Virtual roadshow post 9M 2020 results

November 2020

A Bank Like No Other®

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Today's speakers

Massimiliano Belingheri
Group CEO

Piergiorgio Bicci
Chief Financial Officer

Caterina Della Mora
Director, Group Investor Relations, Strategy and M&A

Key takeaways

Financial performance

- **Solid financial performance and profitability**, improved risk profile, ample funding and capital, good volume growth, stable portfolio
  - Flat adjusted net income, +10% y/y net of LPIs over-recoveries
  - New business volume up by 25% y/y at €3.8bn
  - Customer Loans portfolio up 3% y/y, due to faster collection. Strong outperformance vs. market
  - Increased stock of unrecognized off-balance sheet LPIs at €423m (+6% y/y)
  - Available funding increased by +15% y/y at €4.1bn, with €0.9bn undrawn credit lines
  - Net NPLs ex Italian municipalities down 25% y/y, 81% coverage, with 10bps cost of risk
  - Strong capital position and high equity free cash flow, with c. €127m of dividend capacity available

Dividends

- **2019 Dividend not included in regulatory capital, and ready to be paid out** as soon as regulators allow, currently from **1st January 2021**
- 2020 Dividend set according to BFF dividend policy, and expected to be paid after AGM 2021

COVID-19

- Negative impact on LPIs over-recoveries and new commercial developments, as in previous quarters
- Acceleration in collection of newest invoices, driven by liquidity injected by governments
- BFF Banking Group's employees back to remote working (as in Mar-Jul 2020), from early November 2020

DEPObank acquisition

- Waiting for Bank of Italy and ECB clearance. Closing and merger expected in 1Q 2021
- Transaction and integration costs: €7.4m already expensed in BFF in the nine months to 3Q20. Same BFF core banking provider selected for the combined entity, locking in a majority of the cost synergies

Resilient business amidst economic downturn and high liquidity environment

BFF BANKING GROUP

BFF fully operational

- BFF Banking Group is fully operational, with employees back to remote working from early November 2020, as in March-July 2020.

PA not fully operational

- Limited PA focus on negotiation of LPIs settlements

Extraordinary fiscal measures boosting liquidity

- Under the increased flexibility of EU budgetary rules, governments put in place fiscal measures, to ensure ample liquidity to private and public sector and to preserve the continuity of economic activity during and after the coronavirus pandemic
- Most governments have injected cash to accelerate payments or prevent payment time lengthening

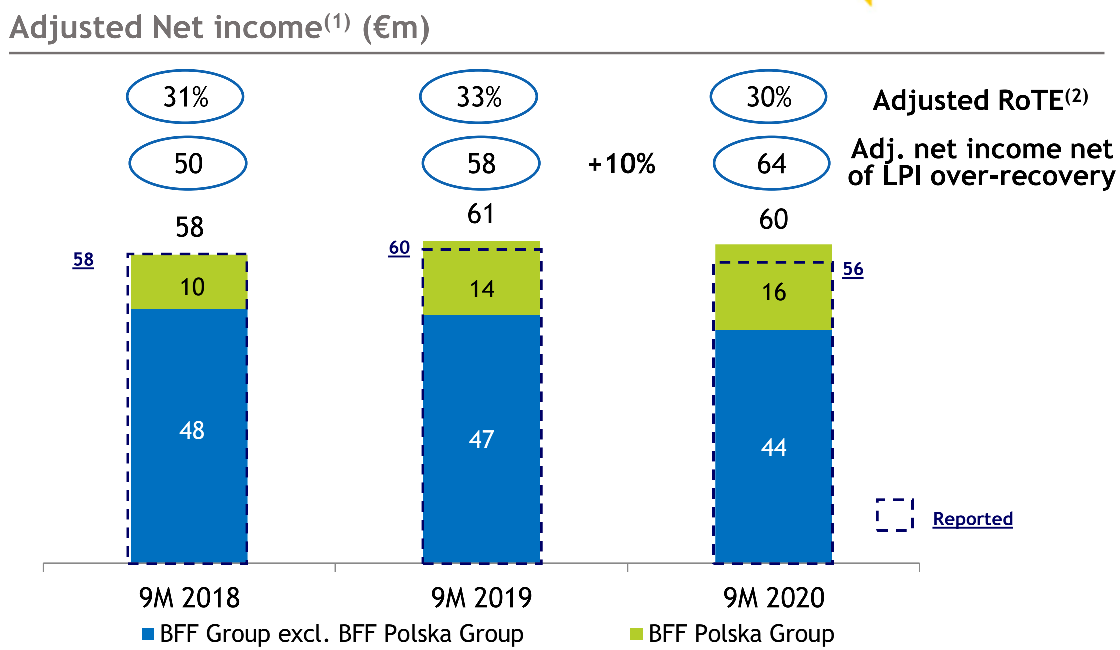
Resilience of BFF business model

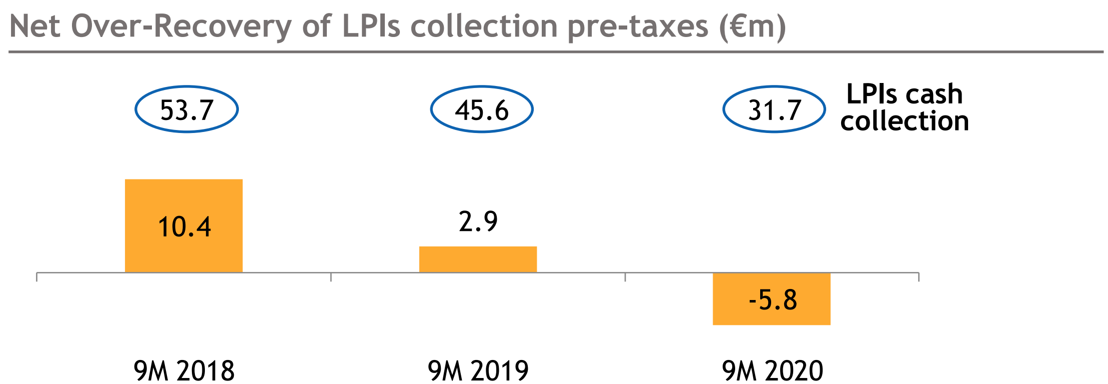
- **PA entities are paying giving priority to the newest invoices:** new portfolios available are smaller, and there is less pressure for clients to sell receivables
- Nonetheless, BFF volume in most markets grew at double digit y/y
- Even in Italy, BFF recorded stable volume and portfolio in the 9 months to 30-Sep-20 y/y, despite total Italian factoring turnover down by 13.6% y/y and advances –11.9% y/y(1)

Note: (1) Source: 9M20 Assifact data.

Adjusted Net Income stable at €60m

- **Adjusted Net Income flat y/y at €59.9m vs. €60.6m in 9M19**, despite:
  - (i) net LPIs over-recovery €8.7m lower than 9M19, with €13.9m lower LPIs cashed-in y/y;
  - (ii) prudent provisioning (+€1.9m y/y), that increased NPL coverage ratio[3] from 71% in 9M19 to 81% in 9M20.
- **Adjusted RoTE** of 30% vs. 33% in 9M19, driven by lower LPIs over-collection



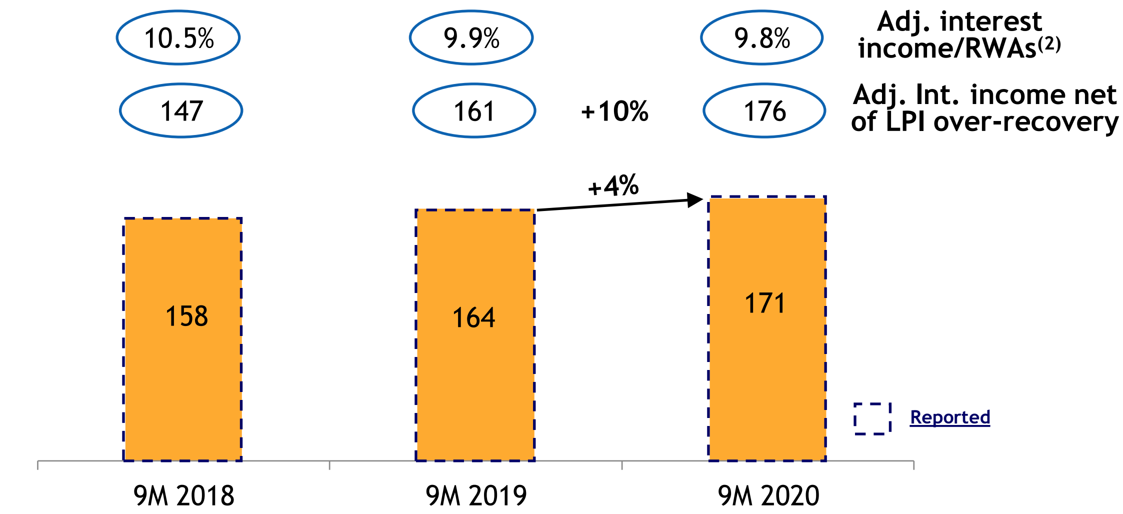


Notes: (1) Adjusted to exclude extraordinary items. 9M2020 adjusted net income exclude the following items: €1.1m costs related to the Stock Option plan, €1.2m taxes on one-off dividend distribution from subsidiaries, €5.3m M&A costs, €3.9m positive impact from the exchange rate movement, €0.5mln of Extraordinary Resolution Fund contribution. See appendix for adjustments. (2) RoTE is calculated on the average tangible equity, excluding earnings of the period and 2019 Dividend. (3) Excluding Italian municipalities in conservatorship.

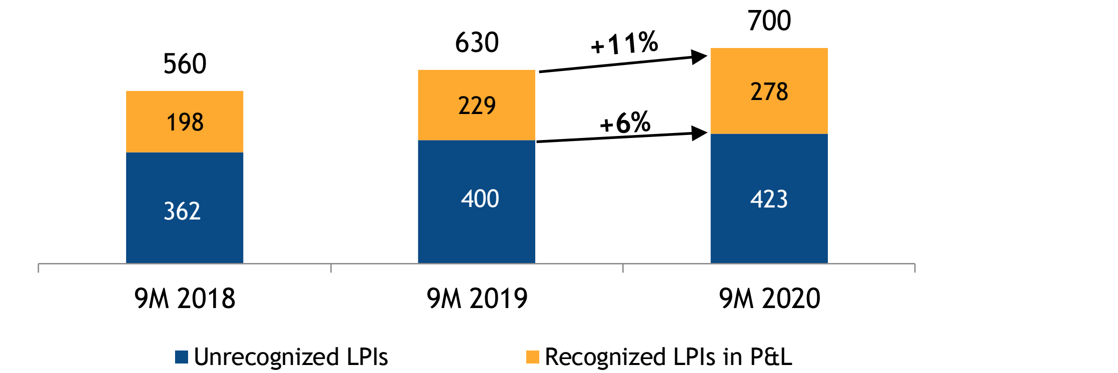
Growing Interest Income and LPIs stock, with significant income deferral

- **9M20 Interest Income at €171m, +4% y/y vs. 9M19**, +10% net of lower net LPIs over-recoveries[1] vs. previous year
- **€13.9m of lower LPIs cashed-in in 9M20 vs. 9M19:**
  - LPIs cashed-in in 9M20 amount to €31.7m, vs. €45.6m in 9M19 and €53.7m in 9M18
- **The stock of unrecognized off-balance sheet LPIs**, i.e. the stock of LPIs accrued, but that has not been collected and has not gone through the P&L, **increased by €9m in the quarter, €22m y/y (+6%), to €423m** at the end of 9M20
- All LPIs over-recoveries are accounted when cash-collected and there is no sale of LPIs to third parties

Adjusted Interest Income (€m)



LPIs stock evolution (excluding BFF Polska Group) (€m)

