BFF BANKING GROUP

2017 PILLAR III
PUBLIC DISCLOSURE

BFF BANKING GROUP

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Introduction

The Basel Accords ("Basel III") developed by the Basel Committee were transposed into EU law and came into effect on January 1, 2014. These measures aim to improve the banks' ability to absorb shocks arising from financial and economic stress, improve risk management and governance, and strengthen banks' transparency and disclosures.
Basel III were implemented in the EU through two distinct legislative acts:

- Regulation (EU) 575/2013 of June 26, 2013 (so-called CRR)—Part eight "Disclosure by institutions" (Articles 431 to 455) and Part ten, Title 1, Chapter 3 "Transitional provisions for disclosure of own funds" (Article 492)—governing entities subject to prudential supervision (Pillar 1) and disclosure requirements (Pillar 3).
- Directive 2013/36/EU of June 26, 2013 (so-called CRD IV), governing, among other, access to the activity of credit institutions, freedom of establishment and freedom to provide services, prudential supervision and additional own funds requirements.

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

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

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

- **Pillar II** requires banks to adopt strategies, control processes and instruments to determine, in addition to the risks of Pillar I, present and prospective capital adequacy, charging the Supervisory Authority with the task of verifying the reliability and consistency of relevant results and to adopt, where necessary, the appropriate corrective measures. The BFF Group annually submits the "ICAAP Report" to the Bank of Italy, thus updating the risk management system aimed at determining the adequacy of capital.

- **Pillar III** establishes specific periodic disclosure obligations concerning capital adequacy, risk exposure and the general features of the related systems for the identification, measurement and management of such risks. Also this aspect has been reviewed and additional transparency requirements have been introduced as well as more detailed information on the composition of regulatory capital and on the calculation methods the Banking Group shall use to determine capital ratios.

In accordance with Article 433 of the CRR, banks shall publish disclosures required by EU legislation at least once a year, together with publication of their financial statements.
To this end, the Banca Farmafactoring's Board of Directors approved a dedicated "Procedure for Public Disclosure (Pillar III)".
According to this procedure, the Public Disclosure shall be:

- approved by the Board of Directors before it is made public;
- published on the Bank's website www.bffgroup.com (Investor Relations section) at least once a year, within the deadline established for the publication of the financial statements, thus within thirty days of the date of approval of the financial statements by the Shareholders' Meeting.

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

It is worth noting that:

- information on the risks to which the Banking Group is exposed and on the risk management and control policies is also provided in Part E of the Notes to the Consolidated Financial Statements at December 31, 2017;
- information on own funds and banking regulatory ratios for both the CRR Group and the Banking Group pursuant to the Consolidated Law on Banking is also published in Part F of the Notes to the Consolidated Financial Statements for 2017;
- information on Governance is shown in the "Report on Corporate Governance and Ownership Structures", published in the "Governance" section of the Banking Group's website www.bffgroup.com;
- information relating to the Banking Group's remuneration and incentive policies is also indicated in the "Remuneration Report" published in the "Governance" section of the Banking Group's website.

The Public Disclosure (Pillar III) is also attested by the Financial Reporting Officer, pursuant to Article 154-bis of Legislative Decree 58/98 (TUF—*Testo Unico sulla Finanza,* Consolidated Law on Finance).
This document includes 16 sections, describing qualitative and quantitative information at December 31, 2017. The sections without information content are not published.

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

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

Section	Description/Reference to CRR Articles	Qualitative information	Quantitative information	Page
1	Risk Management Objectives and Policies - Art. 435	x	n.a. (*)	6
2	Scope of Application - Art. 436	x	n.a. (*)	31
3	Own Funds - Art. 437	x	x	34
4	Capital Requirements - Art. 438	x	x	40
5	Exposure to Counterparty Credit Risk - Art. 439	x	x	47
6	Capital buffers - Article 440	x	x	49
7	Credit Risk Adjustments - Art. 442	x	x	50
8	Unencumbered Assets - Art. 443	x	x	61
9	Use of ECAIs - Art. 444	x	x	63
10	Exposure to Market Risk - Art. 445	x	x	65
11	Operational Risk - Art. 446	x	x	69
12	Exposures in Equities not included in the Trading Book - Art. 447	x	x	71
13	Exposure to Interest Rate Risk on Positions not included in the Trading Book - Art. 448	x	x	73
14	Exposure to Securitization Positions - Art. 449	x	x	77
15	Remuneration Policy - Art. 450	x	x	80
16	Leverage - Art. 451	x	x	94

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

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

Qualitative information

Introduction

The Banca Farmafactoring Banking Group adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed.
These measures are part of the governance of the organization and of the internal control system, aimed at ensuring management practices grounded in efficiency, effectiveness and fairness, covering every type of business risk, consistently with the characteristics, dimensions and complexity of the business activities carried out by the Group.
With this in mind, the Group 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.

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

The corporate governance bodies of the Bank—as Banca Farmafactoring Banking Group's Parent Company—define the risk governance and management model at the Group level, taking into account the specific types of operations and the related risk profiles characterizing all the Group's entities, with the aim of creating an integrated and consistent risk management policy.

Within this framework, the Parent Company's corporate governance bodies perform the functions entrusted to them not only with regard to their specific business activities but also taking into account the Group's operations as a whole and the risks to which it is exposed and involving, as appropriate, the governance bodies of the subsidiaries in the decisions concerning risk management procedures and policies.

System of Internal Control

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

First-level controls (line controls) aim to ensure that transactions are carried out correctly, and are performed by the same operating structures that perform the transactions, also with the support of IT procedures.

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

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

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

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

In addition to other tasks, the Risk Management Function is responsible for:

- cooperating with the corporate governance bodies in defining the overall risk management system and the entire reference framework relating to the assumption and control of Group risks (Risk Appetite Framework);
- establishing adequate risk management processes through the adoption and maintenance of suitable risk management systems, in order to map, measure, control or mitigate all relevant risks;

- providing an assessment of the capital absorbed, also under stress conditions, and the related present and prospective capital adequacy, by defining processes and procedures to meet every type of present and future risk, which take into account strategies and context changes;
- overseeing the implementation of the risk management process and ascertaining that it is being complied with;
- monitoring the adequacy and effectiveness of the actions taken to resolve any weaknesses found in the risk management system;
- submitting periodical reports to the corporate governance bodies on the activities carried out and providing them with consulting support on risk management issues.

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

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

Within the framework of **third-level controls**, the Group's Internal Audit Function carries out internal audit activities and reports to the Board of Directors.

The Internal Audit Function carries out independent controls, not only at the Parent Company but also at the subsidiary BFF Finance Iberia S.A. (formerly Farmafactoring España S.A.)[1], under a specific servicing agreement which governs the provision of the audit service, and, within an institutional framework, as a function of the Parent Company for the subsidiary BFF Polska S.A. (Formerly Magellan S.A.).[2]

The regulation approved by the Board of Directors specifies that the Internal Audit Function, within the third-level controls, evaluates the overall functioning of the internal control system 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 Governance Code and internal regulations, and is vested with the organizational powers to monitor company processes.

In addition to the above-mentioned corporate control functions, as defined by the Bank of Italy's provisions on internal control systems, it should be pointed out that for the purposes of remuneration and incentive policies and practices, in line with the provisions of Bank of Italy's Circular no. 285 of December 17, 2013, as subsequently amended, Part 1, Title IV, Chapter II, human resources are also considered as a corporate control function, and namely, the Parent Company's Personnel and Organizational Development Unit.

Furthermore, BFF has an Organization, Management and Control Model pursuant to Legislative Decree 231/2001, consisting of a General Part and Special Parts, and it has set up a **Supervisory Body** that periodically monitors the model's adequacy through planned testing activities.
The Model was updated and reviewed with a resolution of the Board of Directors of September 27, 2017.
The activities of the Supervisory Body carried out in 2017 aimed mainly to assess the adequacy of the 231 Organization Model, also at a Group level, to check information flows, to examine the reports prepared by the Internal Audit and all other control functions, and to carry out independent checks.
The Supervisory Body was also constantly updated, to the extent of its competence, on projects that are strategically relevant for the Bank.

It should also be noted that the Spanish subsidiary BFF Finance Iberia S.A. adopted its own Organization Model in accordance with Article 31-bis of the Spanish Penal Code, similar to the Italian Organization, Management and Control Model, and identified a Supervisory Body similar to that provided for by Italian regulations.
With regard to the Polish subsidiary BFF Polska S.A., in accordance with Polish regulations, specific guidelines have been adopted to govern "anti-corruption" issues, with the identification of a specific, monocratic body, represented by the local Compliance and AML Function.

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

(1) The change in the company name became effective on April 4, 2018.
(2) The change in the company name became effective on March 22, 2018.

CREDIT RISK

The main activity of the Banking Group is factoring, which is governed, in Italy, by the Italian Civil Code (Book IV, 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 public administration agencies.
Moreover, for the purpose of diversifying its business and its geographical presence, the Banking Group comprises the companies of the BFF Polska S.A. Group, which provide financial services to companies operating in the healthcare sector and to public administration agencies in the countries in which they operate.

Credit risk management policies

1. Organizational issues

The assessment of a transaction, for the different products offered by the Banking Group, is conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial relationship underlying the credit quality and the customer's ability to repay.
The guidelines and procedures to monitor and control credit risk are set forth in the current "Credit Regulation," approved by the Board of Directors on December 29, 2017, 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 "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 the credit risk has been created to ensure control over the main types of risks belonging to the credit risk category.
For this purpose, it must be noted that the core business carried out by the Group consists, as mentioned above, in the purchase of receivables on a non-recourse basis[3] due from debtors belonging to public administration agencies.

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

- credit risk in the strict sense: the risk of default of counterparties to which the Group is exposed, which is fairly limited considering the nature of the Group's counterparties, the majority of which

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

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

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

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

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

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

"Recourse factoring" is a marginal activity for the Banking Group since this type of factoring is only included in the BFF Polska S.A. product portfolio.

The 2016 acquisition of BFF Polska S.A. significantly contributed to the growth of the Group, which extended its business to Poland, Slovakia and the Czech Republic, while at the same time diversified its range of financial services offered.
BFF Polska S.A. mainly operates in three sectors:
- financing the working capital of suppliers to the public administration;
- financing current and future receivables in the public and healthcare sector;
- financing investments in the public and healthcare sector.

Also with regards to the specific types of investment by BFF Polska S.A. and its subsidiaries, credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin and receivables portfolio value. As a general rule, the Banking Group's customers have a

suitable credit standing and, if necessary, adequate guarantees are requested to mitigate the risk of financial losses arising from customers' non-performance.
Exposure to 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.

As for the assessment and measurement of credit risk from the regulatory point of view, in terms of capital requirements for capital adequacy purposes, the Group uses the "standardized" approach 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 risk weights to each portfolio, as shown in detail in Section 4 of this document.

The Group adopted the Dominion Bond Rating Service (DBRS) as reference ECAI in order to assign the risk weights subject to ratings relating to the counterparties (i.e. Article 116 of the CRR concerning the exposures to public sector entities).
For this purpose, it should be noted that the unsolicited rating attributed to the Republic of Italy by DBRS on January 13, 2017 was "BBB high". Starting from such date, exposures to the Italian public sector entities, which include receivables due from the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%, compared to 50% adopted when such receivables fell within the Credit Quality Step 2 (assigned to exposures concerning Polish public sector entities). If the rating of the Republic of Italy was subject to a one-notch upgrade or if the Parent Company opted for an ECAI with a rating one notch higher, returning to a 50% weighting for public sector entities, this would result in an estimated 3.4% improvement of CET1 with reference to the Banking Group pursuant to the Consolidated Law on Banking (2.2% for the CET1 with reference to the CRR Group).

The Banking Group constantly maintains, as a capital requirement covering 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 covering credit risk at December 31, 2017 is €133.4 million for the Banking Group.

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

In particular:

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

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

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

3. Qualitative assessment of receivables

The Group performs an impairment test on the receivables portfolio, aimed at identifying any impairment of its assets, in line with the provisions of the applicable accounting standards (IAS 39) and the prudential criteria required by supervisory regulations and the internal policies adopted by the Group.

This assessment is based on the distinction between these two categories of exposures:

- *Receivables subject to generic adjustments ("collective assessment");*
- *Receivables subject to specific adjustments.*

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

The approach adopted by the Group is based on a prospective model that may require the recognition of expected losses over the lifetime of the receivable on the basis of supportable information, which is reasonably available if obtaining it does not involve undue cost or effort, and which is about past events, current and future conditions. In this context, an approach based on the use of credit risk parameters (Probability of Default, Loss Given Default, Exposure at Default) has been adopted, redefined based on a multi-period perspective.

More specifically, according to IFRS 9, impairment of receivables is recognized in three stages, each with different methods for calculating the losses to be recorded.

As for stage 1, expected losses are measured over a 12-month period. As for stage 2 (including financial assets whose credit risk increased significantly since initial recognition), expected losses are measured over the full lifetime of the instrument (lifetime expected losses). Stage 3 includes all financial assets that show objective impairment at the reporting date (non-performing exposures).

Receivables subject to generic adjustments ("collective assessment")

Although portfolio receivables are almost entirely due from counterparties belonging to public administration agencies, as in previous years, for the purposes of preparing the annual or interim financial statements, the Group performs a collective assessment in accordance with the provisions of IAS 39.

Receivables subject to generic adjustments include all current receivables and receivables due from customers that are not classified as impaired exposures, as defined in the section below ("Impaired financial assets"), in relation to which there is no objective impairment at an individual level in line with the reference standards.

The generic adjustments are calculated on the basis of a "Probability of Default" (PD), identified by assigning a rating to debtors (for example, central governments, local entities, local healthcare entities/hospitals) corresponding to that assigned by the main rating agencies. To determine the "Loss Given Default" (LGD), the Bank used the value recommended in the "Basel Accord Framework" for non-collateralized receivables due from sovereign states, companies and banks, equal to 45%.

The product of PD and LGD is thus multiplied to the exposures not classified as non-performing and/or unlikely to pay (EAD, Exposure At Default).

As regards BFF Polska and its subsidiaries, the collective impairment is calculated, at this time, exclusively in relation to private counterparties. As regards the impairment policies adopted, BFF Polska S.A. submits specific periodic reports to the Parent Company, so that the corresponding functions of the parent can report on the activities conducted in this area and check the correctness of the conclusions.

As regards BFF Finance Iberia S.A., after carrying out the necessary assessments in line with IAS 39 (in force at December 31, 2017), the company considered the application of generic adjustments as non-material for the risks assumed.

At December 31, 2017, the impairment of the Group's performing receivables portfolio amounted to €5.2 million.

Receivables subject to specific adjustments ("individual assessment")

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

It should be noted that, with reference to past due receivables, although classified as impaired financial assets and therefore subject to specific impairment, the same assessments that apply for the performing exposures referred to in this section were carried out. This decision is supported by the fact that, in consideration of the Bank's core business, positions past due by over 90 days, identified according to objective criteria, do not necessarily represent a deterioration of the risk position with individual objective impairment elements. The results of such impairment are then individually associated with each counterparty with this risk position. The Banking Group's impaired receivables consist of non-performing, unlikely to pay and past due exposures, whose overall amount, net of any individual impairment, amounted to €94.7 million, broken down as follows:

- non-performing loans to the tune of €18.2 million, of which €2.2 million relating to BFF Polska S.A.;
- unlikely to pay exposures to the tune of €6.8 million, exclusively relating to BFF Polska S.A.;
- past due exposures to the tune of €69.8 million, of which €6.7 million relating to BFF Polska S.A.

At December 31, 2017, BFF Finance Iberia S.A. did not recognize, net of any individual impairment, any non-performing exposures.

As regards the impairment policies adopted, BFF Polska S.A. and BFF Finance Iberia S.A. submit specific periodic reports to the Parent Company, so that the corresponding functions of the parent can report on the activities conducted in this area and check the correctness of the conclusions.

