Social Bond Framework
2023

Content

Social Bond Framework

BFF Banking Group ("BFF", "the Issuer" or "the Bank") is responsible for the preparation and fair presentation of this Social Bond Framework ("Framework") as at 2023. This framework refers to a structured approach used to assess and manage the social impacts of activities or investments. It provides guidance for identifying, measuring, and communicating BFF's social impacts and helps ensure greater transparency, accountability, and responsibility in investments and social initiatives.

Introduction

1.1. BFF Banking Group: overview on the business

BFF Banking Group is the largest specialized finance operator in Italy and among European leaders in management and non-recourse factoring of trade receivables due from Public Administrations, securities services, and payment services.

The Group's operating activity focuses on optimizing liquidity, improving financial ratios, reducing costs, and providing customized solutions to meet client needs. It also operates in Central and Eastern Europe, providing vendor finance and investment loans to public entities. Operating in different geographies, the Group has in place procedures to effectively manage country risk and exposure for multinational clients.

BFF Banking Group maintains a strong financial position with consistent profitability, growth, and dividend generation. It has a solid capital base and a low level of risk. In 2021, the acquisition of DEPObank further enhanced the Group's strategic position, expanding its presence in market niches where DEPObank excelled and strengthening its funding and capital base. The Group is a leader in Italy's Securities Services and banking payment services, serving over 400 clients, including investment funds, banks, payment institutions, large corporations, and government authorities.

As described in its Code of Ethics, BFF's business model is based on values such as honesty, transparency, respect for people and valuing of resources. These values ensure leadership in innovation and execution in BFF's target markets also throughout the pursuit of its mission: "*Be the leaders in innovation, customer service and execution in our reference markets, with a low risk profile and high operational efficiency, aligned with the best corporate governance practices for public companies*" and vision: "*Be a leader in specialty finance niches in Europe, leveraging on our leadership position in financial services to the suppliers of the Public Administrations*".

1.2. BFF Banking Group's Sustainability Approach

In response to the dynamic business landscape, BFF wants to adopt a long-term strategic approach that prioritizes sustainability topics. This entails embracing continuous innovation to benefit both its operations and its customers through comprehensive and effective solutions.

To achieve the desired growth while maintaining its identity, BFF must recognize the importance of fostering shared values and upholding transparency and responsibility. These commitments are integral to its new business objectives and form part of BFF's strategic vision.

Starting from 2019, BFF has implemented a carbon footprint reduction strategy to initiate the improvement process of its carbon footprint. It has adopted new policies and transferred around 47% of its employees to buildings with low environmental impacts. The goal is to increase the use of renewable energy and reduce emissions within the Group. In addition, BFF is currently evaluating the opportunity to launch emissions high quality offsetting projects/programs as part of its Industrial Plan to compensate residual emissions.

Overall, the Group integrates sustainability factors into its corporate strategies and policies, actively contributing to the achievement of the targets set in relation to the three pillars and the UN SDGs (Sustainable Development Goals):

Pillars	SDGs	Achieved Goals	Business Strategy and Targets
Environment	9, 12, 13	• 47% employees currently working in green building • 37% reduction of paper (vs. 2019) • 25% reduction of gasoline/ diesel cars, replaced by Hybrid / Electric ones	• Achieve net zero carbon emissions through green buildings and efficient technology by 2026 • >80% of employees in LEED certified buildings by 2026 • Move to Casa BFF by 2025, a sustainable headquarters with LEED Platinum and WELL Gold certifications • Fully integrate climate and environmental risks by 2025 • Align with TCFD and PRB by 2026
Social	3, 5, 8, 10	• Wide distribution of value through LTI covering c. 21% of total employees • Diversity drivers: focus on gender and nationality, "gender pay-gap reduction" in CEO's scorecard • 37% of female managers • 21,000 hours of training • c. €600k of contributions to Fastforward Foundation and charitable initiatives for community	• 69% of employees in WELL certified buildings by 2026 • Casa BFF prioritizes community integration and focuses on people from 2025 • Increase diversity in core roles by hiring under-represented groups • Reduce gender pay gap and improve women representation in management • Promote the new purpose of the Fastforward Foundation - "foster the sustainable and inclusive transformation of welfare for the protection of individuals and communities" – sustain the execution of the strategy and increase the contributions
Governance	16, 17	• Full alignment to Self-Regulation code • BoD: - 56% independent - 44% female - 33% foreign residents - 78% international experience • Succession plan for the CEO and Chairman • One of the few Italian banks to present BoD's slate	• Maintain alignment with best market practices • Increase diversity within the Board of Directors • Propose new Board members who align with the industrial plan targets and possess key competencies, such as ESG expertise and knowledge of the depositary business • Maintain low-risk ESG rating profile and obtain more ratings (year on year)

Amongst other things, BFF Bank discloses non-financial information into an annual report drawn up in compliance with Article 4 of the Legislative Decree no. 254/2016 and in accordance with the GRI Standards.