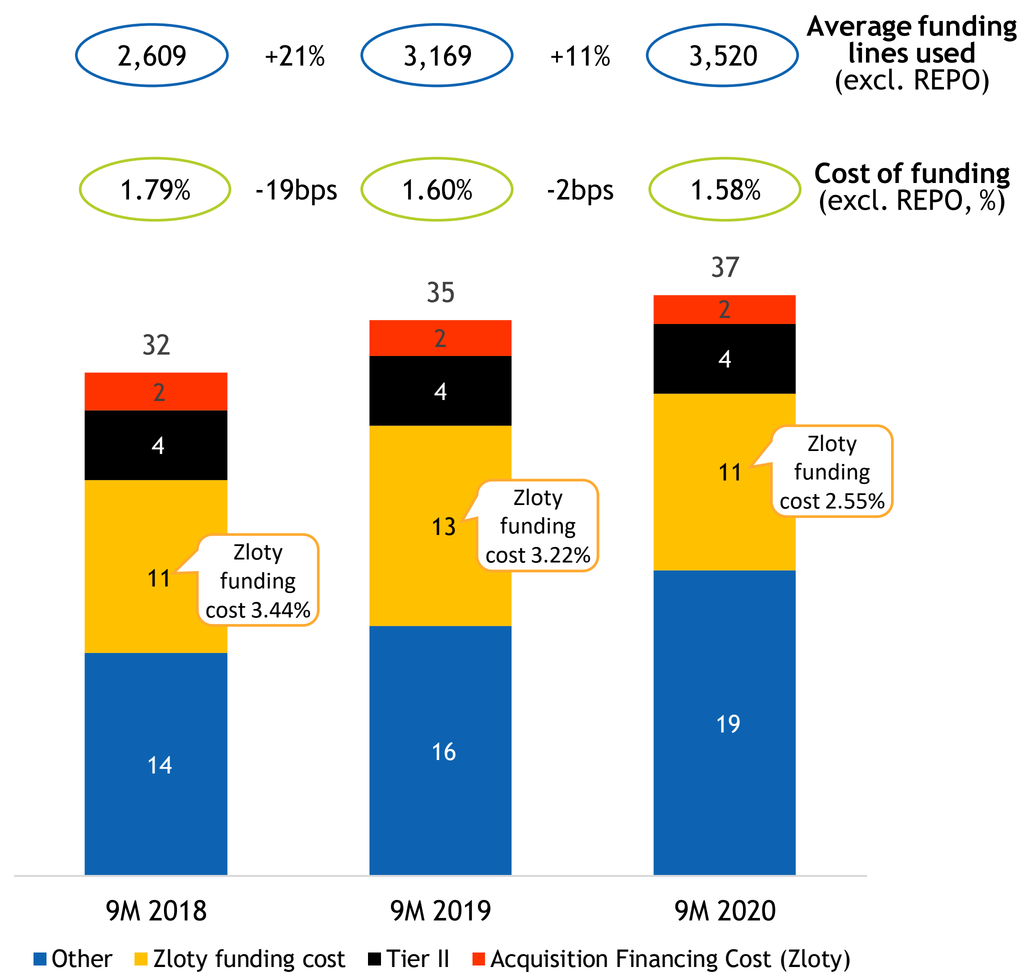


Notes: (1) LPIs over-recovery vs. 45% minimum recovery rate assumed for accounting purpose, net of the rescheduling impact. Rescheduling impact: in case a credit is not collected at the expected collection date, the value of the credit on the balance sheet is re-calculated using the new expected cash-flow schedule. The negative delta in value of the loan is booked in the P&L line interest income ("rescheduling impact") (2) Adjusted Interest Income / average RWAs

Cost of Funding at 1.58%

- **Interest expenses increased at €37m** (+5% y/y), due to:
  - the **increase of average drawn funding** from €3.2bn to €3.5bn, with more online deposits and less other wholesale lines;
  - Significant pre funding of future funding needs, with growth in online deposits and €4.1m of interest expenses related to the bond issued in Oct-19 (not present in 9M19) and **higher undrawn committed lines** (the cheapest source of funding), from €0.4bn to €0.9bn (+139% y/y).
- **Cost of funding decreased by 2bps y/y to 1.58%,**
- **National Bank of Poland cut the reference rate** by 50bps on 9-Apr and **by additional 40bps on 28-May**, leading to almost an equivalent reduction of the WIBOR, which will fully flow through the P&L by the end of the year. BFF's Zloty balance sheet has a neutral interest rate sensitivity
- No funding costs linked to Government bond yields
- No ECB refinancing risk

Adjusted Interest expenses (€m)

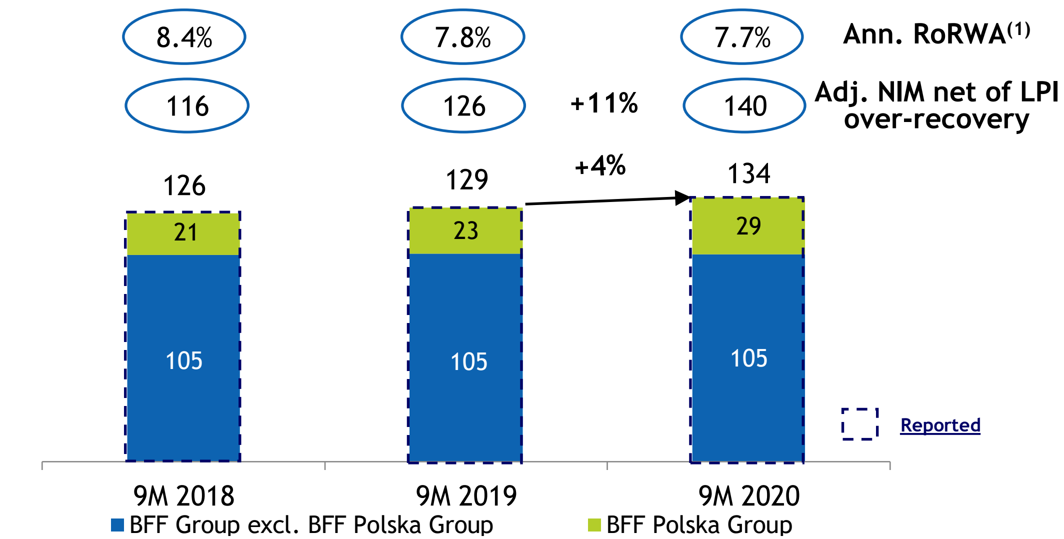


Single digit growth of Adjusted Net Interest Income and Net Banking Income

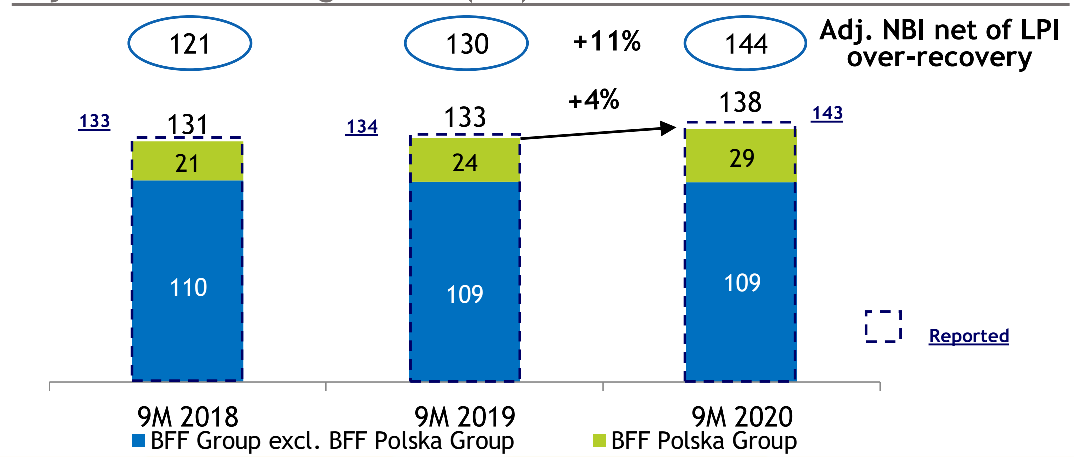
- **Adjusted Net Interest Income and Adjusted Net Banking Income +4% y/y vs. 9M19**, +11% y/y net of lower net LPIs over-recoveries
- **Annualized RoRWA at 7.7% in 9M20** vs. 7.8% in 9M19, mainly driven by the lower net LPIs over-recovery
- Recovery of credit collection costs are accounted in other **operating income** on a cash basis (P&L item "230"), which increased from €4.0m in 9M19 to €4.8m in 9M20

Net Banking income are adjusted to exclude extraordinary items: the change in exchange rates impact (€5.5m positive impact for 9M20, €1.5m positive impact for 9M19 and €2.1m positive impact for 9M18).

Adjusted Net Interest Income (€m)



Adjusted Net Banking Income (€m)



Notes: (1) Calculated as Adjusted Net Interest Income / Average RWAs.

Good operating efficiency, despite continuous investment in growth

- **Flat Adjusted Operating Costs/Loans ratio of 2.05%** in 9M20, vs. 2.05% in 9M19 and 2.24% in 9M18, despite investment in growth

- **Operating Cost up by 10% y/y:**

  - personnel costs increased by 14% y/y due to **higher employee base** (from 487 to 527 employees), including IOS Finance acquisition;

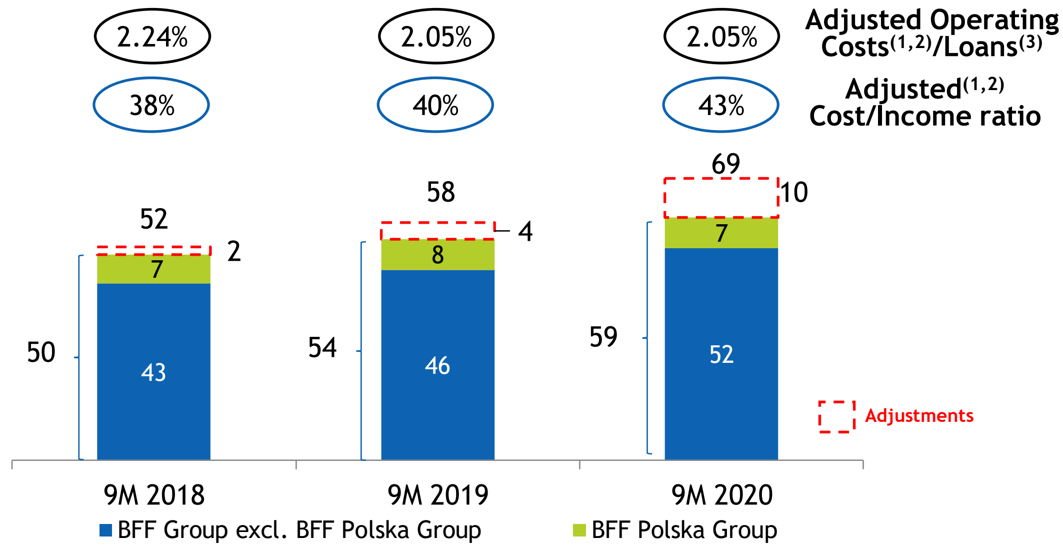
  - other operating expenses +6% y/y, including the set-up of (i) the branch in Greece and (ii) the digital platform in Spain;

  - ordinary Resolution Fund fully expensed and FITD contribution accrued on an expected pro-rata basis (in 2020 €3.1m in total vs. €2.3m in 2019).

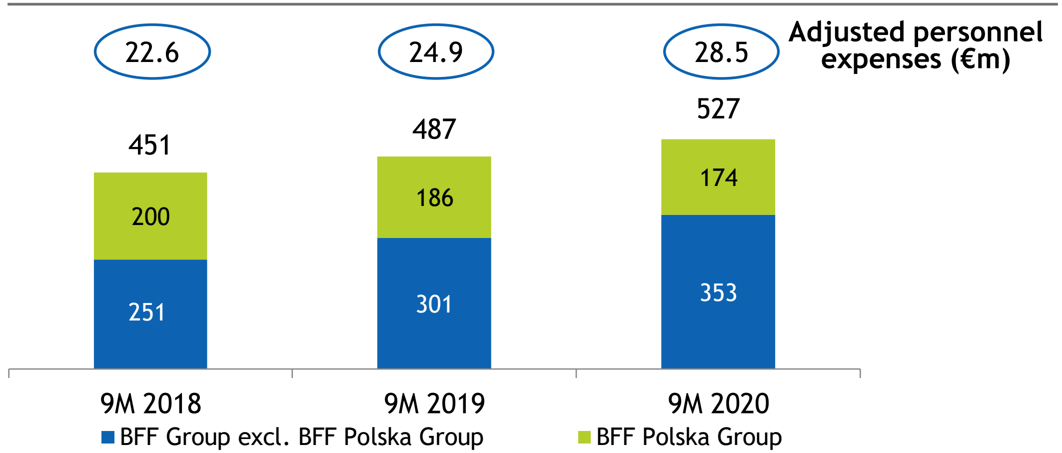
- **Adjusted Cost/Income ratio increased to 43%,** driven by lower net over-recoveries

Operating costs adjusted to exclude costs related to the Stock Option plan and the Stock Grant plan which generates an equivalent increase in equity (€1.5m, €1.7m and €1.3m for 9M20, 9M19 and 9M18 respectively); the extraordinary contribution to Resolution Fund (€0.7m, €0.6m and €0.7m for 9M20, 9M19 and 9M18 respectively); €7.4m of M&A costs for 9M20 and €1.8m for 9M19.