4. Impaired financial assets

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

- Non-performing loans (net amount of €18.2 million, of which 2.8 million purchased already impaired);
- Unlikely-to-pay exposures (net amount of €6.8 million);
- Impaired past due exposures (net amount of €69.8 million).

<u>Non-performing loans</u>
These are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the company.
At December 31, 2017, the total non-performing loans of the Banking Group, net of impairment, amounted to €18.2 million, of which €2.8 million purchased already impaired. Non-performing loans relating to Italian municipalities in financial distress amounted to €15 million, accounting for 82.8% of the total.
Gross non-performing loans amounted to €25.7 million; relevant impairment amounted to €7.5 million. The portion of the provision for late payment interest relating to non-performing exposures, recognized at the time of the change in estimate in 2014, was equal to €13.9 million entirely impaired, and refers mainly to exposures to Fondazione Centro San Raffaele del Monte Tabor (ongoing liquidation and composition agreement with creditors). Taking account of this amount, too, gross non-performing loans amounted to €39.6 million and relevant adjustments totaled €21,4 million. As far as this exposure is concerned, it should be noted that in June 2017, €1.6 million were received for the fourth distribution in the composition agreement with creditors of Fondazione Monte Tabor, in relation to which a net residual amount of €0.9 million was still due, relating to principal only.

With reference to the Bank, total non-performing loans, net of any estimated impairment losses, amounted to €16 million at December 31, 2017, €15 million of which were due from Italian municipalities in financial distress.

Specifically, the amount of €2.8 million refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions, and the approximate figure of €1.7 million refers to receivables fully impaired and, therefore, the net amount is equal to 0.

The remaining positions referring to the Bank were impaired based only on the time value, as they consist of exposures backed by sureties or relating to local entities in financial distress, for which no provisions were recognized as the distressed condition is expected to be remedied, resulting in the collection of 100% of receivables.
Gross non-performing loans relating to the BFF Polska S.A. Group amounted to €6.2 million; after impairment of €4 million, the net amount totaled €2.2 million.

Unlikely to pay exposures
Unlikely to pay exposures reflect the judgment made by the Group about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully fulfill (for principal and/or interest) its credit obligations. This assessment should be arrived at independently of the existence of any past due and unpaid amounts (or installments). Therefore, it is not necessary to wait for an explicit sign of anomaly (e.g. failure to repay) when there are factors that signal a default risk situation for the debtor. Exposures to retail customers can be classified in the unlikely to pay category at the individual transaction level, provided that the intermediary believes that the conditions for classifying in this category the entire amount of exposures to the same debtor cannot be met.
At December 31, 2017, net exposures classified as unlikely to pay amounted to a total of €6.8 million, all attributable to the BFF Polska S.A. Group portfolio.

Impaired past due exposures
These are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due.
More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be impaired past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Measurement of such past due exposures is carried out at the portfolio level, since there are no objective indications of individual impairment.
At December 31, 2017, total net past due exposures amounted to €69.8 million for the whole Group, of which 92.8% referring to the public administration and public sector companies. Banca Farmafactoring's exposures totaled €63.1 million. Of such amount, €61.3 million (97.2%) concerned Italian and Portuguese public administration agencies (largely local entities) and Italian public sector companies. For the BFF Polska S.A. Group, net past due exposures amounted to €6.7 million, of which €3.7 million, equal to 55.6%, refer to public administration entities and public sector companies. BFF Finance Iberia S.A. did not recognize any net past due exposures.

5. Securitization transactions

At December 31, 2017, there is a securitization transaction outstanding concerning receivables of healthcare sector entered into with Bayerische Landesbank (BayernLB). As regards this transaction, the receivables were sold to a vehicle company but not derecognized since the sale did not entail the transfer of the relevant risks and rewards.
As a result, all the risks and rewards remain with the Group and the relevant securitization risk is included in the credit risk.

On June 30, 2017, the revolving phase of the FF SPV I S.r.l. securitization entered into with Deutsche Bank AG was not renewed. Consequently, in July 2017 the revolving phase was concluded and the vehicle began to accumulate liquidity through the collection flows deriving from the receivables portfolio sold and the remaining amount at the start date of the amortization phase. The liquidity accumulated on a monthly basis was allocated to the gradual repayment of Senior Notes on the monthly payment dates of the amortization phase.
Repayment of Senior Notes was completed on January 25, 2018.
A detailed description of transactions is provided in Section 13 of this document.

CREDIT VALUATION ADJUSTMENT (CVA) RISK

With reference to the capital requirements for CVA risk, meaning an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty, the Group has applied the standardized method set out in Article 384 of the CRR.

More specifically, for the Banca Farmafactoring Group, the requirement involves a negligible amount and applies to derivative contracts entered into to hedge fluctuations in exchange rates through the forward sale of foreign currencies at a specific spot rate and to interest rate swaps (IRS) used to hedge the rate applied to funding.

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.
This requirement arises when the value of transactions carried out with certain counterparties is positive. A simple method is used to measure this risk. In the event that a part of the exposure is secured by collateral, the institution shall assign a weight equal to the one assigned to the instrument used as collateral.
For the Banking Group, the counterparty risk is marginal and is generated by repurchase agreements with Cassa Compensazione e Garanzia as the counterparty, and by derivative contracts relating to BFF and BFF Polska S.A.

MARKET RISK

Market risk concerns positions held for trading, that is, positions intentionally held for sale in the short term, acquired in order to take advantage of purchase and sale price differences, or other changes in prices or interest rates.
The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio. The Group measures market risk using the "Standardized" method.
In 2017, financial assets held for trading include financial instruments held to hedge against interest rate risk, for which hedge accounting is not applied.

Specifically, the financial instruments recorded in this category are derivative contracts executed by BFF Polska S.A., before the Bank's acquisition, to hedge against exchange rate fluctuations through a forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they should be considered as risk hedging instruments.
As operational hedging instruments, these derivatives were subject to the credit valuation adjustment risk.

INTEREST RATE RISK

For assessing interest rate risk, potentially linked to fluctuations in interest rates, the Group adopted the method used to determine internal capital set forth in Annex C of Bank of Italy's Circular no. 285/2013 (Part I, Title III, Chapter I) and provided for by recent guidelines issued by EBA[4]. This method is applied monthly, in order to detect on a timely and ongoing basis any loss resulting from a market shock determined based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase) and ensuring that rates are not negative.

EXCHANGE RATE RISK

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

The Group's asset portfolio at December 31, 2017 is denominated as follows:
- Euro;
- Polish Zloty;
- Czech Koruna.

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

The Group thus manages and monitors the risk connected with 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 uses specific hedging instruments in order to mitigate exchange rate risk.

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.

Liquidity risk may arise through the following risk components:

- **Liquidity Mismatch Risk:** the risk of a mismatch between the amounts and/or timing of inflows and outflows.
- **Liquidity Contingency Risk:** the risk that future unexpected events may require a larger amount of liquidity than the business currently needs on a going concern basis. This risk may be generated by events such as the failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or obtaining new loans in the event of a liquidity crisis.
- **Market Liquidity Risk:** the risk of incurring losses while liquidating assets that would be considered liquid under normal market conditions, or in the case that the company is forced to keep those assets in the absence of a relevant market.
- **Operational Liquidity Risk:** the risk of being unable to fulfill payment obligations due to errors, violations, interruptions or damages caused by internal processes, persons or external events, while the Bank remains solvent.
- **Funding Risk:** the risk of incurring losses due to the impossibility to access sources of financing at an affordable cost to meet obligations and/or to a possible increase in the costs of funding due to the change in the rating (internal factor) and/or the widening of credit spreads (external factor).

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 LCR and NSFR of the Banking Group, at December 31, 2017, were equal to 287.2% and 116.7%, respectively.

MANAGEMENT OF ENCUMBERED ASSETS

In compliance with the approach used in the Risk Management Regulation, the process to manage encumbered assets and relevant risks, involves the following stages:

- Identification of risks connected with encumbered assets, i.e. identification of encumbered assets, of the risks connected with them and the related sources to be measured for the purposes of complying with regulatory requirements, both under ordinary operating conditions and in stress scenarios. This assessment is performed periodically by the Risk Management Function, as part of the overall evaluation of risks to which the Group is exposed.
- Measurement of risks connected with encumbered assets, i.e. measurement of the exposure to the risks generated by encumbered assets, based on approved qualitative and quantitative methods.
- Management of risks connected with encumbered assets, i.e. assumption of risks according to established policies and in accordance with the operational limitations and the thresholds defined in the Risk Appetite Framework (RAF).
- Monitoring of risks connected with encumbered assets, i.e. reporting on encumbered assets and relevant controls; this area includes reporting on the planned inspections of the Compliance and Internal Audit Functions and the periodical reporting prepared by the Finance Department and the Risk Management Function.

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, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk but not strategic and reputational risks.

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

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

The operational risk assessment model adopted is of the "mixed" type, meaning a model based both on qualitative assessments—linked to process mapping, at-risk activities and the corresponding controls adopted—and on quantitative assessments, using the methodologies specified by the Bank of Italy. Within the framework of the measures adopted regarding the exposure to operational risk, the following specific risks are also monitored by the Group:

- Money laundering risk: the risk that financial and commercial counterparties and Bank's suppliers, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities.

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

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

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

OTHER COMPANIES' RISKS

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

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

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

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

a) the risk management systems put in place by the Banca Farmafactoring Banking Group and described in this document "Pillar III - Public Disclosure - Year 2017" are adequate with regard to the profile and strategy of the bank;
b) in particular, this section "Risk management objectives and policies" succinctly describes the overall risk profile of the Banca Farmafactoring Banking Group.

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

1. BOARD OF DIRECTORS

A) POLICY FOR THE SELECTION OF BOARD OF DIRECTORS' MEMBERS AND RESTRICTIONS CONCERNING THE NUMBER OF OFFICES HELD AT THE SAME TIME

The Bylaws[5] state that the Bank is managed by a Board of Directors consisting of a number of members to be established by the Shareholders' Meeting at the time of appointment, which, in any case, may be no less than 5 (five) and no more than 13 (thirteen). The Board of Directors' term of office lasts no more than 3 (three) years, as established at the time of appointment, and ends on the date of the Shareholders' Meeting convened to approve the financial statements relating to the last year of the Board's term of office; it may be re-elected.
The Board is composed of independent, executive and non-executive Directors.
In accordance with Article 15 of the Bylaws, the Board of Directors' members are appointed based on lists submitted by the shareholders; the composition of the Board of Directors ensures: (i) possession by all Directors of the requirements of integrity and professionalism provided for by current legislation; (ii) the minimum number of Independent Directors, as envisaged by regulations and legislation in force from time to time; (iii) the appointment of directors belonging to the less represented gender, at least to the minimum extent provided for by Law 120/2011; (iv) the presence of at least one Director from the minority list.
In accordance with current legislation and regulations, the Board of Directors, supported by the Appointments Committee, both for the purpose of the appointment and the co-option of its members, defines—following the self-assessment process described below—the optimal qualitative and quantitative composition to the effectively fulfill the tasks and responsibilities provided for by the law, the Supervisory Provisions and the Bylaws. In the "*Regulations of the Board of Directors*" (the "Board Regulations")[6], the Board of Directors established the requirements to be met by BFF Directors, in addition to those provided for by current legislation[7], and expressed its opinion on the maximum number of offices the Directors may hold at other companies, in line with Article 91 of Directive 2013/36/EU of June 26, 2013.
Before the appointment of a new management body, the Board of Directors shall inform the Shareholders of its optimal composition in order to obtain a suitable Board composition in terms of expertise, experience, age, gender and internationalization. With the contribution of the Appointments Committee, for the purposes of the new appointment, the Board provides Shareholders with guidelines on selection of candidates for the position of Bank Director.

(5) The Bank's Bylaws are available on the Bank's website at the following address: https://www.bancafarmafactoring.it/documents/33221/50115/BFF+Statuto+2016+5dic_ITA/73365178-98ea-4fa5-a1c5-eb9581ddb34f.

(6) The Board Regulations are available on the Bank's website at the following address: https://www.bancafarmafactoring.it/documents/33221/50115/BFF+-+2016-04-28-Regolamento+CdA/d36ec49c-d7d0-4998-9441-4cc1daef7fa9.

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

With a view to the appointment of the Bank's management body, the Board of Directors, with the support of the Appointments Committee and an external consultant, has identified the Board of Directors' optimal qualitative and quantitative composition and included this assessment in the "*Guidelines on optimal qualitative and quantitative composition: information for Shareholders and the new Board of Directors*" (the "Guidelines for Shareholders")[8].

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

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

Cognome e nome	Carica
Salvatore Messina	Chairman
Luigi Sbrozzi	Vice Chairman
Massimiliano Belingheri	Chief Executive Officer
Isabel Aguilera	Independent Director
Gabriele Michaela Aumann	Independent Director
Ben Carlton Langworthy	Non-Executive Director
Federico Fornari Luswergh	Independent Director
Carlo Paris*	Independent Director
Barbara Poggiali	Independent Director

** Director selected from the minority list*

(8) The Guidelines for Shareholders are available on the Bank's website at the following address: http://investor.bffgroup.com/eng/shareholders-meeting-documentation/shareholders-meeting-5-april-2018/

As regards the qualitative aspect, at the time of appointment, the candidates to the Board of Directors, having acknowledged the instructions included in the Guidelines for Shareholder, also:

(i) declared that no reasons for ineligibility or incompatibility exist, and that they comply with the requirements provided for by application regulations and legislation;

(ii) provided comprehensive personal and professional information, also on their experience in the banking, financial and/or relevant sectors, as better indicated in the Guidelines for Shareholders and/or in the Board Regulations;

(ii) indicated any management and control positions held at other companies;

(iv) declared they could dedicate appropriate time needed for the complexity of the position.

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

The composition of the Board of Directors appointed on April 5, 2018—also with regard to the declarations made during candidacy—*prima facie* appears to comply with the applicable regulations and legislation on gender equality and independence.

Within thirty days of appointment, the Board of Directors verifies the correspondence between the optimal qualitative and quantitative composition and the one actually resulting from the appointment process. On this occasion, the Board of Directors also ascertains that each of its members, in addition to respecting the limits on the accumulation of offices, meets the requirements of professionalism and integrity and does not hold positions at competing companies or groups of companies. Possession of the independence requirements set forth in Articles 148 and 147-ter of the Consolidated Law on Finance and/or Article 3 of the Corporate Governance Code and concerning at least a quarter of all Directors is also verified.

Subsequent to appointment, the existence of the aforementioned requirements is assessed on an annual basis by the Board of Directors as part of the self-assessment process regarding the size, composition and functioning of the Board, provided for by Circular no. 285 and governed by the "*Regulations on the self-assessment process of the Board of Directors*" adopted by the Bank (the "Self-Assessment Process").

The Self-Assessment Process concerns aspects related to the composition and functioning of the Board and its internal Committees, taking into account, among other, the qualitative and quantitative composition, size, degree of diversity and professional expertise of its members, presence of non-executive and independent members, and the adequacy of the appointment process and selection criteria in order to identify any weaknesses, guarantee the most correct functioning over time and the consequent effectiveness of the body with strategic supervision 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 2017 generated an overall positive opinion and showed a positive evolution compared to 2016, with some recommendations for improvement, better spec-

ified in the "Report on Corporate Governance and Ownership Structure" for the year 2017[9], submitted to the Shareholders' Meeting.

