposit Protection Fund ("FITD") as per current law.

Liquidity monitoring, which is carried out in accordance with the maximum risk tolerance threshold, and therefore also with the nature, objectives and operational complexity of the Group, aims to ensure the ability to meet expected or unforeseen cash payment commitments. Holding reserves of liquid assets is the main liquidity risk mitigation tool at the Group level, the identification and measurement process of which is an essential element in managing it effectively and continuously over time.
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 Group 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 parent also conducts liquidity risk stress tests to assess the prospective impacts 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), with reference 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 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.

Note that the current macroeconomic landscape characterized by a high degree of uncertainty due to the continuation of the Russia-Ukraine conflict, the recent beginning of the Israeli-Palestinian conflict, and general tensions at the international level with repercussions on the credit system has led the Group to focus attention on the safeguards necessary for monitoring its liquidity position, and specifically it:

- when deemed necessary, reserves the right to perform stress analyses that are more frequent and more detailed as well as with increasing and variable impacts;
- maintains a significant share of assets available to meet unforeseen liquidity needs;
- monitors the markets, including through continuous comparison with market operators and related banks;
- closely monitors collection trends, in particular of Public Administration debtors.

Please note that, in the course of 2023, the short-term (LCR) and long-term (NSFR) ratios did not show any tensions, as they were well above regulatory levels on a monthly and quarterly basis, respectively.
With regard to short-term solvency, the lowest value was recorded in the September 30 reporting, mainly driven by a lower level of HQLA due to higher securities committed to Repos and lower projected collections relative to Factoring & Lending in the following 30 days. The Bank has always effectively managed its liquidity position at the Group level, using the alternative funding sources envisaged when necessary. The liquidity buffer, nearly entirely in euros, essentially consists of excess reserves deposited at the Central Bank and unencumbered government securities. On average, in the course of 2023, they equaled roughly 16% and 84% of the buffer, respectively. The minimal remainder consists of cash.
As of the reporting date of July 31, 2023, some interpretive adjustments were made which, among Inflows, resulted in the inclusion of only the portion of factoring purchases maturing within the next 30 days, with reclassification within Trade financing, and, among Outflows, the reclassification of cashier's checks issued that due to their nature were posted within Operational type operations. These changes did not impact the Group's short-term equilibrium or compliance with internal regulatory and normative limits.

The funding of the Group is essentially in euros. As of December 31, 2023, as well as for all of the year, the relevant currency used for liquidity reporting at consolidated level is confirmed as exclusively euros as, from the monthly monitoring performed, no other currency was equal to or greater than the threshold defined by regulations, or 5% of the total liabilities held.

BFF also 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 provision of collateral in the form of cash or other liquid collateral. They provide for possible a margin payment to/receipt from the counterparty in response to the change in the underlying exchange rate over the term of the contract.
Finally, the margins placed against Secured Financing transactions contributed by the Bank to the Central Counterparty ("CCP") as collateral for exposures determined by transactions executed in regulated markets (e.g., Repos) constitute residual restricted assets.