In 2022, BFF took significant steps to initiate a constructive dialogue with leading ESG rating agencies, aiming at enhancing its performance in these regards. This proactive approach resulted in notable improvements in the subsequent ESG risk ratings, reinforcing BFF's commitment to sustainable growth and providing further motivation to persist on this trajectory.

Furthermore, BFF Bank, as part of its sustainability commitment, is exploring the issuance of a Social Bond. The proceeds from this bond would be dedicated to improving the access to essential services for everyone. The bond would adhere to the 2023 edition of the ICMA Social Bond Principles, financing assets with specific social benefits. BFF Bank has identified access to essential services, particularly healthcare, as a potential social category for the bond.

The Group is a leader in Europe for the management and acquisition of debts owed to suppliers by public-sector bodies operating in the healthcare sector and aimed at offering products and services with high social impacts. Its offer articulates as follows:

- non-recourse factoring: receivables, including tax credits for Italy and Spain, are fully assigned to BFF, thus enabling them to be derecognised;
- credit management: it guarantees higher credit performance, DSO improvements and lower costs for suppliers to public-sector bodies and national health authorities;
- factoring-like products: these services make it possible to obtain financing based on due and overdue invoices issued to bodies in the healthcare sector;
- lending products: loans, bonds, overdraft, subrogation, co-debtorship services primarily addressed to local self-government units, municipal organizations and hospitals;
- banks, PSP & corporate: leading independent Italian player for domestic transactions, with a significant focus on intermediary services;
- funds & AMCs: including services such as depositary, fund accounting, transfer agent and global custody.

BFF is fully committed to social responsibility through different social initiatives. The Group has always promoted scientific research and cultural initiatives to discuss trending topics that inevitably affect public-private relationships. This has involved studies carried out with the help of experts in the sector, and training sessions for customers and professionals. It has also involved think-tank activities with associations and universities, and cultural and arts events for the benefit of the entire community.

Regarding 2022, the most important social initiatives were:

- Redefinition of the strategic layout in line with the needs of the community;
- Promotion of art as an engine of growth for business and society through a European tour of the ART FACTOR - The Pop Legacy in Post- War Italian Art project.

Social initiatives improve the Group’s positioning in the ESG field and have positive impacts on BFF’s ability to create value for all stakeholders.

BFF Group's Internal Control and Risk Management System is compliant with the prudential supervisory rules set by the Bank of Italy and European Community regulations. It ensures the effectiveness, efficiency, and compliance of business processes.
The system is structured with three levels of control:

First-level controls ensure correct transaction execution, supported by IT procedures and monitored by function managers.

Second-level controls oversee risk management and regulatory compliance, including anti-money laundering and terrorism financing, led by the Risk Management and Compliance functions.

Third-level controls involve internal audit activities reporting directly to the Board of Directors, assessing the overall functioning of the Internal Control System, and identifying areas for improvement.

The Internal Audit Function conducts testing activities, follows up on results, and reports quarterly. BFF has prepared the "ICAAP/ILAAP Report" on capital and liquidity risk governance and management systems in accordance with prudential supervisory provisions.

The Risk Management Function analyzes various risks, including credit, market, operational, country, transfer, interest rate, securitization, leverage, strategic, reputational, conduct, cyber, and money laundering and terrorist financing risks.

The Risk Management Function evaluates additional risk factors related to the Banking Group's specific operations. Sovereign risk and risks related to environmental, social, and governance (ESG) factors are assessed. The Risk Management Function conducted initial assessments of ESG components within the "ICAAP/ILAAP Report" and plans to integrate climate change-related risk factors into the risk management processes.

Following the Bank of Italy's publication of 12 supervisory expectations on climate-environmental risks, the BFF Group initiated a project to analyze its alignment with these expectations. The analysis identified areas requiring adjustment for full alignment, defined remediation actions, and established milestones for a three-year plan in compliance with supervisory requirements.