Since verification that the new Board members comply with the requirements for the office of Bank Director will take place during a future meeting, as mentioned before, the following table provides the number of offices held at other companies by the Board of Directors' members renewed:

Name and Surname	Date of birth	Office	Role	Date of appointment	End of term of office	Number of other offices
Salvatore Messina	1/1/1946	Chairman	Independent	4/5/2018	[1] 12/31/2020	1 non-executive
Luigi Sbrozzi	11/30/1982	Vice Chairman*	Non-executive	4/5/2018	[1] 12/31/2020	-
Massimiliano Belingheri	10/30/1974	Chief Executive Officer*	Executive	4/5/2018	[1] 12/31/2020	-
Ben Carlton Langworthy	8/12/1978	Director	Non-executive	4/5/2018	[1] 12/31/2020	5 non-executive **
Gabriele Michaela Aumann Schindler	6/16/1953	Director	Independent	4/5/2018	[1] 12/31/2020	-
Barbara Poggiali	3/4/1963	Director	Independent	4/5/2018	[1] 12/31/2020	3 non-executive
Isabel Aguilera	8/24/1960	Director	Independent	4/5/2018	[1] 12/31/2020	3 non-executive
Federico Fornari Luswergh	9/26/1964	Director	Independent	4/5/2018	[1] 12/31/2020	1 executive
Carlo Paris	11/4/1956	Director	Independent	4/5/2018	[1] 12/31/2020	1 executive 3 non-executive

[1] Approval Finan. Statements

* *Board of Directors' appointment of April 5, 2018.*

** *When accepting his candidacy, Mr. Langworthy declared to be available to resign from the offices exceeding the number of offices provided for by regulations. However, the Board of Directors will verify his position by May 5, 2018. It should also be noted that during the previous verification of October 26, 2017, the number of offices held by Mr. Langworthy was deemed appropriate by the Board, since he was regularly present at the meetings of the Board of Directors and of the Committees in which he participated, with a constructive approach.*

(9) The "*Report on Corporate Governance and Ownership Structure*" for the year 2017 is available on the corporate website at the following address: http://investor.bffgroup.com/eng/shareholders-meeting-documentation/shareholders-meeting-5-april-2018/ (the "**CG Report**").

B) CEO SUCCESSION PLAN

On December 20, 2017, the Board of Directors approved the "*CEO Succession Plan*" (the "Succession Plan"), comprising: (i) the "*Contingency Plan*" aimed at identifying (a) the actions to be carried out immediately following permanent or temporary inability, and (b) the person appointed to temporarily replace the CEO, for the period necessary for the appointment of a new CEO in case of permanent inability, or until the end of the temporary inability; (ii) the "*Succession Planning*", which establishes the actions to be carried out for the identification and appointment of a new CEO in the event that permanent inability is ascertained.
The Succession Plan is annually revised by the Appointments Committee, which informs the Board of Directors in order to pass the relevant resolutions.
For more information, reference should be made to the CG Report.

C) POLICY OF DIVERSITY ADOPTED IN THE SELECTION OF THE BOARD OF DIRECTORS' MEMBERS, THE RELEVANT OBJECTIVES AND ANY TARGETS ESTABLISHED WITHIN THE FRAMEWORK OF SUCH POLICY, AND THE EXTENT TO WHICH SUCH OBJECTIVES AND TARGETS HAVE BEEN ACHIEVED

In 2017, the Company did not adopt specific policies on the diversity of corporate functions, considering them included, among other, in the Bylaws and Board Regulations.
The Board Regulations state that the Board of Directors' members shall be selected in order to obtain a suitable composition in terms of different expertise, experience, age, gender, nationality and internationalization, taking into account the results of the assessments carried out by the Board and the opinions of the Appointments Committee, in order to effectively contribute (both within the Committees and during collective decisions) to ensure effective risk management across all areas in which the Bank operates, also at a Group level.
The indications in terms of a varied composition of the Board of Directors resulting from the Self-Assessment Process were brought to the attention of the Shareholders in the Guidelines.
The Board of Directors appointed on April 5, 2018 includes:

- **(i)** 5 (five) independent Directors, which constitute the majority of the Board of Directors;
- **(ii)** 3 (three) female Directors and 6 (six) male Directors;
- **(iii)** 5 (five) Directors residing abroad, of which 3 (three) Directors with non-Italian nationality representing one third of the Board of Directors' members.

All Directors declared to have at least one of the following skills:

- **a)** adequate knowledge of the banking sector, its dynamics and of the economic and financial system, of banking and financial regulations and, above all, of the methodologies to manage and control risks, attained through several years of experience in administration, management and control in the financial sector;
- **b)** experience gained in the management of operations aimed to facilitate the sale, management and collection of receivables, specifically involving entities providing healthcare services as well as public administration agencies;
- **c)** entrepreneurial management and company organizational skills acquired through several years of experience in the administration, management or control of companies, or groups of significant size or in the public administration sector;

d) ability to read and interpret economic and financial data acquired through several years of experience in administration and control of companies or professional activities or university teaching jobs;

e) international experience and knowledge of foreign markets gained by carrying out entrepreneurial or professional activities at foreign institutions or entities, international companies or groups for several years.

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

2. CONTROL AND RISK COMMITTEE

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

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

In 2017, the CR Committee consisted of the independent Directors Gabriele Michaela Aumann (Chair) and Federico Fornari Luswergh and the non-executive Director Luigi Sbrozzi. Ms. Aumann (Chair) has adequate expertise in accounting and finance and/or risk management, as ascertained at the time of appointment by the Board of Directors.

The new Board of Directors met on April 5, 2018 and reappointed the independent Directors Gabriele Michaela Aumann (Chair), Federico Fornari Luswergh and the non-executive Director Luigi Sbrozzi as members of the CR Committee.

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

The following parties are permanently invited to attend the meetings of the CR Committee:
- the Chairman of the Board of Directors, and
- the Board of Statutory Auditors.

The Chair of the CR Committee may also invite the Chief Executive Officer, also in his capacity as Head of Internal Control and risk management system, Heads of Corporate Control Functions, Heads of other Corporate Functions as well as other persons whose presence is deemed to be useful and appropriate by the CR Committee.

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

The CR Committee met 15 times in 2017; the average duration of these meetings was 1 hour and 51 minutes.

For 2018, approximately 14 meetings have been scheduled, 4 of which have already been held on January 24, February 8, February 21 and March 27.

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

3. DESCRIPTION OF THE INFORMATION FLOW ON RISKS ADDRESSED TO THE BODY ENTRUSTED WITH STRATEGIC SUPERVISORY RESPONSIBILITIES

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

Owner	Information flows	Frequency	Board of Directors/ CR Committee
Risk Management Function	Plan of activities	*annual*	✓
	Report on activities	*annual*	✓
	ICAAP	*annual*	✓
	Risk Report Management	*monthly*	*on event basis*
	Risk Management Function's Dashboard (Risk Report)	*quarterly*	✓
Compliance Function	Plan of activities	*annual*	✓
	Compliance Report	*monthly*	*on event basis*
	Compliance Function's Dashboard	*quarterly*	✓
	Annual Compliance Report	*annual*	✓
AML Function	Report on checks*	*quarterly*	-
	Report on activities	*annual*	✓
Internal Audit Function	Plan of activities	*annual/on multi-year basis*	✓
	Audit Report	*on event basis*	*on event basis*
	Internal Audit Function's Dashboard	*quarterly*	✓
	ICAAP Audit Report	*annual*	✓
	Audit report on functions/important outsourced activities	*annual*	✓
	Audit report on incentive and remuneration system**	*annual*	✓
	Annual report on internal audit activities	*annual*	✓
	Annual report on whistleblowing	*annual*	✓
Supervisory Body	Report on activities	*semi-annual*	✓
Board of Statutory Auditor	Statutory Auditor's opinions	*on event basis*	✓
	Report on weaknesses found	*on event basis*	✓

* *This report is also submitted to the Chairman of the Board of Directors since he is responsible for monitoring suspicious transactions.*

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

Section 2. Scope of Application (Art. 436 CRR)

Qualitative information

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

The subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to the variable returns generated by it and has the ability to affect such returns through its power over the company. Generally, control is deemed to exist when more than half of the voting rights are directly or indirectly held, taking also into account potentially exercisable or convertible voting rights.
Subsidiaries also include special purpose entities for which the Company is actually exposed to the majority of the risks and rewards deriving from their activities or those over which it exercises control. The existence of an equity investment in these special purpose entities is not relevant for this purpose.
All subsidiaries are consolidated on a line by line basis from the date on which control is transferred to the Group. Conversely, they are excluded from the scope of consolidation when such control ceases.
The financial statements and the notes of the companies which are consolidated on a line by line basis are prepared in compliance with the IASs/IFRSs used for the consolidated financial statements.

For the purposes of the financial statements, the scope of consolidation includes the aggregated figures from the balance sheet and income statement of Banca Farmafactoring S.p.A. (BFF), BFF Finance Iberia S.A. (a wholly-owned subsidiary of Banca Farmafactoring S.p.A.), the special purpose vehicles Farmafactoring SPV I S.r.l. and BFF SPV S.r.l., and the companies of the BFF Polska Group, acquired on May 31, 2016.
The Banca Farmafactoring Banking Group is mainly engaged in the management and sale of receivables due to suppliers from the Public Administration and, more specifically, the national healthcare systems. The Group is active in Italy, Portugal and Greece through Banca Farmafactoring, in Spain through BFF Finance Iberia, and in Poland, the Czech Republic and Slovakia through BFF Polska and its associated companies.
Furthermore, Banca Farmafactoring offers its retail and corporate customers deposit products in Italy, Spain (through a branch) and in Germany (based on the freedom to provide services by the Spanish branch).

BFF Polska S.A., acquired by Banca Farmafactoring on May 31, 2016, is an independent specialized operator, leader in the provision of financial services to companies operating in the healthcare sector in Poland, Slovakia and the Czech Republic.
BFF Polska mainly operates in three areas:

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

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

The most important information about the Group companies is provided in the following table.

Name of the subsidiary	Registered or operational office	Relation type (1)	Investment relationship		Voting rights % (2)
			Investor	Invest. %	
Companies Consolidated Line-by-line					
1. BFF Finance Iberia, S.A [3]	Madrid C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. Farmafactoring SPV I S.r.l.	Milano Via Statuto 10	4	Banca Farmafactoring	0%	0%
3. BFF SPV S.r.l.	Milano Via A. Pestalozza 12/14	4	Banca Farmafactoring	0%	0%
4. BFF Polska S.A.[4]	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	Banca Farmafactoring	100%	100%
5. MedFinance S.A.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	BFF Polska S.A.	100%	100%
6. Magellan Česka Republika S.R.O.	Prague Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
7. Magellan Central Europe S.R.O.	Bratislava Mostova 2	1	BFF Polska S.A.	100%	100%
8. Debt-Rnt sp. Z O.O.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	1	BFF Polska S.A.	100%	100%
9. Komunalny Fundusz Inwestycyjng Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
10. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	1	BFF Polska S.A.	100%	100%
11. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	4	BFF Polska S.A.	99%	99%
12. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspolnik sp.k.	Łodz - Al. Marszalka Jozefa Pilsudskiego 76	4	Debt-Rnt sp. Z.O.O	99%	99%

Companies in points 11 and 12 above are limited partnerships and are not consolidated, since their turnover figures are not significant.

Key:
(1) Relationship type:
1 = having the majority of voting rights at ordinary shareholders' meetings
2 = dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control
5 = centralized management as per Article 26, paragraph 1, of Legislative Decree No. 87/92
6 = centralized management as per Article 26, paragraph 2, of Legislative Decree No. 87/92
(2) Voting rights in ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares.
(3) The change in the company name became effective on April 4, 2018.
(4) The change in the company name became effective on March 22, 2018.

Quantitative information

All subsidiaries controlled by Banca Farmafactoring are in the scope of consolidation.

Section 3. Own Funds (Art. 437 CRR)

Qualitative information

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

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

- paid-in share capital;
- reserves (legal reserve, extraordinary reserve, retained earnings reserve);
- undistributed portion of profit for the year, if any;
- revaluation reserves: actuarial gains (losses) relating to defined benefit plans;
- revaluation reserves: special revaluation laws;
- any non-controlling interests eligible for inclusion in the computation of CET1.

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

As regards the prudential treatment of unrealized gains or losses relating to exposures to government agencies classified in the "Available-for-sale" portfolio, the CRR requires banks to include such reserves in own funds.
On January 24, 2014, Banca Farmafactoring's Board of Directors decided to exercise the option permitted by the Bank of Italy Circular no. 285 of December 17, 2013, Section II, paragraph 2, last sentence, stating that banks have the option of "not including in any component of own funds unrealized gains or losses relating to exposures to government agencies classified in the 'Available-for-sale' category of IAS 39, as approved by the EU" (option allowed also under Supervisory Bulletin no. 12 of December 2013, in the paragraph relating to "Own Funds Regulations").
Therefore, as reasserted by the Bank of Italy Communication no. 90517/17 of January 24, 2017, and until the end of the transition period, that is, until the adoption of IFRS 9 (effective as of January 1, 2018), the companies belonging to the Group will not include in own funds unrealized profit or loss relating to the above exposures.
Additional Tier 1 (AT1) and Tier 2 (T2) capital include exclusively the non-controlling interests which can be recognized in consolidated own funds, in accordance with the CRR, Part 2, Title II "Minority interests and additional Tier 1 and Tier 2 instruments issued by subsidiaries".
In relation to the determination of non-controlling interests in additional Tier 1 and in Tier 2 capital, account is taken, as reported in the Bank of Italy Circular no. 285, of the transitional factor applicable pursuant to Article 480, paragraphs 2 and 3 of CRR, equal to 0.8 for the current year.

Own funds of the Banking Group pursuant to the Consolidated Law on Banking amounted to €352.2 million, net of dividends, compared to €235.3 million at December 31, 2016. The change in own funds was affected by the following main events:

- issue of Tier II bonds for a total face value of €100 million—€98.2 million taken into account;
- allocation to consolidated Tier 1 capital of part of the profit for the period, to the tune of €11.8 million. The amount derives from the change in the estimate of late payment interest collections, to be included in the calculation of amortized cost, from 40% to 45% starting on January 1, 2017, for Banca Farmafactoring and BFF Finance Iberia. This resulted in a one-off effect, net of taxes, of €17.8 million, and refers to Banca Farmafactoring for €16.3 million and to BFF Finance Iberia for €1.5 million. Deducted from this amount are non-recurring expenses, net of the tax effect, of €1.8 million relating to the costs of the stock listing process, €1.1 million referring to the stock options awarded to some beneficiaries in March 2017 and €3.3 million due to the negative exchange effect on the revaluation of the loan payable in Polish Zloty used for the acquisition of Magellan.

Considering the aforementioned allocation of €11.8 million to consolidated Tier 1 capital, the overall increase in CET1, compared to December 31, 2016, was equal to €18.5 million.

Quantitative information

Breakdown of own funds

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

Amounts in € thousands

	Total 12/31/2017	Total 12/31/2016
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**280,003**	**261,139**
of which CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	280,003	261,139
D. Items to be deducted from CET1	**(26,034)**	**(25,795)**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	**253,969**	**235,345**
G. Additional Tier 1 (AT1) capital gross of items t o be deducted and of the transitional period effects		
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions		
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)		
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects	**98,224**	
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions		
P. Total Tier 2 (T2) capital (M - N +/- O)	**98,224**	
Q. Total own funds (F + L + P)	**352,193**	**235,345**

Own funds of the CRR Group amounted to €304.8 million at December 31, 2017, compared to €234,7 million at December 31, 2016, as shown in the following table.

