

PILLAR III

Disclosure to the public

as of June 30,
2022

COURTESY TRANSLATION



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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. It is also required to publish on a half-yearly basis the disclosure of exposures subject to the measures applied in response to the Covid-19 crisis as established by the Bank of Italy in application of the EBA Guidelines (EBA/GL/2020/07). 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 and disclosures on exposures subject to the measures applied in response to the Covid-19 crisis 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 and the disclosure of exposures subject to the measures applied in response to the Covid-19 Crisis, 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. In line with the provisions of the CRR.

Please note that:

- ▶ information on the risks the Group is exposed to (including the impact of the Covid-19 pandemic and the Russia/Ukraine conflict), and information on the policies for managing and controlling those risks is provided in Part E of the Notes to the Half-Yearly Financial Report as at June 30, 2022;
- ▶ information on the Group's own funds and banking regulatory capital ratios is published in Part F of the Notes to the Half-Yearly Financial Report as at June 30, 2022;
- ▶ information on governance structures can be found in the "Report on Corporate Governance and Ownership Structures" published in the Governance section of the Group's website www.bff.com (section: <https://investor.bff.com/it/struttura-di-governo>);
- ▶ Information regarding the Group's remuneration and incentive policies is also specifically provided in the "Report on Remuneration" published in the "Governance" section of the Banking Group website;
- ▶ with regard to the increasing weight that the monitoring of social, environmental and governance risks (ESG risks) is assuming in the framework of European regulations and to certain 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 is provided – based on current regulations – in the Sustainability section on the Group's website www.bff.com (section: <https://investor.bff.com/it/sustainability>).

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

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

Key metrics information (EU KM1 template Regulation 637/2021)

The following provides the information in tabular format envisaged in Article 447 of Regulation 876/2019 and implemented in the EU KM1 template of Regulation 637/2021.

In compliance with Article 19 of the CRR, the consolidated capital requirements are calculated considering BFF Bank at the top of the banking group.

EU KM1 template: Key metrics template

Row	a	b	c	d	e	
	30/06/2022	31/03/2022	31/12/2021	30/09/2021	30/06/2021	
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1)	370,320	386,152	382,833	411,947	410,450
2	Tier 1 capital	520,320	536,152	382,833	411,947	410,450
3	Total capital	520,320	536,152	481,057	510,171	508,674
Risk-weighted exposure amounts						
4	Total Risk exposure amount	2,457,087	2,315,746	2,171,134	2,227,844	2,209,979
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	15.07%	16.68%	17.63%	18.49%	18.57%
6	Tier 1 ratio (%)	21.18%	23.15%	17.63%	18.49%	18.57%
7	Total capital ratio (%)	21.18%	23.15%	22.16%	22.90%	23.02%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)						
EU 7a	Additional own funds requirements based on SREP (%)	1.55%	1.55%	1.55%	1.55%	1.55%
EU 7b	- of which CET1 capital (percentage points)	0.85%	0.85%	0.85%	0.85%	0.85%
EU 7c	- of which class 1 capital (percentage points)	1.15%	1.15%	1.15%	1.15%	1.15%
EU 7d	Total SREP own funds requirements (%)	9.55%	9.55%	9.55%	9.55%	9.55%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2.5000%	2.5000%	2.5000%	2.5000%	2.5000%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.0000%	0.0001%	0.0001%	0.0025%	0.0027%
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	-	-	-	-	-
11	Combined buffer requirement (%)	2.5000%	2.5001%	2.5001%	2.5025%	2.5027%
EU 11a	Overall capital requirements (%)	12.0525%	12.0527%	12.0501%	12.0525%	12.0527%
12	CET1 available after meeting the total SREP own funds requirements (%)	0	0	0	0	0
Leverage ratio						
13	Leverage ratio total exposure measure	12,547,837	11,467,603	10,934,519	10,814,312	10,312,879
14	Leverage ratio (%)	4.147%	4.675%	3.501%	3.809%	3.980%
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 (%)	3.000%	3.002%	3.002%	3.002%	3.002%
Leverage ratio buffer and total leverage ratio requirement (as a percentage of leverage ratio total exposure amount)						
EU 14d	Leverage ratio buffer requirement (%)	0.000%	0.000%	0.000%	0.000%	0.000%
EU 14e	Overall leverage ratio requirements (%)	3.000%	3.002%	3.002%	3.002%	3.002%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	3,409,218	4,059,079	5,036,890	4,623,178	5,964,096
EU 16a	Cash outflows - Total weighted value	2,816,115	2,731,041	3,006,281	2,838,371	3,036,995
EU 16b	Cash inflows - Total weighted value	1,266,881	1,122,102	1,168,443	1,165,440	1,134,918
16	Total net cash outflows (adjusted value)	1,549,234	1,608,939	1,837,838	1,672,932	1,902,078
17	Liquidity coverage ratio (%)	220.06%	252.28%	274.07%	276.35%	313.56%
Net Stable Funding Ratio						
18	Total available stable funding	4,535,349	4,457,298	4,825,255	4,784,081	5,759,009
19	Total required stable funding	2,793,176	2,752,595	2,366,982	2,525,755	2,434,616
20	NSFR ratio (%)	162.37%	161.93%	203.86%	189.41%	236.55%