In terms of ESG risks management, the ESG Committee plays a crucial role by providing guidance and expertise on sustainability matters to the CEO. Its primary objective is to support the management of social responsibility issues and ensure the Group's positioning on these matters across different areas of operation. The committee is responsible for bringing sustainability concerns to the attention of the CEO and providing recommendations and strategies to effectively address them.

1.3. Rationale for issuance

The establishment of a Social Bond Framework (the “Framework”) is fully consistent with BFF Banking Group’s commitment on social topics and aims at strengthening the Group's pursuit of growth through the adoption of an integrated approach to social topics. Additionally, it will promote internal synergies across different departments, fostering collaboration on sustainability matters.

Through the establishment of this Framework, BFF aims to provide fixed-income investors with an opportunity to support the issuer's sustainability goals while aiding them in achieving their own responsible investment objectives.

Under this document, the Bank has the ability to issue Social Debt Instruments in various formats, tenors, and currencies. These instruments include senior preferred, senior non-preferred, subordinated bonds, commercial papers, secured bonds (such as covered bonds), and other securities (such as ABS). These can be issued through public or private placements.

Social Bond Framework

This Framework is aligned with the ICMA Social Bond Principles 2023[1] ("SBP"). Furthermore, BFF will seek to finance projects under the Framework that are defined as eligible expenditures that contribute to the achievement of one of the social objectives presented in the Final Report on the Social Taxonomy of the Platform on Sustainable Finance (February 2022)[2]: objective - adequate living standards and wellbeing for end-users, sub-objective – ensuring access to quality healthcare products and services. BFF will enhance the positive impact inherent in its economic activities, offering products and services that are fully compliant with the AAAQ concept (availability, accessibility, acceptability, quality).

BFF's Social Bond Framework has been structured in accordance with the SBPs administered by ICMA, consisting of the following four core components**:**

1. **Use of Proceeds**
2. Project **Evaluation and Selection**
3. **Management of proceeds**
4. **Reporting**

BFF commits to update the Framework according to the most recent market best-practices in the Social Bond Market, as well as the reference regulations. Any subsequent version of this Framework will either keep or improve the stringency of the eligibility criteria and the level of transparency regarding the process adopted to evaluate and select Social Loans/Assets (Eligible Social Assets" or "Eligible Assets") and reporting requirements.

2.1. Use of Proceeds

An amount equal to the net proceeds raised from any BFF Social Bond issued under this Framework will be exclusively allocated to finance and/or re-finance[3] new and/or existing loans/assets ("Eligible Social Assets" or "Eligible Assets"), creating a significant social impact for the general public and, more in particular, for individuals who will benefit from the national healthcare system.

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[1] Link of the ICMA Social Bond Principles 2023 - https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Social-Bond-Principles-SBP-June-2023-220623.pdf. The Framework also applies complementary guidance from the Principles included in the Climate Transition Finance Handbook, the Harmonised Framework for Impact Reporting and the Guidelines for External Reviews.

[2] https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf - BFF acknowledges that the report published by the Sustainable Finance Platform is a set of recommendations to structure the future Social Taxonomy and this document should not be considered as a final version that the European Commission will present/use. As such, new regulatory developments will be reflected in the future versions of the Framework on a best effort basis. BFF will either maintain or improve the current level of reporting and stringency when selecting Eligible Social Projects .

[3] Due to the nature of BFF's business, the activity of financing is mainly to be considered as a purchase of assets.

BFF Bank intends to disclose the expected allocation to each Social Eligible Category, as well as the percentage of proceeds that will be used to finance and/or re-finance new and/or existing loans/assets, prior to the issuance of its Social Debt Instruments.

As suggested by the ICMA Social Bond Principles, the target population for activities that favor the access of any individual (without discrimination) to essential and affordable services is the general public. Due to the intrinsic social features of BFF's core business, the target population defined under this Framework is the general public, and more specifically people in need of healthcare services. The assets financed/refinanced through the instruments issued under this Framework will indeed favor the access of any individual to healthcare services, ensuring accessibility and affordability to all. In accordance with EU Charter of Fundamental Rights, "*everyone has the right of access to preventive health care and the right to benefit from medical treatment under the conditions established by national laws and practices*." It is also important to note that, in accordance with Council Directive 2000/43/EC of 29 June 2000 implementing the principle of equal treatment between persons irrespective of racial or ethnic origin, the access to healthcare within the European Union does not discriminate against sex, age, disability, religion or belief, socioeconomic conditions, race or ethnic origin, sexual orientation, etc.