Operating Costs[1] (€m)



Number of employees[4]

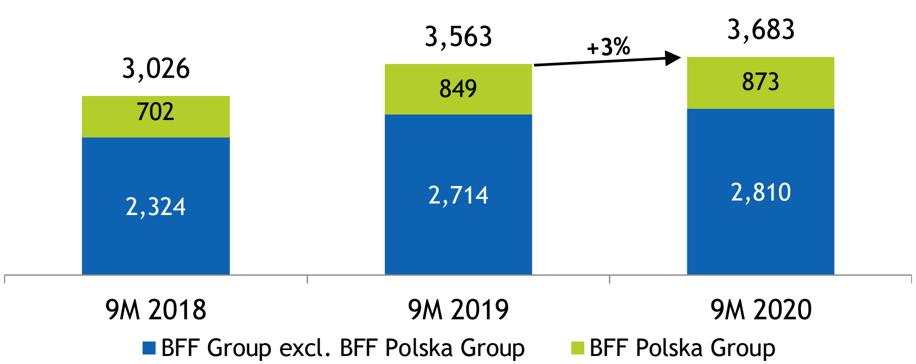


Notes: (1) Adjusted to exclude extraordinary costs. (2) Cost/Income ratio is computed as operating expenses excluding extraordinary costs (administrative expenses + staff expenses + amortization on tangible and intangible assets) divided by adjusted net banking income. (3) Annualised adjusted costs on average loans. (4) BFF includes employees in Italy, Spain, Portugal and Greece; BFF Polska Group includes employees of BFF Polska SA, BFF MedFinance SA, BFF Central Europe s.r.o. and BFF Czech Republic s.r.o.

Low-single growth of Customer Loans in a contest of high liquidity

- **Customer loans steady at €3.7bn (+3% y/y):**
  - Italy flat y/y, with high liquidity in the system that accelerated the collection of newest invoices, vs. factoring market down 11.9% y/y (advances to customers)[1];
  - Spain +26% y/y (including IOS Finance), despite the Government allocating c. €37bn[2] to the Autonomous Communities;
  - Poland -1% y/y, affected by depreciation of the Euro/Zloty exchange rate (+3% growth at constant FX rate) and by prepayments;
  - Portugal -11% y/y due to €255m extraordinary cash injection during the first half of the year.
- **International business represents 39% of total loans,** up from 37% at the end of Sep-19

Customer Loans (€m)



Customer Loans - Breakdown by geography (€m)

	Without IOS	With IOS	
BFF Group ex BFF Polska Group	**9M 2018**	**9M 2019**	**9M 2020**
Italy	2,061	2,235	2,234
Spain	162	319	402
Portugal	93	129	115
Greece	8	30	55
Croatia	-	1	1
France	-	0	3
Total	**2,324**	**2,714**	**2,810**

BFF Polska Group	**9M 2018**	**9M 2019**	**9M 2020**
Poland	551	674	670
Slovakia	146	171	200
Czech Rep.	5	4	2
Total	**702**	**849**	**873**

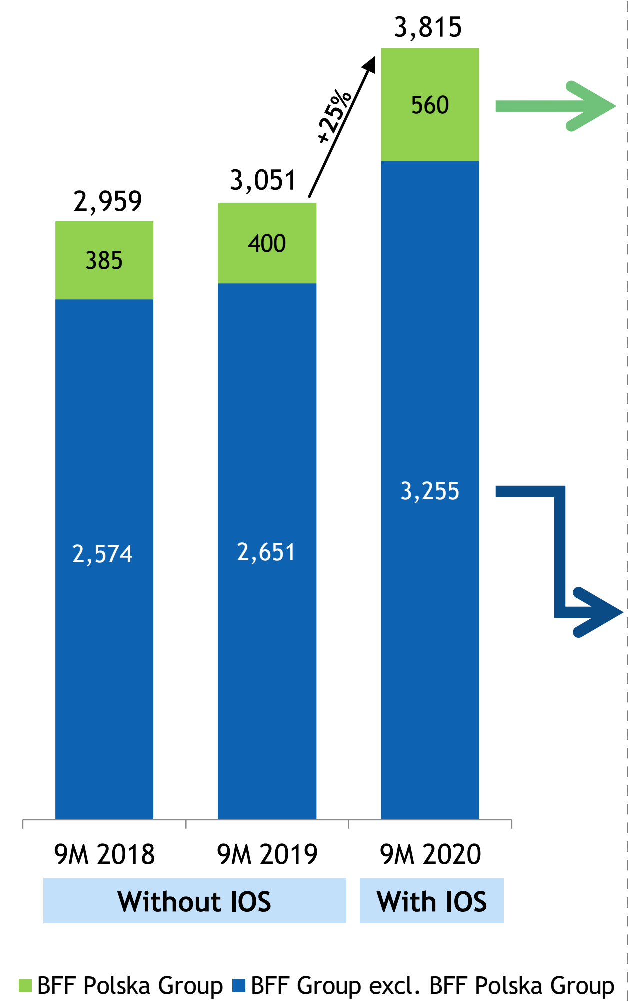
+3% at constant FX rate

Notes: (1) Source: 9M20 Assifact data. (2) Source: Ministerio De Hacienda, Sistemas de Financiación y Deuda Pública.

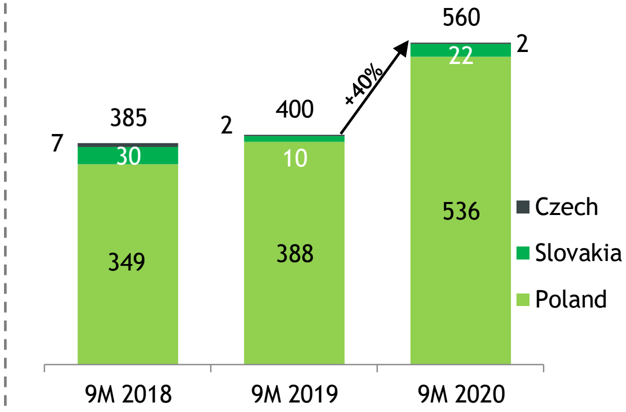
Double digit growth in New Business Volume

- **New Business Volume grew by 25% y/y at €3.8bn in 9M20:**
  - Italy stable over €2.0bn (+1% y/y), notwithstanding the negative performance of the factoring market (-13.6% y/y[1]);
  - Spain +106% y/y excluding IOS Finance for 9M19 (+32% y/y including IOS Finance for 9M19);
  - Double digit growth also in Poland (+38% y/y, +42% at constant FX rate) and in Portugal (+18% y/y);
  - Greece contributed for €46m (vs. €34m in 9M19), Slovakia for €22m (vs. €10m) and France for €10m.

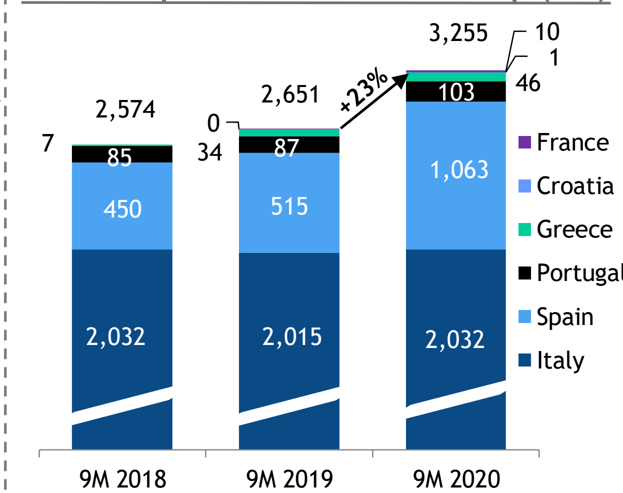
Total New Business Volume (€m)



BFF Polska Group (€m)



BFF Group excl. BFF Polska Group (€m)

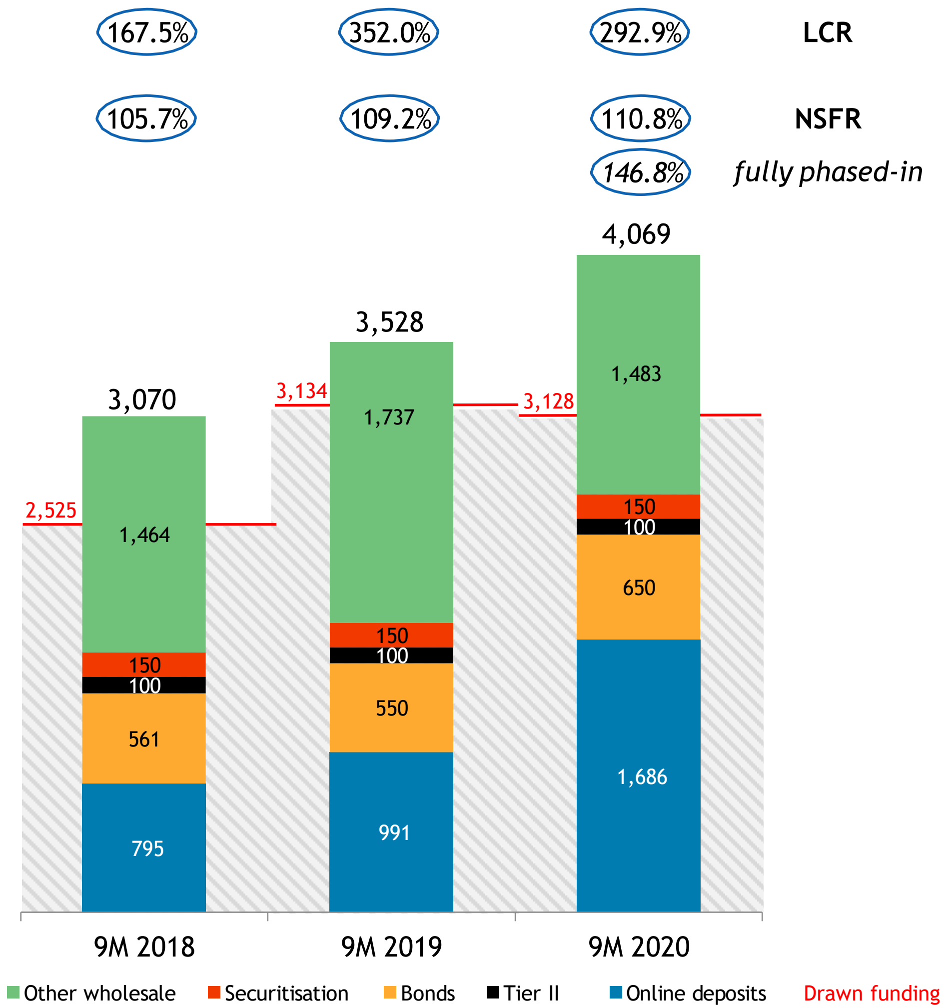


Note: (1) 9M20 total factoring turnover in Italy, Assifact data.

Strong liquidity and no ECB financing

- **Significant increase in available funding at €4.1bn, +15% y/y**, to withstand any potential market shock
  - **€0.9bn[1] excess liquidity** (undrawn credit lines), +139% y/y
- **A diversified and flexible funding base to support growth:**
  - Online deposits increased by +70% y/y to €1,686m, representing 54% of drawn funds
- **Strong liquidity position** with a LCR of 293%
- **No recourse to ECB TLTRO** or any other emergency liquidity measure
- **Positive impact expected on the NSFR ratio** from 2Q 2021 by the new regulation, which establishes more favourable weighting factors for the assets and liabilities related to factoring activities (estimated 146.8% fully phased-in)
- Following the announcement of the acquisition of DEPObank, **Moody's confirmed all Banca Farmafactoring S.p.A. ("BFF") ratings**, with Developing outlook (from Positive) for the Long-term Issuer Rating ("Ba1") and Positive outlook for the Long-term Bank Deposits Rating ("Baa3")

Available Funding[2,3] (€m)

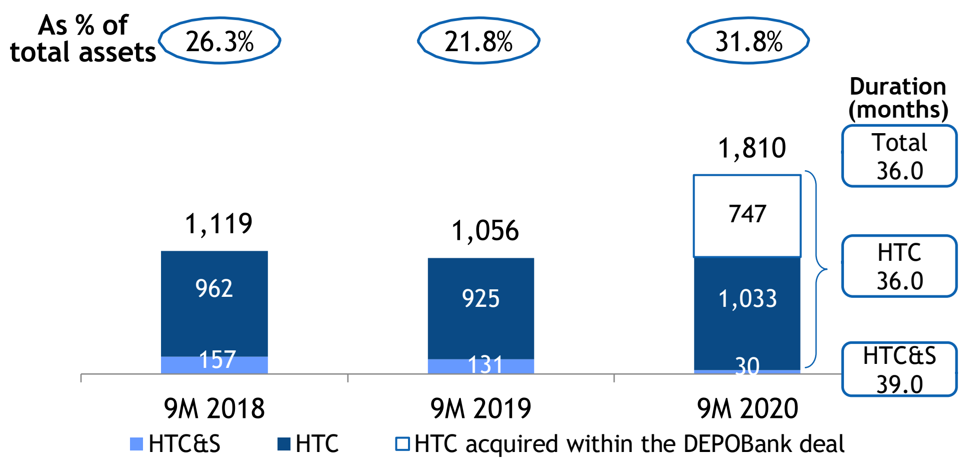


Notes: (1) Based on utilised credit lines. (2) Excluding ECB funds REPOs. (3) Not considering financing for BFF Polska Group and IOS Finance acquisitions, respectively PLN 378m and €26m.