	Total 12/31/2017	Total 12/31/2016
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**354,539**	**470,535**
of which CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and of the transitional period effects (A +/- B)	**354,539**	**470,535**
D. Items to be deducted from CET1	**(153,979)**	**(241,744)**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions	**10,765**	**3,073**
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	**211,325**	**231,864**
G. Additional Tier 1 (AT1) capital gross of items to be deducted and of the transitional period effects	**16,051**	**2,047**
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions	**(3,210)**	**(819)**
L. Total Additional Tier 1 (AT1) capital (G - H +/- I)	**12,841**	**1,228**
M. Tier 2 (T2) capital gross of items to be deducted and of the transitional period effects	**21,402**	**2,620**
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions	**59,219**	**(1,048)**
P. Total Tier 2 (T2) capital (M - N +/- O)	**80,620**	**1,572**
Q. Total own funds (F + L + P)	**304,786**	**234,664**

Model for disclosure of own funds

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

Disclosure of own funds	(A) Amount at the reporting date	(B) Relevant Article in Regulation (EU) no. 575/2013	(C) Amounts subject to pre-Regulation (EU) no. 575/2013 treatment
1 Capital instruments and related share premium reserves	660	26, paragraph 1, 28	
2 Retained earnings	122,970	26, paragraph 1, letter c)	
3 Accumulated other comprehensive income and other reserves	164,366	26, paragraph 1, letters d), e)	
5 Minority interests (amount allowed in consolidated Tier 1 capital)	77,308	84, 479, 480	
6 Common Equity Tier 1 before regulatory adjustments	**365,304**		
Common Equity Tier 1 (CET1): regulatory adjustments			
8 Intangible assets (net of related tax liabilities)	(153,979) (153,979)	36, paragraph 1, letter b), 37, 472	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)			
29 Common Equity Tier 1 (CET1)	211,325		
Additional Tier 1 (AT1) capital: instruments			
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries or held by third parties	12,841	85, 86, 480	
44 Additional Tier 1 (AT1) capital	12,841		
45 Tier 1 capital (T1 = CET1 + AT1)	224,166		
Tier 2 capital (T2): instruments and provisions			
46 Capital instruments and related share premium reserves	54,818	62, 63	
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries or held by third parties	25,803	87, 88, 480	
58 Tier 2 capital (T2)	**80,620**		
59 Total capital (TC = T1 + T2)	**304,786**		
60 Total risk-weighted assets	**2,031,459**		
61 Common Equity Tier 1	10.4%	92, paragraph 2, letter a), 465	
62 Tier 1 capital	11.0%	92, paragraph 2, letter b), 465	
63 Total capital	15.0%	92, paragraph 2, letter c)	
Institution-specific capital buffer requirement (CET1 requirement pursuant to Article 92 paragraph 1, letter a), requirements relating to capital conservation buffer, countercyclical capital buffer, systemic risk buffer and the systemically important institutions' capital buffer	1.32%	Article 129 CRD	
65 of which: the capital conservation buffer requirement	1.25%		
68 Common Equity Tier 1 available to meet buffer requirement	9.2%		

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

Equity items	Total
Share capital	130,983
Share premium	
Reserves	129,621
Capital instruments	
(Treasury shares)	
Revaluation reserves:	
- Available-for-sale financial assets	68
- Property, plant and equipment	
- Intangible assets	
- Foreign investment hedges	
- Cash flow hedges	194
- Exchange differences	3,773
- Non-current assets held for sale	
- Actuarial gains (losses) relating to defined benefit plans	(165)
- Portion of revaluation reserves relating to equity investments measured using the equity method:	
- Special revaluation laws	3,823
Profit (Loss) for the year (+/-) attributable to the group and non-controlling interests	95,558
Equity	**363,856**
Dividends	(83,693)
Portion of non-controlling interests not eligible	
CET1 before application of prudential filters, transitional adjustments and deductions	280,153
Prudential filters	
Transitional adjustments [1]	(68)
Deductions	(26,116)
CET1	**253,969**
Tier 2 subordinated bonds	**98,224**
Own funds of the Banking Group	**352,193**

(1) AFS reserves, as indicated above.

Section 4. Capital Requirements (Art. 438 CRR)

Qualitative information

The Banking Group has adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed. These measures are part of the governance of the organization and of the internal control system, aimed at ensuring management practices grounded in efficiency, effectiveness and fairness, covering every type of business risk, consistently with the characteristics, dimensions and complexity of the business activities carried out by the Group.
The Group constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and Risk Committee created within the Board of Directors.

Compliance with capital adequacy limits for the CET1 Capital Ratio, Tier 1 Capital Ratio, and Total Capital Ratio is constantly monitored by the relevant corporate bodies.
The CET1 Capital Ratio is the ratio of Common Equity Tier 1 to Risk-Weighted Assets.
The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to Risk-Weighted Assets.
The Total Capital Ratio is the ratio of Total Own Funds to Risk-Weighted Assets.
In accordance with the provisions of Bank of Italy Circular no. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", and subsequent amendments, 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, 2017, 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 12.6%, the Tier 1 Capital Ratio is 12.6% and the Total Capital Ratio is 17.5%.
With regard to the CRR Group, the CET1 Capital Ratio is 10.4%, the Tier 1 Capital Ratio is 11% and the Total Capital Ratio is 15%.

Further to what has been disclosed in Section 3 in relation to own funds, such ratios also take account of the following:

- downgrade of the Republic of Italy by the reference ECAI, DBRS, which, on January 13, 2017, lowered the unsolicited rating from "A low" to "BBB high", causing the country to be downgraded from Credit Quality Step 2 to Credit Quality Step 3. Exposures for receivables due from the Italian Public Administration, other than Government, regional and local agencies, which include those due from entities belonging to the National Healthcare System and from the Local Healthcare Entities (ASL), have been assigned a 100% weighting since March 2017, compared to 50% adopted up to December 31, 2016.
  Had the downgrade been applied to figures at December 31, 2016, the impact would have been equal to a 3.7% reduction in equity ratios as far as CET1, Tier 1 and Total Capital Ratio are concerned;
- growth in outstanding volumes and, therefore, in receivables "Due to customers" compared to the previous year, which led to a subsequent increase in credit risk.

Considering the Total Capital Ratio, equal to 17.5% for the Banking Group pursuant to the Consolidated Law on Banking and 15% for the CRR Group, in line with the dividend policy approved by the Board of Directors of the Bank, which envisages a target Total Capital Ratio of 15% for the Banking Group, the distribution of the entire consolidated profit for the period exceeding the €11.8 million already allocated to the consolidated Tier I Capital of the Banking Group, was proposed for an amount of €83.7 million.
It should be noted that the majority shareholder, BFF Luxembourg, has formalized its commitment to maintain a dividend payment policy such as to preserve, over time, a total capital ratio of not less than 15% both at the level of the BFF Group and within the CRR Group framework.

Pillar I - Capital adequacy to 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 the credit risk;
- Credit valuation adjustment (CVA) risk
- "Standardized approach" for the counterparty risk;
- "Basic approach" for the operational risk;
- "Standardized approach" for the market risk.

Credit risk

The assessment of credit risk is part of an overall analysis of the capital adequacy of the Banking Group and the CRR Group in relation to the risks connected with lending.
With this in mind, the Group uses the "standardized" approach to measure credit risk, as governed by Regulation (EU) 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 risk weights to each portfolio.

In particular, in compliance with the above-mentioned Regulation, the Banking Group and CRR Group apply the following weights:
- 0% for receivables due from government agencies and central banks with offices in a European Union member state and financed in the local currency;
- 20% for receivables from local entities located in a European Union member state, denominated and financed in the local currency, and for receivables due from the public administration of countries with Credit Quality Step 1.
  The non-recourse receivables due from the Spanish Healthcare System fall into this category because the counterparties of these exposures are represented by the "*Comunidad*" (the Regions);
- 50% for receivables due from the public administration (other than the above) of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector. For exposures with an original duration of three months or less a weight of 20% is applied;
- 100% for countries in Credit Quality Step 3 (Portugal and, starting from 2017, Italy). For exposures with an original duration of three months or less a weight of 20% is applied;

- 50% or 100% for receivables from supervised intermediaries, according to the credit quality step of the country in which they have their offices. For exposures with an original duration of three months or less a weight of 20% is applied;
- 75% for receivables due from retail and small business counterparties;
- 100% for receivables due from private debtors;
- 100% for property, plant and equipment, equity investments, collective investment undertakings and other assets;
- 150% for past due loans;
- 100% for past due loans, if the specific value adjustments are 20% or more of the non-collateralized portion, before any adjustments.

Banca Farmafactoring adopted the Dominion Bond Rating Service (DBRS) as reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS on January 13, 2017 was "BBB high". Exposures to the Italian public administration, which include those to entities belonging to the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%.
The exposures of the Banking Group are principally represented by exposures to counterparties of the public administration or healthcare entities of the countries in which the Group operates.
The Banking Group constantly maintains, as a capital requirement covering 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 covering credit risk at December 31, 2017 is €133.4 million for the Banking Group.

Credit valuation adjustment (CVA) risk

With reference to the capital requirements for CVA risk, meaning an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty, the Group has applied the standardized method set out in Article 384 of the CRR.
More specifically, for the Banca Farmafactoring Group, the requirement involves a negligible amount and applies to derivative contracts entered into to hedge fluctuations in exchange rates through the forward sale of foreign currencies at a specific spot rate and to interest rate swaps (IRS) used to hedge the rate applied to funding.

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.
This requirement arises when the value of transactions carried out with certain counterparties is positive. A simple method is used to measure this risk. In the event that a part of the exposure is secured by collateral, the institution shall assign a weight equal to the one assigned to the instrument used as collateral.
For the Group, the counterparty risk is generated by repurchase agreements with Cassa Compensazione e Garanzia as the counterparty, and by derivative contracts relating to BFF and BFF Polska.

Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk but not strategic and reputational risks.

The Group measures operational risk using the "Basic" approach: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator, calculated on the financial statement items of the last three years, in accordance with Regulation (EU) no. 575/2013.

Based on the aforementioned methodology, the capital requirement for operational risk was equal to €27,983 thousand at December 31, 2017.

Market risk

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

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

In 2017, financial assets held for trading include financial instruments held to hedge against interest rate risk, for which hedge accounting is not applied.

Specifically, the financial instruments recorded in this category are derivative contracts executed by BFF Polska to hedge against exchange rate fluctuations through a forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they should be considered as risk hedging instruments.

As operational hedging instruments, these derivatives were subject to the credit valuation adjustment risk.

Pillar II - The ICAAP 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.

Unlike the usual deadlines (April 30), the Banking Group will submit the "ICAAP Report" for the current year to the Bank of Italy by June 30, 2018. As a matter of fact, in accordance with the consultation document published on April 6, 2018 on the updating of Circular no. 285 "Supervisory Provisions for Banks", the changes to the provisions regarding "Prudential supervision process" (Part 1, Title III, Chapter 1, of Circular 285/2013) have been submitted for consultation. Furthermore, considering the changes being introduced regarding the contents and presentation of the ICAAP/ILAAP Report, the Bank of Italy communicated that, for less significant banks pursuant to Regulation (EU) no. 468/2014 of the European Central Bank and SIMs (securities investment firms), the deadline for submitting the aforementioned report is extended to June 30, 2018.

It should be noted that, as requested by the Regulator, the Report to be submitted by the aforementioned deadline will be drawn up in accordance with the EBA/GL/2016/10 Guidelines of the European Banking Authority, as implemented through the provision on which the consultation is based.

The main types of risk currently considered relevant under Pillar 2 are described below:

- Concentration Risk: risk related to the concentration of exposures to individual counterparties or specific geographical areas. Since these types of risks can generate economic impacts for the Banking Group, the risk is considered relevant.
- Interest Rate Risk: relevant risk of mismatches between the basic index rates of assets and liabilities in the banking book.
- Liquidity Risk: relevant risk due to the impossibility to access funds on the financial market or due to limitations on the sale of assets.
- Excessive leverage risk: relevant risk arising from a particularly high level of debt compared to equity.
- Strategic Risk: current or prospective risk of a decline in earnings or capital deriving from changes in the operating environment or adverse corporate decisions, improper implementation of decisions, lack of responsiveness to changes in the competitive environment.
- Country Risk: relevant risk of potential losses caused by events occurring in a country other than Italy.
- Reputational Risk: relevant risk identified by the negative perception of the Banking Group by stakeholders such as clients, counterparties, shareholders, employees and supervisory authorities.
- Residual Risk: relevant risk on a prospective basis, since the Banking Group has adopted a specific Group Regulation for the management of credit risk mitigation techniques; however, it should be noted that at December 31, 2017, no benefits were reported in terms of the reduction of capital requirements due to the recognition of eligible instruments for the purposes of Credit Risk Mitigation (CRM).

BFF BANKING GROUP

Quantitative information

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

Portfolios/Exposures	Weights	Credit risk			Counterparty risk		
		Non-weighted exposure	Weighted exposure	Capital requirement	Non-weighted exposure	Weighted exposure	Capital requirement
Exposures to government agencies and central banks	0%	1,824,012	0	**0**			
	250%	5,033	12,583	**1,007**			
	0%	56,733	0	**0**			
Exposures to local entities	20%	712,512	142,503	**11,400**			
Exposures to public sector entities	20%	163,057	32,612	**2,609**			
	50%	348,281	174,140	**13,931**			
	100%	867,974	867,974	**69,438**			
	150%	6,489	9,734	**779**			
Exposures to supervised intermediaries	20%	88,331	17,666	**1,413**	0	0	**0**
	50%				0	0	**0**
	100%		0	**0**	746	746	**60**
Exposures to companies and other parties	0%	0	0	**0**			
	100%	200,711	200,711	**16,057**	1,172	1,172	**94**
	150%	9	13	**1**			
Past due exposures	150%	90,205	135,307	**10,824**			
	100%	6,437	6,437	**515**			
Capital instruments	100%	425	425	**34**			
	250%						
Other exposures	0%	1,156,958	0				
	100%	18,706	18,706	**1,497**			
Retail exposures	75%	62,071	46,554	**3,724**			
Exposures secured by property	100%						
CIUs	100%	546	546	**43**			
Total		**5,608,490**	**1,665,911**	**133,272**	**1,918**	**1,918**	**154**

Other Capital requirements - Banking Group

	Weighted exposures - RWA	Capital requirement
Credit valuation adjustment (CVA) risk	297	24
Market risk	0	0
Operational risk	349,786	27,983

Capital ratios — Banking Group and CRR Group

Items/Amounts	Total 12/31/2017
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) (%)	12,6%
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio) (%)	12,6%
Total own funds/ Risk-weighted assets (Total capital ratio) (%)	17,5%

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

Items/Amounts	Total 12/31/2017
Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio) (%)	10,4%
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio) (%)	11,0%
Total own funds/ Risk-weighted assets (Total capital ratio) (%)	15,0%

Section 5. Exposure to counterparty credit risk (Art. 439 CRR)

Qualitative information

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.
This requirement arises when the value of transactions carried out with certain counterparties is positive. A simple method is used to measure this risk. In the event that a part of the exposure is secured by collateral, the institution shall assign a weight equal to the one assigned to the instrument used as collateral.

For the Group, this risk is minor and generated by repurchase agreements with Cassa Compensazione e Garanzia as the counterparty, and by derivative contracts relating to BFF and BFF Polska.

At December 31, 2017, repurchase transactions are outstanding with the counterparty Cassa Compensazione e Garanzia, from which the fair value of the securities used as collateral is deducted; the capital requirement, as indicated in the following table, is calculated on this value, if positive.

The requirement is also applied to an interest rate swap contract concluded as a hedging instrument for the rate applied to the funding.
In particular, such contract with a notional amount in Polish currency (Zloty) was entered into to hedge a variable rate medium-term loan obtained in 2016 in the same currency against changes in future cash flows arising from fluctuations in market interest rates (Wibor). Instead, the risk component of the loan attributable to changes in the Euro-Zloty exchange rate is not hedged.

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

Quantitative information

Repurchase agreements:

Regulatory portfolio	Exposure without credit risk mitigation	Financial collaterals - Simple method	Guarantees	Exposure after credit risk mitigation
Securities financing transactions (SFTs)	1,158,124	(1,156,952)	-	1,172
Total	1,158,124	(1,156,952)	-	1,172

Derivatives:

Regulatory portfolio	Exposure without credit risk mitigation	Financial collaterals - Simple method	Guarantees	Exposure after credit risk mitigation
Derivatives	746	-	-	746
Total	746	-	-	746

At December 31, 2017, the capital requirement relating to repurchase agreements amounted to approximately €94 thousand and that relating to derivatives to €60 thousand.