Social Eligible Categories have been defined with the intention of seeking alignment with the Final Report of the Social European Taxonomy Regulation. BFF will evaluate implementing Social Eligible Categories on Social European Taxonomy criteria once they are published.
The combination of all the Eligible Assets identified by BFF and booked on the Issuer's own balance-sheet will represent the Eligible Asset Portfolio ("**Portfolio**"). Such Portfolio will include all the new and/or existing Eligible Assets.

BFF will strive to maintain, over time and on a best effort basis, an aggregate amount of the Portfolio that matches or exceeds the balance of net proceeds of the total outstanding Social debt instruments issued under this Framework.

2.1.1. Key metrics for defining social eligible perimeter

An analysis was carried out in order to identify the Bank's financial products eligible to be considered as social assets. That resulted in a demarcation of a portfolio of assets directed at clients belonging to the healthcare industry, thereby allowing to identify "Access to essential services", and more specifically the "Healthcare" subcategory, as a socially eligible category under the ICMA principles. The selected assets are mainly divided into three categories as to the product type (factoring contracts to healthcare suppliers, short-term and long-term loans to healthcare facilities) and they cover clients across different countries.

To assess the social impact generated by the (re)financing of such assets, certain impact indicators which could act as a measure of the operability of clients' healthcare practices were identified among those products. Such indicators were further weighted against clients' financial measures affected by the financing, in order to carry out a specific measure of the relative impact of the financing amount on those indicators.

The rationale for the impact measurement was provided, for each type of product, by various underlying assumptions. In the case of short-term and long-term loans this is more straightforward, as the cash proceeds allow healthcare providers to pursue their operations. On the other hand, in the case of factoring contracts BFF Bank indirectly offers support to healthcare providers (the debtors) by offering immediate liquidity to their suppliers. In fact, it is reasonable to assume that the latter would not have had the same opportunities to sell supplies on credit, had they not been able to turn some of these invoices into immediate liquidity. Thus, in such way, debtor healthcare providers can access the inventory needed to ensure the full operation of their healthcare activities.

2.1.2. Social Eligible Categories

Social Eligible Category	Eligibility criteria	Social Benefits	Target Populations	Impacted SDGs
Access to essential services - Healthcare	Factoring to Public Sector Suppliers (focused on National Healthcare Systems) and lending to Public Sector healthcare facilities, to finance infrastructure, services and the access to products and projects supporting the development or delivery of the following: • Medical infrastructure like the construction/renovation of clinics, dispensaries, and hospitals • Medical equipment, such as surgical devices, diagnostic equipment, assistive devices, ambulances, syringes, personal protective equipment • Pharmaceutical products such as OTC supplies, vaccines • Training of hospital staff and welfare workers • General operations of healthcare facilities	• Increase access to quality, timely and accessible healthcare • Increase availability of quality medical equipment to healthcare facilities and individuals	• General Public (population who benefits from the public healthcare system)	3 GOOD HEALTH AND WELL-BEING 4 QUALITY EDUCATION 10 REDUCED INEQUALITIES

BFF may, at any time, update the Framework to expand the list of Eligible Categories and include new Eligible Categories in alignment with the Issuer lending and financing strategies.

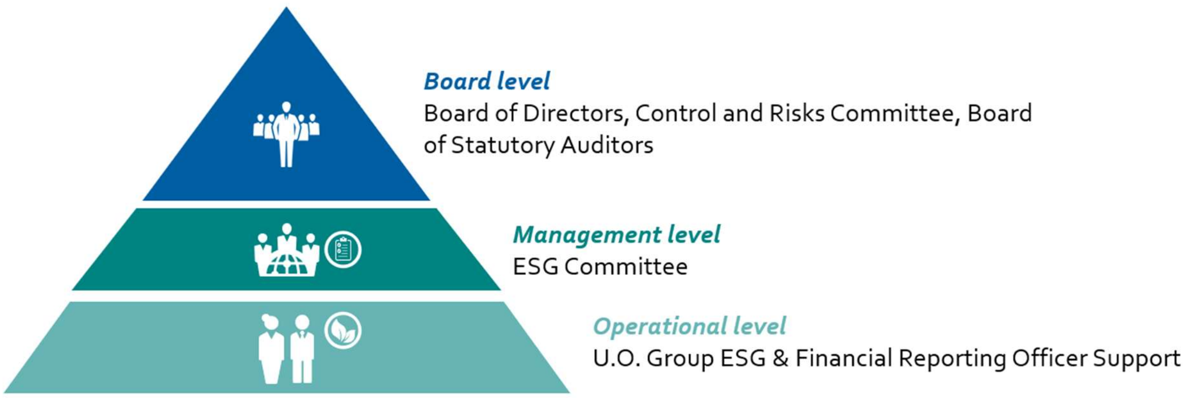
2.1.3. Excluded Categories and Limitations