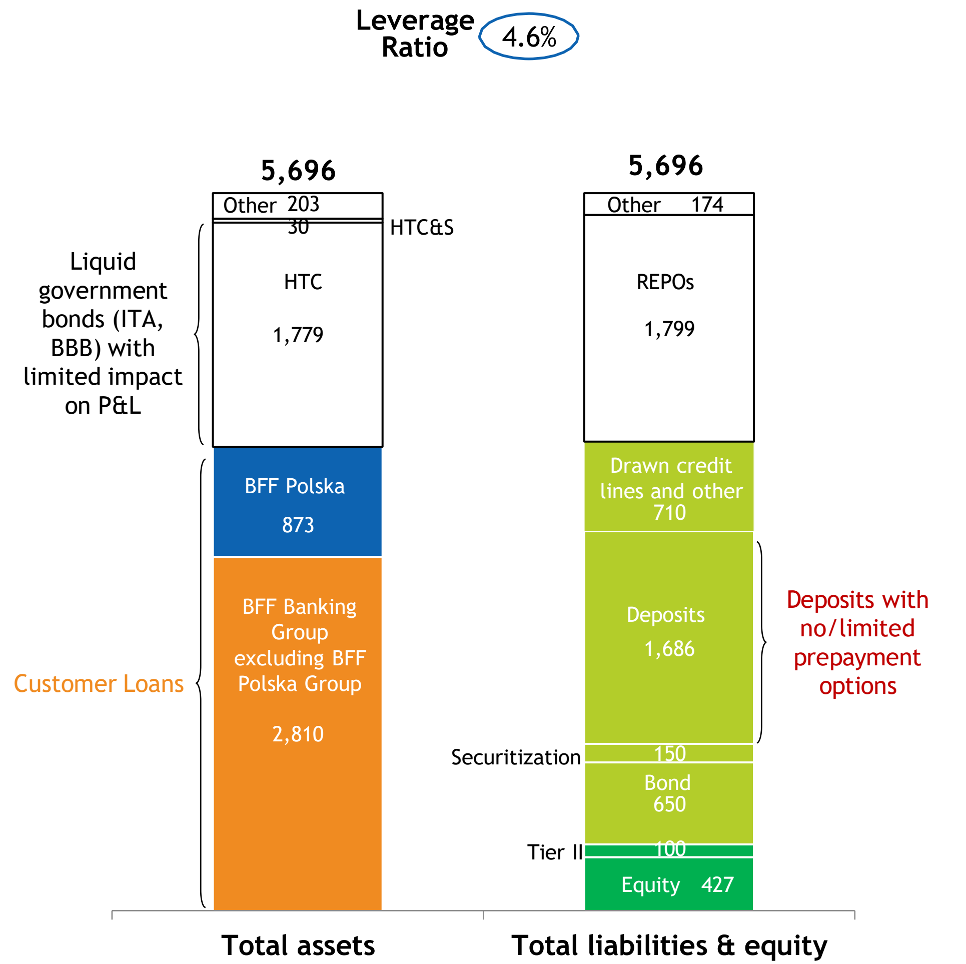
Fortress balance sheet, €33m of unrecognized M2M gains on HTC portfolio

- Customer loans funded through a well diversified funding base
- **Conservative asset / liability management**
- **Natural currency hedge**: forex assets funded with forex liabilities
- **Government bond portfolio at €1.8bn** (19% of total assets excluding HTC acquired within the DEPObank deal): positive mark-to-market of HTC&S for €0.1m after taxes (booked in equity) **and <u>positive for €33m after taxes on HTC (not recognized in P&L or balance sheet)</u>**

Bond Portfolio (€m)



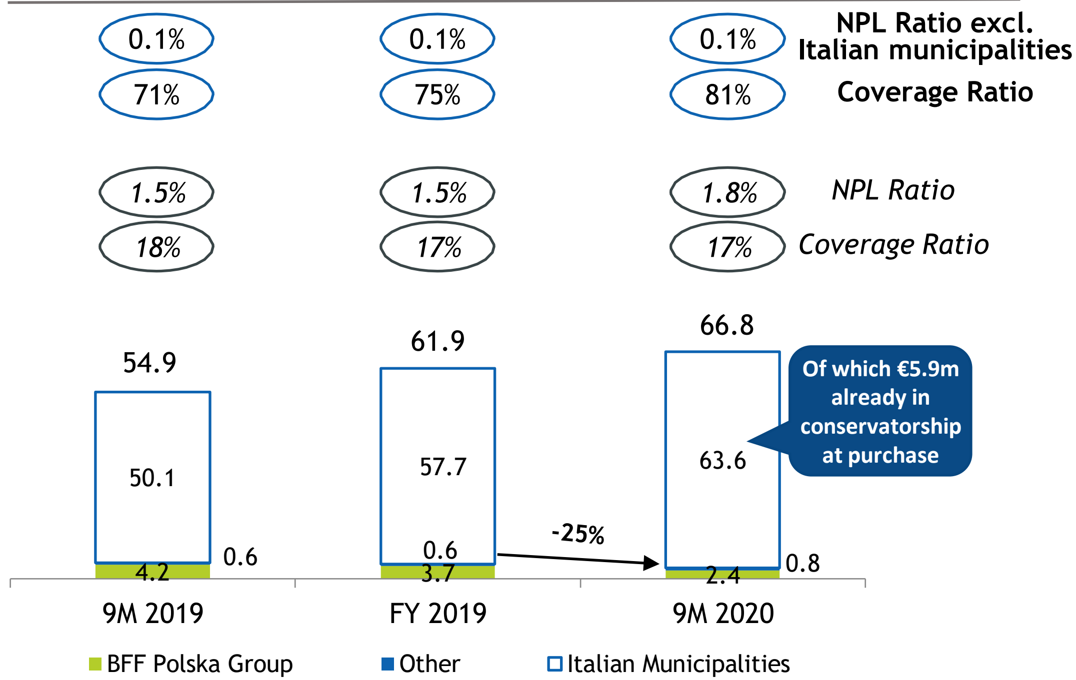
Breakdown of Balance Sheet 9M 2020 (€m)



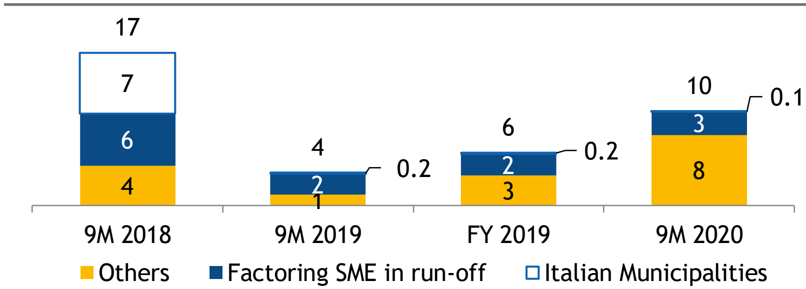
Prudent provisioning and negligible credit risk. Declining private sector NPLs

- **Net NPLs** ex Italian municipalities **are down to €3.2m (-33% y/y)** at 0.1% of net loans, with an 81% coverage ratio up from 75% at YE19
  - Italian municipalities in conservatorship are classified as NPLs by regulation despite BFF being legally entitled to receive 100% of the capital and LPIs at the end of the process.
- **10bps annualized Cost of Risk in 9M20**, including the impact on IFRS 9 of COVID-19 on the macroeconomic scenario. 3bps are related to the residual €1.0m (-46% vs. Dec-19) net customer loans of BFF Polska's SME factoring business
- Not applied the extension of the transition period or any other flexibility in relation to IFRS 9 allowed by the European Commission's banking package

Net Non Performing Loans Evolution (€m)



Cost of risk (bps)



Asset quality - €/000	9M 2018	9M 2019	FY 2019	1H 2020	9M 2020
Total net non performing	36,001	54,876	61,943	65,588	66,811
Total net unlikely to pay	10,436	10,854	9,526	16,067	15,715
Total net past due	124,405	34,293	34,691	48,868	45,003
Total net impaired assets	**170,841**	**100,023**	**106,160**	**130,522**	**127,529**
o/w Total net past due public sector	78%	88%	87%	57%	63%
o/w Total net impaired assets public sector	75%	80%	83%	69%	72%

BFF ready to New Definition of Default

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New DoD 1-Jan-21

- The new EBA definition of default "*Guidelines on the application of the definition of default under Art. 178 of Regulation (EU) no. 575/2013*" enters into force on 1st January 2021: i) days to past due are 180/90 for public/private debtors; ii) elimination of the rule that last payments from the PA interrupt arrear days; iii) more stringent criteria to return to a non defaulted status
- In Aug and Oct 2020 Bank of Italy ("BoI") issued interpretation criteria on the EBA guidelines, providing that the date from which to calculate arrears is the invoice due date

New DoD implications for all

- The operating implications to avoid an increase in past due exposures are:
  - i) stricter selection criteria for portfolios
  - ii) a structured process of credit selection, monitoring and recovery
  - iii) new contractual agreements which rely on solid client base

Buying receivables will mean managing collections proactively

BFF is "new DoD" ready

- BFF has been working for over two year for being "new DoD ready":
  - i) New portfolios selected with stringent criteria
  - ii) BFF's integrated credit management process is structured to proactively manage collections
  - iii) BFF's relationship with blue chip clients makes it easier to execute new agreements

We are already a specialised credit collector

Potential capital upside for BFF

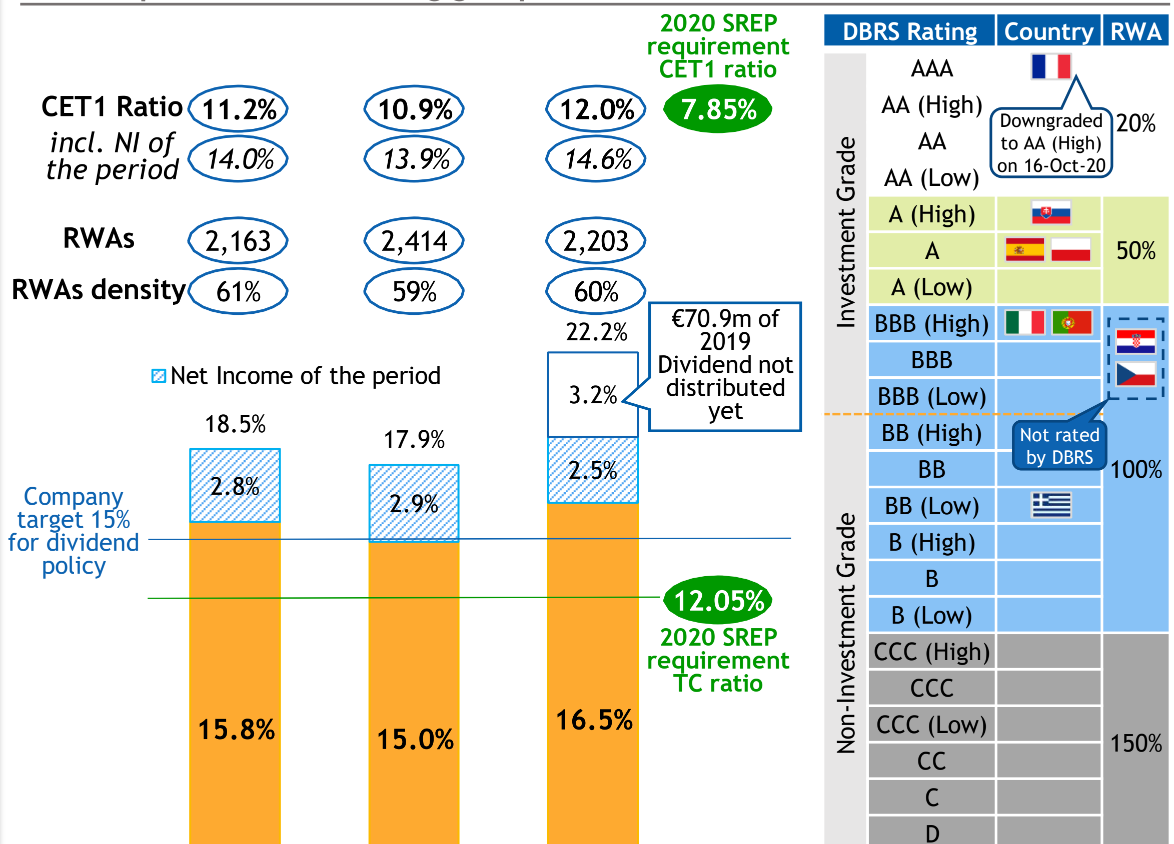
- Under the new rules, BFF's *in bonis* receivables portfolio has less than 3 months duration, and therefore should be risk weighted @20% (ex. art. 116 CRR), vs., for example, 100% in Italy, 100% Portugal and 50% Slovakia for NHS
- This is an option already used by our competitors.