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 YYYY)**	**12/31/2023**	**09/30/2023**	**06/30/2023**	**03/31/2023**
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:	2,604,332	1,974,028	1,613,469	1,390,118
3	*Stable deposits*	2	4	6	9
4	*Less stable deposits*	729,995	567,961	502,590	455,634
5	*Unsecured wholesale funding*	6,623,578	5,540,787	5,117,064	5,412,976
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	6,302,101	5,281,661	4,844,278	4,980,106
7	*Non-operational deposits (all counterparties)*	320,008	259,127	258,237	432,871
8	*Unsecured debt*	1,469	-	14,549	-
9	*Secured wholesale funding*				
10	*Additional requirements*	151,153,565	106,185,237	74,611,283	80,036,119
11	*Outflows related to derivative exposures and other collateral requirements*	-	-	-	-
12	*Outflows related to loss of funding on debt products*	-	-	-	-
13	*Credit and liquidity facilities*	151,154	106,185	74,611	80,036
14	Other contractual funding obligations	87,024	100,673	771,011	823,668
15	Other contingent funding obligations	-	-	-	-
16	TOTAL CASH OUTFLOWS				
CASH - INFLOWS					
17	Secured lending (e.g. reverse repos)	228,766	309,643	247,532	264,070
18	Inflows from fully performing exposures	1,176,683	1,434,499	3,519,470	3,516,559
19	Other cash inflows	0	26	17	1,507
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	1,405,449	1,744,169	3,767,019	3,782,136
EU-20a	*Fully exempt inflows*	-	-	-	-
EU-20b	*Inflows subject to 90% cap*				
EU-20c	*Inflows subject to 75% cap*	1,405,449	1,744,619	3,767,019	3,782,136
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 YYYY)**	**12/31/2023**	**09/30/2023**	**06/30/2023**	**03/31/2023**
EU 1b	Number of data points used in the calculation of averages	-	-	-	-
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)	3,789,773	1,880,917	1,808,694	2,043,668
CASH - OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	98,555	77,290	66,559	61,550
3	*Stable deposits*	0	0	0	0
4	*Less stable deposits*	98,555	77,290	66,559	61,550
5	*Unsecured wholesale funding*	1,751,411	1,471,079	1,366,412	1,551,449
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	1,575,525	1,320,415	1,211,069	1,245,026
7	*Non-operational deposits (all counterparties)*	174,417	150,664	140,793	306,422
8	*Unsecured debt*	1,469	-	14,549	-
9	*Secured wholesale funding*	-	-	-	-
10	*Additional requirements*	21,342,921	16,599,841	11,335,411	11,279,930
11	*Outflows related to derivative exposures and other collateral requirements*	-	-	-	-
12	*Outflows related to loss of funding on debt products*	-	-	-	-
13	*Credit and liquidity facilities*	21,343	16,600	11,335	11,280
14	Other contractual funding obligations	87,024	100,673	771,011	823,668
15	Other contingent funding obligations	-	-	-	-
16	TOTAL CASH OUTFLOWS	1,958,332	1,665,641	2,215,317	2,447,947
CASH - INFLOWS					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	553,686	727,677	1,619,813	1,607,037
19	Other cash inflows	0	5	3	301
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	553,686	727,682	1,619,816	1,607,338
EU-20a	*Fully exempt inflows*	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	553,686	727,682	1,619,816	1,607,338
TOTAL ADJUSTED VALUE					
EU-21	LIQUIDITY BUFFER	3,789,773	1,880,917	1,808,694	2,043,668
22	TOTAL NET CASH OUTFLOWS	1,404,646	937,959	619,615	840,609
23	LIQUIDITY COVERAGE RATIO	271.46%	202.00%	290.41%	245.23%

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	653,344	108,066	-	-	653,344
2	*Own funds*	653,344	-	-	-	653,344
3	*Other capital instruments*		108,066	-	-	-
4	Retail deposits		2,149,380	425,950	137,772	2,455,569
5	*Stable deposits*		2	-	-	2
6	*Less stable deposits*		2,149,379	425,950	137,772	2,455,567
7	Wholesale funding:		7,989,953	-	151,710	3,232,081
8	*Operational deposits*		5,596,697	-	-	2,717,614
9	*Other wholesale funding*		2,393,256	-	151,710	514,467
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	48	640,609	-	35,283	35,283
12	*NSFR derivative liabilities*	48				
13	*All other liabilities and capital instruments not included in the above categories*		640,609	-	35,283	35,283
14	**Total available stable funding (ASF)**					**6,376,277**

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)					344,761
EU-15a	Assets encumbered for more than 12m in cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		89,772	-	-	44,886
17	Performing loans and securities:		4,234,965	91,213	1,258,084	1,864,213
18	*Performing securities financing transactions with financial customers collateralized by Level 1 HQLA subject to 0% haircut*		299,776	-	-	-
19	*Performing securities financing transactions with financial customer collateralized by other assets and loans and advances to financial institutions*		291,967	-	34,198	63,394
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		760,419	83,746	714,101	1,029,069
21	*With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk*		-	-	-	-
22	*Performing residential mortgages, of which:*		-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk*		-	-	-	-
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*		2,882,803	7,467	509,784	771,750
25	Interdependent assets		-	-	-	-
26	Other assets:		**768,656**	**97,239**	**465,234**	**1,052,574**
27	*Physical traded commodities*				-	-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		-	-	-	-
29	*NSFR derivative assets*		-			-
30	*NSFR derivative liabilities before deduction of variation margin posted*		1,167			58
31	*All other assets not included in the above categories*		767,489	97,239	465,234	1,052,516
32	Off-balance sheet items		142,315	-	-	7,116
33	**Total RSF**					**3,313,550**
34	Net Stable Funding Ratio (%)					192.430%

Certification by the Financial Reporting Officer

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

Giuseppe Manno
Financial Reporting Officer

Giuseppe Manno

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