The Bank will not allocate proceeds received from the issuance of Social Bonds under this Framework to any kind of investment in the following sectors and in any case in sectors for which negative impacts on the environment and/or society have been demonstrated:

- Gambling,
- Weapons/ammunitions,
- GMO (Genetically Modified Organisms),
- Tobacco,
- Alcohol[4],
- Sex trade.

2.2. Process for Project Evaluation and Selection

BFF has completed its process of structuring ESG Governance by defining additional roles and responsibilities within the Group, as shown below:



During 2022, BFF established the ESG Committee as a body of a managerial nature with propositional and advisory functions to the Chief Executive Officer regarding assessments and decisions relating to sustainability topics connected to the Bank's business operations and ensuring the Group's positioning on these matters in various areas of reference. More specifically, the ESG Committee is responsible for integrating sustainability aspects into the Group's business operations, for managing sustainability-related processes and initiatives and for identifying strategic priorities on ESG topics. The ESG Committee, comprising the entire top management (including the Vice President of Factoring & Lending, Vice President of Technology & Process Improvement, Vice President of Transaction Services, and the Directors), with the CFO serving as its chairman, reports directly to the CEO as a Management Committee.

[4] In accordance with the IFC Exclusion List, production or trade in alcoholic beverages (except for beer and wine) is excluded (link to the IFC Exclusion List).

The Control and Risks Committee from 2020 supports the Board of Directors ensuring the integration of ESG risks into business strategies, governance, processes, procedures, and the system of controls, while the Group ESG & Financial Reporting Officer Support vest the operational role of leading, coordinating and monitoring sustainability activities.

The ESG Committee is responsible for the evaluation on the eligibility of the assets and for the related selection process, which is detailed as follows:

- the Finance Department will identify a combination of potential Eligible Assets based on the criteria listed in section "Use of Proceeds" and on internal policies of the Bank;
- The Finance Department, with the support of the O.U. Group ESG & Financial Reporting Officer Support, will review and analyze the alignment of the list of potential Eligible Assets to the aforementioned criteria and will approve their admission to the Eligible Asset Portfolio;
- the Eligible Assets aligned with the criteria exposed in section "Use of Proceeds" are identified and added into a "Social Bond Register" and into BFF Group's internal information system by the Finance Department;
- the Finance Department will periodically monitor and update the "Social Bond Register", considering the exclusion criteria listed in the "section 2.1.3" of this Framework.

With regards to risk management, all the potential Eligible Assets are subject to the regular credit process and managed in accordance with internal policies and procedures and with international and national laws and regulations. The CEO, with the support of the ESG Committee will oversee the process for asset evaluation and selection.

2.3. Management of proceeds

BFF Banking Group will establish a Register in order to track the allocation of proceeds of the Social Bond issued under this Framework to the Eligible Asset Portfolio.

The Register will include the following information:

1. Social debt instruments details: ISIN, pricing date, maturity date, etc.
2. Portfolio: Eligible Category utilized; Aggregated amount of Eligible Assets outstanding per Eligible Category; Country, nature and maturity of the Eligible Assets allocated to the Portfolio; Expected social benefits.

The Finance Department will be in charge for allocating the proceeds from the bonds issued under this Framework to the identified loans/assets that meet Eligibility Criteria, while the O.U. Group ESG & Financial Reporting Officer Support will track the amount of net proceeds from the sale of any Social debt instrument issued under this Framework, allocated to Eligible Assets.