Potential new DoD impact more than offset by RWA rules

Strong capital position, with c. €127m of dividend capacity

- **Total Capital ratio at 16.5% and CET1 ratio at 12.0%**[1]. Since TCR is >15%, **dividend capacity of c. €127m** coming from:
  - **<u>€70.9m of 2019 Dividend</u>**
  - €55.8m of 9M20 Reported Net Income, available for dividend
- **22.2% TCR and 17.8% CET1 ratio including dividend capacity**
- **Ample buffer vs. SREP requirements**
- No need to apply any of the ECB/EBA emergency measure or the European Commission's banking package
- **Conservative RWAs calculation based on Standard Model** and with the Italian exposure to NHS and other PA risk weighted at 100%[2]:
  - Italian ratings would have to be downgraded by 9 notches by DBRS (BFF's ECAI) in order to have a negative impact on RWAs. Instead, one notch Italian rating upgrade by DBRS would decrease the risk weighting to 50%, with a 3.2% positive impact on Total Capital Ratio and a 2.4% impact on CET1 Ratio
- RWAs density at 60% vs. 61% in 9M19

Total Capital Ratio - Banking group ex TUB[1]



Under the <u>Standard Model</u>, the risk weighting factors for exposures to NHS and other PA different from local and central government depend on the Sovereign Rating of each country

Notes: (1) 9M20 CRR Total Capital Ratio and CET1 Ratio: 28.1% and 23.6 % (2) Following the DBRS downgrade, starting from March 2017, capital ratios are calculated based on a higher risk weighting factor (from 50% to 100%) for the Italian exposure to NHS and other PA different from local and central government.

One of the few Italian Public Companies, with governance aligned to best market practices

BFF is already one of the few Italian public companies, with the historical shareholder Centerbridge down from 56% at IPO in 2017 to **7.9% to date, post completion of 5 ABBs (of which 3 in 2020)**

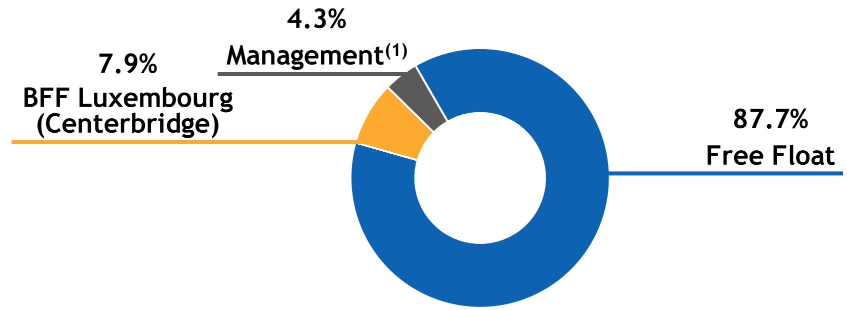
Shareholding structure

- In the context of the merger of DEPObank, Equinova(2) will receive a stake equal to 7.6% of the combined entity. **The expected free float post merger will be still >80%**
- To date, Equinova will become BFF's largest shareholder post Merger, and the 1-year lock-up will not be applicable

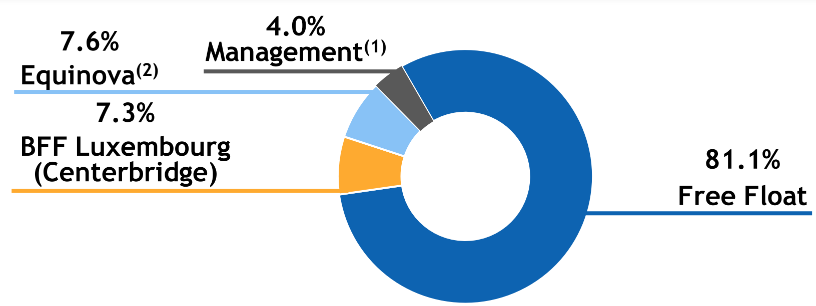
Governance

- BoD renewal in 2021. On the basis of Board self-assessment, BFF's Board of Directors will draw up guidelines on Board quali-quantitative composition, and will submit its own board members' slate, in line with public companies' best practices
- BFF took a best effort commitment to appoint **one independent director designated by Equinova**, as long as its stake in BFF is not lower than the one at closing (7.6%)

Today



Expected post merger



Notes: (1) Shares held as of 31/12/2019 by the Group CEO, his closely associated persons, and by other 6 managers with strategic responsibilities. (2) Equinova UK HoldCo Limited is a holding company of Advent International Corporation, Bain Private Equity Europe LLP and Clessidra SGR S.p.A., that hold a stake of 91% of DEPObank's share capital, while the remaining shares are held by other Italian banks, as of 30th June 2020.

Next events

11-19th November 2020	Virtual roadshow post 9M 2020 results in Europe, UK and USA
18th November 2020	Exane BNP Paribas – 3rd European MidCap CEOs Conference (Virtual)
January 2021	Expected Shareholders' Meeting for 2019 Dividend distribution (assuming no changes in regulatory guidelines)

Background material

Built over 35 years of serving HC and PA suppliers

BFF BANKING GROUP

1985: Established by a group of pharmaceutical companies

FARMAFACTORING SPA

2013: Turning point, becomes a bank

BANCA FARMAFACTORING

2016: Acquisition of Magellan

Expansion in CEE

magellan WE CREATE SOLUTIONS

2017: becomes BFF Banking Group and lists on the Italian Stock Exchange

BFF BANKING GROUP

2019: acquisition of IOS Finance, leading PA factoring player in Spain

IOS FINANCE

2020: announced acquisition of DEPObank, specialized player in Securities Services and Payments businesses

DEPObank BANCA DEPOSITARIA ITALIANA

Growth in Italy 1985 - 2010

Resilient during crisis 2011 - 2013

"BFF 2020" Plan execution 2014 - 2019

"BFF 2023" Strategy 2019 - To date

1990: Launch the non-recourse factoring activity for Italian HC suppliers

2010: Replicate business in Spain

2014: Extend offer to Portugal

"BFF 2020" Plan

Launch of online deposits in Italy (*Conto Facto*)

FACTO I miei interessi

2015: Launch of online deposits in Spain (*Cuenta Facto*) **and Germany**

FACTO I miei interessi

2017-18: Extend offer to Greece and Croatia

Open branch in Lisbon

2019: "BFF 2023" Strategy

Extend offer to France

Launch of on-line deposits in The Netherlands, Ireland, and Poland (branch)

First public rating by Moody's

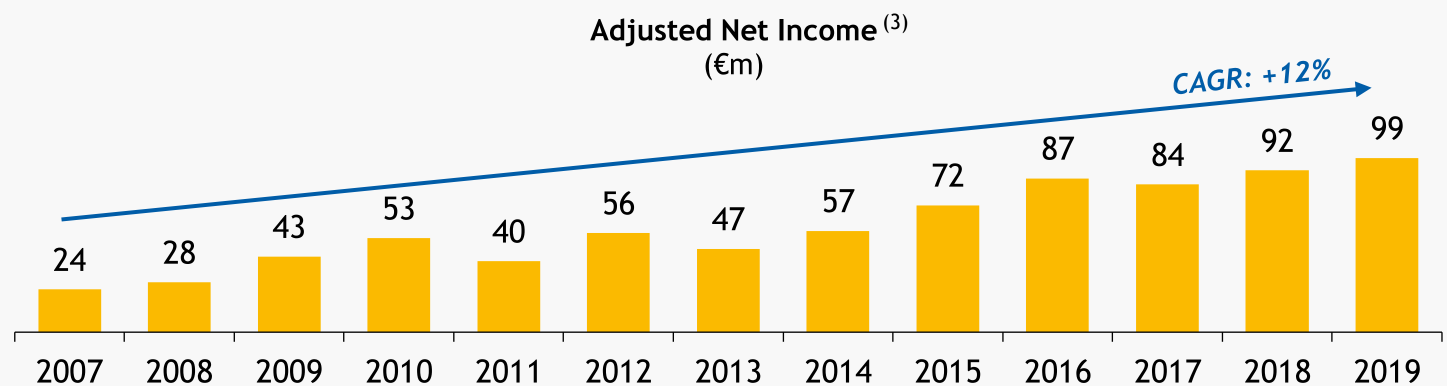
2020: Open branch in Athens

BFF: *A Bank Like No Other®*

BFF BANKING GROUP

Highly Capital Generative Model	Significant Deferral of Income	No Credit Losses on Factoring
38% **Adj. Return on Tangible Equity** **>€650m** **Dividends distributed since 2007**(1)	**€423m** **off-balance sheet back-book income reserve** *(unrecognised stock of LPIs)* as of 30/09/2020	**Zero on Public sector** **€5.5m**(2) **cumulated last 13 years, 0.5% of cumulated PBT**

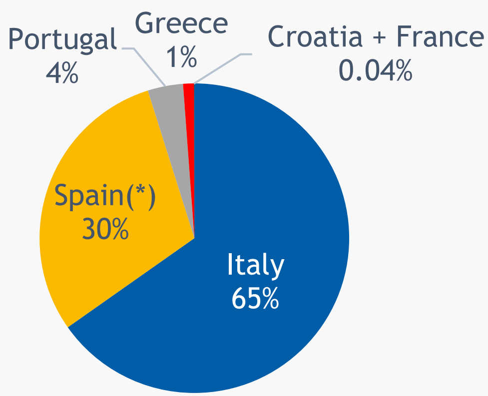
Tried and Tested in Every Season

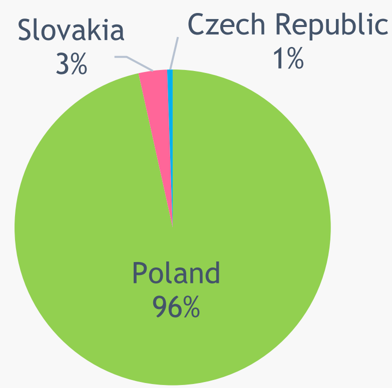


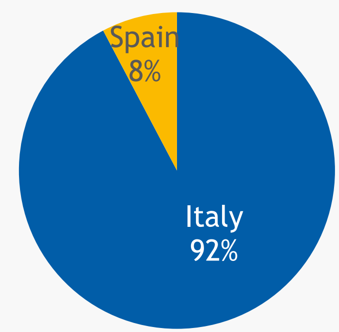
Notes: (1) Including €70.9m of 2019 cash dividend. (2) Excluding BFF Polska Group. (3) Normalised and adjusted as reported in IPO prospectus and annual accounts.

Three main Business Lines

	1 NON-RECOURSE FACTORING IN SOUTHERN EUROPE	2 FINANCING AND NON-RECOURSE FACTORING IN CEE	3 CREDIT COLLECTION MANAGEMENT
% on total revenues[1]	74%	23%	3%
New Business Volumes	€4,725m	€587m	€3,143m
Loans	€3,228m	€890m	-
Income sources	▪ Clients pay discount to face value ▪ Debtors (PA entities) pay Late Payments Interests ("LPIs"), since invoices BFF purchases are mainly already overdue	▪ Interest on loans / financing ▪ Discount to face value ▪ LPIs paid by the debtors	▪ Clients pay fees for the credit management and collection process







Source: FY 2019 consolidated data of BFF Banking Group. (*) Including IOS Finance for the whole period.
Note: (1) FY 2019 gross revenues calculated as the sum of interest income on loan to costumers and commission income.