Disclosure of exposures subject to measures applied in response to the Covid-19 crisis (EBA Guideline GL/2020/07)

Qualitative disclosure

With a communication of June 30, 2020, the Bank of Italy implemented the EBA Guidelines on reporting and public disclosure requirements for exposures subject to measures applied in light of the Covid-19 Crisis (EBA/GL/2020/07). The objective of the guidelines is to monitor – on a European level and to a harmonised extent – the moratoria granted to support customers in response to the crisis triggered by Covid-19, and to provide an adequate and appropriate understanding of the risk of supervised institutions, consistent with the information in the consolidated Finrep reporting.

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

	Gross carrying amount						
	Performing				Impaired		
		Of which: Grace period for principal and interest	Of which: forborne exposures	Of which: instruments with significant increase in credit risk after initial recognition but which are not non-performing (Stage 2)		Of which: Grace period for principal and interest	Of which: forborne exposures
Loans and advances subject to moratoria	1,866	1,556	690	168	310	5	
of which: households							
<i>of which: collateralized by residential immovable property</i>							
of which: non-financial companies	1,436	1,126	601	168	310	5	
<i>of which: small and medium-sized enterprises</i>							
<i>of which: collateralized by commercial immovable property</i>							

	Accumulated impairment, accumulated negative changes in fair value due to credit risk						
	Performing				Impaired		
		Of which: Grace period for principal and interest	Of which: forborne exposures	Of which: instruments with significant increase in credit risk after initial recognition but which are not non-performing (Stage 2)		Of which: Grace period for principal and interest	Of which: forborne exposures
Loans and advances subject to moratoria	(0)	(0)	(0)	(0)	(0)	(0)	
of which: households							
<i>of which: collateralized by residential immovable property</i>							
of which: non-financial companies	(0)	(0)	(0)	(0)	(0)	(0)	
<i>of which: small and medium-sized enterprises</i>							
<i>of which: collateralized by commercial immovable property</i>							

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

	Number of borrowers (in units)		Gross carrying amount				Residual duration of moratoria					
		Of which: granted (in units)	Of which: granted			<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 12 months <= 18 months	> 18 months	
			Of which: legislative moratoria	Of which: moratoria extended	Of which: expired							
Loans and advances subject to moratoria	229	229	1,922	1,922		55	905	24	50	30	114	742
of which: households				0								
<i>of which: collateralized by residential immovable property</i>				0								
of which: non-financial companies				1,492		55	816	24	50	30	114	401
<i>of which: small and medium-sized enterprises</i>				0								
<i>of which: collateralized by commercial immovable property</i>				0								

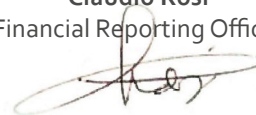
Certification by the financial reporting officer

Pursuant to paragraph 2 of Article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer Claudio Rosi

DECLARES

that the accounting information contained in this document corresponds to the documentary evidence, books and records.

Claudio Rosi
Financial Reporting Officer

A handwritten signature in black ink, appearing to be 'C. Rosi', written over a faint circular stamp or watermark.

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

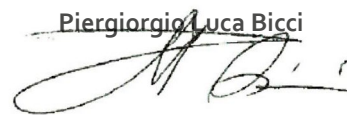
CERTIFY

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



Graphic design and typesetting
Red Point Srl

Translation from the original Italian text
Studio Tre SpA