On a semi-annual basis, the Finance Department will ensure that the amount of the Eligible Asset Portfolio exceeds the balance of net proceeds of all outstanding Social Bonds issued in conformance with this Framework, while on an annual basis the ESG Committee will oversee the process of monitoring. The proceeds of any bond issued under the Framework are expected to be allocated within one year from the Bond's issuance on new Social Eligible Assets throughout the Factoring & Lending solutions provided by BFF Banking Group.

Pending the full allocation of the proceeds or in the unlikely case of insufficient Eligible Assets, BFF will temporarily hold any unallocated funds in the Group's Treasury investment portfolio in accordance with BFF's normal liquidity management, including treasury liquidity portfolio, cash, time deposits with Banks or other form of available short term and medium / long term funding sources with a preference for Social bonds, that do not include "Excluded Categories" as reported in the section 2.1.3 of this Framework.

In case of divestment or if a project/asset no longer meets the eligibility criteria listed above, the asset will be removed from the Eligible Asset Portfolio. In addition, BFF intends to reallocate the funds to other Eligible Assets during the term of the relevant Social Debt Instrument.

Any payment of principal and interest on any Social Debt Instruments will be made from BFF general corporate account and will not be linked to the performance of any Eligible Asset.

BFF will monitor the investments of the proceeds allocated to Eligible Assets through the review of the external auditor.

2.4. Reporting

In accordance with the recommendations of the ICMA Social Bond Principles, BFF will report annually, and until bond maturity, on the allocation of the proceeds of the Social bonds issued under this Framework and the relative impact of the assets at category level, on a portfolio basis.

2.4.1. Allocation reporting

BFF will report approximately starting from the earliest one year after the issuance of the first bond, and annually thereafter until maturity, on the use of proceeds via a Social Bond Report (the "Report") which will be published on the company website.

The Report will be verified by an external auditor.

The allocation report will include:

- The total amount of Social Debt Instruments outstanding;
- The total amount of the Portfolio broken down per Eligible Category;
- Aggregate amounts of net proceeds allocated to each Eligible Category of the Portfolio;
- Aggregate amounts of net proceeds allocated geographically;
- The balance of unallocated proceeds at the time of reporting, if any;
- The amount or the percentage of new financing and refinancing.

2.4.2. Impact reporting

BFF also intends to report annually on the social benefits (see Annex 1) resulting from the Portfolio disbursed from the Social Debt Instruments issued, until maturity.

The impact report may indicatively include:

- A description of the Eligible Assets;
- Social Metrics, such as the ones described below:
  Outputs: annual estimates and/or assessment of major outputs disclosed per Eligible Category at the Portfolio level;
  Outcomes: annual estimates of ex-ante and/or ex-post outcomes (where feasible) based on the consequences of the previously defined outputs, disclosed per Eligible Category at the Portfolio level;
  Impacts: annual estimates of ex-ante and/or ex-post impacts (where feasible) based on specific outputs and outcomes developed by BFF, disclosed per Eligible Category at the Portfolio level;
- A breakdown of the Social Metrics by geography.

On a best effort basis, BFF will ensure to align the impact reporting with the portfolio approach described in the ICMA "Harmonised Framework for Impact Reporting for Social Bonds" updated in June 2023[5].

When reporting on the identified outputs, outcomes and impacts, BFF may select appropriate quantitative or qualitative Key Performance Indicators, to remain relevant to the selected Eligible Assets and may integrate additional qualitative or quantitative indicators as considered appropriate to disclose relevant performances or details.

The annual impact reports will also include a description of the methodologies employed to compute those Social Metrics. Such methodologies will be constantly updated based on market best practices. An example of such methodologies is included in Annex 2.

[5] https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Harmonised-framework-for-impact-reporting-for-social-bonds-June-2023-220623.pdf

Verification – External Review

3.1. Second-Party Opinion (Pre-issuance)

BFF has mandated ISS ESG as second party opinion Provider to perform an evaluation of the Framework's validity and its general alignment with the ICMA SBP updated in June 2023.

The Second Party Opinion will be available on the Issuer's website.

3.2. External verification of the reporting (Post-issuance)

Starting one year after issuance, a verification or assurance of the reporting may be released on an annual basis by a third party ESG agency or financial auditor, including: bond proceeds allocation, the compliance of the allocated assets with the selection process, the social benefits obtained.

BFF will, if and when appropriate, review and update the Framework to incorporate new eligible categories or amend current categories.