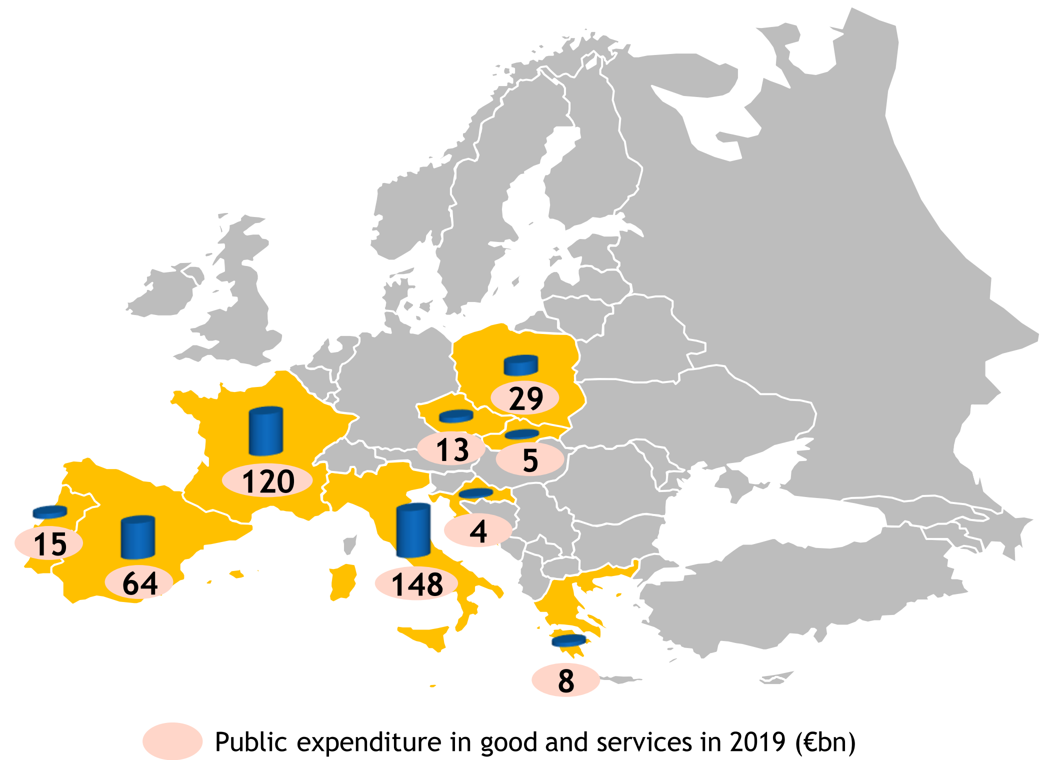
Leading provider of Working Capital solutions to public sector suppliers in the EU

- **Some European countries have structural delays in payments due to the Public Administration suppliers**, because of:

1. Mismatch between centralised tax collection and decentralised public spending
   - For example, only 18% of total public expenditure for goods and services in Italy is controlled by the Central government[1]
2. Administrative complexity and inefficiency, with many public entities: c. 22,150 in Italy[2], 18,351 in Spain, and 4,623 in Portugal
3. Commercial debt not classified as public debt, allowing financial flexibility to governments

- Government interventions in Italy and Iberia have not been effective in reducing the delays on a long-term basis

>€400bn of public expenditure in goods & services[1] in the EU countries BFF Banking Group operates in



Notes: (1) Source : Eurostat (2019 data updated as of 22nd April 2020). Italy and Portugal: Intermediate consumption + Social transfers in kind; all other countries: Intermediate consumption. (2) Source as of 04/11/2020: https://indicepa.gov.it/report/n-rep-amministraz-percategoria.php.

With revenues coming from both clients and debtors

BFF BANKING GROUP

Public sector suppliers (BFF's clients)

Pay purchase price

Sell receivables

BFF BANKING GROUP

Collect cash

Active collection of receivables

Public sector entities (debtors)

\+ **Maturity commissions**

\+ **Late payment interests (LPIs)**

Public Sector Suppliers (BFF's Clients)

- Leading multinational and national suppliers of the public sector

For illustrative purpose only

GE Healthcare · Air Liquide · eni · TIM · Pfizer · Bristol-Myers Squibb · gsk · Baxter · BD · Edison · Merck · Abbott · Olympus · enel

BFF BANKING GROUP

Public Sector Entities (BFF's Debtors)

- Debtors are PA in the EU
  - Central government entities (i.e ministries)
  - Regions
  - Provinces and Municipalities
  - Other local government entities
  - Public and public owned hospitals
  - Other HC entities and other public entities

Source: Company data.

Stable operating environment, underpinned by EU Directive made more stringent over time

- LPIs in commercial transactions are regulated by the <u>Late Payment Directive n° 2011/7/EU (LPD)</u>: when invoices due by PA are not paid on time (i.e. by 60 days for NHS and 30 days for other PA), LPIs accrue at 8% over the ECB refinancing rate, plus compensation for recovery costs
- The LPD aims to protect the private sector from the detrimental effects of late payments; besides, **the LPD has become more stringent over time: no signals that it will be changed**
- The LPD is binding to all the Member States (MS) and is directly implemented through national legislation. The European Commission (EC) regularly verifies its correct implementation in all the MS through assessments and consultations
  - The EC has at least 5 infringement procedures versus MS on this Directive
- **With the 2019 resolution, the European Parliament, *inter alia*, recommended that EC and MS made sure the LPD was enforced and respected**, making easier the credit enforcement towards debtors. All the most recent official actions, therefore, go into the direction not only to keep the present regulatory framework, but also to make it more stringent versus debtors

Year	EU Directives/resolutions on PA late payments in commercial transactions	Payment terms for NHS/PA	Statutory interest rate for LPIs
2000	<u>First European Directive</u> n° 2000/35/EC	90/60 days	ECB refin. rate + 7%
2011	The <u>EU adopted the LPD</u>, due to be integrated into national law by 16-Mar-13	60/30 days	ECB refin. rate + 8%
2015	<u>Ex-post evaluation of the LPD</u> (commissioned by the EC), stating that it "*has been successful in bringing the issue of late payments to the forefront of the political agenda in Europe*"		
2016	The EC adopted a <u>report on the implementation of the LPD</u>: "*it is recommended that the Directive is maintained in its current form*"		
2019	The <u>European Parliament adopted a resolution</u> that calls "*on the MS and the EC […] to take the necessary steps to ensure that public authorities pay their suppliers on time and that creditors receive the automatic payment of statutory interest on late payments and compensation when payments are late without the need for overdue payment proceedings, and calls on the EC to propose automatic interest computation*"		

Source: European Commission: https://ec.europa.eu/.

Significant income deferral due to a prudent accounting of Late Payment Interests

- Receivables against PA accrues LPIs (regulated by an EU Directive) when not paid on time **at ECB refinancing rate + 8%**
- BFF prudently recognizes in P&L on an **accrual basis only 45% of LPIs legally due**, and discounted over 5 years horizon
- **No settlement below 45%, so always over-collection** vs. 45% minimum recognized on **a cash basis at collection** (5 years on average from purchase of receivables)

ECB refinancing rate + 8.0%

c. €423m off-balance LPIs stock

4.4%	Over-collection accounted on a cash basis at collection (c. 5y on average from purchase of receivables)
3.6% (45% of total rate)	Accounted on accrual basis over 5 years from purchase of receivables

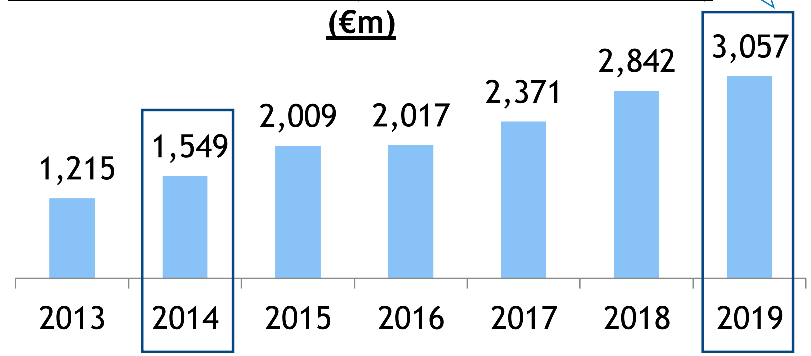
Deferred income

Therefore, **full impacts on P&L of the LPIs generated by the growing outstanding over the last years will be visible only in the coming years** (i.e. LPIs collection generated by the larger 2019 outstanding will be visible only in 5 years)

ILLUSTRATIVE

At stable book: c. €12m of 2019 net income deferred[(1)], pro-forma net income from €99m to €111m

Outstanding Evolution (excl. BFF Polska Group) (€m)



Note: (1) Reported 2019 LPIs net over-recovery of €16.8m (pre taxes) normalized for stock (i.e. increased proportionally for the increase of outstanding between 2019 and 2014, c. 2.0x, and net of tax)

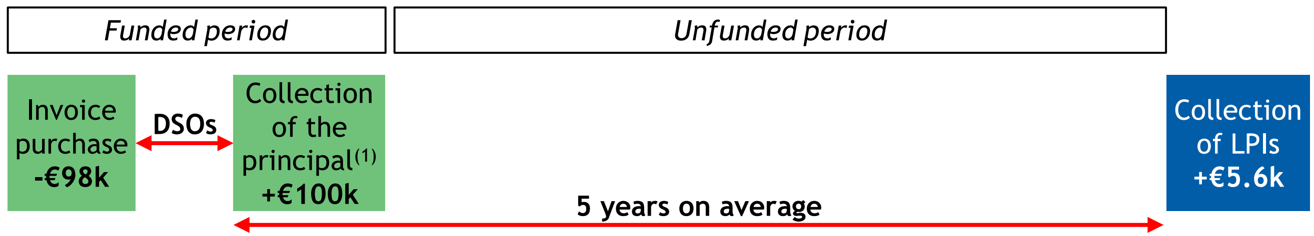
Revenue recognition for non-recourse factoring

ILLUSTRATIVE

BFF BANKING GROUP

Assumptions for this illustrative example

- BFF purchase date: **31-Dec-19**
- Nominal value of the invoice (principal): **€100k**
- Maturity commission (discount): 2% → Purchase price: **€98k**
- Expected collection time for the principal (DSOs): **1 year**
- LPIs rate: **ECB refinancing rate + 8.0% = 8.0%**
- LPIs collection time: **5 years** → 31-Dec-24
- Statutory accrued LPIs for BFF: **45% → €3.6k**
- LPIs collection rate: **70% → €5.6k**
- LPIs over-recovery: €5.6k - €3.6k = €2.0k
- IRR: **5%**