Section 6. Capital buffers (Article 440 CRR)

Qualitative information

The disclosure relating to the "Countercyclical capital buffer" is shown below, prepared on the basis of the rates applicable at December 31, 2017 and of the Commission Delegated Regulation (EU) no. 2015/1555 of May 28, 2015, supplementing the CRR with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement of a countercyclical capital buffer in accordance with Article 440 of the CRR. As established by Article 140, paragraph 1, of Directive 2013/36/EU (so-called CRD IV), the institution-specific countercyclical capital buffer rate consists of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located.
CRD IV requires the national designated authorities to create an operational framework for the definition of the countercyclical capital buffer (CCyB) rates starting from January 1, 2016.
The rate is subject to review on a quarterly basis. European provisions were transposed into Italian Law through the Bank of Italy's Circular no. 285, which contains specific rules regarding CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical capital buffer rate (for exposures to Italian counterparties) at 0% for the first three months of 2018.
The relevant credit exposures include all exposure classes other than those referred to in Article 112, letters a) to f) of Regulation (EU) no. 575/2013. The following exposures are therefore excluded: exposures to central governments or central banks; exposures to regional governments or local authorities; exposures to public sector entities; exposures to multilateral development banks; exposures to international organizations; exposures to institutions.

Quantitative information

With reference to December 31, 2017:
- countercyclical capital buffer rates for individual countries, established as briefly explained above, were generally equal to 0%, except for the following countries: Sweden (2.00%), Norway (2.00%), Hong Kong (1.25%), Iceland (1.25%), Czech Republic (0.50%) and Slovakia (0.50%);
- at a consolidated level, the institution-specific countercyclical capital buffer rate of the Banking Group was equal to 0.068%.

Amount of countercyclical capital buffer	(€/000)
Total amount of risk exposure	2,031,459
Group-specific countercyclical capital buffer rate	0,068%
Institution-specific countercyclical capital buffer	1.388

It should be noted that the requirement in the table above only refers to the Parent Company's exposures to the Slovakian subsidiary Magellan Central Europe (Intercompany Loan) to the tune of €100.49 million.

Section 7. Credit Risk Adjustments (Art. 442 CRR)

Qualitative information

Credit risk is the possibility of incurring losses due to the counterparty's default and insolvency. It is linked to the possibility that an unexpected change in the creditworthiness of the counterparty, to which the Company is exposed, generates a corresponding decrease in the value of the credit position.
In accordance with the provisions of Bank of Italy's Circular no. 262 of December 22, 2005, as subsequently updated, "*Banks' financial statements: layout and preparation*", BFF classified receivables due from customers into "performing" and "impaired" receivables.
On this point, on July 24, 2014, the European Banking Authority (EBA) published the "*Final draft implementing technical standards on supervisory reporting on forbearance and non-performing exposures*" (EBA/ITS/2013/03/rev 1 7/24/2014): this document introduces new definitions for non-performing exposures and forbearance measures. Therefore, all categories below include the "forborne" subcategory.
These definitions were adopted by the Bank of Italy with the seventh update to Circular no. 272 of January 20, 2015.

The Banking Group "impaired assets" include:

- Past due exposures: these are exposures to government agencies and central banks, local and public entities, non-profit entities and companies that, at the end of the reporting period, were more than 90 days past due.
  More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past due when the debtor has not made any payment on any debt positions owed to the financial intermediary for more than 90 days. Measurement of such past due exposures is carried out at the portfolio level, since there are no objective indications of individual impairment.
  At December 31, 2017, total net past due exposures amounted to €69.8 million for the whole Group, of which 92.8% referring to the public administration and public sector companies. Banca Farmafactoring's exposures totaled €63.1 million. Of such amount, €61.1 million (96.8%) concerned Italian public administration agencies (largely local entities) and public sector companies.
  For the BFF Polska Group, net past due exposures amounted to €6.7 million, of which €3.7 million, equal to 55.6%, refer to public administration entities and public sector companies.

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

Exposures to retail customers can be classified in the unlikely to pay category at the individual transaction level, provided that the intermediary believes that the conditions for classifying in this category the entire amount of exposures to the same debtor cannot be met.
At December 31, 2017, net exposures classified as unlikely to pay amounted to a total of €6.8 million, all attributable to the BFF Polska Group portfolio.

- Non-performing loans: these are exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any loss projections recognized by the Company. At December 31, 2017, the total non-performing loans of the Banking Group, net of impairment, amounted to €18.2 million, of which €2.8 million purchased already impaired. Non-performing loans relating to Italian municipalities in financial distress amounted to €15 million, accounting for 82.8% of the total.

The Bank carried out an analysis of the receivables portfolio to identify any impairment of its financial assets.
This internal analysis made it possible to distinguish between performing and non-performing loans, including in the latter category financial assets that show an individual risk of loss, while the remaining financial assets have been classified in the performing category.
Performing loans include receivables due from customers that, while more than 90 days past due, show no objective indication of loss at an individual level.
Although the receivables are owed almost entirely by the public administration, as in previous years, when preparing its annual financial statements or interim reports, the Bank, as required by IAS 39, carried out a collective assessment (impairment test) of its performing loans in order to correctly monitor the quantitative content.
To determine the "Loss Given Default" (LGD), the Bank used the value recommended in the "Basel Accord Framework" for non-collateralized receivables due from sovereign states, companies and banks, equal to 45% of the relevant "Probability of Default" (PD).
The collective assessment of the "Probability of Default" (PD) was performed by assigning to the debtors (local healthcare entities and hospitals) a rating corresponding to the credit rating assigned by the major rating agencies to the Region to which the debtors belong, or to the Republic of Italy for Government agencies, or to the Country of residence in the event of foreign public counterparties. This product was then applied to the exposures not classified as non-performing (EAD).
At December 31, 2017, the general impairment relating to the Bank amounted to €3 million.
As regards BFF Polska, the collective impairment is calculated, at this time, exclusively in relation to private counterparties. In this case, BFF Polska carries out a portfolio impairment by applying to the receivable purchase value a percentage that varies according to the type of counterparty to which the exposure refers. BFF Polska also assesses whether to record individual impairments by analyzing the economic and financial situation of the debtor and the actual possibility of recovering the receivable.
As regards the impairment policies adopted, BFF Polska submits specific periodic reports to the Parent Company, so that the corresponding functions of the parent can report on the activities conducted in this area and check the correctness of the conclusions.

Quantitative information

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

Amounts in € thousands

Portfolios/Quality	Non-performing loans	Unlikely to pay exposures	Impaired past due exposures	Other impaired exposures	Not impaired exposures	Totale
1. Available-for-sale financial assets					101,285	**101,285**
2. Held-to-maturity financial assets					1,120,610	**1,120,610**
3. Due from banks					44,792	**44,792**
4. Due from customers	18,175	6,760	69,794		2,923,757	**3,018,486**
5. Financial assets measured at fair value					546	**546**
6. Financial assets held for sale						
Total 12/31/2017	**18,175**	**6,760**	**69,794**		**4,190,990**	**4,285,719**
Total 12/31/2016	**12,065**	**3,614**	**46,167**		**4,599,926**	**4,661,772**

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

Amounts in € thousands

Portafogli/Qualità	Impaired assets			Not impaired assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Specific adjustments	Net exposure	
1. Available-for-sale financial assets				101,285		101,285	101,285
2. Held-to-maturity financial assets				1,120,610		1,120,610	1,120,610
3. Due from banks				44,792		44,792	44,792
4. Due from customers	106,003	11,273	94,730	2,928,988	5,232	2,923,756	3,018,486
5. Financial assets measured at fair value						546	546
6. Financial assets held for sale							
Total 12/31/2017	**106,003**	**11,273**	**94,730**	**4,195,675**	**5,232**	**4,190,989**	**4,285,719**
Total 12/31/2016	**66,372**	**4,526**	**61,847**	**4,605,687**	**5,761**	**4,599,926**	**4,661,772**

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

Amounts in € thousands

Exposures/ Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures										
A.1 Non-performing loans										
A.2 Unlikely to pay exposures										
A.3 Impaired past due exposures										
A.4 Other not impaired exposures	6,640		16,504							
Total A	6,640		16,504							
B. Off-balance sheet exposures										
B.1 Non-performing loans										
B.2 Unlikely to pay exposures										
B.3 Other impaired exposures										
B.4 Other not impaired exposures	3,391		322							
Total B	3,391		322							
Total (A+B) 12/31/2017	**10,031**		**16,826**							
Total (A+B) 12/31/2017	**130,403**		**15,264**							

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

Amounts in € thousands

Exposures/ Geographical areas	Italy Northwest		Italy Northeast		Italy Central part		Italy South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. A. On-balance sheet exposures								
A.1 Non-performing loans								
A.2 Unlikely to pay exposures								
A.3 Impaired past due exposures								
A.4 Other not impaired exposures	5,645		68		917		11	
Total A	**5,645**		**68**		**917**		**11**	
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Unlikely to pay exposures								
B.3 Other impaired exposures								
B.4 Other not impaired exposures					3,391			
Total B					**3,391**			
Total (A+B) 12/31/2017	**5,645**		**68**		**4,308**		**11**	
Total (A+B) 12/31/2016	**73,774**		**20,793**		**545**		**35,291**	

Breakdown by significant geographical areas of exposures to customers, by main types of exposure

Amounts in € thousands

Exposures/ Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures										
A.1 Non-performing loans	16,009	3,477	2,166	4,046						
A.2 Unlikely to pay exposures		440	6,760	3,170						
A.3 Impaired past due exposures	62,862	86	6,932	54						
A.4 Other not impaired exposures	3,198,230	2,852	947,967	2,380						
Total A	**3,277,101**	**6,855**	**963,826**	**9,650**						
B. Off-balance sheet exposures										
B.1 Non-performing loans			593							
B.2 Unlikely to pay exposures			3,591							
B.3 Other impaired exposures	36		2,070							
B.4 Other not impaired exposures	164		121,523							
Total B	**200**		**127,776**							
Total (A+B) 12/31/2017	**3,277,301**	**6,855**	**1,091,602**	**9,650**						
Total (A+B) 12/31/2017	**3,883,618**	**5,883**	**757,867**	**4,404**						

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

Amounts in € thousands

Exposures/ Geographical areas	Italy Northwest		Italy Northeast		Italy Central part		Italy South and Islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. A. On-balance sheet exposures								
A.1 Non-performing loans	700	327	195	60	457	1,169	14,658	1,921
A.2 Unlikely to pay exposures						440		
A.3 Impaired past due exposures	5,057	7	2,309	3	8,486	12	47,010	64
A.4 Other not impaired exposures	188,412	242	94,216	125	2,079,723	1,080	835,879	1,405
Total A	**194,169**	**576**	**96,720**	**188**	**2,088,665**	**2,701**	**897,547**	**3,391**
B. Off-balance sheet exposures								
B.1 Non-performing loans								
B.2 Unlikely to pay exposures								
B.3 Other impaired exposures	23						12	
B.4 Other not impaired exposures	31				26		107	
Total B	**54**				**26**		**119**	
Total (A+B) 12/31/2017	**194,223**	**576**	**96,720**	**188**	**2,088,691**	**2,701**	**897,667**	**3,391**
Total (A+B) 12/31/2016	**212,403**	**721**	**96,015**	**253**	**2,796,440**	**2,401**	**778,958**	**2,509**

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

Amounts in € thousands

Exposures/ Counterparties	Governments			Other public entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans						
of which: forborne exposures				15,137	2,083	
A.2 Unlikely to pay exposures						
of which: forborne exposures						
A.3 Impaired past due exposures	1,756	2		56,284	73	
of which: forborne exposures						
A.4 Not impaired exposures	1,717,220		663	2,128,288		3,809
of which: forborne exposures				31,713		120
TOTAL A	**1,718,976**	**2**	**663**	**2,199,709**	**2,156**	**3,809**
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Unlikely to pay exposures						
B.3 Other impaired exposures				48		
B.4 Not impaired exposures	6			57,345		
TOTAL B	**6**			**57,393**		
TOTAL (A+B) 12/31/2017	**1,718,982**	**2**	**663**	**2,257,102**	**2,156**	**3,809**
TOTAL (A+B) 12/31/2016	**2,430,340**	**9**	**755**	**1,861,957**	**994**	**4,174**

Amounts in € thousands

Exposures/ Counterparties	Financial companies			Insurance companies		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans						
- of which: forborne exposures						
A.2 Unlikely to pay exposures						
- of which: forborne exposures						
A.3 Impaired past due exposures						
- of which: forborne exposures						
A.4 Not impaired exposures	64,459					
- of which: forborne exposures						
TOTAL A	**64,459**					
B. Off-balance sheet exposures						
B.1 Non-performing loans						
B.2 Unlikely to pay exposures						
B.3 Other impaired exposures						
B.4 Not impaired exposures						
TOTAL B						
TOTAL (A+B) 12/31/2017	**64,459**					
TOTAL (A+B) 12/31/2016	**118,444**					

Amounts in € thousands

Exposures/ Counterparties	Non-financial companies			Other		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans	2,199	4,330		839	1,109	
- of which: forborne exposures						
A.2 Unlikely to pay exposures	6,760	3,610				
- of which: forborne exposures						
A.3 Impaired past due exposures	11,739	65		16		
- of which: forborne exposures						
A.4 Not impaired exposures	223,073		743	13,157		17
- of which: forborne exposures						
TOTAL A	**243,770**	**8,005**	**743**	**14,012**	**1,109**	**17**
B. Off-balance sheet exposures						
B.1 Non-performing loans	593					
B.2 Unlikely to pay exposures	3,591					
B.3 Other impaired exposures	2,058					
B.4 Not impaired exposures	64,335					
TOTAL B	**70,577**					
TOTAL (A+B) 12/31/2017	**314,348**	**8,005**	**743**	**14,012**	**1,109**	**17**
TOTAL (A+B) 12/31/2016	**126,646**	**864**	**32**	**104,099**	**2,364**	**195**

BFF BANKING GROUP

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

Amounts in € thousands

Sources/Categories	Non-performing loans		Unlikely to pay exposures		Impaired past due exposures	
	TOTAL	Of which: forborne exposures	TOTAL	Of which: forborne exposures	TOTAL	Of which: forborne exposures
A. Opening total adjustments	**4,342**		**101**		**82**	
- of which: exposures sold but not derecognized	169				30	
B. Increase	**3,536**		**3,509**		**112**	
B.1 adjustments	3,373		3,509		54	
B.2 losses on disposal						
B.3 transfers from other categories of impaired exposures	4					
B.4 other increases	160				58	
C. Decrease	**356**				**54**	
C.1 reversals of impairment from revaluations						
C.2 reversals of impairment from collections	31				7	
C.3 gains on disposal						
C.4 derecognition						
C.5 transfer to other categories of impaired exposures						
C.6 other decreases	325				47	
D. Closing total adjustments	**7,523**		**3,610**		**140**	
- of which: exposures sold but not derecognized	103				21	

Section 8. Unencumbered Assets (Art. 443 CRR)

Qualitative information

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

The institutions disclose information on encumbered and unencumbered assets on a consolidated basis by product, taking into account the instructions specified in Appendix XVII of the Commission Implementing Regulation (EU) no. 2015/79 issued by the European Commission.
Encumbered assets are those used as collateral, subject to limitations on withdrawal or otherwise reserved to provide credit enhancement.
The scope of such disclosure is that of the CRR Group.

Quantitative information

Model A - Disclosure on encumbered assets recognized in the financial statements

	Encumbered assets		Unencumbered assets	
	Carrying amount	Fair value	Carrying amount	Fair value
Total Assets of the Group	**1,902,912**	X	**2,717,964**	X
1. Equity instruments			710	710
2. Debt securities	1,191,282	1,198,601	30,612	30,612
3. Loans	711,609	X	2,478,638	X
4. Other assets	21	X	208,004	X

Template B - Collateral received by the reporting institution

At December 31, 2017 no collateral was received.

Template C - Encumbered assets/collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Liabilities associated with encumbered assets, collateral received or encumbered own securities	**1,608,684**	**1,905,575**

The Banca Farmafactoring Banking Group manages the following types of encumbered assets:

- high credit quality debt securities issued by the Italian State, encumbered as part of secured funding (refinancing operations with the ECB and repurchase agreements);
- ECB eligible trade receivables (purchased on non-recourse basis) used for refinancing operations with the ECB based on ECB's eligibility criteria;
- securities held in the ECB pooling account for refinancing operations through open market transactions and use for intraday transactions;
- trade receivables (purchased on a non-recourse basis) used as underlying for medium-/long-term funding, typically to guarantee securitization transactions (sold but not derecognized);
- deposit guarantee schemes and initial margins placed at clearing systems and central counterparties;
- mandatory reserve.