Annex 1: Reporting on Social Benefits per Eligible Category: Examples of output, outcome and impact indicators

Social Eligible Category	Social Benefits	Examples of output, outcome and impact reporting indicators
Access to essential services - Healthcare	• Increase access to quality, timely and accessible healthcare • Increase availability of quality medical equipment to healthcare facilities and individuals	• Number of hospitals and other healthcare facilities supported • Number of hospital beds created, retained or supported (including a detail on the number of beds actually utilized) • Number of medical personnel that will serve patients in healthcare facilities • Number of outpatient and/or inpatient served in healthcare facilities • Number of days of hospitalization in inpatient healthcare facilities • Increased hospital bed capacity and/or decreased density (i.e. reduction in the healthcare turnover rate) • Number of additional medically equipped ambulances • Number of illness-related and accident-related ambulances trips • Number of total patients transported with ambulances • Number of medical treatment given in the ambulances to young children (<14 years old)

Annex 2: Example of methodology employed to assess the impact generated by the proceeds of the Social Bond

As an example, we assume that we are assessing the impact of the proceeds from a Social Bond that will be used to (re)finance factoring products, short-term loans and long-term loans directed at entities falling into the healthcare industry. To do that, we employ the Social Metrics listed in Annex 1.

The social impact of the Portfolio can be directly evaluated through the financial statements and additional information on the entities' operations; this information can be gathered by the Bank on a sample of statistically representative clients. For simplicity, assume that the indicator "Number of hospital beds created, retained or supported" is being assessed.

For factoring products, marginal impact measures for each entity involved can be firstly computed by calculating entity-specific multipliers (i.e., the division between the number of hospital beds of the entity and the amount of accounts payable as reported on their last available financial statement). This measure gives the average number of hospital beds for each unit (of any currency) of accounts payables. Under the assumption that the arrangement of a factoring contract allows a provision of supplies on credit by the seller that otherwise would not have happened, the product between such multipliers and the residual debt amount of each corresponding entity will return the value of the impact measure "hospital beds supported" for each entity. Note that the number of hospital beds is chosen only as a measure of a debtor's activity in healthcare services. The actual inventory purchased on credit by the debtor (for which the seller, in turn, sold the invoice to BFF) could be of different nature, but its impact on the debtor's healthcare activity is measured through the number of hospital beds it supports.

In a similar manner, for short-term loans, entity-specific marginal impact measures can be calculated by dividing the number of hospital beds and their most recently reported amount of current liabilities. This measure gives the average number of hospital beds for each unit (of any currency) of current liabilities. The product between such multipliers and the residual debt amount of each corresponding entity will return the value of the impact measure "hospital beds supported" for each entity.

For long-term loans, marginal impact measures for each entity involved can finally be calculated by dividing the number of hospital beds by their respective long-term assets amount. This measure gives the average number of hospital beds for each unit (of any currency) of long-term assets. Under the assumption that, through a loan of more than 12 months, all funds lent by the Bank will be used by the hospital in long-term activities (e.g., acquisition of new equipment, hospital expansion, replacement of deteriorated equipment, etc.), the product between such multipliers and the residual debt amount of each corresponding entity will return the value of the impact measure "hospital beds created or retained" for each entity. Note that the number of hospital beds is chosen as a measure of a debtor's activity in healthcare services even if the actual long-term activities for which the debtor uses the funds for could be of different nature. The impact on the debtor's initiatives can be thereby measured by the number of beds, newly created or retained, that the facilities will be able to serve.

Starting from these measures of “hospital beds”, regional-specific multipliers can be also computed to estimate a number of additional social impact measures (as listed in Annex 1). These regional-specific multipliers can be defined as the ratio between the indicator of interest (e.g., the number of outpatient and/or inpatient served within healthcare facilities in a specific region) and the number of hospital beds in the region. This measure gives the average number of units of the indicator of interest per hospital bed within the region. The product between these multipliers and the number of hospital beds created, retained or supported (calculated as described in the previous paragraphs) will return, for each entity, the overall value of the indicator of interest. As an example, think of entity X, which is located in region A. From the previously mentioned methodology, assume that we obtained that a short-term loan to entity X supports 10 hospital beds in entity X. Further, assume that from regional measures we found that in region A, on average, 20 inpatients are served in a year for each hospital bed. These multipliers allow us to infer that the 10 hospital beds supported in entity X through the short term loan granted by BFF are going to serve about 200 inpatients in one year.