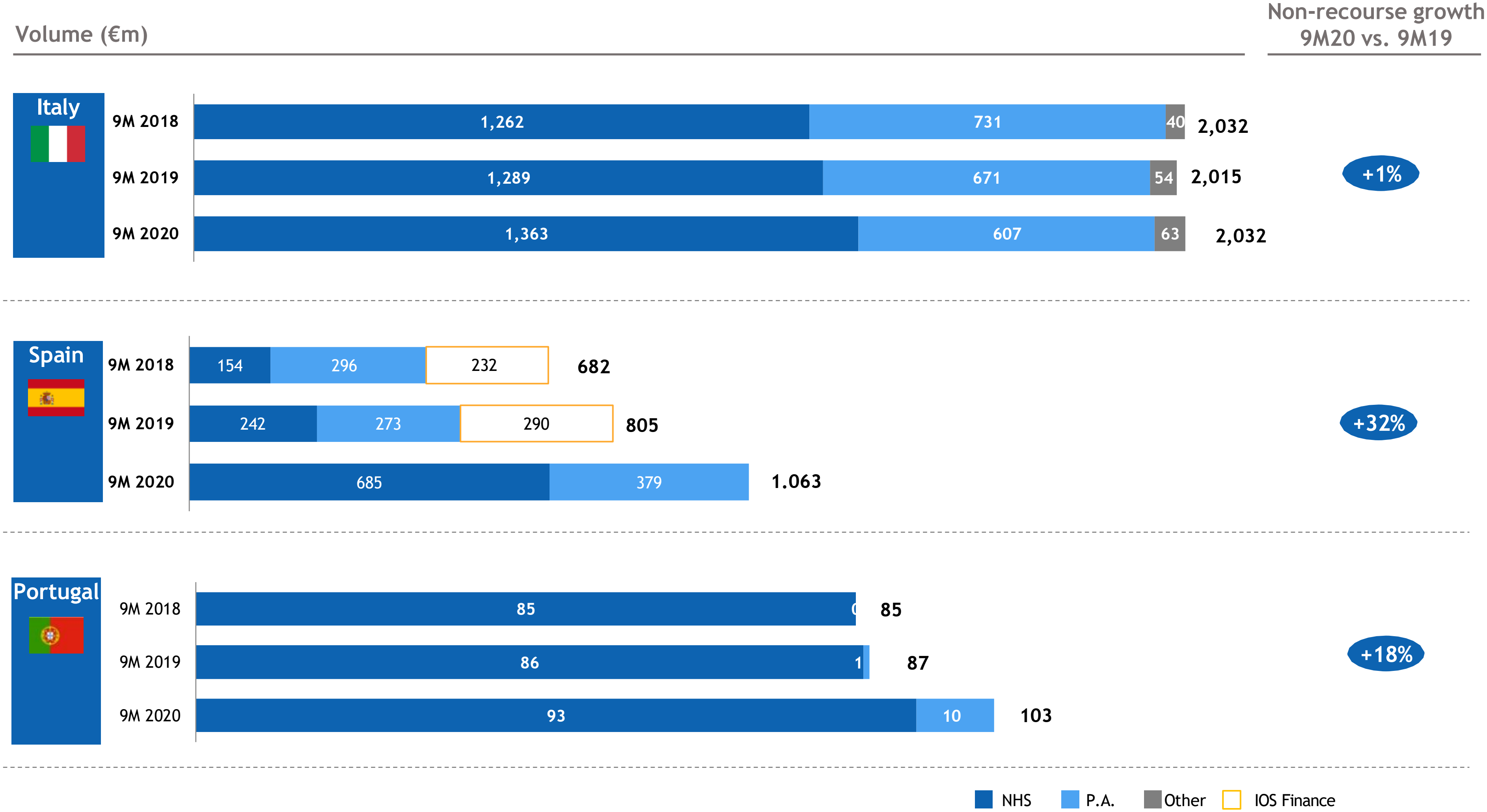


€k	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23	31-Dec-24	Total
Balance sheet	**98.0**	**3.0**	**3.1**	**3.3**	**3.4**	**0.0**	**-**
Maturity commission (discount)	-	*2.0*	-	-	-	-	*2.0*
LPIs at 45%	-	*3.0*	*0.1*	*0.2*	*0.2*	*0.2*	*3.6*
LPIs over-recovery (collection at 70%)	-	-	-	-	-	*2.0*	*2.0*
Total P&L	**-**	**5.0**	**0.1**	**0.2**	**0.2**	**2.2**	**7.6**

Source: figures included in this graphic are not based on BFF's actual data or results, but rather included strictly for illustrative purposes only for revenue recognition in non-recourse factoring.
Note: (1) For receivables not collected within the expected maximum collection date, interest income is reduced by the amount of yield required to keep the IRR of the portfolio constant (i.e. equal to IRR at pricing) until the new expected collection rate. In particular, the value of the credit on the balance sheet is re-calculated using the new expected cash-flow schedule (including expected LPIs), and the negative delta in value is booked in P&L to maintain the original IRR ("rescheduling impact").

Appendix

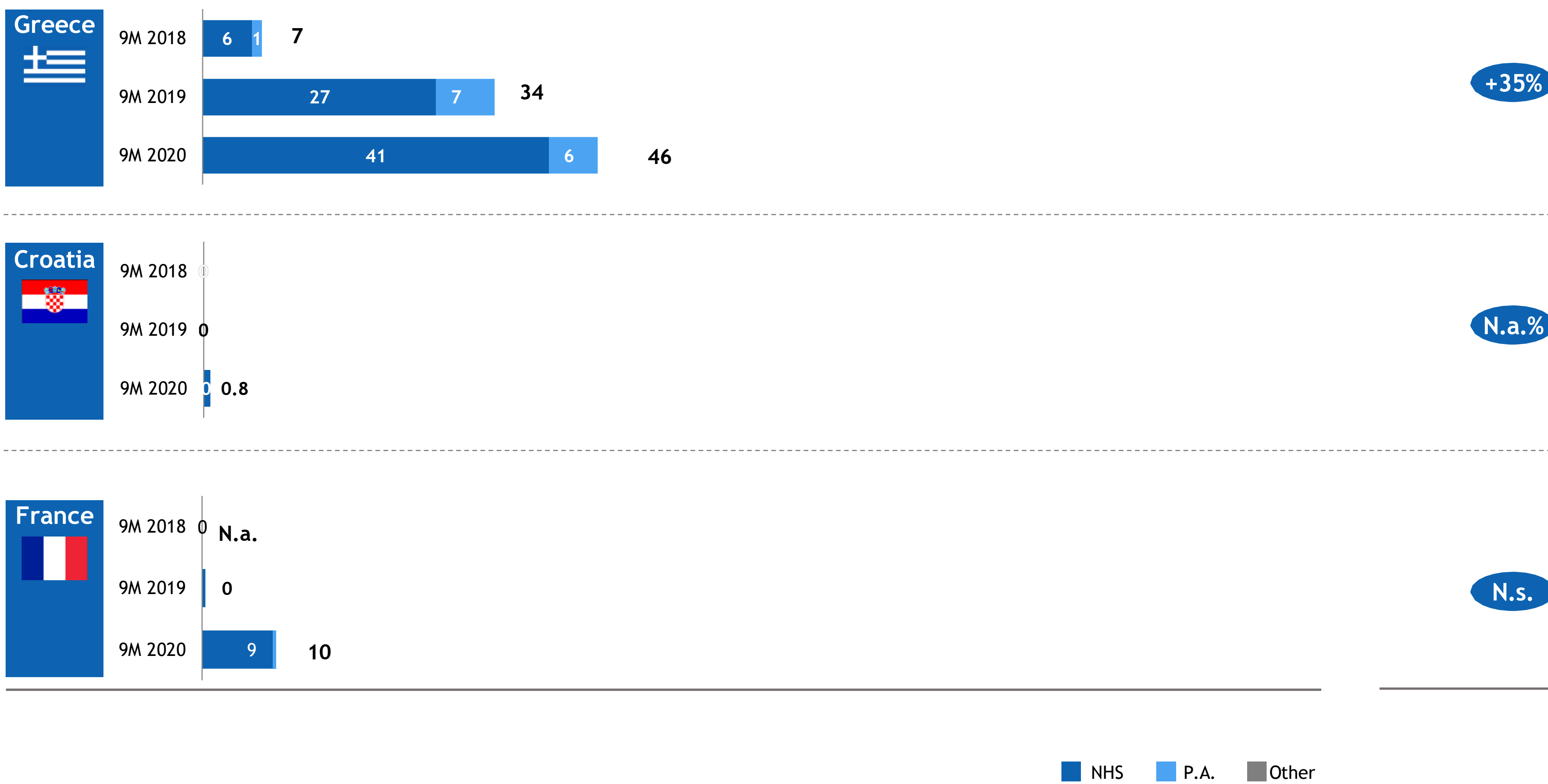
Non-recourse Volume (1/2)



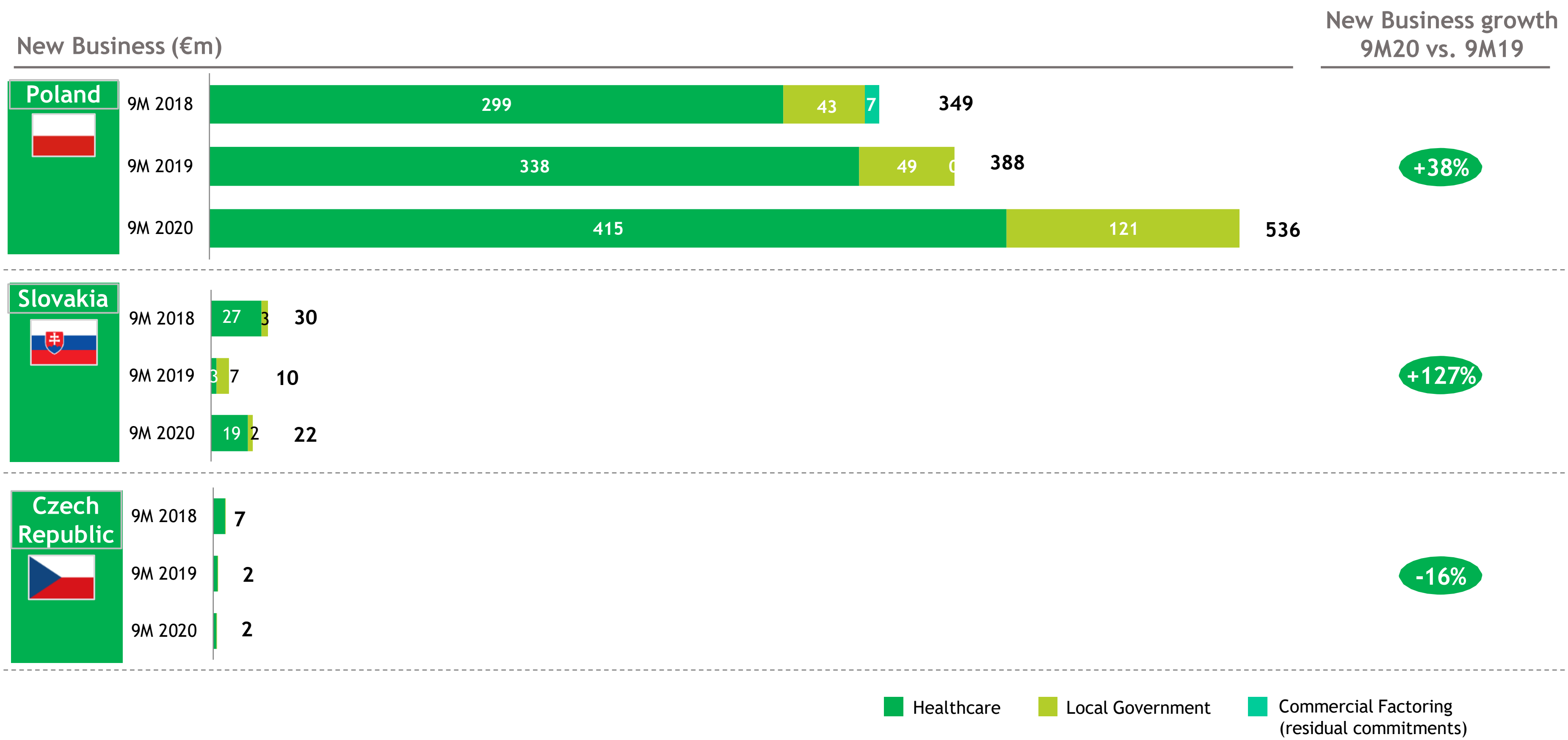
Non-recourse Volume (2/2)

Volume (€m)

Non-recourse growth 9M20 vs. 9M19

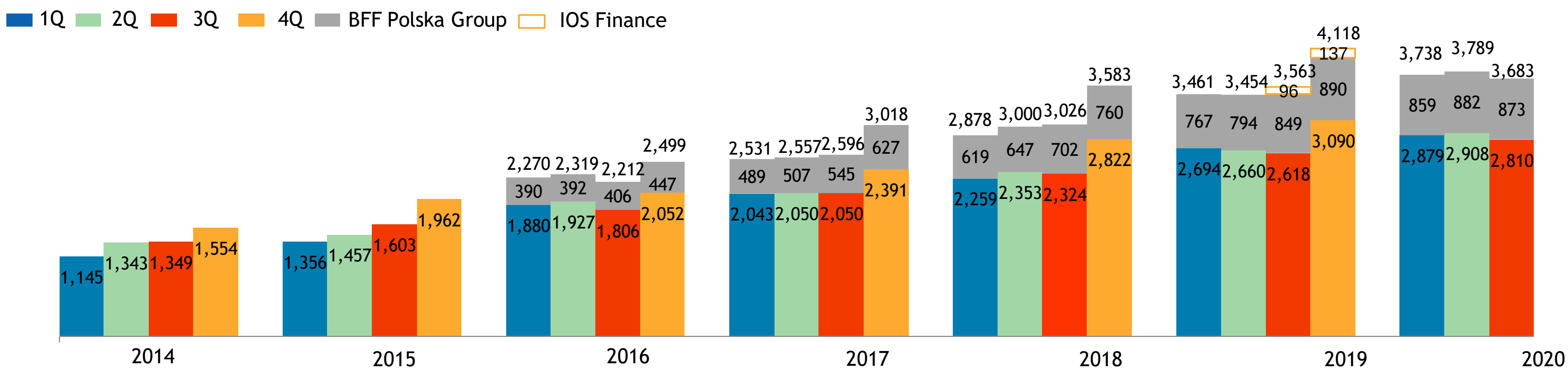


New Business Volume

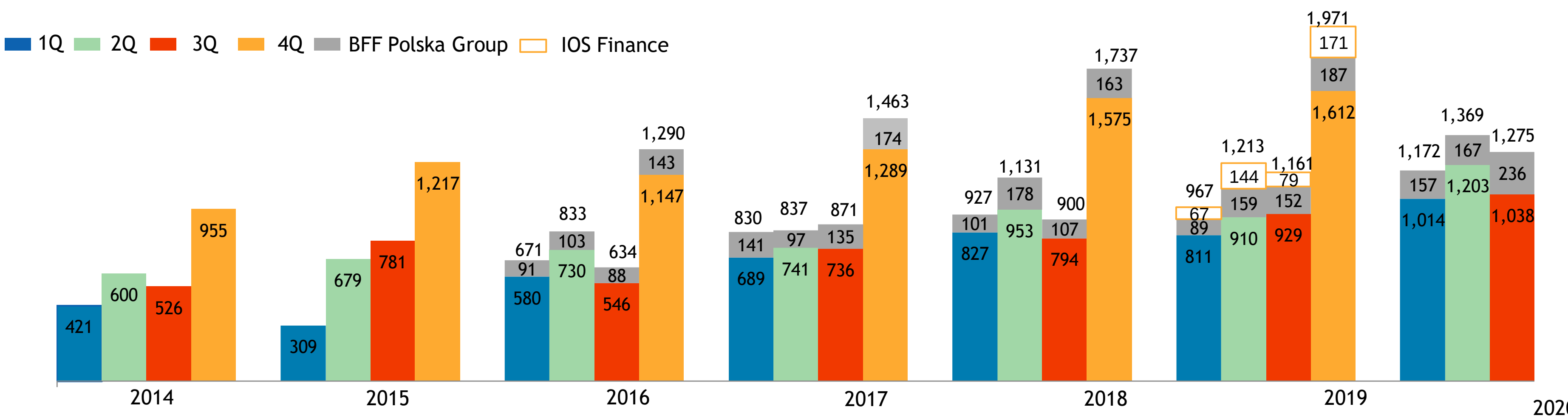


Traditional business subject to seasonality, with peak in 4Q

Loans Evolution by Quarter (€m)