About 60.8% of the entire amount of encumbered assets is composed of owned government securities used as collateral in repurchase transactions and for refinancing operations with the Eurosystem.

Section 9. Use of ECAIs (Art. 444 CRR)

Qualitative information

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending.
With this in mind, the Group uses the "standardized" approach to measure credit risk, as governed by Regulation (EU) 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 risk weights to each portfolio.
More specifically, for the "Government agencies and central banks" portfolio, the weight depends on the rating assigned by the ECAIs or ECAs to the individual countries. For the "Supervised intermediaries" portfolio, the weight depends on the rating of the country where the supervised intermediary has its headquarters. For the "Public sector entities" portfolio, the rules for weighting are the same as those for supervised intermediaries.
Banca Farmafactoring adopted the Dominion Bond Rating Service (DBRS) as reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS on January 13, 2017 was "BBB high". Exposures to the Italian public administration, which include those to entities belonging to the National Healthcare Service and Local Healthcare Entities (ASL), fall within the Credit Quality Step 3 and are weighted 100%.

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

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

The exposures of the Banking Group are principally represented by exposures to counterparties of the public administration or healthcare entities of the countries in which the Group operates.
The credit quality steps of the countries in which the Banking Group's companies operate at December 31, 2017 are provided below.

Step 2: Spain, Poland and Slovakia
Step 3: Italy and Portugal
Step 6: Greece

Quantitative information

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

Portfolios/Exposures	Weights	Credit risk			Counterparty risk		
		Non-weighted exposures	Weighted exposures	Capital requirement	Non-weighted exposures	Weighted exposures	Capital requirement
Exposures to government agencies and central banks							
Credit quality step: 2	0%	16,347	0	0			
Credit quality step: 3		1,805,602	0	0			
Credit quality step: 6		2,060	0	0			
Credit quality step: unrated		3	0	0			
Credit quality step: unrated	250%	1,304	3,260	261			
Credit quality step: unrated		3,729	9,323	746			
Exposures to local entities							
Credit quality step: 2	0%	56,733	0	0			
Credit quality step: 2	20%	194,494	38,899	3,112			
Credit quality step: 3		518,018	103,604	8,288			
Exposures to public sector entities							
Credit quality step: 2	20%	34,462	6,893	551			
Credit quality step: 3		128,595	25,719	2,058			
Credit quality step: 2	50%	348,269	174,134	13,931			
Credit quality step: unrated		12	6	0			
Credit quality step: 2	100%	2,436	2,436	195			
Credit quality step: 3		864,906	864,906	69,192			
Credit quality step: unrated		632	632	51			
Credit quality step: 6	150%	6,489	9,734	779			
Exposures to supervised intermediaries							
Credit quality step: 2	20%	6,809	1,362	109			
Credit quality step: 3		81,381	16,276	1,302			
Credit quality step: unrated		141	28	2			
Credit quality step: 3	100%				746	746	60
Exposures to companies and other parties							
Credit quality step: unrated	100%	200,711	200,711	16,057	1,172	1,172	94
	150%	9	13	1			
Past due exposures	100%	6,437	6,437	515			
	150%	90,205	135,307	10,824			
Capital instruments							
Credit quality step: unrated	100%	425	425	34			
Other exposures							
Credit quality step: unrated	0%	1,156,958	0	0			
	100%	18,706	18,706	1,497			
Retail exposures	75%	62,071	46,554	3,724			
CIUs	100%	546	546	43			
Total		**5,608,490**	**1,665,910**	**133,272**	**1,918**	**1,918**	**154**

Section 10. Exposure to Market Risk (Art. 445 CRR)

Market risk

Qualitative information

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" method.
In 2017, financial assets held for trading include financial instruments held to hedge against interest rate risk, for which hedge accounting is not applied.

Specifically, the financial instruments recorded in this category are derivative contracts executed to hedge against exchange rate fluctuations through a forward sale of foreign currency at a spot rate. These financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they should be considered as risk hedging instruments.
As operational hedging instruments, these derivatives were subject to the credit valuation adjustment risk.

Quantitative information

At December 31, 2017, there are no positions generating requirements in relation to market risk.
The following financial derivative contracts are recognized as assets or liabilities held for trading pursuant to the provisions of IAS 39, even though at the operational level they should be considered as risk hedging instruments.

Regulatory trading portfolio: year-end notional amounts

Amounts in € thousands

Underlying assets/ Types of derivatives	Total 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates			**4,535**	
a) Options				
b) Swaps			4,535	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and equity indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold	6,500		43,666	
a) Options				
b) Swaps	6,500		43,666	
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlying assets				
Total	**6,500**		**48,200**	

Exchange rate risk

Qualitative information

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

The Group's asset portfolio at December 31, 2017 is denominated as follows:
- Euro;
- Polish Zloty;
- Czech Koruna.

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 uses specific hedging instruments in order to mitigate exchange rate risk.
With regard to the acquisition of the BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish Zloty is hedged by a loan contract secured with the Unicredit Group, so that the asset and liability positions offset each other and, consequently, there is an open position in currency that is practically nil (natural hedging).
The currency effect, recognized in the income statement, arising from the revaluation of the Zloty loan payable, corresponds to a related effect with the opposite sign in consolidated equity (the so-called "Translation reserve"), which comes from the revaluation of the exchange rates applied to the equity of the BFF Polska Group.

Exchange rate risk is hedged by instruments that are linear and without optional components, such as forex swaps. These offer the Group an adequate hedge against exchange rate risk on the loans in foreign currency granted to the subsidiaries that operate in currencies other than the Euro.
The Group companies use the same instruments noted above to hedge the exchange rate risk, after checking with the Parent Company.

Quantitative information

The Group's asset portfolio is also denominated in currencies other than the Euro. Consequently, a method has been adopted to measure and manage this risk. The exchange rate risk is monitored by the Risk Management Function in accordance with European regulation guidelines (EU Regulation no. 575/2013, CRR).

Breakdown of assets, liabilities and derivative instruments by currency

Amounts in € thousands

Items	Currency					
	US dollar	British pound	Japanese yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets						**512,153**
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans to banks						1
A.4 Loans to customers						512,152
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities						**512,746**
C.1 Due to banks						462,605
C.2 Due to customers						19,990
C.3 Debt securities						30,150
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives						
- Options						
+ *long positions*						
+ *short positions*						
- Other derivatives						
+ *long positions*						
+ *short positions*						
Total assets						**512,153**
Total liabilities						**512,746**
Difference (+/-)						**(593)**

Section 11. Operational Risk (Art. 446 CRR)

Qualitative information

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, among other, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk also includes legal risk but not strategic and reputational risks.

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

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

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

The Group also assesses operational risks in connection with the introduction of relevant new products, activities, processes and systems, and mitigates the consequent operational risk that may arise through the preventive involvement of the Corporate Control Functions and the definition of specific policies and regulations on various subjects and topics.

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

Starting from the year 2016, some new measures aimed at further enhancing the identification, measurement and management of the Group's operational risk were introduced; specifically:

- the implementation of Risk Self-Assessment, an annual forward-looking assessment of exposure to operational risk. This risk assessment is carried out by so-called "Business Experts". The identification of operational risks is carried out on the basis of corporate processes, taking into consideration the loss event type defined by the Supervisory Provisions.
- Quarterly loss data collection. The registration of operational losses has allowed subsequent assessment, measuring, monitoring and reporting activities.

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

Quantitative information

Based on the aforementioned methodology, the capital requirement for operational risk was equal to €27,983 thousand at December 31, 2017.

Section 12. Exposure in Equities not included in the Trading Book (Art. 447 CRR)

Qualitative information

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

- the €17 thousand equity investment in Nomisma S.p.A. Società di Studi Economici, accounted for at cost, in the absence of other valuation inputs. The equity investment was unchanged compared to the previous year;
- the €147 thousand equity investment in the Voluntary Scheme established by FITD to implement measures to support member banks at the point or at the risk of becoming insolvent.

Quantitative information

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

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

Head office	Bologna - Strada Maggiore n. 44
Share capital	€6,963,500 fully paid-in

(in euros, at 12/31/2016)

Equity	7,443,886
Profit (loss) for the year	266,503

On November 26, 2015, the meeting of FITD members approved a Voluntary Scheme in addition to the Mandatory Scheme, to implement measures to support member banks at the point or at the risk of becoming insolvent. Banca Farmafactoring has decided to participate in the scheme.
The Voluntary Scheme has autonomous financial resources, currently totaling €795 million, which the member banks commit to provide, when requested, for the implementation of specific measures. As regards the financial resources of the Scheme, the Bank voted against the resolution of the Extraordinary Shareholders' Meeting of the Fund of September 7, 2017, aimed at increasing the Scheme resources from €700 million to €795 million.

The Bank has already announced its intention to withdraw from the Voluntary Scheme and confirmed this decision with a notice of withdrawal on September 19, 2017, following its vote against the resolution of the Extraordinary Shareholders' Meeting of the Fund on September 7, 2016, as mentioned above.

Operations required by the Voluntary Scheme in 2017 concerned:

- in September, the collection of contributions to support Carim and Carismi for a total of €55 million, of which €77 thousand charged to Banca Farmafactoring;
- in December, the collection of contributions to support Caricesena, Carim and Carismi for a total of €455 million, of which €594 thousand charged to Banca Farmafactoring.
  In 2016, intervention of the Voluntary Scheme was requested to support the difficult situation of Caricesena. The amount charged to Banca Farmafactoring, paid in September 2016, totaled €235 thousand.

In keeping with the instructions provided by the Bank of Italy on October 26, 2016 in "Voluntary Scheme established by FITD. Questions", the amount was recorded among equity securities in item 40 "Available-for-sale financial assets" in the balance sheet asset section. The fair value measurement of these amounts resulted in a value adjustment of the assets acquired through the contributions paid to the Voluntary Scheme, equal to €702 thousand, recorded under item 130 of the income statement "Net adjustments to/reversals of impairment of: b) available-for-sale financial assets".

Section 13. Exposure to Interest Rate Risk on Positions not included in the Trading Portfolio (Art. 448 CRR)

Qualitative information

General information, operational processes and methods for measuring interest rate risk and price risk
For assessing interest rate risk, potentially linked to fluctuations in interest rates, the Group adopted the method used to determine internal capital set forth in Annex C of Bank of Italy's Circular no. 285/2013 (Part I, Title III, Chapter I) and provided for by recent guidelines issued by EBA[10]. This method is applied monthly, in order to detect on a timely and ongoing basis any loss resulting from a market shock determined based on the annual changes in interest rates recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase) and ensuring that rates are not negative.
The sensitivity analysis of the interest rate requires the construction of a framework that makes it possible to highlight the exposure through the use of a specific method. This method is based on:

- Classification of the assets and liabilities into different periods: the allocation to different periods is made, for fixed-rate assets and liabilities, based on their residual lives, for variable-rate assets and liabilities, based on the interest rate renegotiation date.
- Weighting of net exposures within each period: assets and liabilities are offset, thus obtaining a net position. Each net position, for each period, is multiplied by the weighs, obtained as the product of a hypothetical variation in rates and an approximation of the modified duration for each single period.
- Sum of weighted exposures of different periods: weighted exposures of different periods are summed to yield a total weighted exposure.

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

The assumption of interest rate risk in connection with Banca Farmafactoring's funding activity can only occur in compliance with the policies and limits set by the Board of Directors. It is governed by specific powers delegated in this area, which set autonomy limitations for the parties authorized to operate within the Finance Department and Deposit account areas.
The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance and Credit Department, the Risk Management Function, and Top Management, which annually submits to the Board of Directors proposals for lending and funding policies and interest rate risk management and recommends, if necessary, any suitable actions to ensure that business is carried out consistently with the risk management policies approved by Banca Farmafactoring.

The interest rate risk position is reported on a quarterly basis to the Bank's Top Management and Board of Directors, within the framework of periodic reporting of the Risk Management Function.
Furthermore, at the operational level, on a monthly basis the Finance and Credit Department monitors the interest rate risk, as well its management, through specific reporting.

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

Fair value hedging activities

In 2017 the Company has not entered into any forex swap contracts in order to hedge intragroup loans (between Banca Farmafactoring and BFF Polska).

Cash flow hedging activities

Hedging transactions are designed to offset potential losses attributable to specific types of risks. The Bank uses interest rate swaps (IRS) as tools to hedge the interest rate applied to its funding. Like all derivatives, hedging financial derivatives are initially recognized and subsequently measured at fair value.
When a financial instrument is designated as a hedge, the Bank formally reports the relationship between the hedging instrument and the hedged item.
Changes in the fair value of derivatives are recognized based on evidence provided by retrospective tests at the reporting date through a one-to-one correlation of derivatives to loans and in keeping with the provisions of IAS 39 (documentation of the hedge and effectiveness test of the derivative).

The provisions of IAS 39 require to:
- document both the hedged item and the hedging instrument;
- carry out retrospective quantitative tests to determine the effectiveness of the hedge.

Effectiveness tests are carried out by comparing changes in the fair value of the hedging instrument with those of the hypothetical derivative. The hypothetical derivative is a derivative with technical financial characteristics equal to those of the hedged item and initial fair value equal to zero and it is defined in such a way as to represent the perfect hedge.
At each reporting date, retrospective tests are performed that produce the ratio of the fair value differences between the hedging instrument and the hypothetical derivative. If the ratio of the retrospective tests is between 80% and 125%, the hedge is effective; in the opposite case, the derivative is classified as "for trading".
The changes in the fair value of the derivative are therefore recognized:
- in equity, if the test is effective (up to 100%). If the hedging relationship always remains effective, at the expiry of the transaction (maturity of the derivative and the loan) the reserve will be empty without any impact on the income statement;
- through profit or loss, if the test is effective but for a value other than 100% for the fair value difference between 100% and the percentage resulting from the effectiveness test;
- entirely in profit or loss, if the hedge is ineffective (below 80% or higher than 125%).

In the case of the above-mentioned IRS, the hedging relationship was effective and, therefore, the change in fair value was recorded in equity.

Quantitative information

Banking portfolio: notional amounts of hedging derivatives at year-end

Amounts in € thousands

Underlying assets/ Types of derivatives	Total 12/31/2017		Total 12/31/2016	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates	**84,928**		**80,486**	
a) Options				
b) Swaps	84,928		80,486	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities and equity indices				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currencies and gold			75,233	
a) Options				
b) Swaps			75,233	
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlying assets				
Total	**84,928**		**155,719**	

The situation arising from the application of the interest rate management framework at December 31, 2017, as reported below, shows a potential loss in the present value of cash flows, equal to €13.40 million, equivalent to 4.40% on the risk index. The calculation of internal capital takes account of the annual changes in interest rates recorded during an observation period of six years, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase) and ensuring that rates are not negative.

Consolidated interest rate risk at December 31, 2017
[€/000]

Maturity	Assets	Liabilities	Delta	Market Shock	Weighted Value
Demand and revocable	806.5	112.9	693.6	0.00%	-
up to 1 month	331.5	1,326.8	-995.3	0.01%	- 0.1
1 to 3 months	499.1	1,112.7	-613.6	0.02%	- 0.1
3 to 6 months	594.2	376.6	217.6	0.04%	0.1
6 to 12 months	422.1	249.9	172.2	0.09%	0.1
12 to 24 months	465.3	240.6	224.7	0.21%	0.5
2 to 3 years	310.8	60.3	250.5	0.60%	1.5
3 to 4 years	310.5	202.3	108.2	1.17%	1.3
4 to 5 years	229.0	219.7	9.3	1.77%	0.2
5 to 7 years	149.3	-	149.3	2.80%	4.2
7 to 10 years	220.2	102.4	117.8	4.28%	5.0
10 to 15 years	8.9	-	8.9	6.57%	0.6
15 to 20 years	1.5	-	1.5	8.92%	0.1
over 20 years	0.0	-	0.0	11.19%	0.0

TOTAL WEIGHTED AMOUNT (TWA)	**13.40**
OWN FUNDS AT 12/31/2017	**304.8**
RISK INDEX (TWA/OWN FUNDS)	**4.40%**

In addition to calculating the interest rate risk according to the regulatory framework approach, and in order to take due account of the Group's business model, the Risk Management Function of the Parent Company has also monitored this type of risk through a management framework that envisages a division between the fixed and variable rates implicit in the Group's core business (interest on payments and late payments). Compared to the regulatory framework, at December 31, 2017, this management approach showed lower values in terms of internal capital, both with reference to market and regulatory shock, as well as an improvement in the risk ratio.