Breakdown of Volume by Quarter (€bn)



Adjusted Net Income reconciliation

€m	9M18	9M19	9M20
Group BFF Reported Net income	**58.0**	**60.1**	**55.8**
Exchange rates movement (offset at the comprehensive income and equity level)	(1.5)	(1.1)	(3.9)
Stock Options & Stock Grant	0.9	1.3	1.1
Extraordinary Resolution Fund contribution	0.5	0.5	0.5
M&A costs		1.3	5.3
Taxes on *one-off* dividend distribution from subsidiaries			1.2
IOS goodwill tax step-up		(1.5)	
Adjusted Net Income	**58.0**	**60.6**	**59.9**

Summary Profit & Loss

	9M18 Reported	9M18 Adjustments	9M18 Adjusted	9M19 Reported	9M19 Adjustments	9M19 Adjusted	9M20 Reported	9M20 Adjustments	9M20 Adjusted
Interest Income	157.7		157.7	163.9		163.9	170.7		170.7
of which interest income calculated using the effective interest rate method	136.0		136.0	145.3		145.3	158.1		158.1
Interest Expenses	-31.7		-31.7	-35.0		-35.0	-36.6		-36.6
Net Interest Income	**126.0**		**126.0**	**128.9**	**0.0**	**128.9**	**134.1**		**134.1**
Net Fee and Commission Income	4.9		4.9	3.6		3.6	3.4		3.4
Dividends	0.0		0.0	0.0		0.0	0.0		0.0
Gains/Losses on Trading	2.0	-2.1	-0.1	1.6	-1.5	0.1	5.8	-5.5	0.3
Fair value adjustments in hedge accounting	0.1		0.1	0.0		0.0	0.1		0.1
Gains/losses on disposal/repurchase of									
a) financial assets measured at amortized cost	0.0		0.0	0.0		0.0	0.0		0.0
b) financial assets measured at fair value through OCI	0.4		0.4	0.1		0.1	0.0		0.0
c) financial liabilities	0.0		0.0	0.0		0.0	0.1		0.1
Gains (losses) on other financial assets and liabilities measured at fair value through profit or loss									
a) financial assets and liabilities designated at fair value	0.0		0.0	0.0		0.0	0.0		0.0
b) other financial assets mandatorily measured at fair value	0.0		0.0	0.0		0.0	0.0		0.0
Net Banking Income	**133.3**	**-2.1**	**131.2**	**134.3**	**-1.5**	**132.8**	**143.4**	**-5.5**	**137.8**
Net adjustments/reversals of impairment for credit risk concerning:									
a) financial assets measured at amortized cost	-3.8		-3.8	-0.9		-0.9	-2.8		-2.8
b) financial assets measured at fair value through OCI	0.0		0.0	0.0		0.0	0.0		0.0
Administrative and Personnel Expenses	-49.5	2.0	-47.5	-54.3	4.1	-50.2	-64.4	9.6	-54.8
Net provisions for risks and charges						0.0			
a) commitments and guarantees provided	0.0		0.0	0.0		0.0	-0.1		-0.1
b) other net allocations	-0.9		-0.9	-1.5		-1.5	-0.5		-0.5
Net Adjustments to/ Writebacks on Property, Plan and Equipment and Intangible Assets	-2.5		-2.5	-3.6		-3.6	-4.2		-4.2
Other Operating Income (Expenses)	2.2		2.2	4.0		4.0	4.8		4.8
Profit Before Income Taxes from Continuing Operations	**78.9**	**-0.1**	**78.8**	**78.0**	**2.6**	**80.6**	**76.2**	**4.0**	**80.2**
Income Taxes	-20.9	0.1	-20.8	-17.8	-2.2	-20.0	-20.4	0.1	-20.3
Net Income	**58.0**	**-0.1**	**58.0**	**60.1**	**0.4**	**60.6**	**55.8**	**4.2**	**59.9**

Summary Balance Sheet

	9M18 Reported	9M19 Reported	9M20 Reported
Cash and cash Balances	13.2	26.0	74.2
Financial assets measured at *fair value* through profit or loss	0.0	0.0	0.0
a) financial assets held for trading	0.0	0.0	0.0
b) financial assets designated at *fair value*	0.0	0.0	0.0
c) other financial assets mandatorily measured at *fair value*	0.0	0.0	0.0
Financial assets measured at fair value through OCI	157.0	131.2	30.2
Financial assets measured at amortized cost	4,008.0	4,590.6	5,500.0
a) Loans and receivables with banks	20.0	102.5	37.6
b) Loans and receivables with customers	3,987.9	4,488.1	5,462.4
Hedging derivatives	0.0	0.0	0.0
Equity Investments	0.2	0.3	0.2
Property, Plant and Equipment	12.2	15.4	15.9
Intangible Assets	25.0	34.3	34.9
Tax Assets	19.7	25.0	27.7
Other Assets	11.9	15.9	12.9
Total Assets	**4,247.1**	**4,838.5**	**5,696.0**
Liabilities and Equity			
Financial liabilities measured at amortized cost	3,742.5	4,311.7	5,095.0
a) deposits from banks	834.6	1,131.2	742.8
b) deposits from customers	2,196.0	2,404.1	3,547.8
c) securities issued	711.8	776.4	804.3
Financial Liabilities Held for Trading	0.0	0.0	0.0
Hedging Derivatives	0.0	0.0	0.0
Tax Liabilities	77.4	88.8	92.0
Other Liabilities	91.5	94.9	75.2
Employess Severance Indemnities	0.9	0.8	0.7
Provision for Risks and Charges	4.4	5.3	6.4
Equity	272.5	276.9	370.9
Profits for the Year	58.0	60.1	55.8
Total Liabilities and Equity	**4,247.1**	**4,838.5**	**5,696.0**

Breakdown by quarter - BFF Banking Group

Adjusted Values			**2018**					**2019**				**2020**	
Data in €/m	**1Q**	**2Q**	**3Q**	**4Q**	**FY**	**1Q**	**2Q**	**3Q**	**4Q**	**FY**	**1Q**	**2Q**	**3Q**
Interest income	53.4	54.9	49.3	74.0	**231.6**	55.9	52.7	55.3	85.1	**249.0**	57.4	59.1	54.2
Interest expenses	(11.3)	(10.1)	(10.3)	(11.2)	**(42.9)**	(11.5)	(11.3)	(12.3)	(13.5)	**(48.4)**	(14.1)	(11.9)	(10.5)
Net interest income	42.2	44.8	39.0	62.8	**188.7**	44.4	41.4	43.1	71.6	**200.5**	43.3	47.2	43.6
Net banking income	44.0	46.5	40.7	63.6	**194.9**	45.7	42.7	44.4	72.6	**205.3**	44.8	48.2	44.8
Operating costs and D&A	(15.3)	(18.7)	(16.0)	(19.3)	**(69.3)**	(16.5)	(18.7)	(18.6)	(22.3)	**(76.0)**	(18.1)	(21.3)	(19.7)
LLPs	(1.0)	(2.3)	(0.6)	(1.0)	**(4.8)**	0.0	(0.5)	(0.5)	(1.4)	**(2.4)**	(0.3)	(2.0)	(0.5)
Other*	0.2	0.9	0.2	1.7	**3.0**	0.6	1.7	0.2	2.2	**4.7**	1.3	1.6	1.3
Profit Before Taxes	27.9	26.4	24.5	44.9	**123.7**	29.9	25.2	25.5	51.1	**131.6**	27.8	26.5	25.9
Income Taxes	(7.6)	(6.7)	(6.4)	(11.2)	**(31.9)**	(7.6)	(6.2)	(6.2)	(12.8)	**(32.8)**	(7.0)	(7.0)	(6.2)
Net income	20.3	19.7	18.1	33.8	**91.8**	22.2	19.0	19.3	38.2	**98.8**	20.8	19.5	19.7

Reported Values			**2018**					**2019**				**2020**	
Data in €/m	**1Q**	**2Q**	**3Q**	**4Q**	**FY**	**1Q**	**2Q**	**3Q**	**4Q**	**FY**	**1Q**	**2Q**	**3Q**
Interest income	53.4	54.9	49.3	74.0	**231.6**	55.9	52.7	55.3	85.1	**249.0**	57.4	59.1	54.2
Interest expenses	(11.3)	(10.1)	(10.3)	(11.2)	**(42.9)**	(11.5)	(11.3)	(12.3)	(13.5)	**(48.4)**	(14.1)	(11.9)	(10.5)
Net interest income	42.2	44.8	39.0	62.8	**188.7**	44.4	41.4	43.1	71.6	**200.5**	43.3	47.2	43.6
Net banking income	44.7	49.8	38.8	64.1	**197.5**	45.7	41.6	47.0	70.3	**204.6**	50.4	46.4	46.5
Operating costs and D&A	(16.6)	(19.4)	(16.0)	(19.4)	**(71.4)**	(17.6)	(20.8)	(19.5)	(26.7)	**(84.6)**	(18.6)	(26.5)	(23.5)
LLPs	(1.0)	(2.3)	(0.6)	(1.0)	**(4.8)**	0.0	(0.5)	(0.5)	(1.4)	**(2.4)**	(0.3)	(2.0)	(0.5)
Other*	0.2	0.9	0.2	1.7	**3.0**	0.6	1.7	0.2	1.5	**4.1**	1.3	1.6	1.3
Profit Before Taxes	27.3	29.1	22.5	45.4	**124.3**	28.8	21.9	27.3	43.7	**121.7**	32.8	19.5	23.8
Income Taxes	(7.5)	(7.6)	(5.8)	(11.3)	**(32.1)**	(7.3)	(5.3)	(5.2)	(10.7)	**(28.6)**	(9.7)	(5.1)	(5.6)
Net income	19.8	21.5	16.7	34.1	**92.2**	21.4	16.7	22.0	33.0	**93.2**	23.1	14.4	18.2

**other income/other provisions (risk&charges, etc..)*

Asset quality

€/000	30/09/2020 Gross	Provision	Net
Total non performing	80,916	(14,106)	66,811
Total unlikely to pay	17,984	(2,269)	15,715
Total past due	46,531	(1,528)	45,003
Total	145,432	(17,903)	127,529

€/000	30/06/2020 Gross	Provision	Net
Total non performing	79,743	(14,156)	65,588
Total unlikely to pay	18,350	(2,283)	16,067
Total past due	49,915	(1,048)	48,868
Total	148,008	(17,487)	130,522

€/000	31/12/2019 Gross	Provision	Net
Total non performing	74,944	(13,001)	61,943
Total unlikely to pay	11,836	(2,310)	9,526
Total past due	34,780	(88)	34,691
Total	121,560	(15,400)	106,160

€/000	30/09/2019 Gross	Provision	Net
Total non performing	66,936	(12,060)	54,876
Total unlikely to pay	12,962	(2,108)	10,854
Total past due	34,384	(91)	34,293
Total	114,282	(14,259)	100,023