Section 14. Exposure to Securitization Positions (Art. 449 CRR)

Information on the transaction with "Deutsche Bank AG - Farmafactoring SPV I S.r.l."

Qualitative information

Strategies, processes and objectives

On June 30, 2017, the revolving phase of the Farmafactoring SPV I S.r.l. securitization, whose senior security amounted to €85 million, was not renewed. Consequently, in July 2017 the revolving phase was concluded and the vehicle began to accumulate liquidity through the collection flows deriving from the receivables portfolio sold and the remaining amount at the start date of the amortization phase. The liquidity accumulated on a monthly basis was allocated to the gradual repayment of Senior Notes on the monthly payment dates of the amortization phase.
At December 31, 2017, outstanding Senior Notes amounted to €1.8 million.
Repayment of Senior Notes was completed on January 25, 2018.

Description of the risk profile

Following the repayment of the Senior Notes on January 25, 2018, activities for the unwinding of the program and the SPV were launched, which should be completed by the end of the first half of 2018.
At the end of the transaction, subsequent to the repayment of the securities and other senior transaction expenses, all the remaining amounts from the collection of the receivables sold, including late payment interest, will belong to Banca Farmafactoring, in its capacity as underwriter of the subordinated loan.
Based on the above, all of the risks and benefits of the transaction were not transferred to the assignee but remained with Banca Farmafactoring. Consequently, the securitization risk was included in the credit risk.

Quantitative information

Type of financial instruments held

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

Sub-servicer activity

Banca Farmafactoring, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A.
Following repayment of securities, the face amount of outstanding receivables totaled €49 million at December 31, 2017.

Disclosure on the transaction with "Bayerische Landesbank - BFF SPV S.r.l."

Qualitative information

Strategies, processes and objectives

In July 2017, the private placement of a new securitization transaction was successfully concluded with the Bayerische Landesbank (BayernLB) Group for €150 million—the maximum amount of the Flexible Senior Note—with the aim of diversifying funding activities.

Characteristics of the transaction

The receivables, due from Local Healthcare Entities (ASL) and Hospitals (AO), are sold without recourse to a special purpose vehicle pursuant to Law no. 130/99, BFF SPV, which finances the purchase of the receivables by issuing securities up to a total of €150 million, underwritten by Corelux, a special purpose vehicle in the BayernLB Group, using liquidity made available by BayernLB AG.

The securitization structure provides for a revolving period during which sales of the revolving receivables will be made against collections of the receivables in order to maintain the collateralization ratio provided for by the contract. The revolving phase started in September 2017, after the issue and payment of the Senior Notes.

Description of the risk profile

Banca Farmafactoring, as the originator, maintains a role in the securitization transaction, even though it sells receivables on a non-recourse basis.
This transaction includes a credit enhancement mechanism through an overcollateralization ratio (equal to 136.05% of the amount of the securities issued) and a subordinated loan by Banca Farmafactoring.

At the end of the first revolving period (currently January 2019), there will be an amortization period of up to one year related to the receivables collection performance, until full repayment of securities.
Through the exercise of a put option, the vehicle may also transfer back to Banca Farmafactoring S.p.A. any receivables outstanding after the 12 months set as the maximum limit for the amortization period.

Based on the above, all of the risks and rewards of the transaction were not transferred to the assignee but remained with Banca Farmafactoring. Consequently, the securitization risk is included in the credit risk.
Banca Farmafactoring does not hold any financial instruments issued by the vehicle as part of the transaction and, as collection agent, takes care of the recovery and collection of receivables on behalf of the servicer Zenith Service S.p.A.

Quantitative information

Type of financial instruments held

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

Sub-servicer activity

Banca Farmafactoring, in its capacity as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A.

Following the sales of receivables during the revolving phase of the transaction, the face amount of the outstanding receivables totaled €130 million at December 31, 2017.

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

Amounts in € thousands

	On-balance sheet exposures						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
Type of securitized asset/Exposure	Carrying amount	Adj./Revers. of impair.	Carrying amount	Adj./Revers. of impair.	Carrying amount	Adj./Revers. of impair.	Net expo-sure	Adj./Revers. of impair.	Net expo-sure	Adj./Revers. of impair.	Net expo-sure	Adj./Revers. of impair.	Net expo-sure	Adj./Revers. of impair.	Net expo-sure	Adj./Revers. of impair.	Net expo-sure	Adj./Revers. of impair.
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	93,524	12																
C.1 Farmafactoring SPV I - *Factoring*	50,344	185																
C.2 BFF SPV - *Factoring*	43,180	(173)																

Section 15. Remuneration Policy (Art. 450 CRR)

Qualitative information

Remuneration policy definition

The Banca Farmafactoring Banking Group's remuneration and incentive policies, as approved by the Shareholders' Meeting on April 5, 2018, aim at achieving, in the interests of the stakeholders, remuneration schemes that are in line with the corporate values, strategies and goals over the long term. These schemes are linked to the company results—adjusted to take into account the risks assumed by the Group—and, more specifically, to the levels of capital and liquidity necessary to manage business activities, such as to avoid distorted incentives that may lead to violations of laws or the excessive assumption of risks for the Group.

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

i) The shareholders' meeting

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

- decide the remuneration to be paid to Directors, Statutory Auditors and the Independent Auditors responsible for auditing the accounts;
- approve the remuneration and incentive policies for the strategic supervision, management and control bodies, and also for personnel;
- approve any remuneration plans based on financial instruments;
- approve the criteria for determining remuneration in the case of early termination of employment or early resignation from the role held, including the remuneration limits in terms of multiples of annual fixed remuneration, and the maximum amount arising from their application;
- examine, at least annually, the disclosure on the remuneration and incentive policies adopted by the Bank, and on their implementation in compliance with supervisory regulations. Such disclosure contains the same information on the remuneration and incentive practices provided to the public, in compliance with provisions of Circular no. 285.

  In addition, pursuant to the regulatory provisions of Circular no. 285, Shareholders shall have the power to approve any increase in the ratio between variable and fixed remuneration from 1:1 up to a maximum of 2:1. This power was exercised through the resolution of the Shareholders' Meeting of December 5, 2016, which approved the proposal of the Board of Directors to raise the ratio between variable and fixed remuneration from 1:1 to the maximum of 2:1, except for personnel belonging to Corporate Control Functions.

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

- in compliance with the qualified majorities required by Circular no. 285;
- following the preliminary consultation procedure envisaged by Circular no. 285.

The resolution passed to approve the increase in the ratio to the maximum of 2:1 was sent to the Bank of Italy within the deadline provided for by Circular no. 285.

On April 5, 2018, the Shareholders' Meeting of the Bank resolved to confirm the ratio of variable and fixed remuneration at the maximum of 2:1, as established by the above-mentioned Shareholders' Meeting resolution of December 5, 2016.

During the same session, the Shareholders' Meeting of the Bank also resolved to approve, in particular, the "Annual Remuneration Report" (hereinafter, also the "Annual Report", which includes under Section I, the "2018 Remuneration and Incentive Policy for members of the bodies with strategic supervision, management and control functions, and for personnel of the Banca Farmafactoring Banking Group" (hereinafter, also the "Policy").

ii) The Board of Directors shall:

- draft, submit to the Shareholders' Meeting and review, at least once a year, the remuneration policy; it shall oversee its proper implementation, ensuring that such policy is adequately documented and can be accessed by internal staff;
- define the remuneration and incentive schemes for the Chief Executive Officer, Directors with specific roles, Senior Executives, Executives directly reporting to the Chief Executive Officer, and also, for the Parent Company, the Heads of Corporate Control Functions. In particular, the Board shall ensure that such schemes are consistent with the overall decisions of the Bank in terms of the assumption of risks, strategies, long-term objectives, corporate governance structure and internal controls;
- define, at Group level, the remuneration for Executive Directors and, for the Parent Company, the remuneration for Directors with specific roles; it shall also define, at Group level, the remuneration and—following the Chief Executive Office's proposal—the annual targets, and related assessment, for: Senior Executives, Executives directly reporting to the Chief Executive Officer, Heads of Corporate Control Functions of the Parent Company, while ensuring observance of the law and the remuneration policy for the members of the strategic supervision, management and control bodies and, for the staff of the Banca Farmafactoring Banking Group;
- identify, after consulting the Remuneration Committee, the executives of the Bank and the Group as defined in the Stock Option Plan approved by the Board of Directors on July 8, 2016 and by the Shareholders' Meeting of December 5, 2016 as subsequently amended (the "**Stock Option Plan**"), benefiting from such Stock Option Plan;
- assign the stock options to Executives and Senior Executives of the Group, as defined in the Stock Option Plan;
- determine the maximum number of Options to be allocated overall to all beneficiaries, pursuant to the Stock Option Plan, in relation to each tranche.

iii) The Remuneration Committee
On January 25, 2013 the Board of Directors created the Remuneration Committee, responsible for providing advisory and proposals to the Board of Directors for staff remuneration and incentive policy issues. Composed of three non-executive members, two of whom are independent, the Committee is charged with formulating proposals for staff compensation, whose remuneration and incentive schemes are decided by the Board of Directors, and has a consulting role for determining the remuneration criteria for Risk Takers.

In 2017, the Remuneration Committee held 9 meetings. Its main activities included:

- reporting the 2016 performance results concerning the Chief Executive Officer, the Senior Executives and Executives directly reporting to the Chief Executive Officer and the Heads of the Control Functions of the Group for the definition of the relevant MBO;
- defining the 2017 quantitative objectives for the Chief Executive Officer, the Senior Executives, the Executives directly reporting to the Chief Executive Officer and the Heads of the Control Functions of the Group;
- defining the Report;
- analyzing and approving the remuneration packages for hiring new Executives;
- updating the remuneration and incentive policies for the strategic supervision, management and control bodies, and also for the Banca Farmafactoring Banking Group's staff;
- identifying the Beneficiaries of the Stock Options within the categories of competence of the Board of Directors;
- updating the Contract of the Chief Executive Officer;
- proposing to change the Regulations of the Remuneration Committee.

iv) The Control and Risk Committee

On July 24, 2014 the Board of Directors created the Risk Committee, responsible for, among other, ascertaining that the incentives in the Group remuneration scheme are consistent with the RAF.

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

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

The Personnel Organizational Unit drafts the text of the Policy. The Policy drafting process also involves the following parties:

- Risk Management Function: it supports the identification of Risk Takers, by providing indications relating to the current and prospective risk profile in line with the RAF, also on a consolidated basis. In addition, it puts forward proposals on incentive scheme parameters and monitors the variable component access gates;
- Organization, Systems and Personnel Department: it contributes to the identification of Risk Takers, by providing indications on the current and prospective risk profile, in line with the regulations on the responsibilities of corporate structures and corporate procedures.

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

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

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

Identification of "Risk takers"
The Policy is based on a corporate role classification system consistent with the definition of "Risk Takers" as set out by the Group. In particular, the Group identifies the Risk Takers through an annual assessment process carried out by the Personnel Organizational Unit, in cooperation with the Organization and Regulatory Unit and the Risk Management Function, based on the qualitative and quantitative criteria provided for by Regulation (EU) no. 607/14, the internal regulations of the Group, corporate procedures, role descriptions and individual powers of attorney. Therefore, taking into account the level of independence between the different roles and their impact on business, the Board of Directors identifies, with a specific resolution, the Risks Takers following assessment by the Personnel Organizational Unit with the support of the Risk Management and Compliance and AML Functions, after consulting the Remuneration Committee.
In addition, whenever the Bank establishes a new working and/or cooperation relationship, the Personnel Organizational Unit carries out an assessment for the identification of personnel to verify if he or she should be classified as Risk Taker.

Remuneration components
The BFF Group, using adequate remuneration and incentive mechanisms, intends to encourage corporate competitiveness while promoting sound and prudent management, and strengthen the management of the company, by guaranteeing that independent, informed and timely decisions are taken at an appropriate level, so as to avoid conflicts of interest and ensuring proper disclosure as required by the competent authorities.
In brief, the remuneration policies adopted by the Group, in 2017, are as follows:

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

With the exception of the Chief Executive Officer, Directors shall never receive any variable remuneration component.

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

Chief Executive Officer:
The Chief Executive Officer is paid:
- a fixed remuneration component established by the Board of Directors pursuant to Article 2389, third paragraph of the Italian Civil Code, and a benefits package;
- a variable remuneration component, including:
  - an incentive scheme based on reaching and exceeding the profit goal set out in the budget, adjusted by the risk as indicated in the RAF, besides maintaining the minimum parameters for regulatory capital and liquidity;
  - options granted pursuant to the Stock Option Plan;
  - a golden parachute, including a non-competition agreement.

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

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

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

Supervisory Body:
The members of the Supervisory Body who are not Group employees receive a fixed fee established by the Board of Directors, on the basis of market conditions and the responsibilities assumed, in order to guarantee the independence and autonomy of their functions and the diligent performance of their duties.

Instead, the members of the Supervisory Body who are employed by the Group are not paid any fees for their assignment.
The members of the Supervisory Body shall never receive any variable remuneration component linked to the results of the Group.

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

Fixed remuneration component

The fixed component is related to the experience and professional skills of the company personnel, also on the basis of the positions held.
In particular, the fixed remuneration component for the Group's Executives and Senior Executives includes the benefits provided by the Bank (including, by way of example, a company car).

For the remaining personnel, each company of the Group may at its discretion offer benefits packages, consistently with the provisions of local law, according to the importance and complexity of the positions held, and considering the principles of equality and alignment to the local labor market and, in any case, following the guidelines of the Group, in compliance with the Policy.
The fixed remuneration component is determined based on certain principles in line with the Code of Ethics adopted, which can be summarized as follows:

- ✓ Fairness: attribution or recognition of what the individual employee is entitled to, in terms of professional growth, based on the skills required, and the roles and responsibilities held, without any discrimination, giving everyone the same career opportunities.
- ✓ Competitiveness: analysis of the remuneration level of each role in relation to specific market benchmarks.
- ✓ Meritocracy: rewarding and recognizing individuals based on their merit.
- ✓ Consistency over time: consistent behavior with reference to medium-long term objectives and the risk management policies pursued.

Consequently, and for the purposes of implementing the foregoing, the general guidelines for remuneration envisage that:

- ✓ the fixed component is balanced with reference to positions with similar complexity, impact and responsibility level;
- ✓ the amount paid reflects the experience gained, the skills acquired and the performance achieved;
- ✓ the remuneration of a position is in line with the market value of remuneration for roles of similar complexity, taking into account performance in the position held.

Variable remuneration component

General principles

The variable remuneration components consist of all payments or benefits that are not fixed in terms of distribution and/or amount.

Entitlement to remuneration is linked to various parameters which are consistent with the function of the specific instrument adopted to pay the variable component (e.g. individual and/or Bank performance, however measured, years of employment, etc.).

It may not necessarily include the marginal payments or benefits granted to personnel on a non-discretionary basis, which are part of a Bank's general policy and do not impact the incentive plan for hiring or risk management.

No forms of guaranteed variable remuneration are allowed except in special cases when new persons are hired and only for the first year of employment. These forms of guaranteed variable remuneration component:

- ✓ shall not be paid more than once to the same person;
- ✓ are not subject to the rules on the structure of the variable remuneration component;
- ✓ contribute to determine the maximum ratio between fixed and variable remuneration for the first year of employment.

Remuneration for staying at the Company (i.e. retention bonuses) may also be granted. Such forms of remuneration are classified as variable remuneration component and as such are subject to all applicable rules, including the maximum ratio between variable and fixed remuneration.

The pay mix was determined based on total remuneration and according to existing law, principles of continuity with the past and coherence between the various roles and responsibilities, and, however, without omitting market comparison. The basis of calculation for the ratio between fixed and variable components is formed by fixed remuneration and benefits based on their gross amount for tax purposes.

The variable remuneration component consists of various elements, including:

Management By Objective (**"MBO"**)

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

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

As regards the MBO, during the initial phase the bonus basic amount is calculated based on the achievement of the individual objectives. Subsequently, in order to verify that the MBO can be paid, the economic, equity and liquidity "gates" defined at the start of the reporting period are also checked. The Bank may also identify some corporate parameters allowing to increase the variable remuneration component accrued by each employee also on the basis of individual performance. In particular, by way of example with reference to the Parent Company, provided the Policy gates are met, the MBO is also calculated on the basis of two "multipliers":

1 One multiplier is linked to profitability and is calculated on the basis of $EBTDA^{RA}$, which may increase the MBO up to 40% for supervisors, Executives and Seniors Executives, and up to 30% for the rest of staff. This multiplier may also produce a decrement, if results are below the targeted $EBTDA^{RA}$. In any case, the MBO bonus is paid to supervisors and the rest of staff—even if the targeted $EBTDA^{RA}$ has not been reached. Target achievement is the condition necessary for Senior Executives, Executives and Group managers.
   This multiplier is not used to calculate the MBO of personnel belonging to the Corporate Control Functions.

2 The other multiplier is linked to the customer satisfaction, which is valid for Italy only. This individual performance indicator is calculated on the basis of a survey carried out by the Sales Organizational Unit. Based on the outcome, the MBO may be increased up to a maximum of 9%. This indicator is only used as an incremental multiplier.

These multipliers operate as second-level parameters, i.e. as a quantification parameter that is activated only if the gates of the Policy are effectively met, in compliance with the applicable regulatory provisions.

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

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

The MBO is focused on annual objectives and retention mechanisms (e.g. payment subject to years of employment or position) for all personnel.
As regards the annual objectives, three "gates" are applied during the year in which entitlement to payment is accrued, linked to the achievement of the economic objective established in the budget for such year, adjusted for risk as provided for in the Risk Appetite Framework, associated with compliance with capital and liquidity requirements:

1 the liquidity ratio adopted is the Liquidity Coverage Ratio (LCR), equal to the minimum amount established by applicable supervisory provisions from time to time;

2 the capital ratio adopted corresponds to a level of Total Capital Ratio equal to at least the amount determined as a result of the SREP carried out by the Supervisory Authority;
3 the performance parameter identified is the Risk Adjusted EBTDA ($EBTDA^{RA}$); this parameter is defined as EBTDA net of the Item 130a of the income statement and an adjustment mechanism that takes into account the risks assumed by the Group, in line with the capital targets defined in the RAF and in connection with the strategic plan/budget. In particular:

$$EBTDA^{RA} = EBTDA + Item\ 130a - (RWA^{M} * TCR\ Target * Ke)$$

Where:
Item 130a in the income statement: "Net adjustments to/reversals of impairment of receivables";
RWA^{M}: annual average of total risk weighted assets, resulting from accounting activities and relating to the Group[11];
TCR Target: the risk appetite threshold defined for the Total Capital Ratio (15%). In case of subordinate eligible Tier 2, the TCR Target to be applied in the formula is equal to the difference between 15% and the Tier 2 percentage of the Group Total Capital;
Ke: cost of capital equal to 10%.
$EBTDA^{RA}$ is calculated based on the monthly average RWA, determined by the Planning, Administration and Control Department on the basis of monthly accounting and by replicating the mandatory prudential accounting activities for quarterly supervisory reports.

In order to fully implement the adjustment mechanism that takes into account the risks assumed by the Group, the calculation of $EBTDA^{RA}$ is carried out by considering the value of adjustments and reversals of impairment of receivables in the financial statements (Item 130a).

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

In order to ensure sustainability in the long term, the MBO of Risk Takers and personnel with managerial roles and/or highly professional positions shall be paid as follows:
- 70% after the approval of the financial statements by the Shareholders' Meeting;
- 30% deferred three years[12] after accruing. For example, for the year ending December 31, 2018, the deferred MBO is subject to an additional "gate", determined by achievement in the year prior to payment (scheduled for 2021), that is in the year ending December 31, 2020, of profits, net of risk, together with compliance with the minimum capital and liquidity requirements;
- for employees, in particular, at least 6 months of employment in the reference year and staying at the Group at the time of payment are generally required.

(11) RWA refers to risk weighted assets as defined in Circular no. 285.
(12) Considering that the Bank is classified, for the purposes of remuneration policies, as an intermediate-size bank, a shorter retention period may be applied—up to half of that indicated. The Bank decided to follow a more conservative approach by adopting a longer retention period than that required by Circular no. 285 for intermediate-size banks.

Company bonus

For Parent Company's employees subject to the Italian collective labor agreement for the banking sector, with the exception of executives, a company bonus ("VAP") is envisaged, on the basis of the relevant national collective agreement, providing for compensation following the achievement of specific performance objectives by the Bank.
The company bonus may only be paid in cash or through corporate welfare goods and services, on the basis of the relevant supplementary agreements.

Stock Option Plan

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

This Plan aims to:

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

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

Golden parachute

The remuneration agreed upon with regard to the early termination of employment or office (so-called golden parachute) is a variable remuneration component.

The golden parachute also includes any compensation paid on the basis of non-competition agreements after termination of the employment relationship. For Risk Takers, such compensation is subject to the rules on deferral and financial instrument balancing applying to the variable remuneration component. In any case, any compensation provided for by the non-competition agreement shall not exceed 120% of the gross annual fixed remuneration component, including benefits (with reference to the most recent year).

Golden parachutes are not considered in the calculation of the 2:1 ratio between variable/fixed components approved by the Shareholders' Meeting on December 5, 2016. They are linked to the performance achieved and the risks assumed by the individual and the Bank, and are negotiated in compliance with the criteria established by the Shareholders' Meeting, as detailed in section 8.5 below.

Discretionary pension benefits

The Bank's Board of Directors may grant discretionary pension benefits, as defined above and provided for by Bank of Italy's Circular no. 285. In this case, for the purposes of applying the provisions on the variable remuneration component to discretionary pension benefits, the following criteria are complied with[13]:

- ✓ if the employee terminates the employment or collaboration relationship before accruing the right to retirement, the discretionary pension benefits are invested in financial instruments of the Bank, held by the Bank for a period of five years and subject to *ex post* adjustment mechanisms in accordance with the provisions of Section 8.7. Before the end of the deferral period, dividends or interest on the financial instruments referred to in this section cannot be paid. Consequently, any interest and dividends accrued during the deferral period will be set aside and paid at the end of such period;
- ✓ if the employment or collaboration relationship ends after accruing the right to retirement, the discretionary pension benefits are provided to the employee in the form of financial instruments and subject to a retention period of five years;
- ✓ the discretionary pension benefits are not included in the calculation of the 2:1 ratio between variable and fixed remuneration components.

The above-mentioned rules, and the provisions of Section 8.5 below, do not apply to golden parachutes or incentives to leave, in accordance with the provisions of Title IV, Chapter 2, Section III, paragraph 2.2.3 of Circular no. 285.

Benefits

Group Executive and Senior Executives, as well as the remaining personnel may be offered a benefits package, consistently with the provisions of local law, according to the importance and complexity of the positions held, and considering the principles of equality and alignment to the local labor market and, in any case, following the guidelines of the Group.

Early termination of the employment relationship

The treatment applied in the event of the termination of the employment relationship is that provided for by the relevant employment contract. The Board of Directors of the Parent Company may offer golden parachutes for Risk Takers in the event of early termination of the employment relationship or in the case of end of term of office, according to the conditions provided for by existing regulations and criteria approved by the Shareholders' Meeting.
In order to determine such compensation, qualitative and quantitative indicators are applied which reflect the performance level and risks assumed by the person and by the Bank, in addition to ex post (mauls and clawback) adjustment mechanisms, within the limits permitted by the applicable collective labor agreement, as established by the Supervisory Provisions for Banks and, in any case, in accordance with the limits and provisions of applicable legislation.

(13) See Part 1, Title IV, Chapter 2, Section III of Circular no. 285.

Non-competition agreement

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

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

The payment of compensation for the non-competition agreement takes place after termination of the relationship. For Risk Takers, such compensation is subject to the rules on deferral and financial instrument balancing applying to the variable remuneration component. In any case, any compensation provided for by the non-competition agreement shall not exceed 120% of the gross annual fixed remuneration component, excluding benefits (with reference to the most recent year).

Ex post adjustment mechanisms (Malus and Clawback)

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

For the purposes of providing the deferred variable component, on the basis of all other legal and contractual assumptions, the application of a certain "gate" is envisaged, during the year in which entitlement to payment is accrued, determined by the achievement of profits by the Group, net of risk, and compliance with the minimum capital and liquidity requirements (the "**Malus**" condition).

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

a) conduct resulting in a significant loss for the Bank or for Group companies; in this regard it should be noted that the Board of Directors has established a minimum threshold for such loss, corresponding to the "average" risk indicated in the Risk and Control Matrix adopted by the Bank, equal to €1 million;

b) with regard to executive directors, BFF executives, Senior Executives of the Group's foreign companies, and any general managers, non-compliance with one or more requirements set forth in Article 26 of the Consolidated Law on Banking;

c) violation by the relevant persons of the obligations set forth in Article 53, paragraph 4 et seq. of the Consolidated Law on Banking about risk taken by the Bank in relation to anyone who may directly or indirectly influence the management of the Bank or the Banking Group as well as any associated party, as well as situations of conflict of interest and/or violation of the conditions and limits identified by the Bank of Italy pursuant to the aforementioned Article 53 of the Consolidated Law on Banking;

d) violation of the obligations and provisions of Circular no. 285 (Section III, e.g. improper receipt of remuneration);

e) specific cases of intentional fault or serious misconduct resulting in damage to the assets or the image of the Bank or the Group companies;

f) intentional fault or serious misconduct resulting in the violation of the obligations provided for by Legislative Decree no. 231/2001 or by the Code of Ethics adopted by the Bank;

g) intentional fault or serious misconduct resulting in frauds to the detriment of the Bank or the Group companies.

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

The Malus and Clawback mechanisms apply from the moment the Bank verifies the case involving the Malus and Clawback conditions, following the procedure indicated in Section 8.7.
In any case, the variable component is not provided in the event of violations that justify the termination of the employment relationship by the Bank pursuant to any applicable laws and collective labor agreements. In addition, the termination of the employment relationship and/or end of term of office does not prevent the activation of Clawback mechanisms, which in any case take into account the relevant legal, contribution and tax profiles, and the time limits established by applicable local regulations.

The "Remuneration Report" includes all information on the current remuneration policies. The document is available under the "Governance" section of the Bank's website at the address: www.bancafarmafactoring.it.

Quantitative information

Fixed and variable remuneration paid by the Group in 2017 to the various categories of beneficiaries is as follows:

Beneficiaries	Recipients (d)	Fixed remuneration (e)	Variable remuneration accrued in 2017	Of which deferred portion (cash+financial instruments)	Deferred portion paid in 2017
A Executive directors or directors with specific powers *(a)*	1	774	-	-	172
B Chair of the body with strategic supervisory functions *(a)*	1	205	-	-	-
C Other non-executive directors *(b) (c)*	7	266	-	-	-
D Statutory Auditors *(f)*	4	170	-	-	-
E Heads of the main Line	19	2,842	34	10	281
and Staff structures	5	618	147	44	39
F Heads of Control Functions *(g)*	**37**	**4,874**	**181**	**54**	**492**
Total					

(a) The fixed remuneration also include remuneration for the position of Director.
(b) BFF's Chairman and Chief Executive Officer are not taken into account, since their remuneration for the position of Director is included in fixed remuneration.
(c) Compensation paid to Chairs of Board Committees and Magellan Supervisory Board's members is included. Three BFF Directors waived their right to the relevant compensation and therefore, they are not included among recipients.
(d) Persons holding two offices are counted only once.
(e) Fixed remuneration includes benefits.
(f) The Board of Statutory Auditors consists of 3 members: 2 Statutory Auditors and 1 Chair. In 2017 some replacements occurred.
(g) Heads of Control Functions are 4: 2 Heads were replaced during the reporting period.

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

Section 16. Leverage (Art. 451 CRR)

Qualitative information

The leverage ratio has been introduced by Bank of Italy's Circular no. 285 "*Supervisory provisions for banks*" and Circular no. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*", both dated December 17, 2013, implementing Regulation (EU) no. 575/2013 (CRR, Capital Requirement Regulation), as subsequently amended, relating to new harmonized measures for banks and investment firms. It has then become an integral part of the Disclosure which institutions must provide, in accordance with Article 451 of the CRR.

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

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

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

Quantitative information

Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable amounts
1	Total assets as per published financial statements	4,446,941
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(21,710)
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure according to Article 429, paragraph 13, of Regulation (EU) no. 575/2013)	
4	Adjustments for derivative financial instruments	746
5	Adjustments for securities financing transactions (SFTs)	1,172
6	Adjustment for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures)	52,664
UE-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429, paragraph 7, of Regulation (EU) no. 575/2013)	
UE-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429, paragraph 14 of Regulation (EU) no. 575/2013)	
7	Other adjustments	41,345
8	***Total leverage ratio exposure***	***4,521,158***

Leverage ratio common disclosure

		CRR leverage ratio exposure
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4.470.784
2	(Asset amounts deducted in determining Tier 1 capital)	(4.209)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**4.466.575**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	
5	Add-on amounts for potential future exposures associated with all derivatives transactions (mark-to-market method)	
UE-5a	Exposure determined under Original Exposure Method	746
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**746**
	Securities financing transactions exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	1.172
UE-14a	Derogation for SFTs: Counterparty credit risk exposure under Article 429(b), paragraph 4, and Article 222 of Regulation (EU) no. 575/2013	
15	Agent transaction exposures	
UE-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**1.172**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	131.367
18	(Adjustments for conversion to credit equivalent amounts)	78.704
19	**Total Other off-balance sheet exposures (sum of lines 17 to 18)**	**52.664**
	(Exempted exposures in accordance with Article 429, paragraphs 7 and 14, of Regulation (EU) no. 575/2013 (on- and off-balance sheet exposures))	
UE-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429, paragraph 7, of Regulation (EU) no. 575/2013 (on-and off- balance sheet))	
UE-19b	(Exposures exempted in accordance with Article 429, paragraph 14, of Regulation (EU) 575/2013 (on-and off- balance sheet))	
	Capital and total exposures	
20	Tier 1 capital	224.166
21	Total leverage ratio exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	4.521.157
	Leverage ratio	
22	**Leverage ratio**	**4,958%**
	Choice on transitional arrangements and amount of derecognized fiduciary items	
UE-23	Choice on transitional arrangements for the definition of the capital measure	
UE-24	Amount of derecognized fiduciary items in accordance with Article 429, paragraph 11, of Regulation (EU) no. 575/2013	

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

		CRR leverage ratio exposure
UE-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures) of which:	4,466,575
UE-2	Trading book exposures	
UE-3	Banking book exposures, of which:	4,466,575
UE-4	Covered bonds	
UE-5	Exposures treated as sovereigns	1,829,044
UE-6	Exposures to regional governments, multilateral development banks, international organizations and public sector entities not treated as sovereigns	2,128,288
UE-7	Institutions	156,020
UE-8	Secured by mortgages of immovable properties	
UE-9	Retail exposures	49,288
UE-10	Corporate	189,924
UE-11	Exposures in default	94,730
UE-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	19,281

Certification by the Financial Reporting Officer

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

Carlo Zanni
The Financial Reporting Officer

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